

AB „AMBER GRID“

**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING
STANDARDS AS ADOPTED BY THE EUROPEAN UNION,
PRESENTED TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT**

Translation note:

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

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Independent auditor's report

To the shareholders of Amber Grid AB

Our opinion

In our opinion, the stand-alone financial statements present fairly, in all material respects, the stand-alone financial position of Amber Grid AB ("the Company") as at 31 December 2016, and its stand-alone financial performance and its stand-alone cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Company's stand-alone financial statements comprise:

- the stand-alone statement of financial position as at 31 December 2016;
- the stand-alone statements of profit or loss and comprehensive income for the year then ended;
- the stand-alone statement of changes in equity for the year then ended;
- the stand-alone statement of cash flows for the year then ended; and
- the notes to the stand-alone financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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PricewaterhouseCoopers UAB, company code 111473316, is a private company registered with the Lithuanian Register of Legal Entities.



Our audit approach

Overview

Materiality

Overall Company's materiality is EUR 1 200 thousand which represents 5% of profit before tax.

Key audit matters

- Revenue recognition
- Assessment whether there is any indication that property, plant and equipment may be impaired

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

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

Materiality

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

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

Overall Company materiality	EUR 1 200 thousand
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We have applied this benchmark, as profit before tax is the key measure used both internally by management and, we believe, externally by stakeholders, including the shareholders, regulator and creditors in evaluating the performance of the Company. We chose 5%, which is within the range of acceptable quantitative materiality thresholds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 60 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.



Key audit matters

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

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>Revenue recognition</p> <p>Refer to Note 2.16 and Note 17 'Revenue' of the financial statements.</p> <p>The Company's revenue in 2016 amounts to EUR 66.7 million and its major part relates to provision of regulated services (gas transmission and transit).</p> <p>The Company recognises revenue from regulated services based on tariffs approved by the National Commission for Energy Control and Prices and meter reading at the end of each reporting period. Therefore, revenue recognition process involves only limited management's judgement. However, since the audit procedures over revenue recognition required significant time and resource due to its magnitude, it was considered a key audit matter.</p>	<p>We reviewed the revenue recognition accounting policy for all material revenue streams and agreed that it complies with the International Financial Reporting Standards as adopted by the European Union. We assessed the consistency of the application of the revenue recognition policy by reconsidering the accounting policy for the different sources of the Company's revenues.</p> <p>We audited revenue recognition through a combination of controls testing and substantive testing.</p> <p>We applied sample based testing in evaluating design and operating effectiveness of key controls in relation to the recognition of revenue, by focusing on automated and manual controls over approved bill rates in the system and generating customer bills based on validated quantity of transmitted gas and approved rates. We found no material misstatements from our testing.</p> <p>We selected a sample of sales transactions conducted during the year and accounts receivable balances outstanding at the year end and either obtained confirmations of the transactions with and balances from the Company's customers or, where no confirmations were received, reconciled these transactions and balances to the issued invoices to the customers and subsequent receipts of payments from the customers. No material exceptions were noted from our testing.</p> <p>We tested whether revenue had been recognised in the correct period by selecting a sample of credit notes issued after the year end, and checking the financial period to which they were related. No exceptions were noted from our testing.</p> <p>Our work also included testing a sample of manual journals which did not identify any items that could not be substantiated.</p>



Assessment whether there is any indication that property, plant and equipment may be impaired

Refer to Note 4 'Impairment of property, plant and equipment' of the financial statements.

According to the Company's accounting policy, property, plant and equipment is carried at cost less subsequent accumulated depreciation and impairment losses.

We focused on this area due to significance of the property, plant and equipment balance (EUR 347.4 million as at 31 December 2016) and because management's assessment of indication that property, plant and equipment may be impaired involves significant judgements and estimates.

Management's assessment demonstrated that there is no any indication that property, plant and equipment may be impaired as of 31 December 2016, and therefore the Company did not estimate its recoverable amount.

We obtained, understood and evaluated management's process for the assessment of impairment indicators.

We evaluated the Company's procedures regarding budgeting and preparation of cash flow forecasts, being the important source of evidence for assessing the future economic performance of assets. We performed the following procedures:

- we compared Company's actual Cash flow in current year against the FY16 budget made in prior years, when assessing the indication that property, plant and equipment may be impaired. We noted, that the forecasts had not been too optimistic, as the actual performance of the Company in 2016 was better than budgeted;
- we examined changes in regulatory environment with reference to the latest decisions of the National Commission for Energy Control and Prices (NCC), including the regulated rate of return.
- we also considered whether any other impairment indicators were present.

We found that the management's assessment that there is no indication that property, plant and equipment may be impaired at the end of the reporting period is adequate.

Other information

Management is responsible for the other information. The other information comprises the annual report (but does not include the financial statements and our auditor's report thereon).

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

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



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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.




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

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

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

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

On behalf of PricewaterhouseCoopers UAB



Rimvydas Jogėla
Partner
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania
22 March 2017

AMBER GRID AB, company code 303090867, Savanorių pr. 28, Vilnius, Lithuania
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(all amounts in EUR thousands unless otherwise stated)

Statement of financial position

	Notes	As at 31 December 2016	As at 31 December 2015
ASSETS			
A. Non-current assets		348,715	354,911
I. Intangible assets	5	631	801
II. Property, plant and equipment	6	347,409	353,888
II.1. Land		125	113
II.2. Buildings and structures		276,153	285,159
II.2.1. Buildings		6,244	6,544
II.2.2. Gas transmission pipelines and related installations		264,918	273,458
II.2.3. Gas distribution pipelines and related installations		103	105
II.2.4. Other buildings and structures		4,888	5,052
II.3. Plant and machinery		55,565	60,078
II.4. Motor vehicles		1,101	1,216
II.5. Other fixtures, fittings, tools and equipment		2,717	4,046
II.6. Other property, plant and equipment		611	184
II.7. Construction in progress		11,137	3,092
III. Investments in subsidiary	1	675	222
B. Current assets		42,583	98,442
I. Inventories and prepayments		1,515	3,086
I.1. Inventories	7	1,360	2,949
I.2. Prepayments		155	137
II. Amounts receivable	8	25,444	37,001
II.1. Trade receivables		6,858	7,442
II.2. Other receivables		18,586	29,559
III. Prepaid income tax		-	-
IV. Other financial assets	9, 16	1,658	31,386
V. Cash and cash equivalents	10	13,966	26,969
Total assets		391,298	453,353

(cont'd on the next page)



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

AMBER GRID AB, company code 303090867, Savanorių pr. 28, Vilnius, Lithuania
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(all amounts in EUR thousands unless otherwise stated)

Statement of financial position (continued)

	Notes	As at 31 December 2016	As at 31 December 2015
EQUITY AND LIABILITIES			
C. Equity		202,810	194,664
I. Share capital	1	51,731	51,731
II. Reserves	11	130,151	126,955
II.1. Legal reserve		5,173	5,166
II.2. Other reserves		124,978	121,789
III. Retained earnings		20,928	15,978
D. Amounts payable and liabilities		188,488	258,689
I. Amounts payable after one year and non-current liabilities		152,816	180,742
I.1. Non-current borrowings	12	82,222	112,889
I.2. Grants (deferred revenue)	13	64,450	62,885
I.3. Non-current employee benefits	14	426	419
I.4. Deferred income tax liability	19	5,718	4,549
II. Amounts payable within one year and current liabilities		35,672	77,947
II.1. Current borrowings	12	-	-
II.2. Current portion of non-current borrowings	12	11,444	25,121
II.3. Current portion of non-current employee benefits	14	80	76
II.4. Trade payables	15	5,694	8,562
II.5. Advance amounts received		5	1,261
II.6. Income tax liability		876	316
II.7. Payroll-related liabilities		1,422	826
II.8. Other payables and current liabilities	16	16,151	41,785
Total equity and liabilities		391,298	453,353

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



General Manager	Saulius Bitys 	24 March 2017
Chief Accountant	Dzintra Tamulienė 	24 March 2017

AMBER GRID AB, company code 303090867, Savanorių pr. 28, Vilnius, Lithuania
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(all amounts in EUR thousands unless otherwise stated)

Income statement

		Notes	2016	2015
I.	Revenue	17	66,742	55,800
II.	Expenses		(41,978)	(40,671)
II.1.	Cost of natural gas		(7,180)	(8,603)
II.2.	Depreciation and amortisation	5, 6	(15,871)	(14,980)
II.3.	Employee benefits and related social security contributions		(8,041)	(7,710)
II.4.	Repair and technical maintenance expenses		(5,838)	(6,027)
II.5.	Taxes other than income tax		(1,843)	(1,493)
II.6.	Other expenses		(3,205)	(1,858)
III.	Operating profit		24,764	15,129
IV.	Financing activity	18	(484)	(442)
IV.1.	Income		77	65
IV.2.	Expenses		(561)	(507)
V.	Profit before income tax		24,280	14,687
VI.	Income tax	19	(3,352)	1,291
VI.1.	Current year income tax		(2,183)	(1,448)
VI.2.	Deferred income tax		(1,169)	2,739
VII.	Net profit		20,928	15,978
	Basic and diluted earnings (loss) per share (EUR)	20	0.12	0.09

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

General Manager	Saulius Bilys 	24 March 2017
Chief Accountant	Dzintra Tamulienė 	24 March 2017

AMBER GRID AB, company code 303090867, Savanorių pr. 28, Vilnius, Lithuania
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(all amounts in EUR thousands unless otherwise stated)

Statement of comprehensive income

	2016	2015
I. Net profit	20,928	15,978
II. Other comprehensive income		
II.I. will be reclassified subsequently to profit or loss		
II.II. will not be reclassified subsequently to profit or loss		
III. Total comprehensive income	20,928	15,978

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

General Manager	Saulius Bilys	24 March 2017
Chief Accountant	Dzintra Tamulienė	24 March 2017

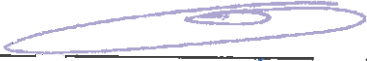
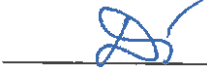
AMBER GRID AB, company code 303090867, Savanorių pr. 28, Vilnius, Lithuania
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(all amounts in EUR thousands unless otherwise stated)

Statement of changes in equity

	Notes	Share capital	Legal reserve	Other reserves	Retained earnings (deficit)	Total
At 31 December 2014		51,663	5,166	288,830	(109,044)	236,615
Transfer from other reserves		-	-	(167,041)	167,041	-
Dividends declared		-	-	-	(57,997)	(57,997)
<i>Total transactions with shareholders</i>		-	-	(167,041)	109,044	(57,997)
Total comprehensive income		68*	-	-	15,978	15,978
At 31 December 2015		51,731	5,166	121,789	15,978	194,664
Transfer from other reserves	11	-	-	3,189	(3,189)	-
Transfer to legal reserve		-	7	-	(7)	-
Dividends declared		-	-	-	(12,782)	(12,782)
<i>Total transactions with shareholders</i>		-	7	3,189	(15,978)	(12,782)
Total comprehensive income		-	-	-	20,928	20,928
At 31 December 2016		51,731	5,173	124,978	20,928	202,810

*Result of share capital conversion into the euros (Note 1).

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

General Manager	Saulius Bilys		24 March 2017
Chief Accountant	Dzintra Tamulienė		24 March 2017

AMBER GRID AB, company code 303090867, Savanorių pr. 28, Vilnius, Lithuania
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(all amounts in EUR thousands unless otherwise stated)

Statement of cash flows

	Notes	2016	2015
I. Cash flows from operating activities			
I.1. Net profit (loss)		20,928	15,978
Adjustments for non-cash items and other corrections:			
I.2. Depreciation and amortisation	5, 6	17,802	16,316
I.3. Loss (profit) on disposal and write-off of property, plant and equipment, doubtful trade receivables and inventories		15	(9)
I.4. Impairment of property, plant and equipment, financial assets, doubtful trade receivables and inventories	4, 7, 8	1,101	12
I.5. Income tax expenses (benefit)	19	3,352	(1,291)
I.6. Interest (income)	18	(2)	(12)
I.7. Interest expenses	18	557	393
I.8. (Amortisation) of grants (deferred revenue)		(1,982)	(1,688)
I.9. Elimination of other non-cash items		(75)	52
		41,696	29,751
Changes in working capital:			
I.10. Decrease in inventories	7	702	1,634
I.11. (Increase) in trade receivables	8	2,577	(2,578)
I.12. (Increase) in other receivables and prepayments		(5,441)	6,087
I.13. (Decrease) increase in trade payables		(367)	884
I.14. Increase in other payables and current liabilities		(26,287)	10,440
I.15. (Increase) in other financial assets		29,728	(16,770)
I.16. Income tax (paid)		(1,622)	(559)
Total changes in working capital		(710)	(862)
Net cash flow from operating activities		40,986	28,889
II. Cash flows from investing activities			
II.1. (Acquisition) of property, plant and equipment and intangible assets	5, 6, 21	(13,871)	(52,960)
II.2. Proceeds on disposal of non-current assets		13	10
II.3. (Acquisition) of investments in joint venture		(452)	(131)
II.4. Interest received	18	2	12
Net cash flows (used) in investing activities		(14,308)	(53,069)

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

AMBER GRID AB, company code 303090867, Savanorių pr. 28, Vilnius, Lithuania
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(all amounts in EUR thousands unless otherwise stated)

Statement of cash flows (continued)

	Notes	2016	2015
III. Cash flows from financing activities			
III.1. Dividends (paid)		(12,787)	(57,870)
III.2. Proceeds from borrowings		-	138,000
III.3. (Repayments) of borrowings	12	(44,344)	(39,123)
III.4. Grants received	13,21	17,950	9,089
III.5. Interest (paid)		(575)	(661)
III.6. Other cash flows from (used in) financing activities		75	-
Net cash flows from (used in) financing activities		(39,681)	49,435
IV. Net increase (decrease) in cash and cash equivalents		(13,003)	25,255
V. Cash and cash equivalents at the beginning of the year		26,969	1,714
VI. Cash and cash equivalents at the end of the year		13,966	26,969

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

General Manager	Saulius Bilys		24 March 2017
Chief Accountant	Dzintra Tamulienė		24 March 2017

Notes to the financial statements

1 General information

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

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

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

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

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

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

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

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

As at 31 December 2016, the Company had 95 (2015: 89) agreements for gas transmission services with the users of the gas transmission system (natural gas consumers, natural gas distribution system operators, natural gas suppliers supplying gas to the systems of gas consumers). The Company also had 3 (2015: 3) agreements for natural gas balancing services with the natural gas suppliers trading in natural gas but not transporting gas via the transmission system.

The Company's share capital was converted into the euros and totalled EUR 51,730,929. The share capital is divided into 178,382,514 ordinary registered shares with the par value of EUR 0.29 each.

The Company's share capital was converted into the euros as at 1 January 2015 in line with the special procedure for conversion of share capital set in the laws regulating adoption of the euro. Following the conversion, the share capital of EUR 51,730,929 was calculated by multiplying the par value of one share equal to EUR 0.29 by the number of shares. The share capital was approved by the Ordinary General Meeting of Shareholders on 23 April 2015 by making correspondent amendments to the Articles of Association of Amber Grid AB.

All the shares of the Company are ordinary registered shares with the par value of EUR 0.29 each. As at 31 December 2016 and 2015, all the shares had been fully paid. The Company did not hold its own shares. As from 1 August 2013,

1 General information (continued)

the Company's shares have been traded on stock exchange and quoted on the Baltic Secondary List of NASDAQ Vilnius (ISIN - LT0000128696; Ticker - AMG1L).

As at 31 December 2016 and 2015, the Company's shareholders were as follows:

	<u>Number of shares held</u>	<u>Interest held (%)</u>
EPSO-G UAB (company 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>

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

Seeking to implement its strategic goal to develop a competitive regional natural gas market, on 6 November 2015 Amber Grid AB acquired additional 34% stake in GET Baltic UAB from Lietuvos Dujos AB. After the completion of this transaction, the Company held 66% stake in GET Baltic UAB. On 23 December 2016, Amber Grid AB acquired the remaining ownership interest of 34% in GET Baltic UAB from Finnish natural gas company Gasum Oy and became the sole shareholder of GET Baltic UAB owning 100% of its share capital. As at 31 December 2016, the authorised share capital of GET Baltic UAB amounted to EUR 580,450 and it was divided into 3,055,000 shares with the par value of EUR 0.19 each.

GET Baltic UAB is a company holding natural gas market operator's licence, the main function of which is to organise and develop trading on the natural gas exchange.

The Company's investment in subsidiary GET Baltic UAB was accounted for at cost in the Company's financial statements for the years ended 31 December 2016 and 2015.

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

The financial statements of GET Baltic UAB as at 31 December 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

These financial statements were approved by the Company's management on 24 March 2017. The Company's shareholders have a statutory right to approve the financial statements or not to approve them and require that management prepare a new set of financial statements.

In 2016, the average number of employees on payroll at Amber Grid AB was 359 (2015: 359).

1 General Information (continued)

GET Baltic UAB data as at 31 December 2016 and 2015:

Year	Registered office address	Company's ownership interest (%)	Share capital	Company's share of (loss) for the reporting year	Company's share of equity for the reporting year	Profile of activities
2016	Savanorių pr. 28, Vilnius	100	580	-	251	Licensed activities of natural gas market operator – organisation of trade in natural gas on the natural gas exchange
2015	Savanorių pr. 28, Vilnius	66	580	(32)	173	Licensed activities of natural gas market operator – organisation of trade in natural gas on the natural gas exchange

Get Baltic UAB condensed statement of financial position as at 31 December 2016 and 2015:

	At 31 December 2016	At 31 December 2015
ASSETS		
A. Non-current assets	171	194
I. Intangible assets	170	193
II. Property, plant and equipment	1	1
B. Current assets	2,953	822
I. Prepayments	1	-
II. Amounts receivable	787	148
III. Cash and cash equivalents	2,165	674
Total assets	3,124	1,016
EQUITY AND LIABILITIES		
C. Equity	251	262
I. Share capital	580	580
II. Reserves	-	-
III. Accumulated loss	(329)	(318)
D. Amounts payable and liabilities	2,873	754
I. Non-current liabilities	-	-
II. Current liabilities	2,873	754
Total equity and liabilities	3,124	1,016

1 General information (continued)

Get Baltic UAB condensed income statement for the years ended 31 December 2016 and 2015:

		2016	2015
I.	Total revenue	115	110
II.	Total expenses	(327)	(210)
III.	Profit (loss) before income tax	(212)	(100)
IV.	Income tax	-	-
V.	Net profit (loss)	(212)	(100)

Get Baltic UAB condensed statement of comprehensive income for the years ended 31 December 2016 and 2015:

		2016	2015
I.	Net profit (loss)	(212)	(100)
II.	Other comprehensive income	-	-
	II.I. will be reclassified subsequently to profit or loss	-	-
	II.I. will not be reclassified subsequently to profit or loss	-	-
III.	Total comprehensive income (loss)	(212)	(100)

2 Accounting policies

Presented below are the principal accounting policies adopted in the preparation of the Company's financial statements for the year 2016:

2.1. Basis of preparation

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

These financial statements have been prepared on a historical cost basis.

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

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

The following new and amended IFRSs were adopted by the Company in the financial year ended 31 December 2016:

Amendments to IAS 19, Defined benefit plans: Employee contributions (effective for annual periods beginning on or after 1 February 2015). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.

Annual improvements to IFRSs 2012 (effective for the annual periods beginning on or after 1 February 2015). The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'. The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

Accounting for acquisitions of interests in joint operations – Amendments to IFRS 11 (effective for annual periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

Clarification of acceptable methods of depreciation and amortisation – Amendments to IAS 16 and IAS 38 (effective for annual periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by

2 Accounting policies (continued)

an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

Agriculture: Bearer plants – Amendments to IAS 16 and IAS 41 (effective for annual periods beginning on or after 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.

Equity Method in Separate Financial Statements – Amendments to IAS 27 (effective for annual periods beginning on or after 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Annual improvements to IFRSs 2014 (effective for the annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from 'held for sale' to 'held for distribution' or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.

The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of 'information disclosed elsewhere in the interim financial report'.

Disclosure initiative – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

Investment entities: Applying the consolidation exception – Amendments to IFRS 10, IFRS 12 and IAS 28 (effective for annual periods beginning on or after 1 January 2016). The standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements.

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

Other new standards, amendments to standards and interpretations effective for the annual periods beginning on or after 01 January 2017, yet not applied in preparing these financial statements are as follows:

IFRS 9, Financial instruments: Classification and measurement (effective for annual periods beginning on or after 1 January 2018, adopted by EU). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

2 Accounting policies (continued)

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

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

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Disclosure initiative – Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017; not yet adopted by the EU). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities.

Revenue from contracts with customers - Amendments to IFRS 15 (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised

2 Accounting policies (continued)

at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

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

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

The Company considers that other IFRS standards, their amendments and improvements, IFRIC interpretations that are not yet effective they will not have any significant impact on its financial statements or are not relevant. The Company is currently assessing the impact of the new relevant standards on its financial statements.

2.2 Presentation currency

On 1 January 2015, the Republic of Lithuania adopted euro as its official currency, and accordingly, the Company's functional currency has changed as from that date. The litas was converted into the euro at an exchange rate of LTL 3.4528 to EUR 1, which was set irrevocably by the EU Council.

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

2.3 Investments in subsidiary

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

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

2.4 Intangible assets

The Company's intangible assets are initially carried 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 can be either finite or indefinite.

After initial recognition, intangible assets with finite lives are carried at cost less accumulated amortisation and accumulated impairment losses, if any. 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 licences used in the Company's activities.

The Company has intangible assets with indefinite useful lives.

2 Accounting policies (continued)

2.5 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes replacement costs of part of property, plant and equipment when such costs are incurred and where 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 EUR 145 thousand. 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 borrowing-related costs.

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

Inventories for emergency elimination (reserve) that meet the criteria of non-current assets are classified as property, plant and equipment. Expenses relating to inventories written off during repair, technical maintenance and emergency liquidation are recorded in the income statement.

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

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 recorded in the income statement.

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

Buildings	25 - 60 years
Gas transmission pipelines and installations	18-55 years
Gas distribution pipelines and installations	55 years
Plant and machinery	5 - 20 years
Other buildings and structures	15 - 19 years
Motor vehicles	6 years
Other fixtures, fittings, tools and equipment	4 - 9 years
Other property, plant and equipment	4 - 6 years

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

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

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

The Company assesses the recoverable amount 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 policies (continued)

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 transaction costs (except for the financial assets at fair value through profit or loss).

Held-to-maturity investments

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

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

2.7 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 policies (continued)

2.8 Inventories

Inventories of the Company, consisting of natural gas contained in the gas pipelines (line pack) and inventories, are valued at the lower of cost and net realisable value.

Inventories include natural gas in excess of the minimum quantity of gas contained in the gas pipelines (line pack), which fluctuates depending on the specific supply volumes and the technological parameters of interconnected natural gas systems.

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

2.10 Borrowings

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

2.11 Borrowing costs

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 when incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowings.

2.12 Grants (deferred revenue)

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

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 attributed to this group of grants. The amount of the grants related to assets is recognised as income over the life of a depreciable asset and recorded in the income statement by netting the depreciation expenses of the related asset against the grant income.

Until 1 July 2009, the payments made by the system users for their connection to the Company's gas system were used to be accounted for as deferred revenue and they were recognised as income during the life of depreciable capitalised asset.

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.

2 Accounting policies (continued)

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 recognised in the income statement immediately.

Other long-term employee benefits

The Company is paying benefits to its employees for their long service at the Company. Non-current obligation for employment benefit is recognised in the statement of financial position at 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.

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

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax asset and liability is measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted at the date of the statement of financial position.

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

2.15 Leases

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

2 Accounting policies (continued)

Finance lease

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

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

Operating lease

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

2.16 Revenue recognition

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

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

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

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

The Company collects and administrates the LNG terminal funds and acts as an intermediary on behalf of the state, and this activity does not generate any income/profit for the Company in the ordinary course of business, except for the share of the LNG terminal funds intended to cover the administration expenses of the LNG terminal funds, which is considered as the Company's income (Note 17). The LNG terminal funds, which are collected from the payers of the LNG terminal funds and transferred to the beneficiaries of the LNG terminal funds (the company responsible for the implementation of the LNG terminal project or the LNG terminal operator), are not treated as the Company's income/expenses, but are accounted for as other receivables/other payables and other financial assets.

2 Accounting policies (continued)

2.17 Foreign currencies

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

2.18 Impairment of assets

Financial assets

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

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

Other assets

Other assets of the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the 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 under the same caption of the income statement as the impairment loss.

2.19 Fair value measurement

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

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

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

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

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

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

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

2 Accounting policies (continued)

If indications of impairment of property, plant and equipment exist, the asset's recoverable amount is estimated based on the value in use (discounted cash flow) method. Discounted cash flows are estimated using a discount rate, the assumptions in determining of which are substantially in line with the assumptions used by the Commission when estimating the rate of return for price regulation purposes. The changes in discount rate and in the value of regulated assets, as well as the changes in the regulatory environment have the major effect when estimating the recoverable amount of the Company's 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 the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

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

2.22 Subsequent events

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

2.23 Inter-company offsetting

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not offset, except for those cases where certain IFRS specifically permit or require such offsetting.

3 Segment reporting

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

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

In 2016, the Company generated 75.71% (2015: 76.18%) of its total revenue from the system users in Lithuania, and 24.14% (2015: 23.09%) from gas transportation to the Kaliningrad Region of the Russian Federation and in the Latvian direction.

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

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

As at 31 December 2015, there were four customers each of which generated revenues in excess of 10% of the Company's total revenue. These revenues totalled EUR 39,102 thousand. They are as follows:

Customer A – EUR 7,152 thousand;
Customer B – EUR 10,451 thousand;
Customer C – EUR 12,888 thousand;
Customer D – EUR 8,611 thousand.

4 Impairment of property, plant and equipment

When preparing the financial statements for 2016 and seeking to identify whether there occurred any indications of impairment of property, plant and equipment, the Company assessed internal and external impairment indications and also whether the events which took place in 2016 or future events might affect assumptions used in the previous estimation of the recoverable amount of assets. As a result of the assessment, the Company did not identify any substantial changes in respect of the discount rate, regulatory environment or future estimated cash flows, and based on available data, the Company does not expect any such changes in the foreseeable future, therefore, it concluded that no indications of impairment existed and the carrying amount of property, plant and equipment as at 31 December 2016 corresponded to its recoverable amount.

5 Intangible assets

Movement in intangible assets account during the reporting period and the previous period:

	Patents, licences	Computer software	Other intangible assets	Total
Net book amount at 31 December 2014	192	461	-	653
Additions	58	270	55	383
Write-off	-	-	-	-
Amortisation	(77)	(150)	(8)	(235)
At 31 December 2015	173	581	47	801
Cost	414	1,070	97	1,581
Accumulated amortisation	(241)	(489)	(50)	(780)
Net book amount at 31 December 2015	173	581	47	801
Additions	44	102	-	146
Write-off	-	-	-	-
Amortisation	(92)	(210)	(14)	(316)
At 31 December 2016	125	473	33	631
Cost	450	1,129	97	1,676
Accumulated amortisation	(325)	(656)	(64)	(1,045)
Net book amount at 31 December 2016	125	473	33	631

The Company's part of intangible assets with the cost of EUR 81 thousand as at 31 December 2016 (2015: EUR 109 thousand) has been fully amortised but is still in use.

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 (all amounts in EUR thousands unless otherwise stated)

6 Property, plant and equipment

Movement in property, plant and equipment account during the reporting period and the previous period:

	Land	Buildings	Gas transmission pipelines and related installations	Gas distribution pipelines and related installations	Other buildings and structures	Plant and machinery	Motor vehicles	Other fixtures, fittings, tools and equipment	Other PP&E	Construction in progress	Total
Net book amount at 31 December 2014	113	6,674	222,709	107	5,461	63,415	1,365	3,749	219	17,174	920,986
Additions	-	-	-	-	1	102	278	837	23	47,741	48,982
Reclassifications	-	140	59,014	-	-	1,713	-	919	-	(61,823)	-
Depreciation	-	(270)	(8,265)	(2)	(443)	(5,154)	(427)	(1,459)	(60)	-	(16,080)
At 31 December 2015	113	6,544	273,458	105	5,052	60,078	1,216	4,046	184	3,092	353,888
Cost	113	9,355	417,721	119	8,129	98,723	4,995	19,069	504	3,092	561,820
Accumulated depreciation	-	(2,811)	(144,263)	(14)	(3,077)	(38,645)	(3,779)	(15,023)	(320)	-	(207,932)
Net book amount at 31 December 2015	113	6,544	273,458	105	5,052	60,078	1,216	4,046	184	3,092	353,888
Additions	11	-	1	-	-	147	257	405	12	10,418	11,251
Disposals and write-off	-	-	(7)	-	-	-	-	(22)	-	-	(29)
Reclassified from inventories	-	-	-	-	-	-	-	-	477	-	477
Reclassified to inventories	-	-	(12)	-	-	-	-	-	-	-	(12)
Reclassifications	1	-	1,052	-	256	482	30	-	-	(1,821)	-
Impairment	-	(25)	(102)	-	-	-	-	-	-	(552)	(679)
Depreciation	-	(275)	(9,472)	(2)	(420)	(5,142)	(402)	(1,712)	(62)	-	(17,487)
At 31 December 2016	125	6,244	264,918	103	4,888	55,565	1,101	2,717	611	11,137	347,409
Cost	125	9,390	418,454	119	8,385	99,345	4,989	18,909	984	11,137	571,777
Accumulated depreciation	-	(3,086)	(153,536)	(16)	(3,497)	(43,780)	(3,888)	(16,192)	(373)	-	(224,368)
Net book amount at 31 December 2016	125	6,244	264,918	103	4,888	55,565	1,101	2,717	611	11,137	347,409

The Company's part of property, plant and equipment with the cost of EUR 17,286 thousand as at 31 December 2016 (2015: EUR 16,562 thousand) has been fully depreciated but is still in use. Therefore, the Company reviewed the useful lives of the sections to Elektrėnai and Grigiškės of the gas transmission pipeline Ivacevičiai-Vilnius-Riga and extended the useful life by an average of four years. Change in this management's accounting estimate is applied prospectively from 31 December 2016. The Company estimates that this change will result in the decrease of depreciation expenses for 2017 by approx. EUR 374 thousand.

In 2016, the Company capitalised part of its borrowing costs (interest) of EUR 27 thousand (2015: EUR 319 thousand). In 2016, interest were capitalised using an annual interest rate of 0.432% (2015: 0.6%).

6 Property, plant and equipment (continued)

The major construction in progress items of the Company as at 31 December 2016 and 2015 were as follows:

Items	At 31 December 2016	At 31 December 2015
Implementation of the gas interconnection Poland-Lithuania in the territory of Lithuania	6,262	936
Modernisation of the Panevėžys compression station	1,861	-
Replacement of valve units of the gas transmission pipelines	1,765	184
Installation of control device receiving chamber in the gas transmission pipeline Riga-Panevėžys-Vilnius (DN700) at the border of Lithuania-Latvia	-	800
Construction of the gas transmission pipeline Vilnius-Kaunas and the connection Kaunas-Šakiai	551	544
Automation of the maintenance of a cathodic protection of the gas transmission pipelines by installing a remote monitoring and management system	430	-
Other	848	657
*Less: impairment of construction in progress	(580)	(29)
	11,137	3,092

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

7 Inventories

	At 31 December 2016	At 31 December 2015
Raw materials, spare parts and other inventories	708	1,182
Natural gas	1,074	1,779
Assets held for sale	13	-
Inventories, gross	1,795	2,961
Less: write-down allowance	(435)	(12)
	1,360	2,949

The acquisition cost of the Company's inventories stated at net realisable value as at 31 December 2016 amounted to EUR 708 thousand (31 December 2015: EUR 1,182 thousand). Inventory write-down was included in other expenses.

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

8 Amounts receivable

	At 31 December 2016	At 31 December 2015
Amounts receivable for natural gas transmission	6,859	7,424
Other trade receivables	15	34
Less: impairment allowance for amounts receivable	(16)	(16)
Total trade receivables	6,858	7,442
Receivable LNG terminal funds for administration (Note 2.16)	13,279	9,473
Grants receivable	3,488	17,890
Accrued revenue for natural gas transportation	1,676	1,993
Other receivables	143	203
	25,444	37,001

Trade receivables are interest free and typically they have to be settled within 15 calendar days. The major portion of amounts receivable were settled in the beginning of January 2017.

As at 31 December 2016, the balance of receivable LNG terminal funds for administration included a past due receivable amount of EUR 3,834 thousand (31 December 2015: EUR 6,188 thousand), whereof a past due receivable amount of EUR 3,394 thousand from Achema AB and a past due receivable amount of EUR 351 thousand from Kauno Termofikacinė Elektrinė UAB. See Note 23 "Off-balance sheet commitments and contingencies" for more information about the receivable amount from Achema AB.

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

	Individually impaired
Balance at 31 December 2016	16
Balance at 31 December 2015	16

The ageing analysis of the Company's trade receivables and other receivables that were not impaired as at 31 December 2016 and 2015:

	Trade receivables and other receivables not past due	Trade receivables and other receivables past due					Total
		Less than 30 days	31 to 90 days	91 to 180 days	181 to 360 days	More than 360 days	
At 31 December 2016	21,484	1,937	1,052	-	-	971	25,444
At 31 December 2015	33,950	1,989	97	7	4	954	37,001

9 Other financial assets

As at 31 December 2016, the Company's other financial assets consisted of cash collected from the additional natural gas supply security component to be included in the natural gas transmission price, referred to as the LNG terminal funds. These funds are received from the system users, kept in line with the requirements of legal acts in a separate bank account for the LNG terminal funds and designated for the payment to the recipients of the LNG terminal funds. Based on the Commission's Resolution No O3-683 of 23 December 2015 as amended by Resolution No O3-83 of 25 March 2016 and Resolution No O3-121 of 13 May 2016, cash collected in 2016 were transferred to the recipients of the LNG terminal funds, i.e. Klaipėdos Nafta AB and Litgas UAB, in a prescribed manner. Based on the Commission's Resolution No O3-369 of 17 November 2016, the new additional natural gas supply security component to be included in the natural gas transmission price was approved. The newly approved latter price has been applied to the users with effect from 1 January 2017.

10 Cash and cash equivalents

	At 31 December 2016	At 31 December 2015
Cash at bank	13,966	26,969
	13,966	26,969

The Company keeps its cash balances in bank accounts. As at 31 December 2016, the Company had no one night deposits.

As at 31 December 2016, the Company's cash balances were kept in the accounts of the banks whose long-term foreign currency credit rating was not lower than "A2" based on Moody's, not lower than "A" based on Standard&Poors, and not lower than "A" based on Fitch Ratings. These thresholds fall within a high investment-grade.

The table below presents the long-term foreign currency credit ratings of the banks in which the Company kept its cash balances as at 31 December 2016:

Bank	Rating agency		
	Moody's	Standart&Poors	Moody's
SEB Bankas AB	Aa3	A+	AA-
Swedbank AB	Aa3	AA-	AA-
Nordea Bank AB Lithuania Branch	Aa3	AA-	AA-
Danske Bank A/S Lithuania Branch	A2	A	A

The ratings assigned to the parent banks as at 31 December 2016.

11 Reserves

Legal reserve

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

The Company's legal reserve amounts to EUR 5,173 thousand and represents 10% of the share capital (in 2015 - EUR 5,166 that amounted to 9.99%).

Other reserves

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

12 Borrowings

In October 2016, the Company repaid the loan (EUR 11,444 thousand) prior to its maturity to Swedbank AB. As at 31 December 2016, the outstanding balance of the loan received from Swedbank AB amounted to EUR 68,667 thousand (31 December 2015: EUR 113,000 thousand).

On 19 August 2015, the Company signed a new long-term loan agreement with the Nordic Investment Bank. In December 2015, the withdrawn balance of the loan amounted to EUR 25,000 thousand. The repayment term is 15 years. The loan is intended to finance the capacity enhancement of the gas pipeline Klaipėda-Kiemėnai / construction of the gas pipeline Klaipėda-Kuršėnai.

On 22 December 2015, the Company signed an agreement with the European Investment Bank regarding a loan for maximum amount of EUR 28,000 thousand for the term of 20 years. As at 31 December 2016, the loan was not used.

12 Borrowings (continued)

	At 31 December 2016	At 31 December 2015
Non-current borrowings		
Borrowings from local credit institutions	57,222	87,889
Borrowings from international financial institutions	25,000	25,000
Finance lease	-	-
Current borrowings		
Current portion of non-current borrowings	11,444	25,111
Finance lease	-	10
	93,666	138,010

As at 31 December 2016, the Company's borrowings were with average annual interest rate of 0.432% (31 December 2015: 0.572 %) tied to 3-6 month EURIBOR. Variable interest rate depends on 3-6 month EURIBOR.

Analysis of borrowings by contractual maturity:

	At 31 December 2016	At 31 December 2015	At 31 December 2016	At 31 December 2015
	Borrowings with a fixed interest rate	Borrowings with a fixed interest rate	Borrowings with a floating interest rate	Borrowings with a floating interest rate
2016	-	-	-	25,111
2017	-	-	11,444	25,111
2018	-	-	22,888	25,111
2019	-	-	23,976	26,198
2020	-	-	13,618	14,729
2021	-	-	2,174	2,174
2022	-	-	2,174	2,174
2023	-	-	2,174	2,174
2024	-	-	2,174	2,174
2025	-	-	2,174	2,174
2026	-	-	2,174	2,174
2027	-	-	2,174	2,174
2028	-	-	2,174	2,174
2029	-	-	2,174	2,174
2030	-	-	2,174	2,174
	93,666	138,000		

All borrowings of the Company are denominated in the euro, therefore outstanding balances of borrowings as at 31 December 2016 and 2015 were denominated in the euro and were not affected by changes in exchange rates. The Company's borrowings are neither secured with third party guarantees, nor by assets pledged as collateral.

13 Grants (deferred revenue)

	Deferred revenue	Asset-related grants	Income-related grants	Total
Balance at 31 December 2014	1,604	42,232	-	43,836
Received/receivable	-	20,420	304	20,724
Written off	-	(1)	-	(1)
Amortisation	(34)	(1,336)	(304)	(1,674)
Balance at 31 December 2015	1,569	61,316	-	62,885
Received/receivable	-	3,537	17	3,554
Written off	-	(7)	-	(7)
Amortisation	(34)	(1,931)	(17)	(1,982)
Balance at 31 December 2016	1,535	62,915	-	64,450

In 2016, by amortisation amount of EUR 1,931 thousand (2015: EUR 1,336) thousand, the depreciation expenses of the related asset were reduced in the income statement.

The average amortisation period of grants is 16 years (2015: 23 years).

14 Non-current employee benefits

As at 31 December 2016, the Company's employee benefit obligations related to one-time payments to employees leaving the Company at the retirement age amounted to EUR 413 thousand (31 December 2015: EUR 404 thousand), other non-current employee benefit obligations related to long-service of employees at the Company amounted to EUR 93 thousand (31 December 2015: EUR 91 thousand).

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

	At 31 December 2016	At 31 December 2015
Discount rate	1.5 %	1.5 %
Annual employee turnover rate	5 %	5 %
Annual salary growth	2 %	2 %
Average time to retirement (years)	19.77	20.09

15 Trade payables

	At 31 December 2015	At 31 December 2015
Trade payables under the investment programme (new constructions)	8	5,142
Trade payables under the investment programme (reconstructions)	3,814	1,182
Payables to service providers	828	870
Payables to repair service providers for non-current assets	381	470
Payables to natural gas suppliers	663	898
	5,694	8,562

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

16 Other payables and current liabilities

	At 31 December 2016	At 31 December 2015
Payable LNG terminal funds for administration (Note 2.16)	11,468	25,794
Accrued LNG terminal funds for administration *	3,696	15,316
Payable real estate tax	423	386
Other payables	564	289
	16,151	41,785

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

17 Revenue

The Company's revenue includes as follows:

	At 31 December 2016	At 31 December 2015
Income from natural gas transmission in the territory of Lithuania	59,878	49,841
Income from balancing services in the transmission system	6,613	5,406
Grants recognised as income	51	338
Income from administration of the LNG terminal funds	145	145
Other income	55	70
	66,742	55,800

Based on the provisions of paragraph 70 of Resolution No 1354 of 7 November 2012 of the Government of the Republic of Lithuania *On the approval of the description of the procedure for natural gas supply diversification* (relevant version), recalculation was performed with respect to the system users for the year 2016 relating to the exceeded consumption capacities, because after the end of the year it was found that the actually transported quantity of natural gas was higher than consumption capacities ordered and/or established. Consequently, consumption capacities for the system users were recalculated and income from natural gas transmission services (consumption capacities) of EUR 420 thousand was accrued for the year 2016. Payments relating to the additional natural gas supply security component for the year 2016 were also recalculated by applying the revised/actual amount of consumption capacities equal to EUR 2,856 thousand. The accrued amount is presented under the line item 'Accrued LNG terminal funds for administration' (Note 16).

18 Financing activity

	At 31 December 2016	At 31 December 2015
Interest income	2	12
Interest on late payment	75	46
Other	-	7
Total income from financing activity	77	65
Interest expenses on borrowings	557	393
Other expenses of financing activity	4	114
Total expenses of financing activity	561	507
Net result of financing activity	(484)	(442)

19 Income tax

	At 31 December 2016	At 31 December 2015
Deferred income tax assets:		
Impairment losses of property, plant and equipment	19,057	20,169
Accrued vacation reserve	51	50
Accrual for non-current employee benefits	75	74
Balance of unused income tax relief	2,708	4,393
Deferred income tax assets before impairment allowance	21,891	24,686
Less: impairment allowance	-	-
Less: deferred income tax asset offset against deferred income tax liability	21,891	24,686
Deferred income tax assets, net	-	-
Deferred income tax liabilities:		
Difference between carrying amount and tax base of property, plant and equipment	(27,609)	(29,235)
Deferred income tax liability, net	(5,718)	(4,549)

In 2014, deferred income tax asset of EUR 21,287 thousand was formed on impairment of property, plant and equipment. As at 31 December 2016, the net book amount of impairment of property, plant and equipment was equal to EUR 19,057 thousand (2015: EUR 20,169 thousand).

According to the provisions of the Law on Corporate Income Tax ("the Law") effective from 1 January 2009, income tax relief may be applied to investments in qualifying fixed assets. When calculating current income tax for the year 2016, the Company took advantage of the income tax relief and reduced the income tax expenses for the year 2016 by the total amount of EUR 2,157 thousand (2015: EUR 1,431 thousand).

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

When estimating the components of deferred income assets and liabilities in 2016 and 2015, the Company applied income tax rate of 15%.

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

19 Income tax (continued)

	At 31 December 2016	At 31 December 2015
Profit (loss) before income tax	24,280	14,687
Income tax (expenses) at the effective income tax rate	(3,642)	(2,203)
Non-deductible expenses	(157)	(141)
Income tax relief	521	3,626
Other	(72)	89
Adjustments to previous year income tax	(2)	(80)
Income tax benefit (expenses)	(3,352)	1,291

20 Earnings per share

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

	At 31 December 2016	At 31 December 2015
Net profit (loss) attributable to the shareholders (EUR '000)	20,928	15,978
Weighted average number of shares (thous.)	178,383	178,383
Earnings (loss) per share (EUR)	0.12	0.09

21 Cash flows from investing and financing activities

When calculating cash flows from investing activities in 2016, the Company took into consideration as follows: the change in amounts payable for non-current assets amounting to EUR 2,502 thousand; the reclassification of emergency inventories at the warehouse from current assets to non-current assets amounting to EUR 477 thousand; and capitalised borrowing costs (interest) of EUR 27 thousand (2015: the change in amounts payable for non-current assets amounting to EUR 3,913 thousand; the reclassification of natural gas contained in the pipeline (line pack) from current assets to non-current assets amounting to EUR 2,482 thousand; and capitalised borrowing costs (interest) of EUR 319 thousand).

When calculating the grants received in the cash flows from financing activities in 2016, the Company took into consideration the change in grants received amounting to EUR 14,402 thousand (2015: the change in grants received amounting to EUR 11,636 thousand).

22 Financial assets and liabilities and risk management

Liquidity risk

The Company's policy is to maintain sufficient amount of cash and cash equivalents or have available funding to meet its commitments. Liquidity risk is managed by the Company by making regular short-term and long-term cash flow forecasts. In view of the forecasts, the Company adopts decisions to ensure its solvency, if and when necessary. The Company's liquidity ratios (after eliminating the effects of the administrated LNG terminal funds) were as follows as at 31 December 2016 and 2015:

	At 31 December 2016	At 31 December 2015
Current ratio	1.35	1.56
Quick ratio	1.28	1.48

22 Financial assets and liabilities and risk management (continued)

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2016 and 2015 based on the undiscounted contractual 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 borrowings and liabilities		140	11,714	63,555	20,131	95,540
Other current liabilities	11,468*	652	-	-	-	12,120
Trade payables	-	5,694	-	-	-	5,694
Balance at 31 December 2016	11,468	6,486	11,714	63,555	20,131	113,354
Interest-bearing borrowings and liabilities		261	25,715	92,944	22,478	141,398
Other current liabilities	25,794*	439	-	-	-	26,233
Trade payables	-	8,562	-	-	-	8,562
Balance at 31 December 2015	25,794	9,262	25,715	92,944	22,478	176,193

* Amounts payable to the beneficiaries of the LNG terminal funds.

Credit risk

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

The Company's exposure to credit risk arises from cash at bank and cash invested in short-term instruments. The level of exposure depends on the credibility of the selected bank. To manage this risk, the Company has approved the procedure for cash investments. The procedure defines as follows: (1) the credibility level of the banks selected for partnership; (2) the diversification limits for funds kept as deposits or invested in the investment products of banks or their subsidiaries, other securities, etc.

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

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

Interest rate risk

As at 31 December 2016 and 2015, the Company had borrowings with variable interest rates. The Company's exposure to interest rate risk arises from variable interest rates that are linked to EURIBOR. Given the current situation in the market of interbank offered rates, during 2016 and 2015 the Company did not enter into any transaction on financial instruments that would be used to manage the interest rate risk.

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

22 Financial assets and liabilities and risk management (continued)

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

	Increase in EURIBOR, b.p.	Impact on profit before tax, EUR '000
At 31 December 2016	+100	(937)
At 31 December 2015	+100	(1,380)

Natural gas price risk

The Company is exposed to the risk related to changes in the natural gas purchase price. Changes are caused by various fluctuations in international markets. In 2016, the Company did not take any measures to mitigate the natural gas price risk.

Concentration risk

The Company is exposed to significant concentration of credit risk, as the credit risk exposure is distributed among the Company's 10 major customers whose liabilities represented 90% of the Company's total trade receivables as at 31 December 2016 (31 December 2015: 91%). However, in the event of loss of customers and lower volumes of transported gas, the prices for gas transportation services would increase as per the Methodology for Setting the Prices Regulated by the State in the Natural Gas Industry approved by the Commission.

Fair value of financial assets and liabilities

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

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

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

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

23 Off-balance sheet commitments and contingencies

Litigations

1. Pursuant to the Lithuanian Law on the Liquefied Natural Gas Terminal and the resolutions adopted by the Commission, the users of the natural gas system transporting natural gas through the transmission system are required to pay an additional component to be included in the natural gas transmission price, which is intended to compensate for the construction and operating expenses of the LNG terminal, its infrastructure, connector (the LNG terminal component funds) as they make payments for natural gas transmission services¹. Since Achema AB, as a transmission system user, has systematically failed to pay the LNG terminal funds, on 7 March 2014 Amber Grid filed a claim to Kaunas Regional Court with the request to award from Achema AB the amount owed for unpaid the LNG terminal funds for the period from 1 September 2013 to 31 December 2013, also to award penalties on late payment of the LNG terminal funds for the above-mentioned period. On 16 March 2015, Amber Grid AB applied to Kaunas

¹ The Lithuanian Law on the Liquefied Natural Gas Terminal (original version) stipulated that the LNG terminal costs are subject to compensation, whereas a term „the LNG terminal component“ was used in the Methodology for the Calculation of the Price Caps of Natural Gas Transmission and Distribution Services as approved by the Commission's Resolution No O3-106 of 8 August 2008. From 2014, the term “additional natural gas supply security component to be included in the natural gas transmission price“ is used in the Law on the Liquefied Natural Gas Terminal.

23 Financial assets and liabilities and risk management (continued)

Regional Court with a new claim, whereby it requested to award from Achema AB the debt for the LNG terminal funds intended to compensate for the fixed operating costs of the LNG terminal, its infrastructure and connector, the collection of which was started from 3 December 2014, plus penalties and 6% annual interest. As the Court combined the above-mentioned two cases, on 29 September 2015 Kaunas Regional Court satisfied in full the claim of Amber Grid AB and awarded from Achema AB the debt of EUR 3,188 thousand for the period from 1 September 2013 to 31 December 2013, penalties of EUR 545 thousand, procedural interest and debt of EUR 14,721 thousand for the period from 3 December 2014 to 30 April 2015, penalties of EUR 305 thousand and procedural interest. Achema AB appealed against the above-mentioned court ruling. The ruling of the court of first instance remained in force based on the judgement passed by the Court of Appeal of Lithuania on 8 June 2016. The Supreme Court of Lithuania passed the ruling on 9 August 2016 whereby it accepted the appeal in cassation. On 8 December 2016, the Supreme Court of Lithuania accepted the request of Achema AB for the suspension of the investigation of the case until the resolution of the claim of Achema AB filed with the General Court of the European Union in case No T-417/16. The case is pending at the Supreme Court of Lithuania. The Company's credit risk related to amounts receivable and penalties charged to Achema AB is low as the Company acts only as the entity collecting the LNG terminal funds and transfers the LNG terminal funds to their recipients only when it collects them from the purchasers.

2. On 19 November 2012, Achema AB applied to Vilnius County Administrative Court with request to annul paragraphs 3.1 and 4 of the Commission's Resolution No 03-317 of 19 October 2012 *On the establishment of funds for the year 2013 intended to compensate for all or part of the construction and operating costs of the liquefied natural gas terminal, its infrastructure and connector*, and to annul paragraph 2 of the Commission's Resolution No 03-330 of 26 October 2012 *On Lietuvos Dujos AB natural gas transmission and distribution price cap adjustment and establishment of additional component to be included in the natural gas transmission price cap (the LNG terminal component) for the year 2013* (hereinafter "the First Administrative Case"). Amber Grid AB acts as a third party in the lawsuit. On 28 May 2015, Vilnius Regional Administrative Court rejected in full the claim of Achema AB. Achema AB appealed against the court ruling. Based on the ruling of the Supreme Administrative Court of Lithuania passed on 24 October 2016 the investigation of the case was suspended until the coming into force of the final ruling in case No T-417/2016 at the General Court of the European Union.

3. On 22 December 2014, Achema AB applied to Vilnius County Administrative Court with request to annul paragraphs 1.1, 2.2.1, 2.3 and of the Commission's Resolution No 03-895 of 20 November 2014 *On the establishment of the upper gasification limit of natural gas (additional natural gas supply security component to be included in the natural gas transmission price) for the years 2015-2019*. Based on the court ruling of 7 July 2015, Amber Grid AB joined the lawsuit as a third party. Based on the court ruling of 11 November 2015, the lawsuit was suspended. Separate complaints were filed. On 11 January 2016, the Supreme Administrative Court of Lithuania passed a ruling whereby the ruling of Vilnius Regional Administrative Court of 11 November 2015 on the suspension of the investigation of the case until the resolution of the First Administrative Case at the Supreme Administrative Court of Lithuania remained in force.

4. On 22 January 2016, Achema AB applied to Vilnius Regional Administrative Court with request to annul paragraph 1 of the Commission's Resolution No 03-683 of 23 December 2016 *On the establishment of the additional natural gas supply security component to be included in the natural gas transmission price*. Based on the court ruling of 9 March 2016, Amber Grid AB joined the lawsuit as a third party. The parties filed their responses. Based on the ruling of Vilnius Regional Administrative Court of 10 November 2016 the investigation of the case was suspended until the resolution of the First Administrative Case at the Supreme Administrative Court of Lithuania.

5. On 18 April 2016, Achema AB applied to Vilnius Regional Administrative Court with request to annul paragraph 1 of the Commission's Resolution No 03-683 of 25 March 2016 *On the establishment of the additional natural gas supply security component to be included in the natural gas transmission price*. Based on the court ruling of 2 May 2016, Amber Grid AB joined the lawsuit as a third party. The parties filed their responses. Based on the ruling of Vilnius Regional Administrative Court of 16 November 2016 the investigation of the case was suspended until the resolution of the First Administrative Case at the Supreme Administrative Court of Lithuania.

6. On 18 August 2016 Amber Grid AB filed a claim to Kaunas Regional Court with the request to award from Achema AB the amount owed of EUR 2,430 thousand for the LNG terminal funds according to the agreements on the natural

23 Financial assets and liabilities and risk management (continued)

gas transmission services concluded in 2012 and 2014. Preparations are made for the investigation of the case on its merits.

7. On 6 October 2016, Achema AB filed a claim to the respondent, the Republic of Lithuania, for the compensation of damage incurred in granting state aid not agreed with the European Commission. Amber Grid AB joined the lawsuit as a third party. The parties filed their responses.

8. On 28 December 2016, Achema AB applied to Vilnius Regional Administrative Court with request to annul the Commission's Resolution No 03-369 of 17 November 2016 *On the establishment of the additional natural gas supply security component to be included in the natural gas transmission price*. Amber Grid AB joined the lawsuit as a third party. A time period has been established in the case for the provision of responses.

Contingencies related to commitments to purchase non-current assets

As at 31 December 2016, the Company had agreements on purchase of non-current assets that are not recognised in these financial statements in the amount of EUR 16,150 thousand (31 December 2015: EUR 6,614 thousand).

24 Related-party transactions

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

The related parties of the Company as at 31 December 2016 and 2015 were as follows:

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

The table below presents the balances and transactions with related parties as at 31 December 2016 and 2015:

	Purchases	Sales	Amounts receivable	Amounts payable
2016				
GET Baltic UAB	134		7	1
EPSO-G UAB	11		-	10
	145		7	11
2015				
GET Baltic UAB	-		6	1
	-		6	1

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

The outstanding year-end balances are not secured with any collateral, they are interest free, and all settlements in 2016 were made in cash payments within the term of 15 days. No guarantees were issued or received in respect of

24 Related-party transactions (continued)

receivables from/payables to related parties, nor were any impairment allowances established by the Company for doubtful receivables from related parties.

Payments to management

In 2016, payments to the Company's management amounted to EUR 356 thousand (2015: EUR 359 thousand). The Management consists of the head of administration of his/her four deputies. During 2016 and 2015, the management of the Company did not receive any loans, guarantees, no other payments were made or calculated, no transfers of property were made.

During the year 2016 the Company has paid EUR 15 thousand for the member of the Board (2015: EUR 8 thousand).

25 Capital management

The Company is required to maintain its equity ratio at not less than 50 % of its share capital, as imposed by the Lithuanian Law on Companies. As at 31 December 2016 and 2015, the Company was in compliance with this requirement. There were no other internally or externally imposed capital requirements on the Company.

26 Subsequent events

On 9 January 2017, the Lithuanian natural gas transmission system operator Amber Grid AB, the Polish gas transmission system operator GAZ-SYSTEM S.A. and the EU Innovation and Networks Executive Agency (INEA) signed the amendments to the tripartite agreements on the financial assistance of the EU under the Connecting Europe Facility regarding preparatory works and construction works of the gas interconnection between Poland and Lithuania (GIPL).

The amendments to the EU financial support agreements for the GIPL project were initiated after the Polish transmission system operator GAZ-SYSTEM S.A. faced problems in performing the preparatory works related to the GIPL project and made suggestions regarding the change in the route of the gas pipeline in the territory of Poland. This caused changes in the scope of the GIPL project in the territory of the Republic of Poland and its implementation deadlines. In view of this in autumn of 2016 the Lithuanian Government passed a resolution under which the date for the completion of the GIPL project in the territory of the Republic of Lithuania was postponed until 31 December 2021.

The GIPL project is aimed at integrating the gas markets of the Baltic countries with the single EU gas market, diversifying gas supply sources and enhancing the security of gas supply. Due to its regional importance the GIPL project was included in the EU List of Projects of Common Interests.

The GIPL project is implemented by the Lithuanian transmission system operator Amber Grid AB and the Polish transmission system operator GAZ-SYSTEM S.A. The gas transmission pipeline with a diameter of 700 mm will connect compression stations located in both countries, i.e. in Lithuania and in Hołowczyce, Poland. The total projected length of the gas pipeline is up to 534 km, of which 357 km will be constructed in the territory of Poland and 177 km in the territory of Lithuania.

On 1 February 2017, the Company signed the renewal of the loan agreement concluded with the European Investment Bank, under which the term for the payment/use of the loan was extended by the end of 2017.

On 28 February 2017, the Company repaid the loan (EUR 11,444 thousand) prior to its maturity to Swedbank AB.

On 1 March 2017, the Company signed the overdraft agreement for the amount of EUR 10,000 thousand. The agreement was concluded for the term of one year and may be extended for additional term of one year.

**AB AMBER GRID
ANNUAL REPORT 2016**

**Vilnius
2017**

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1. GENERAL INFORMATION

This Annual Report covers the year 2016.

1.1. BACKGROUND

Name	AB Amber Grid (hereinafter referred to as 'Amber Grid' or the 'Company')
Legal form	Public company
Date of registration and register	23 June 2013, Register of Legal Entities
Business ID	303090867
Manager of the Register of Legal Entities	VĮ Registrų centras
Authorised capital	EUR 51,730,929.06
Registered office address	Savanorių pr. 28, LT-03116 Vilnius
Telephone	+370 5 236 0855
Fax	+370 5 236 0850
Email address	info@ambergrid.lt
Website	www.ambergrid.lt

Mission of the Company: to ensure effective development of the transmission system, to secure reliable gas transmission process, to contribute actively to the development of an integrated European gas transmission system, and to create conditions for the development of a competitive gas market in order to safeguard the national strategic interests.

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

Amber Grid, the gas transmission system operator, is a company that plays an important role in safeguarding the national security of Lithuania. It is responsible for the transmission of natural gas, the operation and maintenance of gas pipelines, and for securing safe and reliable functioning and development of the gas transmission system. The Company's customers are large and medium-sized entities operating in the electricity and heat generation sectors, industrial enterprises, natural gas supply companies to which the natural gas transmission services are provided in the territory of Lithuania.

On 23 December 2016, Amber Grid acquired a 34% stake in UAB GET Baltic from Gasum Oy, becoming the sole shareholder of UAB GET Baltic and controlling 100% of its authorised capital. UAB GET Baltic is a private company holding a natural gas market operator's licence and organising and conducting trading on a natural gas exchange. For more information about UAB GET Baltic please visit www.getbaltic.lt.

On 8 February 2016, the National Energy Association of Lithuania was founded, and Amber Grid is one of its members. The Association forms the general position of the national energy sector, represents its members' interests in state institutions, public entities and international organisations, seeks to develop and improve the conditions for the supply of electricity and gas to customers in Lithuania.

1.2. OPERATIONS OF THE COMPANY

The following services are rendered by the Company to the system users, other operators and gas market participants:

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

1.2.1. TRANSPORTATION OF NATURAL GAS VIA GAS TRANSMISSION PIPELINES

TRANSMISSION SYSTEM AND ITS DEVELOPMENT

The transmission system consists of the transmission pipelines, gas compressor stations, gas distribution stations, gas metering stations, equipment for the protection of gas pipelines against corrosion, remote data transmission and communication systems and other assets belonging to the transmission system. The gas transmission system of Lithuania is connected with those of the Republic of Latvia, the Republic of Belarus, and the Kaliningrad Region of the Russian Federation, as well as with the LNG terminal in Klaipėda (see Map 1). The Company operates 67 gas distribution stations (GDS), 3 gas metering stations (GMS), and 2 gas compressor stations (GCS). The length of the transmission pipelines operated by the Company is 2,115 km, and their diameter varies between 100 and 1,220 mm. Most sections of the transmission system have the design pressure of 54 bar.

At the end of 2016, a 1.57 km long branch of the main pipeline Tauragė GDS was completed and a 32.2 MWh GDS was installed for the purposes of gasification of the Tauragė region.



Map 1. Lithuania's natural gas transmission system

STRATEGIC INFRASTRUCTURE PROJECTS

During 2016, Amber Grid implemented the following gas transmission infrastructure projects of strategic importance:

- Gas interconnection Poland-Lithuania (GIPL), and
- Enhancement of Latvia-Lithuania interconnection.

The above strategic infrastructure projects – the gas interconnection Poland-Lithuania and the enhancement of Latvia-Lithuania interconnection in which Amber Grid is involved – have been included in the Second List of the EU Projects of Common Interest published on 18 November 2015, the Ten-year Network Development Plan (TYNDP) of the European Network of Transmission System Operators for Gas (ENTSO-G) published in 2015, the Baltic Energy Market Interconnection Plan (BEMIP) for 2014–2023, and the National Plan on the Implementation of Priority Projects of Electricity and Natural Gas Transmission Infrastructure approved by Resolution of the Government of the Republic of Lithuania No 746 of 22 July 2014 (the 'National Plan').

On 1 March 2016, Amber Grid and the Lithuanian Business Support Agency, a public entity, concluded grant agreements on eight natural gas transmission projects under the National Plan, for which the European Union funding of up to EUR 14.6 million was allotted under the Operational Programme for EU Structural Funds Investments for 2014–2020. The total value of the projects under implementation is EUR 29.2 million.

GAS INTERCONNECTION POLAND-LITHUANIA (GIPL)

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

Objectives of the project

- Integrate the Baltic and Finnish gas markets into the common EU market for gas;
- Diversify the gas supply sources;
- Increase the security of gas supply.

In April 2016, public procurement for the construction works and pipes required for the Lithuanian part of GIPL was initiated. However, when in September it turned out that the time limit for the completion of the Polish part would be extended and the pipeline route would be changed, therefore, the public procurement was cancelled. On 26 September 2016 the Government of the Republic of Lithuania resolved, by its resolution No 944 of 26 September 2016, to extend the deadline for the completion of the Lithuanian part of GIPL.

All the documents permitting construction required for the Lithuanian part of GIPL were received by 27 September 2016.

On 18 November, the project promoters submitted to the Innovation and Networks Executive Agency (INEA) a request for amendments to the agreements on financial support for GIPL preparatory and construction works under CEF, the Connecting Europe Facility. The process of agreement on amendments to the trilateral agreements lasted until the end of 2016, resulting in the conclusion of the agreements on 9 January 2017.



Map 2. Gas Interconnection Poland-Lithuania (GIPL)

The main gas pipeline 700 mm in diameter will connect compressor stations of both countries: Jauniūnai in Lithuania and Hołowczyce in Poland. The total length of the pipeline will be shorter than the one previously planned (534 km) and will be finally determined on completion of a feasibility study for the Polish part.

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

ENHANCEMENT OF LATVIA-LITHUANIA INTERCONNECTION

The aim of the project is to increase the capacity of the gas systems interconnection Latvia-Lithuania, ensuring safe and reliable natural gas supply, and achieving a more effective use of the infrastructure and better integration of the gas markets of the Baltic States (Map 3). The implementation of the project will also enable a better use of the Latvian Inčukalns underground gas storage facility.



Map 3. Project of Enhancement of Latvia-Lithuania Interconnection

The implementation of the project would result in the increase of the Kiemėnai GMS in Lithuania and the construction of the requisite gas pipeline section in Latvia. The project is implemented by Latvijas Gaze AS (from 1 January 2017: Conexus Baltic Grid AS, a newly established operator of the Latvian natural gas transmission system and of Inčukalns underground gas storage facility) and Amber Grid.

OPERATION, RECONSTRUCTION AND MODERNISATION

Operation of gas transmission pipelines is regulated by rules and regulations, and must be in strict compliance with the set requirements. In order to ensure safety and reliability of the transmission system, regular maintenance and repair works are carried out.

In 2016, inner diagnostics of the gas pipeline (DN700, DN800) to the Kaliningrad Region of the Russian Federation, specifically, of a 96.8 km section between Vilnius and Kaunas, and of a 169.6 km section (DN700) of the Riga-Panevėžys-Vilnius pipeline was carried out. In addition, preparatory works for the cleaning of the pitting in a 51.6 km section (DN400) to Alytus GDS and a 48.6 km section (DN400) to Marijampolė GDS have been started. Defects found by diagnostics in the Minsk-Vilnius-Vievis gas pipeline (DN1000) and the gas pipeline (DN700) to the Kaliningrad Region at Kaunas and Vievis (a case across the railway), were corrected; repairing the insulation in the Vilnius-Panevėžys-Riga pipeline are being continued. In 2016 a pig receiving station for the Riga-Panevėžys-Vilnius (DN700) gas main pipeline at the Lithuanian-Latvian border was installed.

In 2016, the Company performed the following reconstruction and modernisation works of the natural gas transmission system, co-financed by the EU Structural Funds' assistance:

- Installation of four additional chromatographs for the gas metering in energy units;

- Installation of hydrocarbon, dew point and oxygen meters at Šakiai GMS;
- Launching of modernisation of the Panevėžys gas compressor station.

In 2016, Amber Grid installed 31 cathode stations and 40 measuring stations equipped with telemetric systems, which enables the remote monitoring of the equipment used for anti-corrosion purposes including the control of the equipment's parameters.

NATURAL GAS TRANSMISSION CAPACITIES AND VOLUMES

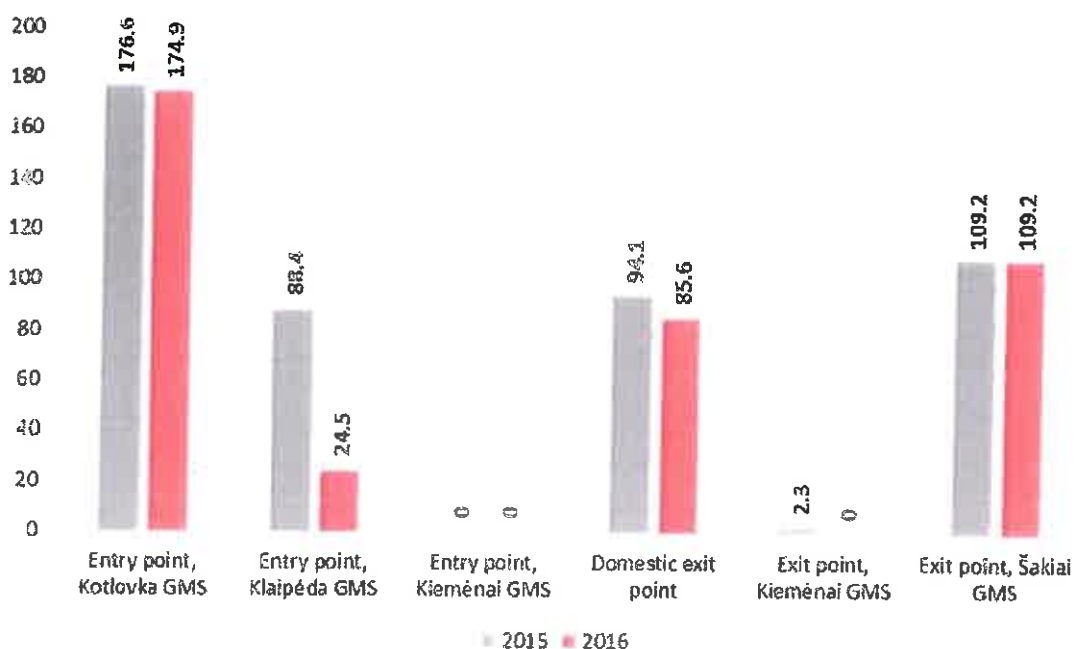
In 2016, the volumes of natural gas received by the transmission system controlled by the Company were as follows: through Kotlovka GMS from Belarus 32,418.2 GWh, the Klaipėda LNG terminal – 14,610.3 GWh, and through Kiemėnai GMS from Latvia – 337.9 GWh. During the reporting period, short-term capacities used by the system users at points of inlet into Lithuania increased 2.8 times compared to 2015: from 397.8 GWh in 2015 to 1,101.9 GWh in 2016.

In 2016, the system users ordered 199.4 GWh/day/year of long-term transmission capacities at points of inlet into the transmission system, which is a 24.8 % decrease year-on-year (2015: 265.0 GWh/day/year). At outlet points, 194.8 GWh/day/year of long-term transmission capacities were ordered, which is 5.3 % less compared to 2015 (205.6 GWh/day/year).

The data on the long-term transmission capacities at entry and exit points are shown in Figure 1.

In 2016, 473.9 GWh of natural gas were transmitted to the Republic of Latvia via Kiemėnai GMS (2015: 1,029.4 GWh) and 23,511.2 GWh of natural gas to the Kaliningrad Region (2015: 21,778.9 GWh).

Figure 1. Booked long-term transmission capacities according to entry and exit points, GWh/day/year, 2015 -2016

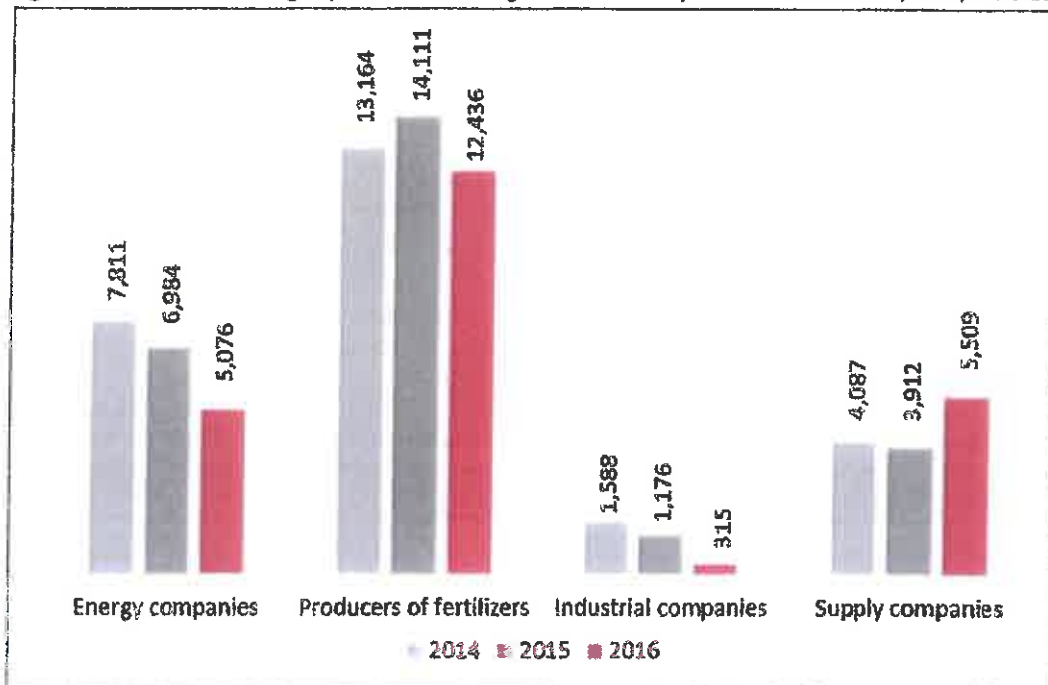


During the reporting period, the Klaipėda LNG terminal supplied 60.3 % of the natural gas quantity required for customers in Lithuania and other Baltic States (in 2015: 16.6 %).

In 2016, the total volume of transportation of natural gas to Lithuanian customers to gas distribution systems or to directly connected customers' systems is 23,336.2 GWh. The volume has decreased 10.9 % compared to 2015 (26,182.6 GWh). In 2016, the system's users consumed 1,407.5 GWh of short-term capacities at the internal exit point, which is 73.1 % more than in 2015 (813.3 GWh). The volume of booked long-term capacities at the internal exit point decreased 5.3 % (from 205.6 GWh/day/year in 2015 to 194.8 GWh/day/year in 2016).

The structure of transmitted natural gas quantities at the internal exit point according to the transmission system users is shown in Figure 2.

Figure 2. Transmitted natural gas quantities¹ according to transmission system users in Lithuania, GWh, 2014–2016



In 2016, the largest daily quantity of gas transported from Belarus to Lithuania was 223.8 GWh (2015: 213 GWh), to Kaliningrad Region of the Russian Federation 99.3 GWh (2015: 100 GWh), and from Klaipėda LNG terminal 90.1 GWh (2015: 32 GWh); the largest daily quantity of gas transmitted to Lithuanian customers was 128.2 GWh (2015: 130 GWh).

As of 31 December 2016, the Company had 95 contracts for the transmission of natural gas, concluded with users of the natural gas transmission system (natural gas users, natural gas distribution system operators, importers, and natural gas suppliers importing gas and/or supplying gas up to customers' systems or to other transmission systems); out of them, 24 system users did not use any transmission services in 2016. The Company had three gas balancing contracts with supply companies trading in natural gas but not transporting them over the transmission system.

NATURAL GAS PRICES REGULATION

The prices for natural gas transmission services are subject to regulation.

¹From 1 January 2015, quantities of natural gas at the transmission system's entry and exit points are metered in energy units – kilowatt hours (kWh), which replaced volumetric units – cubic metres (m³). In this report, volumetric units have been converted into energy units using the average upper gas calorific value 10.4 kWh/m³ under normal conditions: +25 °C combustion temperature, +20 °C measurement temperature, and 101.325 kPa absolute pressure.

As of 1 January 2016, the Company was subject to the price caps set by the National Commission for Energy Control and Prices (NCC) in November 2015 for the natural gas transmission services at the transmission system's entry² and exit³ points, which were set upon the introduction of the system's entry-exit point-based capacity allocation and pricing model according to the EU requirements. The NCC may adjust such price caps on an annual basis according to the procedure set out in the Methodology for the Setting of State-regulated Prices in the Natural Gas Sector (hereinafter referred to as the 'Methodology').

In addition, as of 1 January 2016 the natural gas transmission service prices set for the transmission system's entry and exit points by the Board of the Company and approved by the NCC were in force. Considering amendments to the Methodology made on 17 December 2015 by NCC (with the aim to strengthen the link between the transmission service costs, benefits received and payment for the services), which has enabled the application of a three-component transmission service price that includes the price for consumption capacity⁴, the three-component price is applied at the system's domestic exit point since 2016: the price for the transmission capacities booked, the price for the set consumption capacities (a new price component), and the price for the quantity transmitted.

The average price of the firm long-term transmission services per transmitted energy unit at domestic exit point as set by the Board of the Company and approved by NCC for 2016 was 4.8 % lower than the price cap set by NCC for the transmission service prices for 2016. Prices set for other entry and exit points were equal to the set price caps.

As part of adjustments of the set level of the Company's income from transmission activity for 2016, NCC approved the price caps for the system's entry and exit points for 2017 by its resolution of 21 October 2016. Therefore, on 15 November 2016 the Board of the Company took a decision on the new natural gas transmission service prices in effect from 1 January 2017. The decision was approved by NCC on 17 November 2016. The average price for the gas transmission to Lithuanian customers per unit of transmitted quantity, as set by the Board of the Company and approved by NCC for 2017 is 1.78 EUR/MWh, which is 7.8 % lower compared with the price for 2016 (1.93 EUR/MWh). The most important factors affecting the decrease in the natural gas transmission prices in 2017 include the higher income received by the Company for short-term capacities in 2015 and 2016 and the costs related to the investments under implementation which were lower than estimated.

For more detailed information about the natural gas transmission service prices effective as from 1 January 2017 please visit www.ambergrid.it/en/ (Tariffs/Prices in Transportation Services section).

1.2.2. BALANCING OF NATURAL GAS FLOWS IN THE TRANSMISSION SYSTEM

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

² Points of interconnection between the Lithuanian transmission system and the Belarus system, the Latvian system and the system of LNG terminal in Klaipėda.

³ Points of interconnection between the the Lithuanian transmission system and the Latvian system and the Kaliningrad Region of the Russian Federation system as well as the domestic exit point (including the points of the Lithuanian transmission system's connection with the gas distribution systems or the systems of gas consumers).

⁴ Natural gas consumption capacity – the largest daily quantity of natural gas which is necessary for the user of the natural gas system and/or the gas consumer to meet their maximum natural gas consumption needs at each point of delivery of natural gas. Consumption capacity is estimated and set according to the procedure defined by the Government, which, inter alia, defines a mechanism whereby the system users/gas consumers are encouraged not to exceed the declared or set level of consumption capacity when booking the capacity.

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

In 2016, as part of the transmission system balancing, the Company's purchased 6.4 GWh of gas from the gas market participants and sold 375.3 GWh of gas to them including 370.2 GWh of gas sold for the balancing of the flows of the natural gas transmission to the Kaliningrad Region.

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

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

In order to ensure compliance with the Republic of Lithuania Law on LNG terminal and its implementing legal acts, the Company collects, administers and pays out the LNG terminal funds to the terminal's operator (AB Klaipėdos Nafta), and from 1 January 2016 – to the designated supplier (UAB LITGAS) as well according to a procedure prescribed by legal acts. Part of the collected funds is allocated, by decision of NCC, to compensate for the administration costs of the Company.

By its Resolutions No O3-683 of 23 December 2015, No O3-83 of 25 March 2016 and No O3-121 of 13 May 2016, NCC approved an additional component related to the natural gas supply security to be included in the natural gas transmission tariff for 2016, which was intended to compensate for the fixed operating costs of the LNG terminal infrastructure necessary to ensure a reliable operation of the LNG terminal and reasonable supply costs incurred by the designated LNG supplier.

By its Resolution No O3-895 of 20 November 2014, NCC obligated Amber Grid to pay to the beneficiary of the LNG terminal funds (AB Klaipėdos Nafta) a part of the collected funds (EUR 14,472,744.2) as a compensation for the fixed operating costs of the terminal's infrastructure required for 2016. Amber Grid transferred EUR 14,472,744.2 to AB Klaipėdos Nafta on 10 February 2016.

By its Resolution No O3-369 of 17 November 2016, NCC approved the additional component of the natural gas transmission price as supply security component, which will be applied to the natural gas system users for the gas consumption capacities required for ensuring their maximum daily requirement for natural gas at points of delivery. The additional LNG terminal funds collected due to the introduction of this component will be paid to the LNG terminal operator and the designated supplier in 2017.

In 2015, litigation with AB Achema regarding the outstanding balance of LNG terminal funds was still pending in court. The Supreme Court of Lithuania (SCL) rejected Achema's cassation appeal on 5 February 2016, upholding the decision rendered by the Court of Appeal on 2 July 2015, whereby the Company's claim in the first civil proceedings had been satisfied. The second civil proceedings concerning unpaid LNG terminal funds has been suspended until the final procedural decision in case No T-417/16 is handed down by the EU General Court. In the third civil proceedings, preparations for the consideration of the case by way of preparatory documents is underway.

In addition, the following cases in which Amber Grid is involved as a third party are pending in administrative courts:

- Five cases based on AB Achema's applications for the reversal of NCC's decisions; consideration of four of them has been suspended due to the fact that Achema's complaint is pending in the EU General Court;

- A case based on AB Achema's claim against the Republic of Lithuania for damages amounting to EUR 15,329,728.69 due to the provision of state aid that was provided without the European Commission's consent. A hearing has been scheduled in these proceedings.

1.3. RESEARCH & DEVELOPMENT ACTIVITIES

The Company took part, jointly with other members of the East-Baltic Transmission System Operators (EBTSO) Coordination Group – the transmission system operators of Latvia, Estonia and Finland, in the preparation of the Study on Regional Market Development in East-Baltic Region. Completed in April 2016, the study recommends joining the gas markets of four Eastern Baltic States (Lithuania, Latvia, Estonia and Finland) into a single trading area. The joining would require harmonisation of the rules for access to gas networks, balancing and trading, reorganisation of some business processes of the transmission system operators, and establishing of a regional gas exchange. Results of the study are being used in the further regional market development process.

Upon making an analysis in May-August 2016, the Company developed an indirect capacity allocation model for the gas markets of the Baltic States. At the request of national regulatory authorities, in October 2016 the Company carried out, jointly with the Latvian and Estonian TSOs, a public consultation concerning the application of the model. In January 2017, the national regulatory authorities approved the implementation of the model in the Baltic States and the three TSOs concluded a cooperation agreement for this purpose.

In addition, the Company completed an analysis of the feasibility of establishing a virtual trading hub and a regional gas exchange in the East Baltic Region and presented it to the Regional Gas Market Coordination Group. The analysis sets out the virtual trading hub structure, functions of the stakeholders, and a draft action plan. The analysis forms a reliable basis for the further development and implementation of the gas trading model in the Eastern Baltic gas market.

1.4. LONG-TERM CORPORATE STRATEGY

In the beginning of 2015, the Company's Board approved the Corporate Strategy for 2016–2021 focussing on the integration into a single natural gas market of the region, as well as on the efficiency and modernisation, and the development of the infrastructure.

Seeking to achieve the corporate vision and the strategic objectives set by the State of Lithuania aimed at increasing the Company's value and securing the national strategic interests, Amber Grid works in the following three strategic directions:

- Transformation into the transmission system operator operating in a single gas market;
- Establishing the necessary infrastructure; and
- Increasing efficiency and modernisation.

1.5. EMPLOYEES

2016 saw the completion of implementation of a project on increasing the HR management efficiency, during which the key staff competences were identified, a competence development system was established, and a motivation system linked to the strategic planning system at the level of individual performance objectives, through the employee performance management, was implemented. For a second time, competences of top and medium-level management were assessed using a 360-degree feedback method, i. e. management received feedback on their competences from line managers, colleagues and subordinates.

As at 31 December 2016, the Company had 362 employees (2015: 363). The employee structure by groups is provided below in Table 1.

Table 1. Employee structure by group, 2015–2016

	Number of employees as of 31 December 2015	Number of employees as of 31 December 2016
Executives	5	5
Medium-level managers & specialists	227	230
Blue-collar workers	131	127
Total:	363	362

In 2016, the Company's employee turnover rate was 5.3 % compared to 4.7% in 2015 (change: 0.6%).

In 2016, the average age of the Company's employees was 42.5 years (Figure 3), and the average service record was 12.5 years (Figure 4). Employees with higher educational attainment accounted for 54% of the Company's total workforce (2015: 53 %) (Figure 5).

Due to the specificity of the energy sector, men account for the largest part of the Company's workforce: 293 (81 %), women 69 (19 %) (Table 2). In this respect, there have been no changes since 2015.

Figure 3. Employee structure by age group, 2016

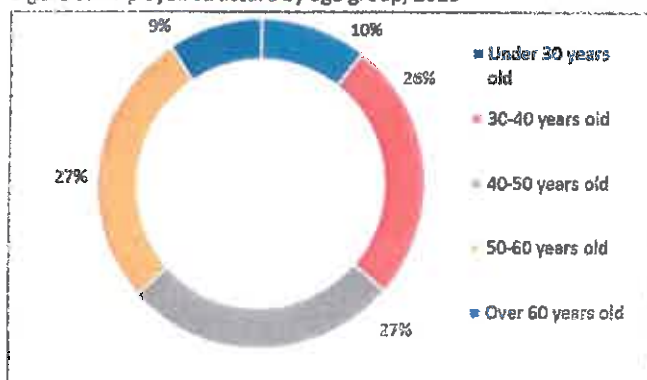


Figure 4. Employee structure by service record, 2016

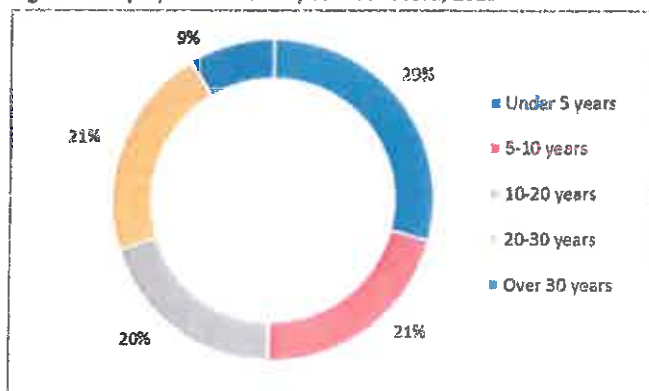


Figure 5. Employee structure by educational attainment, 2016

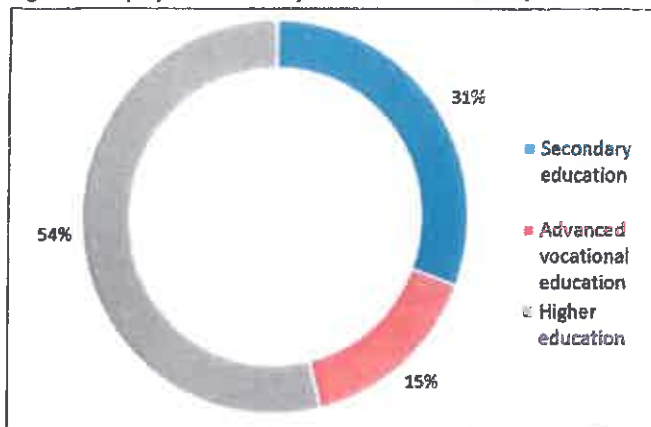


Table 2. Employee structure by gender 2015-2016

	As of 31 December 2015	As of 31 December 2016
Employees - men	81	81
Employees - women	19	19

The average monthly pay by the Company's employee groups in 2016 is presented in Table 3.

Table 3. Average monthly pay by employee groups, 2015-2016

	Average monthly pay, EUR (gross), 2015 ⁵	Average monthly pay, EUR (gross), 2016 ⁶
Executives	5.949	6.065
Medium-level managers & specialists	1.499	1.398
Workers	933	880
Average:	1.348	1.281

COLLECTIVE AGREEMENT

The Company and the newly elected Works Council are bound by a collective agreement, which was updated and renewed at the end of 2016 to be valid until 31 December 2017. The collective agreement stipulates the rights and obligations of the Company and its employees that are normally used in practice.

TRAINING AND TRAINEESHIP OPPORTUNITIES

Employee skills' improvement and maintaining is in the focus of attention in the Company to make sure that they hold appropriate qualifications and have obtained all the qualifications certificates that are required by law and consistently improve professional competences.

⁵ The average monthly pay of managers and medium-level managers and specialists in 2015 has been updated according to the employee structure for 2016.

⁶ The average monthly pay in 2016 has decreased compared to 2015 due to changes in the policy of payment of the variable pay component (VPC) to medium-level managers and blue-collar workers: the VPC payment has been linked to the performance assessment and will be paid for 2016 after annual interviews to be held in 2017. The application of such policy to managers was launched in 2013.

In May 2016, the Company was issued a licence to provide formal vocational training, which enables the delivery of training on natural gas transmission activities. By organising vocational training the Company can make use of experience and competences accumulated by its employees over time.

During 2016, the Company organised professional and technical training courses attended by 169 employees, and general competence training courses (law, public procurement, tax, accounting etc. subjects) attended by 78 employees. The Company also organised training under formal vocational training programmes attended by 30 employees. 358 employees completed mandatory training. In 2016, continuing the implementation of the complex HR project, working sessions for management and other employee training events were organised.

1.6. SOCIAL RESPONSIBILITY, HEALTH AND SAFETY AT WORK, ENVIRONMENTAL PROTECTION AND SPONSORSHIP

The Company, as a socially responsible entity, acts in a transparent manner by taking into account the social, environmental and work safety issues to ensure their efficient management. The Company's operation processes are organised considering their impact on the environment and stakeholders.

In 2016, as part of further improvement of its environmental management system, the Company adopted the ISO 14001:2015 version, re-certificated the environmental management system, and obtained a new environmental management system certificate.

The Company pays considerable attention to ensuring safe work conditions for its employees, informs its partners about the natural gas transmission system, identifies potential hazards, and implements efficient measures to eliminate or mitigate them.

To increase the efficiency of safety at work, in 2016 the Company implemented an occupational health and safety management system according to OHSAS 18001, and successfully obtained certification. The occupational health and safety management system has been integrated with the environmental management system already in operation.

The Company realises the importance of ensuring safety of the gas systems, the damage caused to the environment by emergencies and accidents, as well as the negative economic and social consequences, and implements the following preventive measures: reliable operation of the gas system, regular emergency response education and training of employees, and monitoring of work of contractors.

In 2016, there were no emergencies or accidents resulting in considerable leakage of natural gas or damage to the environment.

For more information about the Company's activities in the environmental protection and other social responsibility areas, please see Amber Grid's Social Responsibility Report.

Amber Grid participated in various sponsorship programmes as a partner in social projects, thereby providing new life and activity opportunities for those who need them. In 2016, the Company sponsored over 20 organisations and projects, with the support totalling EUR 44,420:

- 1) *Improvement of the living environment for socially vulnerable groups:* Order of Malta Relief Organisation in Lithuania, VšĮ 'Pušyno kelias', a public entity, VšĮ 'Mažoji gubija', a public entity, Vilnius Gija Youth School, Feniksas, Sports Club for People with Disabilities in Vilnius City, RED NOSES Clowndoctors Association, and Vilnius International Club Association;

- 2) *Cultural and sports projects:* M.K. Čiurlionis Foundation, Centre for Eastern European Studies (VšĮ Rytų Europos studijų centras), VšĮ JJazz, a public entity, Šarūnas Marčiulionis Basketball Academy, Salilita Sports Club;
- 3) *Projects related to the energy sector:* Strategic Overview of the Baltic Energy Sector – an International Energy Forum organised by the Estonian Chamber of Commerce in Lithuania;
- 4) *Support for local communities:* Jauniūnai Polish Cultural Society;
- 5) *Visibility of Lithuania in the world:* Annual Music Awards Association, Lithuanian Embassy in Poland.

1.7. INTERNATIONAL COOPERATION

The Company is an active participant in the Regional Gas Market Coordination Group (RGMCG) and maintains close cooperation ties with the transmission system operators of neighbouring countries and the East Baltic region.

RGMCG was formed of representatives from the Ministries in Lithuania, Latvia, Estonia and Finland responsible for the energy policy, the energy regulatory bodies and the representatives of gas infrastructure operators from these countries. In April 2016, a study on the development of the regional market in the Eastern Baltic Region funded by BASREC was completed. The analysis was made by *Frontier Economics* (United Kingdom), with an active involvement of the Company and the Latvian, Estonian and Finnish transmission system operators. Having regard to the results of the study, in 2016 RGMCG formulated a regional plan for the development of the Eastern Baltic market, according to which the operations of the regional market should be launched in 2020. In December 2016, the plan was approved by Prime Ministers of the Baltic countries by signing a declaration of creating a single regional market for gas. In the course of the year the RGMCG formed a number of working groups for the drawing up of the plan, and later – for the resolution of specific issues of the reform. The Company takes part in working groups on the formulation of rules for the balancing of transmission systems, interoperability and capacity allocation and development of a uniform transmission system pricing and a mechanism of wholesale market trading and operation of the regional gas market.

Working jointly with the Latvian and Estonian TSOs, the Company seeks to implement an implicit capacity allocation model in the Baltic countries. This is an effective market integration measure in the transitional period until completion of the regional gas market reform. In 2016, the national regulatory authorities gave their preliminary approval of the implementation of such model in the Baltic countries⁷.

In 2016, the Company and other TSOs of BEMIP region took part in the formulation of the Regional Gas Investment Plan for 2017-2026. The plan is prepared on a biannual basis according to the Regulation of the European Parliament and of the Council No 715/2009 of 13 July 2009 on conditions for access to the natural gas transmission networks. The plan covers the development of the regional gas market including changes since the publication of the previous regional plan (in 2014). It also contains information on key gas infrastructure projects implemented in the region as well as their impact on the development of the regional gas market. It is estimated that the investment plan will be published in the first half of 2017. The Company is a member of ENTSOG (www.entsog.eu) and of the Polish and Lithuanian Chamber of Commerce Association.

⁷ In January 2017, the national regulatory authorities issued their final approval for the implementation of the implicit capacity allocation model in the Baltic countries.

2. FINANCIAL RESULTS

2.1. KEY PERFORMANCE INDICATORS OF THE TRANSMISSION SYSTEM

Table 4. Performance Indicators of the Company

	2016	2015
Quantities of natural gas transported		
Quantity of gas transported to internal exit point, GWh	23,336	26,183
Quantity of gas transported to adjacent transmission systems ⁸ , GWh	23,985	22,808
Number of system users, at the end of the period	95	89
System operated by the Company		
Length of gas transmission pipelines, km	2,115	2,113
Number of gas distribution stations and gas metering stations, units	70	69
Employees		
Number of employees, at the end of the period	362	363

2.2. KEY FINANCIAL INDICATORS OF THE COMPANY

Table 5. Financial Indicators of the Company

	2016	2015
Financial results (EUR '000)		
Revenues	66,742	55,800
EBITDA	40,708	30,060
Profit (loss) before tax	24,280	14,687
Net profit (loss)	20,928	15,978
Net cash flows from operations	40,986	28,889
Investments	13,119	49,497
Net financial debt	79,700	111,041
Profitability ratios (%)		
EBITDA margin	60.99	53.87
Gross profit (loss) margin	36.38	26.32
Net profit (loss) margin	31.36	28.63
Average return on assets (ROA)	5.31	4.24
Average return on equity (ROE)	10.53	7.41
Liquidity ratios		
Current ratio	1.35	1.56
Quick ratio	1.28	1.48
Leverage ratios (%)		
Equity to total assets ratio	53.89	47.19

⁸ Gas transmission systems of the Latvian and Kaliningrad Region (Russian Federation).

Financial debt to equity ratio	46.18	70.9
Debt ratio	46.05	52.75
Market value ratios		
Price/earnings ratio (P/E), times	10.57	13.29
Net earnings (loss) per share, EUR	0.12	0.09

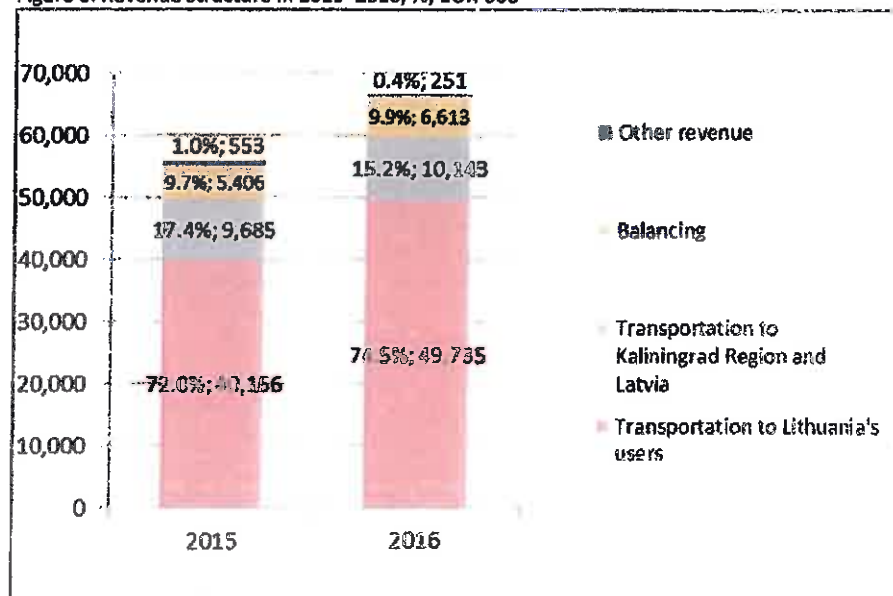
The financial ratios of the Company were determined after eliminating the assets and liabilities arising from the LNG terminal's funds.

The Company's financial statements for 2016 reflect the operating results of UAB GET Baltic, a subsidiary of the Company, which were accounted for using the equity approach. In QIV of 2016, Amber Grid acquired a 34 % stake in UAB GET Baltic from Gasum Oy (Finland), becoming the sole shareholder of the company. UAB GET Baltic is the Company's wholly-owned subsidiary.

REVENUES

In 2016, the Company's revenues totalled EUR 66,742 thousand, i. e. a 19.6 % increase compared to 2015. Revenues from natural gas transmission services accounted for 89.7 % of total revenues. Revenues from gas transmission services have increased due to diversification of the gas supply sources, booked transmission capacities at entry points, and increased short-term transmission capacities. Revenues from natural gas balancing services increased to EUR 6,613 thousand as a result of larger balancing volumes. Other revenues consisting of revenue from the administration of the LNG terminal funds and other income amounted to EUR 251 thousand in 2016.

Figure 6. Revenue structure in 2015–2016, %, EUR'000



Balancing revenues consist of:

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

The Company is obliged to administer the LNG terminal funds under the law. For more information and disclosures about the calculation of the LNG terminal funds, see the Company's financial statements for 2016.

COSTS

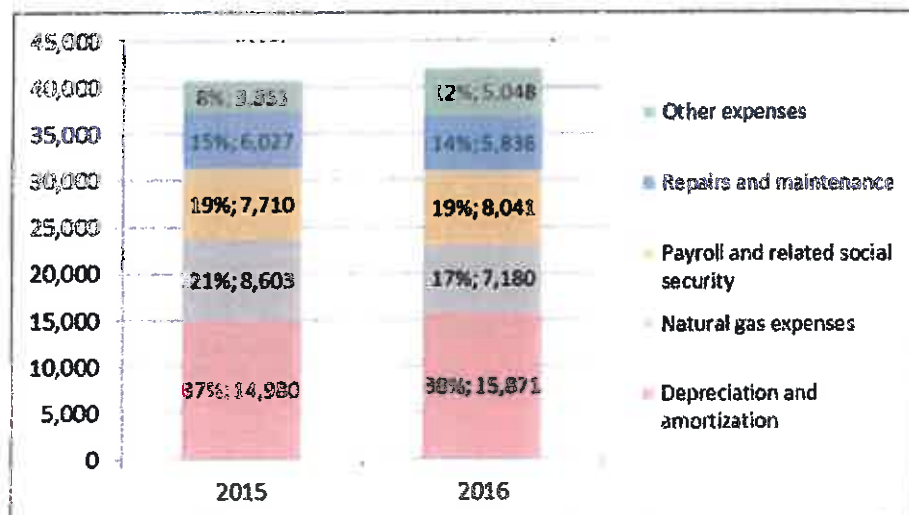
In 2016, the Company's costs totalled EUR 41,978 thousand, which is 3.2 more compared to 2015. The increase resulted from higher depreciation costs, payments to employees and related costs and the asset impairment losses in 2016.

In 2016, depreciation and amortisation costs of non-current assets amounted to EUR 15,871 thousand and accounted for 38 % of total costs. Compared to 2015, non-current asset depreciation and amortisation costs increased by 5.9 % (Figure 7). The increase has resulted from the putting into operation the Klaipėda-Kuršėnai gas pipeline at the end of 2015.

Natural gas costs amounted to EUR 7,180 thousand, accounting for 17 % of total costs. Compared to 2015, costs of natural gas decreased 16.5 % due to the lower gas acquisition cost. The Company purchased natural gas for process needs, for the balancing of gas flows for the system users and other gas market participants involved in the balancing of the transmission system, and for the technical balancing.

Payroll and social security costs amounted to EUR 8,041 thousand and accounted for 19 % of total costs. This cost item increased 4.3 % as a result of implementation of new pay system in line with the market conditions. Repair and maintenance costs amounted to EUR 5,838 thousand, accounting for 14 % of total costs. Compared to 2015, these costs decreased by 4.3 %.

Figure 7. Cost structure, 2015–2016, %, EUR '000



OPERATING RESULTS

The Company's profit before tax for 2016 totalled EUR 24,280 thousand compared to EUR 14,687 thousand in 2015 (Figure 8). Earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to EUR 40,708 thousand, i. e. increased 35.4 % compared to EUR 30,060 thousand in 2015.

In 2016, the Company's net profit was EUR 20,928 thousand which is a 31 % increase compared to 2015 (EUR 15,978 thousand).

The operating results, in their turn, have had an impact on the improvement of profitability ratios (Figure 9).

Figure 8. Financial results, EUR'000, 2015–2016

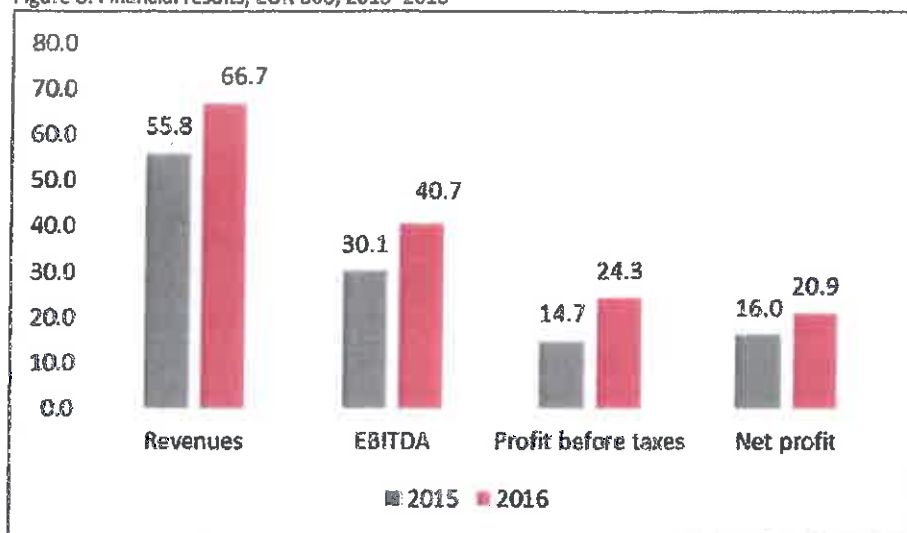
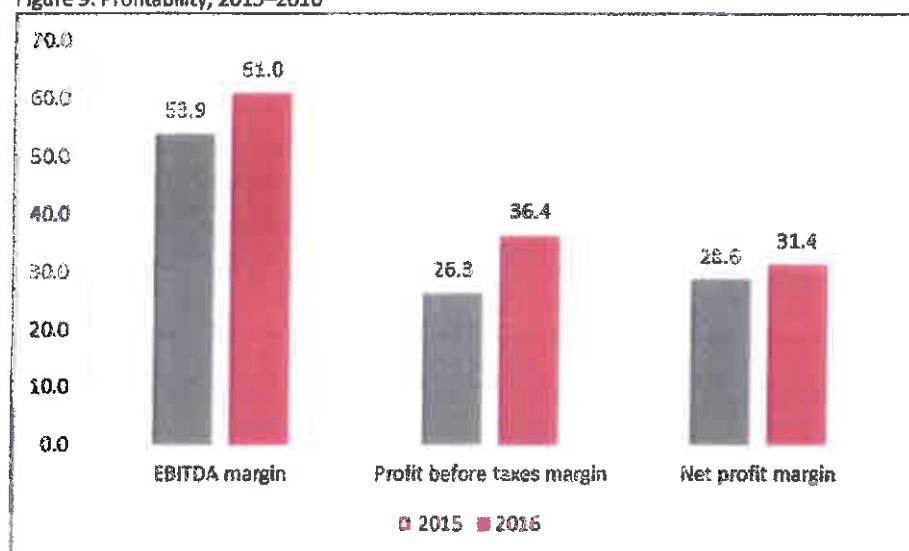


Figure 9. Profitability, 2015–2016



INVESTMENTS

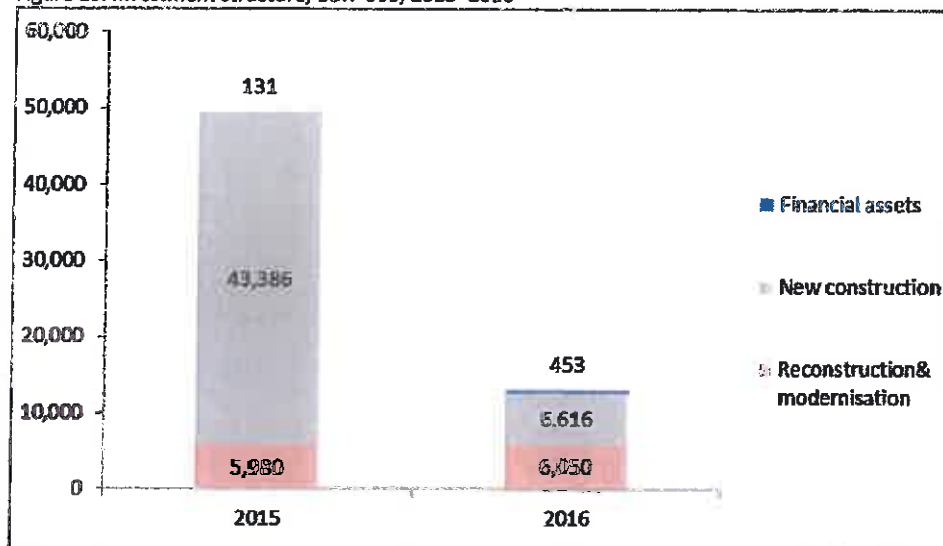
In 2016 the Company's investments totalled EUR 13,119 thousand compared to EUR 49,497 thousand in 2015.

In the process of maintenance and development of the natural gas transmission network the Company makes consistent infrastructure investments. In 2016, investments in the transmission system development were EUR 6,616 thousand (2015: EUR 49,366 thousand). The reduction has been determined by the construction of the Klaipėda-Kuršėnai gas pipeline in 2015 (EUR 41,959 thousand) and the installation of a gas pipeline branch to Tauragė GMS and construction of Tauragė GDS (EUR 1,271 thousand) and preparation of a territorial planning and technical design for GIPL (EUR 5,338 thousand). The Tauragė project was funded by Energijos Skirstymo Operatorius (an electricity and gas distribution company) and GIPL was co-financed by the EU.

Investments in reconstruction and modernisation remained on approximately the same level totalling EUR 6,050 thousand (2015: EUR 5,980 thousand).

In 2016, investments in financial assets amounted to EUR 453 thousand (2015: EUR 131 thousand). All these investments were related to UAB GET Baltic, the gas exchange operator. In Q1 of 2016, UAB GET Baltic increased its authorised capital by a new share issue in order to cover the accumulated losses. This investment amounted to EUR 132 thousand. On 23 December 2016, Amber Grid acquired a 34% stake in GET Baltic UAB becoming the sole shareholder of the company. UAB GET Baltic is the Company's wholly owned subsidiary.

Figure 10. Investment structure, EUR '000, 2015–2016



ASSETS

As of the end of 2016, total assets amounted to EUR 391,298 thousand. Non-current and current assets accounted for 89.1 % and 10.9 % of the Company's total assets, respectively.

Over 2016, non-current assets decreased 1.7 % or EUR 6,196 thousand due to smaller investments in the gas transmission pipelines. Current assets amounted to EUR 42,583 thousand, i. e. more than halved due to the payment out of the accrued LNG terminal funds and the lower cash balance.

EQUITY AND LIABILITIES

In 2016, the Company's equity capital increased 4.2 %, reaching EUR 202,810 thousand. As of the end of the reporting period, equity accounted for 51.8 % of the Company's total assets.

In 2016, accounts payable and liabilities decreased 1.4 times (by EUR 70,201 thousand) and totalled EUR 188,488 thousand at the end of the reporting period. The decrease has resulted from the reduced financial debts and accrued and payable LNG terminal funds.

As at 31 December 2016, the Company's financial debt amounted to EUR 93,666 thousand and decreased by EUR 44,344 thousand during the reporting period. Financial debt to equity ratio was 46.2 %.

CASH FLOWS

In 2016, the Company's cash flows from operations totalled EUR 40,986 thousand (2015: EUR 28,889 thousand). Non-current asset acquisitions amounted to EUR 13,871 thousand (2015: EUR 52,960 thousand), dividends paid amounted to EUR 12,787 thousand (2015: EUR 57,870 thousand). In 2016, the EU financial support received to finance the investment projects amounted to EUR 17,950 thousand. The Company repaid EUR 44,344 thousand of its loans in 2016.

REFERENCES AND ADDITIONAL EXPLANATIONS OF DATA REPORTED IN THE ANNUAL FINANCIAL STATEMENTS

Other information is disclosed in the notes to the audited financial statements of Amber Grid for 2016.

2.3. OPERATING PLANS AND PROJECTIONS

It is estimated that in 2017 the Company will transport about 22 TWh of natural gas to the domestic exit point to the system users in Lithuania and 22.5 TWh of natural gas to the Kaliningrad Region of the Russian Federation.

It is expected that, similarly to 2016, the majority of the gas will be received to the transmission system via the Kotlovka and LNG terminal entry points, as well as small amounts via Kiemenai entry point. The distribution of transportation volumes via these points will depend on market situation.

2.4. RISK MANAGEMENT

In pursuing its activities, the Company is exposed to the following key risks: macroeconomic factor-related risk, regulatory risk, competition risk, concentration risk, technology risk, and financial risks.

Information about concentration, gas purchase price and financial risks is disclosed in the Company's financial statements for 2016. The Company is exposed to the following financial risks: liquidity risk, credit risk, and interest rate risk.

MACROECONOMIC RISKS

Lithuania's economic situation and its economic development trends, as well as integration of the Baltic gas transmission systems into the single EU gas system, and the price for natural gas (as a product) charged to the end users – all these have impact on the gas transmission quantities and investments in the development of gas transmission pipelines. Recently, there has been a decline in natural gas transmission quantities in Lithuania, which had a negative impact on the Company's financial results. The Company's activities are subject to regulation and, accordingly, the Company implements, under the supervision of NCC, the measures that are necessary to ensure the stability of its operations and sustainable development.

REGULATORY RISK

Regulatory risk is closely related to changes in the regulatory environment and the decisions made by the regulatory authorities. Recently, there has been a growing number of new regulations and other legislation regulating the natural gas sector in the EU that are applicable to the EU Member States. The Company's operations and performance become more and more exposed to the effects of the decisions made by the EU authorities. The tariffs for natural gas transmission services and the investments in natural gas transmission systems are regulated by the State. The Company collaborates with the regulatory authorities directly, takes part in the drafting of legal acts, actively presents its position, and assesses the impact on its performance.

COMPETITION RISK

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

The decline in the quantities of natural gas transportation may also be driven by factors other than those related to the transition to the alternative fuel types. As part of the implementation of the tasks formulated in view of the defined strategic directions (*Transformation into the transmission system operator operating in a single gas market; Development of the necessary infrastructure*), the Company seeks to mitigate the risks and consequences of lower natural gas consumption and gas transportation levels in the future.

TECHNOLOGICAL RISK

One of the main objectives of the Company is to ensure safe, reliable and efficient functioning of the natural gas transmission system. 57% of the gas pipelines operated by the Company are more than 25 years old, therefore, it is necessary to focus on maintaining a proper technical condition of the transmission system. In accordance with the Strategy for Securing Safety and Reliability of the Transmission System, the Company implements an action plan aimed at securing safety and reliability. In addition, the risk is managed through installation of specialised information systems, new modern business management automation systems ensuring integration of the systems with the help of modern integration platforms.

On 27 December 2016, the Company concluded an agreement on the implementation of PIMS software for ensuring safety and integrity of pipelines in 2017-2018. The project will involve the development and implementation of a risk-assessment based asset maintenance and management methods as well as the related technical and organisational measures.

2.5. INTERNAL CONTROL SYSTEM OF THE COMPANY

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

To ensure that the financial statements are prepared properly, Amber Grid has adopted the Manual of Accounting Procedures and Policies, which defines the principles, methods and rules of accounting, financial reporting, and presentation. To ensure timely preparation of the financial statements, the Company follows the internal rules defining the deadlines for the submission of accounting documents and drawing up of the financial statements.

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

3. CORPORATE GOVERNANCE

INFORMATION ON COMPLIANCE WITH THE GOVERNANCE CODE

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

SHARE CAPITAL

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

There were no changes in the Company's ownership structure during 2016. UAB EPSO-G retained its 96.58 % shareholding in the Company and was the only shareholder holding more than 5 % of the Company's shares. UAB EPSO-G has a casting vote in the decision-making process at the general meeting of shareholders.

SHARES AND SHAREHOLDER RIGHTS

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

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

In 2016, the Company did not acquire its own shares and had no transactions relating to acquisition or disposal of its own shares during 2016.

SHAREHOLDERS

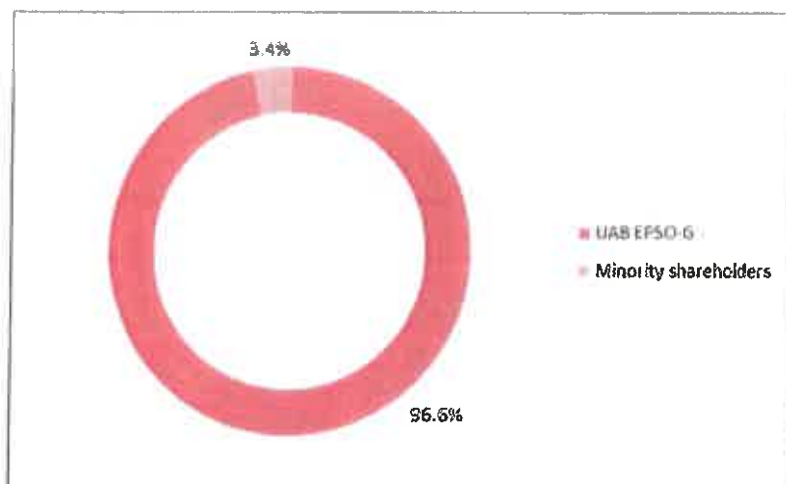
As at 31 December 2016, Amber Grid had 1,525 shareholders (Lithuanian and foreign natural and legal persons), including one shareholder holding more than 5% of the shares of the Company.

Table 6. The Company's shareholding structure

Shareholder	Registered office address / business ID	Number of shares held
UAB EPSO-G	A. Juozapavičiaus g. 13 Vilnius, Lithuania/ 302826889	172.279.125
Minority shareholders		6.103.389
Total:		178.382.514

The Company's shareholding structure is provided in Figure 11:

Figure 11. Shareholding structure as of 31 December 2016



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

CHANGES IN OWNERSHIP STRUCTURE

On 3 October 2016, AB Klaipėdos nafta transferred its shareholding in UAB LITGAS to UAB Lietuvos energija thus implementing NCC's Resolution No O3-242 of 10 April 2015 whereby Amber Grid was appointed as the transmission system operator on condition that the Ministry of Energy of the Republic of Lithuania will take actions for the transfer of AB Klaipėdos nafta's shares in UAB LITGAS to an entity that is not controlled by the Ministry of Energy either directly or indirectly.

DATA ON TRADING IN SECURITIES ON REGULATED MARKETS

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

Table 7. Main data on AB Amber Grid's shares

Main data on Amber Grid AB's shares	
ISIN	LT0000128696
Ticker	AMG1L
Issue size (number of shares)	178.382.514

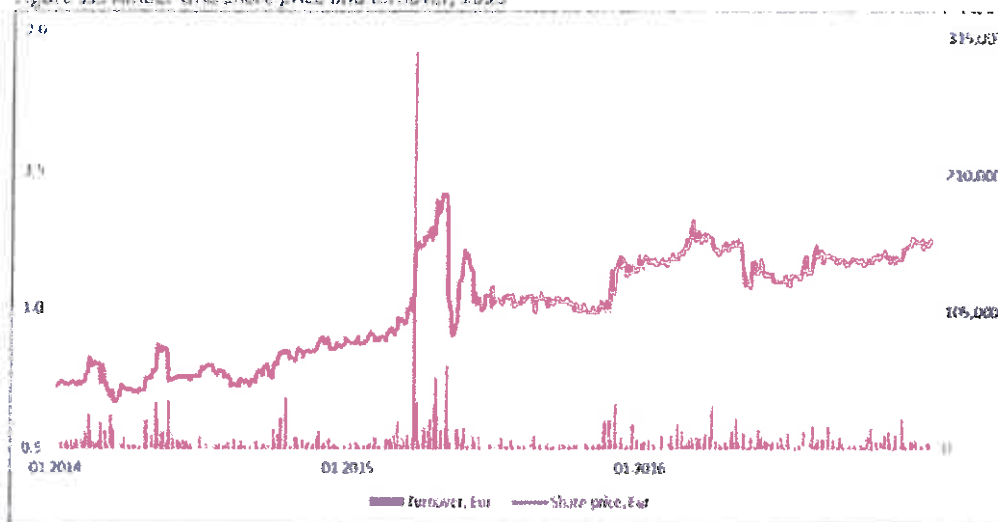
In 2016, the trading turnover in the Company's shares was EUR 0.88 million, with 736,113 shares transferred under the transactions. The Company's share price dynamics is presented in Table 8, and data on the price and turnover of the Company's shares (in 2016) is presented in Figure 12.

Table 8. Share price dynamics at *NASDAQ Vilnius* in 2014-2016

Opening price, 01-01-2014	Highest price per share, 01-12-2014	Lowest price per share, 17-03-2014	Weighted average price per share	Closing price, 30-12-2014
0.728 Eur	0.9 Eur	0.625 Eur	0.784 Eur	0.898 Eur
Opening price, 01-01-2015	Highest price per share, 01-12-2015	Lowest price per share, 17-03-2015	Weighted average price per share	Closing price, 30-12-2015

0.898 Eur	1.41 Eur	0.877 Eur	1.132 Eur	1.19 Eur
Opening price, 01-01-2016	Highest price per share, 01-12-2016	Lowest price per share, 17-03-2016	Weighted average price per share	Closing price, 30-12-2016
1.19 Eur	1.32 Eur	1.08 Eur	1.192 Eur	1.24 Eur

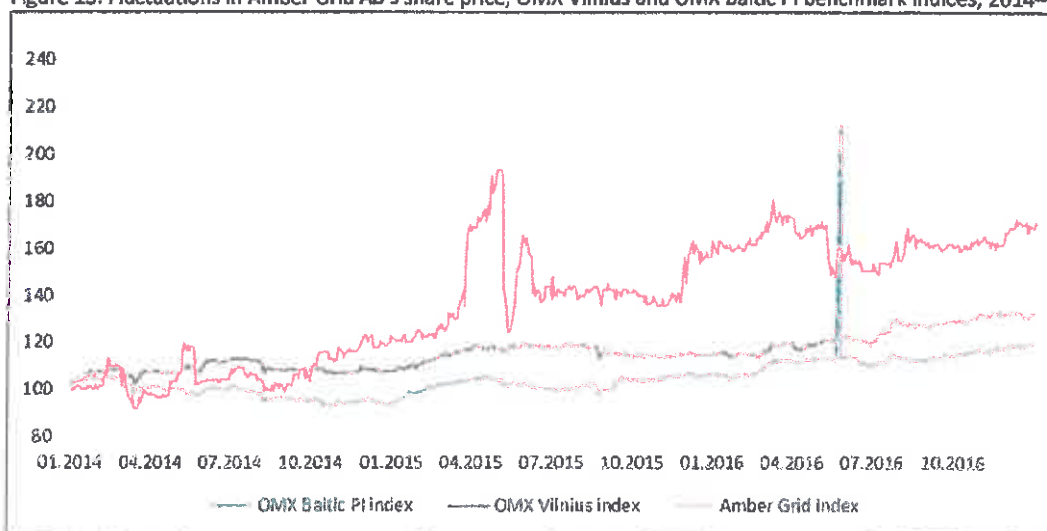
Figure 12. Amber Grid share price and turnover, 2016



As at 31 December 2016, Amber Grid’s stock capitalisation amounted to EUR 221.19 million. The price per share on the stock exchange and the capitalisation increased 4.2 % during 2016.

In 2016, the benchmark indices OMX Baltic PI and OMXV calculated at NASDAQ Stock Exchange (which reflect changes in stock prices of companies listed on the Baltic and Vilnius Stock Exchanges), increased 12.61 % and 14.92 %, respectively. The fluctuations in the Company’s share price, OMX Vilnius and OMX Baltic PI benchmark indices during 2014-2016 are shown in Figure 13.

Figure 13. Fluctuations in Amber Grid AB’s share price, OMX Vilnius and OMX Baltic PI benchmark indices, 2014–2016



DIVIDEND

The Company's General Meeting of Shareholders held on 26 April 2016 decided on the payment of dividends in the amount of EUR 12,782.134 or EUR 0.07166 per share.

AGREEMENTS WITH INTERMEDIARIES OF PUBLIC TRADING IN SECURITIES

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

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

Details of AB SEB bankas	
Business ID	112021238
Registered office address	Gedimino pr. 12, Vilnius, Lithuania
Telephone	+370 5 268 2800; 1518
Email	info@seb.lt
Website	www.seb.lt

MANAGEMENT STRUCTURE

In its activities, the Company complies with the Law on Companies, the Law on Securities, the Company's Articles of Association and other Lithuanian legal acts. The powers of the General Meeting of Shareholders, the rights of shareholders and the exercise of such rights are defined in the Law on Companies and the Articles of Association of the Company. The Articles of Association are published on the Company's website: www.ambergrid.lt/en/about-us/investors-relations/bylaws.

The Articles of Association provide for the following management bodies:

- The Board, and
- The head of the Company – Managing Director.

According to the Articles of Association, the Company's Board consists of 5 (five) members elected for the term of office of 4 (four) years according to a procedure established by the Law on Companies. The principle of proper representation of the rights of all shareholders must be followed in the election of the Board Members. Therefore, in proposing candidates to the Board Members, at least 2 (two) candidates should be from management of the parent company, at least 2 (two) candidates from the Company's management, and at least 1 (one) candidate must be an independent candidate as determined according to the criteria set out in the Governance Code and applicable legal acts. Any shareholder of the Company has the right to put up a candidate for the independent member of the Board. The Board Members elect the chairman of the Board from among themselves. The members of the Board may be re-elected for the next term of office. A Board Member may remain in the office for not more than 2 (two) full terms in succession. The powers of the members of the Board and the remit of the Head of the Company are defined in the Law on Companies and in the Company's Articles of Association.

The following persons may not be elected as members of the Board:

- A person who is a member of a supervisory body, a management body or a member of administration in an energy company engaged in the electricity generation and/or supply operations or the natural

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

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

- The Board considers and approves the Company's strategy, operating plan, and report on the implementation of the operating plan, annual budget and annual operating targets, sponsorship and charity provision procedures, list of essential terms and conditions of transactions, procedure for the conclusion of transactions to be approved by the Board, list of information deemed to be a trade/industrial secret of the Company and confidential information and the principles of use/storage of such information in the Company, job description for the Managing Director and his/her salary, annual targets and other terms and conditions of an employment contract; the Board incentivises and imposes sanctions on the Managing Director; common documents of the Group of Companies as defined in the Articles of Association (guidelines, policies, codes etc.) and the scope of application thereof to the Company; decisions on the issue of bonds (excluding convertible bonds); decisions on formation and termination of the Company's branches and representative offices and on approval of and amendments to their regulations as well as appointment and recall of their heads; participation of the Company in any association or another amalgamation of legal entities; decisions on the Company's acting as a founder or member of another legal entity; decisions on the increase/decrease in the number of shares/interests or another change in the rights attached to the shares/interests; approves the main terms and conditions of share agreements; decisions on the transfer of companies controlled by the company and/or the Company's associated companies as an asset, or a material part thereof, in the cases where the book value of the asset transferred is equal to or smaller than 1/20 of the authorised capital;
- The Board sets the gas transmission prices and prices for other services regulated by the State, as well the price setting methodology;
- The Board approves the standard terms and conditions of agreements directly related to the TSO's activities such as agreements on connection to the gas system; on the natural gas transmission service; on natural gas balancing, and decides on the conclusion of such transactions in deviation from the approved terms and conditions;
- The Board decides on the purchase on goods, services or works for an amount exceeding EUR 2 thousand thousand, and where the acquisition is from the only supplier - for an amount exceeding EUR 1 thousand thousand, on the purchase on goods, services or works from controlled or associated companies for an amount exceeding EUR 1 thousand thousand except for cases where goods listed on an exchange are being purchased for process or balancing needs; and on the purchase on goods, services or works from the parent company – irrespective of the amount; on the use of any asset valued at over EUR 2 thousand thousand for the purposes of investment, transfer, lease, mortgage or pledge; on standing surety or guaranteeing the fulfilment of third party's obligations exceeding EUR 2 thousand thousand; on borrowing of funds if the amount to be borrowed exceeds EUR 2 thousand thousand, and on lending of funds; on conclusion of agreements of lawsuit or withdrawal of a claim (counter-claim, complaint) or taking of an equivalent procedural action whereby a dispute is effectively ended, in judicial/arbitration proceedings in which the Company has filed a claim or a

claim has been filed against the Company in the amount exceeding EUR 1 thousand thousand; also decisions on the filing of a claim (counter-claim, complaint) which initiates a dispute with a national price-regulating authority irrespective of the value, on non-imposition of contractual penalties and/or other contractual sanctions on the Company's counterparties provided that the amount of the penalty or another sanction exceeds EUR 100 thousand; decisions on the launching of activities of new type or termination of any specific activity, entering into gas transportation agreements with third (non-EU) countries, any other agreements/transactions the value of which exceeds EUR 1 thousand if no funds have been allocated for them in the annual budget of the Company, and agreements with the Company's shareholder/shareholders owning more than 1% of the Company's shares.

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

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

Apart from the remit according to the law and the additional powers set out above, the General Meeting of Shareholders has the right, according to the Articles of Association, to decide on the appointment of a Board Member, setting of the ceiling for the annual remuneration budget for the Board Members and remuneration to specific Board Members, conclusion of agreements with the Board Members on activities in the Board, setting the standard terms and conditions thereof, and appointment of a person authorised to sign such agreements on behalf of the Company.

Information about the members of the Board, the Managing Director and the Chief Accountant of Amber Grid is presented below in Table 9.

Table 9. Information about the members of the Board, the Managing Director and the Chief Accountant

Position	Name	Start of term of office	End of term of office	Participation in the issuer's capital	
				Share of authorised capital held, %	Share of voting rights held, %.
Chairperson of the Board	Nemunas Biknius	April 2016	April 2020	0.001055	0.001055
Board Member	Saulius Bilys	April 2016	April 2020	–	–
Independent Board Member	Nerijus Datkūnas	April 2016	April 2020	–	–
Board Member	Vytautas Ruolia	April 2016	April 2020	–	–
Board Member	Rimvydas Štilinis	April 2016	April 2020	–	–
Chairperson of the Board	Dr. Aleksandras Spruogis	June 2014	April 2016	–	–
Deputy Chairperson of the Board	Agnė Petravičienė	June 2014	April 2016	–	–
Board Member	Dainius Bražiūnas	June 2014	April 2016	–	–
Independent Board Member	Nerijus Datkūnas	June 2014	April 2016	–	–
Board Member	Rolandas Zukas	April 2015	April 2016	–	–
Managing Director	Saulius Bilys	June 2013	–	–	–
Chief Accountant	Dzintra Tamulienė	June 2013	–	–	–

Total remuneration (gross) of an independent member of the Board of Director during the reporting period amounted to EUR 10,796.2.

Total remuneration (gross) of the Company's Managing Director and Chief Accountant during the reporting period amounted to EUR 150,258, and the average salary (gross) per person (Managing Director and Chief Accountant) amounted to EUR 75,129.

Information about the members of the Audit Committee is provided in Table 10.

Table 10. Information about the members of the Audit Committee

Position	Name	Start of term of office	End of term of office	Participation in the issuer's capital	
				Share of authorised capital held, %	Share of voting rights held, %.
Independent Member, AV Auditas UAB	Vaida Kačergienė	December 2013	April 2016	–	–

Member, Amber Grid AB	Valdemaras Bagdonas	December 2013	April 2016	–	–
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The General Meeting of Shareholders of the Company held on 26 April 2016 decided to abandon the Audit Committee of AB Amber Grid as, according to the new version of the Articles of Association, the functions of the Audit Committee will be performed by the Audit Committee of UAB EPSO-G, the parent company.

According to the Articles of Association, amendments thereto may be made by resolution of the General Meeting of Shareholders adopted by a 2/3 majority vote of those present at the meeting.

The Company has no branches or representative offices.

INFORMATION ON RELATED-PARTY TRANSACTIONS, MATERIAL ARRANGEMENTS AND DETRIMENTAL TRANSACTIONS

Information on related-party transactions is disclosed in the Company's financial statements for 2016.

The Company has not entered into any material arrangements which are to take effect, change or terminate upon the change in the Company's control.

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

MATERIAL EVENTS AFTER THE END OF REPORTING PERIOD

17 January 2017

The Board of the Company approved the Corporate Strategy for 2017–2022, the strategic lines of which are consistent with those formulated by EPSO-G, the Company's majority shareholder: development of regional activities, ensuring successful implementation of strategic projects, efficient operations, a creative and forward-looking organisation.

18 January 2017

AB Amber Grid, the Lithuanian gas transmission system operator, and GAZ-SYSTEM S.A., the Polish gas transmission system operator and INEA executed amendments to trilateral EU grant agreements under CEF for the following activities of the project on the Gas Interconnection Poland-Lithuania (GIPL): Preparatory works of the Gas Interconnection Poland-Lithuania until the Issue of Building Permits and the Construction of the Gas Interconnection Poland-Lithuania Including Additional Infrastructure.

23 January 2017

AB Amber Grid, AS Conexus Baltic Grid and AS Elering – the Baltic countries' gas transmission system operators concluded a cooperation agreement on the implementation of the implicit capacity allocation model. The application of the model is a concrete step toward the integration of the gas markets of the Baltic countries. The TSOs implement the innovative allocation model in order to increase competitiveness of the Baltic gas markets and to promote cross-border trading in gas.

4. MATERIAL EVENTS IN THE REPORTING PERIOD

In performing its obligations established in the legal acts governing the securities market, the Company publishes notices of its material events and other regulated information on the EU-wide basis. The information published by the Company is available on the Company's website at (www.ambergrid.lt/lt/apie_mus/rubrika-investuotojams/esminiai-ivykiai) and the website of securities exchange NASDAQ Vilnius www.nasdaqbaltic.com.

Main Amber Grid events in the reporting period 2016:

Date	Main events in the reporting period
26 02 2016	Operating results and unaudited condensed financial statements of AB Amber Grid for 2015
01 03 2016	Conclusion of agreements on the EU Structural Funds' assistance for the natural gas infrastructure projects
31 03 2016	Convention of an ordinary General Meeting of Shareholders of AB Amber Grid
15 04 2016	Agenda and draft resolutions of the General Meeting of Shareholders of AB Amber Grid
15 04 2016	Correction: Agenda and draft resolutions of the General Meeting of Shareholders of AB Amber Grid
25 04 2016	Requirements for independence of the transmission system operator and separation of activities
26 04 2016	Decisions taken by the ordinary General Meeting of Shareholders of AB Amber Grid
26 04 2016	Annual information on AB Amber Grid for 2015
12 05 2016	Formation of the Supervisory Council of UAB EPSO-G
24 05 2016	Election of Chairperson of the Board of AB Amber Grid
24 05 2016	Operating results for Q1 2016 and unaudited condensed financial statements of AB Amber Grid
13 06 2016	Election of Chairperson of the Supervisory Council of UAB EPSO-G
26 08 2016	Operating results for the first 6 months of 2016, interim report and unaudited condensed financial statements of AB Amber Grid
07 09 2016	Consideration of technical options for the implementation of the Gas Interconnection Poland-Lithuania Project
12 09 2016	Election of the Audit Committee under the Supervisory Council of UAB EPSO-G
27 09 2016	Concerning a Resolution of the Government of the Republic of Lithuania
30 09 2016	Ten-Year (2016-2025) Natural Gas Transmission Network Development Plan
03 10 2016	Fulfilment of a condition for the certification of TSO activities
21 10 2016	Natural gas transmission price ceilings for 2017
11 11 2016	Election of the Board of UAB EPSO-G
16 11 2016	New prices for natural gas transmission services
17 11 2016	Setting of new prices for natural gas transmission services are set
25 11 2016	Operating results and unaudited condensed financial statements of AB Amber Grid for 9 months 2016
23 12 2016	AB Amber Grid acquired a 34 % shareholding in UAB GET Baltic from Gasum Oy
30 12 2016	Information of AB Amber Grid regarding the publication of interim information and Investor Calendar for 2017

All public notices that are to be published according to the law are made available in an electronic publication of the Manager of the Register of Legal Entities. All notices on convening the Company's General Meeting of Shareholders and other material events are made available in accordance with the procedure established by

the Lithuanian Law on Securities on the Central Storage Facility at www.crib.lt and on the Company's website at www.ambergrid.lt/en/. The shareholders whose shares entitle them to at least 10% of total voting rights receive notices on convention of the General Meetings of Shareholders in accordance with the procedure established by the Company's Articles of Association.

5. CORPORATE GOVERNANCE REPORT

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

Corporate Governance Report Summary:

Characteristics of the Company

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

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

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

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

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

Human resources: as of the end of 2016 the Company had 362 employees.

The Company's revenues for 2016 totalled EUR 66,742 thousand and its assets totalled EUR 491,298 thousand (non-current assets 89.12% and current assets 10.88%). Equity of the Company was EUR 202,810 thousand as of the end of 2016.

For more detailed information about the Company please visit its website www.ambergrid.lt

Ownership structure

As of 31 December 2016, 1,525 Lithuanian and foreign natural and legal persons were shareholders of the Company, one of them - EPSO-G UAB holding the controlling (96.58 %) block of shares (hereinafter referred to as the 'Parent Company' or 'EPSO-G UAB'). The remaining shares (3.42 %) are listed on the Secondary List of NASDAQ Vilnius Baltic (ticker symbol: AMGIL).

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

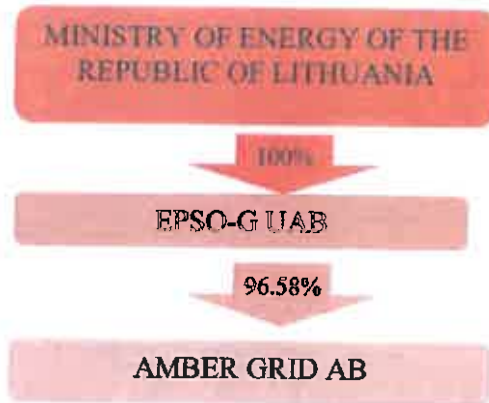


Figure 1. Legal entities controlling shares of Amber Grid AB.

Management bodies of the Company

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

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

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

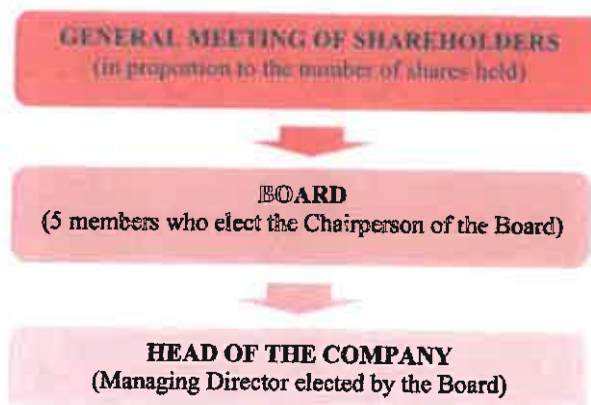


Figure 2. Management Bodies of Amber Grid AB

Corporate management principles

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

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

Having regard to the requirements set by the Government for state-controlled companies, the Company prepares, reviews and approves, on an annual basis, a detailed 6-year strategy of the Company which is submitted to VĮ Turto Bankas as a coordinator of state-controlled companies. The attainment of the strategic objectives set in this document is ensured by the operations, control and risk management systems in place at the Company. The corporate strategy is approved and its implementation is monitored by the Board. At the beginning of every year, the Board approves an operating plan for the current year. The Company has a system of monthly supervision for the implementation of the strategy, linked to the system of remuneration to the Company's administration.

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

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

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

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

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

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

Best Governance Practices of EPSO-G Group

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

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

Rights of the Company's shareholders

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

Structured Disclosure Table:

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

<p>1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.</p>	<p>Yes</p>	<p>The Board of the Company reviews and approves a six-year operating strategy on an annual basis. Apart from that, the Company prepares and publishes, in accordance with the Republic of Lithuania Law on Natural Gas, a ten-year network development plan of a natural gas transmission system operator. The Company updates its operating strategy and development plans depending on market situation and changes in the regulatory environment. The corporate strategy sets out the targets of augmenting shareholders' equity and measures to achieve them. The operating strategy and the ten-year network development plan are published on the Company's website www.ambergrid.lt.</p>
<p>1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.</p>	<p>Yes</p>	<p>The activities of the governing bodies of the Company are focused on the implementation of the strategic objectives provided for by the Company's strategy and the compliance with the regulatory environment in view of the need to increase shareholders' equity.</p>
<p>1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.</p>	<p>Yes</p>	<p>This recommendation is implemented by the Board and the Director General of the Company. No Supervisory Council is formed at the Company; the shareholders' interests are represented by the Board of the Company and at its meetings, which are regularly convened, information on the Company's operations is provided. The Parent Company has formed the Supervisory Council the activities of which cover the whole Group and which may submit proposals and feedback to the Company's Board and the general meeting of shareholders.</p>
<p>1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.</p>	<p>Yes</p>	<p>The Company seeks to secure the interests of all persons related to the Company's operations. The publicity of the Company's operations and the regulatory environment provide conditions for stakeholders to participate in the governance of the Company in the manner prescribed by law and in accordance with the Company's Articles of Association and internal regulations. Interests of all persons related to the Company's operations are also secured by the operating strategy, guidelines and procedures approved by management bodies of the Company.</p>

Principle II: The corporate governance framework

The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.

<p>2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – the general meeting of shareholders and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.</p>	<p>No</p>	<p>The governing bodies of the Company include the general meeting of shareholders, the Board, and the Director General. A Supervisory Council is not formed at the Company. However, a supervisory council is formed by the Parent Company – EPSO-G UAB, which performs the functions of a body exercising supervision over all the companies in the Group.</p> <p>The Director General of the Company is accountable to the Board.</p> <p>The allocation of competences and responsibilities among the management bodies of the Company is set forth in the Articles of Association of the Company, the regulations of the Board, the Director General's employment contract as well as the Republic of Lithuania Law on Companies.</p>
<p>2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance.</p> <p>A collegial supervisory body is responsible for the effective supervision of the company's management bodies.</p>	<p>Yes</p> <p>No</p>	<p>The Board of the Company is responsible for strategic management of the Company and adopts key decisions with regard to Company management as provided for in the Articles of Association of the Company, appoints the Director General of the Company, analyses and assesses information on the Company's operations. The remit of the Board is defined in the Articles of Association of the Company.</p> <p>A Supervisory Council is not formed at the Company. However, a supervisory council is formed by the Parent Company – EPSO-G UAB, which performs the functions of a body exercising supervision over all the companies in the Group.</p>

<p>2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i. e. the supervisory council. In such a case, the supervisory council is responsible for the effective monitoring of the functions performed by the company's chief executive officer.</p>	<p>No</p>	<p>The Board is the collegial body of the Company, and a Supervisory Council is not formed at the Company. However, a supervisory council is formed by the Parent Company – EPSO-G UAB, which performs the functions of a body exercising supervision over all the companies in the Group.</p>
<p>2.4. The collegial supervisory body to be elected by the general meeting of shareholders should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i. e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.¹</p>	<p>No</p>	<p>The Board - the collegial body of the Company is formed and operates seeking to comply, to the largest extent possible, with the provisions set out in Principles III and IV of the Code (the implementation of these principles is described below).</p>
<p>2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.²</p>	<p>Yes</p>	<p>The Board of the Company consists of 5 members. It is ensured, in the election of the Board Members, that at least one of them is an independent member, with the independence determined according to the criteria set out in the Code and in applicable legal acts. Two Board Members are delegated from among the Company's management and two by the Parent Company.</p>
<p>2.6. Non-executive directors or members of the supervisory council should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.</p>	<p>Yes</p>	<p>The Board of the Company is elected by the general meeting of shareholders for the term of office of 4 (four) years. A Board Member may serve for no longer than 2 (two) uninterrupted terms of office in succession, i. e. no more than 8 (eight) years in succession. A Board Member may be recalled according to a procedure prescribed by the Law on Companies.</p>
<p>2.7. Chairman of the collegial body elected by the general meeting of shareholders may be a person whose current or past office is not an obstacle to exercise independent and impartial supervision. Should a company decide to form the board rather than a supervisory council, it is recommended that the chairman of the board and chief executive officer of the company should be different persons. A former chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general meeting of shareholders. When a company chooses to depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the</p>	<p>Yes</p>	<p>According to the Articles of Association of the Company, the Board Members elect the chairperson from among themselves. The Chairperson of the Board may serve for no longer than 4 (four) years in succession, i. e. one term of office. The Chairperson of the Board may not be one of the Company's representatives delegated to the Board. The Chairperson of the Board and the Director General is not the same person; and the Chairperson of the Board had not worked as the Director General before.</p>

¹ Provisions of Principles III and IV are more applicable to those instances when the general meeting of shareholders elects the supervisory council, i. e. a body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case if the company forms the board and not the supervisory council, most of the recommendations set out in Principles III and IV become relevant and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory council (e. g. formation of the committees), should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) are different. For instance, Item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; Item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; Item 4.4 of the Code concerning independence of the collegial body elected by the general meeting from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

² The terms *Executive Director* and *Non-Executive Director* are used in cases when a company has only one collegial body.

supervision.

Principle III: The order of the formation of a collegial body to be elected by a general meeting of shareholders

The order of the formation a collegial body to be elected by a general meeting of shareholders should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies³.

³ It should be noted that in the case where the board is a collegiate body elected by the general meeting of shareholders, the board should oversee the work of the single-handed management body (the chief executive officer) only, and not all the management bodies of the company. This also applies to item 3.1.

<p>3.1. The mechanism of the formation of a collegial body to be elected by a general meeting of shareholders (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.</p>	<p>Yes</p>	<p>In accordance with the Company's Articles of Association, a collegial governing body of the Company – the Board – shall be elected by the General Meeting of Shareholders. Out of five members of the Board, one is an independent member and two are delegated by the Parent Company.</p> <p>The Board is supervised by the Supervisory Council of the Parent Company consisting of 5 (five) members – natural persons, out of whom 2 (two) must be independent members, with their independence determined according to the criteria set out in the Procedure for the Exercise of Property and Non-Property Rights of the State in State-Owned Enterprises, the Code and other applicable legal acts.</p>
<p>3.2. First names and surnames of the candidates to become members of a collegial body, information about their education, qualifications, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general meeting of shareholders so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this Item 3.2. on its members and disclose this in the company's annual report.</p>	<p>Yes</p>	<p>In accordance with the Company's Articles of Association, the general meeting of shareholders must be furnished with the Declaration of Interests of each candidate for the position of a Board Member as well as with information on his/her qualifications and suitability for the office. Should any new circumstances occur that could potentially give rise to a conflict of interests between a Board Member and the Company, the Board Member must notify the Company and the Board in writing immediately.</p> <p>Information about the members of the Board is posted on the Company's website www.ambergrid.lt.</p>
<p>3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.</p>	<p>Yes</p>	<p>The Company posts information on the composition of the Board and the positions held by the Board Members in the Company's annual report and on the Company's website. Information on the members of the Board was also presented at the General Meeting of Shareholders.</p>
<p>3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.</p>	<p>Yes</p>	<p>The composition of the Company's Board was determined with a view to maintaining a proper balance of qualifications possessed by its members, having regard to the Company's structure and nature of its activities; the composition of the Board is subject to periodical evaluations having regard to procedures applicable to state-owned enterprises.</p> <p>Parent Company has formed an Audit Committee which, according to the Articles of Association of the Company, operates also as the Company's Audit Committee, and the Remuneration and Nominations Committee, which assists the Board and the General Meeting of Shareholders to select candidates for the positions of the Board Members and the Director General. Both committees have been formed according</p>

		to the recommendations of the Code and in accordance with the Company's Articles of Association.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organisation and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	At least once in a year, the Board carries out a self-assessment and a needs analysis in order to identify competences required for the attainment of the Company's aims, and reports the results to the General Meeting of Shareholders and the Company.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient ⁴ number of independent ⁵ members.	No	Please refer to Comment under Item 2.5.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general meeting of shareholders is the supervisory council) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;	Yes	The Board has one independent member who meets the criteria for independence set in the Governance Code.

⁴ The Code does not provide for a specific of independent members in a collegial body. In governance codes of many other countries, a fixed rate is set (e. g. at least 1/3 or 1/2 of the members of the collegial body must be independent members). However, having regard to the novelty of the institution of an independent member in Lithuania and potential issues in finding and electing a specific number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance.

⁵ Notably, in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few majority shareholders. However, even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

<p>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);</p> <p>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1(1));</p> <p>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organisation receiving significant payments from the company or its group;</p> <p>6) He/she is not and has not been, during the past three years, partner or employee of the current or former external audit company of the company or associated company;</p> <p>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general meeting of shareholders is the supervisory council) is non-executive director or member of the supervisory council, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He/she has not been in the position of a member of the collegial body for more than 12 years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general meeting of shareholders is the supervisory council) or to any person listed in above items 1 to 8.</p>		
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Close relative is considered to be a spouse (common-law spouse), children and parents.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	Not applicable	Please refer to Comment under Item 3.7.
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Yes	An independent member of the Board was elected by decision of the General Meeting of Shareholders. Information on the independence of the member of the Board is publicly disclosed.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Yes	Please refer to Comment under Item 3.7. The Board Member submits the Declaration of Independence and updates it as necessary.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds ⁶ . The general meeting of shareholders should approve the amount of such remuneration.	Yes	For the work in the Board, the independent member of the Board is remunerated from the Company's funds, with the amount of the remuneration approved by the General Meeting of Shareholders.
<p>Principle IV: The duties and liabilities of a collegial body elected by the general meeting of shareholders</p> <p>The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general meeting of shareholders, and the powers granted to the collegial body should ensure effective monitoring⁷ of the company's management bodies and protection of interests of all the company's shareholders.</p>		

⁶Notably, currently it is not yet completely clear in what form members of the supervisory council or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) provides that members of the supervisory council or the board may be remunerated for their work in the supervisory council or the board by payment of annual bonuses (*tantiemes*) in the manner prescribed by Article 59 of this Law, i.e. from the company's profit. So it seems that the Law does not prohibit remuneration to members of the supervisory council and the board work in other forms, besides *tantiemes*, although this possibility is not expressly stated either.

⁷ See Footnote 3.

<p>4.1. The collegial body elected by the general meeting of shareholders (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.⁸</p>	<p>Yes</p>	<p>According to the Articles of Association of the Company, the Board of the Company approves the Annual Report and analyses and evaluates the annual financial statements and a draft profit allocation statements and submits them, together with the approved Annual Report, to the General Meeting of Shareholders. The Board analyses and evaluates the reports on the results of the Company's economic activities and key financial and operating indicators, submitted by the Director General on an annual basis.</p>
<p>4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body pass a decision the independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).</p>	<p>Yes</p>	<p>According to the information available to the Company, all the Board Members act in good faith for the benefit of the Company, and are guided by the interests of the Company and not by their private interests or by interests of any third parties, and are seeking to maintain independence in decision-making.</p>
<p>4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half⁹ of the meetings of the collegial body in the financial year of the company, shareholders of the company should be notified.</p>	<p>Yes</p>	<p>Agreements on the functions of the Board Member are concluded with all Members of the Board, under which they all, including the independent member, undertake to devote sufficient time for the performance of such functions.</p>
<p>4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to</p>	<p>Yes</p>	<p>The principle of appropriate exercise of the shareholders' rights is binding upon the Board of the Company: the Group's governance system must enable appropriate exercise of property and non-property rights and securing legitimate interests of all the shareholders (majority and minority, domestic and foreign) in terms of both securing the rights and legitimate interests of the State of Lithuania as a shareholder in the Parent Company and subsidiaries and ensuring an equally</p>

⁸ See Footnote 3. In the event the collegial body elected by the general meeting of shareholders is the board, it should provide recommendations to the company's single-handed management body, i.e. the chief executive officer.

⁹ Notably, companies can make this requirement more stringent by establishing that shareholders should be informed about a failure to participate in the meetings of the collegial body if, for instance, a member of the collegial body attended less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

shareholders.		effective representation of minority shareholders' rights and legitimate interests in those companies of the Group which have minority shareholders.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	The Board of the Company considers and approves agreements/contracts concluded with the Company's shareholder/shareholders holding more than 1% of the shares of the Company except for employment contracts and other agreements related to work in the Company as well as agreements containing standard terms and conditions (such as agreements on connection to the gas system, agreements on the natural gas transmission service, capacity bookings and other regulated activity transactions) approved by competent authorities.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies ¹⁰ . Members of the collegial body should act and pass decisions without an external influence of persons who have elected them. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned.	Yes	According to the Articles of Association of the Company, management bodies adopt decisions independently and within their remit conferred on them under the Lithuanian law and the Articles of Association. The bodies of the Company are fully liable for their decisions. In the decision-adoption process, the Company's management bodies must act for the benefit of the Company and its shareholders. The Guidelines establish the principle of the management and supervisory bodies' liability and accountability to the shareholders: the corporate governance system of the Group as well as the governance model selected are aimed at ensuring that management, supervisory and other bodies of all companies in the Group duly and timely perform their duties and functions and use their rights pro-actively while remaining fully accountable to the shareholders and acting in their legitimate interests, and maintaining an appropriate balance between the supervisory and management bodies of the Group. Agreements on the functions of the Board Member are concluded with all Members of the Board, under which they all, including the independent member, are provided with any means required for the performance of the functions. Provision of the Board Members with technical and organisational means required for the work at the Company is also established in the Articles of Association of the Company.
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors'	Yes	Please refer to Comments under Items 2.5 and 3.4. The Supervisory Council of the Parent Company forms the Audit Committee and the Remuneration and Nomination Committee under the council. The Audit Committee is formed of at least 3 (three) members ensuring that at least two of them are

¹⁰ In case if the board is a collegial body elected by the general meeting of shareholders, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the company's chief executive officer.

<p>remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees¹¹. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p>		<p>independent members, and at least one of these is a certified auditor, and the other one appointed from among independent members of the Supervisory Council.</p> <p>The Remuneration and Nomination Committee is formed of at least 3 (three) members ensuring that at least 1 (one) of them is an independent member, and the other 2 (two) members are appointed from among the members of the Supervisory Council, and one of these is an independent member.</p>
<p>4.8. The key objective of the committees is to increase the efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.</p>	<p>Yes</p>	<p>The Audit Committee of the Parent Company performs the functions of the Company's Audit Committee. The Remuneration and Nomination Committee of the Parent Company acts as an advisory body of the Company, the main function of which is to assist in the selection of candidates for the members of the Group's management and supervisory bodies and to formulate the remuneration guidelines for the Group.</p> <p>It should be noted, however, that the Company's bodies adopt decisions independently, within their remit established in the Lithuanian law and the Articles of Association of the Company. In adopting decisions, the Company's bodies must act for the benefit of the Company and its shareholders.</p>
<p>4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory council, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is</p>	<p>Not applicable</p>	<p>Please refer to Comment under Item 4.7.</p>

¹¹The Law of the Republic of Lithuania on Audit (*Official Gazette*, 2008, No 82-53233) establishes that an Audit Committee shall be formed in each public interest entity (including but not limited to public companies the securities of which are traded in the regulated market of the Republic of Lithuania and/or any other Member State).

<p>refreshed and that undue reliance is not placed on particular individuals. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p>		
<p>4.10. Powers of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Powers of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p>	<p>Not applicable</p>	<p>Please refer to Comment under Item 4.7.</p>
<p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.</p>	<p>Not applicable</p>	<p>Please refer to Comment under Item 4.7.</p>
<p>4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Select and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. The nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess, on a regular basis, the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess, on a regular basis, the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Devote sufficient attention to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management.</p>	<p>Not applicable</p>	<p>Please refer to Comment under Item 4.8.</p>

<p>4.12.2. The nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general meeting of shareholders is the supervisory council) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</p>		
<p>4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals to the collegial body for the policy of remuneration to members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body for remuneration to individual executive directors and members of management bodies in order to ensure that the remuneration is in line with the company's remuneration policy and the individuals' performance assessment. In doing so, the committee should be well informed about the total remuneration received by the executive directors and members of the management bodies from the affiliated companies; 3) Ensure that the remuneration to individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; 4) Review, on a regular basis, the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management</p>	<p>Not applicable</p>	<p>Please refer to Comment under Item 4.8.</p>

<p>bodies.</p> <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <ol style="list-style-type: none"> 1) Consider the general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as its consequences. <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and attend the annual general meeting for this purpose.</p>		
<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ol style="list-style-type: none"> 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make to the collegial body recommendations on the selection, appointment, reappointment and removal of the external auditor (to be done by the general meeting of shareholders) and on the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required action in such situations; 5) Monitor independence and impartiality of the 	<p>Yes</p>	<p>Please refer to Comment under Item 4.8.</p>

external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principles and guidelines established in Commission Recommendation 2002/590/EC of 16 May 2002, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;

6) Review the efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.

4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centres and/or activities carried out through special purpose vehicles (organisations) and justification of such operations.

4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.

4.14.4. Internal and external auditors should be secured with not only an effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.

4.14.5. The audit committee should be informed of the internal auditor's working programme and furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the working programme of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.

<p>4.14.6. The audit committee should check whether the company complies with the applicable provisions regarding the possibility for employees to report any alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p>		
<p>4.15. Every year the collegial body should carry out a self-assessment. The self-assessment should include evaluation of collegial body's structure, work organisation and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organisation and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>	Yes	Please refer to Comment under Item 3.5.
<p>Principle V: The working procedures of the company's collegial bodies</p> <p>The working procedures of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.</p>		

<p>5.1. The company's supervisory and management bodies (hereinafter in this Principle V the collegial bodies of supervision and the collegial bodies of management collectively referred to as the 'collegial bodies') should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.</p>	<p>Yes</p>	<p>Activities of the Board are governed by the Regulations of the Board. The meetings of the Board are chaired by the Chairman of the Board. The Company provides all the resources necessary for proper organisation of meetings of the Board.</p>
<p>5.2. It is recommended that meetings of the company's collegial bodies should be convened at appropriate intervals according to the schedule approved in advance. A company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory council should be convened at least once in a quarter, and the company's board should meet at least once a month.¹²</p>	<p>Yes</p>	<p>To secure the uninterrupted resolution of the essential Company's governance issues, the meetings of the Board are convened on a regular basis. The Board holds meetings according to a pre-approved schedule of the meetings Board, normally once in a month.</p>
<p>5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.</p>	<p>Yes</p>	<p>The members of the Board receive information about the meeting being convened, the agenda of the meeting and all materials relevant to the agenda items well in advance in order to leave enough time for a proper preparation for the meeting on all the agenda items and ensure a fruitful discussion, with a view to adopting appropriate decisions.</p>
<p>5.4. In order to co-ordinate activities of the company's collegial bodies and ensure an effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory council, especially where issues concerning removal of the board members, their liability or remuneration are considered.</p>	<p>Not applicable</p>	<p>A Supervisory Council is not formed in the Company.</p>
<p>Principle VI: The equitable treatment of shareholders and shareholder rights The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.</p>		

¹² The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory council. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory council, i. e. at least once in a quarter.

6.1. It is recommended that the company's capital should consist only of the shares that grant equal rights to voting, ownership, dividend and other rights to all their holders.	Yes	The Company's authorised capital consists of ordinary registered shares which grant equal rights to all the shareholders of the Company.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general meeting of shareholders ¹³ . All shareholders should have equal opportunities for familiarizing themselves with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	Yes	The remit of the Company's General Meeting of Shareholders and Board of Directors is governed by the Law on Companies and the Articles of Association of the Company. In accordance with the Company's Articles of Association, decisions on concluding important transactions are taken by the General Meeting of Shareholders.
6.4. Procedures for convening and conducting a general meeting of shareholders should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	Procedures for the convening and conducting the General Meetings of Shareholders are governed by the Law on Companies and the Articles of Association of the Company. Shareholders have equal rights to attend the meeting and exercise their property and non-property rights.
6.5. Where possible, in order to ensure that shareholders living abroad have access to information, it is recommended that documents on the course of the general meeting of shareholders should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to secure the right of foreigners to familiarise with the information, where feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's trade secrets are not revealed.	Yes	The right of shareholders living abroad to access to information is ensured on the Company's website www.ambergrid.lt and through the informational system of the NASDAQ Vilnius Stock Exchange, by publishing in advance, in Lithuanian and English, the date and venue of the General Meeting of Shareholders, the record date of the meeting, the agenda of the meeting and draft resolutions. After the meeting, the resolutions adopted are published in the same manner.
6.6. Shareholders should be provided with the opportunity to vote in the general meeting of shareholders in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The shareholders of the Company may exercise their right to participate in the General Meeting of Shareholders either in person or through a proxy, provided that the proxy holds an appropriate power of attorney or is a party to the agreement on the cession of

¹³ The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-term assets accounting for more than 1/20 of the company's authorised capital to the competence of the general meeting of shareholders. However, transactions that are important and material for the company's activity should be considered and approved by the general meeting of shareholders. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of Article 34(4) of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

		the voting right. The Company also provides its shareholders with an opportunity to vote in writing in advance.
<p>6.7. With a view to increasing the shareholders' opportunities for attending shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.</p>	Not applicable	<p>Considering the ownership structure of the Company and the valid Regulations for Organising the General Meetings of Shareholders, there is no need to implement any additional expensive IT system.</p>
<p>Principle VII: The avoidance of conflicts of interest and their disclosure</p> <p>The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.</p>		

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

<p>8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.</p>	<p>No</p>	<p>At present, the Company has no practice of preparation of the Company's remuneration statement in full compliance with the recommendations of this Code. The system of remuneration of the Board Members – Executive Directors including the Director General has been set having regard to the regulation of pay to CEOs of state-controlled companies and in accordance with the Management Remuneration Policy of the Company.</p> <p>Remuneration to an independent member of the Board is fixed by the General Meeting of Shareholders and disclosed in the Annual Report. The amount is set according to the guidelines of the Parent Company.</p>
<p>8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.</p>	<p>No</p>	<p>Please refer to Comment under Item 8.1.</p>
<p>8.3. A remuneration statement should include at least the following information:</p> <ol style="list-style-type: none"> 1) Explanation of the ration between the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on the periods of deferral of payment of the variable components of remuneration; 6) Sufficient information on the link between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments/service benefits; 9) Sufficient information with regard to vesting periods for share-based remuneration under point 8.15 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 	<p>No</p>	<p>Please refer to Comment under Item 8.1.</p>

<p>13) The remuneration statement should not include commercially sensitive information.</p>		
<p>8.4. The remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p>	<p>Ne</p>	<p>Please refer to Comment under Item 8.1.</p>
<p>8.5. The remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ul style="list-style-type: none"> • The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general meeting of shareholders; • The remuneration and advantages received from any undertaking belonging to the same group; • The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; • If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; • Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; • Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. <p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ul style="list-style-type: none"> • The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; • The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; • The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the 	<p>Ne</p>	<p>Please refer to Comment under Item 8.1.</p>

<p>rights;</p> <ul style="list-style-type: none"> • All changes in the terms and conditions of existing share options occurring during the financial year. <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <ul style="list-style-type: none"> • When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; • When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. <p>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>		
<p>8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.</p>	<p>Yes</p>	<p>The fixed component is sufficient.</p>
<p>8.7. Assigning of variable components of remuneration should be subject to predetermined and measurable performance criteria.</p>	<p>Yes</p>	<p>The assignment of the variable component of remuneration to the Executive Directors of the Company depends on the achievement of the measurable targets set in the Annual Operating Plan of the Company.</p>

8.8. Where a variable component of remuneration is assigned, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Yes	Payment of the variable component of the remuneration is deferred until the results are approved.
8.9. Contractual arrangements with executive or Director Generals should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	No	Please refer to Comment under Item 8.1.
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	Yes	
8.11. Termination payments/service benefits should not be paid if the office was terminated due to inadequate performance.	Yes	
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	Not applicable	Please refer to Comment under Item 8.1.
8.13. In the case of share-based remuneration, shares should not be vested for at least three years after their award.	Not applicable	The Company does not apply share-based remuneration.
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	Please refer to Comment under Item 8.13.
8.15. After vesting, directors should retain a number of shares, until the end of their term of office, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (non-variable plus the variable components).	Not applicable	Please refer to Comment under Item 8.13.
8.16. Remuneration of non-executive directors and members of the supervisory council should not include share options.	Not applicable	Please refer to Comment under Item 8.1.
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and vote on matters regarding directors' remuneration.	Yes No	The amount of remuneration to the independent member of the Board is determined by the General Meeting of Shareholders. In accordance with the Articles of Association of the Company, matters related to the setting of remuneration to the Director General are decided by the Board.

<p>8.18. Without prejudice to the role and organisation of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. The remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.</p>	<p>No</p>	<p>Please refer to Comment under Item 8.1.</p>
<p>8.19. Schemes for share-based remuneration to directors, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made at the annual general meeting of shareholders. In such case shareholders should be informed about all terms of suggested changes and get an explanation about the impact of the suggested changes.</p>	<p>Not applicable</p>	<p>At present the Company does not use such remuneration schemes.</p>
<p>8.20. The following issues should be subject to approval by the annual general meeting of shareholders:</p> <ol style="list-style-type: none"> 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permitted by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. <p>The annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this point to individual directors.</p>	<p>Not applicable</p>	<p>Such issues were not considered by the General Meeting of Shareholders as this is not provided for by the Articles of Association of the Company. At present the Company does not use such remuneration schemes. Please refer to Comment under Item 8.1 as well.</p>
<p>8.21. If permitted by the national law or the Articles of Association of the company, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>	<p>Not applicable</p>	
<p>8.22. Provisions of points 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders'</p>	<p>Not applicable</p>	

annual general meeting.		
<p>8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Item 8.19, the shareholders must be provided an opportunity to familiarise with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information provided in this item must be posted on the company's website.</p>	Not applicable	Please refer to Comment under Item 8.19.
<p>Principle IX: The role of stakeholders in corporate governance</p>		
<p>The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the term "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having a certain interest in the company concerned.</p>		
<p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p>	Yes	<p>The compliance with this recommendation is ensured by the meticulous supervision and control of the Company's business activities by the state regulatory authorities and associated consumer organisations. The publicity of the Company's business activities enables the stakeholders' participation in the corporate governance in accordance with the procedure established by law and the Company's Articles of Association and internal regulations. The governing bodies consult the employees on the issues of corporate governance and other important issues; the employees' participation in the Company's share capital is not restricted.</p>
<p>9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency etc.</p>		
<p>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p>		
<p>Principle X: Information disclosure and transparency</p>		
<p>The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.</p>		

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