

# SOCIAL RESPONSIBILITY REPORT

2016

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## STATEMENT FROM THE CEO



Corporate social responsibility is more than showing concern for the employees, their family members, or the community. It is being conscious of responsibility for society, its development, as well as our sincere social activities in this direction.

Social responsibility is a sense, which takes time and patience to develop. We have to be mature in order to be socially responsible. I am confident that we are ready for that.

If you do something only to be seen, it does not mean that you are responsible. The same is with social responsibility – we are socially responsible not to be appreciated, but because it is our principle of life.

We are socially responsible not only in our core business – safe and reliable transportation of natural gas, assurance of operation of gas market, conservation of nature, or remedying of environmental damage. We show concern for the neighboring local communities as well.

I want to thank our employees, shareholders, system users, suppliers, and partners for working together to pursue a common goal.

Yours faithfully,

A stylized, handwritten signature in black ink, consisting of several loops and a long horizontal stroke.

Saulius Bilys

CEO

# REPORT PROFILE



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Seeking accountability and transparency in our activities, we hereby provide the Social Responsibility (SR) Report of AB Amber Grid (hereinafter referred to as 'the Company') to review our 2016 activities: relations with customers (the market), environmental protection as well as relations with employees and other stakeholders. The Report describes the Company's actions and achievements in the field of social responsibility in 2016.

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This Report has been drawn up with regard to the principles of the United Nations Global Compact and the Global Reporting Initiative (hereinafter referred to as 'GRI') G4 Guidelines. It is an internationally recognised initiative, according to which companies and organisations can assess and disclose their economic, environmental and social activities.

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This is the first social responsibility report drawn up by AB Amber Grid, and such documents will be drawn up in future on an annual basis. Our previous activities in the field of social responsibility were publicised as a part of Annual Reports. The Report is presented in the Lithuanian and English languages and is published through the stock exchange NASDAQ Vilnius together with the Annual Financial Report as well as on the website *www.ambergrid.lt/en*. The Report has not been audited or reviewed by any third parties.

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Questions or comments and remarks concerning the improvement of the Social Responsibility Report are invited by e-mail: *soc.atsakomybe@ambergrid.lt*.

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# PRINCIPLES AND PRIORITIES OF SOCIAL RESPONSIBILITY

AB Amber Grid is the Lithuanian operator of the natural gas transmission system responsible for the safe and reliable transmission of natural gas to consumers and operation, maintenance and expansion of natural gas infrastructure. In implementing its strategic goals, the company adheres to its most important business principles: a socially responsible and transparent business model, effective use of the available infrastructure, implementation of rational innovations, and retention and development of competent personnel. The Company's socially responsible and transparent business model is implemented through consistent activities in the following areas: relations with employees and stakeholders, environmental protection, and transparent and responsible activities in the market.

## STAKEHOLDERS AND UNDERSTANDING OF THEIR NEEDS AND EXPECTATIONS

In the context of internal and external environment, the Company has a broad range of various stakeholders. 'Stakeholders' shall be understood as physical and natural persons and organisations, who may experience a positive or negative impact from the activities carried out by the Company, and those who express their interest in those activities and wish to express their opinion.

## GROUPS OF THE COMPANY'S STAKEHOLDERS

The natural gas supply system covers the whole territory of the country. Also, transmission activities serve as the basis for integration into a common regional and European Union gas network; therefore, stakeholders and groups are classified not only by interests and their role in the process of the Company's operations but also by their geographical location.

In terms of geography, parties interested in the Company's activities are divided into the following:

- International (operating in various fields);
- National (operating in the territory of the Republic of Lithuania);
- Regional (operating in a certain city or region of the country);
- Local (operating in a district or community);
- The Company's internal (shareholders and employees).

The most important stakeholders, which may, in one way or another, be interested in the Company's activities, are presented in Table 1.

Official, partnership, consultancy relations or non-official relations which, however, are no less important, are established with groups and single persons who express their particular interest in the activities carried out by the Company. All stakeholders are provided with information of their interest, such as information on the transmission system, availability of the services being provided, their requirements and quality, emissions of pollutants, environmental impact, information for safety, most important news, etc.

The Company has a mechanism for the registration and exchange, examination and provision of information for inquiries, complaints, replies to them, and notifications related to the operation of the transmission system.

Table 1. The list of the most important stakeholders of AB Amber Grid.

Interested group	Most important	Interests
Customers	Users of the gas transmission system	A rational price of services, reliable transmission of natural gas, available and accurate relevant information (on scheduled works, breakdowns, etc.), promptness in the performance of works, etc.;
	Natural gas sellers/importers	Assurance of technical capacities; Readily available and accurate relevant information (on scheduled works, breakdowns, etc.).
International parties	Regional and European network gas transmission system operators	Compliance with the integrated gas network implementation requirements (interoperability, reliability assurance); Environmental protection, safety assurance, and social policy; implementation of their compatibility; Readily available and accurate relevant information (on scheduled works, breakdowns, etc.).
	The Commission of the European Union in Lithuania	Compliance with the principles and requirements of integrated pollution prevention and control (IPPC), best available production techniques (BAPT), and environmental impact assessment (EIA).

Interested group	Most important	Interests
National regulating authorities	The Ministry of Energy of the Republic of Lithuania	The implementation of the national energy policy and strategy. The supervision and regulation of the gas sector and related legal acts.
	The Ministry of Environment of the Republic of Lithuania	The national environmental protection policy and strategy.
	The Ministry of Social Security and Labour of the Republic of Lithuania	The national policy in the field of Occupational Health and Safety.
	The National Control Commission for Prices and Energy (NCC)	The regulation of natural gas transmission services and balancing prices; the supervision of compliance with conditions for licensed activities.
	The Environmental Protection Agency	The environmental control and monitoring of activities.
	The Fire and Rescue Department under the Ministry of the Interior	The management of emergency situations, accidents, and threats; fire safety.
	The State Energy Inspectorate under the Ministry of Energy	The inspection of the technical condition (suitability for use) of the installations of the transmission systems.
	The State Labour Inspectorate under the Ministry of Social Security and Labour	Occupational Health and Safety; professional risk management.
	The State Territorial Planning and Construction Inspectorate under the Ministry of Environment	The state supervision of territorial planning and construction of the transmission system.
	The Public Health Centre	Public health care.
Regional authorities	City municipality administrations	Issues of the development of the transmission system expansion at a local level.
International, national, and local non-governmental organisations (NGO); environmental NGO	The Lithuanian Greens Movement	Environmental protection measures, air quality, land use, etc.; Greenhouse gas emissions and climate change; Renewable energy sources; Information on construction and operation.
Local groups and communities, legal persons	Community centres Public organisations	Environmental protection measures, air quality, land use, etc.;
	Exposed vulnerable groups of the population of adjacent areas	All information on ongoing construction and operation.
	Companies established nearby	The schedule and place of ongoing operation works; Environmental protection, safety, and reliability assurance.
Public at large	Newspaper and magazine readers Listeners of radio stations TV viewers Website visitors	Reliable gas transportation, transparency, social responsibility, mitigation of environmental impact, development of the gas sector, and implementation of strategic national projects.
Research centres and consultants	Scientific research laboratories and institutes	Evaluations of quantity and quality performance indicators;
	Energy Training Centre	Creation of new technologies;
	Consulting firms and natural persons	Trainings; Consultations.
Suppliers and service providers	Regional and local waste management enterprises	Collection and processing of municipal and other types of waste; Organisation of timely settlement for goods and services.
	Regional water supply system enterprises	Water supply and wastewater treatment collection; Organisation of timely settlement for goods and services.
	Electricity supply companies	Electricity supply; Organisation of timely settlement for goods and services.
	Natural and legal persons supplying material resources that are used in the process of the operation of the transmission system and providing other services	Constructive partnership: clear contractual obligations and terms, timely settlement for goods and services.



Interested group	Most important	Interests
Contractors	Enterprises performing construction, reconstruction, and repair works of the transmission system	Constructive partnership: clear contractual obligations and terms, timely settlement for services, a smooth works organisation process, flexible documentation management and organisation of procurement procedures with regard to the time required for preparation for works.
Other stakeholders	Shareholders	Implementation of the set financial goals; Continuous performance improvement; Improvement of the value of the company.
	The management team	Management policy and general directions
Stakeholders within the Company	Employees	Training, employment and social policy, guarantees, other procedures and activity strategy, salary and other related information.
	The Committee on Occupational Health and Safety	Social data, labour relations, issues of Occupational Health and Safety.

## THE COMPANY'S STRATEGY AND OBJECTIVES

### MISSION

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

### VISION

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

Following its vision and the strategic goals set by the state to increase the value of the Company and to ensure the strategic interests of the country, in the Strategy for 2016-2021, which was approved in 2016, AB Amber Grid places greatest emphasis on three strategic directions:

- Transformation into a transmission system operator operating in the common gas market;
- The creation of required infrastructure;
- Efficiency improvement and modernisation.

In order to implement the strategic directions, AB Amber Grid forms respective organisational culture based on the values of the Company. The Company is guided by common human, national and professional values. The Company's values form the foundation for the conduct, activities, and organisation culture. The Company distinguishes 6 key values of the organisation:

- Mutual trust;
- Competence;

- Cooperation;
- Openness;
- Responsibility;
- Results orientation.

All the fundamental elements are considered to be assumptions for seeking the strategic goal – the growth of the value of the socially responsible Company. The growth of the value of the Company is understood as a sustainable balance between the strategic directions.

In carrying out our activities, we are guided by the following:

- The Environmental Protection and Occupational Health and Safety System;
- The Corruption Prevention Policy;
- The Procurement Policy;
- The Information Security Policy;
- The Company's Organisational Culture Policy.



ABOUT  
AB AMBER GRID

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Grid

## KEY DATA

Name	AB Amber Grid (hereinafter referred to as 'Amber Grid' or 'the Company')
Legal form	Public limited liability company
Date of registration and the Registry	25 June 2013, the Register of Legal Entities
Legal entity code	303090867
Administrator of the Register of Legal Entities	VĮ Registrų centras (the State Enterprise Centre of Registers)
Authorised capital	EUR 51.730.929,06
Registered office address	Savanorių pr. 28, LT-03116 Vilnius
Phone number	+370 5 236 0855
Fax number	+370 5 236 0850
E-mail address	info@ambergrid.lt
Website	www.ambergrid.lt

AB Amber Grid is the Lithuanian natural gas transmission system operator in charge of natural gas transmission (transportation through high-pressure gas pipelines) to network users and for the operation, maintenance and development of the natural gas transmission infrastructure facilities. AB Amber Grid was registered on 25 June 2013 after the unbundling of natural gas transmission activities, including the assets, rights and obligations attributed to these activities, from AB Lietuvos Dujos. The Company has been carrying out its activities since 1 August 2013, when the temporary gas transmission licence issued to the Company by the NCC entered into effect. The new legal entity was established in the execution of the Third Energy Package of the European Union (hereinafter referred to as 'the EU') and the Law of the Republic of Lithuania on Natural Gas. By establishing AB Amber Grid, the legal, functional, and organisational separation of natural gas transmission activities was implemented.

Following the transfer of the Company's shares to UAB EPSO-G, a company controlled by the Ministry of Energy of the

Republic of Lithuania, by E.ON Ruhrgas International GmbH on 21 May 2014 and by OAO Gazprom on 19 June 2014 and changing the composition of the Board of the Company by the decisions of the Extraordinary Shareholders' Meeting of AB Amber Grid held on 30 June 2014, the operations and property of AB Amber Grid were separated from the enterprises engaged in production and supply activities. On 10 April 2015, the NCC issued the Company an open-end transmission system operator licence and the Company was appointed a certified transmission system operator in accordance with the requirements of the EU.

In seeking the strategic goal of developing a competitive regional natural gas market, on 23 December 2016, AB Amber Grid purchased from Gasum Oy a 34% block of shares of UAB GET Baltic. Amber Grid became the sole shareholder of UAB GET Baltic with control of 100% of its authorised capital. UAB GET Baltic is a company holding a natural gas market operator's licence, whose main function is to arrange for and develop trading on the Natural Gas Exchange.

## ACTIVITIES OF THE COMPANY

In carrying out the activities of the natural gas transmission system operator, the Company provides to network users, other operators, and natural gas market participants the following services:

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

The Company operates:

- 2,115 km of main gas pipelines;
- 67 gas distribution stations;
- 3 gas metering stations;
- 2 gas compressor stations.

The length of the operated pipelines is 2,115 km, and their diameter is 100 to 1,220 mm. The design pressure of the major part of the transmission system is 54 bar.

In 2016, the transmission system operated by the Company accepted 9,277.2 GWh of natural gas for Lithuanian and EU consumers through Kotlovka Gas Metering Station from Belarus, and 14,610.3 GWh was supplied from Klaipėda Liquefied Natural Gas (hereinafter referred to as 'LNG') Terminal. 337.9 GWh of natural gas was accepted through Kiemėnai Gas Metering Station from the Republic of Latvia. During 2016, Lithuanian and EU consumers supplied 60.3% of the required quantity of natural gas from the LNG Terminal. To compare, during 2015, only 16.6% of the required quantity was supplied to them from the LNG Terminal.

In 2016, a total of 23,336.2 GWh of natural gas was transported to Lithuanian consumers into gas distribution systems or

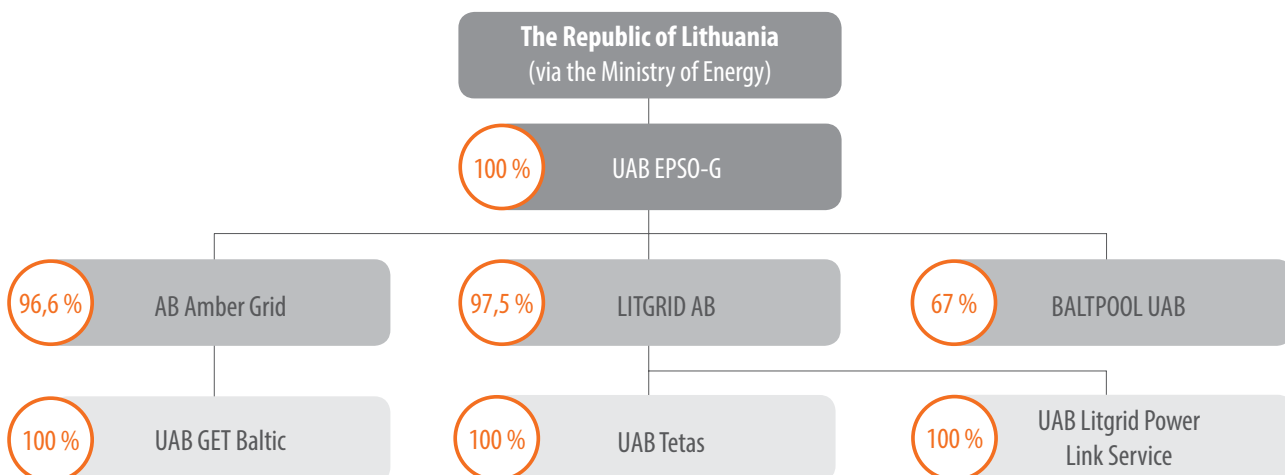
directly connected consumer systems. Compared to 2015, when 26,182.6 GWh of natural gas was transmitted, transmission quantities dropped by 10.9%. In 2016, at the domestic exit point, network users used 1,407.5 GWh of short-term capacities, i.e. 73.1% more than in 2015, when 813.3 GWh of short-term capacities was used. 473.9 GWh of natural gas was transmitted by the transmission system to network users to the Republic of Latvia through Kiemėnai Gas Metering Station.

23,511.2 GWh of natural gas was transported to the Kaliningrad Region of the Russian Federation (compared to 21,778.9 GWh of natural gas in 2015).

In 2016, the Company concluded 95 natural gas transmission service agreements with natural gas transmission system users (natural gas consumers, natural gas transmission system operators, importers, and natural gas supply companies, who supply gas up to consumer system), out of which 24 network users did not use the transmission service in 2016. The Company concluded 3 natural gas balancing agreements with natural gas supply companies that trade in natural gas but do not transport it to the transmission system.

## THE COMPANY'S MANAGEMENT STRUCTURE

As of 31 December 2016, the Company's shareholders included 1,525 natural and legal persons from Lithuania and abroad, of which one shareholder, UAB EPSO-G, has a controlling block of shares (96.58%) of the Company and has a decisive voice in adopting decisions at the general meeting of shareholders. The remainder of the Company's shares (3.42%) is quoted on the Secondary List of NASDAQ Vilnius Stock Exchange. UAB EPSO-G, the majority shareholder of the Company, is 100% controlled by the Ministry of Energy of the Republic of Lithuania. UAB EPSO-G also holds the controlling block of shares of AB Litgrid, the Lithuanian electricity transmission system operator.



In its activities, the Company is guided by the Law on Companies and the Law on Securities, the Articles of Association of the Company as well as other legal acts of the Republic of Lithuania. The competence of the general meeting of shareholders, rights of shareholders and their implementation are defined in the Law on Companies and in the Articles of Association of the Company. The Articles of Association of the Company are published on the Company's website: <https://www.ambergrid.lt/en/about-us/investors-relations/bylaws>.

The Articles of Association of the Company establish that the decisions of the Board that require the approval by the general meeting of shareholders, shall be as follows:

- On transfer, pledge or other restrictions to the shares (stocks, interests) held by the Company or the rights granted thereby or the rights of the participant of legal entity;
- On transfer of the Company's Controlled and/or Associated Companies as a property complex or essential elements thereof, where the book value of the transferred property is higher than 1/20 of the Company's authorised capital;
- On transfer, pledge, change of the legal status, other restriction or disposal of the facilities owned by the Company that are of special strategic importance to national security and facilities of strategic importance to national security as they are defined by the Law of the Republic of Lithuania on Enterprises and Facilities of Strategic Importance to National Security and Other Enterprises Important to Ensuring National Security and by the related legal acts where the value of the specified facilities is higher than 1/20 of the Company's authorised capital;
- On other restriction of the shares or the rights granted by such shares in the directly or indirectly controlled companies that possess, develop, operate, use or dispose on any basis the facilities specified in the above point hereof, increasing, decreasing of the authorised capital of such companies or other actions that can change such companies' authorised capital structure (e.g., issuing of convertible bonds) and decisions on the reorganisation, spin-off, restructuring, liquidation, reforming of the companies specified herein or other actions changing the legal status of the companies specified herein;
- On investment, transferring, rent (calculated individually for every type of transaction), pledge or mortgage (calculated for the total amount of transactions) of the Company's long-term

assets with the book value exceeding 1/5 of the Company's authorised capital;

- On indemnity or guarantee for performance of other persons' obligations amounting to more than 1/5 of the Company's authorised capital;
- On the acquisition of long-term assets at a price exceeding 1/5 of the Company's authorised capital in course of implementation of projects of particular national importance and/or economic projects important to the state as they are defined by the effective legal acts.

The Articles of Association provide for the following management bodies:

- The Board;
- The head of the Company – the Managing Director of the Company.

The Board consist of 5 (five) members elected by the General Meeting of Shareholders for a 4 (four) years' term of office in accordance with the procedure prescribed by the Law on Companies. Members of the Board shall be elected by ensuring the principle of proper representation of all shareholders' rights in the Board. Given this principle, the candidates to the members of the Board shall be proposed by proposing at least 2 (two) candidates to the members of the Board from the managing staff of the Parent Company, at least 2 (two) candidates to the members of the Board from the managing staff of the Company, and at least 1 (one) candidate to the members of the Board shall be an independent person the independence whereof shall be defined following the criteria laid down in the Company's Code of Management as well as the requirements set forth by other applicable legal acts. Any of the Company's shareholders shall be entitled to propose a candidate to the independent members of the Board. The Board shall elect the chairman of the Board from among its members. Members of the Board may be re-elected for another term of office. The uninterrupted time of a term of office of a Member of the Board may not exceed 2 (two) full terms of office in a sequence. The [powers of the members of the Board and the areas of activity of the Head are defined in the Law on Companies and in the Articles of Association of the Company.

The Company has no branches or representative offices.

Information about the Members of the Board, Managing Director and Chief Accountant are presented in Table 2.

**Table 2. Information on the Members of the Board, Managing Director, and Chief Accountant.**

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

The total amount of remuneration credited to the independent Member of the Board during the reporting period was EUR 10,796.2.

The total amount of the salaries credited to the Company's Head and Chief Accountant during the reporting period was EUR 150,258. The average amount of the credited salaries per person (the Managing Director and the Chief Accountant) was EUR 75,129.

Information on the members of the Audit Committee is provided in Table 3.

At the General Meeting of Shareholders on 26 April 2016, the Company's shareholders adopted a decision to abandon the Audit Committee of AB Amber Grid because, according to the newly approved version of the Articles of Association of the Company, the functions of the Audit Committee of AB Amber Grid will be performed by the Audit Committee of the parent company UAB EPSO-G.

**Table 3. Information on the members of the Audit Committee.**

Position	Name and surname	Start date of the term of office	End date of the term of office	Participation in the issuer's capital	
				Stake in the authorised capital, %	Share of votes, %
Independent Member, AV Auditas UAB	Vaida Kačergienė	Dec 2013	April 2016	–	–
Member, Amber Grid AB	Valdemaras Bagdonas	Dec 2013	April 2016	–	–

## KEY PERFORMANCE INDICATORS OF AB AMBER GRID

In 2016, pre-tax profit reached EUR 24,280,000 compared to EUR 14,687,000 in 2015. The earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to EUR 40,708,000 and increased by 35.4% from 2015 (EUR 30,060,000).

In 2016, the Company earned a net profit of EUR 20,928,000, i.e. by 31% more than in 2015, when the net profit amounted to EUR 15,978,000. The better performance was mainly determined by a higher income. The better performance had an effect on higher profitability indicators.

In 2016, the Company's income amounted to EUR 66,742,000 and increased by 19.6% compared to 2015. Income from natural gas transmission services accounted for 89.7% of the total income. Income from natural gas transmission services grew owing to the diversification of gas supply sources, booked transmission capacities at several system entry points, and higher sales of short-term transmission capacities. Balancing income increased to EUR 6,613,000 owing to higher balancing quantities. Other income, including income from the administration of the LNG Terminal funds and other, reached EUR 251,000 in 2016.

In 2016, investments amounted to EUR 13,119,000, compared to EUR 49,497,000 in 2015. The amount of investments made in 2016 in the expansion of the transmission system was EUR 6,616,000, while in 2015 investments amounted to EUR 49,366,000. The decrease in investments was caused by the fact that in 2015, Klaipėda-Kuršėnai gas pipeline was constructed (EUR 41,959,000), while in 2016, a branch pipeline to Tauragė Gas Distribution Station was laid and Tauragė Gas Distribution Station was constructed (EUR 1,271,000) and also the GIPL territorial planning and technical project was drawn up (EUR 5,338,000). The Tauragė Project is financed from the funds of the electricity and gas distribution company Energijos Skirstymo Operatorius, and GIPL is partially financed from the EU's funds.

Investments in reconstruction and modernisation remained at almost the same level as in 2015 (EUR 5,980,000) and amounted to EUR 6,050,000.

In 2016, investments in financial assets reached EUR 453,000 (in 2015, the respective number was EUR 131,000). All the investments in financial assets were related to UAB GET Baltic, the operator of the Natural Gas Exchange. In the first quarter of 2016, to cover the accumulated losses, UAB GET Baltic increased the share capital by a new share issue. This investment amounted to EUR 132,000. In the fourth quarter 2016, Amber Grid acquired a 34% block of the shares of UAB GET Baltic and became the sole shareholder of UAB GET Baltic. UAB GET Baltic became a 100% controlled subsidiary.

At the General Meeting of Shareholders held on 26 April 2016, the Company's shareholders adopted a decision to pay dividends, which amounted to EUR 12,782,134, or EUR 0.07166 per share.

## RISK MANAGEMENT

Risk management constitutes an integral part of Amber Grid's activities. The Company's risks are identified, analysed and evaluated in the context of the Company's objectives, activities and external environment. Before 2016, the risk management process was carried out with regard to the components of the risk management system of AB Lietuvos Dujos that was in effect at that time. In 2016, the Company fully implemented a risk management system developed on the basis of the international standard ISO 31000:2009. It comprises risk identification, analysis, evaluation, provision for any control measures, preparation of a risk management action plan and implementation of the measures of the plan, monitoring and supervision of the risk management process.

By management of risks it is sought to maintain an adequate level of control of the Company's business processes, to minimise the occurrence of any events that may cause risks and any possible adverse effects and to ensure that risks do not exceed the risk levels that are acceptable to Amber Grid and that the Company's objectives are duly implemented.

The Company's risks fall into four broad categories: strategic, operational, compliance-related and financial risks, which in turn may be further subdivided into smaller sub-categories.

The risks affecting the Company's activities and performance are as follows:

- Regulatory risk;
- Competition risk;
- Financial risk;
- Liquidity risk;
- Credit risk;
- Macroeconomic factors risk;
- Technical risk;
- Crisis risk;
- Geopolitical risk.

## MEMBERSHIP IN ORGANISATIONS

In 2016, the Company participated in the authorities of the following Lithuanian and international organisations:

- The European Network of Transmission System Operators for Gas (ENTSOG);
- The National Lithuanian Energy Association;
- The Polish and Lithuanian Chamber of Commerce Association.



# THE COMPANY'S EMPLOYEES



The employees is the most important factor determining the Company's efficiency and success. The Company's personnel policy is focused on the development of the employees' professional abilities and formation of teamwork and the culture of the organisation.

As of 31 December 2016, the Company had 362 employees, which is by 0.6% more than the respective number as of 31 December 2015. The change is insignificant and the number of employees remains stable. The distribution of employees by groups is provided in Table 4.

In 2016, the Company's indicator of employee turnover was 5.3% (in 2015, it was 4.7%). The employee turnover indicator was affected mostly by the retirement of the Company's employees that reached the pension age.

## HUMAN RIGHTS

In carrying out its activities, the Company does not tolerate any violation of human rights, pursues a fair and transparent salary policy, complies with laws regulating overtime and working time, respects the right of workers to rest and does not tolerate any forms of violence, verbal insults or bullying. The Company has not recorded any cases of the infringement of regulations, violations related to discrimination, in respect of the employees' race, gender, religion, political convictions, nationality, social origin, or other reasons.

## LABOUR REMUNERATION SYSTEM

The Company seeks to create an effective and just remuneration system aimed at attracting, maintaining, and motivating employees.

In 2016, in the pursuance of one of the core strategic directions of the Company, the implementation of the personnel management system efficiency improvement project was completed. During the project, the employee's competences of the highest importance to the Company were identified, a competences development system was agreed upon, and a motivation system, which is associated with the strategic planning system at the level of employees' personal goals through employees' activity management, was implemented. For a second time, the competences of the Company's top and medium-level managers were assessed by the 360 degree feedback method, during which feedback about competencies was received from line managers, colleagues and subordinates.

The Company seeks to pay a fair remuneration meeting the market conditions, each employee's competences, and value created for the Company. In order to ensure that employees are motivated and actively help to seek the Company's goals, the employees are paid a variable part of salary, which depends on the performance of both personal and the whole Company's objectives. The average monthly salary by employee groups in 2015-2016 is provided in Table 5 (the average monthly salary in Lithuania in 2016 was EUR 771).

Table 4. The distribution of employees by groups, 2015-2016

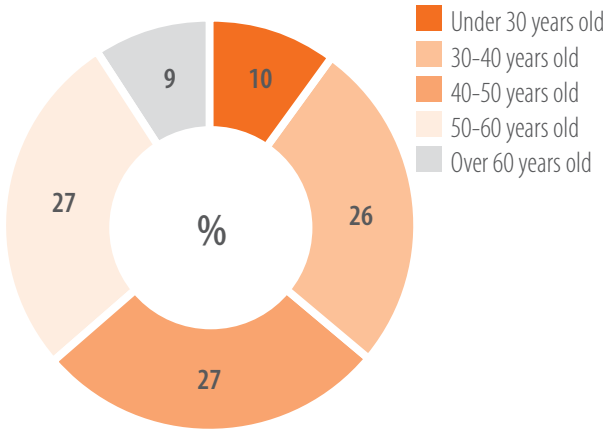
	Number of employees 31 December 2015	Number of employees 31 December 2016
Managers	5	5
Medium-level managers and specialists	227	230
Workers	131	127
Total:	363	362

Table 5. The average monthly salary by employee groups in 2015-2016

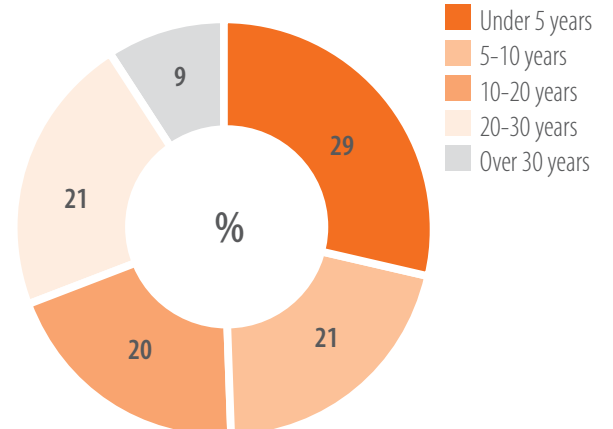
	The average monthly salary, EUR (before tax), 2015	The average monthly salary, EUR (before tax), 2016
Managers	5,884	6,065
Medium-level managers and specialists	1,501	1,398
Workers	933	880
Average	1,348	1,281*

\* In 2016, the average salary formally decreased compared to 2015 due to a change of the policy for paying the variable remuneration part (VRP) of managers/specialists/workers: the payout of the VRP to these groups of employees was linked with the assessment of the employee's yearly performance. The VRP for 2016 will be paid after yearly interviews in 2017.

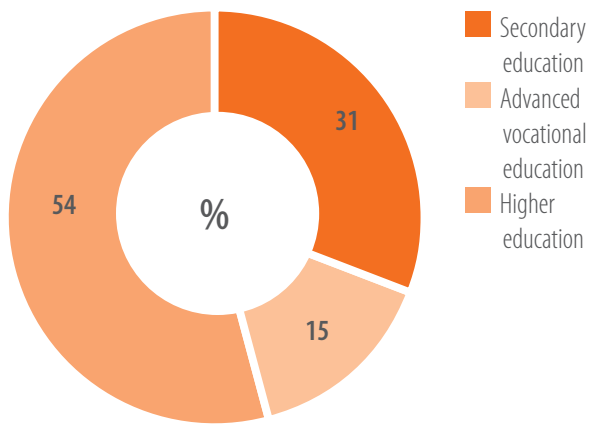
**Fig. 1 The distribution of employees by age groups, 2016**



**Fig. 2 The distribution of employees by the length of service, 2016**



**Fig. 3 The distribution of employees by education, 2016**



## EQUAL OPPORTUNITIES

In 2016, men accounted for 81% (293 men) of the Company’s employees, and women accounted for 19% (69 women). The number of men working in the Company is higher due to the specifics of the activities. The same proportions of the genders were also recorded in 2015. The Company provides opportunities for the employment and successful work to people of various ages and experience. In 2016, the biggest portion of the Company’s employees fell within the age group of 30 to 60 years (Fig. 1) and had 10 or more years of length of service in the Company (Fig. 2). These are qualified, experienced specialists.

54% of the Company’s employees have higher education (Fig. 3); in 2015, the respective number was 53%.

## WORKS COUNCIL

In 2016, the Works Council consisting of 11 members was elected in the Company to represent the employees. The Council provides to the employer proposals on economic, social, and labour issues relevant to employees, implementation of the decisions of the employer, laws regulating labour relations, other regulatory legal acts and collective bargaining agreement. The Council is formed for a three-year term of office from the beginning of the powers of the Council.

Table 6. Funds appropriated to training and qualification improvement, EUR '000

2016 (EUR '000)	2015 (EUR '000)
62.5	44.3

## COLLECTIVE BARGAINING AGREEMENT

The Company has an effective collective bargaining agreement, which was updated at the end of 2016 and extended until 31 December 2017 with the newly selected Works Council of the Company. The Agreement ensures a greater protection of the Company's employees and provides them with additional benefits that are not provided for in the Labour Code of the Republic of Lithuania. They include a supplementary allowance to be paid in addition to the severance pay according to the employee's continuous length of service in the Company and additional pay for the employee's participation in the implementation of projects important to the Company, for qualifications, skills, experience, etc. In the case of professional trainings, the employee is compensated for all expenses. Funds are allocated for employees' qualification improvement, re-training and acquisition of a profession and speciality. The Company allocates funds to strengthen team cohesiveness and cooperation among employees of all units.

## COMPETENCE DEVELOPMENT

The Company consistently cares about employees' qualification improvement and ensures that employees hold all certificates mandatory for work according to laws, improve competences necessary for work, and encourages employees' continuous improvement.

In 2016, the Company organised 48 professional and technical trainings, which were attended by 169 employees, and 36 general trainings (law, public procurement, taxes, accounting, etc.) were attended by 78 employees (Table 6). Mandatory trainings were attended by 358 employees of the Company.

## INTERNSHIP OPPORTUNITIES

The Company cooperates with universities and training institutions and every year receives students for internships. In 2016, two interns undertook their internships in the Company: from Vilnius Gediminas Technical University and from Vilnius College of Technologies and Design. In 2015, there were 5 interns: from Vilnius Gediminas Technical University, Vilnius College of Technologies and Design, Vilniaus Kolegija – University of Applied Sciences, and ISM Management and Economics University.

# OCCUPATIONAL HEALTH AND SAFETY



## OCCUPATIONAL HEALTH AND SAFETY POLICY

The Company pays especially great attention to the improvement of the Occupational Health and Safety culture at working places and enhancement of the responsibility of employees themselves. In order to ensure the effective supervision of the Occupational Health and Safety, the Company is guided by the Environmental Protection and Occupational Health and Safety Policy. In 2016, the certified Occupational Health and Safety Management System was successfully integrated in the certified Environmental Management System, which has been functioning in the Company since 2014 (AADSS).

The requirements of the AADSS management system are based on a repeating process of planning–implementation–verification–analysis, which involves all employees of the company. The management, having regard to the social and economic situation as well as to the Company's financial and technical capabilities, commits to continuously improving environmental protection and occupational health and safety management and efficiency of environmental protection and occupational health and safety and to managing in accordance with acceptable management process standards.

Particularly great attention is paid to preventive measures. Employees performing dangerous works must attend special trainings, their knowledge is periodically examined, and employees' practical skills are fostered by participation in emergency exercises. On 20 May 2016, the Company was issued a licence of the Ministry of Education and Science to carry out formal professional training in accordance with Occupational Health and Safety programmes. Trainings are carried out by the Company's employees who have accumulated long-lasting experience in the natural gas transmission system operations and personnel development processes, possess professional knowledge in the teaching area, have received teachers' training and have necessary knowledge in the field of safety, health and environmental.

Employees' job descriptions as well as Occupational Health and Safety, fire safety, works technology, equipment operation, and other necessary instructions have been drawn up in the Company in order to ensure safe and productive work. Employees using personal protection equipment are additionally briefed according to the user manuals for the personal protection equipment. Employees using chemicals in their work are familiarised with material safety data sheets and are provided with additional protection means before the beginning of work.

In order to familiarise in detail the management and separate employee groups with environmental protection and Occupational Health and Safety requirements and progress of their implementation, information materials are drawn up and disseminated on a monthly basis with the purpose of raising

employees' awareness and warning them of threats. In 2016, the Company distributed 15 information memoranda on the issues of Occupational Health and Safety and environmental protection.

The Company has conducted professional risk assessment for all working places to assess physical, ergonomic, and psychological factors. An examination is performed for each created working place and position. In order to determine whether an employee's age affects his well-being, tasks performed and satisfaction with work, and relations with the direct supervisor and colleagues, an employee survey "Employee Age and Well-being at Work", which covered 130 employees of the Company, was conducted.

In 2016, as well as in 2015, there were no accidents or professional diseases or incidents (events) due to which employees would suffer damage to health.

## EMPLOYEES' HEALTH

In 2016, the Company took part in the contest "Health-fostering Company – 2016". The company was the only energy sector enterprise which in this contest, among 17 enterprises from other sectors, received appreciation for care about its employees from the Ministry of Health of the Republic of Lithuania and the Institute of Hygiene.

The Company also organises obligatory preventive health checks. In 2016, health checks covered 210 employees. Employees working in outdoor conditions undergo compulsorily vaccination against tick-borne encephalitis. Other employees are also provided with the possibility of vaccination against tick-borne encephalitis voluntarily, with expenses covered by the Company. Also, every year the Company organises vaccination against influenza. 54 employees received were vaccinated against influenza in 2016.

With a view to practical lecture "On-the-job Exercises" was organised together with Vilnius City Public Health Bureau and the Healthy Spine School. During the lecture, employees were trained to avoid health disorders during work.

## SPORTS ACTIVITIES AND OTHER INITIATIVES

The Company encourages healthy lifestyles of its employees, sports activities and caring for physical and mental health. In 2016, as in previous years, employees were provided with favourable conditions for sports – playing basketball, football or volleyball in a rented hall.

Various traditional and one-time holidays for the Company's employees are organised: the Summer Festival, the Company's Christmas, and the intellectual team competition „Brain Battle“.

# ENVIRONMENTAL PROTECTION



Environmental protection is one of the priority areas of activity for the Company. The Company continuously assesses the impact of its activities on the environment, applies pollution prevention actions, complies with the legal requirements applicable to the Company's activities, effectively and safely transport natural gas, rationally uses material resources necessary for its activities, applies measures to reduce their costs, develops employees' competence and responsible approach to their work and environmental protection, cooperates and exchanges information on environmental issues with business partners, state authorities and other interested persons and bodies in order to improve the environmental condition and quality of life.

AB Amber Grid has implemented an environmental management systems in accordance with the standard ISO 14004. The Company continuously maintains its management system and consistently improves environmental management. In 2016, the environmental management system was successfully re-certified in transition to the new standard ISO 14001:2015. Taking into account the environmental impact from its activities, the Company complies with all existing environmental protection requirements and undertakes, on its own initiative, the construction of new installations and upgrading of old ones in order to minimise the environmental impact from its activities. The Company monitors the environmental status in carrying out its production and organisational activities and pays much attention to the education of employees in this area. When starting their work in the Company, new employees are trained and familiarised with environmental requirements. The audit for the assessment of the Company's environmental activities is performed every year. The results of internal audits are discussed with the Company's management. Plans of preventive/corrective measures are drawn up. The Company's objective is to minimise the negative effects from its activities on the environment is documented in environmental protection objectives drawn up on an annual basis.

## POLLUTION PREVENTION

The Company operates gas compressor stations in Jauniūnai and Panevėžys.

Jauniūnai Gas Compressor Station runs high-thermal capacity, 34.5 MW turbine gas compressors, the operation of which causes atmospheric emissions of greenhouse gases. The operations of Jauniūnai Gas Compressor Station are carried out in accordance with the Integrated Pollution Prevention and Control Permit issued by the Environmental Protection Agency, the approved Annual Greenhouse Gas Emissions Monitoring Plan, and other requirements of legal acts. The Company has approved the Greenhouse Gas Data Management and Control Plan, which ensures the consistent monitoring of Jauniūnai Gas Compressor Station throughout the year.

The total capacity of the piston gas compressor operated at Panevėžys Gas Compressor Station amounts to 7.7 MW. The operations of the Gas Compressor Station are carried out in accordance with the Pollution Permit issued by the Environmental Protection Agency and other requirements of legal acts.

The biggest risk to the environment and people is posed by accidents and disruptions at natural gas systems, when the burst of natural gas may be released into the atmosphere. By dynamic actions, the Company reduces their release into the atmosphere. When operating gas systems under normal conditions, gas may be released into the atmosphere during technical maintenance operations, performance of necessary repair works as well as due to leaks through ageing and corroding pipelines and their equipment. This risk is significantly reduced by implementing an integrated technical maintenance system, continuous monitoring of the condition of installations, round-the-clock duty of qualified personnel ready to promptly organise operations for the localisation of accidents and disruptions.

**In order to reduce and control leaks of natural gas into the atmosphere, the following measures are implemented:**

- Gas pipelines and their components are constructed in accordance with standards and their installation rules;
- In order to protect underground steel gas pipelines, they are covered with protective insulation and additionally protected using cathodic protection measures. In order to ensure the appropriate and effective protection of gas pipelines against corrosion, around 3370 m<sup>2</sup> of protective insulation was repaired in 2016;
- Where possible, internal pipeline diagnostics are conducted using special devices. In 2016, 169 km of pipelines was inspected (in 2015, 122 km was inspected);
- Before to put gas pipelines into operation, their integrity is tested by higher-than-working pressure;
- Pipeline sections that may be exposed to external physical forces exceeding normal levels (in areas of earthwork, crossings with railway and intensive traffic roads) are equipped with additional means of protection of the main gas pipeline against vibration or impact of other external forces, such as protective trays and concrete panels;
- The operation efficiency of anti-corrosion protection measures is regularly inspected by random measurements;
- In accordance with the established procedure, regular technical maintenance of pipelines and their components is carried out. In 2016, inspections covered 2,115.31 km of in-service main gas pipelines, 386 line taps, 67 gas distribution stations, 3 gas metering stations, 3 gas pressure limitation nodes, and 99 cathodic protection stations (in 2015, 2,112.78 km of in-service main gas pipelines, 386 line taps, 66 gas

distribution stations, 3 gas metering stations, 3 gas pressure limitation nodes, and 107 cathodic protection stations);

- When performing repair works, natural gas from gas pipeline sections to be disconnected is transported using special equipment, without releasing natural gas into the air;
- The balance of gas received into the gas system and supplied from the system is regularly controlled.

## ACCIDENTS AND DISTURBANCES PREVENTION (FIRE SAFETY)

The condition of the existing pipelines is being inspected using various advanced techniques such as the intelligent pigging (internal diagnostics) technique, the external diagnostics based on electromagnetic field measurements, aerial pipeline inspection with the help of a helicopter carrying a laser-based highly sensitive gas leak detection equipment, etc. The findings of the inspections serve as a basis for carrying out essential repairs of individual sections of the Company's gas transmission pipelines, thus ensuring security and reliability of the transmission system.

## GAS PIPELINE CONSTRUCTION

The possible negative environmental impact of the Company's planned and ongoing economic activities is controlled in compliance with legal requirements and other obligations undertaken by the Company. In all cases, where necessary, environmental impact assessment is performed before starting the construction of gas pipelines: the possible impact of the proposed economic activity on all components of the environment (public health, fauna, flora, surface water, fertile soil and earth interior (underground water bodies), air, landscape, tangible values and immovable values of cultural heritage) is comprehensively examined and publicised in accordance with the requirements of legal acts and optimal decisions are taken.

In order to reduce and control the negative impact on the environment, the most suitable gas pipeline routes are selected with regard to the environmental and local conditions. When laying gas pipelines through water bodies, where it is acceptable and expedient, the possibilities of the equipping of the gas pipeline with the application of more advanced technologies (by underground drilling) are considered. In such cases, environmental impact is minimal.

Another measure to reduce the negative impact on the environment and people is the control of contractor organisations carrying out construction works in aspects of environmental protection and Occupational Health and Safety.

## RESOURCE SAVING

### PAPER

In 2016, the company used 2,913 kg of paper (in 2015, 2,962 kg). With a view to reducing the quantity of paper consumed and costs of document management, the Company has implemented an electronic document management system, where all documents are managed and archived electronically. When printing out documents, the two-sided printing method is used. The main reports are drawn up only electronically.

### ELECTRICITY

2016 was announced by the Company as the Year of Electric Power Saving with the aim of more rational use of the Company's energy resources. In the intranet, employees are educated on topics of sustainability and environmental protection.

33 tap sites are equipped with solar panels and wind power plants. Renewable energy sources are used for data transmission and remote control equipment operation.

Lighting bulbs are replaced in the Company with LED lamps.

### WASTE MANAGEMENT

The employees of the Company are encouraged to sort waste. The premises of the Company are furnished with rubbish containers adapted for sorting. The Company has abandoned the use of disposable plastic cutlery. Sorted non-hazardous waste is transferred to waste management according to agreements. In 2016, the amount of mixed municipal waste transferred to the waste manager was 22.877 t (in 2015, it amounted to 34.749 t). Whereas the cleaning of the gas pipeline was carried out, the amount of transferred hazardous waste amounted to 32.643 t (in 2015, 15.663 t).

### TRANSPORT

With a view to upgrading the fleet of vehicles, while choosing motor vehicles with lowest possible CO<sub>2</sub> emissions, 12 new cost-effective motor vehicles were purchased in 2016. They replaced 8 old motor vehicles manufactured in 2002 – 2004. When purchasing new motor vehicles, priority is given to cars with cost-effective engines (volume of 1.2-2.0 litres) complying with Euro V - VI requirements and featuring lower environmental pollution. In 2015, 14 new vehicles were purchased and 10 were abandoned.

The Company encourages its employees to minimise driving or taking other transport to business trips or meetings and to use, wherever possible, the possibilities offered by telephone and video conferences. The Company has meeting rooms (in Vilnius, Panevėžys, and Jauniūnai), which are furnished with high-level, high-resolution special equipment to organise video conferences.



# CORRUPTION PREVENTION



The Company does not tolerate any manifestations of corruption and advocates for fair business and transparent communication with state institutions. In 2016, the Corruption Prevention Policy was updated. The policy applies to all employees of AB Amber Grid and its subsidiaries, including the members of the management and supervisory bodies of the companies owned by the Company and its subsidiaries, persons employed in accordance with the civil contracts, engaged consultants, intermediaries and other persons acting on behalf of the Company and its subsidiaries, regardless of the form of their relationship with the respective enterprise and form and repayability.

The risk is minimised by working integrated internal control mechanisms intended for the identification of possible factors of the risk of corruption. The Company constantly carries out operations control and improves operating processes.

The company refrains from any forms of influence, either direct or indirect, on politicians and does not finance any foundations set up in the name of political parties, their representatives or their candidates, or any electoral campaigns (or related persons), whether it is in Lithuania or in another country.

The Company constantly cooperates with authorities and is prepared to provide all necessary information and assistance. The Company encourages reporting any cases of corruption by e-mail [sauga@ambergrid.lt](mailto:sauga@ambergrid.lt) or by phone +370 666 06 084. These contacts can be used not only by the Company's employees but also by partners, suppliers, and customers. Confidentiality and anonymity are guaranteed.

The Company clearly regulates the policy in respect of allowed/non-allowed gifts and other benefits and all employees of the Company are educated on the benefit and significance of fight against corruption. The Company has a commission for the assurance of the implementation and control of the rules of the Corruption Prevention Policy, one of the main tasks of which is anti-corruption activities (education, investigation of infringements, cooperation with law enforcement agencies, etc.). Integrated internal control mechanisms are implemented to monitor and identify possible factors of the risk of corruption. The control of the activities is exercised constantly and activity processes are improved.

Once a year, the Company's employees whose positions are included in the List of the Employees to Be Interviewed for a Conflict of Interests are provided with Anti-corruption Trainings with the involvement of representatives of the Special Investigations Service (hereinafter referred to as 'the SIS'), the National

Anti-corruption Association, or Transparency International. On 9 December 2016, an anti-corruption event/training for the managers of the Company and its structural divisions, which were attended by 28 employees, were arranged jointly with the Corruption Prevention Department of the SIS.

In 2016, no cases of corruptive practices were identified and documented.

## PUBLIC PROCUREMENT

The Company ensures that all public procurement procedures carried out by it are conducted in accordance with the principles of equality, non-discrimination, transparency, mutual recognition, and proportionality as well as confidentiality and impartiality requirements, while rationally using the funds of the Company.

Suppliers are selected according to the criterion of the most economically beneficial tender or lowest price, while being provided with equal and non-discriminatory conditions both during the procurement procedure and execution of the contract.

The Company has drawn up rules for the organisation of public procurement and internal control, which establish the procedure for the organisation of public procurement and internal control of the Company from procurement planning to the execution of the procurement contract and assessment of its results as well as responsible persons. The Company publishes the draft technical specifications and procurement terms of all procurement procedures, except for low-value procurement, in the Central Information System for Public Procurement and additionally informs about their publication on its website, and also submits reports on public procurement procedures in accordance with the procedure established by the Public Procurement Office. On its website, the Company provides information about public procurement procedures being carried out, contracts to be awarded, winners determined and contracts concluded as well as low-value procurements.

In the course of conducting the procurement of contract works, the Company performs a qualification assessment of the contractors participating in the public procurement procedure. The assurance of compliance with the requirements of the legal acts on environmental protection and Occupational Health and Safety and the good faith of contractors are considered to be among most important advantages of business partners and requirements set in contracts.



CUSTOMERS,  
MARKET AND  
SHAREHOLDERS

The Company is granted exclusive rights to provide natural gas transmission services throughout the entire territory of the Republic of Lithuania.

In ensuring the country's strategic interests, the Company effectively develops the transmission system and reliably carries out the transmission of gas. With a view to securing favourable conditions for the gas market of the Baltic region to operate in the integrated European gas network, the Company actively contributes to the creation of the integrated European gas transmission system, cooperates with gas transmission system operators of the Baltic region.

The transmission system operated by the Company is connected with the natural gas transmission systems of the Republic of Latvia, the Republic of Belarus, and the Kaliningrad Region of the Russian Federation, Klaipėda LNG terminal, the distribution systems of Lithuanian distribution system operators, and systems of consumers directly connected to the transmission system.

## CUSTOMERS

The Company's customers are large producers of electricity and district heating, industrial companies and Lithuanian medium-sized businesses, natural gas supply companies, and natural gas distribution system operators, to which natural gas transmission services are provided. In 2016, the Company had 95 network users (in 2015, there were 89 network users).

An electronic self-service website for customers is implemented in the Company to improve the quality of services. Upon concluding a natural gas transmission service contract or a natural gas balancing contract with the Company, a network user also signs an Agreement on the Right to Use the Electronic Transmission Service Booking and Administration System (ETSS). After signing an agreement, in the electronic system, the network user can book gas transmission capacities, submit nominations, see the capacity booking history and gas quality parameters, review and print out capacity booking summaries and see all information related to the balancing of the transmission system and the secondary capacity market. ETSS is also used for the provision of network users with notices of natural gas transportation conditions, reminders of service booking terms, and other relevant information. The Company has also arranged an e-mail address *pasiulymai@ambergrid.lt*, by which all market participants are encouraged to provide their comments and suggestions on the improvement of the conditions of transportation via the transmission system.

## REGIONAL GAS MARKET

AB Amber Grid actively cooperates with transmission system operators of other countries and participates in regional gas market creation initiatives with the purpose of creating better conditions for the development of the gas market.

April 2016 marked the completion of the drawing-up of the Study for the Regional Market Development in the East Baltic Region, which was financed by the Baltic Sea Region Energy Cooperation (BASREC). The analysis was performed by the consultancy firm Frontier Economics (Great Britain) with the active involvement of AB Amber Grid as well as Latvian, Estonian, and Finnish transmission system operators. Taking into account the results of the study in 2016, the group coordinating the creation of the regional market, which consists of representatives of the transmission system operators of the Baltic countries and Finland, ministries in charge of energy, and national regulatory authorities, drew up a plan for the development of the regional market in the East Baltic region. The plan provides that the regional gas market is to start operation in 2020. In December 2016, the plan was approved by the Prime Ministers of the Baltic countries by signing the Declaration on Regional Gas Market Development.

The regional gas market model envisages to combine the Lithuanian, Latvian, Estonian and Finnish gas markets into a single market area, while creating a single system of entry-exit points, with a single virtual trading point, regional gas exchange, and one balancing zone. The common market of the Baltic countries will also ensure that all the countries of the region have a better access to Klaipėda LNG Terminal and other alternative gas supply sources.

It is planned that the common gas market of the Baltic countries should start functioning from 2020. It is expected that Finland will also join the common market after the construction of the gas pipeline connector between Estonia and Finland.

In creating the common gas market of the Baltic countries, AB Amber Grid, together with transmission system operators of other Baltic countries, coordinates the allocation of the capacities of the common market area as well as balancing, trade, and other principles and rules important to the functioning of the wholesale market. Thereafter, these documents will be presented for public consultations with market participants and other parties concerned and will be endorsed by national regulatory authorities and other state institutions.

It is also envisaged that national regulatory authorities and ministries in charge of the energy sector will have to draw up and coordinate principles and documents and to initiate amendments to legal acts that are necessary for the functioning of a common regulatory regime, transmission service pricing, and market rules.

## IMPLICIT GAS TRANSMISSION CAPACITY ALLOCATION METHOD

AB Amber Grid, together with Elering AS and AS Conexus Baltic Grid, the other transmission system operators of the Baltic countries, looks for measures for closer integration of the national natural gas markets of Lithuania, Latvia, and Estonia, while encouraging cross-border trade and developing a competitive regional market. Seeking this goal and supported by the national regulatory authorities of Estonia, Latvia, and Lithuania, the transmission system operators develop an implicit capacity allocation model, which would be applied for short-term cross-border transmission capacities and trade. In applying this method, both cross-border transmission capacities and respective quantity of gas purchased at the natural gas exchange are allocated together.

In 2017, natural gas trading platforms are to be set up in these countries. Also, the trading sites of the Baltic countries will be linked in the application of the implicit capacity allocation model. With the application of this model, bids and offers for gas made at an exchange in one country will also be shown in the trading sites of the other countries, with the price of transportation through the cross-border transmission system interconnection points added. When a transaction at a gas exchange takes place between participants from different gas markets (countries), transmission capacities at cross-border transmission system interconnection points equal to the gas quantity purchased at the exchange are allocated automatically, and the market participants will not need to arrange transportation through the cross-border transmission system interconnection points because it will be done for them by the exchange operator. It will be a concrete step, which will be perceived by market participants, towards the creation of a common regional gas market.

The advantages of the implicit capacity allocation model:

- The integration of the wholesale market of short-term gas products;
- Increased efficiency because both short-term transmission capacities at interconnection points and natural gas will be allocated at the same time at the exchange;
- The model helps to ensure a higher gas transmission flexibility at cross-border interconnection points;
- Each time when a trade transaction is concluded, additional capacities in the opposite direction are created, i.e. a virtual reverse gas transmission capacity from Estonia to Latvia and additional capacities at all interconnection points are created;
- Greater price convergence between the markets;
- Growing liquidity of trade in short-term products.

## SHAREHOLDERS

The Company seeks to maintain close relations with existing and potential investors of the Company. At the required time, the website provides continuously updated information relevant to investors: lists of shareholders, notices of essential events, periodical and annual financial statements for previous periods, and future plans. Information commenting on financial results (media releases) is provided several times a year. All information and documents intended for investors are published in the Lithuanian and English languages. The Company's information is equally available to all shareholders and potential investors. In 2016, no infringements of the rules of the stock exchange were recorded.

# SOCIAL INITIATIVES



## BLOOD DONATION

As every year, in 2016 the Company organised the citizen campaign “the Blood Donor Day”. 31 employees of the Company participated in this campaign by donating their blood and thus contributing to saving the health and lives of patients. The National Blood Centre expressed its appreciation to AB Amber Grid for active participation and for the dissemination of the ideas of gratuitous blood donation.

## ENVIRONMENT MANAGEMENT CAMPAIGN

In 2016, more than 60 employees of the Company, together with their family members, participated in the voluntary public campaign *Darom (We Are Doing)* (in 2015, it involved 88 employees). 300 bags of waste was collected. For participation in the campaign *Darom (We Are Doing)*, the Company received appreciation from the organisers of the campaign.

## NESTING BOX HANGING

April 1 is the International Bird Day. On this symbolic day, the Company’s employees, together with their family members, raised nesting boxes for birds returning to our country in spring. In Vilnius, Pasakų Park was chosen to hang nesting boxes, and colleagues in Panevėžys raised nesting boxes at the Company’s territory in Piniava. In Vilnius, 16 nesting boxes were hanged together with representatives of the Lithuanian Ornithological Society. In Panevėžys District, 24 nesting boxes were raised.

## ‘BE SAFE ON THE ROAD!’ CAMPAIGN

As a measure of care of the safety of the Company’s employees on roads, all motor vehicles owned by the Company were inspected for the completeness of their vehicle safety set: first aid kit, fire extinguisher, emergency stop sign, and reflective waistcoat as well as their condition. Based on the results of the inspection of safety means, a list of missing items was drawn up, according to which appropriate sets were completed.

## ‘CHRISTMAS OF BOOKS’ CAMPAIGN

The employees of AB Amber Grid joined the Christmas of Books, the social campaign initiated by Dalia Grybauskaitė, the President of the Republic of Lithuania. It became a public movement

which united book friends throughout the country and involved 1,270 public libraries 1,500 school libraries. This campaign encourages communication and sharing of books with those who lack them. The books collected by the Company’s employees were donated to children’s libraries in Panevėžys and Širvintai District. In total, 200 books were donated. For participation in the campaign the Christmas of Books, the AB Amber Grid received appreciation from the President of the Republic of Lithuania Dalia Grybauskaitė.

## ‘LITTLE GUBOJA’ CAMPAIGN

In cooperation with youth from Guboja Special Creative Society, a campaign was organised, during which young people from Guboja Society, in the premises of the Company, offered for sale handicraft made by them.

## SUPPORT ACTIVITIES

As in previous years, AB Amber Grid continued participation in various support programmes, becoming a partner in projects beneficial to the public, creating new life or business opportunities for those who need them.

In 2016, AB Amber Grid, by supporting more than 20 various institutions, organisations or their projects, made a considerable contribution in the promotion of various initiatives:

- 1) **In improving the living environment of socially sensitive groups of the society:** To the Order of Malta Relief Organisation in Lithuania (support for organising the ‘Maltese Soup’ campaign), the public institution ‘Pušyno Kelias’ (support for the in-patient rehabilitation centre providing therapeutic services to Lithuanian children from all regions of the country), the public institution ‘Mažoji Guboja’ (support for conducting educational and training programmes for youth with disabilities), Vilnius Gijos Youth School (support for school students who did not fit schools of general education for social, psychological or other reasons), Vilnius Feniksas Sports Club for people with physical disabilities (social support for people with disabilities who take exercises in the Club), the Association ‘RAUDONOS NOSYS Gydytojai klounai’ (support for doctors clowns enabling them to visit in-patient children), and the Association ‘Vilnius International Club’ (support for the annual charity event ‘Let’s Be Together 2016’ organised by the Association, which was attended by nearly 150 children).
- 2) **In supporting various culture development and sports promotion projects:** M.K. Čiurlionis Foundation (support in organising international art events to popularise the name of M. K. Čiurlionis, the great Lithuanian composer and painter), the public institution Rytų Europos Studijų

Centras (support for projects carried out by the institution to promote the Lithuanian analytical and expert capacity building), the public institution JJJazz (support for organising the 26th international jazz festival 'Kaunas Jazz 2016'), Šarūnas Marčiulionis Basketball Academy (support for the education of young basketball players and the development and promotion of Lithuanian basketball), and Salilita Sports Club (support for veteran basketball players in participation in various national and international tournaments).

3) **In supporting projects related to the activities of the energy sector:** The Estonian Chamber of Commerce in Lithuania (support for organising the Fifth International Energy Forum 'Strategic Outlook on Energy in the Baltic Region').

4) **In supporting local communities:** Jauniūnai Polish Cultural Society (support for organising the 12th International Festival Sing with Us of the 'Polish Cultural Society').

5) **In resounding the name of Lithuania abroad:** To the Association 'Music Awards of the Year' (support for the participation of singer Donatas Montvydas in Eurovision Song Contest 2016 in Stockholm on 12-15 May 2016); the Embassy of the Republic of Lithuania in the Republic of Poland (support for organising the festive event dedicated to celebrate the Lithuanian State Restoration Day in the Royal Palace of Warsaw on 19 February 2016).

In total, the granted support amounted to EUR 44,420.



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