Litgrid

CONSOLIDATED ANNUAL REPORT AND FINANCIAL STATEMENTS OF LITGRID AND ITS SUBSIDIARIES FOR 2016

LITGRID AB

CONSOLIDATED AND THE COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2016 PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION, PRESENTED TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT AND THE CONSOLIDATED ANNUAL REPORT

Translation note:

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

Contents

The financial statements were approved on 21 March 2017.

Daivis Virbickas
Chief Executive Officer

Rimantas Busila
Finance Department
Director

Raimonda Duobuvienė
Deputy Chief Financier
Acting Chief Financier

Independent auditor's report

pwc

Independent auditor's report

To the shareholders of LITGRID AB

Our opinion

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

What we have audited
The Company's and Group's stand-alone and consolidated financial statements comprise:

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

Basis for opinion

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

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

Independence
We are independent of the Company and Group 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 stand-alone and consolidated 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.

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

pwc

Our audit approach

Overview

Overall Company materiality is EUR 1.200 thousand which represents 2.5% of earnings before interest, tax, depreciation and amortization, impairment losses and write off expenses of property, plant and equipment (EBITDA).

Overall Group materiality is EUR 1.217 thousand which represents 2.5% of earnings before interest, tax, depreciation and amortization, impairment losses and write off expenses of property, plant and equipment (EBITDA).

As at 31 December 2016 the Company owned two subsidiaries (as at 31 December 2015 – three subsidiaries). A full scope audit was performed by PricewaterhouseCoopers UAB for all Group entities.

- Valuation of property, plant and equipment
- Recognition of congestion revenue

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

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 and Group, the accounting processes and controls, and the industry in which the Company and Group 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 and Group materiality for the stand-alone and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

pwc

Overall Company materiality	EUR 1.200 thousand
Overall Group materiality	EUR 1.217 thousand
How we determined it	2.5% of EBITDA
Rationale for the materiality benchmark applied	We have applied EBITDA because, in our view, it is the benchmark against which the performance of the Group and the Company is most commonly measured both internally by management and externally by stakeholders, including the shareholders, regulator and creditors.

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.

Key audit matter	*How our audit addressed the key audit matter*
Valuation of property, plant and equipment *Refer to Notes 2.7, 3 and 6 of the stand-alone and consolidated financial statements.* According to the Company's and Group's accounting policies, property, plant and equipment is carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and less any subsequent accumulated impairment losses. We focused on this area due to significance of the property, plant and equipment balance for the stand-alone and consolidated statements of financial position (EUR 397.5 million and EUR 398,4 million as at 31 December 2016 respectively) and because management's assessment on whether the carrying amount of property, plant and equipment does not differ materially from that which would be determined using fair value at the end of the	We obtained, understood and evaluated management's policies, processes, methods and assumptions used to assess the fair values of property, plant and equipment. We examined management's information about changes in electricity regulatory environment during 2016 with reference to the latest decisions of the National Commission for Energy Control and Prices, including the regulated rate of return. We reviewed the following significant inputs used in the valuation model: expected cash flows from operations during years 2017 – 2025; adjustments made to cash flows regarding to grants for the interconnection projects; discounted going concern value beyond 2025 which is based on the return on the regulated assets investments; and the discount rate. We discussed these inputs with management and traced them to internal and external information where appropriate.

pwc

reporting period involves significant judgements and estimates. Management has applied the income method using the discounted cash flows technique and concluded that fair value of property, plant and equipment is higher than its carrying amount as at 31 December 2016. Given the identified deviation in value is lower than 5% of the carrying amount of the property, plant and equipment as at 31 December 2016, management concluded that the fair value of revalued assets does not differ materially from its carrying amount and consequently further revaluation is not required.	We ensured that valuation model is mathematically accurate and that the results are accurately compared to the carrying values of assets. Also we assessed sensitivity of property, plant and equipment valuation results to changes in selected assumptions. Our work gave us sufficient audit evidence to conclude that management's judgement not to change the carrying values of property, plant and equipment is supportable and appropriate in light of the evidence obtained.
Recognition of congestion revenue *Refer to Notes 2.18, 3 and 20 of the stand – alone and consolidated financial statements.* In 2016 the Company received total congestion fees of EUR 11.4 million, including EUR 8.0 million of congestion fees recognised as a deferred income as of 31 December 2016 (equal amounts both for stand-alone and consolidated financial statements). The provisions of the EU Regulation imposes restrictions on the Company regarding the utilisation of congestion fees. Therefore, the accounting approach regarding recognition of congestion revenues depends on its further utilisation. Since the application of an appropriate accounting policy involves management's judgment and total fees are material, it was considered to be a key audit matter.	We reviewed the congestion revenue recognition accounting policy and agreed that it complies with the International Financial Reporting Standards as adopted by the European Union. We selected a sample of transactions conducted during the year and reconciled to respective invoices and subsequent cash receipts. We obtained management's report on costs incurred during 2016 as a result of price differences between the price of electricity traded in the market and the price of regulation and(or) balancing electricity purchased/sold by the Company during the disconnection of the NordBalt interconnection. We assessed the reliability of inputs (quantity and tariffs) in the report and tested the accuracy of calculation. We agreed the amount of the congestion revenue recognised during 2016 to the report. We evaluated the management's expectations on when and how the congestion revenue will be used. We reconciled the amount of congestion revenue expected to be used for maintenance and constructions of connection capacities, to information provided by the Company to the National Commission for Energy Control and Prices. Also we assessed the adequacy of the disclosures in the stand-alone and consolidated financial statements related to congestion revenue.

pwc

As a result of our work, we noted no material exceptions.

How we tailored our Group audit scope

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

As at 31 December 2016, the Company owned two subsidiaries (as at 31 December 2015 – three) that are further disclosed in Note 1. A full scope audit of all subsidiaries was performed by PricewaterhouseCoopers UAB.

Other information

Management is responsible for the other information. The other information comprises the consolidated 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 and will 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 and Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it

pwc

exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate 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.

pwc

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
21 March 2017

CONSOLIDATED ANNUAL REPORT OF LITGRID AND ITS SUBSIDIARIES

I. General Information about the Group

This consolidated annual report has been prepared for the year 2016.

The Issuer and its contact details:

Name	LITGRID AB (hereinafter referred to as "Litgrid" or the "Company")
Legal form	Public company
Registration date and place	16/11/2010, Register of Legal Entities of the Republic of Lithuania
Business ID	302564383
Registered office address	A. Juozapavičiaus g. 13, LT-09311, Vilnius
Telephone	+370 707 02 171
Fax	+370 5 272 3986
Email	info@litgrid.eu; www.litgrid.eu

Litgrid's operations

Litgrid, Lithuania's electricity transmission system operator (the "TSO"), maintains the stable operation of the national power system, manages electricity flows, and enables competition in the open market for electricity. Litgrid is responsible for the integration of Lithuania's power system into Europe's electricity infrastructure and the common market for electricity. The Company has implemented the strategic NordBalt (Lithuania–Sweden) and LitPol Link (Lithuania–Poland) power link projects. In its work aimed at increasing the country's energy independence, Litgrid fosters a culture of responsibility, rational creativeness, and dialogue.

Litgrid's mission is to ensure the reliable transmission of electricity and to enable competition in the open electricity market.

Litgrid's vision is the full integration of Lithuania's power system into Europe's electricity infrastructure and the common market for electricity, creating conditions for a competitive economy.

Litgrid's values are cooperation, respect, responsibility, professionalism, and initiative.

Litgrid's strategy is to secure the energy independence while creating value for the public.

As the backbone of the national power sector, Litgrid is not only responsible for the maintenance of the balance of the electricity used and produced in the system and the reliable transmission of electricity but implements strategic national electricity projects as well. Its vision and strategic operating guidelines are based on the long-term goals identified in the National

Energy Independence Strategy. The Lithuanian TSO's most important operational areas and responsibilities include the maintenance of the country's electricity infrastructure and its integration with the Western and Northern European electricity infrastructure; development of the electricity market and participation in the creation of a common Baltic and European electricity market; and the integration of the Lithuanian and continental European electricity systems for synchronous operations.

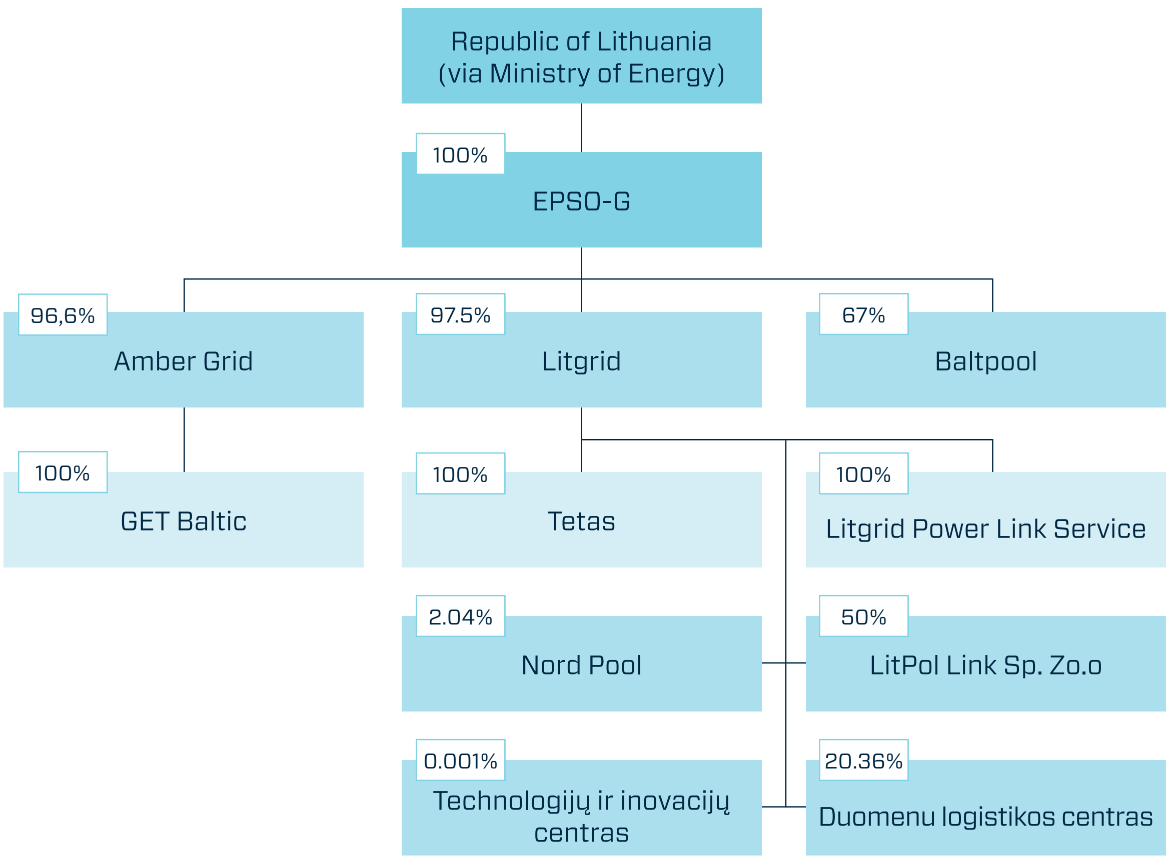
Litgrid – part of EPSO-G group

EPSO-G is a state-owned company with the Ministry of Energy controlling 100% of its shares. EPSO-G holds 96.6% shares of gas transmission system operator Amber Grid and 97.5% shares of electricity transmission operator Litgrid. EPSO-G also holds 67% of the Lithuanian energy exchange operator Baltpool shares, while its subsidiary Amber Grid controls 100% of the Lithuanian natural gas exchange operator Get Baltic shares. Said exchange operators aim to become the regional platforms for energy market.

The objectives of EPSO-G corporate governance are:

- the implementation of property rights;
- strategic management of transmission system and other companies by coordinating the strategic decision making, strategic projects implemented by the companies;
- efficiency of the subsidiaries;
- transparency. EPSO-G aims to incorporate the best practices outlined in the OECD guidelines for new members, as well as the guidelines of United Nations and Nasdaq.

The EPSO-G companies



Litgrid's operating plans and projections

Litgrid works pro-actively and responsibly in the following key directions:

Integration of the national power system into European networks

Once Lithuania becomes a full and active participant of the European electricity system, European system management standards will be introduced in the electricity sector, and electricity flow management based on market principles and participation in maintaining the system's frequency will be ensured. The aim is the Baltic countries' synchronous operation within continental European grids.

Common European market for electricity

The integration of the Lithuanian electricity market into the Baltic and Nordic electricity market, and subsequently into the common European market for electricity, will ensure transparent wholesale electricity prices, competition, and freedom of choice for all market participants as well as equitable trade in electricity with neighbouring European states. Being part of a large electricity market will enable the most effective use of networks and generation infrastructure and ensure the security of electricity transmission.

Integration of the transmission grid into Europe's electricity infrastructure

Lithuania's electricity transmission grid is well-developed and reliably meets the needs of its customers. Since the end of 2015, the country's electricity transmission grid has been connected to Sweden and Poland via asynchronous power links (LitPol Link is a double-circuit power link) and to the electricity grids of Latvia as well as the neighbouring states in the east via 12 synchronous power links. NordBalt (with Sweden) and LitPol Link (with Poland) power links have connected, for the first time, Lithuania's power system to electricity grids of Northern and Western Europe. The electricity transmission grid operated and maintained by Litgrid enables trade in electricity between power systems and provides access to electricity markets rich in diverse energy resources. Optimal investments in the national grid ensure the integration of new electricity generators, the safe transmission of electricity, and the reliability of the system's operation.

Most important activities in 2016 in implementing the power sector projects

LitPol Link cross-border power link

LitPol Link has been in operation since the beginning of 2016. The back-to-back converter station is the main and most complex unit of the new power link. The station converts alternating current into direct current and back to alternating current, thus enabling the transmission of electricity between the asynchronous Lithuanian and Polish power systems. In 2016, the power link served as a support for the system‘s reliability as well. Lithuania and Poland used LitPol Link as an emergency reserve a few times in 2016: Litgrid – during 141 hours in all, and PSE (the Polish transmission system operator) – during 18 hours in all.

EUR 109 million were invested in LitPol Link project in Lithuania. In July 2015, the European Commission approved the EUR 27 million funding for the LitPol Link project. EU investments in LitPol Link total EUR 31 million.

In June 2016, the Environmental Protection Agency and other Lithuanian authorities approved the Environmental Monitoring Programme for LitPol link. Under this programme, environmental specialists will monitor those areas on the route of the line where valuable habitats or plant species have been found. In addition, electromagnetic field investigations will be performed in those parts of the route where the electricity transmission line extends not far from residential or public buildings. The Environmental Monitoring Programme was prepared by the Open Access Centre for Marine Research at Klaipėda University.

In mid-September 2016, works under the Environmental Monitoring Programme – recording of migrating birds were started by the Lithuanian Ornithological Society (upon winning, jointly with the Lithuanian Fund for Nature, the tender for the implementation of the programme). In foggy weather or twilight, large birds may fail to notice the wires and hit them. The ornithologists will investigate bird accumulations near the electricity transmission lines and will make recommendations for increasing the visibility of the wires.

NordBalt cross-border power link

NordBalt power link has been operating since June 2016, upon completion of trial operation. Its subwater cable which is one of the world‘s longest cables of this type has considerably increased the security of energy supply for Lithuania and other Baltic States. The power link availability was 78% in the period from the start of operation until the end of 2016.

Investments in NordBalt power link on the Lithuanian side totalled EUR 223 million including EUR 65 m of EU funding. Up until now it has been the largest joint Lithuanian-Swedish investment in the energy sector.

Reorientation of the power system toward synchronous operation with continental Europe

The Law on the Integration of the Power System of the Republic of Lithuania into the European Electricity Systems adopted by the Seimas (Parliament) in 2012 sets the strategic objective to re-orientate the power system of Lithuania to synchronous operation with the continental European network. Full integration of Lithuania’s power system into the European electricity infrastructure and common market for electricity, with the independent system control, is one of strategic objectives of Litgrid. Its attainment requires understanding, harmonisation, and coordination of both national and international interests.

Out of a number of feasibility studies on the interconnection of the power systems of the Baltic countries and the continental Europe completed in the period 1998-2013, the scenario of synchronisation via infrastructure links constructed across the territories of the EU Member States was chosen in 2014. The value of this complex project varies between EUR 435 million and EUR 1.071 million depending on scenario.

In 2014, the project on connecting the electricity systems of the Baltic countries with the continental Europe for synchronous operation was listed among the Projects of Common Interest (PCI) by the European Commission, and in 2015 the European Council highlighted the importance of all dimensions of the European energy union for the energy security of the region. The following projects have been listed as the Projects of Common Interest (PCI) by the European Commission in 2015:

- The 330 kV electricity transmission line Kruonis Hydro Pumped Storage Plant (HPSP) – Alytus;
- The currency converter in Alytus (Phase 2 of the LitPol Link project). Decision on implementation of this project will be adopted upon detailed analysis of the utilisation of the Lithuanian-Polish power link in operation and its effect on the regional electricity market prices;
- The 330 kV electricity transmission line Kruonis Hydro Pumped Storage Plant – Visaginas. Investments in this project would be approved only after decisions on construction of the nuclear power plant in Lithuania are adopted;

- A new electricity transmission line from the new transformer substation to the Lithuanian-Polish border. The line is required for the synchronisation of the Lithuanian electricity system with the European Continental grid; the latter project is also on the PCI List.

A study on the setting of the route of the new electricity transmission line from the transformer substation in the Lithuanian grid to the Lithuanian-Polish border was completed in 2016. It has been established that the new line could start at Marijampolė. An analogous study dealing with the potential route of the line in Poland was carried out by PSE Inwestycje, a subsidiary of the Polish TSO.

In the autumn of 2016, construction of the 330 kV line Kruonis HPSP - Alytus started. The new line, forming an integral part of the Lithuanian – Polish electricity systems' connection, will enable a more efficient use of LitPol Link after completion of the synchronisation project.

Transmission grid development and reconstruction projects

The complex project on the synchronisation with the continental European network includes numerous technical, engineering and IT solutions, and works have to be planned and started in the nearest future. Apart from international agreements, synchronisation requires internal network development projects; some of them have already been launched.

The concentration of business and service centres in Vilnius, the capital of Lithuania, means that the increasing electricity consumption in the city now accounts for one-third of Lithuania's total electricity demand. At present Vilnius is supplied with electricity via high-voltage lines extending from the Lithuanian Power Plant and Belarus. In order to ensure a reliable transmission of electricity to Vilnius and to prepare for the synchronisation, the Vilnius transformer substation will be reinforced and new electricity transmission lines will be built. One of such lines is the projected 330 kilovolt (kV) transmission line from the Lithuanian Power Plant to Vilnius. An environmental impact assessment programme was prepared for this line in 2016.

The transmission network in north-western Lithuania will be reinforced by a new Kretinga-Benaičiai line the construction of which has been started in September 2016. The 110 kV line will contribute to a more uniform distribution of electricity flows in the region. In addition, the new electricity infrastructure will ensure a better integration of wind farms. Two wind farms with the capacity of power over 60 MW operate in this region.

In addition to the construction of new lines, consistent reconstruction of equipment that is becoming obsolete ensures the reliable operation of the network. The reconstruction of 110 kV overhead lines from Merkinė to Trakai and from Zarasai to Utena were completed in 2016. In August 2016, two 110 kV subsurface electricity transmission line were put into operation in the area where Phase 3 of the Vilnius City's western bypass road is underway. High-voltage cables replaced a 110 kV overhead line in an almost 2.5 km long section of the bypass road route.

Modern technologies are employed in the reconstruction of the electricity transmission grid. A digital transformer substation switched in Vidiškės (Ukmergė district) in August 2016 is the first of its kind in the Baltic countries. More accurate and reliable information including various measurement and system data reaches the control centre via the Vidiškės substation. It is estimated that digitalisation of a large substation may cut costs by 20% to 30% and shorten the reconstruction period as fewer design and installation works have to be performed.

Modernisation of transformer substations enables the Company to increase the number of remotely-controlled substations. In September 2016, installation of remote control systems have been started at Telšiai, Utena, Jurbarkas and Šiauliai substations. On completion of the works they will be controlled centrally from Litgrid's system control centre in Vilnius.

Integration of Baltic and Nordic electricity markets

With the aim of creating a common Baltic and Nordic market for reserving, regulation, and balancing, Litgrid and other Baltic electricity transmission system operators have agreed on the principles and an implementation plan of the common Baltic regulation and balancing market to be implemented by the end of 2017. Since 2015, common balancing of the Baltic countries' systems (imbalance netting) is being performed. This means that the three operators have been jointly recording the differences between the planned and actual electricity consumption in the Lithuanian, Latvian and Estonian power systems for a more efficient control of the regulation and balancing costs of the systems. This has enabled Lithuania to save EUR 3.7 million in the balancing electricity costs in 2016.

At the end of June 2016, Litgrid, Elering and Augstsprieguma tīkls - the Lithuanian, Estonian and Latvian transmission system operators presented for public consultations a first set of documents on the Baltic States' market in balancing electricity. The purpose of the market is to enable a stronger competition between the market participants and ensure equal rights for the balancing electricity suppliers in all the countries. Integration of the Baltic and Nordic markets for regulating and balancing energy is projected for 2018 - 2020.

In 2016, the average electricity price in the Lithuanian bidding area of the Nord Pool electricity exchange was 36.5 EUR/MWh. The market price of electricity dropped 13% compared to 2015.

On 1 January 2016, the Baltic Rules for the calculation and allocation of cross-border capacities signed by the Baltic electricity transmission system operators Litgrid, Augstsprieguma tīkls and Elering, aimed at ensuring the maximum market access to the cross-border power links, took effect. Litgrid working jointly with the Baltic States', Swedish and Finnish transmission system operators contributes to development of the common European intra-day trading platform.

Litgrid's membership of international organisations

International visibility of and support for projects implemented by Litgrid is ensured through participation in international associations, specifically, the European Network of Transmission System Operators for Electricity (ENTSO-E).

ENTSO-E (European Network of Transmission System Operators for Electricity) represents 42 electricity transmission system operators from 35 countries across Europe. Its main functions include: resolving European-level issues concerning transmission grid management and development and the electricity market; promoting regional collaboration among TSOs; making proposals for draft legal acts of the European Commission; and preparing the Ten-Year Network Development Plan (TYNDP) and network codes. Litgrid's representatives sit on the organisation's System Operations, System Development, Market, and R&D committees as well as the related working groups. Participation in ENTSO-E activities is aimed at representing national interests and those of Litgrid in the making of European and regional decisions related to system management, the planning and implementation of projects to develop Lithuania's electricity infrastructure, electricity market connections and electricity transmission systems' integration.

On the initiative of the three Baltic transmission system operators, a conference under the title *Regional Integration: Hub of Opportunities* was organised by Litgrid and ENTSO-E on 1 June 2016 in Vilnius. At this conference, which was the first regional event dealing with energy strategies, energy experts from the Baltic Sea Region (BSR) and other European countries presented a wide range of strategies and considered opportunities for achieving benefits for all countries concerned. Apart from energy experts, participants in the conference included management of the Lithuanian, Latvian, Estonian, Finnish, Swedish and Danish electricity transmission system operators, high-ranking officials from the BSR countries, scientists and regulators. The huge popularity of the conference that had attracted participants from the whole region is both the conformation of the relevance of energy issues and the recognition of Lithuania as a growing centre of competences in the region.

Work of Daivis Virbickas, the Company's CEO, in a group of experts under the European Commission is another example of the international recognition of Litgrid's competences. In September 2016, a group of fifteen experts, scientists and NGO representatives provided advice to the European Commission on matters related to the interconnection of Europe's electric power infrastructure.

Litgrid's subsidiaries and their operations

As at 31 December 2016, Litgrid group of companies consisted of Litgrid AB, Tetas UAB, and Litgrid Power Link Service UAB.

Name	Tetas UAB	Litgrid Power Link Service UAB
Legal form	Private company	Private company
Registration date and place	08/12/2005, Register of Legal Entities of the Republic of Lithuania	14/02/2014, Register of Legal Entities of the Republic of Lithuania
Country of establishment	Republic of Lithuania	Republic of Lithuania
Business ID	300513148	303249180
Registered office	Senamiesčio g. 102B, LT-35116, Panevėžys	A. Juozapavičiaus g.13, LT-09311, Vilnius
Telephone	+370 45 504 670	+370 5 278 2766
Fax	+370 45 504 684	+370 5 272 3986
Type of activities	Specialised transformer substations' and distribution stations' installation, maintenance, repair and testing services; designing energy facilities	Preparation for the installation, maintenance and operation of high-voltage direct current power links with the power systems of Poland and Sweden
Country of operation	Lithuania	Lithuania
Litgrid's shareholding	100 %	100 %

Other Litgrid's shareholdings as of 31 December 2016:

Name	LitPol Link Sp.z.o.o	Duomenų logistikos centras UAB	Technologijų ir inovacijų centras UAB	Nord Pool AS
Country of establishment	Republic of Poland	Republic of Lithuania	Republic of Lithuania	Kingdom of Norway
Registered office	ul. Wojciecha Gorskiego 9, 00-33 Warszawa, Poland	Žvejų g. 14, LT-09310 Vilnius	A. Juozapavičiaus g.13, LT-09311, Vilnius	PO Box 121, NO-1325 Lysaker, Norway
Country of operation	Lithuania and Poland	Lithuania	Lithuania	Norway, Sweden, Finland, Denmark, Lithuania, Latvia, Estonia
Litgrid's shareholding	50 % of shares and voting rights attached thereto	20.36 % of shares and voting rights attached thereto	0.001 % of shares and voting rights attached thereto	2 % of shares and voting rights and a board member on rotation basis

Services provided by Litgrid Group

Litgrid, the electricity transmission system operator, provides the following services:

- Transmission of electricity
- System services (capacity reserve)
- Trading in balancing and regulating electricity
- Public interest services (PIS)
- Maintenance and repairs of the electricity grid
- Maintenance, operation and control of HVDC links.

Transmission of electricity

The electricity transmission service is the transmission of electricity over the high voltage (330 and 110 kV) electric installations. The transmission system operator transmits electricity from producers to customers that are connected to the transmission grid, and to distribution network operators. Electricity transmission is a regulated activity.
The main operations of the TSO consist of the management of the high voltage electricity transmission grid and ensuring a reliable, effective, high-quality, transparent and safe transmission of electricity.

System services

In order to maintain reliable system operations, Litgrid purchases the services for the capacity reserve assurance at power generation facilities, reactive capacity and voltage management, and emergency and disruption prevention and response from energy generating companies, and provides customers with system (capacity reserve) services. The capacity reserve is needed when electricity production suddenly and unexpectedly falls or its consumption increases.

Trade in balancing and regulating electricity

Litgrid ensures a balance between production and consumption of electricity in the country. Balancing electricity is electricity that is consumed or produced outside of established electricity consumption and production schedules. Litgrid organises trading in balancing electricity, buying and selling balancing electricity that is necessary to ensure the country's electricity production and consumption balance.

Regulating electricity is electricity that is bought and/or sold on instruction of the TSO as electricity necessary for performing the function of balancing the country's electricity consumption and production. Litgrid organises trading in regulating electricity by auction. The auction participants are suppliers of regulating energy and TSOs of other countries possessing technical facilities that enable them to quickly change the electricity generation and consumption conditions and having concluded a relevant agreement with Litgrid.

Public service obligations

Public service obligations (PSO) in the electricity sector are services that ensure and enhance the national energy security and the integration and use of electricity produced from renewable resources. The list of PSO, their providers, and procedures for the provision of PSO are approved by the Government of the Republic of Lithuania, or an institution authorised by it, having regard to the public interest in the power sector. PSO funds are funds that are paid to providers of PSO.

Litgrid provides the following PSO services:

- Preparation and implementation of strategic projects aimed at increasing the energy security (the Lithuania–Sweden and Lithuania–Poland power links and integration of the Lithuanian power system into continental European grids);
- Connection of power generation equipment that uses wind, biomass, solar energy, or hydropower to the transmission grid as well as the transmission grid's optimisation, development, and/or renovation related to the acceptance and transmission of electricity generated by producers that use renewable energy sources;
- Balancing of electricity produced from renewable energy sources.

Electricity grid maintenance and repairs

In order to maintain high reliability of the transmission grid and to properly plan and carry out the operation of the grid equipment, Litgrid has updated the methodology for the formation of the emergency reserve, approved new emergency reserve lists, conducted stock-taking of the emergency reserve's equipment and spare parts, and drawn up a plan for the acquisition of the emergency reserve equipment.

Tetas, Litgrid's subsidiary, offers the following electricity grid equipment's maintenance and repair services:
- Maintenance and repairs of electric equipment of the grids;
- Construction of new energy facilities and reconstruction of existing energy facilities;
- Electrical equipment design services.

HVDC power links' maintenance, operation and control

On 24 February 2014, Litgrid's subsidiary Tinklo priežiūros centras UAB (renamed into Litgrid Power Link Service UAB from 29 April 2016) was established as a centre of competences for high qualification and specialised engineering areas in the management and operation of high voltage direct current (HVDC) power links.

Since the beginning of 2016, Litgrid Power Link Service has taken over the operation of LitPol Link. The LitPol Link operation agreement has been concluded with PSE, the Polish TSO, and the parties have agreed on the power link operation model.

The company has taken over the operation of NordBalt power link in June 2016. The power link operation model has been agreed with Svenska Kraftnät, the Swedish TSO, and contracts with external contractors required for the HVDC equipment operation have been concluded.

Research and development activities of Litgrid Group

Every year Litgrid prepares the power system development and research programmes aimed at expanding and enhancing the efficiency of the transmission grid. The reconstruction of energy facilities involves the replacement of old equipment and the implementation of modern systems for relay protection, system automation, management, and data collection and transmission. Plans for the construction and reconstruction of facilities based on scientific research and studies are made for a 10-year period and updated on an annual basis.

By agreement of the Lithuanian, Latvian and Estonian electricity transmission system operators, a regional study on the overview of generation of electricity from renewable energy sources in the Baltic countries has been launched under the leadership of Litgrid.

Litgrid seeks to increase the efficiency of management of renewable energy sources (RES). In November, a feasibility study investigating the opportunities for a more efficient RES integration and management and for establishing new services for the market participants was completed. The Company is continuing to look into the possibilities of implementing an optimal RES administration model.

The TSOs of the three Baltic States are conducting, jointly with consultants, a feasibility study on the application of the flow-based method in the calculation of cross-border capacities in the Baltic States' electricity markets. The study aims at assessing the technical feasibility of applying this method, comparing the benefits provided by this method and its reliability with the methods and the reliability of the current methodologies for capacity calculation.

The Lithuanian and Polish TSOs are conducting a feasibility study on the installation of a second back-to-back converter for LitPol Link. The study involving scientists and consultants aims to assess the need for and the feasibility of increasing the power link's capacity from 500 MW to 1000 MW as well as the impact of such increase upon the market. It has been established that the payback of such converter can only be expected in 2040, i. e. on completion of synchronisation with the grids of Continental Europe.

Jointly with researchers from the Kaunas University of Technology, Litgrid conducted a study to analyse the technical means to limit the electricity flow from Astravas nuclear power plant (NPP) and to assess their impact on the power system‘s reliability and the market.

Customers of the transmission system operator

Litgrid’s direct customers are electricity transmission grid users and suppliers of balancing and regulating electricity.
Transmission grid users include:

- ESO, a distribution network operator;
- Customers whose electrical equipment is connected to the electricity transmission grid, purchasing electricity for use;
- Electricity producers connected to the electricity transmission grid.

Suppliers of balancing and regulating electricity include electricity producers and suppliers.

Personnel

As of 31 December 2016, Litgrid Group employed 685 people: Litgrid – 235 employees, Tetas – 421 employees, and Litgrid Power Link Service – 29 employees.

Litgrid’s wage fund in the reporting period amounted to EUR 5,516,000.

	Number of employees as of 31 December 2016	Average monthly pay, EUR
Specialists	228	1,753
Management	7	6,226
Total	**235**	**1,886**

Litgrid Group‘s wage fund in the reporting period amounted to EUR 10,665,000.

	Number of employees as of 31 December 2016	Average monthly pay, EUR
Workers	254	776
Specialists	419	1,548
Management	12	5,333
Total	**685**	**1,351**

Remuneration policy and performance evaluation

The goal of Litgrid’s remuneration policy is to contribute to the realisation of the mission and vision of the organisation that is being managed by modern and effective methods, to mobilise people for joint work and motivate them to implement the strategic priorities, to form and establish an attitude that employees are the company’s main asset, and to foster the corporate values of professionalism, cooperation, responsibility, initiative, and respect. Remuneration depends on the employee’s position, performance, achievement of individual annual goals, level of competencies, and adherence to the values of organisation. The remuneration policy is based on the principle that employees who create value added for the company and who work in accordance with corporate values are entitled to higher pay. The pay package consists of financial and non-financial elements: basic pay, variable part of pay, fringe benefits, and psychological reward.

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

Training

Litgrid enables its employees to develop their competences and qualifications by:
- Organising in-house training,
- Enriching the work content with new projects,
- Offering opportunities for working in unique projects,
- Participating in external training and conferences,
- Participating in the work of professional organisations.

Collective agreement

In June 2015, Litgrid concluded an updated collective agreement with the trade union operating in the company. The agreement stipulates a fair remuneration policy, balance between working and resting times, and social and economic relations between the employer and employee. It also contains provisions on support for employees at important/difficult moments in life.

Litgrid‘s corporate social responsibility

Litgrid follows the principles of social responsibility, sustainable development, transparency, and advanced environmental protection in its activities. The company's operations form an integral part of the successful functioning of the national economy, while its long-term strategic goals and the strategic electricity projects it is implementing help secure the country's energy independence.

The importance of the projects being implemented requires that the company, its employees and management apply the highest professional and ethical standards and seek to contribute to the development of the society's responsibility and involvement in the improvement of social welfare. Litgrid's social responsibility policy is focussed on the ensuring of fair and motivating working conditions, development of responsibility and civic qualities, and assisting the community in which the company carries out its activities.

We devote our energy and resources to contribute to the country's economic growth, to support communities in which we work, to provide working conditions that motivate and encourage personal development of our employees, and to protect nature which provides us with resources. We implement strategic projects of high value and historic significance, and we understand that big tasks mean great responsibility. Maintaining and encouraging a quality dialogue with the society for whom and among whom we work is a priority in Litgrid's daily operations.

Litgrid regularly informs the public about the risks related to high-voltage electricity transmission lines. Information materials on safety for people living and working near the lines are disseminated, on a periodic basis, in municipalities, wards, forestry districts, territorial labour exchanges, regional Sodra's offices, branches of the State Tax Inspectorate and Centre of Registers, and Litgrid's contractors: safe distance under the lines, action to be taken if electric wires are torn or fall onto a vehicle, safe distance for fishing in water bodies under the lines etc. In the spring of 2016 Litgrid presented an informational campaign of five videos on the subject of safe behaviour near electricity lines. The videos published on the Internet have reached the audience of 600,000 people.

Litgrid constantly reminds its contractors working on the high-voltage grid about the necessary to comply with the safety at work regulations. In the summer of 2016, Litgrid initiated survey on safety at work among its contractors as well a relevant discussion in the mass media. Safety at work was the subject of the Company's traditional meeting with its contractors in autumn: the Company presented the updated safety at work requirements and shared materials and practical advice on the development of a responsible approach toward safety at work.

Environmental protection

Procedures for environmental impact assessment or screening are carried out for the electricity transmission lines to be constructed and their conclusions are taken into account in the preparation of technical designs. Environmental protection requirements are set in the design specifications for the construction of new or reconstruction of existing transformer substations and switchyards. In all cases, efforts are made to select such equipment which is less harmful to the environment. For example, in reconstructing substations, oil-consuming equipment is replaced with modern gas equipment. This both reduces the risk of pollution in case of an accident and cuts equipment operating costs. Contractors are obliged to organise works so as to eliminate or reduce any impact on the environment and to present document proving the management of construction waste. In service procurement process, contractors are required to have the Environmental Management Systems according to LST EN ISO 14001 in place. When accepting completed works, contractors' compliance with the requirements is checked including waste management and relevant documentation.

In September, monitoring of environmental impact of LitPol Link started. First observations of accumulations of migrating geese, cranes and water birds were carried out in the areas adjacent to the power link. Environmental monitoring of another electricity transmission line (Telšiai – Klaipėda) is continued: accumulations of migrating birds are observed in the Minija River Valley at Dovilai, and density of predatory birds is being recorded in Mižuikai forest in Rietavas district.

In cooperation with Lithuanian Ornithological Society, Litgrid has launched a project "Implementation of Bird Protection Measures in the High-Voltage Electricity Transmission Grid". The objective of this project is to reduce the number of deaths of migrating birds, improve breeding conditions of kestrels in Lithuania, monitor bird death cases in the high-voltage electricity transmission network, and make recommendations for the bird protection. Electricity transmission lines are made more visible by equipping them with bird-diverting devices in places of the most intensive bird migration. In pre-migration white stork accumulation areas, specific protection devices are installed, such as 'forks' preventing the birds from alighting over insulators, or upper insulators in insulator strings are replaced with ones of larger diameter thus reducing the short-circuit probability. Special nesting-boxes are installed for kestrels on 110 kV supports in locations selected by the ornithologists.

In 2016, the company installed 4,617 wire visibility increasing facilities (7,366 since the launching of the project in 2015), 5,906 (10,308) bird protection facilities on the towers of high-voltage lines, and 291 (418) nesting-boxes for kestrels. This project is co-financed under the EU LIFE+ financial instrument for the environment and by the Ministry of Environment of the Republic of Lithuania.

ITC competences

Efficient information technology and communications (ITC) solutions are critically important in ensuring smooth and uninterrupted operations and form an integral part of the electricity system's planning and management as well as equipment control and servicing. Know-how in the automation of the power system control, pooled at Litgrid ITC Centre, ensure the continuity of the company's IT solutions, security control, and transparency of operations.

In 2016, a process data transmission network comprising all automatically-controlled facilities of Litgrid was implemented. The network both ensures cyber security and increases the reliability of the transmission network. Continuity of ITC activities is of utmost importance for the Company. A back-up data transmission line that ensures continuous operation of NordBalt converters' control systems and exchange of process data has been installed jointly with the Swedish TSO. To ensure functioning of critical information systems, Litgrid has implemented advanced IT recovery solutions.

Main features of the internal control and the risk management system related to the preparation of consolidated financial statements

Litgrid Group's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards as adopted by the EU. Litgrid's internal control process includes the control of business processes related to service provision, IT system operations, and drawing up of financial statements.

The drawing up of consolidated financial statements is governed by Litgrid's accounting policies and procedures, which ensures that accounting practices are in accordance with International Financial Reporting Standards as adopted by the EU and the laws of the Republic of Lithuania. The procedures identify potential risks associated with accounting and financial reporting and specify risk management methods and principles and the employees responsible for risk management.

II. Financial Information

Financial results of the Group and the Company are provided in the table below.

	January – December 2016		January – December 2015		January – December 2014	
	Group	**Company**	**Group**	**Company**	**Group**	**Company**
Financial indicators (EUR thousands)						
Income from electricity sales	143,215	143,215	82,985	82,985	104,238	104,238
Other operating income	23,840	8,114	17,043	2,085	15,465	1,759
EBITDA*	49,211	48,003	26,549	26,653	33,861	33,829
Profit (loss) before tax	19,794	18,883	1,646	3,677	(130,686)	(132,167)
Net profit (loss)	17,857	16,828	1,414	3,370	(111,599)	(112,849)
Cash flows from operations	23,243	22,483	43,315	41,019	7,345	15,585
Ratios						
EBITDA margin, %	29.5	31.7	26.5	31.3	28.3	31.9
Operating profit margin, %	12.7	13.3	2.2	4.9	-109.0	-124.5
Return on equity, %	7.0	6.6	0.6	1.4	-46.6	-47.0
Return on assets, %	3.9	3.7	0.3	0.7	-19.8	-21.3
Shareholder's equity / Assets, %	55.1	56.2	43.6	47.9	42.5	45.5
Financial liabilities / Equity, %	65.0	64.2	84.3	83.0	54.0	49.4
Liquidity ratio	0.79	0.74	0.49	0.29	1.00	0.99
TSO operating indicators						
Energy transmission volume, m kWh		9,729		9,220		9,334
Process costs in transmission network, %		2.90		1.96		1.92
ENS (Energy Not Supplied due to interruptions), MWh**		1.03		4.54		5.36
AIT (Average Interruption Time), min. **		0.04		0.22		0.25

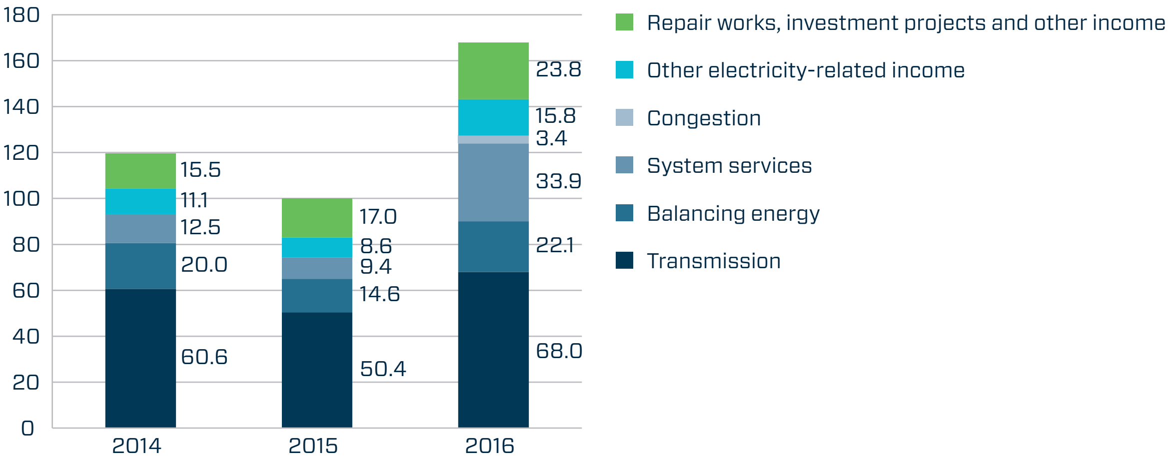
* EBITDA = operating profit + depreciation and amortisation + non-current asset and investment impairment + non-current asset write-off costs;

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

Income

In 2016, Litgrid's volumes of electricity transmission via high-voltage networks for national needs amounted to 9 729 million kilowatt-hours (kWh), which is 5.5 % more than in the same period of 2015. The volumes of transmission to customers of the electricity distribution operator amounted to 8 842 million kWh (+5.1 % compared to 2015), and to other customers 886 million kWh (+9.9 % compared to 2015).

Group's income structure, EUR millions



Litgrid Group's income for 2016 was EUR 167.1 million, a 67% increase compared to 2015.

Income from electricity transmission increased 35% (to EUR 68 million) compared to 2015. Income from electricity transmission accounted for 41% of total revenues of the Group. The increase has resulted from larger electricity transmission volumes and a 28% higher tariff rate set for the transmission service by the National Commission on Prices and Energy Control.

Income from balancing/regulating electricity increased 51% to EUR 22.1 million. The increase has largely resulted from the 56% growth in the balancing/regulating electricity sales volumes, which, in turn, was largely determined by securing the allocated capacity (i. e. the capacity traded on the electricity exchange) of the new power links with Sweden and Poland.

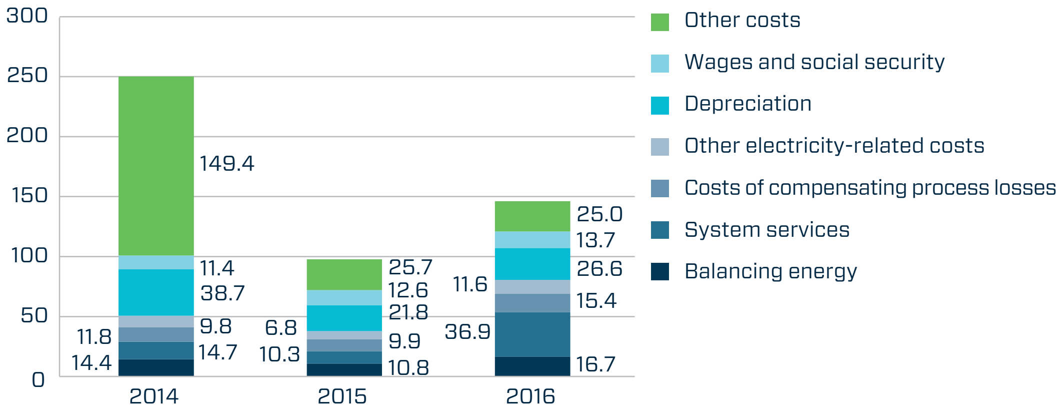
Income from system services grew 3.6 times to EUR 33.9 million. The main growth driver was the tariff for system services which had been increased 3.8 times by the National Commission on Energy Control and Prices from 1 January 2016. Starting from 1 August 2016 the tariff reduced by 23% is applied.

Upon putting the Lithuanian-Polish and the Lithuanian-Swedish power links into operation, Litgrid's revenues from congestion charges in 2016 were EUR 11.4 million (2015: EUR 0.5 million). Congestion charges result from insufficient cross-border capacities, due to which different market prices for electricity form in the Lithuanian, Swedish, Polish and Latvian bidding areas. According to Regulation of the European Parliament and of the Council (EC) No 714/2009 of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003, revenues resulting from the allocation of interconnection are to be used for the following purposes: (a) guaranteeing the actual availability of the allocated capacity; (b) maintaining or increasing interconnection capacities through network investments, in particular in new interconnectors; (c) If the revenues cannot be efficiently used for the purposes set out in points (a) and/or (b) of the first subparagraph, they may be used, subject to approval by the regulatory authorities of the Member States concerned, up to a maximum amount to be decided by those regulatory authorities, as income to be taken into account by the regulatory authorities when approving the methodology for calculating network tariffs and/or fixing net work tariffs. Litgrid has recognised, in accordance with the Regulation, EUR 3.4 million as income, i. e. part of the congestion revenues that were used for ensuring the allocated capacity of the power links. The remaining revenues are carried in the “Future Period Income” line of the Statement of Financial Position.

Other income related to transmission operations include: the ITC transit income (Inter-Transmission Operator Compensation Mechanism, i.e. payment for electricity imported from or exported to countries other than the EU) – EUR 4.5 million; PSO income – EUR 7.1 million; reactive energy income – EUR 1.5 million; connection of new customers – EUR 2.7 million. Income from services provided by Tetas, a subsidiary of Litgrid, account for the largest part of income from repair works, investment projects etc.

Costs

Group’s cost structure, EUR millions



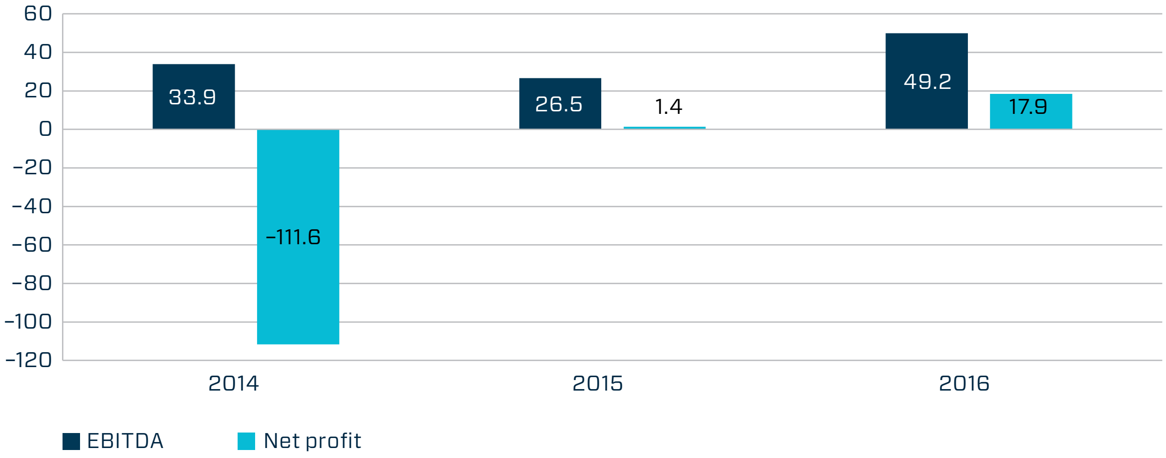
The Group’s costs totalled EUR 145.9 million in 2016, which is 49% more compared to the same period of 2015. The marked increase in costs has been mainly determined by the putting of the new power links into operation.

Costs of purchase of electricity and related services account for more than one half of the Group’s costs: EUR 80.6 million or 55% of total costs. These costs more than doubled compared with 2015. Balancing (regulating) electricity costs increased 54% (to EUR 16.7 million). The system service costs increased 3.6 times to EUR 36.9 million, costs of compensating for process losses in the transmission grid increased 56% to EUR 15.4 million. Transit (ITC) costs were EUR 1.2 million, PSO provision costs EUR 7 million, and costs of ensuring the allocated capacity of the Swedish and Polish links EUR 3.4 million.

Due to putting new assets into operation at the end of 2015, depreciation and amortisation costs increased 22% to EUR 26.6 million compared to 2015.

Profit

Litgrid Group‘s EBITDA and net profit, EUR million

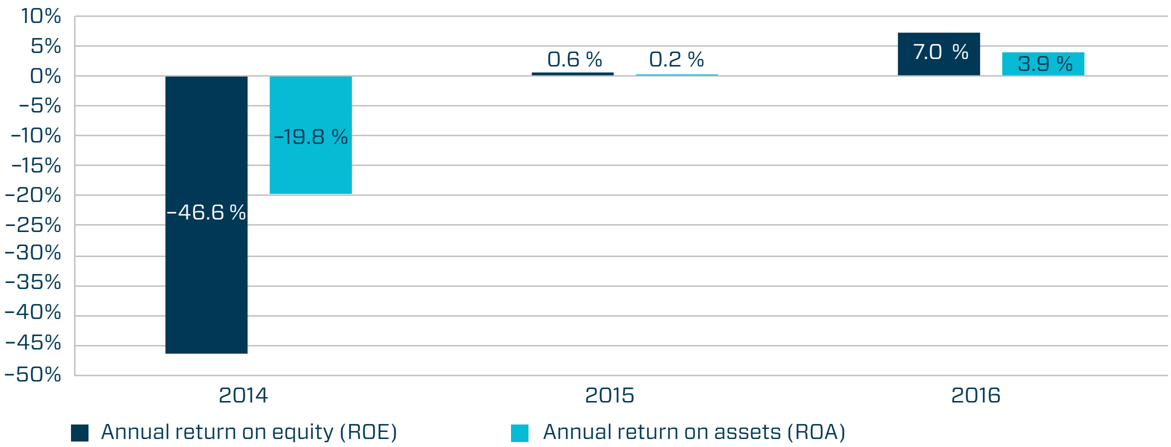


The Group’s EBITDA for 2016 amounted to EUR 49.2 million. Compared to 2015, the EBITDA increased by EUR 22.7 million, or 85%; the EBITDA margin decreased to 29.5% (2015: 26.5%). The increase in the EBITDA and net profit was mainly determined by the growth in the transmission service volumes and other income (penalties).

The Group’s net profit for 2016 was EUR 17.9 million (2015: EUR 1.4 million).

The Group’s operating profit for 2016 consists of: profit of the transmission segment EUR 18.5 million (2015: EUR 1.3 million profit), loss in the system services segment EUR 3.4 million (2015: EUR 1.3 million loss), profit in the balancing (regulating) electricity segment EUR 5.1 million (2015: 4.2 million profit), profit from other activities EUR 0.7 million (2015: EUR 2 million loss).

Litgrid Group‘s return indicators, %



In 2016, there has been an increase in the annual ROE and ROA ratios compared to the same period of 2015: from 0.6% to 7% and from 0.3% to 3.9%, respectively. In 2014 property plant and equipment revaluation had the biggest impact on ratios.

Balance sheet and cash flows

As of 31 December 2016, assets of the Group amounted to EUR 462.4 million. Non-current assets accounted for 87.2% of total assets of the Group. Shareholders' equity accounted for 55.1% of total assets.

As of 31 December 2016, the Group' s financial liabilities to credit institutions were EUR 165.5 million (- EUR 37.9 million over 2016). The ratio between financial liabilities and equity was 65 %. Long-term financial debts payable within one year accounted for 29.6% of all financial debts. Cash and cash equivalents totalled EUR 0.8 million and the unused overdraft was EUR 34.8 million.

The Group's net cash flows from operations in 2016 amounted to EUR 23.2 million, while payments for non-current tangible and intangible assets were EUR 55.7 million; EUR 68.6 million were received as subsidies.

The Group's net cash flows (excluding cash flows from financial activities) in 2016 totalled EUR 44.2 million.

Investments in non-current assets

In 2016, investments of Litgrid (works performed and assets acquired irrespective of terms of payment) amounted to EUR 36.7 million. 50% of these investments were earmarked for the implementation of strategic energy projects, and 50% for the reconstruction and development of the electricity transmission grid.

TSO performance indicators

Based on the requirements for the electricity transmission reliability and service quality approved by the National Commission for Prices and Energy Control, two indicators are used to measure the electricity transmission reliability level: END (Energy not delivered due to interruptions) and AIT (Average Interruption Time). The indicators set for Litgrid for 2016 were as follows: END 6.3 MWh and AIT 0.29 min. The actual results for 2016: END 1.03 MWh and AIT 0.04 min.

References and explanations about information in the consolidated financial statements

Detailed explanations about financial information are provided in the Explanatory Notes to the financial statements for 2016.

Dividend policy

The Government of the Republic of Lithuania, which indirectly (through EPSO-G) controls 97.5% of Litgrid shares, has established the principles for the allocation of dividends for shares owned by the State in its Resolution No. 20 of 14 January 1997 (revised text: Resolution No. 359 of 4 April 2012). The general meeting of shareholders of Litgrid held on 26 April 2016 declared dividend of EUR 4.6 million, or EUR 0.0091 per share.

Risks and risk management

Political, regulatory and compliance risks

The power sector is a vitally important part of the economy, with a considerable influence over political and economic interests. The structure and management of the power sector and the operation of the companies in the energy sector are governed by the Law on Electricity of the Republic of Lithuania and the relevant regulations. Any amendments to national or European Union energy legislation can have an impact on the results of Litgrid Group. In order to reduce the impact of the risk on the performance results, the Company's representatives actively participate in discussions, inform about decisions that have to be taken and / or submit proposals to institutions that draft legal acts. The company also responds effectively to any issues raised by the public, regulatory authorities or other stakeholders regarding the Company's activities.

Prices for electricity are regulated, with the price ceilings set by the National Commission for Energy Control and Prices. The operating results of Litgrid are directly dependent on these decisions. These decisions by the regulator directly affect not only Litgrid's performance results but also funds that the Company allocates to cover the operating costs, investments that maintain the reliability of the transmission grid, as well as opportunities for financing strategic projects from the Company's own or borrowed funds. In order to reduce the impact of regulatory risks on performance results, the Company actively cooperates with the Commission and participates in discussions on projected amendments to legal acts, with its argumentation based on the impact of the decisions and long-term strategic objectives of the Company.

To reduce the compliance risk, i. e. the probability that the Company will be in breach of the requirements set for the regulated activities, the Company's legal team carefully supervises the decision-making process, drafting of internal legal acts, and setting of contractual obligations.

Operating risk

Ensuring the reliability of electricity transmission and preventing disruptions of energy supply is one of the main functions and responsibilities of the Company. Main operational risks that could affect the reliability of the transmission are caused by external environmental factors: natural disasters, disruptions in the operations of main contractors, criminal acts of third parties, as well as internal factors such as information systems' failures. The Company has implemented solutions which meet the requirements of physical and information technology security set for enterprises that have strategic or important role for national security, and modern information systems.

Emergency response plans that ensure business continuity are prepared and kept up to date. In order to avoid potential delays in grid reconstruction and development projects, Litgrid has a project management system in place. Up-to-date and highly selective requirements for qualifications of contractors ensure that they are able to implement complex projects.

The company endeavours to attract and retain highly-qualified employees that are able to implement ambitious operational and strategic plans. For that purpose, educational and substitutability plans are being developed and the remuneration and motivation policies have been updated.

Financial risk

Companies of Litgrid Group encounter financial risks in their operations including credit risk, liquidity risk and market risk (currency exchange risk and interest rate risk). In managing this risk, the Group's companies seek to minimise the effects of factors that can have an adverse impact on financial results of the Group. The Company has a significant concentration of credit risk. The Company requires its customers/third parties to provide adequate securities to ensure the execution of contracts (measures are applied according to the customers/third party's risk rating).

Technological risk

Lithuania's energy system has 15 interconnections with the neighbouring energy systems. The available means for power and energy balance control are limited, whereas the power and energy balance control process is complex.

Litgrid Power Link Service, a subsidiary of Litgrid employing highly qualified specialists was formed to ensure a reliable operation of the new high-voltage direct current power links. The employed of the company have acquired their specialist skills and knowledge on the operation and repairs of the power links at training courses provided by the links' equipment manufacturers as well as by participating in the testing of the relevant equipment, systems and links and the analyses of the causes of disconnection of the links during the trial operation.

More than one half of the high-voltage electricity transmission grid equipment is older than 45 years. Faults and failures of the most important process equipment can have a negative impact on Litgrid's operations and financial results. In order to avoid disruptions in the power supply, Litgrid monitors the condition of the transmission network, develops monitoring plans and plans new investments in the network in due time. Investments in equipment and materials has a direct impact on financial results. The Company ranks investments in the network based on objective criteria and applying a specific evaluation methodology with the aim to optimise investments and ensure a smooth investment process.

Environmental risks

Companies of the Group comply with the environmental regulations on appropriate labelling, use and storage of hazardous materials and ensures that equipment operated by the companies meets the established requirements. At facilities that pose an increased risk to the environment due to pollutants or waste, work is organised according to the conditions set out in the Integrated Pollution Prevention and Control Permits issued by regional environmental protection departments.

III. Information about Share Capital and Shareholders

Litgrid has not acquired any of its own shares and has not made any acquisitions or disposals of own shares during the reporting period. Subsidiaries of the Company have not acquired shares of the Company.

Since 22 December 2010, Litgrid's shares are on the Baltic Secondary List at the NASDAQ OMX Vilnius exchange, ISIN code LT0000128415.

Litgrid's authorised capital is EUR 146,256,100.2, divided into 504,331,380 ordinary registered shares of EUR 0.29 par value per share. Number of shares to which voting rights are attached: 504,331,380.

As of 22 July 2016, the company had 5,540 (five thousand five hundred and forty) shareholders. 97.5% of Litgrid shares are controlled by EPSO-G UAB (A. Juozapavičiaus 13, LT-09310 Vilnius, business ID 302826889) wholly-owned by the Ministry of Energy. In accordance with the provisions of the European Union's Third Energy Package, Litgrid as the transmission system operator was separated from the other companies in the power sector on 28 September 2012.

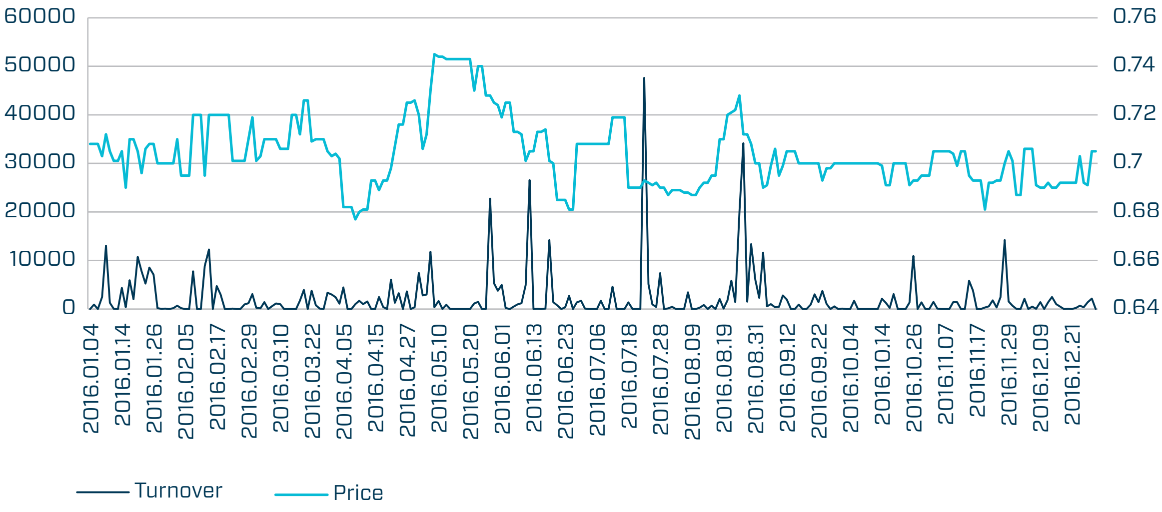
Swedbank AB is the provider of services of accounting for Litgrid's securities and the related services in the period from 1 February 2016 until 31 January 2019.

Securities of subsidiaries of the Company are not traded on any securities exchange.

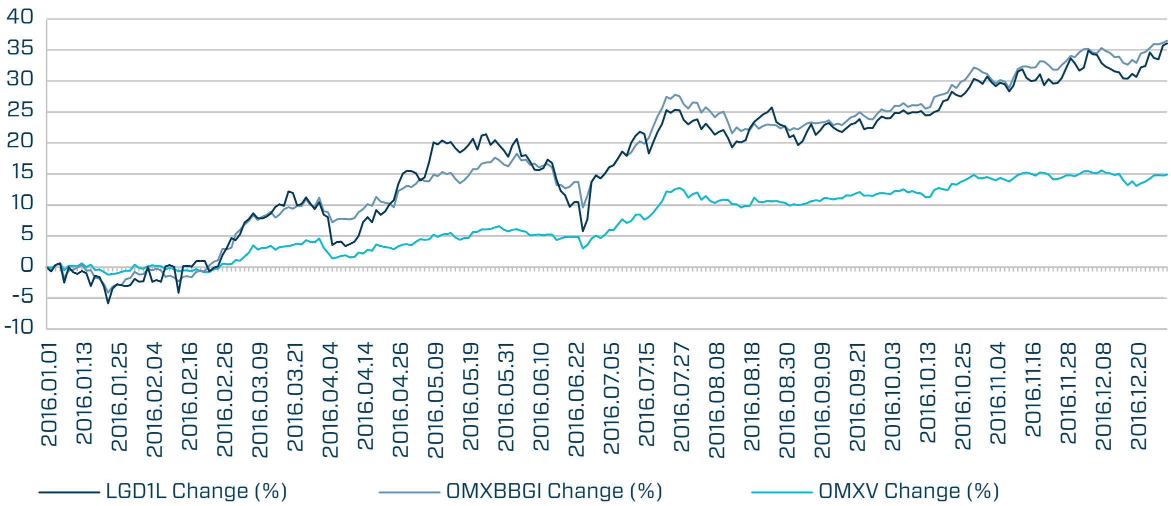
Trading in Litgrid securities in regulated markets:

Indicator	2014	2015	2016
Opening price, EUR	0.593	0.698	0.708
Highest price, EUR	0.750	0.740	0.745
Lowest price, EUR	0.582	0.550	0.676
Closing price, EUR	0.664	0.708	0.705
Turnover, pcs	1,176,548	656,613	788,916
Turnover, MEUR	0.80	0.45 EUR	0.56 EUR
Capitalisation, MEUR	334.88	357.07 EUR	355.55 EUR

Turnover and prices of Litgrid shares, EUR:



Comparison of the price of Litgrid shares (LGD1L) with the OMX Baltic Benchmark GI (OMXBBGI) and OMX Vilnius (OMXV) indexes during the reporting period:



Articles of Association

The Articles of Association of Litgrid may be amended according to the procedure prescribed by the Republic of Lithuania Law on Companies. Adoption of an amendment requires a two-third majority vote of the shareholders attending the general meeting of shareholders.

On 26 April 2016 the general meeting of shareholders of Litgrid approved a new version of the Articles of Association of the Company. The Articles of Association were registered on 16 May 2016.

The General Meeting of Shareholders

The general meeting of shareholders is the supreme management body of the Company.

The remit of the general meeting of shareholders and the procedures for its convention and decision-adoption are prescribed by the laws, other legal acts and the Articles of Association.

The Board

The Board consists of five members and is elected for a four-year term of office. The term of the Board starts after the end of the general meeting of shareholders at which the Board was elected and ends on the date of the ordinary general meeting of shareholders held in the last year of the Board's term.

Where the Board or a Board Member is recalled, resigns or ceases to perform its duties for any other reason, a new Board/Board Member is elected for the remainder of the Board's term. The structure of the Board must be as follows: two members – representatives of top management of the parent company (EPSO-G), two members – representatives of top management of Litgrid, and one independent member.

The Board elects the Chairperson from among its members.

The Board works in accordance with the laws and other legal acts, the Articles of Association, decisions of the general meeting of shareholders and Work Regulations of the Board.

The Board is a collegiate management body of the Company. The remit of the Board and the procedures for adoption of decisions and electing and recalling of its members are prescribed by the laws, other legal acts and the Articles of Association. The Board reports to the general meeting of shareholders.

Areas of activities of the Board

The Board considers and approves the Company's strategy, a three-year action plan of the Company, a ten-year transmission grid development plan, the budget of the Company, the procedure for granting support and charity, and other documents governing strategic operations of the Company. The Board decides on the Company's undertaking of new types of activities or ceasing to carry out certain activities to the extent that this does not contradict the object of the Company's operations. It also makes decisions on the issue of bonds, restructuring of the Company, transfer of the Company's shares to other persons, and financial transactions exceeding EUR 3 million in value. The Board also decides other matters within its remit as stated in the Articles of Association.

Areas of activities of the Chief Executive Officer

The Chief Executive Officer (CEO) is the single-handed management body of the Company. The CEO organises and directs the Company's activities, acts on behalf of the Company, and concludes transactions at his/her sole discretion. The remit of the CEO as well as the procedure for the CEO's election and recall is prescribed by laws, other legal acts and the Articles of Association.

Members of the Supervisory Council, the Audit Committee and the Board, CEO, and Chief Financial Officer of Litgrid:

Position	Name and surname	Start date	End date	Number of the issuer's shares held
Supervisory Council				
Chairperson	Aleksandras Spruogis	2013 04 24	2016 04 26	-
Member	Audrius Misevičius	2013 04 24	2016 04 26	-
Independent Member	Mindaugas Vaičiulis	2014 04 07	2015 04 24	-
Member	Rolandas Zukas	2015 04 24	2016 04 26	-
Audit Committee				
Member	Aušra Pranckaitytė	2014 02 24	2016 04 26	-
Member	Rima Kvietkauskaitė	2014 02 24	2016 04 26	-
Member	Ana Tursienė	2014 02 24	2016 04 26	-
EPSO-G Group Audit Committee				
Member	Rimantas Rapkevičius	2016 09 12		-
Member	Audrius Misevičius	2016 09 12	2017 01 17	-
Member	Gediminas Šiušas	2016 09 12		-
Board				
Chairperson	Rimvydas Štilinis	2016 07 29		-
Member	Daivis Virbickas	2013 09 10	2016 07 29	-
		2016 07 29		-
Member	Vidmantas Grušas	2013 09 10	2016 07 29	-
		2016 07 29		-
Member	Nemunas Biknius	2016 07 29		-
Member	Domas Sidaravičius	2016 07 29		-
Member	Karolis Sankovski	2013 09 10	2016 07 29	-
Member	Rimantas Busila	2013 09 10	2016 07 29	1,421
Member	Rolandas Masilevičius	2013 12 18	2016 05 09	-
Chief Executive Officer	Daivis Virbickas	2013 09 10		-
Chief Financier	Jūratė Vyšniauskienė	2015 10 19	2017 02 09	-
Acting Chief Financier	Raimonda Duobuvienė	2017 02 10		

Members of the Board of Litgrid

Rimvydas Štilinis, Chairperson of the Board
Born in 1978. Mr Rimvydas Štilinis holds a Master's Degree in Electrical Engineering from Kaunas University of Technology (KTU). In 2002-2014 he worked for Lietuvos Energija UAB: in 2008-2014 as the Head of the Nuclear Energy Department, the Construction and Infrastructure Department, and the Centre for Infrastructure Competences. In 2014-2015 he worked as the CEO of VAE SPB UAB. Mr R. Štilinis is Director for Infrastructure at EPSO-G, the parent company of Litgrid controlling 97.8 % of its shares, and Member of the Board of Amber Grid, Lithuania's gas transmission network operator.

Daivis Virbickas, Member of the Board
Born in 1978. Responsible for strategic management and the power system control. He has experience of many years in the development and management of long-term strategies for power transmission system development, analysis of electricity markets, and corporate governance. Until 2013: Director of Commerce at Alpiq Energija Lietuva representing Alpiq AG, a Swiss holding company, in the Baltic States. Until 2011: Technical Director at Litgrid.

Mr Virbickas holds a Master's Degree in Energy Systems Management from Kaunas University of Technology (KTU) (graduated in 2002), a Bachelor's Degree in Business Management from KTU and the Corporate Governance Certificate (2008) from Baltic Management Institute and IMD Business School (Switzerland).

Vidmantas Grušas, Member of the Board
Born in 1962. Responsible for the management of electricity transmission grid. He has vast experience in the operation of high voltage electricity transmission grid equipment, development of grid facilities and dispatch control of the power system.

Mr Grušas holds a diploma in Managing Energy Business (2009) from Scandinavian International Management Institute in Denmark. In 1985 he graduated from Riga University of Technology with the Energy Engineering qualifications.

Nemunas Biknius, Member of the Board
Born in 1978. Mr Nemunas Biknius holds a Master's Degree in Energy and Thermal Engineering from Vilnius Gediminas Technical University. He has worked in the Ministry of the Economy and the Ministry of Energy, was the Member of the Board and the Director of Service and Development Division of Lietuvos Dujos AB. Mr N. Biknius is the Chairman of the Board of Amber Grid, Lithuania's gas transmission network operator, Member of the Board of Baltpool energy resources exchange, and Director for Strategy and Development at EPSO-G.

Domas Sidaravičius, Independent Member of the Board
Born in 1975. Mr D. Sidaravičius holds a Bachelor's Degree in Business Administration and Management and a Master's Degree in International Trade at Vilnius University. He has many years' experience of work in financial, insurance and business risk management areas. Member of the Board and CEO of ERGO Invest SIA (Latvia) since March 2016.

EUR 13,000 were paid in 2016 for the members of the Board, who, based on a decision of a general meeting of shareholders held in 29 July 2016, are remunerated for their work on the Board.

Information about major related party transactions and their amounts, type of relations between the related parties and other information required for the understanding of the Company's financial position is provided in the Explanatory Notes to the Financial Statements, Note 9.

Transparency

The Company complies with all the main provisions of Sections IV-VIII of the Transparency Guidelines except that:

- the Company does not publish information on salaries of members of management and employees;
- the Company does not have the practice of publishing the average monthly pay by corporate divisions.

Notices of material events published by Litgrid from the start of the year until 07 March 2017:

Date	Notice
2016 01 08	Convention of an extraordinary meeting of shareholders of Litgrid
2016 01 28	Decisions adopted at the extraordinary meeting of shareholders of Litgrid on 28 January 2016
2016 02 05	Baltpool shares sale and purchase agreement concluded by Litgrid and EPSO-G
2016 02 26	Financial results of Litgrid Group for 12 months of 2015 published
2016 04 04	Convention of a general meeting of shareholders of Litgrid
2016 04 26	Decisions adopted at the general meeting of shareholders of Litgrid on 26 April 2016
2016 04 26	Consolidated Annual Report and Financial Report of Litgrid for 2015
2016 04 27	Report by Daivis Virbickas, CEO of Litgrid, at the annual report event
2016 05 09	Litgrid‘s dividend payment procedure for 2015
2016 05 09	Information on a notice of resignation
2016 05 16	Registration of amended Articles of Association of Litgrid AB
2016 05 27	Results of Litgrid Group as of the beginning of the year: growth in revenues and net profit
2016 07 08	Convention of an extraordinary meeting of shareholders of Litgrid
2016 07 29	Decisions adopted at the extraordinary meeting of shareholders of Litgrid on 29 July 2016
2016 08 25	Growth in net profit of Litgrid Group
2016 09 05	Rimvydas Štilinis elected Chairperson of the Board of Litgrid
2016 09 30	The Commission on Prices approved the price ceiling for the electricity transmission services
2016 10 28	The Commission on Prices published prices for the electricity transmission services
2016 11 25	Grid Reliability Underpinning Growth in Litgrid Group‘s Income
2017 02 23	Litgrid CEO Daivis Virbickas: We are focusing on sustainable long-term results
2017 03 07	EPSO-G group’s strategy : strategic projects, regional development and efficiency

Detailed information on all material events published in 2016 is provided on the website of the Vilnius Securities Exchange http://www.nasdaqomxbaltic.com/market/?pg=news&issuer=LGD&start_d=1&start_m=1&start_y=1996 and on Litgrid’s website http://www.litgrid.eu/index.php/apie-litgrid/investuotojams/esminiai-ivykiai-/478.

FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

(All amounts are in EUR thousands unless otherwise stated)

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

	Notes	Group		Company	
		At 31 Dec 2016	At 31 Dec 2015	At 31 Dec 2016	At 31 Dec 2015
ASSETS			(restated)		(restated)
Non-current assets					
Intangible assets	5	1,491	876	1,486	870
Property, plant and equipment	6	398,433	409,148	397,542	408,262
Prepayments for property, plant, equipment		727	56,298	727	56,298
Investments in subsidiaries	7	-	-	4,089	4,089
Investments in associates and joint ventures	7	-	720	-	752
Deferred income tax assets	22	66	63	-	-
Available-for-sale financial assets	8	2,693	2,273	2,693	2,273
Total non-current assets		**403,410**	**469,378**	**406,537**	**472,544**
Current assets					
Inventories	9	3,910	2,518	125	1,157
Prepayments		274	240	122	203
Trade receivables	10	19,041	12,918	14,552	8,720
Other amounts receivable	11	24,916	20,277	24,593	22,318
Prepaid income tax		3	1,457	-	1,435
Other financial assets	12	10,012	2,574	10,012	2,574
Cash and cash equivalents	13	798	791	608	483
Total current assets		**58,954**	**40,775**	**50,012**	**36,890**
Assets of the disposal group classified as held for sale	1,30	-	43,726	-	325
TOTAL ASSETS		**462,364**	**553,879**	**456,549**	**509,759**
EQUITY AND LIABILITIES					
Equity					
Authorised share capital	14	146,256	146,256	146,256	146,256
Share premium	14	8,579	8,579	8,579	8,579
Revaluation reserve	15	5,608	6,228	5,533	6,138
Reserve of changes in fair value of financial assets	16	655	298	655	298
Legal reserve	16	14,726	14,606	14,626	14,606
Other reserves	16	62,747	62,747	62,747	62,747
Retained earnings (deficit)		16,234	2,476	18,175	5,351
Equity attributable to owners of the Parent		**254,805**	**241,190**	**256,571**	**243,975**
Non-controlling interest		-	133	-	-
Total equity		**254,805**	**241,323**	**256,571**	**243,975**
Liabilities					
Non-current liabilities					
Grants	18	38	3,870	38	3,870
Non-current borrowings	19	116,435	124,518	116,435	124,518
Deferred income tax liability	22	8,216	10,356	8,216	10,356
Deferred revenue	20	7,966	-	7,966	-
Other non-current amounts payable and liabilities	21	152	203	81	151
Total non-current liabilities		**132,807**	**138,947**	**132,736**	**138,895**
Current liabilities					
Current portion of non-current borrowings	19	8,082	8,082	8,082	8,082
Current borrowings	19	40,986	70,838	40,171	69,842
Trade payables	23	13,857	28,068	8,376	25,301
Advance amounts received	24	869	2,014	869	2,014
Income tax liability		1,360	4	1,360	-
Other current amounts payable and liabilities	25	9,598	23,160	8,384	21,650
Total current liabilities		**74,752**	**132,166**	**67,242**	**126,889**
Total liabilities		**207,559**	**271,113**	**199,978**	**265,784**
Liabilities of the disposal group classified as held for sale	1,30	-	41,443	-	-
TOTAL EQUITY AND LIABILITIES		**462,364**	**553,879**	**456,549**	**509,759**

STATEMENTS OF COMPREHENSIVE INCOME FOR 2016

(All amounts are in EUR thousands unless otherwise stated)

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

	Notes	Group		Company	
		2016	2015	2016	2015
Continuing operations:			(restated)		(restated)
Revenue					
Revenue from electricity transmission and related services	26	143,215	82,985	143,215	82,985
Other income	28	23,840	17,043	8,114	2,085
Total revenue		**167,055**	**100,028**	**151,329**	**85,070**
EXPENSES					
Expenses of electricity transmission and related services	26	(80,615)	(37,793)	(80,615)	(37,793)
Depreciation and amortisation	5,6	(26,616)	(21,774)	(26,394)	(21,511)
Wages and salaries and related expenses		(13,680)	(12,559)	(7,286)	(6,685)
Repair and maintenance expenses		(4,219)	(4,213)	(6,357)	(6,031)
Telecommunications and IT maintenance expenses		(3,098)	(3,396)	(2,951)	(3,283)
Expenses of property, plant and equipment write-off		(912)	(2,232)	(911)	(2,214)
Impairment of inventories and amounts receivable		(90)	710	(90)	699
Impairment of property, plant and equipment	4	(502)	-	(502)	-
Impairment of investments		-	(343)	-	1,245
Other expenses		(16,142)	(16,228)	(6,027)	(5,324)
Total expenses	27	**(145,874)**	**(97,828)**	**(131,133)**	**(80,897)**
OPERATING PROFIT/(LOSS)		**21,181**	**2,200**	**20,196**	**4,173**
Financing activities					
Finance income		106	287	201	287
Finance costs		(1,525)	(816)	(1,514)	(783)
Total finance costs		**(1,419)**	**(529)**	**(1,313)**	**(496)**
Share of profit/(loss) of associates and joint ventures	7	32	(25)	-	-
Profit/(loss) before income tax		**19,794**	**1,646**	**18,883**	**3,677**
INCOME TAX					
Current year income tax expenses	22	(4,274)	(1,685)	(4,258)	(1,673)
Deferred income tax (expenses)/income	22	2,208	1,339	2,203	1,366
Total income tax		**(2,066)**	**(346)**	**(2,055)**	**(307)**
Profit/(loss) for the year from continuing operations		**17,728**	**1,300**	**16,828**	**3,370**
Profit/(loss) for the year from discontinued operations					
Profit for the year from operations being discontinued	31	97	-	-	-
Profit for the year from discontinued operations		32	114	-	-
Profit/(loss) for the year		**17,857**	**1,414**	**16,828**	**3,370**
Other comprehensive income that will not be reclassified to profit or loss					
Change in fair value of financial assets		420	350	420	350
Effect of deferred income tax		(63)	(52)	(63)	(52)
Total other comprehensive income that will not be reclassified to profit or loss		**357**	**298**	**357**	**298**
Total comprehensive income/(expenses) for the year		**18,214**	**1,712**	**17,185**	**3,668**
Profit/(loss) for the year attributable to:					
Owners of the Parent		17,847	1,376	16,828	3,370
Non-controlling interest		10	38	-	-
		17,857	**1,414**	**16,828**	**3,370**
Total comprehensive income/(expenses) for the year attributable to:					
Owners of the Parent		18,204	1,674	17,185	3,668
Non-controlling interest		10	38	-	-
		18,214	**1,712**	**17,185**	**3,668**
Basic and diluted earnings/(deficit) per share (in EUR)	30	**0.035**	**0.003**	**0.033**	**0.007**

STATEMENTS OF CHANGES IN EQUITY FOR 2016

(All amounts are in EUR thousands unless otherwise stated)

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

Group		Attributable to owners of the Group									
		Share capital	Share premium	Revaluation reserve	Reserve of changes in fair value of financial assets	Legal reserve	Other reserves	Retained earnings	Interim amount	Non-controlling interest	Total
Balance at 1 January 2015		**146,064**	**8,579**	**6,840**	**-**	**14,609**	**171,355**	**(107,931)**	**239,516**	**57**	**239,573**
Comprehensive income/ (expenses) for the year		-	-	-	298	-	-	1,797	2,095	38	2,133
Depreciation of revaluation reserve and amounts written off	15	-	-	(612)	-	-	-	612	-	-	-
Transfer to retained earnings	16	-	-	-	-	(3)	(108,608)	108,611	-	-	-
Conversion of authorised share capital to the euro	14	192	-	-	-	-	-	(192)	-	-	-
Change in interest in the subsidiary		-	-	-	-	-	-	-	-	38	38
Balance at 31 December 2015		**146,256**	**8,579**	**6,228**	**298**	**14,606**	**62,747**	**2,897**	**241,611**	**133**	**241,744**
Change in accounting policies		-	-	-	-	-	-	**(421)**	(421)	-	(421)
Balance at 31 December 2015 (restated)		**146,256**	**8,579**	**6,228**	**298**	**14,606**	**62,747**	**2,476**	**241,190**	**133**	**241,323**
Balance at 1 January 2016		**146,256**	**8,579**	**6,228**	**298**	**14,606**	**62,747**	**2,476**	**241,190**	**133**	**241,323**
Comprehensive income/ (expenses) for the year		-	-	-	357	-	-	17,847	18,204	10	18,214
Depreciation of revaluation reserve and amounts written off	15	-	-	(620)	-	-	-	620	-	-	-
Transfer to reserves	16	-	-	-	-	120	-	(120)	-	-	-
Dividends	17	-	-	-	-	-	-	(4,589)	(4,589)	-	(4,589)
Change in interest in the subsidiary		-	-	-	-	-	-	-	-	(143)	(143)
Balance at 31 December 2016		**146,256**	**8,579**	**5,608**	**655**	**14,726**	**62,747**	**16,234**	**254,805**	**-**	**254,805**

Company		Share capital	Share premium	Revaluation reserve	Reserve of changes in fair value of financial assets	Legal reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2015		**146,064**	**8,579**	**6,739**	**-**	**14,606**	**171,355**	(107,036)	240,307
Comprehensive income/ (expenses) for the year		-	-	-	**298**	-	-	3,791	4,089
Depreciation of revaluation reserve and amounts written off	15	-	-	**(601)**	-	-	-	601	-
Transfer to retained earnings	16	-	-	-	-	-	**(108,608)**	108,608	-
Conversion of authorised share capital to the euro	14	**192**	-	-	-	-	-	(192)	-
Balance at 31 December 2015		**146,256**	**8,579**	**6,138**	**298**	**14,606**	**62,747**	**5,772**	**244,396**
Change in accounting policies		-	-	-	-	-	-	(421)	(421)
Balance at 31 December 2015 (restated)		**146,256**	**8,579**	**6,138**	**298**	**14,606**	**62,747**	**5,351**	**243,975**
Balance at 1 January 2016		**146,256**	**8,579**	**6,138**	**298**	**14,606**	**62,747**	**5,351**	243,975
Comprehensive income/ (expenses) for the year		-	-	-	357	-	-	16,828	17,185
Depreciation of revaluation reserve and amounts written off	15	-	-	(605)	-	-	-	605	-
Transfer to reserves	16	-	-	-	-	20	-	(20)	-
Dividends	17	-	-	-	-	-	-	(4,589)	(4,589)
Balance at 31 December 2016		**146,256**	**8,579**	**5,533**	**655**	**14,626**	**62,747**	**18,175**	**256,571**

STATEMENTS OF CASH FLOWS FOR 2016

(All amounts are in EUR thousands unless otherwise stated)

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

	Notes	Group		Company	
		2016	2015	2016	2015
Cash flows from operating activities			(adjusted)		(adjusted)
Profit/(loss) for the year		17,857	1,414	16,828	3,370
Adjustments for non-cash items and other adjustments:					
Depreciation and amortisation expenses	5,6	26,616	21,774	26,394	21,511
(Reversal of)/impairment of assets		592	(356)	592	(1,944)
Loss on disposal of financial assets		-	62	-	62
Share of profit of associates and joint ventures	7	(32)	25	-	-
Income tax expenses	22	2,066	346	2,055	307
(Gain)/loss on disposal/write-off of property, plant and equipment		912	2,212	911	2,214
Elimination of results of financing and investing activities:					
Interest income		-	(17)	-	(17)
Interest expenses		1,482	1,530	1,471	1,499
Dividend income		(59)	(122)	(91)	(122)
Other finance (income)/costs		(101)	79	(67)	79
Changes in working capital:					
(Increase) decrease in trade receivables and other amounts receivable		(5,791)	1,978	(5,787)	279
(Increase) decrease in inventories, prepayments and other current assets		(2,183)	1,172	355	180
Increase (decrease) in amounts payable, grants, deferred income and advance amounts received		(9,961)	15,956	(12,029)	16,338
Changes in other financial assets		(6,686)	(823)	(6,686)	(823)
Income tax (paid)		(1,469)	(1,915)	(1,463)	(1,914)
Net cash generated from (used in) operating activities		**23,243**	**43,315**	**22,483**	**41,019**
Net cash generated from (used in) operating activities of the discontinued operations		**4,623**	**(13,315)**	**-**	**-**
Cash flows from investing activities					
(Purchase) of property, plant and equipment and intangible assets		(55,657)	(212,833)	(55,423)	(212,647)
Congestion revenue received	20	7,966	495	7,966	495
Grants received	18	68,592	47,373	68,592	47,373
Additional investments in subsidiaries	6	-	-	-	(78)
Disposal of subsidiaries (associates)	6	-	-	388	-
Proceeds from redemption of held-to-maturity investments		-	15,929	-	15,929
Interest received		4	94	4	94
Dividends received		59	122	91	122
Other cash flows from investing activities		-	126	-	126
Net cash generated from (used in) investing activities		**20,964**	**(148,694)**	**21,618**	**(148,586)**
Net cash generated from (used in) investing activities of the discontinued operations		**-**	**(16)**	**-**	**-**
Cash flows from financing activities					
Proceeds from borrowings		40,000	65,000	40,000	65,000
Repayments of borrowings		(48,083)	(51,200)	(48,083)	(51,200)
Overdraft		(29,852)	68,098	(29,671)	69,842
Interest paid		(1,639)	(613)	(1,628)	(582)
Dividends paid		(4,594)	(13)	(4,594)	(13)
Net cash generated from (used in) financing activities		**(44,168)**	**81,272**	**(43,976)**	**83,047**
Net cash generated from (used in) financing activities of the discontinued operations		**(4,655)**	**12,936**	**-**	**-**
Net increase (decrease) in cash and cash equivalents		**7**	**(24,502)**	**125**	**(24,520)**
Cash and cash equivalents at the beginning of the period	13	791	25,293	483	25,003
Cash and cash equivalents at the end of the period	13	**798**	**791**	**608**	**483**

NOTES TO THE FINANCIAL STATEMENTS FOR 2016

(All amounts are in EUR thousands unless otherwise stated)

1. General information

Litgrid AB is a public limited liability company registered in the Republic of Lithuania. The address of its registered office is: A. Juozapavičiaus g. 13, LT-09311, Vilnius, Lithuania. Litgrid AB (hereinafter “Litgrid” or “the Company”) is a limited liability profit-making entity established as a result of the unbundling of Lietuvos Energija AB operations based on the decision of the Extraordinary General Meeting of Shareholders of Lietuvos Energija AB dated 28 October 2010 which was passed to approve the unbundling of Lietuvos Energija AB. The Company was registered with the Register of Legal Entities on 16 November 2010. The Company’s code is 302564383; VAT payer’s code is LT100005748413.

Litgrid is an operator of electricity transmission system, operating electricity transmissions in the territory of Lithuania and ensuring the stability of operation of the whole electric power system. In addition, the Company is also responsible for the integration of the Lithuanian power system into the European electricity infrastructure and common electricity market. The Company was involved in the implementation of the projects for cross-border strategic power links NordBalt (Lithuania– Sweden) and LitPol Link (Lithuania–Poland).

The principal objectives of the Company’s activities include ensuring the stability and reliability of the electric power system in the territory of Lithuania within its areas of competence, creation of objective and non-discriminatory conditions for the use of the transmission networks, management, use and disposal of electricity transmission system assets and its appurtenances.

On 24 February 2011, the Company was granted a licence of the electricity transmission system operator by the National Control Commission for Prices and Energy (“the NCC”), the validity of which commenced on 1 March 2011. By its Resolution No 03-325 of 27 August 2013, the NCC stated that unbundling of the Company’s transmission operations from electricity generation and supply companies was in compliance with the provisions of the Law on Electricity of the Republic of Lithuania and that the Company could be appointed as a transmission system operator. Consequently, a transmission system operator licence was granted to the Company for indefinite period.

As at 31 December 2016, the Company’s authorised share capital amounted to EUR 146,256,100.20 and it was divided into 504,331,380 ordinary registered shares with the nominal value of EUR 0.29 each. All shares are fully paid.

As at 31 December 2016 and 2015, the Company’s shareholder structure was as follows:

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

The ultimate controlling shareholder of EPSO-G UAB (company code 302826889, address A. Juozapavičiaus g. 13, Vilnius, Lithuania) is the Ministry of Energy of the Republic of Lithuania. The shares of the Company are listed on the additional trading list of NASDAQ OMX Vilnius Stock Exchange, issue ISIN code LT0000128415.

As at 31 December 2016 and 2015, the Group included Litgrid and its directly controlled subsidiaries listed below:

Company	Address of the company's registered office	Shareholding as at 31 December 2016	Shareholding as at 31 December 2015	Profile of activities
Tetas UAB	Senamiesčio g. 102B, Panevėžys, Lithuania	100%	100%	Transformer substation and distribution station design, reconstruction, repair and maintenance services
Litgrid Power Link Service UAB	A. Juozapavičiaus g. 13, Vilnius, Lithuania	100%	100%	Management and operation of electricity interconnection facilities
Baltpool UAB	A. Juozapavičiaus g. 13, Vilnius, Lithuania	-	67%	Biofuel market operator, PSO funds administrator

Until 28 April 2016, the name of Litgrid Power Link Service UAB was Tinklo Priežiūros Centras UAB.

Based on the decision passed at the Extraordinary General Meeting of Shareholders of Litgrid on 28 January 2016, a sale-purchase agreement of shares was signed between the Company and EPSO-G UAB on 5 February 2016. Under the agreement, the Company sold 478,800 ordinary registered intangible shares of Baltpool UAB (representing 67% of its shares) to EPSO-G UAB. The title of ownership was passed to EPSO-G UAB as from 1 March 2016. The shares of Baltpool UAB were sold for the price of EUR 387,828 that was determined by an independent property valuer.

The structure of the Group's investments in associates and joint venture was as follows as at 31 December 2016 and 2015:

Company	Address of the company's registered office	The Group's shareholding as at 31 December 2016	The Group's shareholding as at 31 December 2015	Profile of activities
Duomenų Logistikos Centras UAB	Žvejų g. 14, Vilnius, Lithuania	20%	20%	IT services
LitPol Link Sp.z.o.o	Wojciecha Gorskiego 900-033 Warsaw, Poland	50%	50%	Implementation and co-ordination of joint assignments in relation to operation of current interconnection Lithuania–Poland, planned development of the network and other fields of co-operation.

On 27 January 2017, the Company's Board gave its consent to the arrangement of sale of all 20.36% shares held under the title of ownership by Litgrid UAB in Duomenų Logistikos Centras UAB, together with the shares held in Duomenų Logistikos Centras UAB by Lietuvos Energija UAB. For the purpose of these financial statements, the Company's investment in associate was reclassified to current assets.

Investments in subsidiaries and associates are described in Note 7.

As at 31 December 2016, the Group had 685 employees (31 December 2015: 659), and the Company had 235 employees (31 December 2015: 235).

2. Summary of principal accounting policies

The principal accounting policies applied in the preparation of Company's and the Group's financial statements for the year ended 31 December 2016 are set out below.

2.1. Basis of preparation

The Company's and the Group's financial statements for the year ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

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

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

The Company's management approved these financial statements on 21 March 2017. The shareholders of the Company have a statutory right to approve or not to approve those and request for a preparation of the new financial statements.

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

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

IFRSs and their amendments adopted by the Group and the Company for the first time in the financial year ended 31 December 2016 are as follows:

Annual Improvements to IFRSs 2012 (effective for 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 an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

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 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 ore 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.

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.

These amendments and improvements had no material impact on the financial statements of the Group and the Company.

Other standards, amendments and interpretations that became effective for the financial year beginning on 1 January 2016 are not relevant to the Group and the Company.

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

*IFRS 16, Lease*s (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 1*5 (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 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 4*0 (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 and the Group are currently assessing the impact of the new relevant standards and their improvements on their financial statements.

The Company and the Group consider 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.

2.2. Principles of consolidation

Subsidiary is an entity directly or indirectly controlled by the Company. The Company controls an entity when it can or has a the right to receive variable returns from this relation and it can have impact on these returns due to the power to govern the entity to which the investment is made.

The consolidated financial statements of the Group include Litgrid AB and its subsidiaries. The financial statements of the subsidiaries have been prepared for the same reporting periods, using uniform accounting policies.

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

2.3. Business combinations between entities under common control

Business combinations between entities under common control

IFRS 3, 'Business combinations' is not applied to business combinations between entities under common control, therefore such business combinations are accounted for using the pooling of interest method of accounting. The Group does not restate assets and liabilities to their fair value as at the acquisition date, instead the Group combines the acquired assets and liabilities at their carrying amounts. No goodwill arises and the excess of the consideration paid or the carrying amount of net assets transferred over the consideration received or the carrying amount of net assets acquired is recorded directly in equity in the financial statements.

2.4. Assets held for sale and discontinued operations

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

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

2.5. Investments in subsidiaries (in the Company's separate financial statements)

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

2.6. Investments in associates and joint ventures

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

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

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

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

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

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

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

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

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

2.7. Property, plant and equipment and intangible assets

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

All property, plant and equipment is shown at revalued amounts, based on periodic (at least every 5 years) valuations performed by independent valuers, less subsequent accumulated depreciation and subsequent accumulated impairment losses. Any accumulated depreciation and impairment losses at the date of revaluation are eliminated against gross carrying amount of the asset and net amount is restated to the revalued amount of the assets.

Increases in the carrying amount arising on the first revaluation of property, plant and equipment are credited to revaluation reserve directly in equity and decreases are recognized in the profit and loss account. Decreases in the carrying amount arising on the subsequent revaluation of property, plant and equipment are offset previous increases of the same asset, are charged against revaluation reserve directly in equity; all other decreases are charged to the profit and loss account. Revaluation increases in property, plant and equipment value that offset previous decreases are taken to the profit and loss account. All other increases in the carrying amount arising on subsequent revaluations of property, plant and equipment are credited to revaluation reserve. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings taking into account the effect of deferred income tax. After the sale or a write-off of property unit, any balance of the revaluation reserve related to this property is transferred to retained earnings.

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

Intangible assets

Intangible assets are initially recognized at cost. Intangible assets are recognized only if they are expected to provide economic benefit to the Group and the Company in future periods and their cost can be measured reliably.

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

Depreciation and amortization

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

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

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

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

2.8. Impairment of property, plant and equipment and intangible assets

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

The recoverable value is the higher of the asset's fair value less costs to sell and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using the discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable value of an asset (or cash-generating unit) is estimated to be less than its carrying value, the carrying value of the asset (cash-generating unit) is reduced to its recoverable value. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a decrease of revaluation reserve.

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

2.9. Financial assets

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

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

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

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

Available-for-sale financial assets

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

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

When available-for-sale financial assets are disposed or impaired, the related accumulated fair value revaluation previously recognized directly in equity is recognized in the statement of comprehensive income as profit or loss.

After initial recognition available-for-sale financial assets are measured at fair value based on available market prices or quotes of brokers closest to the financial statements date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same and discounted cash flow analysis.

Held-to-maturity financial assets

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

Loans and receivables

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

Cash and cash equivalents

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

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

Effective interest rate method

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

Impairment of financial assets

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

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

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

Derecognition of financial assets

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

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

2.10. Inventories

Inventories are initially recorded at acquisition cost. Subsequent to initial recognition, inventories are stated at the lower of cost and net realizable value. Acquisition cost of inventories includes acquisition price and related taxes, and costs associated with bringing inventory into their current condition and location. Cost is determined on the first-in, first-out (FIFO) basis. Net realizable value is the estimated selling price, less the estimated costs of completion and selling expenses.

2.11. Non-current assets held for sale

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

2.12. Trade payables and other financial liabilities, borrowings

Financial liabilities, borrowings

Other financial liabilities, including borrowings, are recognized initially at fair value, less transaction costs.

Subsequent to initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Interest expense is recognized using the effective interest rate method as disclosed in paragraph 2.9 of the notes to the financial statements.

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

Derecognition of financial liabilities

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

Trade payables

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

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

2.13. Dividend distribution

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

2.14. Foreign currency

After the introduction of the euro in the Republic of Lithuania on 1 January 2015, the Group's functional currency was changed. The exchange rate of the litas against the euro, i.e. LTL 3.45280 to EUR 1, which was irrevocably established by the Council (the EU), was applied during the conversion of the litas to the euros.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). In the consolidated financial statements, results of operations and financial position of each entity of the Group are presented in the euro, which is the functional currency of the Company and the presentation currency of the consolidated Group's financial statements. All financial information presented in the euro has been rounded to the nearest thousands, except when otherwise indicated. Some of the amounts in the tables may not coincide due to rounding.

Foreign currency transactions are recorded in the euro using the exchange rates of the euro against other foreign currencies prevailing at the dates of transactions as established by the European Central Bank and the Bank of Lithuania. Monetary assets and liabilities are translated into the euro using the exchange rate prevailing at the date of preparation of financial statements. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognised as the profit or loss of the reporting period.

Between 2 February 2002 and 31 December 2014, the Lithuanian litas was pegged to the euro at an exchange rate of LTL 3.4528 to EUR 1, and the exchange rates in relation to other currencies were set daily by the Bank of Lithuania.

2.15. Grants

Asset-related grants

The Government and the European Union grants received in the form of property, plant and equipment or intended for the purchase of property, plant and equipment are considered as asset-related grants. Grants are recorded as a deduction of value of the respective asset and subsequently recognized as income, reducing the depreciation charge of related asset over the expected useful life of the asset.

Public service obligation (hereinafter "PSO") service fees allocated to the Company for the development and implementation of strategic plans are recognized as asset-related grants. They are also recorded as a deduction of value of related assets and subsequently recognized as income, reducing the depreciation charge of related asset over the expected useful life of the asset.

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

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

2.16. Provisions

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

2.17. Employee benefits

(a) Social security contributions

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

(b) Bonus plans

The Company and the Group recognize a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(c) Payments to retiring employees of retirement age

Each employee of retirement age who terminates his/her employment with the Group and the Company upon retirement is entitled to receive a payment equal to 2 monthly salaries as stipulated in the Lithuanian laws; according to the Company's collective agreement – payment is equal to 3 monthly salaries. A liability for such payments is recognized in the balance sheet and it reflects the present value of these payments at the date of the financial statements. The aforementioned non-current liability for payments to employees at the date of the financial statements is estimated with reference to actuary valuations using the projected relative unit method. The present value of the defined non-current liability for payments to employees is determined by discounting the estimated future cash flows using the effective interest rates as set for government debentures denominated in a currency in which payments to employees are expected to be made and with maturity similar to that of the related liability.

2.18. Deferred revenue

Congestion revenue arise from insufficient capacity of electricity lines when different prices are being formed at the electric power exchange for Lithuania, Sweden, Poland and Latvia. Revenue that were received as a result of price differences at different bidding areas are distributed equally by the exchange operator (Nord Pool AS) to the transmission system operators of the countries which operate the interconnections.

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

Considering the purpose to which the EU regulation foresees, the congestion income are recognised:

a) Guaranteeing the actual availability – income is recognised in the period in which related expenses are incurred.

In case of unplanned disconnection of the electricity interconnection and when the trade in the interconnection's capacities has already been completed at the electricity exchange (i.e. when they have already been distributed), the operators operating the line ensure that the market participants use the capacities that have been traded. In such a case, the Company incurs costs that arise as a result of the price difference between the price of electricity traded by the operators and the price of regulation and (or) balancing electricity purchased/sold by the Company.

b) Maintaining and increasing interconnection capacities – congestion income is recognized in the financial statements similarly to the government grants: initially, congestion income is recognized as deferred income, and then is recorded as deduction of value of respective asset and subsequently recognised us income, reducing depreciation charge of related asset over the expected useful life of the asset.
c) Tariff reduction – revenues are recognised in the period in which the Company receives less revenue because of lower tariffs.

2.19. Leases

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

The Group and the Company as a lessor

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

The Group and the Company as a lessee

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

2.20. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

2.21. Revenue and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with a transaction will flow to the Group/Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of value added tax and discounts. The following specific recognition criteria must also be met before revenue is recognized:

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

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

Tariffs regulation

Tariffs for the electricity transmission services are regulated by the National Control Commission for Prices and Energy ("the NCC") by establishing the upper limit of the tariff for the transmission service. Specific prices and tariffs for the transmission services are established by the supplier of the service within the limits approved by the NCC.

Tariffs of electricity sold by the producers and independent suppliers as well as tariffs for capacity reserves are not regulated except the cases when the producer or supplier holds more than 25 per cent of the market. In latter case, the tariff setting is supervised by the NCC.

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

Connection of new consumers and producers to electricity transmission network

From 2010 (applicable to assets received from customers on or after 1 July 2009) to the date of spin-off, Lietuvos Energija AB, later on the Company, recognizes fees received for connection of new consumers and producers to the electricity network as income immediately upon the connection of a new consumer or producer, provided the price for electricity payable in future by the newly connected consumer or producer for the services rendered /purchased by the Company/Group does not differ from that payable by other consumers or producers who had not paid such connection fees.

Before 1 July 2009, fees received by Lietuvos Energija AB for connection of new consumers and producers to the network were initially recognized in non-current assets caption as reducing the carrying value of related assets. In the statement of comprehensive income from these fees is recognised over the estimated useful life of the related assets, reducing depreciation expenses.

Repair service income

Income under individual contracts/projects with customers, for instance for repair services, is recognized using the stage of completion method estimated based on project costs actually incurred in proportion to total estimated project costs. The probable change in profitability is recognized in the statement of comprehensive income when such change is established. The projects are reviewed regularly and the provisions are established when it is determined that the project will result in a loss.

Other income

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

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

Dividend income

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

Recognition of expense

Expenses are recognized in the statement of comprehensive income as incurred by the accrual method.

Recognition of income and expenses from PSO services

PSO service funds are the fees paid to the suppliers of electricity under the public service obligations scheme, with the list of such suppliers established by the Lithuanian Government or other institution authorised by it. The annual quantities of PSO service funds are established by the National Control Commission for Prices and Energy (the NCC).

The Company/Group recognizes as revenue from PSO services the following:
- PSO service funds allocated by the NCC to the Company/Group for the connection of power generation facilities, using wind, biomass, solar energy or hydro energy in the process of power generation, to transmission networks, for optimization, development and/or reconstruction of transmission networks in relation to acceptance and transmission of electric power from producers using the renewable energy resources;
- PSO service funds allocated by the NCC for balancing electricity produced from the renewable energy resources;

2.22. Borrowing costs

Borrowing costs that are directly attributable to the production, getting ready for use or sale of an asset that necessarily takes a substantial period of time to produce, get ready for its intended use or sale, are capitalized as part of the cost of that asset until the asset is ready for use or sale in full. Interest income on the temporary investment of borrowed funds until they will be used for the acquisition of the asset is deducted from the cost of the asset.

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

2.23. Income tax

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

Income tax

Income tax charges are calculated on current profit before tax, as adjusted for certain non-deductible expenses/non-taxable income. Income tax is calculated using the tax rate effective as at the date of issue of the financial statements. Income tax rate of 15% was used in 2016 and 2015.

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

Deferred income tax

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

Deferred tax assets are reviewed at each date of the financial statements and if it is not probable that the Group and the Company will generate sufficient taxable profit to realize these assets, they are reduced to an amount which is likely to reduce the taxable profit in future. Deferred income tax assets and liabilities are estimated using the tax rate that has been applied when calculating income tax for the year when the related temporary differences are to be realized or settled.

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

Current income tax and deferred income tax

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

2.24. Earnings per share

Earnings per share are calculated by dividing the net profit for the period attributed to shareholders by the weighted average number of ordinary shares in issue during the period. When the number of shares changes and such change does not result in change of economic resources, the weighted average number of ordinary shares in issue is adjusted in proportion to change in the number of shares as if that change had occurred in the beginning of the previous period.

The Company has no dilutive potential shares; therefore its basic earnings per share are the same as diluted earnings per share.

2.25. Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.
A contingent asset is not recognized in the financial statements but disclosed when an inflow of income or economic benefits is probable.

2.26. Subsequent events

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

2.27. Offsetting

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

2.28. Fair value measurement

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

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

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

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

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

As at 31 December 2016 and 2015, the Group and the Company did not have significant assets or liabilities in the financial statements measured at fair value on a recurring or non-recurring basis, except for the available-for-sale financial assets (Notes 2.9 and 8) and property, plant and equipment (Notes 2.7 and 6).

Assets and liabilities for which fair value is disclosed in the financial statements comprise cash and cash equivalents, trade receivables, trade and other payables and borrowings. The management assessed that the fair value of the borrowings as at 31 December 2016 and 2015 are approximating their carrying value as they are subject to variable interest rates and that fair value of other mentioned financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments as at 31 December 2016 and 2015.

3. Significant accounting estimates and assumptions

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

Impairment of investments

The shares of subsidiaries, associates and joint ventures are not traded publicly, and accordingly, the Company estimated their potential recoverable amount with reference to future discounted cash flows based on financial forecasts covering the period of a number of years, or with reference to indirectly observable market inputs on similar transactions.

As at 31 December 2015, the recoverable amount of investment in Tetas UAB was estimated using the discounted cash flow approach and in view of lower financial liabilities and better forecast of cash flows of Tetas UAB driven by the results of operations in 2015. Reversal of impairment in amount of EUR 1,540 thousand was recognised in respect of the investment. The discount rate (after-tax WACC) used was 8.19%.

Valuation of property, plant and equipment

As disclosed in Note 6, the Company performed the valuation of property, plant and equipment. The determination of the assets' fair value is mainly affected by assumptions used in assessing the transmission service tariff for the future periods. The assumptions used in the determination of the fair value of property, plant and equipment are described in greater detail in the mentioned note.

Congestion revenue

According to the accounting principles described in Note 2.18, recognition of congestion revenue depends on the purposes for which the corresponding income is used. The purposes are outlined in the Article 16 of the European Parliament and the Council Regulation (EC) No 714/2009. According to the Company's judgment deferred congestion income as of 31 December 2016 will be used for investments in connections in the future periods. During 2016 the Company incurred costs of EUR 3.439 thousand for guaranteeing the actual availability of the allocated capacity and for the same amount recognised congestion income in the statement of comprehensive income, see also Note 20.

4. Correction of comparative figures

In 2016, the Company's management decided to introduce changes in the accounting policies relating to congestion revenue (Note 2.18), and to account for congestion revenue that was received before 2016 and was recognised in the statement of comprehensive income (though was not used for guaranteeing availability of the allocated capacity of interconnections) as deferred revenue, the amount of which was deducted from property, plant and equipment. As a result of change in the accounting policy, for the purpose of the financial statements for 2016, the comparative figures were corrected as follows: in the statement of financial position, property, plant and equipment as at 31 December 2015 was reduced by EUR 495 thousand, deferred income tax liability was reduced by EUR 74 thousand and retained earnings were reduced by EUR 421 thousand; in the statement of comprehensive income, revenue was reduced by EUR 495 thousand, deferred income tax benefit was increased by EUR 74 thousand, and net profit was reduced by EUR 421 thousand; in the statement of cash flows, net profit was reduced by EUR 421 thousand, income tax expenses were reduced by EUR 74 thousand, and congestion revenue received were increased by EUR 495 thousand.

5. Intangible assets

Group	Patents and licences	Computer software	Other intangible assets	Total
At 31 December 2014				
Cost	32	2,320	21	2,373
Accumulated amortisation	(19)	(1,392)	(18)	(1,429)
Net book amount	**13**	**928**	**3**	**944**
Net book amount at 31 December 2014	**13**	**928**	**3**	**944**
Additions	-	284	9	293
Write-offs	-	(4)	(1)	(5)
Transfer from PP&E	-	66	-	66
Transfer to assets held for sale	-	(15)	(8)	(23)
Amortisation charge	(11)	(385)	(3)	(399)
Net book amount at 31 December 2015	**2**	**874**	**-**	**876**
At 31 December 2015				
Cost	32	2,551	14	2,597
Accumulated amortisation	(30)	(1,677)	(14)	(1,721)
Net book amount	**2**	**874**	**-**	**876**
Net book amount at 31 December 2015	**2**	**874**	**-**	**876**
Additions	-	1,232	-	1,232
Transfer to/from PP&E	20	(166)	-	(146)
Transfer between the categories	80	(80)	-	-
Amortisation charge	(7)	(464)	-	(471)
Net book amount at 31 December 2016	**95**	**1,396**	**-**	**1,491**
At 31 December 2016				
Cost	114	3,128	2	3,244
Accumulated amortisation	(19)	(1,732)	(2)	(1,753)
Net book amount	**95**	**1,396**	**-**	**1,491**

Company	Patents and licences	Computer software	Other intangible assets	Total
At 31 December 2014				
Cost	32	2,178	14	2,224
Accumulated amortisation	(19)	(1,277)	(13)	(1,309)
Net book amount	**13**	**901**	**1**	**915**
Net book amount at 31 December 2014	**13**	**901**	**1**	**915**
Additions	-	269	-	269
Transfer to/from PP&E	-	66	-	66
Amortisation charge	(11)	(368)	(1)	(380)
Net book amount at 31 December 2015	**2**	**868**	**-**	**870**
At 31 December 2015				
Cost	32	2,513	14	2,559
Accumulated amortisation	(30)	(1,645)	(14)	(1,689)
Net book amount	**2**	**868**	**-**	**870**
Net book amount at 31 December 2015	**2**	**868**	**-**	**870**
Additions	-	1,230	-	1,230
Transfer to/from PP&E	20	(166)	-	(146)
Transfer between the groups	80	(80)	-	-
Amortisation charge	(7)	(461)	-	(468)
Net book amount at 31 December 2016	**95**	**1,391**	**-**	**1,486**
At 31 December 2016				
Cost	114	3,091	2	3,207
Accumulated amortisation	(19)	(1,700)	(2)	(1,721)
Net book amount	**95**	**1,391**	**-**	**1,486**

6. Property, plant and equipment

Group	Land	Buildings	Structures and machinery	Motor vehicles	Other PP&E	Construction in progress	Total
At 31 December 2014							
Cost	534	9,625	283,667	758	8,192	63,368	366,144
Accumulated depreciation	-	(179)	(135)	(628)	(801)	-	(1,743)
Accumulated impairment	-	-	-	-	-	-	-
Net book amount	**534**	**9,446**	**283,532**	**130**	**7,391**	**63,368**	**364,401**
Net book amount at 31 December 2014	**534**	**9,446**	**283,532**	**130**	**7,391**	**63,368**	**364,401**
Additions	-	-	13	22	811	234,896	235,742
Write-offs	-	(189)	(2,426)	-	-	-	(2,615)
Transfer from inventories	-	-	-	(3)	-	13	10
Transfer to assets held for sale	-	-	-	-	(7)	-	(7)
Transfer to intangible assets	-	-	-	-	(7)	(59)	(66)
Transfer to/from grants not received	-	-	(16,465)	-	-	-	(16,465)
Set-off of grants with non-current assets	-	-	(2,654)	-	-	(147,808)	(150,462)
Transfer between categories	-	3,459	131,819	-	2,658	(137,936)	-
Depreciation charge	-	(581)	(18,741)	(56)	(2,012)	-	(21,390)
Net book amount at 31 December 2015	**534**	**12,135**	**375,078**	**93**	**8,834**	**12,474**	**409,148**
At 31 December 2015							
Cost	534	12,872	393,700	769	11,587	12,474	431,936
Accumulated depreciation	-	(737)	(18,622)	(676)	(2,753)	-	(22,788)
Net book amount	**534**	**12,135**	**375,078**	**93**	**8,834**	**12,474**	**409,148**
Net book amount at 31 December 2015	**534**	**12,135**	**375,078**	**93**	**8,834**	**12,474**	**409,148**
Additions	-	32	11	66	619	90,063	90,791
Disposals	-	(8)	-	-	-	-	(8)
Write-offs	-	-	(1,152)	-	(23)	-	(1,175)
Impairment	-	-	(434)	-	-	(68)	(502)
Transfer from inventories	-	-	-	-	947	64	1,011
Transfer to intangible assets	-	-	-	-	(28)	174	146
Transfer to/from grants not received	-	-	(2,404)	-	-	-	(2,404)
Set-off of grants with non-current assets	-	-	(32,790)	-	(120)	(39,514)	(72,424)
Transfer between categories	-	(258)	50,911	-	2,157	(52,810)	-
Depreciation charge	-	(585)	(23,150)	(53)	(2,362)	-	(26,150)
Net book amount at 31 December 2016	**534**	**11,316**	**366,070**	**106**	**10,024**	**10,383**	**398,433**
At 31 December 2016							
Cost	534	12,634	407,733	835	15,132	10,383	447,251
Accumulated depreciation	-	(1,318)	(41,663)	(729)	(5,108)	-	(48,818)
Net book amount	**534**	**11,316**	**366,070**	**106**	**10,024**	**10,383**	**398,433**

Company	Land	Buildings	Structures and machinery	Other PP&E	Construction in progress	Total
At 31 December 2014						
Cost	534	9,153	283,289	7,087	63,368	363,431
Accumulated depreciation	-	-	-	-	-	-
Net book amount	**534**	**9,153**	**283,289**	**7,087**	**63,368**	**363,431**
Net book amount at 31 December 2014	**534**	**9,153**	**283,289**	**7,087**	**63,368**	**363,431**
Additions	-	-	-	652	234,896	235,548
Write-offs	-	(189)	(2,417)	-	-	(2,606)
Transfer from inventories	-	-	-	-	13	13
Transfer to intangible assets	-	-	-	(7)	(59)	(66)
Transfer to/from grants not received	-	-	(16,465)	-	-	(16,465)
Set-off of grants with non-current assets	-	-	(2,654)	-	(147,808)	(150,462)
Transfer between categories	-	3,459	131,819	2,658	(137,936)	-
Depreciation charge	-	(547)	(18,702)	(1,882)	-	(21,131)
Net book amount at 31 December 2015	**534**	**11,876**	**374,870**	**8,508**	**12,474**	**408,262**
At 31 December 2015						
Cost	534	12,399	393,324	10,391	12,474	429,122
Accumulated depreciation	-	(523)	(18,454)	(1,883)	-	(20,860)
Net book amount	**534**	**11,876**	**374,870**	**8,508**	**12,474**	**408,262**
Net book amount at 31 December 2015	**534**	**11,876**	**374,870**	**8,508**	**12,474**	**408,262**
Additions	-	32	1	463	90,063	90,559
Write-offs	-	-	(1,152)	(22)	-	(1,174)
Impairment	-	-	(434)	-	(68)	(502)
Transfer from inventories	-	-	-	947	64	1,011
Transfer to intangible assets	-	-	-	(28)	174	146
Transfer to/from grants not received	-	-	(2,404)	-	-	(2,404)
Set-off of grants with non-current assets	-	-	(32,790)	(120)	(39,514)	(72,424)
Transfer between categories	-	(258)	50,911	2,157	(52,810)	-
Depreciation charge	-	(552)	(23,110)	(2,270)	-	(25,932)
Net book amount at 31 December 2016	**534**	**11,098**	**365,892**	**9,635**	**10,383**	**397,542**
At 31 December 2016						
Cost	534	12,173	407,347	13,853	10,383	444,290
Accumulated depreciation	-	(1,075)	(41,455)	(4,218)	-	(46,748)
Net book amount	**534**	**11,098**	**365,892**	**9,635**	**10,383**	**397,542**

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

Interest expenses satisfying the criteria for capitalisation at the Company amounted to EUR 1,631 thousand for the period ended 31 December 2016 (EUR 1,586 thousand for the period ended 31 December 2015). This amount was reduced EUR 1,481 thousand (EUR 643 thousand for the period ended 31 December 2015). The total amount of capitalised interest amounted to EUR 150 thousand (EUR 943 thousand for the period ended 31 December 2015). The annual interest rate of capitalisation was 0.2% (0.2% for the period ended 31 December 2015).

In 2014 the Company performed valuation of its property, plant and equipment as at 31 December 2014, revalued its assets and recognised impairment. As a result of estimation of fair value of property, plant and equipment, a EUR 185,694 thousand impairment of assets was recorded, including a EUR 62,494 thousand decrease in the revaluation reserve and the remaining amount of EUR 123,200 thousand was recognised as impairment expenses. Impairment was mainly caused by the changes in regulatory environment that occurred after the last revaluation of Company's assets performed in 2008.

As at 31 December 2015, having estimated whether assumptions used in the previously performed valuation of the assets have changed and whether a new valuation or impairment test needs to be performed the Company stated as follows:

- By Resolution No O3-509 of 21 September 2015 the National Control Commission for Prices and Energy ("the NCC") substantially altered the provisions of the Methodology for the Determination of the Price Caps of Electricity Transmission, Distribution and Public Supply Services (hereinafter "the Methodology") and recognised the application of the LRAIC accounting model (hereinafter "the LRAIC model") in determining the price cap of the electricity transmission service;
- The Methodology does not take into consideration that the Description of Procedure for Determining Regulated Prices in Electric Energy Sector as approved by Resolution No 1026 of 24 September 2014 of the Lithuanian Government provides that the determination of the value of assets, on the basis of which the return on investments for the electricity transmission system operator in 2015–2019 is calculated, includes an annual additional component equal to 1/5 of the difference between the carrying amount of the company's assets and the regulated asset base that arose as at 30 June 2014. Consequently, the total calculated difference would be included in the regulated asset value attributable to the service and/or the product in 2019. The Company does not expect this provision to be implemented;
- By Resolution No O3-510 of 22 September 2015 the NCC approved the methodology for the determination of the rate of return on investments and used it to calculate the Company's rate of return on investments which is equal to 5.23% (it decreased compared to the assumptions of the previous valuation);
- By Resolution No O3-548 of 19 October 2015 the NCC established the price cap for the electricity transmission service via high voltage networks for 2016-2020;
- In December 2015, the assets related to the interconnections with Sweden and Poland were put into operation resulting in a significant increase in the value of the Company's assets;
- Due to electricity price difference in different price areas the interconnections will generate material congestion income (on average EUR 16 million each year in 2016-2025) which will be used to finance investments in the transmission network. These investments are classified as investments financed using grants, i.e. they are not included in expenses and assets of the regulated activity;
- Inputs used in the calculation of the weighted average cost of capital (discount rate) have changed.

Having estimated that all these developments may have a material impact on the value of property, plant and equipment the Company performed a new valuation of non-current assets. The valuation corresponds to level 3 of fair value measurement (Note 2.28).

The Company estimated the fair value of the assets as at 31 December 2015 under the income method using the discounted cash flows calculation technique. The assets' value was calculated as the present value of net future cash flows.

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

The calculation of the value of the assets consisted of the following stages:

- Cash flows from the Company's operations in 2016-2025 were calculated.
- These cash flows were adjusted by cash flows related to grants received for Nordbalt and LitPol Link projects and PSO funds and respective payments related to these projects as in the Company's financial accounting the assets' value is reduced by the amount of grants received and at the valuation date the value of the assets related to Nordbalt and LitPol Link projects had already been reduced by the amount of accrued but not yet received grants.
- Adjusted cash flows for 2016-2025 were aggregated.
- Discounted going concern value (beyond 2025) was added. The Company's management assumes that in a long term the cash low will be generated only from the return on the regulated assets investments. The normalised cash flow was calculated by multiplying the value of the regulated assets at the end of 2015 by the rate of return on investments and less income tax.
- Value of intangible assets was deducted.

Net cash flows generated by the assets were discounted using the discount rate (WACC after tax) equal to 4.38% which was calculated by the Company.

The result of the fair value estimation performed in respect of property, plant and equipment amounted to EUR 403,259 thousand. The calculated value of the Company's assets exceeds their carrying amount by the amount of EUR 396,179 thousand, but the difference is insignificant and the value calculated is within the internal of the value of the assets from EUR 425,543 thousand to EUR 382,472 thousand with the discount rate changing within the interval from -1% to +1%. Therefore the Company did not account for the valuation result.

The tables below present the sensitivity of the asset valuation result to changes in the discount rate and in the amount of congestion revenue.

Change in discount rate (with the rate of return on investments recalculated beyond 2021), %	Value of assets, EUR thousands
-1.0%	425,543
-0.5%	414,206
0.0%	403,259
0.5%	392,686
1.0%	382,472

Share of congestion revenue, % of forecast revenue	Value of assets, EUR thousands
0%	399,156
25%	400,182
50%	401,208
100%	403,259
125%	404,285

As at 31 December 2016, the Company assessessed whether the carrying amount of property, plant and equipment does not differ materially from that which would be determined using fair value at the end of the reporting period.

In 2016, there were no changes in legal acts and/or events that might have significant impact on the value of assets. The Company used the same valuation model which was used in the valuation of assets as at 31 December 2015. The valuation was attributed level three in the fair value hierarchy (Note 2.28).

The Company estimated the fair value of the assets as at 31 December 2016 under the income method using the discounted cash flow technique. The value of assets was determined as the present value of net future cash flows.

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

The value of assets was calculated as follows:
- Cash flows from the Company's operations in 2017-2025 were calculated.
- These cash flows were adjusted by the grants received for Nordbalt project and the cash flows of PSO funds, because in the Company's financial accounting, the value of assets of Nordbalt project had already been reduced by the amount of accrued but not yet received grants at the valuation date.
- Adjusted cash flows for 2017-2025 were aggregated.
- Discounted going concern value (beyond 2025) was added.
- Value of non-current intangible assets was deducted.

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

The result of the fair value estimation performed in respect of property, plant and equipment as at 31 December 2016 amounted to EUR 398,777 thousand. The calculated value of the

Company's assets exceeds their carrying amount by EUR 386,070 thousand – the assets are not impaired. The carrying amount is within the interval of the value of the assets from EUR 384,792 thousand to EUR 412,762 thousand with the calculated optimised asset value fluctuating within the interval from 75% to 125% in 2021-2025. Moreover, with a part of congestion revenue fluctuating within the interval from 50% to 125%, compared to the forecast, the carrying amount is within the interval of the value of the assets from EUR 382,460 thousand to EUR 411,153 thousand. Having assessed the sensitivity of the assumptions, the Company did not account for the valuation result.

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

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

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

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

As at 31 December 2016, the Group and the Company had significant contractual commitments to purchase property, plant and equipment in amount of EUR 36,170 thousand (31 December 2015: EUR 25,556 thousand) to be fulfilled in the upcoming periods.

The table below includes the net book amounts of the Group's and the Company's property, plant and equipment that would have been recognised, had these assets been carried at historical cost as at 31 December 2016 and 2015:

Group	Land	Build-ings	Structures and machinery	Motor vehicles	Other PP&E	Construc-tion in progress	Total
Net book amount at 31 December 2016	520	11,182	477,950	106	10,084	10,462	510,304
Net book amount at 31 December 2015	520	11,501	496,680	93	8,908	12,493	530,195

Company	Land	Build-ings	Structures and machinery	Motor vehicles	Other PP&E	Construc-tion in progress	Total
Net book amount at 31 December 2016	520	11,054	477,772	-	9,695	10,462	509,503
Net book amount at 31 December 2015	520	11,348	496,472	-	8,582	12,493	529,415

As at 31 December 2016, grants not fully depreciated amounted to EUR 285,745 thousand (31 December 2015: EUR 214,328 thousand).

7. Investments in the Company's subsidiaries and investments in the Company's and the Group's associates and joint ventures

Investments in subsidiaries in the Company‘s financial statements

As at 31 December 2016, the Company's investments comprised as follows:

Subsidiaries	Investment cost	Impairment	Carrying amount	Ownership interest, %
Tetas UAB	4,356	(441)	3,915	100
Litgrid Power Link Service UAB	174	-	174	100
Total	**4,530**	**(441)**	**4,089**	

Based on the decision passed at the Extraordinary General Meeting of Shareholders of Litgrid on 28 January 2016, a sale-purchase agreement of shares was signed between the Company and EPSO-G UAB on 5 February 2016. Under the agreement, the Company sold 478,800 ordinary registered intangible shares of Baltpool UAB (representing 67% of its shares) to EPSO-G UAB. The title of ownership was passed to EPSO-G UAB as from 1 March 2016. The shares of Baltpool UAB were sold for the price of EUR 387,828 that was determined by an independent property valuer.

For the purpose of these financial statements, as at 31 December 2015 the Company's investment in subsidiary Baltpool UAB was reclassified to assets held for sale (Note 31).

As at 31 December 2015, the Company's investments comprised as follows:

Subsidiaries	Investment cost	Impairment	Carrying amount	Ownership interest, %
Tetas UAB	4,356	(441)	3,915	100
Litgrid Power Link Service UAB	174	-	174	100
Total	**4,530**	**(441)**	**4,089**	

In 2015, the reversal of impairment charge on the investment in Tetas UAB amounting to EUR 1,540 thousand was recognised. The value of the investment was determined under the discounted cash flow method. The discount rate used (WACC after tax) was equal to 8.19%. The reversal of impairment charge on the investment in Tetas UAB resulted from significantly lower financial liabilities and an improved forecast of cash flows to be generated by Tetas UAB which was positively affected by the performance in 2015.

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

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

	Group		Company	
	2016	**2015**	**2016**	**2015**
Opening balance	**720**	1,088	**752**	1,047
Impairment of investments	-	(343)	-	(295)
Investment in associate reclassified to available-for-sale financial assets	(752)	-	(752)	-
Share of profit/(loss) of associates and joint ventures	32	(25)	-	-
Closing balance	**-**	**720**	**-**	**752**

As described in Note 1, on 27 January 2017, the Company's Board gave its consent to the arrangement of sale of all 20.36% shares held under the title of ownership by Litgrid UAB in Duomenų Logistikos Centras UAB, together with the shares held in Duomenų Logistikos Centras UAB by Lietuvos Energija UAB. For the purpose of these financial statements, the Company's investment in associate was reclassified to available-for-sale financial assets (Note 12).

In 2015, the Company recognised the impairment of EUR 295 thousand for investment in LitPol Link Sp.z.o.o. Due to doubts on the entity's ability to continue as a going concern, the Company established impairment provision equal to the acquisition cost. During the Extraordinary General Meeting of Shareholders of LitPol Link SP.z.o.o. held on 28 September 2016, the decision was made to suspend the activities of LitPol Link for the period until Polskie Sieci Elektroenergetyczne S.A. and Litgrid will make a decision on joint project, but not longer than 24 months.

The financial position and results of operations of the associate and the joint venture as at 31 December 2016 and for the year then ended:

	Assets	Liabilities	Sales revenue	Net profit (loss)
Duomenų Logistikos Centras UAB	6,233	1,688	4,359	159
LitPol Link Sp.z.o.o.	195	79	242	(222)

The financial position and results of operations of the associate and the joint venture as at 31 December 2015 and for the year then ended:

	Assets	Liabilities	Sales revenue	Net profit (loss)
Duomenų Logistikos Centras UAB	8,372	3,985	4,893	(161)
LitPol Link Sp.z.o.o.	519	172	765	13

8. Financial assets held for sale

The Group's and the Company's financial assets classified as held for sale comprised the shares of the following entities:

	Group		Company	
	At 31 Dec 2016	At 31 Dec 2015	At 31 Dec 2016	At 31 Dec 2015
NordPool (2%)	2,693	2,273	2,693	2,273
Technologijų ir Inovacijų Centras UAB (0.01%)	-	-	-	-
Carrying amount	**2,693**	**2,273**	**2,693**	**2,273**

As at 31 December 2016 and 2015, the Company stated the shares of NordPool at fair value determined under the discounted cash flow method. The Company used a pre-tax discount rate of 7.5%. Gain on fair value change amounting to EUR 420 thousand as at 31 December 2016 was included in other comprehensive income (31 December 2015: EUR 350 thousand).

On 30 April 2015, the Company sold 10,193 shares of NT Valdos UAB to Lietuvos Energija UAB. The basic sale price of these shares equals to EUR 252 thousand and the basic sale price premium amounts to EUR 33 thousand or EUR 63 thousand depending on the financial ratios of NT Valdos UAB projected for 2018. EUR 62 thousand loss on the share sale transaction was recognised in the Company's statement of comprehensive income as finance costs. The shares were paid by Lietuvos Energija UAB as at 31 December 2016. The share sale agreement stipulates that the sale price premium will be paid to the Company by 31 March 2019, if in 2018 NT Valdos UAB meets financial ratios set forth in the agreement.

The Company also holds 1,000 shares of Technologijų ir Inovacijų Centras UAB worth of EUR 289.62 that were acquired in 2013. One of the main targets of this entity is the provision of information technologies and telecommunication and other services to the shareholders.

Based on the shareholder agreement of 17 August 2015, for the purpose of these financial statements, investment in Technologijų ir Inovacijų Centras UAB was reclassified to current available-for-sale financial assets.

In the management's opinion the fair value did not change significantly compared to the last year (fair value measurement of level 3).

9. Inventories

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

	Group		Company	
	At 31 Dec 2016	At 31 Dec 2015	At 31 Dec 2016	At 31 Dec 2015
Materials and consumables	4,128	2,796	318	1,409
Less: impairment	(218)	(278)	(193)	(252)
Carrying amount	**3,910**	**2,518**	**125**	**1,157**

As at 31 December 2016, the carrying amount of inventories stated at net realisable value amounted to EUR 224 thousand (31 December 2015: EUR 1,055 thousand) and EUR 193 thousand (31 December 2015: EUR 1,008 thousand) at the Group and the Company, respectively. As at 31 December 2016, the Group's and the Company's inventories recognised as expenses amounted to EUR 6,265 thousand (31 December 2015: EUR 7,141 thousand) and EUR 184 thousand (31 December 2015: EUR 261 thousand), respectively.

Movements in write-down allowance for inventories in 2016 and 2015 are indicated below.

	Group		Company	
	2016	2015	2016	2015
Carrying amount at 1 January	278	197	252	160
Change in write-down allowance	(60)	81	(59)	92
Carrying amount at 31 December	**218**	**278**	**193**	**252**

10. Trade receivables

Trade receivables of the Group and the Company were as follows:

	Group		Company	
	At 31 Dec 2016	At 31 Dec 2015	At 31 Dec 2016	At 31 Dec 2015
Receivables from transmission of electricity	19,823	15,860	19,823	15,860
Receivables for contractual works and other services	4,489	4,198	-	-
Other trade receivables	2,041	93	2,041	93
Less: impairment allowance for trade receivables	(7,312)	(7,233)	(7,312)	(7,233)
Carrying amount	**19,041**	**12,918**	**14,552**	**8,720**

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

In 2016, the Group and the Company accounted for the reversal of impairment allowance of EUR 79 thousand (2015: EUR 791 thousand) for individually assessed doubtful receivables related to debts for the purchased electricity.

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

	Group		Company	
	At 31 Dec 2016	At 31 Dec 2015	At 31 Dec 2016	At 31 Dec 2015
Not overdue	17,799	11,425	14,356	8,666
Overdue up to 30 days	648	997	153	54
Overdue from 30 to 60 days	7	2	5	-
Overdue from 60 to 90 days	-	30	-	-
Overdue more than 90 days	587	464	38	-
Carrying amount	**19,041**	**12,918**	**14,552**	**8,720**

11. Other amounts receivables

Other amounts receivable were as follows:

	Group		Company	
	At 31 Dec 2016	At 31 Dec 2015	At 31 Dec 2016	At 31 Dec 2015
Administered PSO funds receivable	-	17,879	-	17,879
PSO funds receivable	1,632	-	1,632	2,029
Accrued interest receivable	-	4	-	4
Grants receivable	18,869	16,552	18,869	16,552
Receivables for lease of assets	86	149	86	149
Other receivables	4,330	192	4,007	204
Less: impairment of other receivables	(1)	(14,499)	(1)	(14,499)
Carrying amount	**24,916**	**20,277**	**24,593**	**22,318**

In 2016 the Company assigned claim rights of Baltpool UAB in respect of debtors of PSO funds under the agreements on assignment of rights and obligations.

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

Movements in impairment allowance during the year:

	Group		Company	
	2016	2015	2016	2015
Carrying amount at 1 January	**14,499**	**-**	**14,499**	**8,811**
Change in impairment allowance	(14,498)	14,499	(14,498)	5,688
Carrying amount at 31 December	**1**	**14,499**	**1**	**14,499**

The recognition of the impairment allowance had no impact on the Company's statement of comprehensive income, because during the period between 1 January 2013 and 1 October 2015 the Company acted only as an agent in carrying out the PSO activities. Therefore, when accounting for the impairment allowance for PSO receivables, PSO funds payable to Baltpool UAB were reduced accordingly.

The ageing analysis of other amounts receivable not impaired:

	Group		Company	
	At 31 Dec 2016	At 31 Dec 2015	At 31 Dec 2016	At 31 Dec 2015
Not overdue	22,214	16,833	21,891	18,874
Overdue up to 30 days	2	6	2	6
Overdue from 30 to 60 days	-	3	-	3
Overdue from 60 to 90 days	-	792	-	792
Overdue more than 90 days	2,700	2,643	2,700	2,643
Carrying amount	**24,916**	**20,277**	**24,593**	**22,318**

Receivables overdue more than 90 days consist of VAT receivables from Baltpool UAB, that will be paid in 2017 according to additional agreements.

12. Other financial assets

	Group		Company	
	At 31 Dec 2016	**At 31 Dec 2015**	**At 31 Dec 2016**	**At 31 Dec 2015**
Funds deposited for guarantees and deposits	1,499	2,574	1,499	2,574
Congestion income funds (2.18 Note)	7,761	-	7,761	-
Available-for-sale financial assets	752	-	752	-
Carrying amount	**10,012**	**2,574**	**10,012**	**2,574**

Available-for-sale financial assets includes 20.36% shareholding in Duomenų Logistikos Centras UAB amounting to EUR 752 thousand and 1,000 shares of Technologijų ir Inovacijų Centras UAB amounting to EUR 289.62.

The fair value of other financial assets as at 31 December 2016 and 2015.

13. Cash and cash equivalents

	Group		Company	
	At 31 Dec 2016	**At 31 Dec 2015**	**At 31 Dec 2016**	**At 31 Dec 2015**
Cash at bank	798	791	608	483
Carrying amount	**798**	**791**	**608**	**483**

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

14. Share capital and share premium

In accordance with the Lithuanian Law on the Adoption of the Euro in the Republic of Lithuania and the provisions of the procedure for the conversion of the nominal value of the share capital to the euro of Lietuvos Centrinis Vertybinių Popierių Depozitoriumas AB (Central Securities Depository of Lithuania), on 1 January 2015 the Company's authorised share capital was converted to the euro. As at 31 December 2016 and 2015, the share capital of the Company amounted to EUR 146,256,100.20 and it was divided into 504,331,380 ordinary registered shares with the nominal value of EUR 0.29 each. The result of the conversion of the nominal value of shares amounted to EUR 192 thousand in 2015. All the shares are fully paid.

Share premium established during the of spin-off amounted to EUR 8,579 thousand. Prior to the spin-off, share premium resulted from increase in the share capital of Lietuvos Energija AB and represented a difference between the nominal value of shares and consideration paid.

Capital management

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

According to the requirements of the Lithuanian Law on Companies, the Company's equity must not be less than 1/2 of its authorised share capital. As at 31 December 2016 and 2015, the Company was in compliance with the above-mentioned requirement. No other external capital requirements have been imposed on the Company.

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

15. Revaluation reserve

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

Group	**Revaluation reserve**	**Deferred income tax**	**Net of deferred income tax**
Balance at 31 December 2014	**8,046**	**(1,206)**	**6,840**
Depreciation of revaluation reserve	(690)	104	(586)
Write-offs of property, plant and equipment	(30)	4	(26)
Balance at 31 December 2015	**7,326**	**(1,098)**	**6,228**
Depreciation of revaluation reserve	(691)	104	(587)
Write-offs of property, plant and equipment	(37)	4	(33)
Balance at 31 December 2016	**6,598**	**(990)**	**5,608**

Company	**Revaluation reserve**	**Deferred income tax**	**Net of deferred income tax**
Balance at 31 December 2014	**7,928**	**(1,189)**	**6,739**
Depreciation of revaluation reserve	(677)	102	(575)
Write-offs of property, plant and equipment	(30)	4	(26)
Balance at 31 December 2015	**7,221**	**(1,083)**	**6,138**
Depreciation of revaluation reserve	(678)	102	(576)
Write-offs of property, plant and equipment	(33)	4	(29)
Balance at 31 December 2016	**6,510**	**(977)**	**5,533**

16. Legal reserve, reserve of changes in fair value of financial assets, and other reserves

Legal reserve

The legal reserve is established in accordance with the Lithuanian laws. Annual transfers of not less than 5 % of net profit are required until the reserve reaches 10% of the share capital. The legal reserve can be used only to cover future losses. The Company's accumulated legal reserve meets the legislative requirements of the Republic of Lithuania and consists of 10% of the share capital.

Reserve of changes in fair value of financial assets

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

Other reserves

Other reserves are formed based on the decision of shareholders and can be redistributed on the distribution of the next year's profit.

The Ordinary General Meeting of Shareholders of Litgrid held on 24 April 2015 approved the proposed profit appropriation and resolved to transfer EUR 108,608 thousand from other reserves to retained earnings.

17. Dividends

During the Ordinary General Meeting of Shareholders of Litgrid AB held on 26 April 2016, the decision was made in relation to the payment of dividends in the amount of EUR 4,589,416. Dividends per share amounted to EUR 0.0091.

18. Grants received in advance

The grants received in advance consist of grants intended for the acquisition of non-current assets. Movements in grants in 2016 and 2015 were as follows:

	Group	Company
Balance at 31 December 2014	**108,140**	**108,140**
Grants received during the period	47,373	47,373
Transferred to property, plant and equipment	(149,967)	(149,967)
Written-off grants	(1,676)	(1,676)
Balance at 31 December 2015	**3,870**	**3,870**
Grants received during the period	68,592	68,592
Transferred to property, plant and equipment	(72,424)	(72,424)
Balance at 31 December 2016	**38**	**38**

The grants received in advance during 2016 comprised as follows:

- Funds received from the EU structural funds to finance the reconstruction of the Company's property, plant and equipment in amount of EUR 6,817 thousand (2015: EUR 8,650 thousand);
- EU funds received to finance the implementation of the project on the interconnection Lithuania-Poland (LitPolLink) in amount of EUR 16,449 thousand (2015: EUR 10,950 thousand);
- PSO service funds received for the implementation of the project on the interconnection Lithuania-Sweden (NordBalt) in amount of EUR 19,588 thousand (2015: EUR 20,273 thousand);
- Funds received under the EU programme European Energy Programme for Recovery for the implementation of the project on the interconnection Lithuania-Sweden (NordBalt) in amount of EUR 25,700 thousand (2015: EUR 7,500 thousand).
- Compensation of costs in amount of EUR 38 thousand (2015: EUR 0).

19. Borrowings

Borrowings of the Group/Company were as follows:

	Group		Company	
	At 31 Dec 2016	At 31 Dec 2015	At 31 Dec 2016	At 31 Dec 2015
Non-current borrowings				
Borrowings from banks	116,435	124,518	116,435	124,518
Current borrowings				
Current portion of non-current borrowings	8,082	8,082	8,082	8,082
Overdraft	40,986	70,838	40,171	69,842
Total borrowings	**165,503**	**203,438**	**164,688**	**202,442**

Maturity of non-current borrowings:

	Group		Company	
	At 31 Dec 2016	**At 31 Dec 2015**	**At 31 Dec 2016**	**At 31 Dec 2015**
Between 1 and 2 years	8,082	8,082	8,082	8,082
From 2 to 5 years	42,676	36,533	42,676	36,533
After 5 years	65,677	79,903	65,677	79,903
Total	**116,435**	**124,518**	**116,435**	**124,518**

As at 31 December 2016 and 2015, no significant assets were pledged by the Group/Company.

As at 31 December 2016, the weighted average interest rate on the Group's and the Company's borrowings was 0.95% (31 December 2015: 0.95%).

As at 31 December 2016, the Group's unwithdrawn balance of loans and overdrafts amounted to EUR 36,014 thousand (31 December 2015: EUR 46,189 thousand), the Company's – EUR 34,829 thousand (31 December 2015: EUR 45,158 thousand).

Under the credit agreement signed with Nordic Investment Bank the Company is committed to comply with the net debt to EBITDA ratio, which should not exceed 4,5 (31 December 2015: 6). The outstanding balance of non-current borrowings from Nordic Investment Bank in respect of which this requirement is applied amounted to EUR 51,435 thousand as at 31 December 2016 (31 December 2015: EUR 59,518 thousand) without current portion of these loans. In 2016 the Company complied with this requirement. In 2015 the Company did not comply with this requirement, but on 21 December 2015 letters were received from the bank stating that the bank released the Company from this commitment as at 31 December 2015.

Under the loan agreement with European Investment Bank, the Company has a commitment not to exceed net debt-to-EBITDA ratio, which should not be higher than 4.5 in 2016 (2015: not higher than 8.2). As at 31 December 2016 and 2015, the outstanding balance of non-current borrowings from European Investment Bank (in respect of which the Company has the above-mentioned commitment) amounted to EUR 65,000 thousand without current portion of this loan. As at 31 December 2016 and 2015, the Company complied with this requirement.

In addition, under the loan agreements the Company has a commitment to both banks not to exceed interest coverage ratio, which should not be higher than 3 in 2016 and 2015. The Company complied with this requirement.

20. Deferred revenue

	Group		Company	
	At 31 Dec 2016	**At 31 Dec 2015**	**At 31 Dec 2016**	**At 31 Dec 2015**
Congestion revenue at the beginning of the period	-	-	-	-
Congestion revenue received during the period	11,405	495	11,405	495
Transferred to property plant and equipment	-	(495)	-	(495)
Congestion revenue recognised as revenue during the period	(3,439)	-	(3,439)	-
Congestion revenue at the end of the period	**7,966**	**-**	**7,966**	**-**

Deferred revenue comprises of congestion income as described in Note 2.18. As of 31 December 2016 deferred congestion income amounted EUR 7.966 thousand which will be used for investments in connections in the future periods. During 2016 EUR 3.439 thousand congestion income recognized in the statement of comprehensive income to cover costs incurred to guaranteeing the actual availability of the allocated capacity. During 2015 EUR 495 thousand have been used for investments in connection.

21. Other non-current amounts payable and liabilities

	Group		Company	
	At 31 Dec 2016	**At 31 Dec 2015**	**At 31 Dec 2016**	**At 31 Dec 2015**
Advances received from connection of new users	-	40	-	40
Provisions for pension benefits to employees	152	163	81	111
Carrying amount	**152**	**203**	**81**	**151**

Provisions for pension benefits to employees represent amounts calculated according to the Lithuanian laws and to be paid under the collective agreement effective at the Company (Note 2.17).

22. Current income tax and deferred income tax

Income tax expense components:

	Group		Company	
	At 31 Dec 2016	**At 31 Dec 2015**	**At 31 Dec 2016**	**At 31 Dec 2015**
Current year income tax	4,274	1,685	4,258	1,673
Deferred income tax expenses (benefit)	(2,208)	(1,339)	(2,203)	(1,366)
Current year income tax expenses (benefit)	**2,066**	**346**	**2,055**	**307**

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

Group

Deferred income tax assets	**PPE revaluation (impairment)**	**Impairment of assets**	**Accrued expenses/ income**	**Other**	**Total**
At 31 December 2014	**18,927**	**3,921**	**113**	**90**	**23,051**
Transferred to held for sale	-	-	(2)	-	(2)
Recognised in profit or loss	659	(2,639)	367	(30)	(1,643)
Recognised in other comprehensive income	-	-	-	-	-
At 31 December 2015	**19,586**	**1,282**	**478**	**60**	**21,406**
Recognised in profit or loss	(1,462)	82	1,081	(8)	(307)
Recognised in other comprehensive income	-	-	-	-	-
At 31 December 2016	**18,124**	**1,364**	**1,559**	**52**	**21,099**

Deferred income tax liabilities	**PPE revaluation (increase in value)**	**Differences in depreciation rates**	**Tax relief on acquisition of PPE**	**Effect of interest capitalisation**	**Total**
At 31 December 2014	(32,100)	(104)	(2,318)	(110)	**(34,632)**
Recognised in profit or loss	2,870	3	180	(70)	2,983
Recognised in other comprehensive income	(52)	-	-	-	(52)
At 31 December 2015	**(29,282)**	**(101)**	**(2,138)**	**(180)**	**(31,701)**
Recognised in profit or loss	2,331	112	156	(84)	2,515
Recognised in other comprehensive income	(63)	-	-	-	(63)
At 31 December 2016	**(27,014)**	**11**	**(1,982)**	**(264)**	**(29,249)**

Deferred income tax assets, net, at 31 December 2015	**63**
Deferred income tax assets, net, at 31 December 2016	**66**
Deferred income tax liability, net, at 31 December 2015	**(10,356)**
Deferred income tax liability, net, at 31 December 2016	**(8,216)**

Company

Deferred income tax assets	PPE revaluation (impairment)	Impairment of assets	Accrued expenses/ income	Other	Total
At 31 December 2014	18,927	3,915	88	-	**22,930**
Recognised in profit or loss	659	(2,637)	364	-	(1,614)
Recognised in other comprehensive income	-	-	-	-	**-**
At 31 December 2015	**19,586**	**1,278**	**452**	**-**	**21,316**
Recognised in profit or loss	(1,462)	82	1,074	-	(306)
Recognised in other comprehensive income	-	-	-	-	**-**
At 31 December 2016	**18,124**	**1,360**	**1,526**	**-**	**21,010**

Deferred income tax liabilities	PPE revaluation (increase in value)	Differences in depreciation rates	Tax relief on acquisition of PP&E	Effect of interest capitalisation	Total
At 31 December 2014	(32,082)	(89)	(2,318)	(110)	**(34,599)**
Recognised in profit or loss	2,868	1	180	(70)	2,979
Recognised in other comprehensive income	(52)	-	-	-	(52)
At 31 December 2015	**(29,266)**	**(88)**	**(2,138)**	**(180)**	**(31,672)**
Recognised in profit or loss	2,329	110	154	(84)	2,509
Recognised in other comprehensive income	(63)	-	-	-	(63)
At 31 December 2016	**(27,000)**	**22**	**(1,984)**	**(264)**	**(29,226)**

Deferred income tax liability, net, at 31 December 2015	**(10,356)**
Deferred income tax liability, net, at 31 December 2016	**(8,216)**

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

	Group		Company	
	At 31 Dec 2016	**At 31 Dec 2015**	**At 31 Dec 2016**	**At 31 Dec 2015**
Deferred income tax assets:				
Deferred income tax assets to be realised after 12 months	19,616	19,008	19,533	18,949
Deferred income tax assets to be realised within 12 months	1,483	2,398	1,477	2,367
Total	**21,099**	**21,406**	**21,010**	**21,316**
Deferred income tax liabilities:				
Deferred income tax liabilities to be settled after 12 months	(26,880)	(28,643)	(26,861)	(28,618)
Deferred income tax liabilities to be settled within 12 months	(2,369)	(3,058)	(2,365)	(3,054)
Total	**(29,249)**	**(31,701)**	**(29,226)**	**(31,672)**

Income tax expense reported in the statement of comprehensive income can be reconciled to income tax expense that would arise using a statutory income tax rate applicable to profit before income tax:

	Group		Company	
	At 31 Dec 2016	**At 31 Dec 2015**	**At 31 Dec 2016**	**At 31 Dec 2015**
Profit (loss) before income tax	**19,794**	**1,646**	**18,883**	**3,677**
Income tax calculated at a rate of 15%	2,969	247	2,832	552
Unrecognised deferred income tax on tax losses	(7)	20	-	-
Tax effect of income not subject to tax and non-deductible expenses	(896)	79	(777)	(245)
Income tax expenses/(income) recognised in profit or loss	**2,066**	**346**	**2,055**	**307**

23. Trade payables

	Group		Company	
	At 31 Dec 2016	At 31 Dec 2015	At 31 Dec 2016	At 31 Dec 2015
Amounts payable for property, plant and equipment and inventories	2,436	21,716	2,427	21,715
Amounts payable for contractual works, services	6,558	4,167	1,086	1,401
Amounts payable for electricity	4,754	1,951	4,754	1,951
Amounts payable for electricity transit	109	234	109	234
Carrying amount	**13,857**	**28,068**	**8,376**	**25,301**

The fair value of trade payables approximates their carrying amounts.

24. Advance amounts received

	Group		Company	
	At 31 Dec 2016	At 31 Dec 2015	At 31 Dec 2016	At 31 Dec 2015
Guarantee to secure fulfilment of obligations	869	1,944	869	1,944
Other advance amounts received	-	70	-	70
Carrying amount	**869**	**2,014**	**869**	**2,014**

The Group and the Company's guarantees to secure fulfilment of obligations consist of deposits received, including those for the trade in exchange.

25. Other amounts payable

	Group		Company	
	At 31 Dec 2016	At 31 Dec 2015	At 31 Dec 2016	At 31 Dec 2015
Payable administered PSO funds	-	-	-	149
Difference between PSO service funds received and disbursed	274	49	274	49
Advance amounts received from new users*	660	2,900	660	2,900
Employment-related liabilities	653	617	175	146
Accrued expenses relating to vacation reserve	1,010	933	513	463
VAT payable	1,284	1,044	1,178	819
Real estate tax payable	548	510	546	510
Dividends payable	401	412	401	412
Other accrued expenses	2,034	13,915	1,812	13,822
Accrued liabilities for electricity	1,125	1,526	1,125	1,526
Other payables and current liabilities	1,609	1,254	1,700	854
Carrying amount	**9,598**	**23,160**	**8,384**	**21,650**

*Advance amounts received from new users represent prepayments received from new users for their connection to the electricity network. These advance amounts will be recognised as income upon the provision of connection services.

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

26. Revenue and expenses of electricity transmission and related services

Electricity revenue

	Group		Company	
	2016	**2015**	**2016**	**2015**
Electricity transmission services	67,968	50,419	67,968	50,419
Trade in balancing/regulating electricity	22,066	14,569	22,066	14,569
Capacity reserve services	33,923	9,370	33,923	9,370
Other sales of electricity and related services	6,041	3,620	6,041	3,620
Services under PSO scheme	7,105	4,313	7,105	4,313
Income from connection of new users	2,674	694	2,674	694
Congestion revenue	3,438	-	3,438	-
Total	**143,215**	**82,985**	**143,215**	**82,985**

Revenue from electricity transmission increased by 35% up to EUR 68 million compared to 2015. Revenue from electricity transmission represented 41% of the Group's total revenue. Increase in revenue was driven by higher volume of electricity transmission and a 28% higher electricity transmission service tariff established by the National Control Commission for Prices and Energy.

Revenue from sale of electricity balancing/regulating increased by 51% up to EUR 22.1 million. Such increase was mostly driven by a 56% higher volume of electricity balancing/regulating sold, which in turn increased as a result of assuring allocated capacities of new power links with Sweden and Poland (i.e. the volume of electricity traded on power exchange).

Revenue from system services increased 3.6 times up to EUR 33.9 million largely due to a 3.8 times higher system service tariff established by the National Control Commission for Prices and Energy as from 1 January 2016. The system service tariff was reduced by 23% as from 1 August 2016.

Electricity expenses

	Group		Company	
	2016	**2015**	**2016**	**2015**
Expenses of compensation for technological losses of electricity	15,409	9,862	15,409	9,862
Expenses of system services	36,900	10,320	36,900	10,320
PSO expenses (balancing of production from renewable energy sources)	7,006	4,215	7,006	4,215
Expenses of balancing and regulating electricity	16,678	10,814	16,678	10,814
Expenses of participation in ENTSO-e ITC mechanism	1,184	2,582	1,184	2,582
Expenses of guaranteeing the use of allocated capacities of interconnections	3,438	-	3,438	-
Total	**80,615**	**37,793**	**80,615**	**37,793**

Compared to 2015, electricity expenses increased more than 2 times. Expenses of balancing and regulating electricity increased by 54% up to EUR 16.7 million. Expenses of system services increased 3.6 times up to EUR 36.9 million. Expenses of compensation for technological losses in the transmission network on purchase of electricity increased by 56% up to EUR 15.4 million.

27. Segment reporting

The Group has distinguished the following 5 segments:

- electricity transmission;
- trade in balancing/regulating electricity;
- provision of system (capacity reserve) services;
- provision of services under PSO (public service obligation) scheme;
- repair and maintenance activities.

The Company's segments coincide with the electricity transmission, trade in balancing/regulating electricity, provision of system (capacity reserve) services and provision of services under PSO (public service obligation) scheme segments distinguished within the Group. Segments of the Group and the Company are not aggregated.

The electricity transmission segment is engaged in transmitting electricity over high voltage (330-110 kV) networks from producers to users or suppliers not in excess of the limit established in the contract. The main objective of these activities is to ensure a reliable, effective, high quality, transparent and safe electricity transmission to distributions networks, large network users from power stations and neighbouring energy systems.

Trade in balancing/regulating electricity is a service ensuring the balancing of electricity generation/import and demand/export levels.

Provision of system (capacity reserve) services. In order to ensure a reliable work of the system, the Company purchases from electricity producers the service of ensuring capacity reserve for power generation facilities, reaction power and voltage control, breakdown and disorder prevention and its liquidation and provides capacity reserve services to users. The capacity reserve is required in case of unexpected fall in electricity generation volumes or increase in electricity consumption.

The Company's/Group's services provided under PSO scheme comprise as follows:

- development and implementation of strategic projects for the improvement of energy security, installing interconnections between the electricity transmission systems abroad and (or) connecting the electricity transmission systems in the Republic of Lithuania with the electricity transmission systems in foreign countries (interconnections Lithuania-Sweden and Lithuania-Poland, connection of the Lithuanian electric energy system to continental Europe networks);
- connection of power generation facilities that use the renewable energy resources to transmission networks; optimisation, development and/or reconstruction of transmission networks ensuring the development of power generation that uses the renewable energy resources;
- balancing of electricity generated using the renewable energy resources.

Repair and maintenance services are carried out by the Company's subsidiaries Tetas UAB and Litgrid Power Link Service UAB. The core line of business of Tetas UAB is provision of medium-voltage transformer substation and distribution station reconstruction, repair and maintenance services. The purpose of Litgrid Power Link Service UAB is a centre of competence of high qualification and specific engineering fields, and operation and management of HVDC (High Voltage Direct Current) links.

The Group's information on segments for the period ended 31 December 2016 is presented in the table below:

	Operating segments					
2016	**Electricity transmission**	**Trade in balancing/ regulating electricity**	**Provision of system services**	**Provision of services under PSO scheme**	**Repair and maintenance activities**	**Total**
Revenue	88,236	22,065	33,923	7,105	19,937	171,266
Inter-segment revenue	-	-	-	-	(4,211)	(4,211)
Revenue after elimination of intercompany revenue within the Group	**88,236**	**22,065**	**33,923**	**7,105**	**15,726**	**167,055**
Operating profit/(loss)	**18,522**	**5,084**	**(3,409)**	**(2)**	**986**	**21,181**
Finance income/(cost), net*	**x**	**x**	**x**	**x**	**x**	**(1,419)**
Share of result of associates and joint ventures*	x	x	x	x	x	32
Profit/(loss) before income tax	**x**	**x**	**x**	**x**	**x**	**19,794**
Income tax*	**x**	**x**	**x**	**x**	**x**	**(2,066)**
Discontinued operations	**x**	**x**	**x**	**x**	**x**	**129**
Profit/(loss) for the year	**x**	**x**	**x**	**x**	**x**	**17,857**
Depreciation and amortisation expenses	26,077	79	238	-	222	26,616
Write-offs of property, plant and equipment	911	-	-	-	-	911
Impairment of property, plant and equipment	502	-	-	-	-	502

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

The Group's information on segments for the period ended 31 December 2015 is presented in the table below:

	Operating segments					
2015	**Electricity transmission**	**Trade in balancing/ regulating electricity**	**Provision of system services**	**Provision of services under PSO scheme**	**Repair and maintenance activities**	**Total**
Revenue	56,819	14,569	9,370	4,313	20,477	105,548
Inter-segment revenue	-	-	-	-	(5,520)	(5,520)
Revenue after elimination of intercompany revenue within the Group	**56,819**	**14,569**	**9,370**	**4,313**	**14,957**	**100,028**
Operating profit/(loss)	**1,313**	**4,194**	**(1,329)**	**(4)**	**(1,974)**	**2,200**
Finance income/(cost), net*	**x**	**x**	**x**	**x**	**x**	**(529)**
Share of result of associates and joint ventures*	x	x	x	x	x	(25)
Profit/(loss) before income tax	**x**	**x**	**x**	**x**	**x**	**1,646**
Income tax*	**x**	**x**	**x**	**x**	**x**	**(346)**
Discontinued operations	**x**	**x**	**x**	**x**	**x**	**114**
Profit/(loss) for the year	**x**	**x**	**x**	**x**	**x**	**1,414**
Depreciation and amortisation expenses	21,331	135	45	-	263	21,774
Write-offs of property, plant and equipment	2,214	-	-	-	-	2,214

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

The Group operates in Lithuania and its revenue generated from customers in Lithuania accounts for 89% of total revenue.

In 2016 and 2015, the Group's and the Company's revenue by the geographical location of the customers:

	Group		Company	
	2016	2015	2016	2015
Lithuania	147,830	95,921	132,104	80,963
Norway	4,283	373	4,283	373
Sweden	11,074	-	11,074	-
Latvia	714	835	714	835
Estonia	1,544	1,862	1,544	1,862
Poland	524	590	524	590
Italy	607	-	607	-
Other	479	447	479	447
Total	**167,055**	**100,028**	**151,329**	**85,070**

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

The Group's/Company's revenue in 2016 from the largest clients, for which sales in the Group's segments exceeded 10%:

Name of the company	Transmission activity	Trade in balancing / regulating electricity	Provision of system services	Total
Energijos Skirstymo Operatorius AB	61,081	1,034	29,970	92,085
Energijos Tiekimas UAB	-	5,401	-	5,401
Lietuvos Energijos Gamyba AB	171	2,607	80	2,858

The Group's/Company's revenue in 2015 from the largest clients, for which sales in the Group's segments exceeded 10%:

Name of the company	Transmission activity	Trade in balancing / regulating electricity	Provision of system services	Total
Energijos Skirstymo Operatorius AB	46,467	1,165	8,269	55,900
Lietuvos Energijos Gamyba AB	89	7,466	15	7,571
Orlen Lietuva AB	2,418	86	425	2,929

28. Other income

	Group		Company	
	2016	2015	2016	2015
Repairs and other services	15,404	15,115	-	-
Lease of assets	1,230	1,594	1,219	1,604
Engineering works	405	233	-	-
Other income	6,801	101	6,895	481
Total	**23,840**	**17,043**	**8,114**	**2,085**

29. Related-party transactions

The Company's/Group's related parties in 2016 and 2015 were as follows:

- EPSO-G (the parent company of the Company). 100% of EPSO-G share capital is owned by the Ministry of Energy of the Republic of Lithuania;
- Subsidiaries of the Company;
- Associates and joint ventures of the Company;
- Amber Grid AB (common shareholders);
- Baltpool UAB (common shareholders);
- Management.

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

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

Related parties	Trade payables	Trade receivables	Purchases	Sales
The Group's parent company (EPSO-G UAB)	15	-	17	388
EPSO-G UAB group companies	-	4,871	(652)	24,001*
Group's associates and joint ventures	38	85	361	1,218
	53	**4,956**	**(274)**	**25,607**

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

Related parties	Trade payables	Trade receivables	Purchases	Sales
The Group's parent company (EPSO-G UAB)	14	-	15	388
EPSO-G UAB group companies	-	4,871	(652)	24,001*
The Company's subsidiaries	345	332	4,576	113
Group's associates and joint ventures	38	85	361	1,218
	397	**5,288**	**4,300**	**25,720**

*PSO service funds received from related parties (PSO funds administrator). The Company does not recognise revenue and expenses from funds collected from network users connected to the power transmission network and transferred to the PSO funds administrator.

The Group's transactions conducted with related parties in 2015 and balances arising from these transactions as at 31 December 2015 were as follows:

Related parties	Trade payables	Trade receivables	Purchases	Sales
The Group's parent company (EPSO-G UAB)	-	2	-	19
Group's associates and joint ventures	94	143	593	1,509
	94	**145**	**593**	**1,528**

The Company's transactions conducted with related parties in 2015 and balances arising from these transactions as at 31 December 2015 were as follows:

Related parties	Trade payables	Trade receivables	Purchases	Sales
The Group's parent company (EPSO-G UAB)	-	2	-	19
Subsidiaries of the Company	149	2,028	10,454*	22,474**
Group's associates and joint ventures	192	13	4,609	440
Related parties	94	143	593	1,509
	435	**2,186**	**15,656**	**24,442**

*PSO service funds transferred to related parties (PSO funds administrator). In this transaction the Company acted as an agent on behalf of the NCC/Government, therefore it did not recognise revenue and expenses from funds collected from network users connected to the power transmission network and transferred to the PSO funds administrator.
**PSO service funds received from related parties (PSO funds administrator). The Company does not recognise revenue and expenses from funds collected from network users connected to the power transmission network and transferred to the PSO funds administrator.

Transactions with other companies controlled by the Government were business transactions, which are regulated by legal acts, therefore such transactions are not disclosed.

Payments to the key management personnel

	Group		Company	
	2016	**2015**	**2016**	**2015**
Employment-related payments	801	736	556	520
Whereof: termination benefits	33	-	33	-
Number of the key management personnel (average annual)	12	12	7	7

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

30. Basic and diluted earnings per share

In 2016 and 2015, the Group's basic and diluted earnings per share were as follows:

	2016	**2015**
Net profit (loss) attributable to the Company's shareholders (EUR thousands)	17,847	1,376
Weighted average number of shares (units)	504,331,380	504,331,380
Basic and diluted earnings (deficit) per share (in EUR)	**0.035**	**0.003**

31. Assets held for sale and discontinued operations

Pursuant to the decision passed during the extraordinary general meeting of the Company's shareholders held on 28 January 2016, the Company and EPSO-G UAB signed the agreement on the purchase and sale of shares on 5 February 2016. Under this agreement the Company transferred to EPSO-G UAB 478,800 ordinary registered intangible shares of Baltpool UAB representing 67% of the total share capital of Baltpool UAB. The right of ownership was transferred to EPSO-G UAB as from 1 March 2016. The shares of Baltpool UAB were sold for the market price of EUR 387,828 established by an independent property valuer. EPSO-G UAB has fully settled for the shares.

As at 31 December 2015, assets and liabilities attributable to discontinued operations comprised as follows:

Condensed statement of financial position	**At 31 December 2015**
Intangible assets	23
Property, plant and equipment	7
Other non-current assets	2
Current assets	43,274
Cash and cash equivalents	420
Total assets (excluding transactions with the Group)	**43,726**
Amounts receivable from the Group companies	149
Total assets (excluding transactions with the Group)	**43,875**
Non-current liabilities	2
Financial liabilities	21,231
Other current liabilities	20,210
Total liabilities (excluding transactions with the Group)	**41,443**
Amounts payable to the Group companies	2,029
Total liabilities	**43,472**
Total equity	**403**
Attributable to:	
Owners of the Company	270
Non-controlling interest	133

The Group recognised profit of EUR 97 thousand from operations being discontinued calculated as the difference between share in net assets of Baltpool UAB and sales price

Condensed statement of financial position of Balpool UAB as at 29 February 2016 is stated below:

Condensed statement of financial position	**2016-02-29**
Intangible assets	21
Property, plant and equipment	7
Other non-current assets	2
Current assets	38,401
Cash and cash equivalents	460
Total assets (excluding transactions with the Group)	**38,891**
Amounts receivable from the Group companies	-
Total assets	**38,891**
Non-current liabilities	2
Financial liabilities	16,596
Other current liabilities	19,834
Total liabilities (excluding transactions with the Group)	**36,432**
Amounts payable to the Group companies	2,025
Total liabilities	**38,457**
Net assets	**434**
Non-controlling interest	143
Sales price	388
Sales profit	(97)

Upon disposal of Baltpool UAB, all income earned and expenses incurred over two months of 2016 were attributed to discontinued operations in the statement of comprehensive income. Accordingly, the comparative figures (for 2015) were presented.

Condensed income statement	**2016 For 2 months period**	**2015**
Revenue	95	533
Expenses	(65)	(413)
Financing activity, net	-	-
Profit before income tax	30	120
Income tax		(6)
Net profit (loss)	30	114
Minority interest	10	38

The table below presents cash flows of Baltpool UAB over two months of 2016 and over the year 2015.

Condensed cash flow statement	**2016 For 2 months period**	**2015**
Net cash flows from operating activities	4,623	(13,315)
Net cash flows from investing activities	-	(16)
Net cash flows from financing activities	(4,655)	12,936

32. Additional information on cash flows

The change in the Company's payables for non-current assets amounting to EUR 19,355 thousand (2015: EUR 1,817 thousand) and capitalised interest amounting to EUR 150 thousand (2015: EUR 943 thousand) were taken into account when calculating cash flows from investing activities in 2016.

33. Financial risk factors

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

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

	Group		Company	
Financial assets	**At 31 Dec 2016**	**At 31 Dec 2015**	**At 31 Dec 2016**	**At 31 Dec 2015**
Trade receivables	19,041	12,918	14,552	8,720
Other receivables	24,916	20,277	24,593	22,318
Other financial assets	10,012	2,574	10,012	2,574
Cash and cash equivalents	798	791	608	483
Loans and receivables	**54,767**	**36,560**	**49,765**	**34,095**
Other financial assets				
Available-for-sale financial assets	2,693	2,273	2,693	2,273
Total	**57,460**	**38,833**	**52,458**	**36,368**

	Group		Company	
Financial liabilities	**At 31 Dec 2016**	**At 31 Dec 2015**	**At 31 Dec 2016**	**At 31 Dec 2015**
Borrowings	165,503	203,438	164,688	202,442
Trade payables	13,857	28,068	8,376	25,301
Other amounts payable and liabilities	3,719	15,309	3,000	14,895
Total	**183,079**	**246,815**	**176,064**	**242,638**

Credit risk

As at 31 December 2016 and 2015, exposure to credit risk was related to the following items:

	Group		Company	
	At 31 Dec 2016	**At 31 Dec 2015**	**At 31 Dec 2016**	**At 31 Dec 2015**
Financial assets (other than available-for-sale financial assets)	54,767	36,560	49,765	34,095

The Group and the Company have a significant credit risk concentration, because exposure to credit risk is shared among 10 main customers, which as at 31 December 2016 accounted for approximately 58% (31 December 2015: 89%) of the Group's and 59% (31 December 2015: 94%) of the Company's total trade and other amounts receivable. As at 31 December 2016, amounts payable by the largest customer – distribution network operator Energijos Skirstymo Operatorius AB (former Lesto AB) – made up 33% (31 December 2015: 18%) of the Group's and 33% (31 December 2015: 19%) of the Company's total amounts receivable.

When entering into contracts with customers (suppliers of balancing electricity) Litgrid requires to pay a cash deposit of the established amount or to provide a bank guarantee in accordance with the procedure and conditions stipulated in the Description of the Procedure for Ensuring Fulfilment of Obligations of Balancing Electricity Suppliers of Litgrid AB approved by the Company's CEO. In other cases, since the main customers are trustworthy customers Energijos Skirstymo Operatorius AB, which is Lietuvos Energija UAB group company, and other large corporate customers, the Group/Company does not require any collateral from its customers.

The Group and the Company invest their free liquid funds only in low risk money market and debt instruments, i.e. time deposits, bonds of trustworthy financial institutions, government securities. When making investments the priority objective is to ensure the security of funds and in pursue of this objective to maximise return on investments. Investments are made only in debt financial instruments of financial institutions or governments with not lower than A- rating according to Fitch Rating agency (or equivalent rating of other rating agencies). In the table below, the ratings of the parent banks where the Group and the Company hold their cash and cash equivalents (Note 13) are provided:

Nordea	AA-
Danske bank	A
Swedbank	A+
SEB	A+
Pohjola Bank plc	A+
DNB Bank	A+

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

For ageing analysis of the Group's/Company's trade and other receivables see Notes 10 and 11.

Liquidity risk

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

The Group's cash flows from operating activities were positive in 2016, therefore its exposure to liquidity risk is insignificant. The Group's liquidity ratio (total current assets / total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) as at 31 December 2016 were 0.79 and 0.74, respectively (31 December 2015: 0.31 and 0.29, respectively). The Company's liquidity and quick ratios as at 31 December 2016 were 0.74 and 0.74, respectively (31 December 2015: 0.29 and 0.28, respectively).

The table below summarises the maturity profile of the Group's and the Company's financial liabilities based on contractual undiscounted payments. This table has been prepared based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. Balances with repayment terms up to 12 months are equal to their carrying amounts, because the impact of discounting is insignificant.

Group	**Up to 3 months**	**From 4 months up to one year**	**Within the second year**	**Within the third to the fifth year**	**After 5 years**
At 31 December 2016					
Trade and other amounts payable	17,576	-	-	-	-
Borrowings	1,396	7,839	50,142	45,200	67,859
At 31 December 2015					
Trade and other amounts payable	43,377	-	-	-	-
Borrowings	2,411	7,897	9,234	109,266	82,790

Company	**Up to 3 months**	**From 4 months up to one year**	**Within the second year**	**Within the third to the fifth year**	**After 5 years**
At 31 December 2016					
Trade and other amounts payable	11,376	-	-	-	-
Borrowings	1,396	7,839	49,327	45,200	67,859
At 31 December 2015					
Trade and other amounts payable	40,196	-	-	-	-
Borrowings	1,415	7,897	9,234	109,266	82,790

Market risk

a) Interest rate risk

The Group's and the Company's revenue, expenses and cash flows from operating activities are substantially independent of changes in market interest rates. The Group has non-current and current borrowings and overdrafts with interest rates linked with EURIBOR. A +/- 0.1% shift in interest rate would result in EUR 226 thousand effect of interest of the Group's borrowings on profit before tax as at 31 December 2016 (31 December 2015: EUR 184 thousand).

b) Foreign exchange risk

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

34. Fair value of financial assets and financial liabilities

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

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

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

35. Contingent liabilities

Legal proceedings

Disputes regarding default interest

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

It is projected that the claim may be satisfied to a larger extent, therefore the Company has established a provision of EUR 201,707.73.

On 6 March 2017, A.Žilinskis ir Ko UAB filed a claim against the Company for the recognition of the set-off of a homogeneous counter-claim as null and void and for the awarding of the payment for construction works and interest on late payment. The claim amount is equal to EUR 1,021,804.16. The claimant requests that the court recognises the Company's set-off of EUR 953,175.53, awards this amount to the claimant as an amount owed for the construction works performed, as well as awards from the Company interest on late payment, procedural interest (8%) and litigation expenses of EUR 68,628.63 Currently, a time period has been established for the Company to respond to the claim.

It is projected that the claim may be satisfied to a larger extent, therefore the Company has established a provision of EUR 1,136,885.99.

Disputes related to public service obligations (PSO)

In view of the amendments to the Procedure for the Administration of Public Service Obligations in the Electricity Sector that were approved by Resolution No 1002 of 16 September 2015 of the Government, with effect from 1 October 2015 the Company is no longer engaged in the collection of PSO funds from entities connected to the transmission network. The latter function was taken over by the PSO funds administrator Baltpool UAB. Subject to the above-mentioned legislative amendments, the Company transferred the claim rights to PSO funds debtors (Achema AB, Orlen Lietuva AB, Lifosa AB and Dirbtinis Pluoštas UAB) under the agreements on the transfer of rights and obligations of 23 December 2015 and 21 November 2016, in respect of which legal disputes are pending in 7 cases. Accordingly, the requests have been filed with the court for the replacement of the Company with Baltpool UAB. The outcome of these cases will not affect the Company's financial performance, as the Company acted only as an agent and PSP funds are recorded only in the line items of amounts receivable and amounts payable.

Disputes with the independent suppliers:

Currently, four bankruptcy proceedings were instituted in respect of the independent electricity suppliers that have amounts payable to the Company:

- ECO Energy Systems UAB (the Company's financial claim approved by the court amounts to EUR 783,937.40; the amount recovered during the bankruptcy proceedings equals EUR 202,961.65);
- Elektra Visiems UAB (the Company's financial claim approved by the court amounts to EUR 3,733,593.36);
- Elektros Energijos Prekyba UAB (the Company's financial claim approved by the court amounts to EUR 368,673.20; the amount recovered during the bankruptcy proceedings equals EUR 6,263.73);
- Saurama UAB (the Company's financial claim approved by the court amounts to EUR 3,101,890.21).

It is unlikely that the Company's claims will be satisfied to a larger extent in the bankruptcy proceedings instituted in respect of the former independent electricity suppliers.

Regulatory disputes

The Company continues to challenge the decisions passed by the National Control Commission for Energy and Prices by which the prices of the regulated electricity transmission services were set and announced. With regard to these disputes the Company holds the opinion that the National Control Commission for Energy and Prices incorrectly established the price caps of the electricity transmission service tariffs for 2015 and also on the ground of these price limits illegitimately announced the electricity transmission service prices applicable to the Company.

The Company has also brought a lawsuit requesting to annul the decision of the National Control Commission for Energy and Prices under which an economic sanction of EUR 100 thousand was imposed on the Company for violations relating to the regulated activity that were allegedly made during the regulatory period of 2011-2013. Based on the Company's request the court suspended the investigation of this case until the resolution of another administrative case related to the electricity transmission service price caps for 2015 applicable to the Company.

Other disputes

On 22 April 2016, Litgrid AB filed a claim with Kaunas Regional Court for the payment of electricity transmission services provided by Litgrid AB. Under the agreement on the electricity transmission service No 432-2010-032E/305F/SUT-59-10 (a new version from 1 January 2013) concluded on 1 July 2010, Achema AB failed to make payments of EUR 86,323.72 (incl. VAT) for services provided in January-February 2016. The examination of the case has been completed, the court's ruling is scheduled on 24 March 2017.
Having assessed factual circumstances of the case and a publicly presented interpretation of the National Control Commission for Prices and Energy regarding the application of tariffs, it is projected that the outcome of the case may be favourable to the Company.

36. Events after the end of the reporting period

There were no significant events at the Group and the Company after the end of the reporting period.

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

According to provisions of Article 21(3) of the Republic of Lithuania Law on Securities and the provisions under the Code of Corporate Governance for Companies Listed on NASDAQ OMX Vilnius approved by the Board of NASDAQ OMX Vilnius AB, this Notice issued by Litgrid AB discloses how the Company complies with the provisions of the Code of Corporate Governance approved by the AB NASDAQ OMX Vilnius for companies whose securities are traded in the regulated market. If the Code or any provision thereof is not complied with, the specific provisions and the reasons for non-compliance are explained.

The Code of Corporate Governance for Companies Listed on NASDAQ OMX Vilnius

PRINCIPLES/RECOMMENDATIONS	YES/NO	COMMENTS
PRINCIPLE I: MAIN PROVISIONS **The main purpose of the company should be the satisfaction of the shareholders' interests, at the same time ensuring constant increase in the value of shareholders' equity.**		
1.1. The company should formulate and publish the corporate development strategy and objectives, clearly stating how it plans to act in the interests of the shareholders and augment the shareholders' equity.	YES	The main development lines and strategies of the Company are published in the Company's website www.litgrid.eu and in the Annual Report and Interim Reports of the Company.
1.2. Activities of all corporate management bodies should be focussed on the achievement of strategic goals taking account of the need to augment the shareholders' equity.	YES	The Board of the Company adopts key strategic decisions leading to an increase in the shareholders' equity (optimisation of operating functions and structure of the Company, other actions increasing the operating efficiency and cutting costs). The CEO of the Company organises and implements the Company's business, commercial and financial activities.
1.3. Corporate supervision and management bodies should closely cooperate in order to maximise the benefits for the company and the shareholders.	YES	On 11 May 2016, the General meeting of EPSO-G shareholders elected EPSO-G Supervisory Board (hereinafter – Supervisory Board) of five members for a 4 year term. It performs it's functions at the level of whole EPSO-G Group. On 29 July 2016 the General meeting of Litgrid shareholders elected the Board of the company of five members for a term of 4 years.
1.4. Corporate supervision and management bodies should ensure that rights and interests of other parties participating in or related to the Company's operations (employees, creditors, suppliers, customers and members of local community) are respected in addition to the rights and interests of the shareholders.	YES	1. Since its formation the Company has been cooperating and developing social partnership with the Company's employee representatives (a collective agreement has been concluded). 2. The Company discharges its financial liabilities and other obligations to its creditors. 3. The Company implements social projects involving children, youth, local communities and other social groups. More detailed information on the Company's initiatives is published in its website.

PRINCIPLE II: CORPORATE GOVERNANCE SYSTEM **The corporate governance system should ensure strategic management of the company, effective supervision over corporate management bodies, due balance and division of functions between corporate bodies, and safeguarding of shareholders' interests.**		
2.1. Apart from the bodies mandatory under the Republic of Lithuania Law on Companies – the general meeting of shareholders and the head of the company, it is recommended that both collegiate supervisory body and collegiate management body is formed by the company. Formation of the said bodies enable a clear division of management and supervision functions in a company and accountability and control of the head of the company, which leads to a more effective and transparent corporate governance process.	YES	The Supervisory Board as a collegiate supervisory body is formed in the company. The company has the Board and the Chief Executive Officer.
2.2. The collegiate management body is responsible for the strategic management of the company and performance of other key corporate management functions. The collegiate supervisory body is responsible for the effective supervision of the corporate management bodies.	YES YES	The competencies of the Board are regulated by articles 7.11 through 7.12 of the Articles of Association. The competencies of Supervisory Board are regulated by the articles 7.13-7.14 of the EPSO-G Articles of Association and the Rules of procedure for the Supervisory Board.
2.3. Should the company decide to form only one collegiate body, it is recommended that this body is a supervisory one, i. e. the supervisory council. In this case, the supervisory council is responsible for the effective supervision over the functions performed by the head of the company	YES	The Company has two collegiate bodies: the Supervisory Board and the Board.
2.4. The collegiate supervisory body elected by the general meeting of shareholders should be formed and act according to the procedures laid down under Principles III and IV. Should the company decide to form a collegiate management body – the board – only, Principles III and IV should apply to the board to the extent to which this does not contradict the substance and purpose of this body.	YES	The Supervisory Board as a collegiate supervisory body has been formed in the Company. It should be noted that the Company carries out the electricity transmission activities, therefore, its operations are strictly governed by legal acts and supervised by the relevant authorities (State Commission on Control of Prices and Energy etc.). This ensures that transparent and effective decisions are taken and the principles of non-discrimination of customers, reduction of costs etc. are implemented.
2.5. The numbers of members of the corporate management body (executive directors) and supervision body (consulting directors) should be such that an individual or a small group of individuals is/are not able to dominate the decision-adoption process.	YES	The Supervisory Board consists of 5 (five) members. A meeting of the Supervisory Board is considered to be valid if more than a half members of the Supervisory Board are present. A meeting of the Board is considered to be valid and the Board may pass resolutions if more than two thirds of the Board members are present.
2.6. Consulting directors or members of the supervisory board should be appointed for a defined term, with the opportunity for individual re-election for a maximum term allowed by the Lithuanian legislation in order to ensure the growth in professional experience and sufficient re-approval of their status. In addition, dismissal should be provided for, however, this procedure should not be easier that the procedure for the dismissal of an executive director or a member of the board.	YES	The Supervisory Board is elected for the maximum term of office permitted by the Lithuanian law, i. e. 4 (four) years. The Board is elected for the term of office of 4 (four) years. This term is the maximum term permitted under the Republic of Lithuania Law on Companies. The general meeting of shareholders may recall the Supervisory Board and the Board in full or in part according to the procedure established by the law.
2.7. The chairman of a collegiate body elected by the general meeting of shareholders must be a person whose current or previous position is not an obstacle to independent and unbiased supervision. Where only the board and not the supervisory council is formed in the company, it is recommended that the chairman of the board and the head of the company are different persons. Former head of the company should not be immediately appointed as a chairman of a collegiate body elected by the general meeting of shareholders. Where the company decides not to follow these recommendations, information about measures taken to ensure unbiased supervision should be provided.	NO	There are two independent supervisors in the Supervisory Board.

PRINCIPLE III: PROCEDURE FOR THE FORMATION OF A COLLEGIATE BODY ELECTED BY THE GENERAL MEETING OF SHAREHOLDERS The procedure for the formation of a collegiate body elected by the general meeting of shareholders should ensure representation of interests of minority shareholders, accountability of the body to shareholders, and objective supervision over activities of the company and its management bodies.		
3.1. The mechanism of formation of a collegiate body (hereinafter for the purposes of this Principle – "collegiate body") elected by the general meeting of shareholders should ensure objective and unbiased supervision over corporate management bodies as well as proper representation of interests of minority shareholders.	YES	The Supervisory Board is elected by the general meeting of EPSO-G shareholders according to the provisions of the Republic of Lithuania Law on Companies. The General meeting of shareholders of the Company elects the Board.
3.2. Names, education information, qualifications, professional experience, information on current position, other important professional obligations and potential conflicts of interests of candidates to members of collegiate management bodies should be disclosed to the company's shareholders prior to the general meeting so that the shareholders have enough time to decide on the voting on the candidates. In addition, any circumstances that may affect the candidate's independence (a model list is provided in Recommendation 3.7) should be disclosed. The collegiate body should be informed about any subsequent changes in the information disclosed under this p. 3.2. The collegiate body should collect the disclosed information on members and include them in its annual report.	YES	Information about candidates for Members of the Supervisory Board is presented to the shareholders according to the procedure established by the Republic of Lithuania Law on Companies prior to the start of the general meeting of shareholders the agenda of which contains an item of election of Members of the Supervisory Board. According to the Articles of Association of EPSO-G (article 7.9), each candidate to the position of the Member of the Supervisory Board must submit to the general meeting of shareholders a declaration of the candidate's interests, stating therein any circumstances that could give rise to a conflict of interests between the candidate and the Company. In case if such circumstances arise, the Supervisory Board Member must immediately notify such new circumstances to the Supervisory Board in writing.
3.3. Where a proposal is made for the election of a member of a collegiate management body, his competences necessary for the work in the body must be specified. In order that the shareholders and investors can assess whether the competences remain valid, in every annual report the collegiate body must include information on its composition and specific competences of its members related to their work in the body.	YES	Information about the candidates to the Members of the Supervisory Board is presented to the general meeting of shareholders according to the procedure established in the Republic of Lithuania Law on Companies (see Comment on Item 3.2). The information on candidates the Members of the Supervisory Board presented to the general meeting of shareholders includes work experience, positions held and other information on the candidate's competences.
3.4. In order to maintain a proper balance of qualifications of members in a collegiate body, the composition of the body should be set in line with the structure and type of operations of the company and should be subjected to period review. The body should ensure that its members as a whole should possess comprehensive knowledge, views and experience for the proper performance of their tasks. Members of an audit committee as a whole should have latest knowledge and relevant experience in finance and accounting and/or audit of the listed companies. At least one of the members of payroll committee should have knowledge and experience in the wage setting policy.	YES YES YES	The Supervisory Board is elected and its members' qualifications is evaluated by the general meeting of EPSO-G shareholders. The Supervisory Board may not determine its own composition.
3.5. An individual programme aimed at familiarisation with the duties and organisation and operations of the company should be offered to every new member of a collegiate body. The body should carry out annual checks to determine the areas in which its members should refresh their skills and knowledge.	YES	The newly elected Members of the Supervisory Board are granted an opportunity to meet with the Board Members and managers of the Company's structural divisions and to familiarise themselves with the Company's operations. It should be noted that the Supervisory Board Members are informed about the Company's operations on a regular basis – at the meetings of the Supervisory Board and individually as requested by the member.

3.6. In order to ensure proper resolution of any conflicts of interests of members of a collegiate body, the body should contain sufficient number of independent members.	YES	There are two independent supervisors in the Supervisory Board.
3.7. A member of a collegiate body should be considered to be independent only if is not linked with the company, its controlling shareholder or administration of the company/ shareholder by any business, kinship or other relations which give or could give rise to a conflict of interest and which could influence the member's views. As it is impossible to list all the cases when a member of a collegiate body may lose independence, in addition, relations and circumstances relate to the determination of independence may differ from company to company, and the best practice of resolution of the problem may form in time, an assessment of independence of the member should be based on the content and not the form of the relations and circumstances. Main criteria on which determination of the member's independence should be based: 1) he may not be executive director or member of the board of the company or an associated company (if the collegiate body elected by the general meeting of shareholders is a supervisory council) and may not have occupied such position during the past five years); 2) he may not be employee of the company or an associated company and may not have occupied such position during the past three years except for cases when the member of the collegiate body is not part of top management and was elected to the body as a representative of employees; 3) he must not be receiving or received significant additional remuneration from the company or an associated company except for remuneration received as a member of a collegiate body. Such additional remuneration includes participation in share options or other remuneration systems based on the operating results; this does not include compensation benefits under a pension plan (including deferred compensations) for previous work in the company (on condition that such benefit is not related in any way to subsequent positions); 4) he may not be a controlling shareholder and may not represent such shareholder (control is determined according to Article 1(1) of Council Directive 83/349/EEC); 5) he may not have or have had in the previous years any significant business relations with the company or an associated company directly or as a partner, shareholder, director or senior manager of an entity having such relations. An entity is considered to be having business relations if it is an important supplier of goods or services (including financial, legal, advisory and consulting services), significant customer or organisations receiving significant payments from the company or the group to which the company belongs; 6) he may not be and may not have been in the past three years a partner or employee of the current or previous external auditor of the company or an associated company; 7) he may not be executive director or member of the board of another company in which the executive director or member of the company (in case of a supervisory council elected by the general meeting of shareholders) is a consulting director or member of a supervisory council, an may not have other significant relations with the company's executive directors that arise in the process of participation in the activities of other companies or bodies; 8) he may not have occupied the position of a member of a collegiate body longer than 12 years; 9) he may not be a member of the closest family of the executive director or a member of the board (in case of a supervisory council elected by the general meeting of shareholders) or of persons referred to in items 1 to 8 above. Close family includes spouses/partners, children and parents.	YES	There article 7.2 of EPSO-G Articles of Association provide that the Supervisory Board consists of 5 (five) members out of which 2 (two) are independent members. Their independence is determined by the criteria listed in the rules of procedure of State property and non-property rights in state-owned enterprises, the Nasdaq listed companies management code and other applicable legislation.

3.8. The content of the notion of independence is determined by the collegiate body itself. The body mat decide that a certain member cannot be considered independent due to particular personal or company-related circumstances, even though he meets all the independence criteria set in this Code.	YES/NO	See 3.7
3.9. Information on the conclusions drawn by the collegiate body in determining whether a member can be considered independent should be disclosed. Where appointment of a member of a collegiate body is proposed, the company should announce whether the member is considered independent. Where a member of the body does not meet any independence criteria set in this code, the company should announce reasons why it still considers that member independent. In addition, the company should state in every annual report which members of the collegiate body are considered independent.	YES	See 3.7
3.10. Where one or more of the independence criteria set out in this Code have not meet throughout the year, the company should announce reasons why a member of the collegiate body is considered independent. In order to ensure accuracy of information about independence, the company should demand that independent members would confirm their independence on a regular basis.	Not applicable	The company had no cases so far to apply this recommendation
3.11. Independent members of a collegiate body may be remunerated for their work and attendance of meetings of the body out of the company's funds. The size of the remuneration should be approved by the general meeting of shareholders.	YES	An independent member of the Supervisory Board is compensated for his/her activities according to conditions established in the contract of the Independent member of the Supervisory Board. The conditions of such contracts are approved by the general meeting of EPSO-G shareholders.
PRINCIPLE IV: DUTIES AND RESPONSIBILITIES OF A COLLEGIATE BODY ELECTED BY THE GENERAL MEETING OF SHAREHOLDERS **The corporate governance system should ensure that the collegiate body elected by the general meeting of shareholders functions properly and effectively and the rights granted to the body should endure effective supervision over the corporate management bodies and protection of the shareholders' interests.**		
4.1. The collegiate body elected by the general meeting of shareholders ("the collegiate body") should ensure integrity and transparency if the financial accounting and control system of the company. The collegiate body should constantly make recommendations to the company's management bodies and supervise and control their activities in the area of management of the company.	YES	The Supervisory Board submits to the general meeting of Litgrid shareholders or the Board its feedback and proposals for the Company's operating strategies, the annual financial statements, the profit allocation project, the Annual Report of the Company, and the work of the Company's CEO and makes proposals concerning a draft decision on declaring dividend for a period shorter than the financial year and the interim financial statements and the interim report prepared for this purpose.
4.2. Members of the collegiate body should act for the benefit and in the interests of the company and shareholders in good faith, carefully and responsibly, taking account of the employees' interests and public welfare. Independent members of a collegiate body should: a) maintain independence of their analyses, decision adoption and actions under any circumstances; b) do not seek and do not accept unjustified preferences that might compromise their independence; c) clearly express their objections in cases when, in their opinion, decision by the collegiate body may be harmful to the company. Where the collegiate body has adopted decisions with respect to which an independent member has serious doubts, in such a case the member should draw conclusions accordingly. In case of resignation of an independent member he should explain the reasons therefor in a letter to the collegiate body or audit committee and, if necessary, to a relevant external body (institution).	YES	Members of the Supervisory Board act for the benefit and in the interests of the company and shareholders in good faith, carefully and responsibly, taking account of the company' interests and public welfare. Members of the Supervisory Board have the right to express their opinion on all issues on the agenda of the meeting, which, according to the Supervisory Board work regulations have to be properly reflected in the minutes of the meeting.
4.3. Each member of a collegiate body should devote sufficient time and efforts to the performance of his duties in a collegiate body. Each member of a collegiate body should undertake to limit his other professional obligations (in particular the duties of a director of another company) so that they do not hinder the performance of his duties as a member of the collegiate body. If a member has attended less than one half of the meetings of the collegiate body during the company's financial year, the shareholders should be notified thereof.	YES	Members of the Supervisory Board take an active part in the meetings of the collegiate body and devote sufficient time for the performance of their functions as Members of the collegiate body. The participants in the meetings are recorded in the minutes.

4.4. Where decisions by the collegiate body may have different effects on different shareholders, the collegiate body must treat all the shareholders in good faith and without bias. It should ensure that the shareholders are duly informed about the company's affairs, strategies, risk management and resolution of conflicts of interest. The company must have clearly defined the role of the members of the collegiate body in the relations with shareholders and in their obligations to the shareholders.	YES	The shareholders are informed about the Company's strategies, risk management and resolution of conflicts of interests according to the procedure established by the law. The role of the Supervisory Council Members in the communication with and obligations to the shareholders is determined according to provisions of the Lithuanian Law on Companies and the Articles of Association.
4.5. It is recommended that transactions (except low value transactions or transactions concluded in the normal course of business of the company) between the company and its shareholders or members of supervisory or management bodies or other natural or legal persons that may have influence over the company's management should be certified by a collegiate body. Decision on the approval of such transactions should be deemed to be adopted only if the majority of the independent members of the collegiate body vote for it.	YES / NO	Management bodies of the Company conclude and approve transactions according to provisions of the legal acts and Articles of Association of the Company. The general meeting of shareholders of EPSO-G takes decisions on standard terms and conditions of agreements with the Supervisory Board Members and on payment of remuneration to the Supervisory Board Members. The general meeting of company's shareholders takes decisions on standard terms and conditions of agreements with the Board Members and on payment of remuneration to the Board Members. The Board of the Company sets of standard conditions for contracts to be concluded with the company, as well as decide on the payment of remuneration. The managing bodies conclude and approve transactions following the legislation and the Company's articles of association.
4.6. The collegiate body should be independent in adopting decisions that are significant for the company's activities and strategies. In addition, the collegiate body should be independent from management bodies of the company. Work and decisions by the collegiate body should not be influenced by the persons that elected it. The company should ensure that the collegiate body and its committees are provided with sufficient resources (including financial) necessary for the performance of their duties including the right to obtain – in particular from the employees of the company – all the requisite information and the right to approach external law, accounting or other professionals for advice on the matters falling within the scope of competence of the collegiate body and its committees. The remuneration committee, while using the consultants'/experts' services in order to get information about market standards on setting of remuneration rates, must ensure that the same consultant would not provide consulting on personnel division or executive director or members of management bodies of a related company at the same time.	YES YES YES	The Supervisory Board is independent of the Company's management bodies and in makes decisions that are significant for the Company's operations and strategy, independently, in accordance with the law and the Articles of Association of EPSO-G. EPSO-G ensures proper working conditions for the Supervisory Council and its Members and furnishes them with organisational resources necessary for work. The CEO of EPSO-G appoints a secretary for the Supervisory Council who services its meetings.
4.7. Work of the collegiate body should be organised in such a way that independent members of the collegiate body would have significant influence in the most important areas with a high potential of conflicts of interest. Such areas include issues related to the appointment of directors, setting of remuneration to directors, and audit control over the company. Therefore, in the case where these issues fall within the scope of competence of a collegiate body, it is recommended that the collegiate body forms committees on appointment, remuneration and audit. The company should ensure that functions assigned to the appointments, remuneration and audit committees are performed, however, they may be combined and less than three committees may be formed. In such a case the company must provide a detailed explanation why an alternative approach was selected and how it complies with the objectives of the three individual committees. Where the collegiate body has a small number of members, the functions of the three committees may be performed by the collegiate body itself, provided that it meets the composition requirements set for the committees and the requisite information on this issue is disclosed. In such a case the provisions of this Code related to the said committees of the collegiate body (in particular, to their role, activities and transparency) should apply to the collegiate body as whole, where applicable.	YES	The Remuneration and Nomination Committee is established at EPSO-G. It's jurisdiction is governed by its rules of procedure and the Articles of Association of EPSO-G. The Audit Committee is established in EPSO-G. It's jurisdiction is governed by its rules of procedure and the Articles of Association of EPSO-G.

4.8. The main purpose of the committees is to increase efficiency of work of the collegiate body to ensure that decisions are adopted upon proper consideration and to assist in the organisation of work so that conflicts of interest do not influence decisions adopted by the collegiate body. The committees should act in an independent manner and adhere to their principles and provide to the collegiate body recommendations on decision-adoption by the collegiate body, however, the final decision shall be adopted by the collegiate body itself. The recommendation on the formation of committees is not aimed at narrowing the scope of competence of the collegiate body or delegate it to the committees. The collegiate body remains fully responsible for the decisions adopted within the scope of its competence.	YES	See 4.8
4.9. Committees formed by the collegiate body should normally consist of at least three members. In companies whose collegiate body has a small number of members a committee may be formed of two persons by way of exception. The majority of the members of any committees should consist of independent members of the collegiate body. In case if no supervisory council is formed in the company, the salaries committee and the audit committee should be formed exclusively of consulting directors. In deciding on the chairman and members of a committee, account should be taken of the fact that membership of committees should be renewed and excessive trust should not be placed on any person.	YES	According to the item 7.24.1 of EPSO-G Articles of Association, the Audit Committee shall consist of not less than 3 members, who are appointed by the General meeting of EPSO-G shareholders for the term not longer than 4 years with a reasoned decision to be taken with regard to the Remuneration and nomination committee's recommendations. According to the item 7.25.1 of EPSO-G Articles of Association, the Remuneration and Nomination Committee shall consist of not less than 3 members, who are appointed by the Supervisory Board from the selected candidates for the term not longer than 4 years with a reasoned decision.
4.10. Authorisations of any committee should be established by the collegiate body. Committees should perform their duties within the scope of their authorisations and inform the collegiate body about its activities and results on a regular basis. Authorisations of each committee, with the roles, rights and responsibilities defined, should be published at least once in a year (as part of the information that the company publishes on its management structure and practices every year). The annual report of the company should also include notices of published by the committees stating information about their composition, number of meetings and attendance by members during the past year as well as about main lines of activities. The audit committee should certify that is it satisfied with the independence of the audit process and briefly describe actions taken to arrive to this conclusion.	YES	See 4.9
4.11. In order to ensure independence and objectivity of committees, members of the collegiate body that are not members of the committees should normally have the right to attend the meetings of the committee only subject to invitation by the committees, The committee may invite or demand that certain employees or experts attend the meetings. Chairman of each committee should be enabled to maintain direct relations with the shareholders. Cases when this should be done should be stated in the committee's regulations.	YES	This possibility has been provided for the Rules for the operation of the Audit Committee and the rules of operation of the Remuneration and Nomination Committee.
4.12. Appointments Committee. 4.12.1. The main functions of the Appointments Committee should be as follows: 1) select candidates to vacant positions of members of management bodies and recommend them to the collegiate body for consideration. The committee should assess the balance of skills, knowledge and experience in a management body, prepare a description of functions and abilities required for a specific position, and assess the time necessary for the discharge of obligations. The committee may also evaluate the candidates to members of the collegiate body proposed by the shareholders; 2) on a regular basis, evaluate the structure, size, composition and activities of supervisory and management bodies, make recommendations for changes to the collegiate body; 3) on a regular basis, evaluate skills, knowledge and experience of individual director and notify the collegiate body; 4) devote sufficient attention to the continuity planning; 5) review management bodies' policies on election and appointment of top management.	YES	See 4.7 and 4.9

4.12.2. The appointments committee should consider proposals received from other persons including administration and shareholders. Where issues related to executive directors or members of the board (where the collegiate body elected by the general meeting of shareholders is the supervisory council) and top management, the committee should consult the CEO, entitling him to make proposals to the committee.		
4.13. Remuneration Committee 4.13.1. The main functions of the Remuneration Committee should be as follows: 1) make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. 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 on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) ensure that remuneration of 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 periodic 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 bodies. 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: 1) consider 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 the consequences that this choice has. 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. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.	YES	See 4.7 and 4.9

4.14. Audit Committee 4.14.1. The main functions of the Audit Committee should be as follows: 1) monitor 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 recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit firm/auditor and make recommendations on required actions in such situations; 5) monitor the independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, 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 (organizations) 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 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 work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.	YES	The majority of the specified functions of the Audit Committee have been included in the Rules of Operation of the Audit Committee.

4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report 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. 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.		
4.15. Every year the collegiate body should make a self-assessment, which should include an assessment of the structure, organisation of work, and ability to act as a team of/by the collegiate body, an assessment of competence and efficiency of each member and committee of the body, and an assessment whether the body has achieved its objectives. The collegiate body should publish, at least once in a year (as part of information published annually by the company on its management structures and practices), relevant information on its internal organisation and operating procedures, specifying any material changes resulting from the self-assessment.	YES	Both Articles of Association of the Company and EPSO-G oblige the Supervisory Board and the Board to perform assessments of its operations at least once a year.
PRINCIPLE V: WORKING PROCEDURES OF COLLEGIATE BODIES OF THE COMPANY **The working procedures of the collegiate supervisory and management bodies should ensure effective operation and decision-adoption by these bodies and encourage active cooperation between corporate bodies.**		
5.1. Collegiate supervisory and management bodies of the company (for the purposes of this Principle, *collegiate bodies* include both supervisory and management bodies) are headed by chairmen. A chairman is responsible for the proper convening of meetings of a collegiate body. The chairman should ensure proper notification of all members of the body including the agenda of the meeting. He should also ensure proper chairing of the meetings, order at the meetings and working atmosphere during the meeting.	YES	
5.2. It is recommended that meetings of collegiate bodies of the company are convened at relevant intervals under an approved schedule. A company decides itself on the periodicity of the meetings, however, it is recommended that the periodicity should ensure continues resolution of key issues of corporate management. Meetings of the supervisory council should be convened at least quarterly and meetings of the board – at least monthly.	YES	The item 7.17 of EPSO-G Articles of Association provide that the meetings of Supervisory Board shall be held at least once quarterly. The Supervisory Board draws up a schedule of the Supervisory Board's meetings at the beginning of the calendar year in accordance with the Regulations of the Supervisory Board. According to Article 7.16 of the Articles of Association, meetings of the Board are held at least once in a month. The Board draws up a schedule of the Board's meetings at the beginning of the calendar year in accordance with the Regulations of the Board.
5.3. Members of a collegiate body should be notified of a meeting in advance so that they have enough time to prepare for the consideration of issues at the meeting and the discussions are fruitful and followed by adoption of proper decisions. A notice of the meeting to the members of the collegiate body should be accompanied by any requisite materials related to the agenda. The agenda should not be amended or supplemented during the meeting except for cases when all the members of the body are present at the meeting or where issues material to the company must be urgently resolved.	YES	According to the Regulations of the Supervisory Board, the Members of the Supervisory Board and the invited persons are given a 7 (seven) working days' notice of the meeting, and are furnished with all the requisite information related to the agenda. According to the Regulations of the Board, the Board Members and the invited persons are given a 4 (four) working days' notice of the meeting, and are furnished with all the requisite information related to the agenda 2 (two) working days ahead the meeting.
5.4. In order to coordinate work of collegiate bodies of the company and ensure an effective decision-adoption process, chairman of the collegiate supervisory and management bodies should agree on dates of meetings and agendas and cooperate closely in resolving other issues related to the company's management. Meetings of the supervisory council should be open to members of the board, in particular where issues related to recalling or liability of the latter or setting of remuneration for the latter are resolved.	YES	The Company complies with this recommendation. Chairman of the Supervisory Board and Chairman of the Board is working closely together on issues of corporate governance.

PRINCIPLE VI: UNBIASED TREATMENT OF SHAREHOLDERS AND SHAREHOLDERS' RIGHTS **The corporate governance system should ensure unbiased treatment of all shareholders including minority shareholders and foreign shareholders. The corporate management governance should protect the shareholders' rights.**		
6.1. It is recommended that the company's capital consists only of those shares that grant equal right in terms of voting, ownership, dividend etc. to their holders.	YES	The authorised capital of the Company consists of ordinary registered shares of EUR 0,29 par value. The shares grant equal property and non-property rights to their holders.
6.2. It is recommended that investors are afforded the opportunity of early (i. e. prior to purchase of shares) familiarisation with the rights attached to newly issued or existing shares.	YES	The rights attached to the shares are specified in the Articles of Association of the Company, which are published in the Company's website.
6.3. Transactions that are material to the company and its shareholders such as transfer of the company's assets, investments, mortgage or other encumbrance should be approved by the general meeting of shareholders in advance. All shareholders should be afforded equal opportunities for familiarisation with and participation in the adoption of decisions important for the company including approval of the said transactions.	YES	Item 7.12.3 of the Articles of Association of the Company establish the criteria for material transactions requiring approval of the general meeting of shareholders.
6.4. Procedures for the convening and holding of general meetings of shareholders should provide equal opportunities for the shareholders to take part in the meeting and should not infringe the shareholders' rights and interests. The selected place, date and time of the meeting should not prevent the shareholders from active participation in the meeting.	YES	The Company convenes general meetings of shareholders and implements other procedures related to such meetings according to the provisions of the Republic of Lithuania Law on Companies.
6.5. In order to ensure the foreign shareholders' right to get conversant with the information, it is recommended that the documents prepared for the general meeting of shareholders, where possible, are published in advance in a publicly accessible website of the company in Lithuanian and English and/or other languages. The signed minutes of the meeting and/or decisions should also be published in a publicly accessible website of the company in Lithuanian and English and/or other languages. A document may be published on the company's website in a reduced scope if full publication could damage the company or trade secrets of the company would be disclosed.	YES	Pursuant to the Republic of Lithuania Law on Companies, the Company publishes draft decisions of the general meeting of shareholders in its website, in Lithuanian and English. Decisions taken by the general meeting of shareholders are published in the Company's website in Lithuanian and English. This information is also published, pursuant to the Articles of Association of the Company and other legal acts in the NASDAQ OMX Vilnius and the Centre of Registers' electronic newsletter.
6.6. The shareholders should be provided the opportunity to vote at the general meeting by attending or not attending the meeting in person. There should be no obstacles for the shareholders to vote in advance by completing the general ballot.	YES	The shareholders of the Company may exercise the right of attending the general meeting of shareholders either in person or through a proxy, provided that the latter holds a properly executed power of attorney or has signed an agreement on the transfer of the voting right. The Company enables the shareholders to vote by completing a ballot as provided for by the Republic of Lithuania Law on Companies.
6.7. In order to increase the shareholders' opportunities for participation in the general meetings, the companies should seek to more widely apply modern technologies and to enable the shareholders to attend and vote at the general meetings by means of electronic communications. In such cases security of the information transmission and the possibility of identification of the participants and voters must be ensured. Furthermore, companies should enable shareholders, in particular those residing abroad, to observe the general meetings by means of modern technologies.	NO	The Company has no practice of voting by means of electronic communications.
PRINCIPLE VII: AVOIDING AND DISCLOSING CONFLICTS OF INTEREST **The corporate governance system should encourage members of the bodies to avoid conflicts of interests and ensure a transparent and effective mechanism of disclosing conflicts of interests of members of the bodies .**		
7.1. A member of a management or supervisory body of the company should avoid a situation where his personal interests conflict or may conflict with the company's interests. If such situation arises, the member should notify, within a reasonable time limit, other members of the same body or the body of the company that has elected him or the shareholders of the situation of conflict of interests, specifying the nature and, where possible, value of the interests.	YES	The duty has been set to members of the Supervisory Board by article 7.9 of EPSO-G Articles of Association and to members of the management board by article 7.6 of the Company's Articles of Association.

7.2. A member of a management or supervisory body of the company may not mix the corporate assets the use of which has not been specifically considered with him with his personal assets or use the asset or the information that he receives as a member of a collegiate body for personal or third-party benefit unless the general meeting of shareholders or another body of the company authorised by the meeting gives its consent.	YES	The duty has been set in operation regulations of both the supervisory and the management bodies.
7.3. A member of a management or supervisory body of the company may conclude a transaction with the company having formed the relevant body. The shareholder must immediately notify the transaction (except for low value transactions or transactions concluded in the normal course of business of the company and on standard terms and conditions) to other members of the same body or the body that has elected him or the shareholders; the notice may be in writing or oral, with an entry in the minutes of the meeting. Recommendation 4.5 also applies to the transactions referred to above.	YES	The supervisory and management bodies of the company concludes and approves a transaction pursuant to the requirements established by the legislation and the Articles of Association of Litgrid and EPSO-G.
7.4. A member of a management or supervisory body of the company should refrain from voting when decisions on transactions or other matters with which he is connected by personal or business interests are being adopted.	YES	Rules of Procedure of the Supervisory Board and the Board work regulations specify that if a conflict of interests arise between the Supervisory Board member or member of the Board and the Company, such member must inform other members and withdraw from further participation in preparation, adoption and implementation of the decision.
PRINCIPLE VIII: CORPORATE REMUNERATION POLICY **The remuneration policy and the procedure for approving, reviewing and publishing of remuneration for directors in place in the company should prevent potential conflicts of interest and abuse in setting remuneration for directors and should ensure publicity and transparency of the corporate remuneration policy and directors' remuneration.**		
8.1. The company should publish a report on its remuneration policy ("the remuneration report") which should be clear and understandable. The remuneration report should be published in the company's website and not only as part of the annual report.	NO	The Company has no practice of preparing a report on the remuneration policy and the approval, revision and publishing of salaries paid to the Company's directors. No such requirement is contained in the legal acts. General information on the Company's remuneration policy and average rates of pay for employee groups are published in the Annual Report of the Company. According to Article 25(5) of the Republic of Lithuania Law on Energy, the Company publishes the salaries set for Members of the Company's management as well as other payments to them related to their functions in the management bodies.
8.2. The remuneration report should be focussed on the directors' remuneration policy in next year and where applicable in subsequent financial years. It should also contain an overview of the implementation of the remuneration policy in previous financial years.	NO	The Annual Report does not contain information on the policy of remuneration to the Company's directors for next year and subsequent years. The Annual Report contains information on amounts calculated for the members of the Company's management bodies (salaries, other payments, tantiemes, other distributions from profit).
8.3. The remuneration report should contain at least this information: 1) relationship between the variable and fixed components of the directors remuneration and explanation thereof; 2) sufficient information on criteria for the evaluation of performance results on which the entitlement to share options, to shares or to variable components of remuneration is based; 3) explanation of why the selected criteria are beneficial for long-term interests of the company; 4) explanation of the methods applied in determining whether the performance evaluation criteria are met; 5) sufficiently detailed information on periods of deferring the payment of the variable component of remuneration; 6) sufficient information on the link between remuneration and performance;	NO	The Annual Report contains information on amounts calculated for the Members of the Company's management bodies (salaries, other payments, tantiemes, other distributions from profit), information on assets transferred and guarantees issued to the Members as well as other information related to the remuneration to the Members. Please see Comment on Item 8.1.

7) main criteria underlying the annual bonus system and other non-cash benefits; 8) sufficiently detailed information on the severance pay policy; 9) sufficiently detailed information on the period of granting of share-based payment as stated in item 8.15; 10) sufficiently detailed information on retaining shares upon granting of rights under item 8.15; 11) sufficiently detailed information on composition of similar groups of companies whose remuneration policies were analysed in order to formulate the remuneration policy for an associated company; 12) description of main features of an additional pension scheme or early retirement scheme intended for directors; 13) the remuneration report should not contain information that ought not to be published for commercial considerations.		
8.4. The remuneration report should also summarise and explain the company's policy for agreements concluded with executive directors and members of management bodies. This should include, *inter alia*, information on the terms of agreements with executive directors and members of management bodies and periods of notice of resignation as well as detailed information on severance pay and other benefits related to the early termination of agreements with executive directors and members of management bodies.	NO	The Company has no practice of publishing such information.
8.5. The full amounts of remuneration and other benefits received by individual directors in the relevant financial year should be detailed in the remuneration report. This document should contain at least information referred to in items 8.5.1–8.5.4 for each person that had occupied the position of a director in the company in any period of the financial year. 8.5.1. The following information related to remuneration and/or other service income should be provided: 1) total amount of remuneration paid or payable to the director for the services provided in the past financial year including, where applicable, participation fees set in the general meeting of shareholders; 2) remuneration and benefits received from any company of the same group; 3) remuneration paid as allocation from profit and/or bonuses and reasons for granting of such bonuses and/or allocations from profit; 4) if permitted by the laws, each type of material extra pay paid to directors for special services not included in normal functions of directors; 5) compensation payable or paid to each executive director or member of management bodies who has resigned in the previous financial year; 6) total value of the benefit which is treated as remuneration and which is given in a form other than cash, if such benefit is not covered by items 1 to 5. 8.5.2. The following information related to shares and/or rights to take part in share options and/or any other rights to take part in the share-based incentive systems should be provided: 1) number of share options offered or shares allocated previous financial year and the terms and conditions thereof; 2) number of share options exercised during previous financial year specifying the number and price of the shares in each option, or the value of participation in the share-based employee incentive system as of the end of previous year; 3) number of share options unrealised as of the end of financial year, their realisation price, realisation data and main terms of exercise of the rights; 4) any changes in the terms of share options in the next financial year. 8.5.3. The following information related to the additional pension schemes should be provided: 1) in case defined benefit schemes – changes in benefits accumulated for the directors in the relevant financial year; 2) in case of defined contribution schemes – detailed information on contributions paid or payable for the director by the company in the relevant financial year;	NO	The Company has no practice of publishing such information.

8.5.4. Amounts paid by the company or its subsidiary or any company included in the company's consolidated financial statements as a loan, prepayment or guarantee to any person who has occupied the position of a director in any period of the relevant financial year, including outstanding amounts and interest rates.		
8.6. Where the remuneration policy provides for variable components of remuneration, the company should set the limits of the variable components. The fixed component should be sufficient to allow the company not to pay the variable component in case if the performance criteria are not met.	YES	Remuneration policy of the company provides for the limits of the respective variable components of remuneration.
8.7. The payment of the variable component should depend on pre-set and measurable performance evaluation criteria.	YES	Annual targets are set both to the directors and to the employees.
8.8. Where the variable component of the remuneration is paid, payment of the larger part of this component should be deferred for a reasonable period. The size of the deferred part of the variable component should be set based on the relative value of the variable part as compared with the fixed part of the remuneration.	YES	According to the Remuneration policy, the variable components of remuneration are paid to the employees following the approval of financial statements by the general meeting of shareholders.
8.9. Agreements with executive directors or members of management bodies should include a provision enabling the company to recover the variable part that has been paid based on the data which later appeared to be untrue.	YES	The provision is included into contracts with the board members.
8.10. Severance pay should not exceed a set amount or a set number of annual pay amounts and generally should not be higher than the sum of the fixed remuneration component for two years or an equivalent.	YES	
8.11. Severance pay should not be paid if employment contract is terminated on the grounds of poor performance.	YES	
8.12. Furthermore, information on the preparatory and decision-adoption processes whereby directors' remuneration policy is formulated should be disclosed. The information should include data, if applicable, on the powers and composition of the remuneration committee, names of external consultants whose services were used in the formulation of the remuneration policy, and the role of the annual general meeting of shareholders.	NO	The Company has no practice of publishing such information.
8.13. In cases where remuneration is share-based, the right to shares should not be granted during at least three years after allocation thereof.	YES	N/A
8.14. Share options or other rights to acquire shares or to receive remuneration based on share price fluctuations should not be exercised earlier than on expiry of three years after allocation. The granting of the right to the shares and the right to exercise share options or other rights to acquire shares or receive remuneration based on share price fluctuations should depend on pre-set and measurable performance evaluation criteria.	YES	N/A
8.15. Upon allocation of the rights the directors should retain a certain number of shares until the end of the term of office depending on the need to cover any expenses related to the share acquisition. The number of shares to be acquired should be pre-set, e. g. the value of annual remuneration (variable plus fixed) multiplied by two.	YES	N/A
8.16. Remuneration to consulting directors or members of the supervisory council should not include share options.	YES	N/A
8.17. Shareholders, in particular institutional shareholders, should be encouraged to take part in the annual meetings of shareholders and vote on the issue of setting remuneration for the directors.	YES	
8.18. Without diminishing the role of bodies responsible for the setting of remuneration, remuneration policy and any material change therein should be included in the agenda of the annual meeting of shareholders. The remuneration report should be submitted to the general meeting of shareholders for voting. The voting results may have mandatory or advisory effect.	YES	

8.19. Schemes under which remuneration to directors is paid in shares, share options or other rights to acquire shares or receive remuneration based on share price fluctuations should be approved in advance by a decision adopted by the general meeting of shareholders. The consent should be given to the scheme itself and shareholders should not decide on the benefit received by individual directors under that scheme. Any material amendments to the scheme proposed prior to the scheme introduction date should also be approved by the decision of a general meeting of shareholders. In such cases the shareholders should be informed in detail about the proposed amendments and the potential effects thereof.	NO	Such schemes are not applied and the Company does not publish such information.
8.20. Consent of the general meeting of shareholders should be obtained for the following matters: 1) remuneration to directors under share-based schemes including share options; 2) setting of the maximum number of shares and main terms and conditions of share allocation; 3) term within which share options must be exercised; 4) terms and conditions of changing the price for the exercise of each further share option; 5) any other long-term incentive schemes for directors that are not offered to any other employees of the company on similar terms. The general meeting of shareholders should also set the final time limit for the allocation of the above-said compensations to directors by the body responsible for director's' remuneration.	NO	Such schemes are not applied and the Company does not publish such information.
8.21. If permitted by the national law or the Articles of Association of the company, the shareholders' approval should also be required for each model of option permitting subscription for the shares at a price lower than market price valid as of the price-setting day or at an average market price valid several days prior to the setting of the exercise price.	NO	Such schemes are not applied and the Company does not publish such information.
8.22. Items 8.19 and 8.20 should not be applied to schemes which are offered, on similar terms and conditions, to employees of the company or of any subsidiary entitled to participate in the scheme and which were approved by the general meeting of shareholders.	NO	Such schemes are not applied and the Company does not publish such information.
8.23. Prior to the date of the general meeting of shareholders at which the decision referred to in Item 8.19 is to be considered, the shareholders should be afforded the opportunity to familiarise themselves with the draft decision and the related notice (the documents should be published on the company's website). The notice should contain the full text describing the share-based scheme or a description of the main terms and conditions thereof as well as names of participants in the scheme. The notice should also specify the relationship between the schemes and the overall directors' remuneration policy. The draft decision should contain a clear reference to the scheme itself or a summary of the main terms and conditions. The shareholders should also be furnished with information on the way the company intends to secure the availability of the shares necessary for the discharge of obligations under the incentive scheme: it should be clearly indicated whether the company intends to buy the shares in the market, or keep them as a reserve, or issue new shares. In addition, an overview of the scheme costs to be incurred by the company due to the application of the scheme should be provided. The information under this item should be published in the company's website.	NO	Such schemes are not applied and the Company does not publish such information.
PRINCIPLE IX: ROLE OF STAKEHOLDERS IN CORPORATE GOVERNANCE **The corporate governance system should recognise the statutory rights of stakeholders and promote active collaboration between them and the company in creating the company's welfare, jobs and financial stability. For the purposes of this principle, *stakeholders* include investors, employees, creditors, suppliers, customers, local community and other persons having interests in a specific company.**		
9.1. The corporate governance system should ensure respect for the statutory rights of stakeholders.	YES	

9.2. The corporate governance system should enable stakeholders to participate in the governance according to procedures established by the law. Examples of stakeholders' involvement: participation of employees in adopting decisions significant for the company, consulting with the employees on matters of the company's management and other important matters, employees' participation in the share capital, involvement of creditors in the company's management in case of insolvency of the company etc.	YES	The Company complies with this recommendation. For example, consultations, negotiations etc. on the optimisation processes implemented in the Company are held with representatives of the Company's employees. Under the Collective Agreement concluded with the employee representatives, the Company informs the trade union representatives of projected changes, financial position of the Company etc. Stakeholders can take part in the corporate governance to the extent permitted by the laws.
9.3. Where stakeholders take part in the corporate governance process, they should be enabled to access requisite information.	YES	
PRINCIPLE X: DISCLOSURE OF INFORMATION **The corporate governance system must ensure that information on all material issues relevant to the company, including financial position, operations and management, is disclosed timely and accurately**		
10.1. The company should disclose information on: 1) operations and financial results of the company; 2) objectives of the company; 3) persons owning or controlling a block of shares of the company; 4) members of supervisory and management bodies of the company and the head of the company as well as their remuneration; 5) predictable key risks; 6) the company's transactions with related parties as well as transactions concluded in other way than the usual course of business; 7) main issues related to employees and other stakeholders; 8) management structure and strategies of the company. This list is a minimum list and companies are encouraged not to confine themselves to the disclosure of this information.	YES, except for the remuner-ation to the su-pervisory bodies of the company referred to under item (4).	Company information related to remuneration to the supervisory body is deemed confidential.
10.2. In disclosing the information referred to in (1) of Item 10.1, it is recommended that the controlling company discloses information on the consolidated results of the entire group of companies.	YES	
10.3. In disclosing the information referred to in (4) of Item 10.1, it is recommended to provide information on professional experience and qualifications of members of the company's supervisory and management bodies and the head of the company as well as potential conflicts of interests that could influence their decisions. It is also recommended to disclose remuneration and other income received by the said persons as detailed under Principle VIII.	NO	The Company has no practice of publishing such information.
10.4. In disclosing the information referred to in (7) of Item 10.1, it is recommended that information on relations between the company and its stakeholders such as employees, creditors, suppliers, local community etc. is disclosed including the company's human resources policy, programmes on employees' participation in share capital etc.	NO	The Company has no practice of publishing such information.
10.5. The information should be disclosed in such a way that no shareholder or investor is discriminated against with respect to the method and scope of information received. The information should be disclosed to all at the same time. It is recommended that notices of material events are published prior to or after a trading session at NASDAQ OMX Vilnius so that all shareholders and investors of the company have equal opportunities to familiarise themselves with the information and to adopt relevant investment decisions.	YES	The Company publishes information through the information system of the Vilnius Securities Exchange in Lithuanian and English simultaneously. The Company publishes information prior to, during and after each trading session at Vilnius Securities Exchange and presents it simultaneously to all the markets in which the Company's securities are traded. The Company does not disclose information that may influence the price of its securities in any comments, interviews etc. before such information is published in the Vilnius Securities Exchange IS.

10.6. The methods of disclosing information should ensure unbiased, timely and inexpensive access to information to the information users including free access in cases established by the law. It is recommended that information technologies are used widely for the dissemination of information, e. g. publishing of information on the company's website. Information should be published on the company's website both in Lithuanian and English as well as in other languages if possible.	YES	Apart from the method of disclosure stated in item 10.5, the Company uses various media (an electronic newsletter published by VĮ Registrų centras, news agencies, the Company's website which is publicly available) in order to ensure that the information reaches the largest circle of stakeholders possible. Information in the Company's website is published in Lithuanian and English.
10.7. It is recommended that the annual report, the financial statements and other period reports of the company are published on its website, together with the company's notices of material events and changes in the prices of the company's shares in securities exchange.	YES	See items 10.5 and 10.6
PRINCIPLE XI: SELECTION OF THE COMPANY'S AUDITOR **The mechanism for the selection of an auditor for the company should ensure independence of the audit opinion.**		
11.1. In order to obtain an objective opinion of the interim and annual financial statements and the annual report of the company, they should be audited by an independent auditor.	YES	The duty has been set by Article 23.5 of the Articles of Association of the company.
11.2. It is recommended that the supervisory council proposes an auditor to the general meeting of shareholders, and if no supervisory council is formed, then the proposal should be made by the board.	NO	According to the item 8.18 of the EPSO-G Articles of Association, EPSO-G CEO has the right to take the decision on the election or cancellation of the certified auditor or the audit firm for carrying out the annual financial statements audit of the respective subsidiary, as well as audit service payment conditions, as these competences defined in the Lithuanian Act Respecting Public Limited Companies, and the decision of the Supervisory Board is unnecessary.
11.3. If the audit firm receives payment from the company for services other than audit services, the company should disclose this to its shareholders. This information should also be disclosed to the supervisory council, and if no supervisory council is formed – to the board for the purposes of selecting the auditor that it intends to propose to the general meeting of shareholders.	YES/ NO	The Company purchases from audit firm's services other than audit services only in exceptional cases and usually these are low-value transactions, therefore, the Company has no practice of disclosing such information to its shareholders or management bodies, except the Audit Committee, which supervises the process of auditing.