Amber Grid

ANNUAL REPORT

2016

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BOARD (from April 2016)

NEMUNAS BIKNIUS
Chairman of the Board

SAULIUS BILYS
Member of the Board

NERIJUS DATKŪNAS
Independent Member of the Board

VYTAUTAS RUOLIA
Member of the Board

RIMVYDAS ŠTILINIS
Member of the Board

BOARD (until April 2016)

Dr. ALEKSANDRAS SPRUOGIS
Chairman of the Board

AGNĖ PETRAVIČIENĖ
Deputy Chairman of the Board

NERIJUS DATKŪNAS
Independent Member of the Board

DAINIUS BRAŽIŪNAS
Member of the Board

ROLANDAS ZUKAS
Member of the Board

MANAGEMENT

SAULIUS BILYS
General Manager

ANDRIUS DAGYS
Technical Director

VYTAUTAS RUOLIA
Commercial Director

RIMANTAS ŠUKYS
Financial Director

TOMAS SUSLAVIČIUS
Legal and Administration Director

STATEMENT FROM THE CHAIRMAN OF THE BOARD

The rapid developments in the energy market – the increased use of renewable resources, the power bridges with Scandinavia – all such factors pose new challenges to gas business development in the Region. The role of gas, which used to be the staple primary fuel source for energy production, is now tended to be reduced and gas has become a mean of securing energy, a mean helping to cope to with demand peaks and a mean of the formation electricity price caps. These days system users tend to opt for short-term capacities and consumption flexibility.

In response to the aforesaid developments and in order to supply market demand, AB Amber Grid, a member of the energy transmission and exchange group, EPSO-G, has been focusing on the following strategic directions:

- transformation into a Transmission System Operator operating in a Single Regional Gas Market;
- putting in place the required infrastructure;
- efficiency raising and modernisation

In pursuit of these strategic directions 2016, Amber Grid developed an Implicit Capacity Allocation model for the Baltic gas markets and agreed to implement it together with its regional partners. The Company was also making preparations for the establishment of a virtual trading hub and a regional gas exchange in the Eastern Baltic Region. For this purpose, from the Finnish company Gasum Oy we acquired a 34 per cent stake in the gas exchange, Get Baltic. This company's IT solutions and market organisation skills are needed to secure regional gas trade.

The reporting year marked the completion of our preparations for the implementation of the GIPL project (Gas Interconnecor Poland-Lithuania), a project necessary for the Baltic Region's energy security and integration into a single European gas market: all the necessary permits for the pipeline's construction were obtained. When it turned out that the gas pipeline route of the GIPL project needed to be adjusted and the works for the implementation of the part of the GIPL project in the territory of the Republic of Poland were rescheduled, we had to terminate the public procurement tenders of the pipes and contract works needed for the construction. The GIPL project is expected to be resumed and gain momentum again in 2017, when an agreement on the gas system interconnection with the Polish gas transmission system operator, GAZ-SYSTEM S.A., is signed.

In 2016, it was decided to install IT software for the management of assets, the control of technological processes, and the assurance of the transmission system's safety, which will help ensure a more effective management of the Company's assets. We seek a high quality of the implementation of projects, therefore the project management was adjusted accordingly.

For the market players the important message is that the average gas price for consumers in 2017, as set by the Company's board and approved by the National Commission for Energy Control and Prices, is by 7.8 per cent lower than in 2016. This became possible due to the higher revenue generated by the short-term capacities of Amber Grid in the course of the last two years in a row and the lower than planned costs as a result of effective implementation of investment projects.

As for a glimpse into the future, it is obvious that the geopolitical, technological and environmental challenges will urge us both to embrace change and promote change. We must operate in a smarter and more effective manner and in close cooperation with our regional partners to ensure that the highly developed Lithuanian gas transmission infrastructure would serve not only Lithuania's consumers but also consumers of our neighbouring countries. We want not just Lithuanian consumers but also consumers of the neighbouring countries to know that gas supplies either required for their businesses or for their daily household needs will always be delivered to them at a competitive price, on the requested date.

Sincerely,

Nemunas Biknius

Chairman of the Board of AB Amber Grid

STATEMENT FROM THE CEO

For AB Amber Grid, the reporting year 2016 was marked by hard work, the main being the project for the development of a Single Regional Gas Market, implementing strategic gas infrastructure projects, ensuring security of gas supplies, and optimisation of internal operational processes within the Company itself. It has been another year marked by success.

In 2016, the increased demand for the Company's services determined a significant growth in the Company's revenues and, consequently, in its operating profits. I am happy to note that our timely investments made back in 2015 in the enhancement of gas transmission capacities have proved to have been justified. They allowed us to significantly increase the quantities of gas imports through the liquefied natural gas terminal and have had a positive impact on end prices of gas on Lithuania's market.

Last year our revenues from the short-term transmission capacities were up, which under the valid regulatory regime will enable reduction in transmission service prices for the Lithuania's market participants in 2018.

Our system users trust us and we, on our part, make effort to ensure that the services rendered by us – the transmission of natural gas – would be safe and do our best to minimise any potential hazards to public and the environment. Alongside with the regular activities for the maintenance of the Company's gas pipelines and equipment, in 2016 we invested into their modernisation. Another area where lot of our attention has been paid to was social responsibility and environmental protection.

In 2016, we received a grant of EUR 13.1 million from the EU Structural Funds for the implementation of eight projects aimed at modernisation of the gas transmission system and introduction of smart infrastructure elements. The declaration on the development of the Regional Gas Market, signed by the Prime Ministers of the Baltic States at the end of last year, laid a foundation for the implementation of one of Lithuania's national strategic goals – to develop a competitive and liquid Baltic Regional Gas Market and ensure security of gas supplies.

Next year we are bound to face new challenges. I am confident that with our excellent team in place we will succeed in dealing with them. I would like to express my gratitude to the Company's employees, shareholders, system users, suppliers and partners for our successful cooperation in pursuit of our common goal – to ensure secure and reliable gas transmission and effective functioning of gas market in Lithuania, and, together with our partners, also on a wider regional level.

Sincerely,

Saulius Bilys

CEO AB Amber Grid

1. GENERAL INFORMATION

LENGTH OF GAS TRANSMISSION PIPELINES
2,115 km

NUMBER OF GAS DISTRIBUTION AND GAS METERING STATIONS
70

GAS COMPRESSOR STATIONS / CAPACITY
2 / 42.2 MW

QUANTITY OF GAS TRANSPORTED / 2016
47 TWh

RECEIVED FROM LNG TERMINAL / FROM BELARUS / 2016
60.3% / 39.7%

SYSTEM USERS
95

EMPLOYEES
362

This Annual Report covers the year 2016.

1.1. BACKGROUND

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

MISSION OF THE COMPANY

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

VISION OF THE COMPANY

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

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

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

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

1.2. OPERATIONS OF THE COMPANY

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

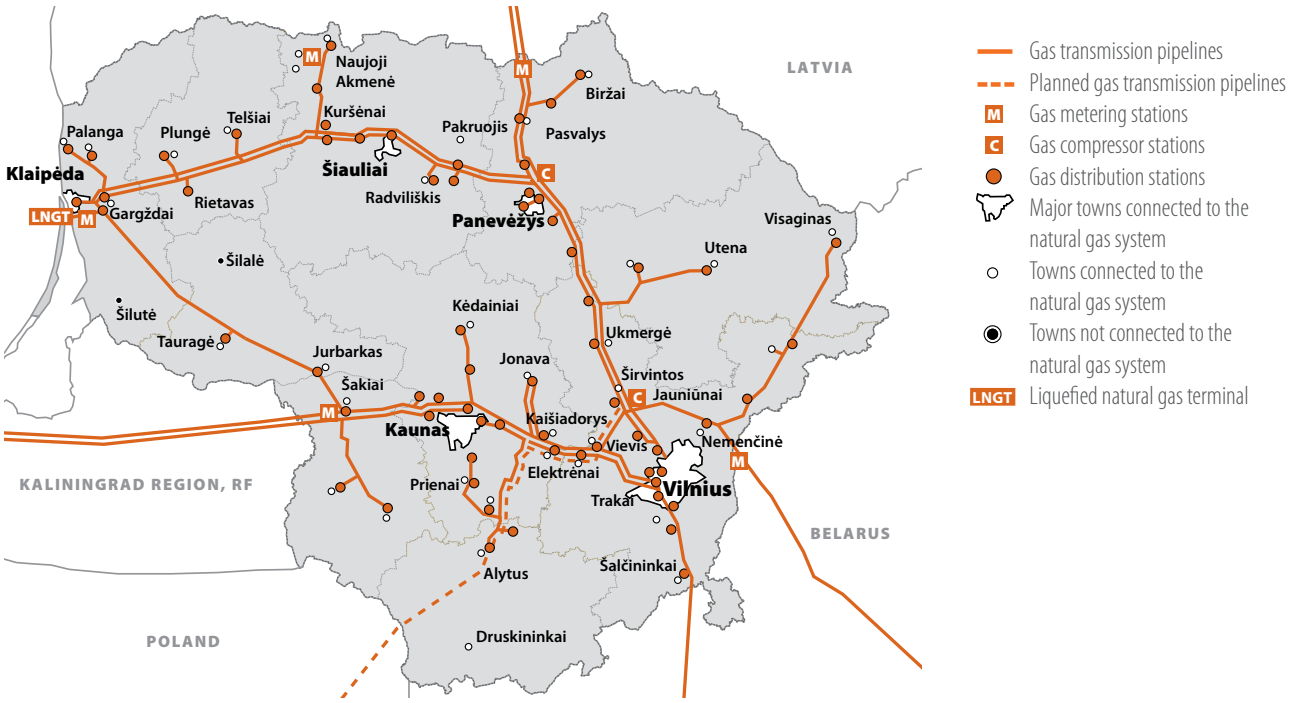
- Transmission of natural gas in the territory of Lithuania;
- Balancing of natural gas flows within the transmission system;
- Administration of funds intended to compensate for the costs of construction and fixed operating costs of the liquefied natural gas (LNG) terminal, its infrastructure and the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

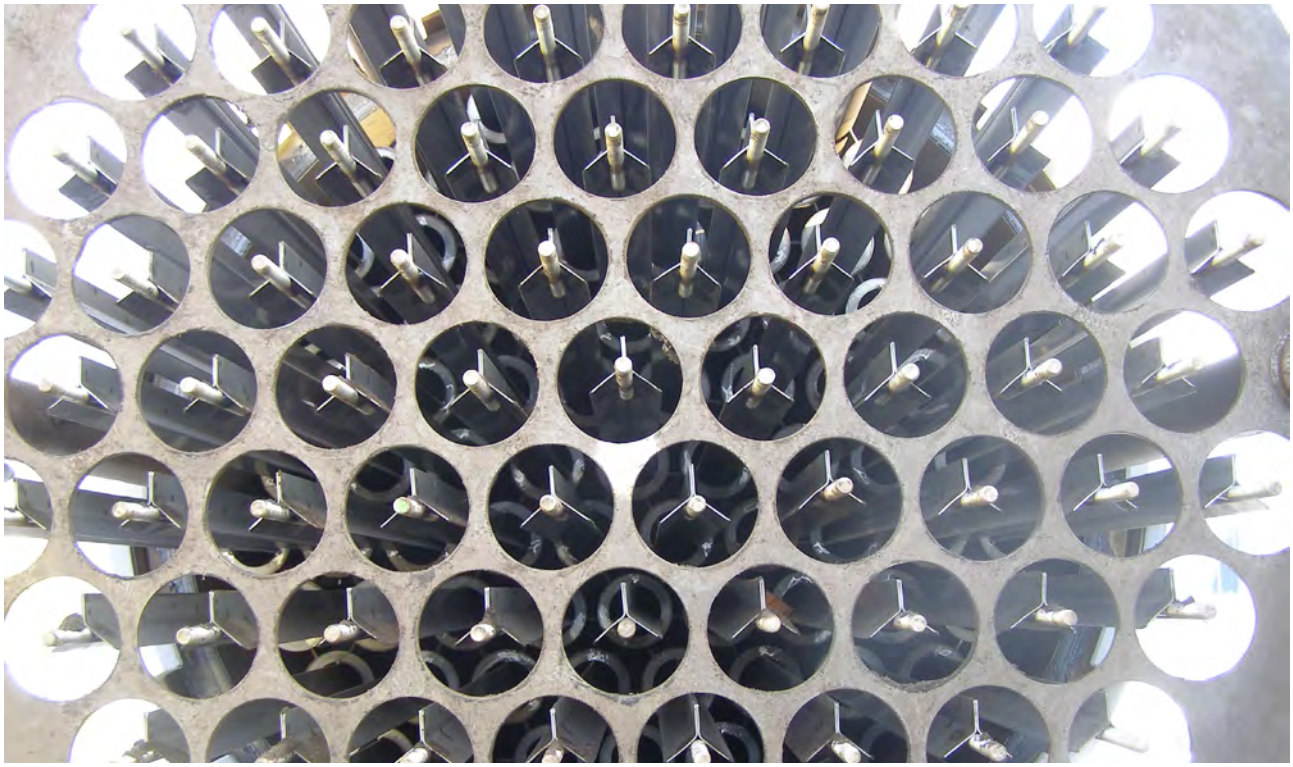
1.2.1. TRANSPORTATION OF NATURAL GAS VIA GAS TRANSMISSION PIPELINES

TRANSMISSION SYSTEM AND ITS DEVELOPMENT

The transmission system consists of the transmission pipelines, gas compressor stations, gas distribution stations, gas metering stations, equipment for the protection of gas pipelines against corrosion, remote data transmission and communication systems and other assets belonging to the transmission system. The gas transmission system of Lithuania is connected with those of the Republic of Latvia, the Republic of Belarus, and the Kaliningrad Region of the Russian Federation, as well as with the LNG terminal in Klaipėda (see Map 1). The Company operates 67 gas distribution

Map 1. Lithuania's natural gas transmission system





Gas filters.

stations (GDS), 3 gas metering stations (GMS), and 2 gas compressor stations (GCS). The length of the transmission pipelines operated by the Company is 2,115 km, and their diameter varies between 100 and 1,220 mm. Most sections of the transmission system have the design pressure of 54 bar.

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

STRATEGIC INFRASTRUCTURE PROJECTS

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

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

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

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

GAS INTERCONNECTION POLAND-LITHUANIA (GIPL)

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

Objectives of the project

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

In April 2016, public procurement for the construction works and pipes required for the Lithuanian part of GIPL was initiated.

Map 2. Gas Interconnection Poland-Lithuania (GIPL)

Map 3. Project of Enhancement of Latvia-Lithuania Interconnection

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

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

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

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

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

ENHANCEMENT OF LATVIA-LITHUANIA INTERCONNECTION

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

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

OPERATION, RECONSTRUCTION AND MODERNISATION

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

In 2016, inner diagnostics of the gas pipeline (DN700, DN800) to the Kaliningrad Region of the Russian Federation, specifically,

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

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

- Installation of four additional chromatographs for the gas metering in energy units;
- Installation of hydrocarbon, dew point and oxygen meters at Šakiai GMS;
- Launching of modernisation of the Panevėžys gas compressor station.

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

NATURAL GAS TRANSMISSION CAPACITIES AND VOLUMES

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

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

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

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

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

Compressor station, Jauniūnai.

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

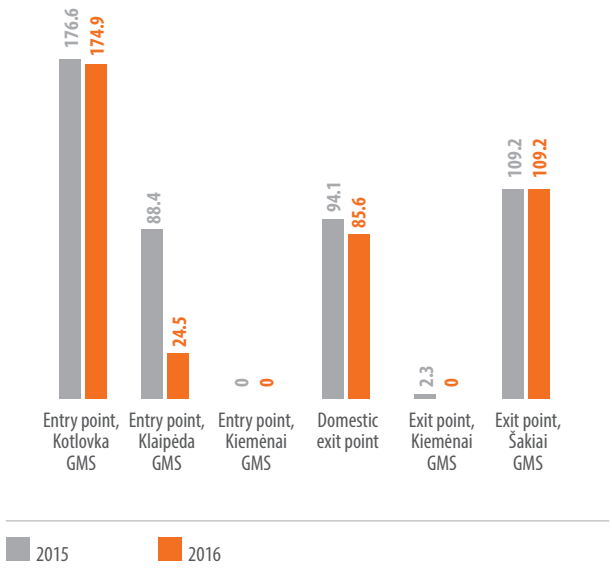
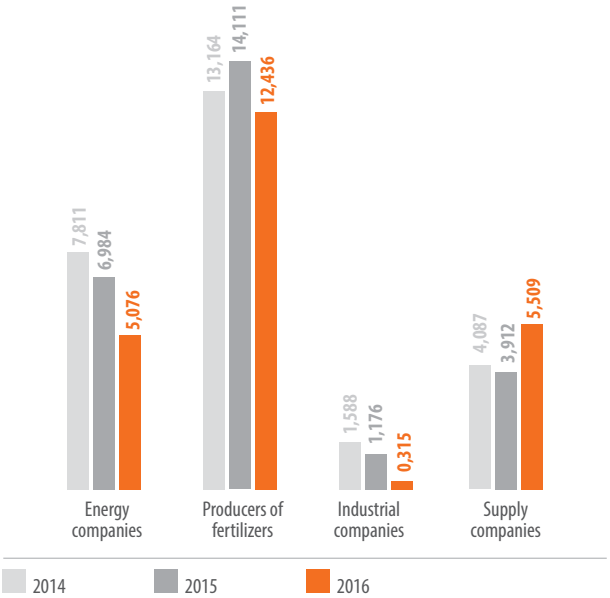


Figure 2. Transmitted natural gas quantities[1] according to transmission system users in Lithuania, GWh, 2014–2016



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

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

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

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

NATURAL GAS PRICES REGULATION

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

As of 1 January 2016, the Company was subject to the price caps set by the National Commission for Energy Control and Prices (NCC) in November 2015 for the natural gas transmission services at the transmission system's entry[2] and exit[3] points, which were set upon the introduction of the system's entry-exit point-based capacity allocation and pricing model according to the EU requirements. The NCC may adjust such price caps on an annual

[1] From 1 January 2015, quantities of natural gas at the transmission system's entry and exit points are metered in energy units – kilowatt hours (kWh), which replaced volumetric units – cubic metres (m^3). In this report, volumetric units have been converted into energy units using the average upper gas calorific value 10.4 kWh/m^3 under normal conditions: +25 °C combustion temperature, +20 °C measurement temperature, and 101.325 kPa absolute pressure.

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

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

basis according to the procedure set out in the Methodology for the Setting of State-regulated Prices in the Natural Gas Sector (Methodology).

In addition, as of 1 January 2016 the natural gas transmission service prices set for the transmission system's entry and exit points by the Board of the Company and approved by the NCC were in force. Considering amendments to the Methodology made on 17 December 2015 by NCC (with the aim to strengthen the link between the transmission service costs, benefits received and payment for the services), which has enabled the application of a three-component transmission service price that includes the price for consumption capacity[4], the three-component price is applied at the system's domestic exit point since 2016: the price for the transmission capacities booked, the price for the set consumption capacities (a new price component), and the price for the quantity transmitted.

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

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

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

1.2.2. BALANCING OF NATURAL GAS FLOWS IN THE TRANSMISSION SYSTEM

Amber Grid ensures the balancing of natural gas flows in the transmission system. According to the Rules for Natural Gas Transmission System Balancing, the Company purchases balancing gas from a gas market participant if the market participant has caused a surplus of gas in the transmission system, and sells balancing gas to a gas market participant if the market participant has caused a shortage of gas in the transmission system.

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

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

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

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

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

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

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

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

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

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

- Five cases based on AB Achema's applications for the reversal of NCC's decisions; consideration of four of them has been suspended due to the fact that Achema's complaint is pending in the EU General Court;
- A case based on AB Achema's claim against the Republic of Lithuania for damages amounting to EUR 15,329,728.69 due to the provision of state aid that was provided without the European Commission's consent. A hearing has been scheduled in these proceedings.

1.3. RESEARCH & DEVELOPMENT ACTIVITIES

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

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

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

1.4. LONG-TERM CORPORATE STRATEGY

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

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

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

1.5. EMPLOYEES

2016 saw the completion of implementation of a project on increasing the HR management efficiency, during which the key staff competences were identified, a competence development system was established, and a motivation system linked to the strategic planning system at the level of individual performance

Table 1. Employee structure by group, 2015–2016

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

objectives, through the employee performance management, was implemented. For a second time, competences of top and medium-level management were assessed using a 360-degree feedback method, i. e. management received feedback on their competences from line managers, colleagues and subordinates.

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

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

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

Figure 4. Employee structure by service record, 2016

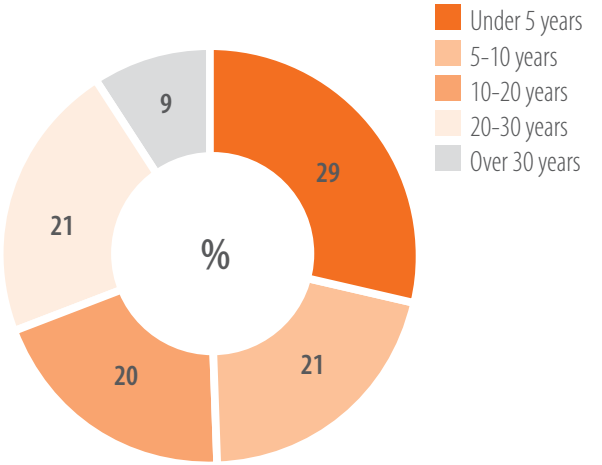


Figure 3. Employee structure by age group, 2016

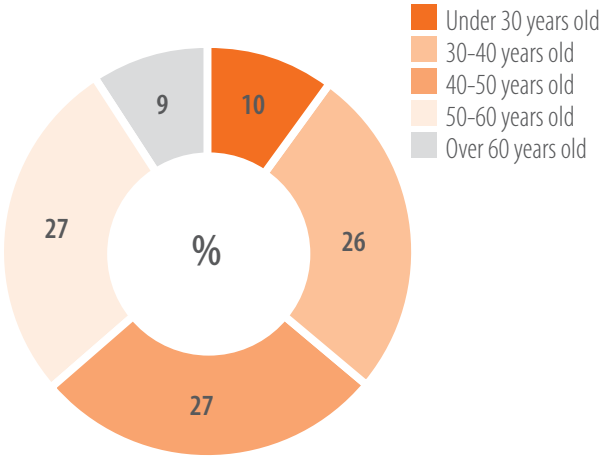


Figure 5. Employee structure by educational attainment, 2016

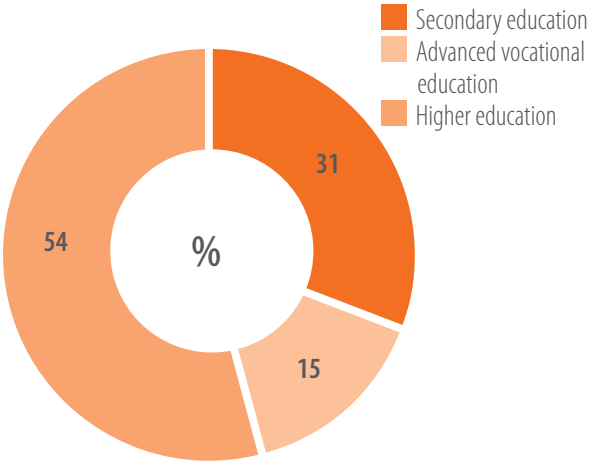


Table 2. Employee structure by gender 2015-2016

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

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

	Average monthly pay, EUR (gross), 2016[5]	Average monthly pay, EUR (gross), 2015[6]
Executives	5,949	6,065
Medium-level managers & specialists	1,499	1,398
Workers	933	880
Average:	**1,348**	**1,281**

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

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

COLLECTIVE AGREEMENT

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

TRAINING AND TRAINEESHIP OPPORTUNITIES

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

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

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

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

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

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

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

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

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

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

system has been integrated with the environmental management system already in operation.

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

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

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

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

- *Improvement of the living environment for socially vulnerable groups:* Order of Malta Relief Organisation in Lithuania, VšĮ 'Pušyno kelias', a public entity, VšĮ 'Mažoji guboja', a public entity, Vilnius Gija Youth School, Feniksas, Sports Club for People with Disabilities in Vilnius City, RED NOSES Clowndoctors Association, and Vilnius International Club Association;
- *Cultural and sports projects:* M.K. Čiurlionis Foundation, Centre for Eastern European Studies (VšĮ Rytų Europos studijų centras), VšĮ JJJazz, a public entity, Šarūnas Marčiulionis Basketball Academy, Salilita Sports Club;
- *Projects related to the energy sector:* Strategic Overview of the Baltic Energy Sector – an International Energy Forum organised by the Estonian Chamber of Commerce in Lithuania;
- *Support for local communities:* Jauniūnai Polish Cultural Society;
- *Visibility of Lithuania in the world:* Annual Music Awards Association, Lithuanian Embassy in Poland.

1.7. INTERNATIONAL COOPERATION

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

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

Working jointly with the Latvian and Estonian TSOs, the Company seeks to implement an implicit capacity allocation model in the Baltic countries. This is an effective market integration measure in the transitional period until completion of the regional gas market reform. In 2016, the national regulatory authorities gave their preliminary approval of the implementation of such model in the Baltic countries[7].

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

The Company is a member of ENTSOG (*www.entsog.eu*) and of the Polish and Lithuanian Chamber of Commerce Association.

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

2. FINANCIAL RESULTS

REVENUE/ 2016
EUR 66,742 thousand

EBITDA/ 2016
EUR 40,708 thousand

NET PROFIT/ 2016
EUR 20,928 thousand

INVESTMENTS/ 2016
EUR 13,119 thousand

QUANTITY OF GAS TO BE TRANSPORTED/ 2017
44.5 TWh

2.1. KEY PERFORMANCE INDICATORS OF THE TRANSMISSION SYSTEM

Table 4. Performance Indicators of the Company

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

2.2. KEY FINANCIAL INDICATORS OF THE COMPANY

Table 5. Financial indicators of the Company

	2016	2015
Financial results (EUR '000)		
Revenues	66,742	55,800
EBITDA	40,708	30,060
Profit (loss) before tax	24,280	14,687
Net profit (loss)	20,928	15,978
Net cash flows from operations	40,986	28,889
Investments	13,119	49,497
Net financial debt	79,700	111,041
Profitability ratios (%)		
EBITDA margin	60.99	53.87
Gross profit (loss) margin	36.38	26.32
Net profit (loss) margin	31.36	28.63
Average return on assets (ROA)	5.31	4.24
Average return on equity (ROE)	10.53	7.41
Liquidity ratios		
Current ratio	1.35	1.56
Quick ratio	1.28	1.48
Leverage ratios (%)		
Equity to total assets ratio	53.89	47.19
Financial debt to equity ratio	46.18	70.9
Debt ratio	46.05	52.75
Market value ratios		
Price/earnings ratio (P/E), times	10.57	13.29
Net earnings (loss) per share, EUR	0.12	0.09

[8] Gas transmission systems of Latvia and Kaliningrad Region (Russian Federation).

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

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

REVENUES

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

Balancing revenues consist of:

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

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

COSTS

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

In 2016, depreciation and amortisation costs of non-current assets amounted to EUR 15,871 thousand and accounted for 38% of total costs. Compared to 2015, non-current asset depreciation and amortisation costs increased by 5.9% (Figure 7). The increase has

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

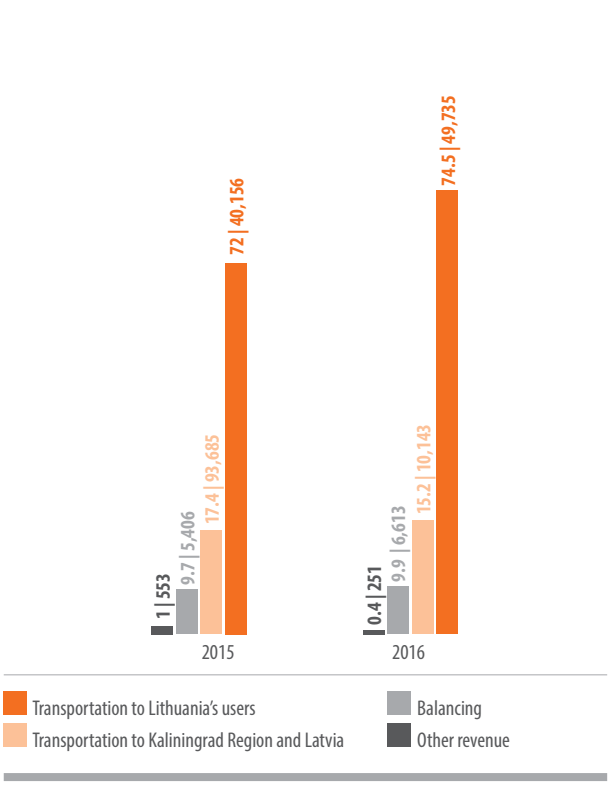
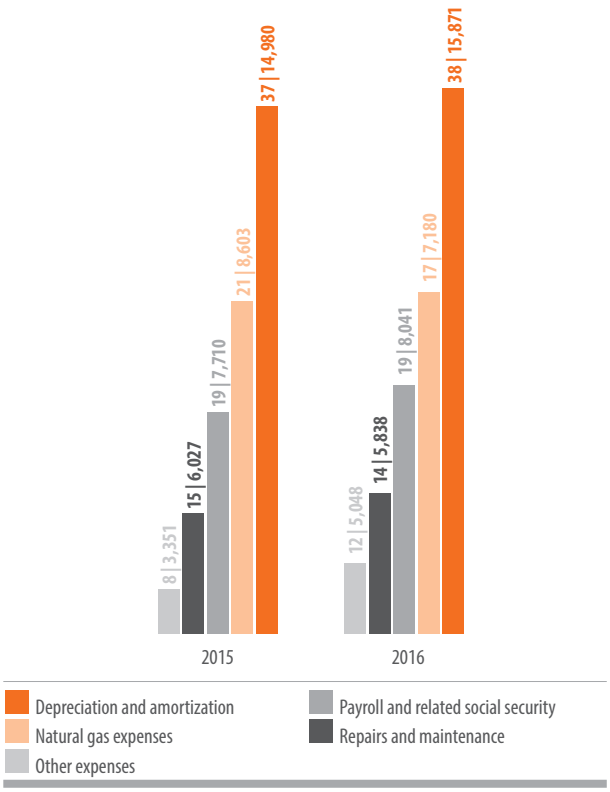


Figure 7. Cost structure, 2015–2016, %, EUR '000



resulted from the putting into operation the Klaipėda-Kuršėnai gas pipeline at the end of 2015.

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

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

OPERATING RESULTS

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

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

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

INVESTMENTS

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

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

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

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

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

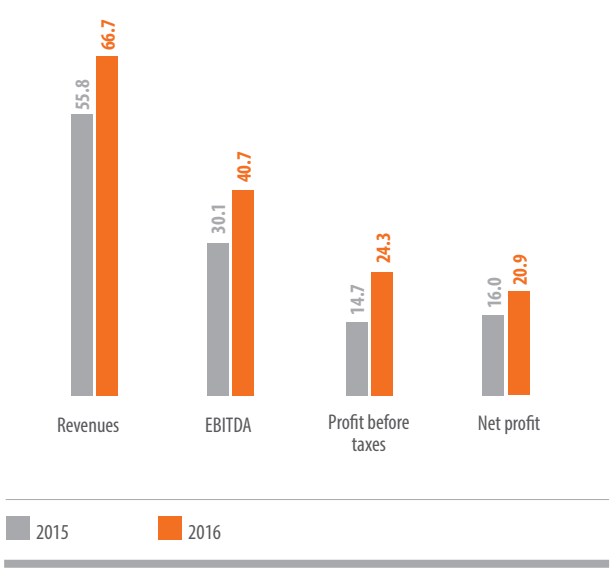


Figure 9. Profitability, 2015–2016

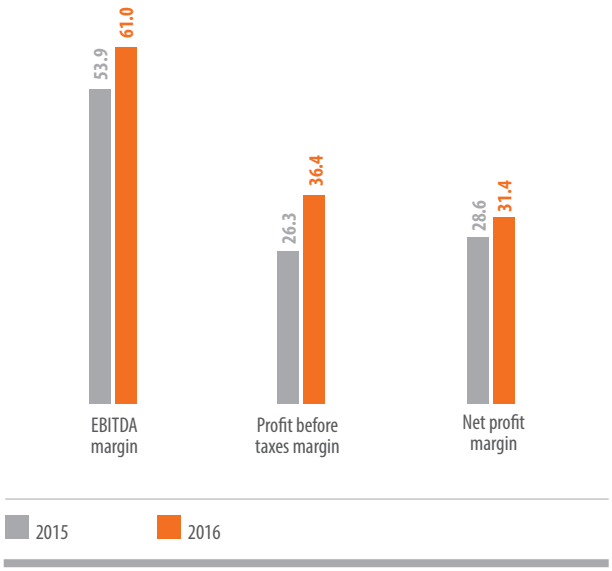
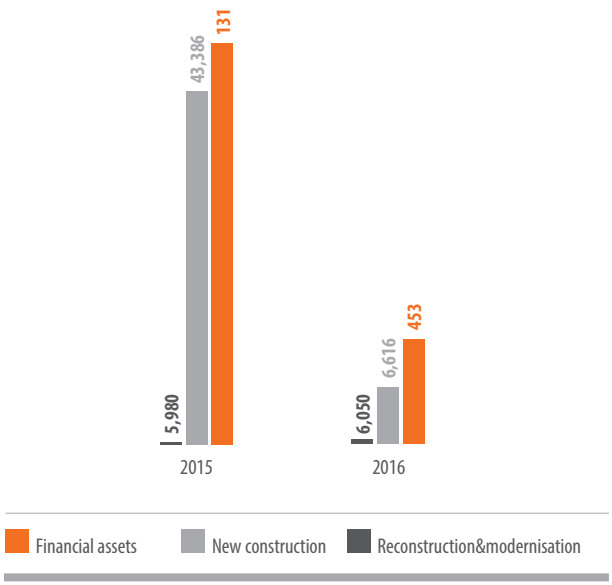


Figure 10. Investment structure, EUR '000, 2015–2016



ASSETS

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

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

EQUITY AND LIABILITIES

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

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

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

CASH FLOWS

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

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

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

2.3. OPERATING PLANS AND PROJECTIONS

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

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

2.4. RISK MANAGEMENT

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

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

MACROECONOMIC RISKS

Lithuania's economic situation and its economic development trends, as well as integration of the Baltic gas transmission systems into the single EU gas system, and the price for natural

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

REGULATORY RISK

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

COMPETITION RISK

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

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

TECHNOLOGICAL RISK

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

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

2.5. INTERNAL CONTROL SYSTEM OF THE COMPANY

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

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

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

3. CORPORATE GOVERNANCE

UAB EPSO-G/ MINORITY SHAREHOLDERS
96.6% / 3.4%

TRADING TURNOVER
EUR 0.88 million

DIVIDEND
0.1173 EUR / share

Table 6. The Company's shareholding structure

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

INFORMATION ON COMPLIANCE WITH THE GOVERNANCE CODE

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

SHARE CAPITAL

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

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

SHARES AND SHAREHOLDER RIGHTS

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

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

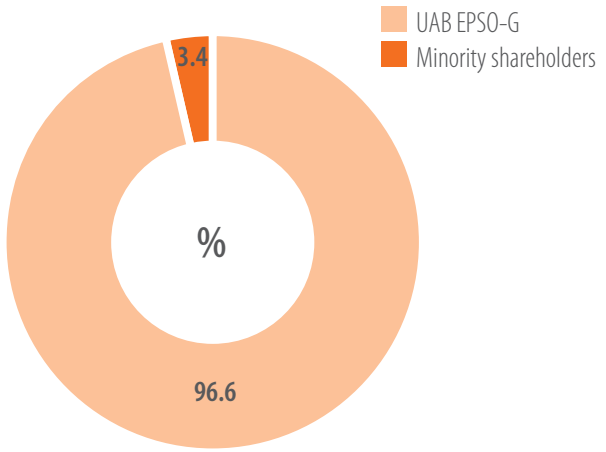
In 2016, the Company did not acquire its own shares and had no transactions relating to acquisition or disposal of its own shares during 2016.

SHAREHOLDERS

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

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

Figure 11. Shareholding structure as of 31 December 2016



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

CHANGES IN OWNERSHIP STRUCTURE

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

DATA ON TRADING IN SECURITIES ON REGULATED MARKETS

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

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

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

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

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

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

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

Opening price	Highest price per share	Lowest price per share	Weighted average price per share	Closing price
01-01-2016	**01-12-2016**	**17-03-2016**	**2016**	**30-12-2016**
1.19 Eur	1.32 Eur	1.08 Eur	1.192 Eur	1.24 Eur
01-01-2015	**01-12-2015**	**17-03-2015**	**2015**	**30-12-2015**
0.898 Eur	1.41 Eur	0.877 Eur	1.132 Eur	1.19 Eur
01-01-2014	**01-12-2014**	**17-03-2014**	**2014**	**30-12-2014**
0.728 Eur	0.9 Eur	0.625 Eur	0.784 Eur	0.898 Eur

Figure 12. Amber Grid share price and turnover, 2016

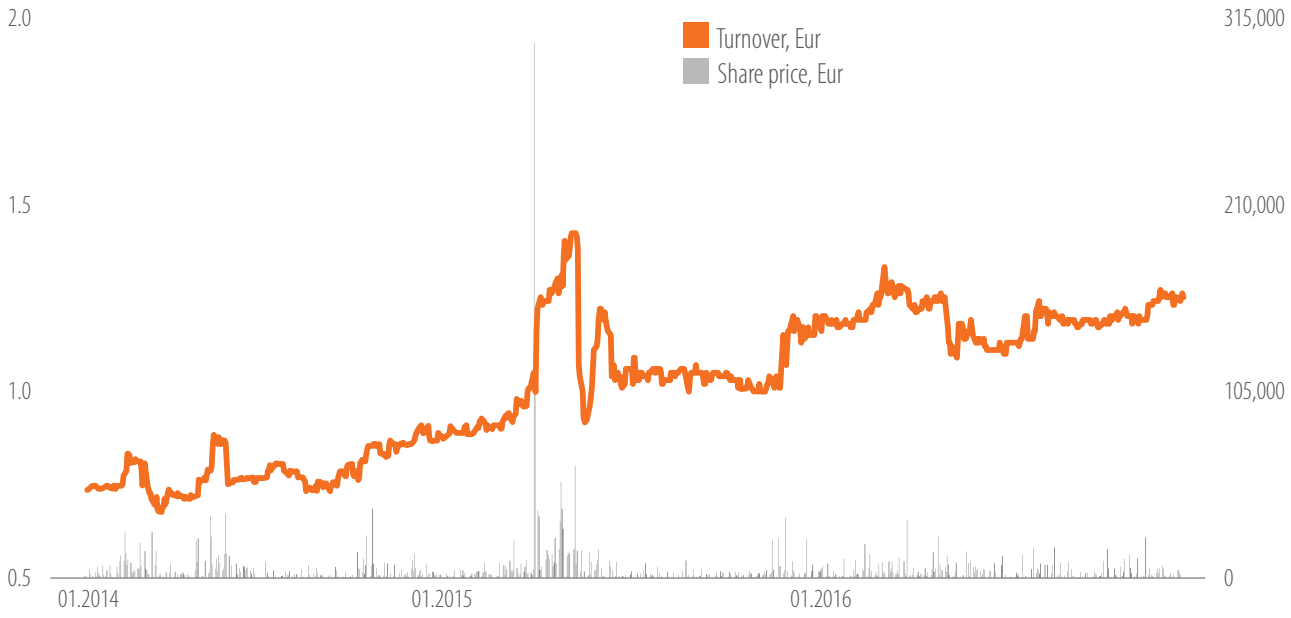
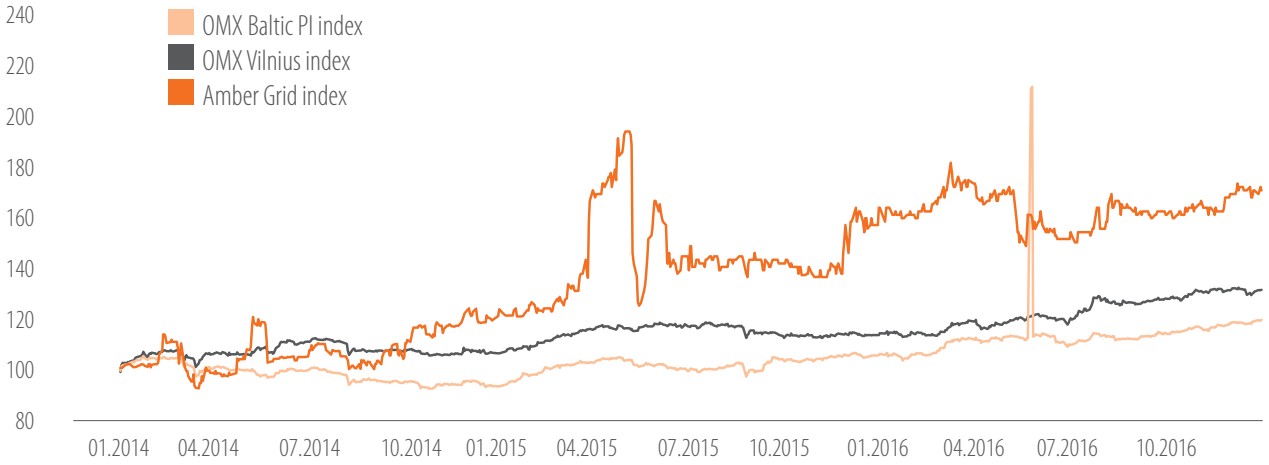


Figure 13. Fluctuations in Amber Grid AB's share price, OMX Vilnius and OMX Baltic PI benchmark indices, 2014–2016



DIVIDEND

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

AGREEMENTS WITH INTERMEDIARIES OF PUBLIC TRADING IN SECURITIES

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

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

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

MANAGEMENT STRUCTURE

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

The Articles of Association provide for the following management bodies:

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

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

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

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

participates in management or supervision of such companies otherwise;

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

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

- The Board considers and approves the Company's strategy, operating plan, and report on the implementation of the operating plan, annual budget and annual operating targets, sponsorship and charity provision procedures, list of essential terms and conditions of transactions, procedure for the conclusion of transactions to be approved by the Board, list of information deemed to be a trade/industrial secret of the Company and confidential information and the principles of use/storage of such information in the Company, job description for the General Manager and his/her salary, annual targets and other terms and conditions of an employment contract; the Board incentivises and imposes sanctions on the General Manager; common documents of the Group of Companies as defined in the Articles of Association (guidelines, policies, codes etc.) and the scope of application thereof to the Company; decisions on the issue of bonds (excluding convertible bonds); decisions on formation and termination of the Company's branches and representative offices and on approval of and amendments to their regulations as well as appointment and recall of their heads; participation of the Company in any association or another amalgamation of legal entities; decisions on the Company's acting as a founder or member of another legal entity; decisions on the increase/decrease in the number of shares/interests or another change in the rights attached to the shares/interests; approves the main terms and conditions of share agreements; decisions on the transfer of companies controlled by the company and/or the Company's associated companies as an asset, or a material part thereof, in the cases where the book value of the asset transferred is equal to or smaller than 1/20 of the authorised capital;
- The Board sets the gas transmission prices and prices for other services regulated by the State, as well the price setting methodology;
- The Board approves the standard terms and conditions of agreements directly related to the TSO's activities such as agreements on connection to the gas system; on the natural gas transmission service; on natural gas balancing, and decides on the conclusion of such transactions in deviation from the approved terms and conditions;
- The Board decides on the purchase on goods, services or works for an amount exceeding EUR 2 thousand thousand, and where the acquisition is from the only supplier - for an amount exceeding EUR 1 thousand thousand, on the purchase on goods, services or works from controlled or associated companies for an amount exceeding EUR 1 thousand thousand except for cases where goods listed on an exchange are being purchased for process or balancing needs; and on the purchase on goods, services or works from the parent company – irrespective of the amount; on the use of any asset valued at over EUR 2 thousand thousand for the purposes of investment, transfer, lease, mortgage or pledge; on standing surety or guaranteeing the fulfilment of third party's obligations exceeding EUR 2 thousand; on borrowing of funds if the amount to be borrowed exceeds EUR 2 thousand, and on lending of funds; on conclusion of agreements of lawsuit or withdrawal of a claim (counter-claim, complaint) or taking of an equivalent procedural action whereby a dispute is effectively ended, in judicial/arbitration proceedings in which the Company has filed a claim or a claim has been filed against the Company in the amount exceeding EUR 1 thousand thousand; also decisions on the filing of a claim (counter-claim, complaint) which initiates a dispute with a national price-regulating authority irrespective of the value, on non-imposition of contractual penalties and/or other contractual sanctions on the Company's counterparties provided that the amount of the penalty or another sanction exceeds EUR 100 thousand; decisions on the launching of activities of new type or termination of any specific activity, entering into gas transportation agreements with third (non-EU) countries, any other agreements/transactions the value of which exceeds EUR 1 thousand if no funds have been allocated for them in the annual budget of the Company, and agreements with the Company's shareholder/shareholders owning more than 1% of the Company's shares.

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

- Assignment, pledging or other encumbrance of the shares/interests in the Company or the rights attached to them, or any other rights of a member in a legal entity;
- Transfer of a company controlled by the Company and/or associated with the Company, as an asset, or any material part thereof, if the book value of the asset transferred exceeds 1/20 of the Company's authorised capital;
- Assignment, mortgage, changing the legal status, other

encumbrance or disposal of any facility or installation owned by the Company of a special strategic importance for national security as defined in the Republic of Lithuania Law on Enterprises and Facilities of Strategic Importance for National Security and Other Enterprises Important for Ensuring National Security and related legal acts, if the value of the facility/installation exceeds 1/20 of the authorised capital of the Company;

- Encumbrance of the shares in directly or indirectly controlled companies that own the facilities referred to above or which develop, control, use or dispose of such facilities on any grounds, or of the voting rights attached to them; increase or decrease of the authorised capital of such companies or other actions that may change the structure of the authorised capital of the company (i. e. issue of convertible bonds) and decisions on reorganisation, separation, restructuring, liquidation, transformation of such companies or other actions that may change their legal status;
- Investment, transfer, lease (determined for each type of transaction), pledge or mortgage (determined as the sum of transactions) of a non-current asset of the Company the book value of which exceeds 1/5 of the Company's authorised capital;
- Standing surety for or guaranteeing the discharge of third parties' obligations the value of which exceeds 1/5 of the Company's authorised capital;
- Acquisition of non-current assets at a price which exceeds 1/5 of the Company's authorised capital in the implementation of projects of extraordinary national significance and/or economic projects important for the State as defined in the current legislation.

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

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

Table 9. Information about the members of the Board, the General Manager and the Chief Accountant

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

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

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

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

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

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

The Company has no branches or representative offices.

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

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

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

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

MATERIAL EVENTS AFTER THE END OF REPORTING PERIOD

17 January 2017

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

18 January 2017

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

23 January 2017

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

10 lentelė. Informacija apie Audito komiteto narius

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

4. MATERIAL EVENTS IN THE REPORTING PERIOD

WWW.AMBERGRID.LT / EN

ABOUT US

INVESTORS RELATIONS

MATERIAL EVENTS

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

All public notices that are to be published according to the law are made available in an electronic publication of the Manager of the Register of Legal Entities. All notices on convening the Company's General Meeting of Shareholders and other material events are made available in accordance with the procedure established by the Lithuanian Law on Securities on the Central Storage Facility at *www.crib.lt* and on the Company's website at *www.ambergrid.lt/en/*. The shareholders whose shares entitle them to at least 10% of total voting rights receive notices on convention of the General Meetings of Shareholders in accordance with the procedure established by the Company's Articles of Association.

Main Amber Grid events in the reporting period 2016

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

5. FINANCIAL STATEMENTS

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

INDEPENDENT AUDITOR'S REPORT

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Independent auditor's report

To the shareholders of Amber Grid AB

Our opinion

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

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

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

Basis for opinion

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

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

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

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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Our audit approach

Overview

Materiality	Overall Company's materiality is EUR 1 200 thousand which represents 5% of profit before tax.
Key audit matters	• Revenue recognition • Assessment whether there is any indication that property, plant and equipment may be impaired

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

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

Materiality

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

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

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

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

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

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

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

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

Other information

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

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

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

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania
22 March 2017

STATEMENT OF FINANCIAL POSITION

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

(cont'd on the next page)

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

STATEMENT OF FINANCIAL POSITION (CONTINUED)

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

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

INCOME STATEMENT

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

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

STATEMENT OF COMPREHENSIVE INCOME

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

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

STATEMENT OF CHANGES IN EQUITY

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

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

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

STATEMENT OF CASH FLOWS

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

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

STATEMENT OF CASH FLOWS (CONTINUED)

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

AB Amber Grid ("the Company") is a public limited liability company registered in the Republic of Lithuania.

Its registered office address is as follows:
Savanorių pr. 28,
LT – 03116, Vilnius,
Lithuania.

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

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

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

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

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

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

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

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

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

All the shares of the Company are ordinary registered shares with the par value of EUR 0.29 each. As at 31 December 2016 and 2015, all the shares had been fully paid. The Company did not hold its own shares. As from 1 August 2013, the Company's shares have been traded on stock exchange and quoted on the Baltic Secondary List of NASDAQ Vilnius (ISIN - LT0000128696; Ticker - AMG1L).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. ACCOUNTING POLICIES

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

2.1. BASIS OF PREPARATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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

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

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

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

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

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

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

2.2. PRESENTATION CURRENCY

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

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

2.3. INVESTMENTS IN SUBSIDIARY

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

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

2.4. INTANGIBLE ASSETS

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

The useful lives of intangible assets can be either finite or indefinite.

After initial recognition, intangible assets with finite lives are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives (4 years). The useful lives, residual values and amortisation method are reviewed annually to ensure they are consistent with the expected pattern of economic benefits from items of non-current intangible assets. Intangible assets mainly consist of software and licences used in the Company's activities.

The Company has intangible assets with indefinite useful lives.

2.5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes replacement costs of part of property, plant and equipment when such costs are incurred and where the recognition criteria are met. Borrowing costs are capitalized on qualifying assets, which creation lasts for more than three months and value is greater than EUR 145 thousand. While determining the amount of borrowing costs eligible for capitalization of costs incurred in the acquisition of qualifying assets, capitalization rate is applied. Borrowing costs consist of interest and other borrowing-related costs.

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

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

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

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

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

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

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

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

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

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

2.6. FINANCIAL ASSETS

According to IAS 39 "Financial Instruments: Recognition and Measurement", the Company's financial assets are classified as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available- for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date.

When financial assets are recognised initially, they are measured at fair value, plus transaction costs (except for the financial assets at fair value through profit or loss).

Held-to-maturity investments

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

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recorded at the fair value of the consideration given. Current receivables are subsequently carried at amortised cost using the effective interest method less impairment losses, if any. Gains and losses are recognised in the income statement when the assets are derecognised or impaired, as well as through the amortisation process.

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

2.7. DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2.8. INVENTORIES

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

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

Cost of natural gas is determined on the basis of weighted average cost, and the cost of the remaining inventories is determined on the basis of the first-in, first-out (FIFO) method. Inventories that cannot be realised are written off.

2.9. CASH AND CASH EQUIVALENTS

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

2.10. BORROWINGS

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

2.11. BORROWING COSTS

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

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

2.12. GRANTS (DEFERRED REVENUE)

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

Grants received in the form of non-current assets or intended for the purchase, construction or other acquisition of non-current assets are considered as asset-related grants. Assets received free of charge are also attributed to this group of grants. The amount of the grants related to assets is recognised as income over the life of a depreciable asset and recorded in the income statement by netting the depreciation expenses of the related asset against the grant income.

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

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

2.13. NON-CURRENT EMPLOYEE BENEFITS

Defined benefit plan - post employment benefits

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

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

Other long-term employee benefits

The Company is paying benefits to its employees for their long service at the Company. Non-current obligation for employment benefit is recognised in the statement of financial position at the present value of defined benefit obligation at the date of the statement of financial position. Present value of defined benefit obligation is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and the similar maturity as the employment benefits.

2.14. INCOME TAX

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

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

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

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

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

2.15. LEASES

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

Finance lease

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

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

Operating lease

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

2.16. REVENUE RECOGNITION

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

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

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

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

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

2.17. FOREIGN CURRENCIES

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

2.18. IMPAIRMENT OF ASSETS

Financial assets

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

Other assets

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

2.19. FAIR VALUE MEASUREMENT

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

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

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

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

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

2.20. USE OF ACCOUNTING ESTIMATES IN THE PREPARATION OF THE FINANCIAL STATEMENTS

The preparation of financial statements in conformity with International Financial Reporting Standards requires management of the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to depreciation and impairment evaluation for

property, plant and equipment (Note 2.5 and Note 6) and deferred income tax asset (Note 2.14 and Note 19). Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

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

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

2.21. CONTINGENCIES

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

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

2.22. SUBSEQUENT EVENTS

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

2.23. INTER-COMPANY OFFSETTING

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

3. SEGMENT REPORTING

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

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

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

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

Customer A – EUR 16,068 thousand; Customer B – EUR 15,072 thousand;

Customer C – EUR 10,365 thousand;

Customer D – EUR 6,990 thousand; Customer E – EUR 6,903 thousand.

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

Customer A – EUR 7,152 thousand;

Customer B – EUR 10,451 thousand;

Customer C – EUR 12,888 thousand;

Customer D – EUR 8,611 thousand.

4. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

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

5. INTANGIBLE ASSETS

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

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

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

6. PROPERTY, PLANT AND EQUIPMENT

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

	Land	Buildings	Gas transmission pipelines and related installations	Gas distribution pipelines and related installations	Other buildings and structures	Plant and machinery	Motor vehicles	Other fixtures, fittings, tools and equipment	Other PP&E	Construction in progress	Total
Net book amount at 31 December 2014	**113**	**6.674**	**222.709**	**107**	**5.461**	**63.415**	**1.365**	**3.749**	**219**	**17.174**	**320.986**
Additions	–	–	–	–	1	102	278	837	23	47.741	48.982
Reclassifications	–	140	59.014	–	33	1.715	–	919	2	(61.823)	–
Depreciation	–	(270)	(8.265)	(2)	(443)	(5.154)	(427)	(1.459)	(60)	–	(16.080)
At 31 December 2015	**113**	**6.544**	**273.458**	**105**	**5.052**	**60.078**	**1.216**	**4.046**	**184**	**3.092**	**353.888**
Cost	113	9.355	417.721	119	8.129	98.723	4.995	19.069	504	3.092	561.820
Accumulated depreciation	–	(2.811)	(144.263)	(14)	(3.077)	(38.645)	(3.779)	(15.023)	(320)	–	(207.932)
Net book amount at 31 December 2015	**113**	**6.544**	**273.458**	**105**	**5.052**	**60.078**	**1.216**	**4.046**	**184**	**3.092**	**353.888**
Additions	11	–	1	–	–	147	257	405	12	10.418	11.251
Disposals and write-off	–	–	(7)	–	–	–	–	(22)	–	–	(29)
Reclassified from inventories	–	–	–	–	–	–	–	–	477	–	477
Reclassified to inventories	–	–	(12)	–	–	–	–	–	–	–	(12)
Reclassifications	1	–	1.052	–	256	482	30	–	–	(1.821)	–
Impairment	–	(25)	(102)	–	–	–	–	–	–	(552)	(679)
Depreciation	–	(275)	(9.472)	(2)	(420)	(5.142)	(402)	(1.712)	(62)	–	(17.487)
At 31 December 2016	**125**	**6.244**	**264.918**	**103**	**4.888**	**55.565**	**1.101**	**2.717**	**611**	**11.137**	**347.409**
Cost	125	9.330	418.454	119	8.385	99.345	4.989	18.909	984	11.137	571.777
Accumulated depreciation	–	(3.086)	(153.536)	(16)	(3.497)	(43.780)	(3.888)	(16.192)	(373)	–	(224.368)
Net book amount at 31 December 2016	**125**	**6.244**	**264.918**	**103**	**4.888**	**55.565**	**1.101**	**2.717**	**611**	**11.137**	**347.409**

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

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

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

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

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

7. INVENTORIES

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

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

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

8. AMOUNTS RECEIVABLE

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

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

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

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

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

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

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

9. OTHER FINANCIAL ASSETS

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

10. CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

11. RESERVES

Legal reserve

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

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

Other reserves

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

12. BORROWINGS

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

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

On 22 December 2015, the Company signed an agreement with the European Investment Bank regarding a loan for maximum amount of

EUR 28,000 thousand for the term of 20 years. As at 31 December 2016, the loan was not used.

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

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

Analysis of borrowings by contractual maturity:

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

All borrowings of the Company are denominated in the euro, therefore outstanding balances of borrowings as at 31 December 2016 and 2015 were denominated in the euro and were not affected by changes in exchange rates.

The Company's borrowings are neither secured with third party guarantees, nor by assets pledged as collateral.

13. GRANTS (DEFERRED REVENUE)

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

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

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

14. NON-CURRENT EMPLOYEE BENEFITS

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

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

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

15. TRADE PAYABLES

	At 31 December 2016	At 31 December 2015
Trade payables under the investment programme (new constructions)	8	5,142
Trade payables under the investment programme (reconstructions)	3,814	1,182
Payables to service providers	828	870
Payables to repair service providers for non-current assets	381	470
Payables to natural gas suppliers	663	898
	5,694	**8,562**

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

16. 16 OTHER PAYABLES AND CURRENT LIABILITIES

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

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

17. REVENUE

The Company's revenue includes as follows:

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

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

18. FINANCING ACTIVITY

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

19. INCOME TAX

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

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

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

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

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

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

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

20. EARNINGS PER SHARE

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

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

21. CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES

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

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

22. FINANCIAL ASSETS AND LIABILITIES AND RISK MANAGEMENT

Liquidity risk

The Company's policy is to maintain sufficient amount of cash and cash equivalents or have available funding to meet its commitments. Liquidity risk is managed by the Company by making regular short-term and long-term cash flow forecasts. In view of the forecasts, the Company adopts decisions to ensure its solvency, if and when necessary.

The Company's liquidity ratios (after eliminating the effects of the administrated LNG terminal funds) were as follows as at 31 December 2016 and 2015:

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

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2016 and 2015 based on the undiscounted contractual payments (scheduled payments including interest):

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest-bearing borrowings and liabilities		140	11,714	63,555	20,131	95,540
Other current liabilities	11,468*	652	–	–	–	12,120
Trade payables	–	5,694	–	–	–	5,694
Balance at 31 December 2016	**11,468**	**6,486**	**11,714**	**63,555**	**20,131**	**113,354**
Interest-bearing borrowings and liabilities	–	261	25,715	92,944	22,478	141,398
Other current liabilities	25,794*	439				26,233
Trade payables	–	8,562	–	–	–	8,562
Balance at 31 December 2015	**25,794**	**9,262**	**25,715**	**92,944**	**22,478**	**176,193**

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

Credit risk

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

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

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

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

Interest rate risk

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

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

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

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

Natural gas price risk

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

Concentration risk

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

Fair value of financial assets and liabilities

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

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

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

a) The carrying amount of current trade and other receivable, current trade and other payables approximates their fair value (level 3);

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

23. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENCIES

Litigations

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

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

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

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

[1] The Lithuanian Law on the Liquefied Natural Gas Terminal (original version) stipulated that the LNG terminal costs are subject to compensation, whereas a term „the LNG terminal component" was used in the Methodology for the Calculation of the Price Caps of Natural Gas Transmission and Distribution Services as approved by the Commission's Resolution No 03-106 of 8 August 2008. From 2014, the term "additional natural gas supply security component to be included in the natural gas transmission price" is used in the Law on the Liquefied Natural Gas Terminal.

4. On 22 January 2016, AB Achema applied to Vilnius Regional Administrative Court with request to annul paragraph 1 of the Commission's Resolution No 03-683 of 23 December 2016 *On the establishment of the additional natural gas supply security component to be included in the natural gas transmission price*. Based on the court ruling of 9 March 2016, AB Amber Grid joined the lawsuit as a third party. The parties filed their responses. Based on the ruling of Vilnius Regional Administrative Court of 10 November 2016 the investigation of the case was suspended until the resolution of the First Administrative Case at the Supreme Administrative Court of Lithuania.
5. On 18 April 2016, AB Achema applied to Vilnius Regional Administrative Court with request to annul paragraph 1 of the Commission's Resolution No 03-683 of 25 March 2016 *On the establishment of the additional natural gas supply security component to be included in the natural gas transmission price*. Based on the court ruling of 2 May 2016, AB Amber Grid joined the lawsuit as a third party. The parties filed their responses. Based on the ruling of Vilnius Regional Administrative Court of 16 November 2016 the investigation of the case was suspended until the resolution of the First Administrative Case at the Supreme Administrative Court of Lithuania.
6. On 18 August 2016 AB Amber Grid filed a claim to Kaunas Regional Court with the request to award from AB Achema the amount owed of EUR 2,430 thousand for the LNG terminal funds according to the agreements on the natural gas transmission services concluded in 2012 and 2014. Preparations are made for the investigation of the case on its merits.
7. On 6 October 2016, AB Achema filed a claim to the respondent, the Republic of Lithuania, for the compensation of damage incurred in granting state aid not agreed with the European Commission. AB Amber Grid joined the lawsuit as a third party. The parties filed their responses.
8. On 28 December 2016, AB Achema applied to Vilnius Regional Administrative Court with request to annul the Commission's Resolution No 03-369 of 17 November 2016 *On the establishment of the additional natural gas supply security component to be included in the natural gas transmission price*. AB Amber Grid joined the lawsuit as a third party. A time period has been established in the case for the provision of responses.

Contingencies related to commitments to purchase non-current assets

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

24. RELATED-PARTY TRANSACTIONS

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

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

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

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

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

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

The outstanding year-end balances are not secured with any collateral, they are interest free, and all settlements in 2016 were made in cash payments within the term of 15 days. No guarantees were issued or received in respect of receivables from/payables to related parties, nor were any impairment allowances established by the Company for doubtful receivables from related parties.

Payments to management

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

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

25. CAPITAL MANAGEMENT

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

26. SUBSEQUENT EVENTS

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

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

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

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

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

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

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

Amber Grid

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