AMBER GRID AB

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

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Independent auditor's report

To the shareholders of Amber Grid AB

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Amber Grid AB ("the Company") as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statements of profit or loss and comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company are in accordance with the applicable law and regulations in the Republic of Lithuania and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014 considering the exemptions of Regulation (EU) No 537/2014 endorsed in the Law of the Republic of Lithuania on the Audit of Financial Statements.

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

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Our audit approach

Overview

Materiality	Overall Company's materiality is EUR 1 172 thousand which represents 5% of adjusted profit before tax.
Key audit matters	• Revenue recognition • Valuation of property, plant and equipment

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

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

Materiality

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

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

Overall Company materiality	EUR 1 172 thousand (2016: EUR 1 200 thousand)
How we determined it	5% of profit before tax adjusted for one-off property, plant and equipment revaluation decrease
Rationale for the materiality benchmark applied	We have applied this benchmark, as profit before tax is the key measure used both internally by management and, we believe, externally by stakeholders, including the shareholders, regulator and creditors in evaluating the performance of the Company. We chose 5%, which is within the range of acceptable quantitative materiality thresholds. We further adjusted it for one-off items of non-recurring nature represented by property, plant and equipment revaluation decrease recognised in the profit or loss for the year 2017 following the change in the accounting policy from cost to revaluation model.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 58 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

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 2017 amounts to EUR 64.3 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.

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Valuation of property, plant and equipment

As described in the Note 4 and Note 6 of the financial statements, during the year 2017 the Company has changed its accounting policy for property, plant and equipment. According to new accounting policy, property, plant and equipment is carried at revalued amounts, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

We focused on the valuation of property, plant and equipment due to its significance for the statement of the financial position (EUR 241.9 million as at 31 December 2017) and because management's assessment of revalued amount of property, plant and equipment at the end of the reporting period involves significant judgments and estimates.

The Management has applied the income method using the discounted cash flows technique in determining the fair value of property, plant and equipment as at 31 December 2017 and consequently has recognised the revaluation decrease in amount of EUR 35.5 million in the profit or loss for the year then ended. The revaluation decrease was proportionally allocated to those individual assets that have net book value higher than the regulated asset base, as based on management's assessment such an excess in value will not generate future revenue for the Company based on current rules for regulated services.

We obtained, understood and evaluated management's policies, processes, methods and assumptions used to assess the fair values of property, plant and equipment. We also discussed the main changes as per assumptions that the management used in prior periods when assessing the recoverable amount of the property, plant and equipment.

We took into account our knowledge of the Company and its business activities, as well as our accumulated knowledge related to the industry where the Company operates, including the changes in the regulatory environment.

With the assistance of our valuation experts, we independently assessed the following significant inputs used in the valuation model:

- expected cash flows from operations during years 2018 – 2022;
- adjustments made to cash flows regarding the grants for the key gas network projects
- adjustments made to cash flows regarding capital expenditures;
- discounted perpetuity value beyond 2022 which is based on expected return on the regulated assets investments;
- the discount rate.

We discussed these inputs with management and traced them to internal and external information where appropriate.

We ensured that valuation model is mathematically accurate and that the results are accurately compared and allocated to the carrying values of individual assets. We also assessed the appropriateness of the method to allocate the revaluation decrease to individual assets used by the Management.

In addition, we assessed sensitivity of property, plant and equipment valuation results to changes in selected assumptions and traced it to the disclosures included in the Financial statements.

Our work gave us sufficient audit evidence to conclude that the carrying values of property, plant and equipment is supportable and appropriate in light of the evidence obtained.

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Reporting on other information including the annual report

Management is responsible for the other information. The other information comprises the annual report, including the corporate governance report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the annual report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the annual report, we considered whether the annual report includes the disclosures required by Law of the Republic of Lithuania on Financial Reporting by Undertakings implementing Article 19 of Directive 2013/34/EU.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the annual report for the financial year ended 31 December 2017, for which the financial statements are prepared, is consistent with the financial statements; and
- the annual report has been prepared in accordance with the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

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

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the annual report which we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

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

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

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

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

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Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Company on 2015. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 3 years.

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

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No. 000457

Vilnius, Republic of Lithuania
23 March 2018

Statement of financial position

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

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

Statement of financial position (continued)

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

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

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

Profit (loss) statement

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

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

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

Statement of comprehensive income

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

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

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

Statement of changes in equity

	Notes	Share capital	Legal reserve	Other reserves	Retained earnings (deficit)	Total
At 31 December 2015		**51,731**	**5,166**	**121,789**	**15,978**	**194,664**
Transfer from other reserves		-	-	3,189	(3,189)	-
Transfers 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**
Dividends declared		-	-	-	(20,928)	(20,928)
Total transactions with shareholders		-	-	-	*(20,928)*	*(20,928)*
Total comprehensive income (loss)		-	-	-	(9,861)	(9,861)
At 31 December 2017		**51,731**	**5,173**	**124,978**	**(9,861)**	**172,021**

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

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

Statement of cash flows

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

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

Statement of cash flows (continued)

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

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

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

Notes to the financial statements

1 General information

Amber Grid AB ("the Company") is a public limited liability company registered in the Republic of Lithuania.
Its registered office address is as follows:
Savanorių pr. 28,
LT – 03116, Vilnius,
Lithuania.

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

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

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

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

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

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

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

1 General information (continued)

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

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

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

EPSO-G UAB is wholly owned by the Republic of Lithuania. 100% of shares in EPSO-G UAB are owned under the right of trust by the Lithuanian Ministry of Energy. EPSO-G UAB is responsible for the management of the share package of the Lithuanian electricity and gas transmission system operators.
On 23 December 2016, Amber Grid AB acquired the remaining ownership interest of 34% in GET Baltic UAB from Finnish natural gas company Gasum Oy and became the sole shareholder of GET Baltic UAB owning 100% of its share capital. As at 31 December 2017, the authorised share capital of GET Baltic UAB amounted to EUR 580,450 and it was divided into 3,055,000 shares with the par value of EUR 0.19 each.

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

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

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

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

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

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

1 General information (continued)

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

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

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

ASSETS		At 31 December 2017	At 31 December 2016
A.	**Non-current assets**	**450**	**171**
I.	Intangible assets	447	170
II.	Property, plant and equipment	3	1
B.	**Current assets**	**911**	**2,953**
I.	Prepayments	10	1
II.	Amounts receivable	277	787
III.	Cash and cash equivalents	624	2,165
Total assets		**1,361**	**3,124**
EQUITY AND LIABILITIES			
C.	**Equity**	**338**	**251**
I.	Share capital	580	580
II.	Reserves	-	-
III.	Accumulated loss	(242)	(329)
D.	**Accounts payable and liabilities**	**1,023**	**2,873**
I.	Non-current liabilities	-	-
II.	Current liabilities	1,023	2,873
Total equity and liabilities		**1,361**	**3,124**

1 General information (continued)

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

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

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

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

2 Accounting policies

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

2.1. Basis of preparation

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

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

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

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

The following IFRSs and amendments thereto were adopted by the Company for the first time for the financial year ended 31 December 2017:

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

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2017). The amendments have clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax assets for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The amendments have no significant impact on the financial statements of the Company.

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

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

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

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
  Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives).

2 Accounting policies (continued)

Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Company will apply IFRS 9 starting from 1 January 2018 using the modified retrospective approach. According to the Company, the standard will have no impact on the classification of the Company's financial assets as at 31 December 2017: loans and amounts receivable will continue to be carried at amortised cost. The new standard will have no impact on the classification of financial liabilities, as changes affect only the classification of financial liabilities at fair value through profit or loss, and the Company does not have such liabilities.

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

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

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

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

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (effective date to be determined by the IASB; not yet adopted by the EU). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

2 Accounting policies (continued)

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary and the shares of the subsidiary are transferred during the transaction. *The Company does not expect the amendments to have a significant impact on the financial statements.*

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the profi (loss) statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. *The Company will apply IFRS 16 starting from 1 January 2019. The Company will capitalise the obligations under non-cancellable operating lease contracts in the statement of financial position.*

Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety. Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows: (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. *The amendments will have no impact on the Company's financial statement.*

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

Annual improvements to the IFRSs 2014–2016 Cycle (effective for annual periods beginning on or after 1 January 2017 (changes to IFRS 12) or 2018 (changes to IFRS 1 and IAS 28)); adopted by the EU on 7 February 2018). The improvements impact three standards. The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5.

2 Accounting policies (continued)

IFRS 1 was amended to delete some of the short-term exemptions from IFRSs after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that venture capital organisations or similar entities have an investment-by- investment choice for measuring investees at fair value. Additionally, the amendment clarifies that if an investor that is not an investment entity has an associate or joint venture that is an investment entity, the investor can choose on an investment-by-investment basis to retain or reverse the fair value measurements used by that investment entity associate or joint venture when applying the equity method.

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

IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The interpretation clarifies that the date of transaction, i.e. the date when the exchange rate is determined, is the date on which the entity initially recognises the non-monetary asset or liability from advance consideration. However, the entity needs to apply judgement in determining whether the prepayment is monetary or non-monetary asset or liability based on guidance in IAS 21, IAS 32 and the Conceptual Framework. *The amendments will have no impact on the Company's financial statement.*

IFRS 17, Insurance Contracts (effective for annual periods beginning on or after 1 January 2021; not yet adopted by the EU). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare the financial performance of similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. *This IFRS will have no impact on the Company's financial position or results of operations.*

IFRIC 23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment.

2 Accounting policies (continued)

The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the Interpretation. *The Company is assessing the impact of the new interpretation on its financial statements.*

Prepayment Features with Negative Compensation – Amendments to IFRS 9 (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. *The Company is assessing the impact of the amendments on its financial statements.*

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in the investee. *The Company is assessing the impact of the amendments on its financial statements.*
Annual Improvements to the IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. *The Company is assessing the impact of the amendments on its financial statements.*

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

2.2 Presentation currency

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

2.3 Investments in subsidiary

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

2 Accounting policies (continued)

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

2.4 Intangible assets

The Company's intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Company and the cost of asset can be measured reliably.
The Company applies the following useful lives to its intangible assets: four years with a finite useful life.

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

2.5 Property, plant and equipment

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

Any accumulated depreciation and impairment losses at the date of revaluation are eliminated against gross carrying amount of the asset and net amount is restated to the revalued amount of the assets.

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

Interest and other borrowing costs (such as the bank's administration fee, etc.) are included in the acquisition cost of property, plant and equipment if they are directly attributable to the acquisition of a qualifying asset. A qualifying asset is regarded to be an asset which is developed on the basis of a project the value of which is not less than EUR 1 million and the preparation of which for its intended use or sale takes no less than 12 months. Borrowing costs that are attributable to the acquisition of a qualifying asset are capitalised as part of the cost of that asset. The capitalisation of borrowing costs is started when costs related to the production or acquisition of the qualifying asset are incurred (a prepayment is made or a payment for works is made according to the signed statement on the works carried out and their respective value) and ended when all the activities necessary for the preparation of the qualifying asset for its intended use or sale are substantially complete (a statement on the recognition of the construction as fit for use is signed). While determining the amount of borrowing costs eligible for the capitalisation of costs incurred in the acquisition of qualifying assets, the capitalisation rate is applied.
Property, plant and equipment also includes the minimum quantity of natural gas contained in the gas pipelines (line pack) which is necessary to ensure a stable functioning of the transmission system (i.e. necessary to start the functioning of the transmission system) under the base conditions (pressure of 25 bar is ensured for system users for all exit points). This part of property, plant and equipment is not depreciated, because the Company will be able to sell such natural gas at the end of the useful life of the gas transmission pipeline, and accordingly, the value of such natural gas represents the residual value of the gas transmission pipeline.

2 Accounting policies (continued)

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

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

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

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

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

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

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

2.6 Financial assets

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

Held-to-maturity investments

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

Receivables

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

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

2 Accounting policies (continued)

2.7 Derecognition of financial assets and liabilities

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

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

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

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

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

2.8 Inventories

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

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

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

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

The acquisition cost of inventories which consist of natural gas contained in the gas pipelines is determined using the weighted average costing method. The acquisition cost of one unit of energy of natural gas (kWh) is determined by applying the weighted average costing method using the following formula:
acquisition cost of one unit of energy of natural gas (kWh) = (remaining amount of natural gas at the beginning of the period (quantity * price) + purchases of natural gas over the period (quantity * price)) / quantity of natural gas (remaining amount of natural gas at the beginning of the period + purchases of natural gas over the period).

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

2 Accounting policies (continued)

2.9 Cash and cash equivalents

Cash includes cash at banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.
If there are indications that cash and cash equivalents may not be recovered, an assessment for impairment is carried out. Impairment is recorded in the profi (loss) statement within operating expenses for the period during which it occurred.

2.10 Borrowings

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

2.11 Borrowing costs

The Company borrows funds and uses them for the acquisition of qualifying assets. The Company has to therefore determine the amount of borrowing costs eligible for capitalisation by applying the capitalisation rate for costs incurred in the acquisition of qualifying assets. The capitalisation rate has to be the weighted average of borrowing costs related to the Company's past due borrowings, except for borrowings specifically intended for acquiring qualifying assets. Borrowing costs specifically intended for acquiring qualifying assets are capitalised separately. The amount of the Company's borrowing costs capitalised over the period cannot exceed the amount of borrowing costs incurred over the same period.
Other interest and borrowing costs in the profi (loss) statement are immediately charged to expenses when incurred, regardless of whether they constitute a special purpose loan or not.

2.12 Grants

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

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

Grants may be of two types:
- asset-related grants;
- income-related grants.

Grants received from the state or the European Union in the form of non-current assets or intended for the purchase of non-current assets are considered as asset-related grants. The carrying amount of non-current assets is reduced by the amount of grants. For the purpose of the statement of profit or loss and other comprehensive income, grants are recognised over the useful life of the asset concerned by reducing depreciation expenses.
Accumulated grants receivable are accounted for other receivables when, according to the agreement, the European Commission commits to fund strategic projects and there is strong evidence the funding will be received.

Grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as income-related grants. The income-related grants are recognised as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant.
For the purpose of the profi (loss) statement, income-related grants are recognised when related expenses are incurred (or income is not earned) for the compensation of which the grant was allocated by increasing other income (or reducing related expenses). If no connection can be established between grants and incurred or deferred expenses

2 Accounting policies (continued)

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

2.13 Long-term employee benefits

Defined benefit plan - post employment benefits

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

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

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

2.14 Income tax

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

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

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

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

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

2.15 Leases

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

2 Accounting policies (continued)

Finance lease

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

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

Operating lease

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

2.16 Revenue recognition

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

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

The Company's revenue includes as follows:

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

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

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

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

2 Accounting policies (continued)

Based on the provisions of Article 5(2) of the Republic of Lithuania Law on Liquefied Natural Gas Terminal, the Company carries out the functions of an administrator of the LNG terminal funds. The administration of the LNG terminal funds is performed in accordance with the Description of the procedure for the administration of funds intended to compensate for the construction and fixed operating expenses of the liquefied natural gas terminal, its infrastructure and connector, including subsequent amendments and supplements (the title was changed on 18 December 2015 under the Commission's Resolution No 03-653 of 17 December 2015), as approved by the Commission's Resolution No O3-294 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. The LNG terminal funds, which are collected from the payers of the LNG terminal funds, are transferred to the beneficiaries of the LNG terminal funds: the LNG terminal operator, the designated supplier, and Amber Grid AB. The share of the LNG terminal funds, only which is intended to cover the administration expenses of the LNG terminal funds, is considered as the Company's income (Note 17). LNG terminal funds are not treated as the Company's income/expenses, but are accounted for as other receivables/other payables and other financial assets.

Other income

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

Finance income

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

2.17 Foreign currencies

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

2.18 Impairment of assets

Financial assets

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

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

Other assets

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

2 Accounting policies (continued)

2.19 Fair value measurement

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.
Assets and liabilities disclosed at fair value in the financial statements consist of cash and cash equivalents, including trade and other receivables, trade payables and other payables, and borrowings. Management estimated that the fair value of borrowings as at 31 December 2017 and 2016 approximated their carrying amount, as they were subject to variable interest rates. The fair value of other financial assets and financial liabilities approximated their carrying amount.

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

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

2.21 Contingencies

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

2.22 Subsequent events

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

2.23 Inter-company offsetting

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

3 Segment reporting

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

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

3 Segment reporting (continued)

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

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

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

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

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

4 Changes in accounting policies and adjustment of comparative figures

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

Starting from 2017, the Company changed accounting policy in respect of grants. Before 2017, grants for non-current assets were recognised as deferred revenue in the statement of financial position and starting from 2017 grants are recognised by reducing the carrying amount of the underlying assets. Also, the management has further assessed the substance of the cash flows from grants received to finance the acquisition of property, plant and equipment, and has determined that these cash flows should be presented within investing cash flows, close to cash outflows on acquisition of the property, plant and equipment; thus the presentation will be consistent in the cash flow statement and statement of financial position. This change was applied retrospectively and comparative figures were adjusted. This change had no impact on the profit (loss) statement: The impact of this change on the items of the statement of financial position and statement of cash flows is presented in the table below.

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

5 Intangible assets

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

	Patents, licences	Computer software	Other intangible assets	Total
Net book amount at 31 December 2015	**173**	**581**	**47**	**801**
Additions	44	102	-	146
Write-offs	-	-	-	-
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**
Additions	20	734	-	754
Offsets of additions against grants	-	(90)	-	(90)
Write-offs	-	-	-	-
Amortisation	(63)	(210)	(14)	(287)
At 31 December 2017	**82**	**907**	**19**	**1,008**
Cost	82	907	19	1,008
Accumulated amortisation	-	-	-	-
Net book amount at 31 December 2017	**82**	**907**	**19**	**1,008**

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

6 Property, plant and equipment

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

	Land	Buildings	Structures and equipment	Machinery and equipment	Motor vehicles	Other property, plant and equipment	Construction in progress	Total
Net book amount at 31 December 2015 (restated)	**113**	**6,306**	**221,243**	**57,395**	**1,216**	**3,718**	**2,626**	**292,617**
Additions	11	-	1	147	256	387	6,873	7,675
Disposals and write-offs	-	-	(7)	-	-	(22)	-	(29)
Reclassified from inventories	-	-	-	-	-	477	-	477
Reclassified to inventories	-	-	(12)	-	-	-	-	(12)
Reclassifications	1	-	1,308	257	30	(67)	(1,529)	-
Impairment	-	(25)	(102)	-	-	-	(552)	(679)
Depreciation charge	-	(275)	(8,467)	(4,831)	(402)	(1,591)	-	(15,556)
31 Dec 2016	**125**	**6,016**	**213,964**	**52,968**	**1,100**	**2,902**	**7,418**	**284,493**
Cost	125	9,051	364,899	94,817	4,988	18,588	7,418	499,887
Accumulated depreciation	-	(3,035)	(150,935)	(41,849)	(3,888)	(15,686)	-	(215,393)
Net book amount at 31 December 2016 (restated)	**125**	**6,016**	**213,964**	**52,968**	**1,100**	**2,902**	**7,418**	**284,494**
Additions	-	-	3	244	262	251	6,460	7,220
Disposals and write-offs	-	-	-	-	-	(24)	-	(24)
Reclassified from inventories	-	-	-	-	-	-	-	-
Reclassified to inventories	-	-	-	-	-	(61)	-	(61)
Reclassifications	-	-	3,572	1,814	-	247	(5,633)	-
Revaluation (loss)	-	(289)	(35,162)	(55)	-	-	-	(35,506)
Depreciation	-	(263)	(7,406)	(4,860)	(363)	(1,257)	-	(14,149)
At 31 December 2017	**125**	**5,464**	**174,971**	**50,111**	**999**	**2,058**	**8,245**	**241,973**
Cost	125	5,464	174,971	50,111	999	2,058	8,245	241,973
Accumulated depreciation	-	-	-	-	-	-	-	-
Net book amount at 31 December 2017	**125**	**5,464**	**174,971**	**50,111**	**999**	**2,058**	**8,245**	**241,973**

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

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

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

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

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

6 Property, plant and equipment (continued)

In view of the accounting principles applied in respect of property, plant and equipment by the EPSO-G UAB group, the Company started to record property, plant and equipment at the revalued amount instead of recognising these assets at cost. Due to the specific character of assets used in the Company's activities, the fair value of property, plant and equipment was estimated under the income method by using the discounted cash flow approach to calculate the value. The Company's management has performed the valuation with the involvement of the internal Company's experts and external advisors, where considered to be required. The fair value of the cash generating unit, i.e. the total property, plant and equipment of the Company, was estimated. As at 31 December 2017, the Company accounted for loss on revaluation of property, plant and equipment equal to EUR 35,507 thousand. The loss on revaluation of property, plant and equipment was mainly caused by changes in the management's assumptions:

- It is not expected that excess profit resulting from operational efficiency would be retained, as the tariffs for system services will in the future be reduced by the amount of excess profit;
- Adjustments were made with respect to the projected return on assets for the new regulatory period of 2019–2023, as well as to subsequent continuous cash flows;
- Adjustments were made with respect to the assumption according to which a regulated return on assets will be established for transit services in the future following the same principles as those applied to transmission services.

A projected change (decrease) in the regulated rate of return on investments in the new regulatory period for natural gas transmission services prices applicable from 2019 was estimated when calculating future cash flows. The rate of return on investments for this period was projected based on the provisions of the Methodology for Setting the Rate of Return on Investments ("the Methodology") approved by the Commission's Resolution No O3-510 of 22 September 2015. Taking into consideration the fact that at the present moment it is not possible to exactly forecast indicators that will be used under the Methodology for the determination of the rate of return on investments beyond 2022, the rate of return on investments was treated to be equal to a currently effective discount rate before taxes for the purpose of calculating the discounted going concern value.

Net cash flows generated by the assets were discounted using the discount rate (WACC after tax) equal to 5.11%, which was calculated by the Company.

Loss on revaluation of property, plant and equipment amounting to EUR 35,507 thousand was proportionally allocated to assets the carrying value of which is higher than the regulated assets base as based on management's assessment such an excess in value will not generate future revenue for the Company based on current rules for regulated services.

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

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

6 Property, plant and equipment (continued)

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

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

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

Sensitivity to changes in discount rate by percentage points:

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

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

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

Change in rate of return on investments (regulated assets) during regulation period 2019 - 2022	Value of PP&E valued using the income method, EUR '000	Effect on profit before tax, EUR '000	Effect on statement of comprehensive income / revaluation reserve before tax, EUR '000
+0,6%	240,425	(32,560)	-
-0,1%	236,988	(35,998)	-

Return on investments for the new price regulation period will be established by the National Commission for Energy Control and Prices in accordance with the provisions of the Methodology. The potential rate of return on investments was projected with adequate prudency, i.e. basically a minimum rate of return on investments was estimated when calculating future cash flows, therefore, the range of sensitivity to changes was uneven, which brings to an assumption that the rate on investments might increase by 0.6 percentage points following the increase in interest rates on loans. At the end of each year, the National Commission for Energy Control and Prices will make adjustments to the rate of return on investments.

6 Property, plant and equipment (continued)

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

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

While discounting cash flows beyond 2022, consistency was established between the projected return on investments and the discount rate, therefore, the reasons concerning the sensitivity of return on investments to changes are the same as those concerning the sensitivity of the discount rate to changes, as described above.

Sensitivity to changes in stable growth rate by percentage points:

Change in stable growth rate	Value of PP&E valued using the income method, EUR '000	Effect on profit before tax, EUR '000	Effect on statement of comprehensive income / revaluation reserve before tax, EUR '000
+1%	304,996	-	32,011
-1%	196,379	(76,607)	-

Uncertainties related to the assumptions on the determination of stable growth rate will reduce after 2021 (after the completion of the gas interconnection between Lithuania and Poland, the formation of the single regional gas market) or during the development of general changes in economy.

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

Items	Before offset against grants as at 31 December 2017	After offset against grants as at 31 December 2017	Before offset against grants as at 31 December 2016	After offset against grants as at 31 December 2016
Implementation of the gas interconnection Poland-Lithuania in the territory of Lithuania	6,517	3,998	6,262	3,744
Modernisation of the Panevėžys compression station	1,150	605	1,861	959
Installation of control device releasing and receiving chambers	3,530	1,776	-	-
Reconstruction of gas distribution stations in Jonava and Alytus	2,282	1,146	-	-
Replacement of valve units of the gas transmission pipelines	-	-	1,765	1,765
Construction of the gas transmission pipeline Vilnius-Kaunas and the connection Kaunas-Šakiai	551	551	551	551
Automation of the maintenance of a cathodic protection of the gas transmission pipelines by installing a remote monitoring and management system	146	77	430	215
Other	892	672	848	764
*Less: impairment of construction in progress	(580)	(580)	(580)	(580)
	14,488	**8,245**	**11,137**	**7,418**

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

7 Inventories

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

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

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

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

8 Amounts receivable

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

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

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

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

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

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

		Trade receivables and other receivables past due					
	Trade receivables and other receivables not 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 2017	23,598	2,057	882	-	29	991	27,557
At 31 December 2016	21,484	1,937	1,052	-	-	971	25,444

9 Other financial assets

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

9 Other financial assets (continued)

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

10 Cash and cash equivalents

	At 31 December 2017	At 31 December 2016
Cash at bank	6,726	13,966
	6,726	**13,966**

The Company keeps its cash balances in bank accounts. As at 31 December 2017, cash balance declined mainly as a result of the repayment of a loan prior to its maturity and the Company's treasury management aimed at minimum cash balances. Consequently, upon the occurrence of favourable market conditions, the Company would invest cash balances in short-term deposits. As at 31 December 2017, the Company had no deposits.
As at 31 December 2017, the Company' cash balances were kept in the accounts of the banks whose long-term foreign currency credit rating was not lower than "A1" based on Moody's, not lower than "A" based on Standard&Poor's, and not lower than "A" based on Fitch Ratings. These thresholds fall within a high investment-grade.
The table below presents the long-term foreign currency credit ratings of the banks in which the Company kept its cash balances as at 31 December 2017:

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

[1)] The ratings assigned to the parent banks as at 31 December 2017.
[2)] Luminor Bank AB was founded on 1 October 2017 after the merger of Nordea and DNB bank branches in the Baltic countries. As at 31 December 2017, rating agencies had not assigned a rating to Luminor Bank AB.

11 Reserves

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

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

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

12 Borrowings

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

12 Borrowings (continued)

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

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

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

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

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

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

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

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

13 Deferred revenue

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

Deferred revenue includes the funds related to customer connection to the gas system which totalled EUR 1,501 thousand (2016: EUR 1,535 thousand) (according to the accounting policy applied until 1 July 2009).

14 Non-current employee benefits

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

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

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

15 Trade payables

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

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

16 Other payables and current liabilities

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

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

17 Revenue

The Company's revenue includes as follows:

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

18 Financing activity

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

19 Income tax

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

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

Deferred income tax assets and deferred income tax liabilities were offset in the Company's statement of financial position as they were related to the same fiscal authority.
When estimating the components of deferred income assets and liabilities in 2017 and 2016, the Company applied income tax rate of 15%.
The reported amount of current income tax expenses can be reconciled to the income tax expenses that would result from applying a standard income tax rate of 15% to profit before tax:

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

20 Earnings per share

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

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

21 Cash flows from investing and financing activities

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

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

22 Financial assets and liabilities and risk management

Liquidity risk

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

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

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

	Within 20 calendar days	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest-bearing borrowings and liabilities	-	124	18,096	42,606	17,841	78,667
Other current liabilities	11.356[1)]	780	-	-	-	12,136
Trade payables	-	9,934	-	-	-	9,934
Balance at 31 December 2017	**11,366**	**10,838**	**18,096**	**52,606**	**17,841**	**100,737**
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**

[1)] Amounts payable to the beneficiaries of the LNG terminal funds.

Credit risk

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

22 Financial assets and liabilities and risk management (continued)

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

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

The reliability of the partners being selected is assessed according to the procedure established at the Company. The system users assigned with the highest risk level are assessed by engaging a company that provides specialised creditworthiness assessment services.
The Company does not issue guarantees to secure the fulfilment of obligations of other parties.

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

The table below demonstrates the sensitivity of the Company's profit before tax to theoretically possible changes in EURIBOR interest rates, with all other variables held constant. The Company estimates sensitivity using 100 basis points, which make 1%.
There is no impact on the Company's equity, other than that on current year profit.

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

Natural gas price risk
The Company is exposed to the risk related to changes in the natural gas purchase price. Changes are caused by various fluctuations in international markets. In 2017, the Company did not take any measures to mitigate the natural gas price risk.

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

Fair value of financial assets and liabilities
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
The Company's principal financial assets and liabilities not carried at fair value are trade and other receivables, trade and other payables, current and non-current borrowings and finance lease.
The following methods and assumptions are used by the Company to estimate the fair value of each class of financial instruments:

(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

The Company had initiated two civil cases on the award of the additional natural gas supply security component to be included in the natural gas transmission price (hereinafter "LNG terminal funds") from Achema AB. Legal proceedings are currently held with respect to overdue amounts receivable. One case was adjourned until the enactment of the final ruling at the General Court of the European Union. Preparations are being made for the investigation of the other case, however, it is likely it might be adjourned as well. The resolution of the cases is not clear yet.
The Company acts only as the administrator of the LNG terminal funds and transfers LNG terminal funds to beneficiaries only when those funds are collected from buyers. Therefore, the Company is not exposed to credit risk as regards the disputed amounts.

On 21 June 2017, Amber Grid AB filed a claim to Klaipėda City District Court whereby it requested to issue a court order in relation to the award of the debt amounting to EUR 106 thousand, interest on late payment equal to EUR 6 thousand, 6% annual interest on the awarded amount starting from the day of bringing the case before the court until the date of full fulfilment of the court's ruling, as well as litigation expenses totalling EUR 0.4 thousand from the debtor GEOTERMA UAB. On 22 June 2017, Klaipėda City District Court satisfied the claim of Amber Grid AB, awarded the stated amount, and passed a decision on the application of provisional remedies.

Contingencies related to commitments to purchase non-current assets

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

24 Related-party transactions

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

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

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

24 Related-party transactions (continued)

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

2017	Purchases	Sales	Amounts receivable	Amounts payable
GET Baltic UAB	3,648[1)]	17	122	261
EPSO-G UAB	84	-	-	-
	3,732	**17**	**122**	**261**

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

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

The Company does not treat the entities controlled by the Government as a single client, because there is no significant economic integration between these entities. The Company provides gas transmission services to the entities controlled by the Government, and all transactions with them are concluded on the arm's length basis. Accordingly, for the purpose of related-party disclosures, the Company disclosed only the transactions with Epso-G group companies.
On 30 March 2017, Amber Grid AB and GET Baltic UAB signed a loan agreement according to which Amber Grid AB can grant a loan to GET Baltic UAB of up to EUR 200 thousand (two hundred thousand euro). The loan is subject to variable annual interest rate of 1 month EURIBOR + a steady 1.5 (one and five tenths) per cent margin. The repayment date of the loan is 31 March 2018.
As at 31 December 2017, Amber Grid AB had granted a loan of EUR 120 thousand (one hundred twenty thousand euro) to GET Baltic UAB.
There were no guarantees given or received in respect of the related-party payables and receivables, settlement occurred in cash in the period from 15 to 30 days. As at 31 December 2017, the Company did not establish any provision for impairment in respect of the related-party receivables.

Payments to management

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

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

25 Non-audit services

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

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

26 Capital management

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

27 Subsequent events

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

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