IMPORTANT: You must read the following before continuing. The following applies to the Prospectus (the "Prospectus") following this page, and you are therefore required to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE PROSPECTUS MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES TO PERSONS THAT ARE NOT U.S. PERSONS AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED ("THE SECURITIES ACT"). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN ANY JURISDICTION. THE SECURITIES DESCRIBED IN THE PROSPECTUS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS.

Confirmation of your Representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the securities described in the Prospectus, you must be a person other than a U.S. person (within the meaning of Regulation S under the Securities Act) who is outside the United States. By accepting the email and accessing the Prospectus, you shall be deemed to represent that you are not, and that any customer represented by you is not, a U.S. person; the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the U.S., its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia; and that you consent to delivery of the Prospectus by electronic transmission.

Prohibition of sales to EEA retail investors: The Notes described in this Prospectus (the "Notes") are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or both) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; and (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Prohibition of sales to UK retail investors: The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "FSMA") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of UK MiFIR. Consequently, no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation. The Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located, and you may not, nor are you authorised to, deliver the Prospectus to any other person.

Any materials relating to the potential offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the potential offering be made by a licensed broker or dealer and any underwriter or any affiliate of any underwriter is a licensed broker or dealer in that jurisdiction, any offering shall be deemed to be made by the underwriter or such affiliate on behalf of the Issuer in such jurisdiction.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently no responsibility whatsoever will be accepted in respect of any difference between the Prospectus distributed to you in electronic format and a hard copy version that may be made available to you.

UAB "EPSO-G"

(a private limited liability company incorporated and existing under the laws of the Republic of Lithuania, company code 302826889)

EUR 75,000,000 3.117 per cent. Senior Unsecured Sustainability-Linked Notes due 2027
Issue price: 100 per cent.

The EUR 75,000,000 3.117 per cent. Senior Unsecured Sustainability-Linked Notes due 2027 (the "**Notes**") will be issued by UAB "EPSO-G" (the "**Issuer**" or the "**Company**") pursuant to the terms and conditions of the Notes, described in detail in this Prospectus (the "**Terms and Conditions**").

Interest on the Notes will be payable annually in arrears on 8 June in each year. The first payment of interest shall be payable on 8 June 2023 in respect of the period from (and including) 8 June 2022 (the "**Issue Date**") to (but excluding) 8 June 2023. Payments on the Notes will be made in euro without deduction for or on account of taxes imposed by the Republic of Lithuania ("**Lithuania**") to the extent described under Section *Terms and Conditions – Taxation*.

In the event that any or both of the Sustainability Performance Targets (the "**SPTs**", as defined in Section *Terms and Conditions – Interest and Interest Rate Step Up, KPIs and SPTs*) is/are not achieved on 31 December 2026 (the "**Target Observation Date**"), then the rate of interest for the last Interest Period (starting on 8 June 2026 and ending on 8 June 2027) shall be increased (i) by 0.30 per cent., if only the SPT for KPI 1 is not met, or (ii) by 0.20 per cent., if only the SPT for KPI 2 is not met, or (iii) by 0.50 per cent., if none of the SPTs are met (See Section *Terms and Conditions – Interest Rate Step Up, KPIs and SPTs*).

The Notes will mature on 8 June 2027 (the "**Maturity Date**"). The Notes will be subject to redemption in whole, but not in part, at their principal amount, together with interest accrued to (but excluding) the date fixed for redemption, at the option of the Issuer at any time in the event of certain changes affecting taxation in Lithuania. The Notes will also be subject to redemption in whole, but not in part, at their principal amount, together with interest accrued to (but excluding) the date fixed for redemption, at the option of the Issuer as indicated in Section *Terms and Conditions – Early Optional (Voluntary) Redemption of Notes*. In addition to that, the Notes will also be subject to redemption upon the occurrence of a *Change of Control Put Event* or in case of *Events of Default* (as defined in the *Terms and Conditions*).

This Prospectus has been approved by the Bank of Lithuania, which is Lithuanian competent authority under Regulation (EU) 2017/1129, as amended (the "**Prospectus Regulation**"), as a prospectus issued in compliance with the Prospectus Regulation for the purpose of giving information with regard to the Notes under the Terms and Conditions and introduction hereof to trading on the regulated market as described in this Prospectus. The Bank of Lithuania has only approved this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such an approval should not be considered as an endorsement of the Issuer nor as an endorsement of the quality of the Notes that are the subject of the Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes.

Application(-s) will be made for the Notes issued under the Terms and Conditions to be admitted to listing on the bond list (the "**Bond List**") and to trading on the regulated market (the "**Regulated Market**") of Nasdaq Vilnius AB ("**Nasdaq Vilnius**"). The Regulated Market of Nasdaq Vilnius is a regulated market for the purposes of Directive 2014/65/EU on markets in financial instruments, as amended ("**MiFID II**"). However, there can be no assurance that such application will be made or that such admission will take place.

The Notes will be in registered form and issued in minimum denominations of EUR 100,000 and higher integral multiples of EUR 1,000.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"). The Notes are being offered outside the United States by the Dealer (as defined in *"Subscription and Sale"* below) in accordance with Regulation S under the Securities Act ("**Regulation S**") and may not be offered or sold or delivered within the United States except pursuant to an exemption from the registration requirements of the Securities Act.

The Issuer has been rated Baa1 with a stable outlook by Moody's Investors Service ("**Moody's**"). Moody's is established in the European Union ("**EU**") and registered under Regulation (EC) No 1060/2009 (as amended) (the "**CRA Regulation**"). As such, Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Prospective investors should have regard to the factors described under Section headed "*Risk Factors*" in this Prospectus.

Arranger and Dealer
SWEDBANK
Prospectus dated 7 June 2022

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IMPORTANT NOTICES

Responsibility for this Prospectus

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Company, Mr Algirdas Juozaponis (the Acting Chief Executive Officer (General Director)), the information contained in this Prospectus is in accordance with the facts and the Prospectus contains no omissions likely to affect its import.

Other relevant information

This Prospectus must be read and construed together with its annexes and any supplements hereto (if any).

The Issuer has confirmed to the Dealer named under Section ***Subscription and Sale*** below that this Prospectus contains all information which is material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

Any information sourced from third parties contained in this Prospectus has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Unauthorised information

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Prospectus or any other document entered into in relation to the Notes or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer or Dealer.

Neither the Dealer nor any of its respective affiliates have authorised the whole or any part of this Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus or any responsibility for the acts or omissions of the Issuer or any other person (other than the Dealer) in connection with the issue and offering of the Notes. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Prospectus is true subsequent to the date hereof or the date upon which this Prospectus has been most recently supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial position or performance of the Issuer since the date thereof or, if later, the date upon which this Prospectus has been most recently supplemented or that any other information supplied in connection with the Notes is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Offer restrictions

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Dealer to subscribe or purchase, any of the Notes. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Dealer to inform themselves about and to observe any such restrictions. Each recipient of this Prospectus shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer. The Dealer has not provided any financial or taxation advice in connection with the Notes issued thereunder.

The Notes were offered to the investors following the exemptions provided for in Articles 1(4)(a), (c) and (d) of the Prospectus Regulation, according to which the obligation to publish a prospectus to offers of securities set out in Article 3(1) of the Prospectus Regulation is not applied.

For a description of further restrictions on offers and sales of Notes and distribution of this Prospectus, see Section ***Subscription and Sale*** below.

MiFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPs ONLY TARGET MARKET – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended ("**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or both) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; and (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of UK MiFIR. Consequently, no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Second party opinion and further verification

The Issuer has appointed CICERO Shades of Green (“**Cicero**”) as a second party opinion provider to provide such an opinion regarding the alignment of the Sustainability-linked Financing Framework with the Sustainability-Linked Bond Principles. Such second party opinion (available on the Issuer’s website (www.epsog.lt)) does not form part of this Prospectus and is only an opinion and not a statement of fact. Second party opinion providers and providers of similar opinions and certifications (including the External Verifier (as defined in Section *Terms and Conditions*)) are not currently subject to any specific regulatory or other regime or oversight. Any such opinion, certification or verification is not, nor should be deemed to be, a recommendation by the Issuer, any other member of the Group, the Dealer, Cicero, the External Verifier or any other person to buy, sell or hold any Notes.

Noteholders have no recourse against the Issuer, any other member of the Group, the Dealer, Cicero, the External Verifier or the provider of any opinion, certification or verification for the contents of any such opinion, certification or verification, which is only current as at the date it was initially issued. Prospective investors must determine for themselves the relevance of any such opinion, certification or verification and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in the Notes. Any withdrawal of any such opinion, certification or verification or any such opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such opinion or certification is opining on or certifying on may have a material adverse effect on the value of the Notes and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

No assurance or representation is given by the Issuer, any other member of the Group, the Dealer, Cicero or the External Verifier as to the suitability or reliability for any purpose whatsoever of any opinion, report or certification of any third party in connection with the issue of the Notes or the Sustainability Performance Targets (the "**SPTs**") to fulfil any social, sustainability, sustainability-linked and/or other criteria. Any such opinion, report or certification is not, nor shall it be deemed to be, incorporated in and/or form part of this Prospectus.

Credit ratings

Moody's has assigned a credit rating to the Issuer. Such credit rating may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances).

Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus.

Language

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

No stabilisation and underwriting

In connection with the issue of the Notes, no stabilisation will be undertaken. None of the Notes will be underwritten.

PRESENTATION OF FINANCIAL INFORMATION

References in this Prospectus to the financial statements for 2021 and 2020 of the Issuer and its subsidiaries (the "**Subsidiaries**", collectively the "**Group**") are to the audited consolidated financial statements of the Issuer for the years ended 31 December 2021 and 31 December 2020, attached as Annex 1 to this Prospectus ("**IFRS Consolidated Financial Statements**"). Such financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**").

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Alternative Performance Measures

This Prospectus contains certain financial measures that are not defined or recognised under IFRS and which are considered to be "alternative performance measures" as defined in the "ESMA Guidelines on Alternative Performance Measures" issued by the European Securities and Markets Authority on 5 October 2015 (the "**Alternative Performance Measures**" or "**APMs**"). Such APMs are described in detail in Section *Key Financial Ratios and Alternative Performance Measures of the Issuer*.

FORWARD LOOKING STATEMENTS

This Prospectus includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include, but are not limited to, statements regarding the intentions of the Issuer and beliefs or current expectations concerning, among other things, the business, results of operations, financial position and/or prospects of the Issuer.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the financial position and results of operations of the Group and the development of the markets and the industries in which the Group operates, may differ materially from those described in, or suggested by, the forward-looking statements contained in this Prospectus. In addition, even if the Group's results of operations and financial position, and the development of the markets and the industries in which the Group operates, are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. A number of risks, uncertainties and other factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements. See ***"Risk Factors"*** below.

These forward-looking statements are made only as at the date of this Prospectus. Except to the extent required by law, the Issuer is not obliged to and has no intentions to, update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Issuer or persons acting on the Issuer's behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

OVERVIEW

The overview below describes the principal terms of the Notes and is qualified in its entirety by the more detailed information contained elsewhere in this Prospectus. Capitalised terms used herein and not otherwise defined have the respective meanings given to them in the "Terms and Conditions of the Notes" (the "**Terms and Conditions**").

Issuer:	UAB "EPSO-G"
Legal Entity Identifier ("LEI") of the Issuer:	6488569V3J6X16IIEJ40
Arranger and Dealer:	"Swedbank", AB
Notes:	EUR 75,000,000 3.117 per cent. Senior Unsecured Sustainability-Linked Notes due 2027
ISIN:	LT0000406530
Currency:	Notes will be denominated in euros (EUR)
Issue Price:	100 per cent.
Issue Date:	8 June 2022
Interest rate and Interest Payment Dates:	The Notes bear interest at the rate of 3.117 per cent. per annum (the "**Original Interest Rate**"), subject as provided in Section *Interest rate and Interest Payment Dates* of the *Terms and Conditions*, from and including 8 June 2022 payable annually in arrears on 8 June in each year (unless the Notes are previously redeemed or purchased and cancelled). The Original Interest Rate will be subject to an adjustment as further described in Section *Interest Rate Step Up, KPIs and SPTs* of the *Terms and Conditions*.
Form and Denomination:	The Notes will be issued in denominations of EUR 100,000 and higher integral multiples of EUR 1,000. The Notes will be issued in non-material registered form. According to the Law of the Republic of Lithuania on Markets in Financial Instruments the book-entry and accounting of the dematerialized securities in the Republic of Lithuania, which will be admitted to trading on the Regulated Market (Nasdaq Vilnius), shall be arranged through Lithuanian branch of Nasdaq CSD, SE (the merged central securities depository of Lithuania, Latvia, Estonia and Iceland) ("**Nasdaq CSD**").
Status of the Notes:	The Notes and coupons relating to them shall constitute direct, unsecured and unguaranteed obligations of the Issuer, ranking *pari passu* without any preference among each other and with all unsecured, unguaranteed and unsubordinated indebtedness of the Issuer, save for such obligations as indicated herein and as may be preferred by mandatory provisions of the applicable laws.
Redemption:	Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on the Maturity Date.
Early Optional (Voluntary) Redemption of Notes:	The Issuer may redeem the Notes, in whole but not in part, at any time during the period commencing on the first Business Day falling 3 (three) months prior to the Maturity Date (such Business Day included) and ending on the Maturity Date (the Maturity Date excluded), at an amount equal to 100 (one hundred) per-cent of their nominal amount together with any accrued but unpaid interest to, but excluding, the date of voluntary

	redemption, as further described in Section *Early Optional (Voluntary) Redemption of Notes* of the *Terms and Conditions*.
Redemption for tax reasons:	The Issuer may, at its option, redeem all, but not some only, of the Notes at any time at their principal amount, together with interest accrued to (but excluding) the date fixed for redemption, in the event of certain tax changes, as further described in Section *Redemption for tax reasons* of the *Terms and Conditions*.
Change of Control Put Option:	Upon the occurrence of a Change of Control Put Event (as defined in the *Terms and Conditions*), each Noteholder shall have the option to require the Issuer to redeem the Notes of such holder at a price equal to 100 per cent. of their principal amount together with interest accrued to (but excluding) the Optional Redemption Date (as defined in the Terms and Conditions), as further described in Section *Change of Control* of the *Terms and Conditions*.
Negative Pledge:	The Terms and Conditions include a negative pledge, as further described in Section *Negative pledge* of the *Terms and Conditions*
Events of Default:	The Terms and Conditions contain certain Events of Default as described in Section *Events of Default* of the *Terms and Conditions*
Taxation:	All interest payments in the case of Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Lithuania or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, in respect of interest, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note held by or on behalf of a Noteholder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of it having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note.
Governing Law:	Lithuanian law
Clearing and Settlement:	Nasdaq CSD
Admission to trading of Notes:	The Notes shall be applied for introduction to trading on a Bond List of Nasdaq Vilnius once the Notes shall be issued and registered with Nasdaq CSD. The Issuer expects that the Notes shall be admitted to trading on Nasdaq Vilnius within 3 (three) months as from issue of Notes. Disregarding this, the Issuer will put its best endeavours so that this term would be as short as practicable possible. The Issuer shall also put its best efforts to ensure that the Notes remain listed on Nasdaq Vilnius. The Issuer shall, following a listing or admission to trading, take all reasonable actions on its part required as a result of such listing or trading of the Notes.

	The Issuer will cover all costs and expenses which are related to the admission of the Notes to Nasdaq Vilnius.
Ratings:	The Issuer has been rated Baa1 with a stable outlook by Moody's. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States of America, the EEA (including the Republic of Lithuania), the United Kingdom. See Section *Subscription and Sale*.
Risk factors:	For a discussion of certain risk factors relating to the Issuer and the Notes that prospective investors should carefully consider prior to making an investment in the Notes, see Section *Risk Factors*.

RISK FACTORS

Any investment in the Notes is subject to a number of risks. Prior to investing in the Notes, prospective investors should carefully consider risk factors associated with any investment in the Notes, the business of the Issuer and the industry(-ies) in which it operates together with all other information contained in this Prospectus, including, in particular the risk factors described below. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Prospectus have the same meanings in this Section.

The following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Notes and should be used as guidance only. The below disclosure of risks only includes the risks the Issuer deems specific to the Issuer and to the Notes, and which the Issuer believes to be the most essential for taking an informed investment decision. Additional risks and uncertainties relating to the Issuer that are not currently known to the Issuer, or that are currently deemed immaterial, may individually or cumulatively also have a material adverse effect on the business, prospects, results of operations and/or financial position of the Issuer and, if any such risk should occur, the price of the Notes may decline, and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Notes is suitable for them in light of the information in this Prospectus and their personal circumstances.

The risk factors below are presented in categories depending on their nature. In each category the most material risk factors are mentioned first according to the assessment of the materiality of the risk factors concerned. Unless otherwise specified, the risks relating to the Issuer as discussed in this section below, apply to the Issuer together with its branches and subsidiaries operating in Lithuania.

Risks associated with the implementation of the Group's strategic projects

Risks associated with the Baltic synchronization project

In 2018, the Baltic States and Poland signed a political roadmap together with the European Commission to set the target date of 2025 for accomplishing the synchronization of the Baltic power systems with continental Europe. Total value of the project is 1.6 billion euros, and it is partially funded by the EU. As part of the project, subsidiary of the Issuer LITGRID AB ("**Litgrid**") is responsible for disconnection from BRELL energy ring (the BRELL energy ring or loop connects the transmission systems of Belarus, Russia, Estonia, Latvia, Lithuania) by 2025. In addition, Litgrid, together with transmission system operator of Poland, is implementing the project "Harmony Link" which is the new submarine HDVC link between Lithuania and Poland. The interconnector will be approximately 330 km long, with transmission capacity of 700 MW and is expected to be completed in 2025. The Baltic synchronization project includes many other projects part of which are already implemented, such as expansion of "LitPol Link", and the remaining part shall be implemented in upcoming years. In 2021, the emergency support test has been performed with Polish electricity transmission systems operator immediately after the completion of the "LitPol Link" extension. Several other crucial tests are planned before synchronization with the electricity system of continental Europe. An additional Lithuanian isolated operation test is planned for 2022, followed by a joint isolated operation test with other Baltic power systems. The goal of these projects and tests is to achieve energy independence and therefore it is also of particular importance in terms of national security.

In case of non-implementation of synchronization properly or in time, it could have a material adverse effect on the Group's business and financial condition and (or) reputation.

Risks associated with energy storage activities

In 2021, the Subsidiary of the Issuer Energy cells, UAB ("**Energy cells**") was established for a special purpose. According to the approved concept, the function of this Subsidiary is to install and maintain energy storage facilities in the interest of national security. The facilities will serve as an instantaneous power for ensuring reliable, stable and consumer-friendly operation of Lithuania's power system until the synchronization with the networks of continental Europe, and for the integration of rapidly growing renewable energy sources ("**RES**") after the synchronization.

The financing for Energy cells activities was ensured – the European Commission has approved, under EU State aid rules, up to EUR 100 million Lithuanian measure to support the construction and operation of four electricity storage facilities (European Commission decision No SA. 63178). The measure will be funded by the Recovery and Resilience Facility, following the European Commission's positive assessment of the Lithuanian recovery and resilience plan and its adoption by the Council. The support will take the form of a direct grant to Energy cells.

Ownership of energy storage facilities is also subject to legal requirements, including rules set out in the Directive 2019/944 on common rules for the internal market for electricity, which establish that transmission system operators are entitled to own, develop, manage and operate energy storage facilities only on certain conditions and by meeting certain requirements, otherwise such activities are forbidden. Therefore, the Group also faces the risk of non-compliance to this regulation.

In case of non-implementation of energy storage facilities properly or in time and/or incompliance thereof to legal requirements, it could have a material adverse effect on the Group's business and financial condition and (or) reputation.

Risks associated with the installation of physical barrier between Lithuania and Belarus

On 10 August 2021, the Law of the Republic of Lithuania on Installation of a Physical Barrier in the Territory of the Republic of Lithuania to the External Border of the European Union with the Republic of Belarus was adopted. The law establishes the project of installation of the physical barrier between Lithuania and Belarus and indicates that the project will be funded from the state budget.

On 23 August 2021, the Government adopted the Decision on Implementation of the above law. According to this decision, the Issuer was assigned as a project executor and it is responsible for the obligations assigned to it under the decision. The Issuer has the right, where necessary, to hire its controlled persons for implementation of assigned functions. For this purpose, the Issuer has assigned its Subsidiary UAB "TETAS" ("**Tetas**") to carry out the construction works for some of the parts of a physical barrier, which has to be finished by September 2022.

According to the above decision, the project executor shall be reimbursed for the costs related to the project in accordance with the agreement concluded between the Issuer and the Ministry of Interior of the Republic of Lithuania. Implementation of the project may raise short and (or) long term financing or operating capital challenges to the indicated Subsidiary, if for any reason the costs (part thereof) for implementation of the project are not reimbursed. This may have an adverse effect on the Issuer's business, financial condition, results of operations and (or) future prospects of the above Subsidiary.

Disregarding the fact that as of the date of this Prospectus more than 50% of this project was already implemented, there still is a risk of project delays due to the fault of the current / future contractors. The contractors may not be able to perform all the necessary works within the contractual deadlines due to reasons such as inadequate or temporarily unavailable staff (e.g., mass COVID-19 outbreaks, etc.), lack of necessary machinery and equipment, difficulty or impossibility to perform the work due to adverse weather conditions (e.g., impassable roads, etc.) as well as material supply disruptions. Due to these possible reasons, the project goals may be delayed and the work may be completed in poor quality, which will have a negative effect on the Group's reputation and negative feedback from the media and the Government.

Risks associated with the legal and regulatory environment

Risks associated with the changes in regulatory framework, related to pricing for regulated electricity and gas transmission services

The Issuer's financial and operational performance results, including EBITDA, significantly depend on the results of AB "Amber Grid" ("**Amber Grid**") and Litgrid regulated transmission activities (for more information please see Section *Description of the Issuer – Main aspects of regulatory framework*), which particularly depend on prices of electricity transmission services and natural gas transmission services. For the years ended 31 December 2021 and 31 December 2020 – approximately 99% and 98% respectively of Group's EBITDA depended on regulated transmission activities and tariffs thereof.

The price / revenue caps and prices of electricity transmission services and natural gas transmission services are subject to regulation by the national regulatory authority – the National Energy Regulatory Council of the Republic of Lithuania ("**NERC**"), in accordance with the core regulatory principles primarily set by the (i) European regulations, and other legislation (and also monitored by the EU's Agency of the Cooperation of Energy Regulators ("**ACER**")) and (or) (ii) the Government of the Republic of Lithuania (the

“**Government**”). Any new national or European regulatory regime, requirements, pricing regime / models or any changes, encouraged by national, European or other bodies, as well as institutions of neighbouring countries, in the existing regime, requirements, pricing regime / models, tariff structures, price / revenue caps or tariffs of transmission services (including changes in return on investments (Weighted Average Cost of Capital (“**WACC**”), %), allowed level of costs, Regulated Asset Base (“**RAB**”) set by NERC for electricity and gas transmission services, principles and procedures for coordination of investments in transmission activities with NERC, etc.) could have a material adverse effect on Group’s business, results of operations, financial condition and future development of transmission services.

In addition, the introduction of new regulations and requirements, which may impact the amount of Group’s existing or new services (Energy cells will also become regulated entity), the prices of which are or could be state-regulated, could also have a material adverse effect on the Group’s business, its development perspectives, results of operations, financial condition, which could also have an impact for long-term period of time.

Risks associated with regulatory requirements, regime and the Issuer’s legal obligations

The core business of the Issuer and the Group companies is to ensure the uninterrupted, stable transmission of electricity through high-voltage networks and the transport of natural gas through high-pressure pipelines, as well as the efficient management, maintenance and development of these transmission systems. The Issuer’s business operations are subject to large number of laws and regulations (including those related to pricing regimes, models for regulated transmission services of Amber Grid and Litgrid, requirements for the minimum services’ quality indicators, set by NERC for Amber Grid and Litgrid (e.g., Average Interruption Time (AIT), Energy Not Supplied (ENS) for Litgrid, the amount of unplanned interruptions for Amber Grid, etc.) concerning its services and the Issuer is subject to stringent, constantly increasing and changing regulation and supervision, which means that the Issuer may be subject to intervention from the regulatory authorities and there is no assurance that the Issuer will be found fully compliant with all applicable laws and regulations. In addition to that, these laws and regulations affect many aspects of the Group's business and, in many respects, determine the manner in which the Group conducts its business and the fees it applies or obtains for its products and services.

New regulation may force the Issuer or other Group companies may generally increase the administrative burden, resulting in increased costs and lower profitability. Any new regulation or any changes in the existing regulations or requirements of the Government or regulatory authorities in the Republic of Lithuania may require significant changes in the Group’s business in ways that it cannot predict. Any new regulations or requirements that cause the Group to restructure or otherwise change its business in any way could have a material adverse effect on its business, results of operations and financial condition. In addition, it may fail to respond swiftly and appropriately to changes in applicable laws and regulations or to changes in the energy industry generally.

Furthermore, introduction of new regulations and requirements which impact the infrastructure projects directly or indirectly (via other institutions, publicly or privately owned companies) during the period between project initiation and delivery creates a risk that the Group may need to change or upgrade the mechanisms or equipment involved, which may lead in delays and/or in increased costs which in turn may have a material adverse effect on the Group's business, financial condition, prospects or results of operations.

Measures taken by the authorities or unfavourable decisions in disputes with the authorities could also result in fines or restrictions and limits being imposed on the Group’s business operations and give cause for negative publicity.

If any of the risks set out above were realised, this could have an adverse effect on the Group's business operations, its performance, financial position, or reputation.

Public procurement regulations, which are often difficult to interpret and apply

In many areas of the Group's business, including in implementation of large-scale investment projects (total amount of investments over 2022–2030-year period is EUR 1.6 billion), the Group is bound by the provisions of applicable public procurement laws. These provisions apply, *inter alia*, to the procedure for selecting the Group's suppliers and service providers. The provisions of these laws are often difficult to interpret and apply, and may, in particular, lead to a significant extension of the selection process. In addition to that, a contract concluded in breach of applicable public procurement laws may be declared null and void and penalties of up to 10 per cent. of the contract value may be imposed on a contracting authority or contracting entity.

If the Issuer or other Group company was found to be in breach of such a law, and the contract subject to the law was found to be null and void, it may be obliged to pay the above penalties, resulting adverse effect on the Issuer's business, results of operations and financial condition of the Group.

Additionally, the EU provides funding to the biggest Group companies (Amber Grid and Litgrid) for a number of approved projects. To the extent the Group company is found to be in breach of a procurement laws, there is a risk that the Group will not receive all the planned funds, which may have an adverse impact on the financial position on the Group.

Risks associated with the upcoming Directive on common rules for the internal markets in renewable and natural gases and in hydrogen

On 15 December 2021, the European Commission published a set of legislative proposals to decarbonise the EU gas market by facilitating the uptake of renewable and low carbon gases, including hydrogen, and to ensure energy security for all citizens in Europe.

Proposals include the Directive on common rules for the internal markets in renewable and natural gases and in hydrogen which will set new rules and guidelines for participants in the energy market. This Directive aims to facilitate the penetration of renewable and low-carbon gases into the energy system enabling a shift from fossil gas and to allow these new gases to play an important role towards achieving the EU's 2030 climate objectives and climate neutrality in 2050. The Directive aims to also set up a regulatory framework which enables and incentivises all market participants to take the transitional role of fossil gas into account while planning their activities to avoid lock-in effects and ensure gradual and timely phase-out of fossil gas notably in all relevant industrial sectors and for heating purposes.

The rules set out in the Directive will affect activities of the Group, particularly the activities of Amber Grid as a natural gas transmission system operator. For example, the upcoming changes set out new obligations of transmission system operator, including that transmission system operators shall play an important role in ensuring cost effective investments in gas networks, ensure efficient gas quality management in their facilities in line with applicable gas quality standards, establish and publish transparent and efficient procedures for non-discriminatory connection of new production installations of renewable and low carbon gases, not be entitled to refuse economically reasonable and technically feasible connection requests of a new production facility installation for renewable and low carbon gases, make public detailed information regarding the quality of the gases transported in its networks, cooperate with distribution system operators to ensure the effective participation of market participants connected to the grid in retail, wholesale and balancing market. The changes also include changes in provisions regarding third-party access to gas systems.

The Directive will also establish the main rules regarding hydrogen use in the energy market, including unbundling rules for hydrogen network operators. According to the Directive, for the purpose of rules of unbundling of hydrogen network operators, unbundling of gas transmission system operator, also for the purposes of the articles of Directive (EU) 2019/944 which set the rules for ownership unbundling of electricity transmission system operator, the definitions 'production or supply' shall include production and supply of hydrogen, and 'transmission' shall include transport of hydrogen, which means that the Group would be restricted from carrying out activities of production and supply of hydrogen.

Accordingly, the new upcoming regulation could have a material adverse effect on the Group's business perspectives, results of operations and financial condition, which could also have an impact for long-term period.

Changes in legislation and the European Green Deal

The Issuer is dependent on the legislative environment in the electricity and natural gas market, on political and social decisions adopted in the Republic of Lithuania, as well as in the EU. One of such initiatives is the European Green Deal, aimed at transforming the EU into a fair and prosperous society, with a modern, resource-efficient, and competitive economy where there are no net emissions of greenhouse gases till 2050 and where economic growth is decoupled from resource use. This will significantly change energy market and availability of capacities for ancillary services, diverse energy source and therefore the Issuer as a backbone of electricity system in Lithuania (contributing to successful operation of electricity market) will have to provide appropriate technical and IT solutions for grid security and stability as well as availability of optimal transmission system capacity and flexibility. This exposes the Issuer to possible additional costs that might negatively impact the Issuer's financial condition.

Risks associated with the implementation of the Energy Efficiency Directive

On 25 October 2012, the EU adopted Directive 2012/27/EU on Energy Efficiency (the "**Energy Efficiency Directive**"). The Energy Efficiency Directive establishes a common framework of measures for the promotion of energy efficiency within the EU in order to ensure the achievement of the EU 2020 target of a 20 per cent. improvement in energy efficiency.

In November 2016, the Republic of Lithuania adopted the requirements of the Energy Efficiency Directive by implementing the Law of the Republic of Lithuania on Energy Efficiency (the "**Law on Energy Efficiency**"). Pursuant to the Law on Energy Efficiency, the Issuer, Litgrid and Amber Grid concluded quadrilateral agreement with the Ministry of Energy of the Republic of Lithuania (the "**Ministry of Energy**") under which Litgrid and Amber Grid, by the end of 2020, were obliged to, *inter alia*, achieve energy savings of: Litgrid – 146,600 MWh; Amber Grid – 122,540 MWh. Under the above agreement, the Issuer was obliged to cooperate and coordinate the achievement of saving targets of Litgrid and Amber Grid. According to the report of 2021 on implementation of energy savings agreements prepared by Public Institution Lithuanian Energy Agency, the above saving targets were achieved.

In July 2021, the European Commission has published a proposal for recasting the Energy Efficiency Directive which seeks to introduce a higher target for reducing primary (39 per cent.) and final (36 per cent.) energy consumption by 2030. The proposal does not indicate the level of sanctions applicable in case of non-achievement of these targets. However, based on currently valid Energy Efficiency Directive, the Law on Energy Efficiency sets out that in case of failure to achieve the required energy saving target, NERC may issue a warning or impose a fine of up to 5 per cent. of the undertakings annual revenue for violating the agreement on implementation of energy efficiency measures. Therefore, no lesser sanctions are likely upon the adoption of the recast of the Energy Efficiency Directive and its transposition into national law.

Accordingly, failure by Litgrid and/or Amber Grid to achieve the energy savings which will be required under the new directive and the respective amendments of national law, could have a material adverse effect on the Group's business, results of operations and financial condition.

Risks associated with the implementation of the Third Energy Package and the Clean Energy Package

In 2009, the EU Third Energy Package entered into force. The Third Energy Package consists of: Directive 2009/72/EC concerning common rules for the internal market in electricity, Directive 2009/73/EC concerning common rules for the internal market in natural gas, Regulation 714/2009 on conditions for access to the network for cross-border exchanges in electricity, Regulation 715/2009 on conditions for access to the natural gas transmission networks and Regulation 713/2009 establishing an Agency for the Cooperation of Energy Regulators. One of the main rules set out under the Third Energy Package was the separation of generation and sale operations from their transmission networks. These rules were transposed to the Law of the Republic of Lithuania on Electricity Energy by choosing to implement the ownership unbundling model and establishing total independence requirements.

The Directive 2009/72/EC concerning common rules for internal market in electricity is no longer in force. In 2019, the EU Clean Energy Package was adopted which included the Directive 2019/944 on common rules for the internal market for electricity, also included the main requirements and rules on ownership unbundling as in the Directive 2009/72/EC. Directive 2009/73/EC concerning common rules for the internal market in natural gas, Regulation 715/2009 on conditions for access to the natural gas transmission networks are also planned to be changed (for more detailed information see Section *Risks associated with the upcoming Directive on common rules for the internal markets in renewable and natural gases and in hydrogen* above).

The Law of the Republic of Lithuania on Electricity Energy and the Law of the Republic of Lithuania on Natural Gas establish the list of requirements and restrictions for transmission system operators (i.e., Litgrid and Amber Grid) in order to ensure their independence and unbundling of generation and sale activities from transmission network, also restrict the same person or persons directly or indirectly to exercise control over a transmission system operator or over a transmission system, and directly or indirectly to exercise control or exercise any right over an undertaking performing any of the functions of generation or supply. NERC has provided a detailed analysis and information on successful implementation of ownership unbundling rules in case of both – Litgrid and Amber Grid.

Above mentioned ownership unbundling requirements limit the investment possibilities and activities (e.g., investments to electricity generation, supply, investments to extraction and supply of various types of gases (including production or supply of hydrogen, extraction or supply of natural gas) projects, etc.) of the Group. In case of non-compliance with ownership unbundling requirements, NERC may impose a fine for a transmission system operator of up to 10 per cent. of the undertaking's annual revenue, received in the previous financial year. Accordingly, both the regulation itself, as well as non-compliance with it, could have a material adverse effect on the Group's business, results of operations, financial condition and (or) reputation.

Taking into account the fact that the Group and Group's companies put best efforts to meet all existing ownership unbundling requirements and the related upcoming requirements that might be transposed into the national Lithuanian law under the upcoming regulation (for more detailed information see Section *Risks associated with the upcoming Directive on common rules for the internal markets in renewable and natural gases and in hydrogen* above), as well as the fact there were no cases of related non-compliance established by NERC, therefore, the aforementioned risks are assessed as rather low, however, they may not rejected as such.

Risks associated with the EU Taxonomy

In order to meet the EU's climate and energy targets for 2030 and reach the objectives of the European Green Deal, the EU taxonomy – a classification system, establishing a list of environmentally sustainable economic activities – was created. The EU taxonomy provides companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable. In this way, it is designed to create security for investors, protect private investors from greenwashing, help companies to become more climate-friendly, mitigate market fragmentation and help shift investments where they are most needed.

According to the new rules, large financial and non-financial companies, falling under the scope of the Non-Financial Reporting Directive will have to disclose to what extent the activities which they carry out meet the criteria set out in the EU Taxonomy. Likewise, financial market participants will have to also disclose to what extent the activities that their financial products fund meet the EU Taxonomy criteria. There are also other voluntary uses of the EU Taxonomy for investors, e.g., for their strategic planning.

Taking into an account the nature of the Group activities, the EU Taxonomy rules are subject to defining the Group's environmental sustainability standard, relationships with other energy market participants and new forms of business models. Subsequently, it may be impossible in the short to medium term for the Group to make expected adjustments within the scope of its services, type of investments to be made in natural gas transmission network in order to fully comply the EU Taxonomy rules, which may have a material adverse effect on the Issuer's business, financial condition, results of operations and ability to attract new funding or refinance existing indebtedness.

Risks associated with new renewable energy market participants and transmission system network challenges

In 2021, the European Commission published the Fit for 55% package which includes thirteen proposals, eight of which are revisions to existing laws and five are new proposals. The Fit for 55% is a set of proposals to revise and update the EU legislation and to put in place new initiatives with the aim of ensuring that the EU policies are in line with the climate goals agreed by the Council and the European Parliament. Fit for 55 refers to the EU's target of reducing net greenhouse gas ("**GHG**") emissions by at least 55% by 2030 compared to 1990 levels. The regulation established via the Fit for 55% package pays a lot of attention to increasing renewable energy use. One of the key national targets for 2030 is at least 45% share for renewable energy.

In addition, the Ministry of Energy is aiming at integration of 7 GW installed capacity of RES by 2030[1]. The upcoming regulation and set goals will inevitably lead to a larger number of renewable energy market participants. Therefore, the Group may experience new challenges and risks in order to provide access for new market participants to the transmission system network, including financial and technical challenges as it might be necessary to make new adjustments in the infrastructure.

If any of the risks set out above were realised, this could have an adverse effect on the Group's business, financial condition, results of operations, future prospects and (or) reputation.

Risks associated with the European Green Deal and taxation

The European Green Deal acknowledges crucial role of taxation in the transition towards a greener and more sustainable European growth and the need to better align EU taxation systems with EU climate objectives. Well-designed tax reforms may boost economic growth, help reducing GHG emissions by ensuring an effective carbon pricing and contribute to a fair transition.

In the field of taxation, the European Green Deal announces the review of the Energy Taxation Directive and creation of the Carbon Border Adjustment Mechanism. The review of the Energy Taxation Directive introduces a new structure of tax rates based on the energy content and environmental performance of the fuels and electricity and broadens the taxable base by including more products in the scope and by removing some of the current exemptions and reductions. The upcoming regulation, which still has considerable uncertainties on the regulation of aforementioned taxation issues, may impose new taxes or changes in current taxes rates applicable to the Group. Such changes (if any) may have a material adverse effect on the Issuer's business, financial condition, results of operations and (or) future prospects.

Risks associated with the market environment, macroeconomic and geopolitical conditions

Risks associated with the nuclear power plant ("ANPP") in Astravets

The Group also faces the risk that unforeseen actions or omissions by third parties could lead to the disconnection of interconnectors. In 2013 Belarus decided to launch the construction of a nuclear power plant ("**ANPP**") in Astravets district, the exact construction site of which is only about 40 km away from Vilnius, the capital of Lithuania. On 3 November 2020, the ANPP commenced its operations. After the start-up of the ANPP and in preparation for the desynchronization of the Baltic States, Belarusian electricity system has strengthened the reliability of its electricity system. Russia and Belarus have also installed new overhead power lines, creating a smaller ring in parallel with the Baltic States, and the Kaliningrad power system is analysing the possibilities to be able to operate in isolated mode, as evidenced by the successful annual tests of the Kaliningrad power system in isolated mode. These factors may prove that the electricity systems of third countries are ready to operate stably without the Baltic States and that the premature dismantling of the BRELL loop would not affect their electricity systems.

In addition to that, Lithuania has a strong position with regard to the construction of the ANPP and claims that the construction and/or operation of the ANPP should have been stopped on the grounds of the project non-compliance with international standards of environmental protection and nuclear safety, also on the grounds of numerous extremely gross violations. On 20 April 2017, the Law of the Republic of Lithuania on Necessary Measures against Threats Posed by Unsafe Nuclear Power Plants in Third Countries was adopted by the Lithuanian Parliament. The indicated law stipulates that electricity from third countries where unsafe nuclear power plants operate (the ANPP was recognized as one of them by a separate law) may not enter the electricity market of the Republic of Lithuania, except for energy necessary to ensure the reliability of the electricity system of the Republic of Lithuania. Therefore, Lithuania imposed special measures against the ANPP and the electricity which will be produced by it. Some of these measures are specifically implemented by the Group companies. Therefore, it is theoretically possible that the Group (certain of its companies) may receive legal claims from any third parties (e.g., legal entities operating in Baltic States, Russia or Belarus) in relation to special measures imposed against the ANPP. Although the Issuer constantly monitors developments on both domestic and international markets, it is not possible to forecast the timing or extent of changes in the economic or political environment.

[1] On 13 April 2022 the Government of the Republic of Lithuania has approved changes to the laws proposed by the Ministry of Energy which would help to achieve 7 GW of RES installed capacity for the year 2030. However, adoption of the respective changes by the Parliament of the Republic of Lithuania is still pending.

Noteholders should be aware that the events described above could have an adverse impact on the interests of the Noteholders including the payment of interest and repayment of principal on the Notes.

Poor economic performance in the Republic of Lithuania could have a material adverse effect on the Group's results of operations and financial condition

The Group's revenues are particularly sensitive to the performance of Lithuanian economy. As of 31 December 2021 and 2020, 100 per cent. of the Group's property, plant and equipment were located in the Republic of Lithuania and majority of its revenues and other operating income for the years ended 31 December 2021 and 31 December 2020 were derived from the Republic of Lithuania. Changes in economic, regulatory, administrative or other policies of the Government, as well as political or economic developments in the Republic of Lithuania (including GDP of Lithuania, the level of industrial production, the level of export of goods and services, the rate of inflation, electricity and gas prices, the unemployment rate, changes in consumer affluence levels, and the fiscal policy of the Republic of Lithuania, potential changes in its credit ratings) over which the Group has no control, could have a significant effect on Lithuanian economy, which in turn could have a material adverse effect on the Group's business, results of operations and financial condition.

Risks associated with the ongoing war in Ukraine

The Group's operating segments are affected by general geopolitical conditions. Political stability is one of the key elements for Lithuanian economy. Political uncertainty in regions which are important for the global and especially for the European Union economy can at large be expected to have a negative effect on the general economic situation and financial market conditions also in Lithuania.

Political instability in Russia, Belarus and potential further economic sanctions, tensions and conflicts between Russia and Ukraine, including the ongoing war in Ukraine, e.g., possible new restrictive measures and sanctions (EU natural gas import ban) in response to Russian aggression, could have a negative effect on Lithuanian economy or separate sectors or enterprises which have business dependencies on these countries.

In pursuit of full energy independence from Russian gas, in response to the war caused by the Russian Federation in Ukraine, Lithuania has completely abandoned Russian gas: the Lithuanian gas transmission system has been operating without Russian gas imports since the beginning of April 2022. Gas in transit through Lithuania continues to be transported for the needs of the Kaliningrad region, but in a different technical mode than usual, ensuring only the transmission of the amount of gas required for transit. In the event of gas supply interruption from Belarus, the need to restrict Lithuanian customers in this scenario is unlikely, provided that natural gas supply companies ensure sufficient LNG delivery to the Klaipėda LNG terminal. With the interruption of gas supplies from Belarus and the import of electricity from Kaliningrad, the risk of restricting gas consumption increases significantly, as there is a need to produce electricity in the country through power plants that use natural gas. Thus, even with the technical capacity of the Klaipėda LNG terminal or the capacity of gas transmission of the cross-border connection between Lithuania and Latvia, it is very likely that demand will exceed supply.

Despite the above-mentioned risks, it is obvious that natural gas plays a strategic role in the energy sector of Lithuania and of the region and Lithuanian institutions with the Group's companies put all their best efforts (as a priority) that gas would be transported in any case (also maintaining high level of reliability and stability of Lithuania's electricity transmission network), therefore, the risk to revenue is assessed as rather low. However, temporary income reduction from natural gas transit to Kaliningrad region due to political decisions or secondary effects of imposed further sanctions by EU or Lithuania is possible. Even if such risk would materialise the financial impact on the Group financial situation expected to be limited and short lived because of the anticipated adjustments within the existing regulatory framework.

The Republic of Lithuania, which is the Sole Shareholder of the Issuer, can control the Group's policies and may pursue decisions that reflect Government policy

The Republic of Lithuania, through the Ministry of Energy, is the sole shareholder of the Issuer (the "**Sole Shareholder**"), the parent company of the Group. Under the Articles of Association of the Issuer (the "**Articles of Association**"), the Management Board of the Issuer (the "**Management Board**"), should consist of three independent members out of five members in total. The Chairman of the Management Board is independent and, in the case of equality of votes, has the deciding vote. The Republic of Lithuania is being represented by two Management Board members of the Issuer assigned by the Ministry of Energy. Based on the above, the Republic of Lithuania cannot make unilateral decisions on the Management Board (please see Section *Description of the Group—Members of the Management Board and the Manager*). However, the Republic of Lithuania, through its shareholding, has and will continue to have, indirectly, the power to affect the Group's operations and consolidated Group financial position. As a result, certain of the Group's decisions may still reflect the Government's policy.

The interests of the Government may conflict with the Group's objectives as a commercial enterprise and there can be no assurance that the Government will not take any action to further its own objectives which may conflict with the interests of the Group and/or the Noteholders. For example, the Group is subject to and complying with the Government's dividend policy for state owned companies including exceptions for the Issuer if any (which may limit the Group's ability to reinvest a proportion of its profits) and Lithuanian energy policy. Compliance with such policies or any other could lead to significant capital expenditure as well as the risks inherent in implementing Group's main projects, including debt capacity risks, which could in turn have a material adverse effect on the Group's ratings, business, results of operations and financial condition. Furthermore, changes to the members of the Management Board are influenced by the Ministry of Energy acting as the Sole Shareholder and may be made for political, rather than business, reasons. Such changes could also have a material adverse effect on the Group's business, results of operations and financial condition.

Furthermore, the Issuer is subject to implementation of any statutory delegated functions upon decision of the Government. Statutory delegated functions are functions which a state-owned enterprise would not perform on a commercial basis (or would do so at a higher price than specified) and which it was entrusted to perform by a decision of the State. As at the date of the Prospectus, the Issuer was assigned as an executor of the installation of physical barrier between Lithuania and Belarus project, which is considered to be the statutory delegated function by its nature (for more information please see Section *Description of the Issuer – Main investment projects of the Group*).

The Issuer and some of its Subsidiaries are also subject to additional supervision under the Law of the Republic of Lithuania on the Protection of the Objects of National Security Importance (the "**Law on the Protection of the Objects of National Security Importance**"). If the Republic of Lithuania would lose more than two-thirds of its voting power, Parliament's approval (in case of the Issuer, also of Litgrid, Amber Grid and Energy cells) would be required.

The Law on the Protection of the Objects of National Security Importance also establishes the principles of liquidation, bankruptcy and realisation of assets of the entities which are important for national security. According to these principles, in case such entities face bankruptcy, the Republic of Lithuania shall have priority acquiring assets relevant to national security. Therefore, in an event of bankruptcy of the Issuer, its assets may not necessarily be realised for the highest possible price as the Republic of Lithuania may acquire such assets for the price determined in accordance with the Law of the Republic of Lithuania on the Bases of Property and Business Valuation and (to the extent not provided otherwise) the Resolution of the Government of the Republic of Lithuania No 554 of 12 June 2019, establishing a special procedure for acquisition of the relevant assets.

It should also be noted that in accordance with the Law on the Protection of the Objects of National Security Importance, the Issuer, or any other Group entity, may be directed by the Republic of Lithuania to purchase entities or assets relevant to national security from other entities important for national security.

In addition to that, the risks related to the regulatory regime deriving from the Law on the Protection of the Objects of National Security Importance exist. According to this law, all major contracts to be signed by either the Issuer, or Amber Grid, Litgrid or Energy cells and the parties to these contracts are subject to relevant scrutiny procedures, or „vetting", laid down by the law (including consideration in the Commission set by the Government for this purpose (the Commission of Coordination of Security of Objects, Important for Ensuring National Safety (in Lithuanian: *Nacionaliniam saugumui užtikrinti svarbių objektų apsaugos koordinavimo komisija*) and Lithuanian Government itself). In separate cases these procedures may be time-consuming, they may also result in directions for the contracting authority to refuse signing a specific contract. Such cases could result not only in delay of the implementation of projects of strategic importance, but also in lengthy legal proceedings (including in civil and administrative courts), lack of competition in repeated public procurement procedures and, accordingly, in rise of costs of the Group companies concerned.

The powers of the Republic of Lithuania and appliable laws described herein could affect the implementation of the Group's strategy which, in turn, could have a material adverse effect on the Group's business, results of operations and financial condition.

Risks relating to the operations of the Group

The Group is subject to cyber security and data breach risks

Data breaches could expose the Group to a risk of loss or misuse of customer information, litigation, and potential liability. Although the Group takes steps to secure information and operational technologies, the security measures the Group has implemented may not be effective, and the Group's systems may be vulnerable to theft, loss, damage and interruption from a number of potential sources and events, including unauthorised access to the Group's information technology ("**IT**") and operational technology ("**OT**") systems, or security breaches, cyber-attacks, computer viruses, power loss, or other disruptive events. There are also concerns in the energy sector regarding the security and integrity of data which is handled through an energy company's IT and OT systems. This is exacerbated by the energy sector's increasing dependence on IT systems and quantity of data collected and processed by those systems which make it essential to ensure the highest degree of reliability of those systems and the security of the data held in them. Growth of cloud services exposes IT infrastructure to additional cyber threats. The Group may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber-attacks. Attacks may be targeted at the Group, its customers and suppliers, or others who have entrusted it with information. Any such cyber-attack or other security issue could result in a significant loss of customer confidence in the Group's business which, in turn, could have a material adverse effect on the Group's business, financial condition, prospects or results of operations and potentially entail incurring significant litigation or other costs.

In addition, data breaches can also occur as a result of non-technological issues, including breaches by the Group or by persons with whom it has commercial relationships that result in the unauthorised release of personal or confidential information. The Group is continuing to work on procedures, technical and organisational measures to ensure that data processing activities are in full compliance with the General Data Protection Regulation ("**GDPR**"). Violation of the GDPR requirements or any data protection breaches, including through human error or an IT system fault, may result in claims from customers and/or employees and financial sanctions, each of which may in turn have a material adverse effect on the Issuer's reputation, business, results of operations and financial condition.

Risk surrounding the lack of integrity and the reliability of information technology (IT) and operational technology (OT) systems

The complexity of the Group's structure and its operation and the diversity of its IT and OT systems carry a risk of a lack of coordination, cooperation and integration between individual systems. This could limit the possibility of developing effective standards to create and develop more streamlined systems which, in turn, could result in inefficiencies in data handling and business processes.

There are many changes, updates and integration features with respect to the Group's IT and OT systems which are being carried out across the Group and the broad scope of those changes carries a risk that new IT and OT solutions may not necessarily achieve the planned cohesion and technological and cost-related interdependence that the Group had expected.

There are also risks related to outsourcing of IT functions by the Group to third parties, which is most prevalent in respect of IT systems that are custom developed for the Group by a single external third party according to specific needs of the Group. In such circumstances, the Group is dependent on a single third-party company which may result in higher development and/or support prices and development and support continuity problems if such company ceases to exist or cannot honour its contractual obligations to the Group.

The electricity and gas transmission management processes are highly dependent on computer-based control systems. Any failure of the electricity grid would have a significant and devastating impact on the economy of whole country.

The Group’s IT systems are also of significant importance in supporting all of its activities. Failures in the Group’s IT systems could result from technical malfunctions, human error, lack of system capacity, security or software breaches. Any failure or malfunctioning of the Group IT systems could result in breaches of confidentiality, delays or loss of data which could have an impact on the administrative functioning and operations of the Group, and potentially cause damage to its reputation.

Each of the above factors poses risks to the operations of the Group and if they were to occur, could have a material adverse effect on the Group's business, results of operation and financial condition.

Holding company risks

The Issuer is the ultimate holding company of the Group. The principal assets of the Issuer are the equity interests it directly or indirectly holds in its operating Subsidiaries. As a result, the Issuer is largely dependent on dividends and other payments from its Subsidiaries to generate the funds necessary to meet its financial obligations, including the payment of interest and principal to its creditors, including the holders of the Notes. The ability of the Subsidiaries to make such distributions and other payments depends on their earnings and may be subject to statutory or contractual restrictions. Consequently, if amounts that the Issuer receives from its Subsidiaries are not sufficient, the Issuer may not be able to service its obligations under the Notes.

Business integrity risks

Most of the projects of strategic importance implemented by the Group are financed by the funds of the European Union (either by "regular" European funds or by the Recovery and Resilience Facility, the RRF). Projects of such nature are named amongst activities is also related to corruption risk by the National Anti-corruption Programme of the Republic of Lithuania for 2015-2025.

Amongst risks related to business integrity, confirmed, or only alleged cases of corruption (committed both by the staff of the Group or by the representatives of a bidder) in procurement procedures should be mentioned first of all, as they might result in prolonged public procurement procedures, lack of competition, rise of costs, irrational use of funding, lack of quality in the fulfilment of a contract and reputational damages. These risk factors are closely linked to another integrity related risk, that is a failure to comply with the requirements of the Law of the Republic of Lithuania on the Adjustment of Public and Private Interests by high-ranking staff of the Group. Such cases could lead to decisions lacking objectivity, sanctions imposed by the Chief Official Ethic Commission and related reputational damages. Such infringements of legal and ethical requirements are particularly risky in projects financed by the funds of the European Union as they might result in reduced funding from the European funds. This would turn into extra financial burden for the Group to complete a project in which such an infringement occurred.

Possible unauthorized, irrational, or arbitrary use of assets, workforce and other resources of the Group companies should also be mentioned as they might result in poorer financial results and delay in the implementation of projects of strategic importance. In addition to that, loss or undue (neglectful or intentional) discloser of sensitive information should be also taken into consideration as sensitive information is one of the most valued and protected assets. Loss or undue discloser of such information might result in distortions of public procurement procedures and their results, distortion of market price of the securities of the Group and public trust in the Group. And finally, lack of objectivity and/or failure to follow relevant procedures in appointment of management or members of collegial bodies must be taken into account and mitigated accordingly, as infringements of this kind could result in management lacking personal or professional qualifications required by the post, lack of trust in the management and collegial bodies and questionable legitimacy of their decisions.

Environmental risk

The Issuer is exposed to environmental risk. This risk could affect the Issuer:

- as physical risk – financial impact of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as of environmental degradation, such as air, water and land pollution, water stress, biodiversity loss and deforestation, e.g., due to environment -related events such as floods or draughts because of which direct property damage could occur, which could either mean direct expenses to the Issuer or to its Subsidiaries to restore the property or effect its counterparties' position through their business disruption or physical damage of collateral and/or

- as transition risk – financial loss which may result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy, e.g., adoption of climate and environmental policies, technological progress or changes in market sentiment and preferences.

Risk of non-compliance with occupational safety and health ("OSH") requirements

The Group has liability arising from potential injuries to, or deaths of, workers, including, in some cases, workers employed by its contractors. Any failure by the Group to adequately prevent these risks may have a material adverse effect on the Group's business, results of operations and reputation.

Financial risks

Funding and liquidity risk

As at 31 December 2021, the current and non-current borrowings of the Group amounted to EUR 251.4 million (compared to EUR 362.8 in 2020), which accounts for 36 per cent. of total liabilities (compared to 65 per cent. in 2020).

Changes in the global credit and financial markets, including regulatory changes in respect of banks and the wider financial services sector, have in recent years affected and may continue to affect the availability of credit. In the past, the deterioration in the financial markets has contributed to a recession in the U.S., Europe and the global economy, which has led, and may continue to lead, to significant declines in employment, household wealth, customer demand and lending. Any recurrence of these developments may adversely affect economic growth in Europe and elsewhere.

Whilst the Group currently has committed facilities available that enable it to meet its current funding needs, there may be difficulty in the future in accessing the financial markets, which could make it more difficult or expensive to obtain funding. As the Group is actively using cash pooling for liquidity management, difficulty to obtain funding may adversely affect the Issuer's ability to repay intragroup debt to its Subsidiaries. There can be no assurance that the Group will be able to continue to raise financing at a reasonable cost, or at all. The Group may also be subject to solvency risks of its banks and counterparties in its financial investments and arrangements.

In addition to that, the Company will need to raise further debt from time to time in order, among other things:

- to finance or refinance capital expenditures;
- to refinance debt, also possibly the Notes.

Therefore, the Company is exposed to financial and capital market risk resulting from mismatches between the capital requirements of the Company and its access to capital. The ability of the Company to raise funding may be influenced by, among other things, its own operating performance and general economic, financial, legal and industry conditions. If these conditions deteriorate, there could be an adverse effect on the Company's ability to finance or refinance capital expenditures and/or to refinance its existing debt as and when they are due, which could have a material adverse effect on the Issuer's business, results of operations and financial condition

Risks associated with the credit ratings of the Issuer

The Issuer's credit ratings do not always mirror the risk related to individual Notes.

As of the date of this Prospectus, the Issuer has rating from Moody's. Any credit rating agency may lower its ratings or withdraw the rating if, in the sole judgement of the credit rating agency, the credit quality of the Issuer has declined or is in question. In addition, at any time a credit rating agency may revise its relevant rating methodology with the result that, among other things, any rating assigned to the Issuer may be lowered. If any of the ratings assigned to the Issuer is lowered or withdrawn, the market value of the Notes may be reduced. Furthermore, such ratings may not reflect the potential impact of all risks related to the structure, market, and other factors that may affect the financial standing of the Issuer. Accordingly, a credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. The Issuer’s ratings may also decline if sovereign credit rating of Lithuania is downgraded regardless of any direct correlation with the Issuer’s activities.

The Issuer can at any time choose to stop cooperating with the relevant credit rating agency, which would result in the Issuer no longer being rated, unless the Issuer chooses to be rated by one or several other credit rating agencies. A decline in the rating of the Issuer or withdrawal of the rating by a rating agency may have a material adverse effect on the business, financial condition and results of operations of the Issuer.

In addition to that, the Issuer's ability to access the capital markets and other forms of financing (or refinancing), and the costs connected with such activities, depend in part on the Issuer's credit ratings. In the event the Issuer's credit ratings are lowered by the rating agencies, the Issuer may not be able to raise additional indebtedness on terms similar to its existing indebtedness or at all, and its ability to access credit and bond markets and other forms of financing (or refinancing) could be limited, which could have a material adverse effect on the Issuer's business, results of operations and financial condition.

Risks associated with achievement of the objective of increasing share of income from unregulated activities by 2030

While regulated networks will remain the Group’s core business and the volume of revenue from regulated activities is not expected to decrease, Group’s 2030 strategy also foresees growing revenue from unregulated activities. Ability of the Company to achieve the abovementioned objective will be largely influenced by its own operating performance and its ability to acquire required competences to expand its current and potential businesses in free market conditions. Moreover, possibilities of the Group to invest to new businesses are constrained by the requirements of the EU Third Energy Package, namely the provision that Company as a Group that controls transmission system operators (TSOs) cannot at the same time control or possess rights to the companies that perform generation and/or supply activities, except for exceptions related to passive rights of financial nature or when the supervisory institution issues relevant permission after concluding that no conflict of interests exists in a particular case.

Failure to achieve objective of increasing share of income from unregulated activities or poor financial performance of such activities could have a material adverse effect on the Issuer's business, results of operations and financial condition.

The agreements that govern the Group's long-term debt contain restrictive covenants

The agreements that govern the Group's long-term debt contain certain restrictive covenants, including among others "negative-pledge" clauses, "no disposal of assets" clauses and "restrictions on subsidiaries' indebtedness" clauses, which may restrict its ability to acquire or dispose of assets or incur new debt. Groups financial borrowings with all or at least one of such restrictive covenants accounted for 58 per cent. of the total borrowings or EUR 145.2 million as of 31 December 2021 (they accounted for 45 per cent. of the total borrowings or 161.6 million as of 31 December 2020 respectively).

The Group's failure to comply with any of these covenants could constitute an event of default, which could result in the immediate or accelerated repayment of its debt, lead to cross-default under its other credit agreements or limit or reduce its ability to implement and execute its key strategies, which could in turn have a material adverse effect on business, results of operations and financial condition of the Issuer.

Certain of the Group's loans have been advanced to Subsidiaries of the Issuer, which means that the Noteholders may be effectively subordinated to other creditors of the Group

As at 31 December 2021, the current and non-current external borrowings of the Subsidiaries amounted to EUR 167.2 million, or 17.4 per cent. of the Group's total assets (compared to EUR 214.2 million or 27.2 per cent. as at 31 December 2020). This accounts for 56.8 per cent. of the Group's total borrowings as at 31 December 2021, which amounted to EUR 251.4 million and which had been advanced as loans mainly to the Subsidiaries of the Issuer (compared to EUR 362.8 million and 46.1 per cent. in 2020).

A significant part of the Group's assets and income are generated by the Subsidiaries. The Subsidiaries are legally separate from the Issuer and the Subsidiaries' ability to make payments to the Issuer is restricted by, among other things, the availability of funds, corporate restrictions, etc. Furthermore, any debt that the

Subsidiaries may incur in the future will also rank structurally senior to the Notes. Thus, the Notes are structurally subordinated to the liabilities of the Subsidiaries of the Issuer.

Therefore, ability of the Issuer to service its financial obligations directly depends on the ability to collect dividends and other payments from the Subsidiaries, but because of effective subordination to the creditors of the Subsidiaries this ability could be significantly reduced and can potentially lead to losses for the Noteholders.

Risks associated with the Notes

Credit risk of the Issuer

An investment in the Notes is subject to credit risk, which means that the Issuer may fail to meet its obligations arising from the Notes duly and in a timely manner. The Issuer's ability to meet its obligations arising from the Notes and the ability of the holders of the Notes to receive payments arising from the Notes depends on the financial position and the results of operations of the Issuer, which are subject to other risks described in this Prospectus. In case of insolvency of the Issuer, the Noteholders would not receive any payments, related to Notes or part thereof.

Since the Notes bear interest at a fixed interest rate, movements in market interest rates can adversely affect the value of the Notes

The Notes bear the interest on their outstanding principal amount at a fixed interest rate. A holder of a security with a fixed interest rate is exposed to the risk that the value of such security could fall as a result of changes in the market interest rate. While the nominal compensation rate of the Notes is fixed during the life of the Notes, the current interest rate on the capital market (market interest rate) typically changes on a daily basis. If the market interest rate increases, the value of a security such as the Notes typically falls, until the yield of such security is approximately equal to the market interest rate. Consequently, Noteholders should be aware that movements of the market interest rate can adversely affect the value of the Notes and can lead to losses for the Noteholders if they sell their Notes.

No limitation on issuing additional debt

The Issuer is not prohibited from issuing further debt. If the Issuer incurs significant additional debt of an equivalent seniority with the Notes, it will increase the number of claims that would be equally entitled to receive the proceeds, including those related to the Issuer's possible insolvency. Further, any provision which confers, purports to confer, or waives a right to create security interest in favour of third parties, such as a negative pledge, is ineffective against third parties since: (i) it is an issue of a contractual arrangement only being binding upon the parties to such contractual arrangement; (ii) there is no specific legislation in Lithuania providing beneficiaries of negative pledge undertakings or covenants with a preferred position vis-a-vis the claims of third parties; and (iii) no registry or public record exists in Lithuania through which negative pledge undertakings or covenants could be filed to obtain a preferred position. Should the Issuer breach its obligations under such undertakings and covenants and create a security interest in favour of a third party, such third party would obtain a valid and enforceable security interest over the pledged asset.

Claims of Noteholders under the Notes are effectively subordinated to those of certain other creditors of the Issuer and to creditors of certain of the Subsidiaries

The Notes will be unsecured and unsubordinated obligations of the Issuer. The Notes will rank equally with all of the Issuer's other unsecured and unsubordinated indebtedness; however, the Notes will be effectively subordinated to the Issuer's secured indebtedness, if any, to the extent of the value of the assets securing such transactions and will be subject to certain preferential obligations under Lithuanian law, such as wages of employees.

Modification and waivers

The Terms and Conditions of the Notes contain provisions for calling Noteholders' Meetings to consider and vote upon matters affecting their interests generally, or to pass resolutions in writing. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting, or as the case may be, did not sign the written resolution including those Noteholders who voted in a manner contrary to the majority.

Furthermore, the Terms and Conditions of the Notes provide that the Notes and the Terms and Conditions of the Notes may be amended without the consent of the Noteholders to correct a manifest error or to comply with any amendments, updates and (or) modifications to any applicable legislation passed after the date hereof by or on behalf of the Republic of Lithuania or any political subdivision thereof or any authority therein or thereof having power to make such amendment, update and (or) modification, which may impact the Issuer's obligations in relation to the Notes. The Issuer cannot foresee, as at the date of this Prospectus, what such changes may entail, however, any changes made will be binding on Noteholders.

The Noteholders' Meetings, as described above, do not meet the requirements of and are not regulated by the Law of the Republic of Lithuania on the Protection of Interests of Owners of Bonds issued by Public and Private Companies (in Lithuanian – *Lietuvos Respublikos akcinių bendrovių ir uždarųjų akcinių bendrovių obligacijų savininkų interesų gynimo įstatymas*). In addition to that, the provisions of the above-mentioned law do not apply to Noteholders and Notes. Consequently, in case of failure by the Issuer of payment of any amounts under Notes and/or execution of any other obligations in connection therewith, the Noteholders would have to take the related actions and protect their interests otherwise themselves.

There is no active trading market for the Notes

There can be no assurance that a liquid market for the Notes will be maintained. The investors may find it difficult to sell their Notes or to sell them at prices producing a return comparable to returns on similar investments in the secondary market. This is specifically relevant for the reason, that the minimum denomination of each Note will be EUR 100,000. This may among other be concluded from non-existing trading in notes of other similar issuers as the Company on Nasdaq Vilnius (e.g., AB "Ignitis grupė", UAB "Valstybės investicinis kapitalas"). Thus, there would be not many investors, able to acquire the Notes on the secondary market.

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If a market does develop, it may not be very liquid. Therefore, no liquidity of any market in the Notes can be assured; nor the ability of the holders of the Notes to sell their Notes or the prices at which they would be able to sell their Notes.

It is possible that the market for the Notes will be subject to disruptions or volatility. Any such disruption or volatility may have a negative effect on holders of the Notes, regardless of the Issuer's prospects and financial performance. As a result, there is no assurance that there will be an active trading market for the Notes. If no active trading market develops, the investor may not be able to resell its holding of the Notes at a fair value, if at all.

Although an application will be made for the Notes to be admitted to listing on Nasdaq Vilnius, there can be no assurance that such application will be accepted, that the Notes will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for Notes.

Credit Rating may not reflect all risks

The rating of the Issuer may not reflect the potential impact of all risks related to structure, market, additional factors discussed in this Section, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. In addition, other rating agencies may assign unsolicited ratings to the Issuer. In such circumstances there can be no assurance that the unsolicited rating(s) will not be lower than the comparable solicited ratings assigned to the Issuer, which could adversely affect the market value and liquidity of the Notes.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency ("**CRA**") established in the EU or in the UK and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU or non-UK credit rating agencies, unless the relevant credit ratings are endorsed by an EU or UK registered CRA or the relevant non-EU or non-UK rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). If the status of the rating agency rating the Issuer changes, European or UK regulated investors may no longer be able to use the rating for regulatory purposes and the Notes may have a different regulatory treatment. This may result in European or UK regulated investors selling the Notes which may impact the value of the Notes and any secondary market. The list of registered and certified rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

Minimum denomination

As the Notes have a denomination consisting of the minimum specified denomination of EUR 100,000 plus a higher integral multiple of EUR 1,000, it is possible that the Notes may be traded in amounts in excess of EUR 100,000 that are not integral multiples of EUR 100,000. In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum specified denomination may not trade such holdings on the Regulated Market and would need to purchase a principal amount of Notes which have a denomination consisting of the minimum specified denomination with the aim to be able to trade the whole holdings on the Regulated Market. Thus, Noteholders should be aware that Notes which have a denomination that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade on the Regulated Market of Nasdaq Vilnius.

The Notes do not contain covenants governing the Issuer's operations and do not limit its ability to merge or otherwise affect significant transactions that may have a material adverse effect on the Notes and the Noteholders

The Notes do not contain provisions designed to protect the Noteholders from a reduction in the creditworthiness of the Issuer. In particular, the Terms and Conditions of the Notes do not, except for the Change of Control (see Section *Terms and Conditions of the Notes – Change of Control*), restrict the Issuer's ability to increase or decrease its share capital, to enter into a merger or other significant transaction that could materially alter its existence, jurisdiction of organization or regulatory regime and/or its composition and business. In the event that the Issuer enters into such a transaction, Noteholders could be materially adversely affected.

No assurance on change of laws or practises

The Notes are governed by the laws of the Republic of Lithuania. Lithuanian laws (including but not limited to tax laws) and regulations governing the Notes may change during the life of the Notes, and new judicial decisions can be issued and (or) new administrative practices may be adopted. No assurance can be given as to the impact of any of such possible changes of laws or regulations, or new judicial decision or practice taking place after the date of this Prospectus. Hence, such change may have a material adverse effect on the Issuer's business, financial condition, results of operations and (or) future prospects and, thereby, the Issuer's ability to fulfil its obligations under the Notes, as well as taxation of the Notes, and the market price of the Notes. Such events may also result in material financial losses or damage to the Noteholders.

Sustainability-Linked Notes may not be a suitable investment for all investors seeking exposure to assets with sustainability characteristics

In May 2022 the Issuer adopted a framework relating to its sustainability strategy and targets to, *inter alia*, foster the best market practices and present a unified and coherent suite of "sustainability-linked notes" (the "**Sustainability-Linked Note Framework**"), available at the website of the Issuer (www.epsog.lt) in accordance with, *inter alia*, the Sustainability-Linked Bonds Principles 2020, administered by the International Capital Market Association (ICMA) (the "**SLBP**").

Sustainability-Linked Notes may not satisfy an investor's requirements or any future legal or quasi legal standards for investment in assets with sustainability characteristics. Sustainability-Linked Notes issued under the Prospectus are not being marketed as EU Taxonomy-aligned transition bonds since the Issuer expects to use the relevant net proceeds for general corporate purposes and therefore the Issuer does not intend to allocate an amount equivalent to the proceeds of any such Notes specifically to projects or business activities meeting environmental or sustainability criteria, or to be subject to any other limitations associated with EU Taxonomy-aligned transition bonds. The Notes are not being marketed as "green bonds", "social bonds" or "sustainability bonds" as the net proceeds of the issue of the Notes will be used for the Issuer's general corporate purposes, which may include the refinancing of existing indebtedness.

The interest rate step up in respect of the Notes depends on the achievement of the Sustainability Performance Targets (the "**SPTs**") (see Section *Terms and Conditions*) and are based, at the date of this Prospectus, on certain estimates and assumptions made by the Issuer in order to calculate the indicators on which the SPTs are based.

Although the Issuer targets decreasing its Scope 1 and 2 GHG emissions in accordance with the SPTs, it may not be successful in doing so. Any future investments it makes in furtherance of the targets may not meet investor expectations or any binding or non-binding legal standards regarding sustainability performance, whether by any present or future applicable law or regulations or by other governing rules or investment portfolio mandates, in particular regarding any direct or indirect environmental, sustainability, green or social impact.

Adverse environmental or social impacts may occur during the design, construction and operation of any investments made by the Issuer in furtherance of the targets, or such investments may become controversial or criticised by activist groups or other stakeholders.

The Issuer's ability and autonomy to calculate its Key Performance Indicators

Key Performance Indicators as defined in the Terms and Conditions (the "**KPIs**") are calculated and not measured numbers. The KPIs are based on a good faith calculation made by the Issuer and confirmed by an External Verifier. The KPIs calculations are carried out internally, i.e., by the Issuer, based on broadly accepted standards and reported externally.

Any change to the methodology or data sources for calculation of any KPI which results in a significant change in any of the SPTs, KPIs and (or) baseline and (or) change in the Issuer's organic business development may result in a change in any of the SPTs, baselines and (or) any of the KPIs. In such case, the levels of the relevant baselines, SPTs and (or) KPIs will be recalculated in good faith by the Issuer to reflect such changes. Any such change(s) may be made without the prior consultation of the Noteholders to the extent it does not have any material adverse effect on the interests of the Noteholders.

The way in which, and the industry standards and guidelines mentioned above based on which, the Issuer calculates the KPIs may change over time and may impact the ability of the Issuer to meet any of its SPTs. Such changes may have a negative effect on the market value of the Notes.

Achieving any Sustainability Performance Target or any similar sustainability performance targets will require the Issuer to expend significant resources, while not meeting any such targets would result in increased interest payments and could expose the Issuer to reputational risks

As described in the Terms and Conditions as well as in the Sustainability-linked Financing Framework, achieving the SPTs will require the Issuer to (i) reduce its Scope 1 and 2 GHG emissions by 30 per cent. by the Target Observation Date (i.e., 31 December 2026) from the KPI 1 Baseline, and (ii) ensure that the technical quality of the electricity transmission system services is better than the minimum requirements, i.e., the amount of energy not supplied should not exceed the sum of 136,255 MWh in the period of 2022-2026. As a result, achieving any of the SPTs will require the Group to expend significant resources.

If the Group does not achieve any of its SPTs or does not make available and communicate the Sustainability Performance Report and the Verification Assurance Report within 120 calendar days following the Target Observation Date, that would result in increased interest payments under the Notes, but could also harm the Group's reputation, the consequences of which could, in each case, have an adverse effect on the market value and/or liquidity of the Notes.

Second Party Opinion

The Issuer has appointed Cicero who has provided a second party opinion confirming the alignment of the Sustainability-Linked Note Framework with the SLBP (the "**Second Party Opinion**"). The Second Party Opinion may not reflect the potential impact of all risks related to the structure, market and other factors that may affect the value of Sustainability-Linked Notes. The Dealer does not express any views on and does not assume any obligation or responsibility in respect of, the Sustainability-Linked Note Framework or the contents and/or adequacy of such Sustainability-Linked Note Framework (including, without limitation, its alignment with the SLBP) and does not undertake to review the Second Party Opinion.

Furthermore, an External Verifier will assess the Issuer's performance on the KPIs included in the Sustainability-Linked Note Framework on an annual basis as part of providing assurance on the integrated annual report of the Issuer. A Verification Assurance Report does not constitute a recommendation to buy, sell or hold securities and would only be current as of the date it is delivered.

TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the Terms and Conditions of the Notes (the "**Terms and Conditions**") which will be applicable to each Note:*

Issuer:	UAB "EPSO-G"
Legal Entity Identifier ("LEI") of the Issuer:	6488569V3J6X16IIEJ40
Securities to be issued and admitted to trading on Nasdaq Vilnius:	EUR 75,000,000 3.117 per cent. Senior Unsecured Sustainability-Linked Notes due 2027
Type of securities:	Notes of the Company – debt notes with a fixed-term, non-equity (debt) securities under which the Company shall become the debtor of the Noteholders and shall assume obligations for the benefit of the Noteholders.
ISIN:	LT0000406530
Currency:	Notes will be denominated in euros (EUR)
Status of the Notes:	The Notes and coupons relating to them shall constitute direct, unsecured and unguaranteed obligations of the Issuer, ranking *pari passu* without any preference among each other and with all unsecured, unguaranteed and unsubordinated indebtedness of the Issuer, save for such obligations as indicated herein and as may be preferred by mandatory provisions of the applicable laws.
Issue Price of Notes:	100 per cent.
Yield:	The yield of the Notes is 3.117 per cent. on an annual basis. The yield is calculated as at 8 June 2022 on the basis of the Issue Price, the interest rate of the Notes, the redemption amount of the Notes and the tenor of the Notes. It is not an indication of future yield.
Issue Date of Notes:	8 June 2022
Denomination:	The Notes will be issued in denominations of EUR 100,000 and higher integral multiples of EUR 1,000.
Total nominal value of Notes:	EUR 75,000,000
Form of Notes:	The Notes shall be issued in non-material registered form. According to the Law of the Republic of Lithuania on Markets in Financial Instruments the book-entry and accounting of the dematerialized securities in the Republic of Lithuania, which will be admitted to trading on the Regulated Market (Nasdaq Vilnius), shall be arranged through Nasdaq CSD. The Notes shall be valid from the date of their registration until the date of their redemption. No physical certificates will be issued to the Noteholders. Principal and interest accrued will be credited to the Noteholders' accounts through Nasdaq CSD.
Credit ratings:	The Issuer has been rated Baa1 with a stable outlook by Moody's.
Redemption price of the Notes:	On the day of redemption, the Notes shall be repaid in full at their nominal value, with the cumulative interest accrued and unpaid to date.

Interest rate and Interest Payment Dates:	The Notes bear interest at the rate of 3.117 per cent. per annum (the "**Original Interest Rate**"), subject as provided below (the "**Interest Rate**"), from and including 8 June 2022 (the "**Interest Commencement Date**") payable annually in arrear on 8 June in each year (each an "**Interest Payment Date**"), commencing on 8 June 2023. The period commencing on, and including, the Interest Commencement Date and ending on, but excluding, the first Interest Payment Date and each successive period commencing on, and including, an Interest Payment Date and ending on, but excluding, the next succeeding Interest Payment Date is called an "**Interest Period**". Should any Interest Payment Date fall on a date which is not a Business Day, the payment of the interest due will be postponed to the next Business Day. The postponement of the payment date shall not have an impact on the amount payable. **"Business Day"** means a day on which Nasdaq CSD system is open and operational.
Interest Rate Step Up, KPIs and SPTs:	*(i) Interest Rate Step Up:* From and including the first day of the Interest Period in which the Target Observation Date falls (the "**Interest Rate Step Up Date**"), if the External Verifier (as defined below) determines that: - none of the SPTs are met, then the applicable Interest Rate shall be equal to the Original Interest Rate plus 0.50 per cent. per annum and will apply for the Interest Period from and including the Interest Rate Step Up Date up to, and including, the Maturity Date; - only SPT for KPI 1 is not met, then the applicable Interest Rate shall be equal to the Original Interest Rate plus 0.30 per cent. per annum and will apply for the Interest Period from and including the Interest Rate Step Up Date up to, and including, the Maturity Date; - only SPT for KPI 2 is not met, then the applicable Interest Rate shall be equal to the Original Interest Rate plus 0.20 per cent. per annum and will apply for the Interest Period from and including the Interest Rate Step Up Date up to, and including, the Maturity Date; - two (2) SPTs are met, then the applicable Interest Rate shall be equal to the Original Interest Rate and will apply for the Interest Period from and including the Interest Rate Step Up Date up to, and including, the Maturity Date; If (i) the Sustainability Performance Report and (ii) the Verification Assurance Report have not been made available and communicated by the Issuer within 120 calendar days following the Target Observation Date then, the applicable Interest Rate, from and including the Interest Rate Step Up Date, shall be equal to the Original Interest Rate plus 0.50 per cent. per annum and will apply for the Interest Period from and including the Interest Rate Step Up Date up to, and including, the Maturity Date. *(ii) Changes to Key Performance Indicators and/or Sustainability Performance Targets:* (x) Any change to the methodology or data sources for calculation of any KPI (as defined below) which results in a significant change in any of the SPTs, KPIs and/or baselines and/or (y) any material change of perimeter of the Group (through disposal or acquisition) and/or change in its organic business development may result in a change in any of the SPTs, baselines

and/or any of the KPIs. In such case, the levels of the relevant baselines, SPTs and/or KPIs will be recalculated in good faith by the Issuer to reflect such changes.

By its acquisition of the Notes, each Noteholder accepts and agrees to be bound by the above changes without consultation or approval provided that:

(a) Cicero or any of its successor or any second party opinion provider appointed by the Issuer confirms that such change has no material adverse impact on the second party opinion originally provided to the Issuer in connection with the Sustainability-linked Financing Framework;

(b) the updated Scope 1 and 2 GHG emission Target is verified or have been verified by an external and independent verification; and

(c) in the opinion of the Issuer, any such change has no adverse effect on the interests of the Noteholders.

The Issuer will cause such change to be notified to the Noteholders in accordance with Section *Notices*.

For the avoidance of doubt, any other change will be made in compliance with Section *Noteholders' Meeting and Written Procedure*.

(iii) Sustainability Definitions

"**CO2**" means carbon dioxide.

"**GHG**" means greenhouse gas.

"**ENS**" means energy not supplied (measured in MWh) in Litgrid's electricity transmission network.

"**Key Performance Indicators**" or "**KPIs**" (each a "**Key Performance Indicator**" or "**KPI**") means the following two KPIs:

(a) "**KPI 1**" means the Scope 1 and 2 GHG emissions at the Group's level, as calculated by the Issuer; and

(b) "**KPI 2**" means the "**ENS**", as calculated by the Issuer.

"**KPI 1 Baseline**" means 292,336 (tCO2e) (as of 31 December 2019).

KPI 2 has no baseline

"**External Verifier**" means any qualified provider of third-party assurance or attestation services chosen among the audit or ESG services firms and appointed by the Issuer for the purposes of this Section. Any such new appointment will be notified to the Noteholders in accordance with Section *Notices*.

"**Sustainability-linked Financing Framework**" means the framework available on the Issuer's website (www.epsog.lt), as amended and supplemented from time to time.

"**Sustainability Performance Targets**" or "**SPTs**" (each a "**Sustainability Performance Target**" or "**SPT**") mean the following two targets:

(a) “**SPT for KPI 1**” means, on the Target Observation Date, a percentage reduction of the KPI 1 of 30% compared to the KPI 1 Baseline; and

(b) “**SPT for KPI 2**” means, on the Target Observation Date, amount of energy not supplied not exceeding the sum of 136,255 MWh. for the period of 2022-2026.

Please refer to the Sustainability-linked Financing Framework for further information and description.

“**Target Observation Date**” means 31 December 2026.

(iv) Reportings

For each annual financial year ending on 31 December, from and including 2022 up to, and including, the Target Observation Date, the Issuer will publish on its website a sustainability performance report or a declaration of extra financial performance or other document (each a “**Sustainability Performance Report**”), which shall disclose the KPIs as of 31 December in each year as determined by the Issuer. Each Sustainability Performance Report shall include or be accompanied by a limited assurance report issued by an External Verifier (the “**Limited Assurance Report**”).

For the annual financial year ending on the Target Observation Date, the Issuer will publish, within 120 calendar days following the Target Observation Date, a notice which shall confirm whether the Group has achieved the SPTs on the Target Observation Date and the Interest Rate for the Interest Period in which the Target Observation Date falls. Such notice shall be published in accordance with Section *Notices* and in the Sustainability Performance Report. The notice shall also include, the SPTs and a verification assurance report by the External Verifier (or any other equivalent report established pursuant to the doctrine applicable to the External Verifier at the time of the establishment of such report) (the “**Verification Assurance Report**”) outlining the performance of the KPIs against their respective SPTs.

(v) Calculation

Interest will be calculated on an Actual/Actual (ICMA) basis. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a day count fraction which will be calculated by taking the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first day but excluding the last day of such period).

Maturity (redemption) Date of Notes and principal payment:

8 June 2027 (the “**Maturity Date**”), unless the Issuer redeems the Notes in accordance with Sections *Early Optional (Voluntary) Redemption of Notes, Redemption for tax reasons, Change of Control or Events of Default* below or in case the Noteholders, upon proposal of the Issuer, pursuant to Section *Noteholders’ Meeting and Written Procedure* have decided that the Notes shall be redeemed prior to the Maturity Date.

The term for provision of the requests/requirements to redeem the Notes shall not be applicable, as upon Maturity Date of Notes, the nominal value thereof with the cumulative interest accrued shall be transferred to the accounts indicated by the Noteholders without separate requests/requirements of the Noteholders. As from this moment the Issuer shall be deemed to have fully executed the obligations, related to the Notes

	and their redemption, disregarding the fact, whether the Noteholder actually accepts the funds. Should the Maturity Date fall on a date which is not a Business Day, the payment of the amount due will be postponed to the next Business Day. The postponement of the payment date shall not have an impact on the amount payable. Following the transfer of the redemption price to the Noteholder's accounts as indicated above, the Notes shall be removed from Nasdaq CSD and Nasdaq Vilnius. If the mentioned amounts are not transferred to the accounts indicated by the Noteholders, the Noteholders shall have a right to claim for redemption of the Notes within 3 (three) years after the Maturity Date. If the Noteholders shall not claim redemption of the Notes within the indicated 3 (three) years term, the respective Noteholders shall forfeit the right of claim.
Early Optional (Voluntary) Redemption of Notes:	The Issuer may redeem the Notes, in whole but not in part, at any time during the period commencing on the first Business Day falling 3 (three) months prior to the Maturity Date (such Business Day included) and ending on the Maturity Date (the Maturity Date excluded) (the "**Voluntary Redemption Period**"), at an amount equal to 100 (one hundred) per-cent of their nominal amount together with any accrued but unpaid interest to, but excluding, the date of voluntary redemption (the "**Voluntary Redemption Date**"). Redemption in accordance with Section shall be made by the Issuer giving not less than 30 (thirty) but no more than 60 (sixty) calendar days' irrevocable notice specifying the Voluntary Redemption Date, which shall be a Business Day within the Voluntary Redemption Period, to the Noteholders in accordance with Section *Notices*. Redemption in accordance with this Section may be made only after it is determined whether the SPT for KPI 1 and the SPT for KPI 2 are met or not, in accordance with Section *Interest Rate Step Up, KPIs and SPTs* (i.e., (i) the Sustainability Performance Report and (ii) the Verification Assurance Report, indicating whether the Group has achieved the SPTs on the Target Observation Date shall be published prior to giving a notice specifying the Voluntary Redemption Date). If the SPT for KPI 1 and/or the SPT for KPI 2 are not met or if such determination is not yet made with respect to any of the KPI 1 and KPI 2, the calculation of accrued but unpaid interest to be paid under this Section must in any case take into account the Interest Rate Step Up conditions as set out in Section Interest Rate Step Up, KPIs and SPTs (as applicable). Payments for the Notes under this Section shall be made following the order and the consequences of such payments shall be established under Section *Maturity (redemption) Date of Notes and principal payment* above.
Redemption for tax reasons:	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time on giving 30 (thirty) but no more than 60 (sixty) calendar days' irrevocable notice to the Noteholders at an amount equal to 100 (one hundred) per cent of their nominal amount together with any accrued but unpaid interest to, but excluding, the date of redemption, if:

	(i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Section *Taxation* of these Terms and Conditions below as a result of any change in, or amendment to, the laws or regulations of the Republic of Lithuania or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date of issue of the Notes; and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, **provided, however, that** no such notice of redemption shall be given earlier than 90 (ninety) days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due. Prior to the publication of any notice of redemption pursuant to this Section, the Issuer shall obtain an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Section, the Issuer shall be bound to redeem the Notes in accordance with this Section.
Record Date:	Payments of all and any amounts (whether principal, interest or otherwise, including on the final redemption) due on the Notes will be made to the Noteholders thereof, appearing as such in intermediaries of Nasdaq CSD on the third Business Day preceding the due date for any such payment (the "**Record Date**").
Admission to trading of Notes:	The Notes shall be applied for introduction to trading on a Bond List of Nasdaq Vilnius once the Notes shall be issued and registered with Nasdaq CSD. The Issuer expects that the Notes shall be admitted to trading on Nasdaq Vilnius within 3 (three) months as from issue of Notes. Disregarding this, the Issuer will put its best endeavours so that this term would be as short as practicable possible. The Issuer shall also put its best efforts to ensure that the Notes remain listed on Nasdaq Vilnius. The Issuer shall, following a listing or admission to trading, take all reasonable actions on its part required as a result of such listing or trading of the Notes. The Issuer will cover all costs and expenses, related to the admission of the Notes to Nasdaq Vilnius, which are estimated at approx. EUR 25,000.
Decisions by which the Notes are issued:	The Notes shall be issued based on the decisions of the Management Board, dated 27 May 2022 and 1 June 2022.
Freely transferable Notes:	The Notes are freely transferrable. Notes subscribed and paid for shall be entered to the respective book-entry securities accounts of the subscriber(s) in accordance with Lithuanian legislation governing the book-entry system and book-entry accounts as well as Nasdaq CSD Rules. However, the Notes cannot be offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which it would be unlawful or require measures other than those required under Lithuanian laws, including the United States, Australia, Japan, Canada, Hong Kong, South Africa, Singapore and certain other jurisdictions.

Change of Control:	If at any time while any Note remains outstanding: (i) there occurs a Change of Control (as defined below), and (ii) within the Change of Control Period (as defined below), a Rating Event (as defined below) in respect of that Change of Control occurs (such Change of Control and Rating Event not having been cured prior to the expiry of the Change of Control Period, together, a "**Change of Control Put Event**"), each Noteholder will have the option (the "**Change of Control Put Option**") (unless, prior to the giving of the Change of Control Put Event Notice (as defined below), the Issuer gives notice to redeem the Notes according to Section *Early Optional (Voluntary) Redemption of Notes*) to require the Issuer to redeem or, at the Issuer's option, to procure the purchase of, all or part of its Notes, on the Optional Redemption Date (as defined below) at an amount equal to 100 (one hundred) per-cent of their nominal amount together with any accrued but unpaid interest to, but excluding, the Optional Redemption Date. A "**Change of Control**" shall be deemed to have occurred if at any time following the Issue Date of the Notes, the Republic of Lithuania ceases to own, directly or indirectly, at least 51% (fifty-one) of the issued share capital of the Issuer or ceases to have the power, directly or indirectly, to cast, or control the casting of, at least 51% (fifty-one) of the maximum number of votes that might be casted at a general meeting of shareholders of the Issuer. "**Change of Control Period**" means the period beginning on the date of the first public announcement by or on behalf of the Issuer by any bidder or any designated advisor, of the relevant Change of Control and ending 90 (ninety) days after completion of the relevant Change of Control. A "**Rating Event**" shall be deemed to have occurred in respect of a Change of Control if (within the Change of Control Period) either: (i) (A) the rating previously assigned to the Issuer by any Rating Agency solicited by the Issuer is (x) withdrawn or (y) changed from an investment grade rating (BBB-/Baa3 or its equivalent for the time being, or better) to a non-investment grade rating (BB+/Ba1 or its equivalent for the time being, or worse) or (z) (if the rating previously assigned to the Issuer by any Rating Agency solicited by the Issuer was below an investment grade rating (as described above)), lowered by at least one full rating notch (for example, from BB+ to BB, or their respective equivalents) and (B) such rating is not subsequently upgraded (in the case of a downgrade) or reinstated (in the case of a withdrawal) within the Change of Control Period either to an investment grade credit rating (in the case of (x) and (y)) or to its earlier credit rating or better (in the case of (z)) by such Rating Agency; or (ii) the Issuer has not been previously assigned a credit rating solicited by the Issuer, and no Rating Agency assigns the Issuer an investment grade rating solicited by the Issuer within the Change of Control Period; provided that the Rating Agency making the reduction in rating or deciding not to assign an investment grade rating announces or publicly confirms or, having been so requested by the Issuer, informs the Issuer in writing that the lowering or failure to assign an investment grade rating was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable Change of Control (whether or not the applicable Change of Control shall have occurred at the time of the Rating Event).

	"**Rating Agency**" means S&P Global Ratings Europe Limited, Moody's Investor Services or Fitch Ratings Ireland Limited, or any of their affiliates. Promptly upon the Issuer becoming aware that a Change of Control Put Event has occurred, the Issuer shall give notice (a "**Change of Control Put Event Notice**") to the Noteholders in accordance with Section *Notices* specifying the nature of the Change of Control Put Event and the circumstances giving rise to it, and the procedure for exercising the Change of Control Put Option. To exercise the Change of Control Put Option, a Noteholder within the period (the "**Change of Control Put Period**") of 45 (forty-five) days after a Change of Control Put Event Notice is given must provide to the Issuer in writing a notice on exercise of the Change of Control Put Option (a "**Change of Control Put Option Notice**"). A Change of Control Put Option Notice once given shall be irrevocable. The Issuer shall redeem or, at the option of the Issuer procure the purchase of the Notes in respect of which the Change of Control Put Option has been validly exercised as provided above by the date which is the 5th (fifth) Business Day following the end of the Change of Control Put Period (the "**Optional Redemption Date**"). For the avoidance of doubt, the Issuer shall have no responsibility for any cost or loss of whatever kind (including breakage costs) which the Noteholder may incur as a result of or in connection with such Noteholder's exercise or purported exercise of, or otherwise in connection with, any Change of Control Put Option (whether as a result of any purchase or redemption arising therefrom or otherwise). If 75 (seventy-five) per-cent or more in principal amount of the Notes then outstanding have been redeemed pursuant to this Section, the Issuer may, on not less than 30 (thirty) nor more than 60 (sixty) days' irrevocable notice to the Noteholders in accordance with Section *Notices* given within 30 (thirty) days after the Optional Redemption Date, redeem on a date to be specified in such notice at its option, all (but not some only) of the remaining Notes at 100 (one hundred) per-cent of their nominal amount, together with interest accrued to, but excluding, the date of redemption.
Negative Pledge:	So long as any Note remains outstanding, the Issuer shall not, and shall procure that none of its Material Subsidiaries create or permit to subsist any mortgage, pledge or any other security interest (each a "**Security interest**"), other than a Permitted Security Interest, upon the whole or any part of its present or future business, undertaking, assets or revenues to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness without: (a) at the same time or prior thereto securing the Notes equally and rateably therewith; or (b) providing such other security for the Notes or other arrangement (weather or not it includes the granting of a security) as may be approved by the Noteholders under the procedure of Section *Noteholders' Meeting and Written Procedure.* **"Subsidiary"** means a company: (a) whose affairs and policies the Issuer controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body or otherwise; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the Issuer.

"Material Subsidiary" means at any time any Subsidiary:

(a) whose total consolidated (or, if applicable, unconsolidated) assets (excluding intercompany loans, intercompany payables, intercompany receivables and intercompany unrealised gains and losses in inventories) represent not less than 10 (ten) per-cent of the total consolidated assets of the Issuer, or whose gross consolidated EBITDA (or, if applicable, unconsolidated) represents not less than 10 (ten) per-cent of the gross consolidated EBITDA of the Issuer, in each case as determined by reference to the most recent publicly available annual or interim financial statements of the Issuer prepared in accordance with IFRS and the latest financial statements of the Subsidiary determined in accordance with IFRS; or

(b) to which is transferred the whole or substantially all of the assets and undertakings of a Subsidiary which, immediately prior to such transfer, is a Material Subsidiary.

"EBITDA" means (a) the consolidated profit before income tax of the Group; or (b) in the case of a Material Subsidiary, the consolidated or unconsolidated profit before income tax of such Material Subsidiary, in the case of both (a) and (b) before taking into account:

(a) interest expense and interest income;

(b) depreciation and amortisation;

(c) write-off expenses of property, plant and equipment;

(d) impairment expenses of property, plant and equipment;

(e) write-off expenses of other assets;

(f) write-down allowance for inventory, expected credit losses of amounts receivable, impairment of investments; and

(g) dividend income and gain from disposal of associate.

"Group" means the Issuer and its Subsidiaries from time to time.

"Permitted Security Interest" means any Security Interest created over any asset of any company which becomes a Subsidiary after the Issue Date of the Notes, where such Security Interest is created prior to the date on which the company becomes a Subsidiary, provided that:

(a) such Security Interest was not created in contemplation of the acquisition of such company; and

(b) the principal amount secured was not increased in contemplation of or since the acquisition (or proposed acquisition) of that company.

"Indebtedness" means any indebtedness (whether principal, premium, interest or other amounts) in respect of any bonds, notes or other debt securities or borrowed money by the Issuer or any of its Subsidiaries (other than from the Issuer to any of its wholly-owned Subsidiaries and from any of the Issuer's wholly-owned Subsidiaries to the Issuer or to another wholly-owned Subsidiary).

	"Relevant Indebtedness" means any Indebtedness which is in the form of, or represented by any bond, note or other debt security which is, or is capable of being, quoted, listed or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market). **"Guarantee"** means, in relation to any Indebtedness, any obligation to pay such Indebtedness including (without limitation): (a) any obligation to purchase such Indebtedness; (b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness; (c) any indemnity against the consequences of a default in the payment of such Indebtedness; and (d) any other agreement to be responsible for such Indebtedness.
Events of Default:	If an Event of Default (as defined below) occurs, any Noteholder may by written notice to the Issuer declare any Note held by it and the interest accrued on such Note to be prematurely due and payable at the earliest on the 10^{th} (tenth) Business Day from the date such notice was received by the Issuer, provided that an Event of Default is continuing on the date of receipt of the notice by the Issuer and on the early repayment date (the "**Early Repayment Date**"). Interest on such Note accrues until the Early Repayment Date (excluding the Early Repayment Date). The Issuer shall notify the Noteholders about the occurrence of an Event of Default (and the steps, if any, taken to remedy it) in accordance with Section *Notices* promptly upon becoming aware of its occurrence. Specified events below shall be constituted as Events of Default: (a) **Non-payment**: the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes on the due date for payment thereof and the default continues for a period of 5 (five) days in the case of principal and for a period of 14 (fourteen) days in the case of Interest; (b) **Cross-acceleration**: (i) any Indebtedness of the Issuer or any of its Material Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period; (ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Material Subsidiary or (**provided that** no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; (iii) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness, **provided that** the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above individually or

	in the aggregate exceeds EUR 20,000,000 (twenty million euro) (or its equivalent in any other currency or currencies); (c) **Breach of Other Obligations**: the Issuer defaults on one or more of its other material obligations in the Notes, which default is material and incapable of remedy or capable of remedy but it is not remedied within a reasonable time which in any case should be not less than 30 days after notice of such default given to the Issuer by any Noteholder; (d) **Insolvency**: (i) the Issuer or any of its Material Subsidiaries is declared insolvent or bankrupt by a court of competent jurisdictions or admits inability to pay its debts; or (ii) the Issuer or any of its Material Subsidiaries enters into any arrangement with at least 75 (seventy-five) per-cent of its creditors by value in relation to restructuring of its debts or any meeting is convened to consider a proposal for such arrangement; or (iii) an application to initiate insolvency, restructuring (including proceedings such as legal protection proceedings and out-of-court legal protection proceedings) or any of its Material Subsidiaries or any other proceedings for the settlement of the debt of the Issuer or of any of its Material Subsidiaries is submitted to the court by the Issuer or any of its Material Subsidiaries. In case of the Issuer's liquidation or insolvency the Noteholders shall have a right to receive payment of the outstanding principal amount of the Notes and the interest accrued on the Notes according to the relevant laws governing liquidation or insolvency of the Issuer; (e) **Winding-up**: an administrator (liquidator) is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any of its Material Subsidiaries, or the Issuer or any of its Material Subsidiaries shall apply or petition for a winding-up or administration order in respect of itself, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation, whereby the undertaking and assets of such entity shall remain within the Group, provided that this paragraph shall not apply to any winding-up petition which is frivolous or vexatious and is discharged, stayed or dismissed within 60 days of commencement.
Taxation:	*Gross up:* All interest payments in the case of Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Lithuania or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, in respect of interest, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note held by or on behalf of a Noteholder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of it having some connection with the jurisdiction by which such taxes, duties, assessments

	or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note.
Governing law and jurisdiction:	*Governing law:* The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by Lithuanian law. This includes among other, the Civil Code of the Republic of Lithuania, the Law on Companies, the Law of the Republic of Lithuania on Securities and other related legal acts. Any disputes, relating to or arising in relation to the Notes shall be finally settled solely by the courts of the Republic of Lithuania of competent jurisdiction. *Courts of the Republic of Lithuania:* The courts of the Republic of Lithuania have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes). *Appropriate forum:* The Issuer agrees that the courts of the Republic of Lithuania are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
No charge:	The transfer of a Note will be effected without charge by or on behalf of the Issuer. However, the investors may be obliged to cover expenses which are related to the opening of securities accounts with credit institutions or investment brokerage firms, as well as commissions which are charged by the credit institutions or investment brokerage firms in relation to the execution of the investor's purchase or selling orders of the Notes, the holding of the Notes or any other operations in relation to the Notes. The Issuer and/or the Dealer will not compensate the Noteholders for any such expenses.

Rights of the Noteholders

The Notes shall grant their holders equal rights.

As from the Maturity Date of the Notes, the Noteholders shall have a right to receive from the Company the nominal value of the Notes and the interest accrued and unpaid to dates, as indicated in the Terms and Conditions above, i.e., the Noteholder shall have a right to require, that the Notes would be redeemed for their redemption price.

Noteholders shall have the rights provided in the Civil Code of the Republic of Lithuania, the Law on Companies and other laws regulating the rights of noteholders, as well as the rights specified in the respective decisions to issue Notes. The Noteholders shall have the following main rights:

(a) to receive the cumulative interest accrued annually;

(b) to receive the nominal value of Notes and the cumulative interest accrued and not yet paid on the maturity date of the Notes;

(c) to sell or transfer otherwise all or part of the Notes;

(d) to participate in the Noteholders' Meetings, as described in Section below;

(e) to vote in the Noteholders' Meetings or adopt the decisions otherwise, as described in Section below;

(f) to initiate the convocation of the Noteholders' Meetings or adoption of its decision otherwise, as described in Section below;

(g) other rights, established in the applicable laws.

The rights of Noteholders shall be executed during the term of validity of the Notes (from the Issue Date until the Maturity Date) according to the order, indicated in this Section and in the applicable Lithuanian laws.

Noteholders' Meeting and Written Procedure

Important note: Following Article 3(2) of the Law of the Republic of Lithuania on the Protection of Interests of Owners of Bonds issued by Public and Private Companies of the Republic of Lithuania (in Lithuanian – *Lietuvos Respublikos akcinių bendrovių ir uždarųjų akcinių bendrovių obligacijų savininkų interesų gynimo įstatymas*) and taking into consideration that the offering of Notes complies with the requirements, established in Article 1(4) (a), (c) and (d) thereof, the indicated Lithuanian law shall not be applicable to the Notes, issued under this Prospectus, including without limitation the requirement to appoint a trustee of noteholders, provisions, related to initiation, convocation and holding noteholders meetings, etc. Accordingly, the Noteholders' Meetings and respective provisions in connection therewith, as described in this Prospectus below, do not meet the requirements of and are not regulated by the Law of the Republic of Lithuania on the Protection of Interests of Owners of Bonds issued by Public and Private Companies of the Republic of Lithuania (in Lithuanian – *Lietuvos Respublikos akcinių bendrovių ir uždarųjų akcinių bendrovių obligacijų savininkų interesų gynimo įstatymas*).

General provisions: The decisions of the Noteholders (including decisions on amendments to these Terms and Conditions or granting of consent or waiver) shall be passed at a meeting of the Noteholders (the "**Noteholders' Meeting**") or in writing without convening the Noteholders' Meeting (the "**Written Procedure**") at the choice of the Issuer.

The Issuer shall have a right to convene the Noteholders' Meeting or instigate the Written Procedure at any time and shall do so following a written request from the Noteholders who, on the day of the request, represent not less than 1/10 (one-tenth) of the aggregate principal amount of the outstanding Notes (excluding the Issuer and its Subsidiaries).

In case convening of the Noteholders' Meeting or instigation of the Written Procedure is requested by the Noteholders, the Issuer shall be obliged to convene the Noteholders' Meeting or instigate the Written Procedure within 1 (one) month after receipt of the respective Noteholders' written request.

Only those who were registered as the Noteholders on the 5th (fifth) Business Day prior to the convened Noteholders' Meeting or instigated Written Procedure or proxies authorised by such Noteholders, may exercise their voting rights at the Noteholders' Meeting or in the Written Procedure.

If the Issuer and/or its Subsidiaries are the Noteholders, their principal amount of the Notes will be excluded when a quorum is calculated.

Quorum: Quorum at the Noteholders' Meeting or in respect of the Written Procedure only exists if: (i) at least 2 (two) or more persons representing at least 50 (fifty) per cent; or (ii) one Noteholder holding 100 (one hundred) per cent. of the principal amount of Notes outstanding are present in the meeting or provide replies in the Written Procedure.

If quorum does not exist at the Noteholders' Meeting or in respect of the Written Procedure, the Issuer can convene an adjourned Noteholders' Meeting or instigate a second Written Procedure, as the case may be, on a date no earlier than fourteen (14) days and no later than 28 (twenty-eight) days after the original meeting at a place to be determined by the Issuer.

The adjourned Noteholders' Meeting constitutes a quorum, if: (i) at least 2 (two) or more persons representing at least 10 (ten) per cent; or (ii) one Noteholder holding 100 (one hundred) per cent. of the principal amount of the Notes outstanding are present in the meeting or provide replies in the Written Procedure.

The notice of the adjourned meeting or, in the Written Procedure, information regarding the extended time for replies, must be given in the same manner as the notice of the original meeting or the Written Procedure. The notice must also include the requirements for a constitution of a quorum.

The voting rights of the Noteholders will be determined on the basis of the principal amount of the Notes held.

Noteholders' decisions: A Noteholders' Meeting or a Written Procedure may, at the initiative of the Issuer, make decisions that are binding on the Noteholders on:

(i) any amendments to the Terms and Conditions; and

(ii) a temporary waiver regarding the Terms and Conditions.

The consent of Noteholders representing at least 75 (seventy-five) per cent. of the aggregate principal amount of the outstanding Notes attending the Noteholders' Meeting or participating in the Written Procedure will be required to make any amendments to the Terms and Conditions, including:

(i) change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes;

(ii) change Sections *Negative Pledge, Events of Default* or *Governing Law and Jurisdiction* above;

(iii) change the quorum requirements of the Noteholders' Meeting or Written Procedure; and (or)

(iv) change the majority required for the decisions of the Noteholders' Meeting or Written Procedure.

Consent of simple majority (more than 50 (fifty) per cent.) of all Noteholders attending the Noteholders' Meeting or participating in the Written Procedure is required for a temporary waiver regarding the Terms and Conditions.

Notes held by or for the account of the Issuer or any of its Subsidiaries for their own account will not carry the right to vote at the Noteholders' Meetings and will not be taken into account in determining how many Notes are outstanding for the purposes of these Terms and Conditions.

The Noteholders' Meeting and the Written Procedure can authorise a named person to take any necessary actions to enforce the decisions of the Noteholders' Meeting or the Written Procedure.

A matter decided at the Noteholders' Meeting or the Written Procedure is binding on all Noteholders, irrespective of whether they were present at the Noteholders' Meeting or participated in the Written Procedure. Decisions made at the Noteholders' Meeting or in the Written Procedure are deemed to have been received by the Noteholders at the time: (i) they have been entered in the issue account maintained by Nasdaq CSD; or (ii) notified to the Noteholders, provided that a failure to do so shall not invalidate any decision made or voting result achieved. In addition, the Noteholders are obliged to notify subsequent transferees of the Notes of the resolutions of the Noteholders' Meeting and the Written Procedure.

A notice to Nasdaq CSD must be given on: (i) the convening of a Noteholders' Meeting or the request for the Written Procedure; and (ii) on their resolutions made in accordance with Nasdaq CSD Rules.

All expenses in relation to the convening and holding the Noteholders' Meeting or a Written Procedure shall be covered by the Issuer.

Noteholders' Meetings: If a decision of the Noteholders is intended to be passed at the Noteholders' Meeting, then a respective notice of the Noteholders' Meeting shall be provided to the Noteholders in accordance with the procedure, specified in Section *Notices* below, no later than 10 (ten) Business Days prior to the meeting. Furthermore, the notice shall specify the time, place and agenda of the meeting, as well as any action required on the part of the Noteholders that will attend the meeting. No matters other than those referred to in the notice may be resolved at the Noteholders' Meeting.

The Noteholders' Meeting shall be held in Vilnius, Lithuania, and its chairman shall be the Issuer's representative appointed by the Issuer.

The Noteholders' Meeting shall be organised by the chairman of the Noteholders' Meeting.

The Noteholders' Meeting shall be held in English with translation into Lithuanian, unless the Noteholders present in the respective Noteholders' Meeting unanimously decide that the respective Noteholders' Meeting shall be held only in Lithuanian or English.

Representatives of the Issuer and persons authorised to act for the Issuer may attend and speak at the Noteholders' Meeting.

Minutes of the Noteholders' Meeting shall be kept, recording the day and time of the meeting, attendees, their votes represented, matters discussed, results of voting, and resolutions which were adopted. The minutes shall be signed by the keeper of the minutes, which shall be appointed by the Noteholders' Meeting. The minutes shall be attested by the chairman of the Noteholders' Meeting, if the chairman is not the keeper of the minutes, as well as by one of the persons appointed by the Noteholders' Meeting to attest the minutes. The minutes from the relevant Noteholders' Meeting shall at the request of a Noteholder be sent to it by the Issuer.

Written Procedure: If a decision of the Noteholders is intended to be passed by the Written Procedure, then a respective communication of the Written Procedure shall be provided to the Noteholders in accordance with the procedure, specified in Section *Notices*. Communication to the Noteholders shall include:

(i) each request for a decision by the Noteholders;

(ii) a description of the reasons for each request;

(iii) a specification of the Business Day on which a person must be registered as a Noteholder in order to be entitled to exercise voting rights;

(iv) instructions and directions on where to receive a form for replying to the request (such form to include an option to vote "yes" or "no" for each request), as well as a form of a power of attorney;

(v) the stipulated time period within which the Noteholder must reply to the request (such time period to last at least 10 (ten) Business Days from the communication pursuant to paragraph (i) above) and a manner of a reply; and

(vi) a statement that if the Noteholder does not reply to the request in the stipulated time period, then it shall be deemed that the Noteholder has voted against each request.

When the requisite majority consents have been received in a Written Procedure, the relevant decision shall be deemed to be adopted even if the time period for replies in the Written Procedure has not yet expired.

Minor modification: The Notes and these Terms and Conditions may be amended by the Issuer without the consent of the Noteholders to correct a manifest error or is to comply with any amendments, updates and (or) modifications to any applicable legislation passed after the date hereof by or on behalf of the Republic of Lithuania or any political subdivision thereof or any authority therein or thereof having power to make such amendment, update and (or) modification. In addition, the Issuer shall have a right to amend the technical procedures relating to the Notes in respect of payments or other similar matters without the consent of the Noteholders, if such amendments are not prejudicial to the interests of the Noteholders.

Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue any further notes having the similar or different terms and conditions as the Notes.

Notices

Noteholders shall be advised of matters relating to the Notes by a notice published in English and Lithuanian on the Issuer's website at www.epsog.lt as well as (after the Notes are admitted to trading on Nasdaq Vilnius) on www.crib.lt and on www.nasdaqbaltic.com. Any such notice shall be deemed to have been received by the Noteholders when published in the manner specified in this Section.

Purchases

The Issuer and any of its Subsidiaries may at any time purchase the Notes in any manner and at any price on the secondary market. Notes held by or for the account of the Issuer or any of its Subsidiaries for their own account will not carry the right to vote at the Noteholders' Meetings and will not be taken into account in determining how many Notes are outstanding for the purposes of these Terms and Conditions.

Rounding

For the purposes of any calculations referred to in these Terms and Conditions (unless otherwise specified in thereof), all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. Being rounded up to 0.00001 per cent.).

Force Majeure

The Issuer shall be entitled to postpone the fulfilment of its obligations hereunder, in case the performance is not possible due to continuous existence of any of the following circumstances:

(a) action of any authorities, war or threat of war, rebellion or civil unrest;

(b) disturbances in postal, telephone or electronic communications which are due to circumstances beyond the reasonable control of the Issuer and that materially affect operations of the Issuer;

(c) any interruption of or delay in any functions or measures of the Issuer as a result of fire or other similar disaster;

(d) any industrial action, such as strike, lockout, boycott, or blockade affecting materially the activities of the Issuer even if it only affects part of the employees of the Issuer and whether it is involved therein or not; or

(e) any other similar force majeure or hindrance which makes it unreasonably difficult to carry on the activities of the Issuer.

In such case the fulfilment of the obligations may be postponed for the period of the existence of the respective circumstances and shall be resumed immediately after such circumstances cease to exist, provided that the Issuer shall put all best efforts to limit the effect of the above referred circumstances and to resume the fulfilment of its obligations as soon as possible.

HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The following tables present the Group's financial performance for the financial years ended 31 December 2021 and 31 December 2020. The information set out in the tables below has been extracted from and is qualified by reference to and should be read in conjunction with the Group's audited financial statements for the years ended 31 December 2021 and 31 December 2020, which are attached to this Prospectus and form an integral part hereof (please see Annex *IFRS Consolidated Financial Statements*). The Issuer's audited annual financial statements are prepared according to International Financial Reporting Standards (IFRS).

Consolidated Statement of Financial Position

in EUR thousands (audited)	31 December 2021	31 December 2020
Non-current assets		
Intangible assets	9,754	11,135
Property, plant and equipment	603,103	574,227
Right-of-use assets	11,127	9,829
Investments in subsidiaries	-	-
Deferred income tax assets	27,018	20,861
Non-current amounts receivable	4	105
Non-current portion of the balance of congestion management funds	-	18,041
Financial assets measured at fair value through other comprehensive income	781	1,089
Total non-current assets	**651,787**	**635,287**
Current assets		
Inventories	18,997	5,191
Prepayments and contract assets	3,712	3,431
Trade receivables	74,674	32,460
Other amounts receivable	106,767	83,315
Other financial assets	65,385	22,735
Cash and cash equivalents	41,284	5,113
Total current assets	**310,819**	**152,245**
TOTAL ASSETS	**962,606**	**787,532**
EQUITY AND LIABILITIES		
Equity		
Share capital	22,483	22,483
Revaluation reserve	310	406
Revaluation reserve of financial assets	-	-
Legal reserve	16,600	16,522
Other reserves	59,546	22,616
Retained earnings	160,775	160,232
Equity attributable to shareholders of the parent company	**259,714**	**222,259**

in EUR thousands (audited)	31 December 2021	31 December 2020
Non-controlling interest	11,884	10,805
Total equity	**271,598**	**233,064**
Liabilities		
Non-current liabilities		
Non-current borrowings	142,843	167,242
Other non-current financial liabilities	-	134,128
Lease liabilities	9,028	7,641
Congestion management funds	88,267	55,659
Provisions	1,877	5,313
Other non-current amounts payable and liabilities	3,584	3,029
Total non-current liabilities	**245,599**	**373,012**
Current liabilities		
Current portion of non-current borrowings	24,399	26,959
Current borrowings	-	20,019
Current portion of other non-current borrowings	84,128	14,481
Current portion of lease liabilities	1,395	1,523
Trade payables	75,433	36,118
Advance amounts received	57,867	14,891
Income tax liability	2,265	5,007
Current portion of congestion management funds	20,820	6,860
Provisions	3,795	885
Other current amounts payable and liabilities	175, 307	54,713
Total current liabilities	**445,409**	**181,456**
Total liabilities	**691,008**	**554,468**
TOTAL EQUITY AND LIABILITIES	**962,606**	**787,532**

Consolidated Statement of Comprehensive Income

in EUR thousands (audited)	2021	2020 (reclassified)
Revenue		
Revenue	358,638	268,950
Other income	3,965	1,570
Dividend income and income from disposal of associates	307	1,726
Total revenue, other income and gains	**362,910**	**272,246**
Operating expenses		

in EUR thousands (audited)	2021	2020 (reclassified)
Expenses for purchase of balancing and regulating electricity	(91,007)	(29,688)
Expenses for electricity system services	(61,860)	(81,741)
Expenses for electricity technological needs	(40,165)	(15,190)
Expenses for natural gas system balancing service	(8,914)	(5,162)
Expenses for natural gas technological needs	(2,354)	(1,183)
Depreciation and amortisation	(34,765)	(32,705)
Wages and salaries and related expenses	(35,423)	(30,400)
Repair and maintenance expenses	(6,469)	(6,890)
Levies and compulsory payments	(6,559)	(5,957)
Telecommunications and IT maintenance expenses	(3,966)	(3,483)
Transport expenses	(3,021)	(2,317)
Write-off expenses of property, plant and equipment	(154)	(615)
Impairment expenses of property, plant and equipment	(17)	(233)
Write-off expenses of other assets	45	(65)
Write-down allowance for inventory, expected credit losses of amounts receivable, impairment of investments	(255)	(471)
Other expenses	(23,226)	(13 959)
Total operating expenses	**(318,110)**	**(230,058)**
Operating profit	**44,800**	**42,188**
Financing activities		
Interest income	44	125
Interest expense	(1,748)	(2,129)
Total finance costs, net value	**(1,704)**	**(2,004)**
Profit before income tax	**43,096**	**40,183**
Income tax		
Current year income tax expenses	(9,814)	(9,642)
Deferred income tax (expenses)/benefit	6,536	9,544
Total income tax	**(3,278)**	**(98)**
Profit for the period	**39,818**	**40,085**
Other comprehensive income that will not be reclassified subsequently to profit or loss		
Loss on revaluation of non-current financial assets	-	(61)
Effect of deferred income tax	-	9
Total other comprehensive income that will not be reclassified subsequently to profit or loss	-	**(52)**
Total comprehensive income for the period	**39,818**	**40,033**
Profit/(loss) for the period is attributable to:		

in EUR thousands (audited)	2021	2020 (reclassified)
Shareholders of the parent company	38,326	38,850
Non-controlling interest	1,492	1,235
	39,818	**40,085**
Total comprehensive income for the period is attributable to:		
Shareholders of the parent company	38,326	38,800
Non-controlling interest	1,492	1,233
	39,818	**40,033**

Consolidated Statement of Cash Flows

in EUR thousands (audited)	2021	2020
Cash flows from operating activities		
Profit/(loss) for the period	39,818	40,085
Adjustments for non-cash items:		
Depreciation and amortisation expenses	34,765	32,705
Revaluation/impairment of property, plant and equipment	17	233
Expected credit losses /(reversal of losses) of amounts receivable	(79)	(248)
Income tax expenses	3,278	98
Grants recognised as revenue adjustment	(144)	–
Impairment of financial assets	213	719
Loss on disposal/write-off of property, plant and equipment	154	460
Elimination of results of financing and investing activities:		
Interest income	(44)	(100)
Interest expenses	1,748	2,038
Dividend income	(307)	(895)
Other finance (income)/costs	-	(765)
Changes in working capital:		
(Increase)/decrease in trade receivables	(35,973)	(8,713)
(Increase)/decrease in other receivables	(29,526)	23,483
(Increase)/decrease in inventories, prepayments and other current assets	(15,137)	(2,738)
Increase/(decrease) in trade payables	36,557	2,897
Increase/(decrease) in other amounts payable, grants, deferred revenue and prepayments received	166,370	(48,969)
Changes in other financial assets	(24,637)	(2,394)
Income tax (paid)/received	(12,669)	(5,749)

in EUR thousands (audited)	2021	2020
Net cash flows from/(used in) operating activities	**164,404**	**32,147**
Cash flows from investing activities		
(Acquisition) of property, plant and equipment and intangible assets	(114,633)	(137,967)
Disposal of property, plant and equipment and intangible assets	251	438
(Acquisition)/disposal of subsidiaries (associates)	-	1,652
Congestion management revenues received	-	-
Grants received	57,548	26,964
Loans (granted)/loan repayments received	44,505	30,748
Interest received	28	96
Dividends received	307	895
Other cash flows from investing activities	-	46
Net cash flows from/(used in) investing activities	**(11,994)**	**(77,128)**
Cash flows from financing activities		
Proceeds from borrowings	-	60,000
Repayments of borrowings	(26,959)	(30,404)
Lease payments	(1,694)	(1,559)
Overdraft / current borrowings	(20,019)	20,019
Interest paid	(1,939)	(2,467)
Dividends paid	(1,147)	(962)
Other cash flows from financing activities	(64,481)	(8,003)
Net cash flows from/(used in) financing activities	**(116,239)**	**36,624**
Net increase/(decrease) in cash and cash equivalents	**36,171**	**(8,357)**
Cash and cash equivalents at the beginning of the period	5,113	13,470
Cash and cash equivalents at the end of the period	**41,284**	**5,113**

Source: IFRS Consolidated Financial Statements

KEY FINANCIAL RATIOS AND ALTERNATIVE PERFORMANCE MEASURES OF THE GROUP

This document includes certain data which the Group considers to constitute alternative performance measures (“**APMs**”) for the purposes of the European Securities Markets Authority (“**ESMA**”) Guidelines on Alternative Performance Measures. These include EBITDA, EBITDA margin, Return on equity, Net debt, Net debt to EBITDA.

These APMs are not defined by, or presented in accordance with, IFRS. While the APMs are calculated using information provided in the audited consolidated financial statements of the Group, the APMs themselves are unaudited and are not measurements of the Group’s operating performance under IFRS.

The Group believes that the below measures provide useful information to investors for the purposes of evaluating the financial condition and results of operations of the Group, the quality of its assets and the fundamentals of its business. However, the Group’s use and method of calculation of APMs may vary from other companies’ use and calculation of such measures.

In EUR thousands (unless stated otherwise)	2021	2020
EBITDA	79,639	74,549
EBITDA margin	22.0%	27.6%
Return on equity (ROE)	15.8%	18.8%
Net debt	220,509	366,880
Net debt to EBITDA	2.8	4.9

Description of the Group’s alternative performance measures

The below alternative performance measures of the Group are presented solely for the purposes of providing investors with better understanding of the Group’s financial performance, cash flows or financial position as they are used by the Group when managing its business.

Management of the Group provides EBITDA, EBITDA margin, Return on equity, Net debt, Net debt to EBITDA measures, because the Issuer believes that these measures are commonly used by lenders, investors and business analysts to evaluate financial performance or financial leverage of the business entities.

The use of the terms and its method of calculation may vary from other companies’ use and calculation methods of such measures.

No measure is intended as a forecast and no measure should be interpreted to mean that the Group’s financial performance, cash flows or financial position for the current or future years would necessarily match or exceed historical performance.

Performance measure	Formula and components used for the calculation:	Interpretation
EBITDA	Profit before income tax - Interest income - Interest expense - Depreciation and amortisation - Write-off expenses of property, plant and equipment - Impairment expenses of property, plant and equipment - Write-off expenses of other assets - Write-down allowance for inventory, expected credit losses of amounts receivable, impairment of investments – Dividend income and gain from disposal of associate.	Earnings before interest, taxes, depreciation and amortisation, adjusted for non-cash items like write-offs, write-downs, expected credit losses as well as dividend income and disposals of associates is a profitability measure used as a proxy for nominal operating cash flow.

Performance measure	Formula and components used for the calculation:	Interpretation
EBITDA margin	EBITDA / Total revenue * 100	Profitability ratio which shows how effectively revenue is converted into profits. The higher indicator value represents higher relative profitability.
Return on equity	Profit/(loss) for the period / ((Total equity at the end of period + Total equity at the end of T-1 period) / 2) * 100	Profitability ratio which shows how effectively shareholders' capital is used to generate profits.
Net debt	Non-current borrowings + Other non-current financial liabilities + Non-current lease liabilities + Current portion of non-current borrowings + Current borrowings + Current portion of other financial liabilities + Current portion of lease liabilities – Cash and cash equivalents	Net debt is the total financial liabilities, net of cash and cash equivalents, which shows the net level of indebtedness if available cash and cash equivalents would be used to pay out the outstanding debt.
Net debt to EBITDA	Net DEBT / EBITDA	Leverage ratio, which indicates ability to repay outstanding debt from the profit earned and is expressed as a number of years it would take to pay back outstanding debt from the profits. The lower indicator value represents greater ability to cover financial liabilities from the profit earned.

EBITDA

in EUR thousands		2021	2020
(1)	Profit before income tax	43,096	40,183
(2)	Interest income	44	125
(3)	Interest expenses	(1,748)	(2,129)
(4)	Depreciation and amortisation	(34,765)	(32,705)
(5)	Write-off expenses of property, plant and equipment	(154)	(615)
(6)	Impairment expenses of property, plant and equipment	(17)	(233)
(7)	Write-off expenses of other assets	45	(65)
(8)	Write-down allowance for inventory, expected credit losses of amounts receivable, impairment of investments	(255)	(471)
(9)	Dividend income and gain from disposal of associate	307	1,726
	EBITDA (1)-(2)-(3)-(4)-(5)-(6)-(7)-(8)-(9)	79,639	74,549

EBITDA margin

in EUR thousands (unless stated otherwise)		2021	2020
(1)	EBITDA	79,639	74,549
(2)	Revenue	358,638	268,950
(3)	Other income	3,965	1,570

(4)	Total revenue (2)+(3)	362,603	270,520
	EBITDA margin (1)/(4) *100	22.0%	27.6%

Return on equity (ROE)

in EUR thousands (unless stated otherwise)		2021	2020
(1)	Net profit/(loss)	39,818	40,085
(2)	Total equity beginning of period	233,064	193,961
(3)	Total equity end of period	271,598	233,064
	Return on equity (1)/((2)+(3))/2) * 100	15.8%	18.8%

Net debt

in EUR thousands		2021	2020
(1)	Non-current borrowings	142,843	167,242
(2)	Other non-current financial liabilities	0	134,128
(3)	Non-current lease liabilities	9,028	7,641
(4)	Current portion of non-current borrowings	24,399	26,959
(5)	Current borrowings	0	20,019
(6)	Current portion of other financial liabilities	84,128[1]	14,481
(7)	Current portion of lease liabilities	1,395	1,523
(8)	Cash and cash equivalents	41,284	5,113
	Net debt (1)+(2)+(3)+(4)+(5)+(6)+(7)-(8)	220,509	366,880

[1] *Comprised of a payable to AB" Ignitis grupė". The amount was fully repaid in March 2022.*

Net debt to EBITDA

in EUR thousands (unless stated otherwise)		2021	2020
(1)	Net debt	220,509	366,881
(2)	EBITDA	79,639	74,549
	Net debt to EBITDA (1)/(2)	2.8	4.9

USE OF PROCEEDS

The estimated net proceeds from the issuance of the Notes are expected to amount to approximately EUR 74,750,000. The net proceeds from the issuance of the Notes will be applied for general corporate purposes of the Issuer and its Subsidiaries, including but not limited to financing of investments. Issuer will not direct such proceeds to natural gas grid expansion or natural gas grid maintenance.

DESCRIPTION OF THE ISSUER

Overview

The Issuer is a state-owned holding company assigned to lead an innovative, transparent and efficiently managed group of energy transmission and exchange operators that provides long-term benefits to the shareholders, ensures the implementation of Lithuania's strategic energy interests and contributes to the country's competitiveness and public welfare. As of 31 December 2021, the Group had 1,284 employees.

The core of the Issuer's business is regulated electricity and natural gas transmission networks in Lithuania. Litgrid, a licensed electricity transmission system operator, and Amber Grid, a licensed gas transmission system operator, together accounted for 98.6 per cent of EUR 79.6 million total consolidated Group EBITDA in 2021. The Issuer itself together with its Subsidiaries Litgrid and Amber Grid are designated by law as the entities strategically important for the national security of Lithuania.

During 2021, Litgrid transmitted almost 11 TWh of electricity over 7,245 km of power lines while Amber Grid transmitted 52.7 TWh of natural gas over 2,285 km of pipelines. At the beginning of 2022, combined RAB of these Subsidiaries (included in transmission services tariffs for 2022) constituted EUR 612 million and served as a basis for determining regulated allowed revenue approved by NERC for 2022, based on applicable weighted average cost of capital (WACC).

The sole shareholder's rights and obligations of the Issuer (holding company) are implemented by the Ministry of Energy (the "**Sole Shareholder**") (for more information please see section *Sole Shareholder of the Issuer*).

The Issuer's dividend policy has been 0.5 per cent. Pay-out of distributable profit. It deviates from the standard dividend policy applied to other state-owned entities in Lithuania. The exception was made by the Government to enable the Group to implement strategically important investment projects and strengthen its financial position.

History and Development

2012 The Group was established on 25 July 2012 as a result of the implementation of the mandatory requirements of the Third Energy Package regarding the separation of energy production (or extraction) and supply activities from energy transmission activities. Originally, the Issuer operated as a financial holding, the main function of which was consolidation of the financial results of the Group companies.

97.5 per cent of shares in Litgrid were bought by the Issuer from UAB "Lietuvos energija" (current name AB "Ignitis grupė").

2013 During 2013-2014 78.9 per cent of shares in Amber Grid were bought by the Issuer from E.ON Ruhrgas International GmbH, OAO Gazprom and minor shareholders. After conclusion of this transaction and as of the date of this Prospectus, the Issuer holds 96.6 per cent of Amber Grid shares.

2015 Amber Grid acquired a block of shares of UAB GET Baltic ("**Get Baltic**") to hold 66% of the share capital of this natural gas exchange operator.

As Lithuania aimed to become a member of the OECD, it was decided in 2015-2016 to carry out a major transformation of the Issuer into an active management company, directly participating in the management of the Subsidiaries, carrying out supervision and control of their activities, performing other independent functions related to the integrated management of the Group.

2016 The Issuer signed the agreement on the acquisition of 67% of shares of BALTPOOL UAB ("**Baltpool**") from Litgrid with effect from 1 March 2016; the remaining ownership interest in this company is held by Klaipėdos Nafta AB.

Amber Grid acquired from Gasum Oy 34% of shares of Get Baltic and became the sole shareholder of this company.

2018 An agreement for synchronization with Continental European Network ("**CEN**"), signed by the Baltic States, Poland, and the European Commission.

2019 It was decided that the Issuer would purchase from Litgrid and directly hold 100% of the shares in the contracting company Tetas. The purpose of this change is to simplify the management structure of Group companies and make it more efficient.

The plan for synchronization CEN approved by the Government.

2020 An agreement for execution of Harmony Link, Lithuania Poland subsea electricity interconnection, signed by Litgrid and PSE, a Polish electricity TSO.

Construction of GIPL, Lithuania Poland gas interconnection, was commenced.

2021 In January, Energy cells, a special-purpose Subsidiary of the Group, was established. Energy cells will install and integrate into Lithuania's energy system a system of four energy storage facilities (batteries) with a total combined capacity of 200 megawatts (MW) and 200 megawatt-hours (MWh). Lithuania's system of electricity storage facilities is essential to ensure the security of Lithuania's energy system and its ability to operate in isolated mode. The energy storage system, which will provide Lithuania with an instantaneous isolated operation electricity reserve until synchronization with CEN, will be used after synchronization for the integration of energy produced from renewable sources.

2022 The Issuer fully repaid a payable to AB "Ignitis grupė" which originated in 2012 from the acquisition of the shares of Litgrid.

Commercial use of GIPL started on 1 May 2022 as planned, transmitting the first physical and commercial gas flows.

Competitive Strengths

The Group benefits from the following key strengths:

Wholly State-Owned and Strategically Important Company

The Republic of Lithuania, through the Ministry of Energy, owns 100 percent of the share capital of the Issuer, the parent company of the Group. The Group is a strategically important asset of Lithuania due to its critical role in ensuring security of energy supply, integration of Lithuania's energy system with those of other countries and transition to green energy. The Issuer as well as Litgrid and Amber Grid are designated by the law as strategically important entities for the national security of Lithuania. The country is a member of the EU and the NATO and has euro as a national currency. The Issuer's management believes that the state-ownership and the Group's strategic importance for the country increase the stability and security of the Group's business profile.

Regulated Networks at the Core of the Business

The main business of the Group is regulated electricity and gas transmission networks with stable and predictable cash flows. Litgrid, Lithuania's electricity transmission system operator, and Amber Grid, Lithuania's gas transmission system operator, together accounted for 98.6 per cent of total consolidated Group EBITDA in 2021. These Subsidiaries operate as natural monopolies and are not subject to competition from other market players. The network companies are regulated based on a well-established regulatory framework in Lithuania overseen by NERC, an independent regulator. The foundation of the framework is RAB and WACC model which ensures that the regulated networks earn a reasonable rate of return on their investments and do not face volume risk.

Clearly Defined Strategy Aligned with National and the EU Energy Targets

EPSO-G, as a Group of transmission system and energy exchange operators, has a key role in ensuring smooth and reliable Lithuania's transition to the energy system integrating high volumes of renewable energy, enabling decarbonization of the energy sector, initiating necessary system interconnection projects and facilitating exchange of climate-neutral energy (see Section *Strategy of the Issuer* for more details). The Group's strategy is closely aligned with the long-term energy targets of Lithuania and the EU. The

Group's 2022-2030 investment plan foresees investments in modernisation and maintenance of Lithuania's electricity transmission network, its synchronisation with CEN, installation of 200 MW of battery storage as well as modernisation and maintenance of Lithuania's gas transmission network and potential development of hydrogen infrastructure. Furthermore, the Group has a detailed ESG strategy which includes commitment to reduce GHG emissions by two thirds by 2030.

Focus on Effectiveness and Transparency

The Company has defined policies of the Group aiming to standardise core processes thereof, sharing good practices among the Subsidiaries and supporting initiatives to improve performance. Since 2012, Lithuania's "Governance Coordination Centre" annually compiles a governance index for Lithuanian state-owned entities. In 2021, the Issuer was awarded the A rating and was one of the TOP 3 in the large companies' category. Currently, this index is the best measure of corporate governance for state-owned enterprises in Lithuania.

Strong Set of Competences in the Development of Transmission Systems and Exchanges

The Group's TSOs have significant competences and accumulated experience in planning the development of electricity and gas transmission systems, gas market integration and development as well as establishing energy exchanges. The Subsidiary Baltpool has developed the biomass exchange platform that has transformed biomass market in Lithuania and is expanding to the Baltic and Scandinavian markets, whereas Get Baltic has proven regional gas market development competences. The companies of the Group have sound basis for further strengthening the competences needed for the transformation of Lithuania's energy system.

Information about the Issuer

Table 1: Key information about the Issuer

Legal and commercial name of the Issuer	UAB "EPSO-G"
Legal form of the Issuer	Private limited liability company
Place of registration of the Issuer (registered office)	Gedimino ave. 20, Vilnius, Lithuania
Corporate ID code of the Issuer	302826889
LEI	6488569V3J6X16IIEJ40
Legislation under which the Issuer operates	The laws of the Republic of Lithuanian
Date of incorporation of the Issuer	25 July 2012
Operating period	Indefinite
Telephone number	+370 685 84866
E-mail	info@epsog.lt
Website	www.epsog.lt. The information on the website does not form part of the Prospectus

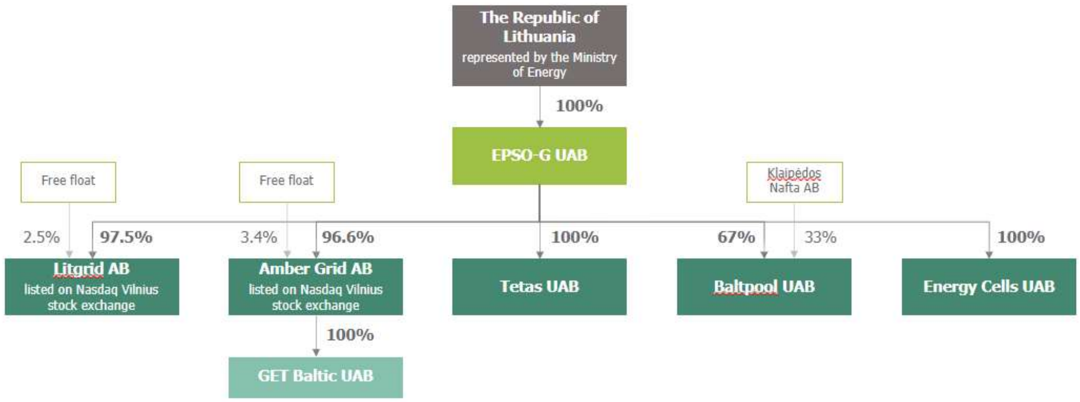
Source: the Issuer

Organisational structure of the Group

As at the date of this Prospectus, the Group consisted of the Issuer and 6 directly and indirectly controlled Subsidiaries. The Issuer is the Group's parent company and is responsible for the co-ordination of its activities and the transparent management of the Group.

The structure of the Group is as follows:

Figure 1: The structure of the Group



Source: the Issuer

The chart below sets out key information about each Subsidiary:

Table 2: Key information about the Subsidiaries

	LITGRID AB	AB "Amber Grid"	BALTPOOL UAB	UAB "TETAS"	Energy Cells, UAB	UAB GET Baltic
Nature of activities	designated operator of Lithuania's electricity transmission system; it manages electricity flow in Lithuania and maintains stable operation of the national electricity system	designated operator of Lithuania's natural gas transmission system; it is in charge of transmission of natural gas via high pressure gas pipelines to system users	designated operator of the Lithuania's energy exchange; it is assigned to organize and administrate trading systems of solid biofuel products and round wood. It also acts as the administrator of public service obligations' (PSO) funds and is in charge of collection, pay-outs and administration of PSO funds	construction and repair of engineering networks. Tetas is also carrying out the installation of fiber-optic cable engineering infrastructure and provides photovoltaic power plant design services and installation works	Ensuring the reserve of electricity required for the isolated operation of the electricity system by the electricity transmission system operator	natural gas exchange operator with a status of Registered Reporting Mechanism provided by the ACER
Legal form	Public limited liability companies (AB)		Private limited liability companies (UAB)			
Date of incorporation	16 November 2010	25 June 2013	10 December 2009	8 December 2005	26 January 2021	13 September 2012
Corporate ID code	302564383	303090867	302464881	300513148	305689545	302861178
Place of registration (registered office)	Karlo Gustavo Emilio Manerheimo st. 8, Vilnius, Lithuania	Laisvės ave. 10, Vilnius, Lithuania	Žalgirio st. 90-100, Vilnius, Lithuania	Senamiesčio st. 102B, Panevėžys, Lithuania	Gedimino ave. 20, Vilnius, Lithuania	Geležinio Vilko st. 18 A, Vilnius, Lithuania
Website	litgrid.eu	ambergrid.lt	baltpool.eu	tetas.lt	energy-cells.eu	getbaltic.com
	The information on the websites does not form part of the Prospectus					

Source: the Issuer

Business Overview

All the companies belonging to the Group are responsible for effective and timely implementation of the projects of energy transmission and exchange infrastructure development that are important for the state by contributing to the implementation of the goals set in the National Energy Independence Strategy approved by the Parliament (in Lithuanian: *Seimas*) of the Republic of Lithuania in 2018 ("**NEIS**"). As of the day of this Prospectus, the Group consisted of the holding company UAB "EPSO-G", five directly controlled Subsidiaries LITGRID AB ("**Litgrid**"), AB "Amber Grid" ("**Amber Grid**"), BALTPOOL UAB ("**Baltpool**"), UAB "TETAS" ("**Tetas**"), Energy cells, UAB ("**Energy cells**") and one indirectly controlled Subsidiary UAB GET Baltic ("**Get Baltic**") (for more information please see Section *Organisational structure of the Group*).

Litgrid

Litgrid, the electricity transmission system operator, which ensures a reliable transmission of electricity and electricity balance, manages and operates a high-voltage electricity transmission grid as well as direct current (DC) connections: 500 MW connection with Poland LitPol Link and 700 MW connection with Sweden NordBalt. This Subsidiary takes care of the development of the transmission network and electricity market, coordinates electricity flows and maintains a stable functioning of the domestic power network. While implementing the program on the synchronization with the continental European networks, this Subsidiary carries out 14 projects of strategic importance approved by the Government.

The table below sets forth certain information relating to the Litgrid's operations and financial performance for the years ended 31 December 2020 and 2021.

Table 3: Key information about Litgrid

	2021	**2020**
Electricity transmitted, GWh	10,936	10,089
Revenue, in EUR thousands	270,588	207,516
EBITDA, in EUR thousands	46,206	51,789
EBITDA as % of the Group consolidated total*	56.3%	65.8%
Net profit, in EUR thousands	20,013	26,603
Total assets, in EUR thousands	489,825	414,353
Full time employees	335	308

** Considering intragroup transactions*
Source: the Issuer, Litgrid annual reports for the years ended 31 December 2020 and 2021

Historically, Lithuanian electricity system has been operating synchronously with the IPS / UPS system, which still connects the systems of Belarus, Russia, Estonia, Latvia, Lithuania and other countries. This makes Baltic States dependent on system-wide frequency management done in Russia, and also susceptible to potential failures in this system. At the same time, despite being part of the European Union, Baltic States are isolated from its integrated electricity grid by HVDC (high voltage direct current) links. Energy isolation of the Baltic States in the European Union will only be completely eliminated once their electricity systems become full participants in the European electricity infrastructure, market and system, i.e., upon the start of synchronous operation in the Continental European Synchronous Area ("**CESA**").

Synchronization of the Baltic States with the CESA will take place by modification of the existing connection between Lithuania and Poland (LitPol Link), and a new HVDC submarine cable (Harmony Link). Internal electricity transmission grids of the Baltic States and Poland will also be strengthened, the system will be ready for disconnection from the IPS / UPS system and for independent frequency control, and synchronous condensers will be installed.

The Government approved a list of 14 synchronization projects in 2019: Expansion of LitPol Link in Alytus, construction of Darbėnai 330 kV substation, construction of Harmony Link marine cable interconnection, expansion of Bitėnai transformer substation, construction of Pagėgiai-Bitėnai 110 kV overhead line, reconstruction of Lithuanian E-Vilnius 330 kV overhead line, construction of Vilnius-Neris 330 kV overhead line, construction of Mūša 330 kV substation, construction of Darbėnai-Bitėnai 330 kV overhead line, construction of Kruonis HAE-Bitėnai 330 kV overhead line, grid optimisation in North-Eastern Lithuania, implementation of New Synchronous Condensers, implementation of Frequency Stability Assessment System (FSAS), implementation of Automatic Generation Control System.

Amber Grid

Amber Grid is the operator of Lithuania's natural gas transmission system and is in charge of transmission of natural gas (transportation of natural gas through high pressure pipelines) to system users, and operation, maintenance and development of natural gas transmission system. The mission of this Subsidiary is to develop the system that enables competition and the use of climate-friendly energy. Lithuanian gas transmission system is connected to Latvian, Belarusian natural gas transmission systems and those of Kaliningrad Region of the Russian Federation, as well as with Klaipėda LNG floating storage and regasification unit terminal, the distribution systems of Lithuanian distribution system operators and to the consumer systems directly connected to the transmission system.

GIPL became operational in May 2022, a new gas import and export route was officially opened on 5 May, thus, marking a historic event for a region that has long been an energy island, heavily dependent on Russian gas imports.

As of the day of Prospectus, in pursuit of full energy independence from Russian gas, in response to Russia's energy blackmail in Europe and war in Ukraine, Lithuania has completely refused of Russian gas: the gas transmission system of Amber Grid has been operating without Russian gas imports since the beginning of April 2022 (except gas transit to Kaliningrad).

The table below sets forth certain information relating to the Amber Grid's operations and financial performance for the years ended 31 December 2020 and 2021.

Table 4: Key information about Amber Grid consolidated group

	2021	2020
Natural gas transmitted, GWh*	52,731	58,005
Revenue, in EUR thousands	68,595	52,286
EBITDA, in EUR thousands	35,372	26,060
EBITDA as % of the Group consolidated total*	42.3%	32.2%
Net profit, in EUR thousands	23,211	18,170
Total assets, in EUR thousands	380,214	316,371
Full time employees	324	319

** Including transit of natural gas to Kaliningrad region*
*** Considering intragroup transactions*
Source: the Issuer, Amber Grid annual reports for the years ended 31 December 2020 and 2021

Get Baltic

Amber Grid holds 100% of shares of Get Baltic. This Subsidiary is a licensed natural gas market operator that has the status of a Registered Reporting Mechanism granted by the ACER. Get Baltic administers the electronic trading platform for trading spot and forward natural gas products with physical delivery in the market areas located in Lithuania, Latvia, Estonia and Finland.

Amber Grid aiming to benefit on the synergies of the common EU gas market and to enable offering the most advanced gas trading solutions to customers of the regional gas exchange Get Baltic, has announced a selection of a strategic partner of the exchange. The participant who meets the qualification requirements and offers the highest price for Get Baltic shares will be able to acquire a stake of 66% in Get Baltic. The remaining part of the shares accounting for 34% would subsequently be sold as an option to the same investor, once it discharges the obligations under the sale-purchase agreement related to ensuring benefits for the regional market. The process of selection of a strategic partner is expected to be finalized by the end of 2022.

Baltpool

Baltpool, the international biomass exchange, serves as a trading platform for trade in standardized biomass products in Lithuania, Estonia, Latvia, Finland, Denmark, Sweden, Poland. In addition, Baltpool organizes auctions of heat supplied to centralized networks, acts as an administrator of the electronic timber trading system, performs accounting procedures for fuels from RES system as well as performs administration of public service obligations in the energy sector. Baltpool creates a level playing field for all market players to acquire biomass and timber under competitive conditions and thus ensures the maximum benefit to the consumers and return to the state. All the biomass exchange operations in Lithuania (when biomass products are supplied in Lithuania) are licensed and supervised by NERC. Baltpool's activities in foreign markets are not regulated by NERC.

Tetas

The main activity of Tetas is construction and repair of engineering networks, i.e., electrical equipment up to 400 kV. This Subsidiary also performs reconstruction, provides technical support and repair of electrical grids, electric switchyards and substations, power transformers and other relevant objects, designs, configures and tests relay protection units of up to 110kV, designs energy and communication constructions, tests electrical devices and lines, designs and offers solutions for development and maintenance of renewable energy installations (mainly solar power plants).

Energy cells

Energy cells will install and integrate into Lithuania's energy system a system of four energy storage facilities (batteries) with a total combined power of 200 megawatts (MW) and capacity of 200 megawatt-hours (MWh). Energy cells will install four energy storage facilities with a capacity of 50 MW and power of 50 MWh each at transformer substations in Vilnius, Šiauliai, Alytus and Utena. It is the largest energy storage development project in the Baltic States and one of the largest of its kind in Europe.

Main Aspects of Regulatory Framework

Electricity and natural gas transmission activities carried out by the Group companies and the activities of the operators of energy resources and gas markets are licensed. The licenses grant exclusive rights to render the services of transmission and market operators in the territory of the Republic of Lithuania. The electricity transmission system operator Litgrid and the natural gas transmission system operator Amber Grid are exclusively entitled to provide these services in Lithuania as they are designated as certified transmission system operators with the perpetual transmission system operator licenses. They operate under the conditions of a natural monopoly and therefore prices of their activities are regulated.

The regulatory function and the supervision of the performance of the above licensed and regulated activities in Lithuania are carried out by the NERC, which is:

- an independent national regulatory authority of Lithuania's energy and utilities sector, acting as economic and technical regulator under the European Union law;

- NERC's decision-making body (supported by administration) is a Council of 5 members nominated by the President of the Republic of Lithuania and appointed by the Parliament of the Republic of Lithuania for a 5-year term;

- NERC is an impartial, transparent body, functionally independent from any other public or private entities;

- members of the Council and Administration of NERC shall act independently from any market interest and shall not aim to receive any Government or any other public or private person instructions and shall not implement them.

The financial performance of the regulated Group companies, the allocation of necessary operating costs, investments to ensure the reliability of electricity and gas transmission systems, as well as the possibility of financing strategic projects with own or borrowed funds depend directly on the decisions taken by NERC.

The prices of the transmission of electricity and natural gas are regulated by the NERC, which establishes:

(i) revenue cap regime for Gas TSO – Methodology on Setting the Revenue and Prices for State-Regulated Natural Gas Transmission Activity (the "**Methodology on Gas**");

(ii) price cap regime for Electricity TSO – Methodology on Setting the Price Caps for Electricity Transmission, Distribution, Public Supply Services and the Public Energy Price (the "**Methodology on Electricity**").

The allowed level of revenue consists of the reasonable required costs (OPEX, depreciation and amortization costs, costs for technological needs (e.g., fuel costs, gas, electricity technological losses)), including a return on investments (ROI) (ROI=RAB x WACC (%) set by NERC) that meets the criterion of reasonableness.

WACC (pre-tax) of transmission services set by NERC for the tariff period of 2022 is 4.03% for Litgrid and 3.94% for Amber Grid. WACC is set for the whole regulatory period but is adjusted annually for changes in cost of debt, i.e., only cost of debt fluctuates during the regulatory period while other components of WACC remain fixed.

RAB (as of 31 December 2021) approved by NERC in 2021 and included in transmission services tariffs for 2022 was EUR 330.3 million for Litgrid and EUR 281.9 million for Amber Grid. RAB comprises only investments (CAPEX) approved by NERC. CAPEX financed with the grants, customers' funds and (or) congestion revenue is not included in RAB.

The specific service prices that are within the established revenue / price caps are set by the service providers (TSOs), while NERC after verification and establishment that the tariffs have been calculated in accordance with the pricing and / or tariff requirements set out in the methodologies for calculating prices and / or price / revenue caps and that they do not discriminate against consumers and are not erroneous, shall approve them.

As stated in Article 9 of the Law of the Republic of Lithuania on Natural Gas, Article 69 of the Law on Electricity of the Republic of Lithuania, in the Methodology on Gas and in the Methodology on Electricity, the price / revenue caps of electricity and natural gas transmission are set for the regulatory period of five years (the period duration may be changed by a reasoned decision of NERC, but not earlier than after the end of the current regulatory period), and they may be adjusted in the presence of significant changes of one or several factors, in accordance to which they were established, including the factors of the scope of services, inflation, taxes, deviations from allowed revenue / costs / ROI, after making the investments approved by NERC, and other objective factors independent from the operators (e.g., changes in national legislation). The caps of the electricity transmission prices may be adjusted maximum twice a year, while the caps of natural gas – once a year.

For Litgrid a new 5-year regulatory period started in 2022 and will continue until 2026, i.e., current regulatory period is 2022-2026. For Amber Grid a current regulatory period is 2019-2023 while the next period will start in 2024.

Applied regulatory regimes ensure that the gas TSO and the electricity TSO would not face volume risk, as any deviations from revenue due to discrepancies between foreseen and actual quantities of services are compensated to (in case of the over-recovery of revenue) / or from (in case of the under-recovery of revenue) network users in the upcoming tariff periods. Usually, these adjustments are done when setting the price / revenue caps for the next tariff period. However, if these deviations of revenue due to discrepancies in quantities of services may lead to significant possible changes in tariffs of the next period (e.g., several tens of per cent), NERC may adopt a decision to split the compensation over the period of more than one year (exact or maximum number of years is not regulated), by compensating also the price of money for the first and subsequent years for the amount to be repaid after the first year (in case of TSO over-recovery of revenue – the cap of cost of debt (used to set the WACC for the TSO) is applied). When determining the price of money for repayments for the second and subsequent years, the interest rate for the part to be repaid in next tariff period (i.e., current tariff period + 1 year) shall be ½ of the interest rate.

Main Investment Projects of the Group

The Issuer and its Subsidiaries are responsible for implementation of the large investment projects related to critical infrastructure vitally important to the country's energy security and smooth transition to renewables. The investments by the Group are planned to amount up to EUR 1.6 billion over 2022-2030 and are based on the approved Strategy 2030 and reflect investment requirements identified by TSOs, however, subject to individual approval by NERC and of the financing decisions. Approximately 85% of the planned investments are related to the electricity transmission network and energy storage project: 42% for modernisation and maintenance of electricity transmission system, 37% for synchronization projects with CEN and 6% for 200 MW battery energy storage project. Approximately 12% of the planned investments are related to the gas transmission network: 7% for modernisation and maintenance of gas transmission system and 5% for potential integration of hydrogen related infrastructure.

Majority of investment projects over 2022-30 are planned to be co-financed by the Connecting Europe Facility and other grants (35% of total financing) and congestion management revenue or customers funds (21% of total financing), while remaining up to 44% of total financing is expected to be financed from own and borrowed funds and consequently should contribute to future RAB development.

Preparation of the power grid for a synchronous operation with CEN. Historically, Lithuanian electricity system has been operating synchronously with the IPS / UPS system, which still connects the transmission systems of Belarus, Russia, Estonia, Latvia, Lithuania (also known as the BRELL loop). This makes Baltic States dependent on system-wide frequency management carried out in Russia, and also susceptible to potential failures in this system. At the same time, despite being a part of the EU, the Baltic States are isolated from its integrated electricity grid by HVDC (high voltage direct current) links.

The main target of the synchronization of the Baltic States through the CEN is to adapt the legal framework of the EU in the fields of electricity market, electricity system management and development, and to eliminate the politicized and discriminatory system management practices of the BRELL loop.

Synchronous work of the Baltic States with the CEN is important in political and technical aspects: the management of system in accordance with non-discriminatory principles agreed with other TSOs, which meet the requirements of the EU Third Energy Package; equal opportunities for competition with third countries in the electricity market; conditions for trading and securing electricity reserves in the single European market; decentralized frequency regulation based on the technological capabilities of power plants, which will ensure greater independence of the Baltic power system.

Synchronous work with the CEN will ensure:

- Reliable operation of energy systems and secure transmission of electricity;
- Combined actions for facility maintenance and network development planning;
- Common rules for the management of energy systems – network codes that will be applied equally in all EU countries;
- Availability of electricity from Western European energy systems.

The streamlined implementation of the synchronization with the CEN program is closely interrelated and depends on international cooperation and action coordination with regional partners, in particular with Latvia, Estonia and Poland.

Synchronization of the Baltic States with the CEN will take place by modification of the existing connection between Lithuania and Poland (LitPol Link), and a new HVDC submarine cable (Harmony Link; the length about 330 km, planned capacity of 700MW). Internal electricity transmission grids of the Baltic States and Poland will also be strengthened, the system will be ready for disconnection from the IPS/UPS system and for independent frequency control, and synchronous condensers will be installed.

The total investments value of sub-portfolio related to Synchronization projects during the period from 2022 till completion is planned to be EUR 582 million (subject to results of some still currently ongoing procurement tenders) and up to 97% of these investments are expected to be financed from the Connecting Europe Facility grants (in January 2022, the European Commission approved the last proposal submitted by the Baltic and Polish transmission system operators, granting in total EUR 170 million financial assistance) and congestion management revenue. The completion of the project is scheduled for the end of the year 2025.

Gas Interconnection Poland-Lithuania (GIPL). The project is intended for integration of the gas markets of the Baltic States and Finland into the common EU gas market, to diversify the gas supply sources and increase gas supply security. Amber Grid implemented a part of the gas project in the territory of the Republic of Lithuania, and a pipeline part thereof in the territory of the Republic of Poland was implemented by the Polish gas transmission system operator GAZ-SYSTEM S.A.

GIPL is a natural gas infrastructure connecting the transmission systems of Poland and Lithuania, as well as the systems of the Baltic States and Finland, with the EU system. The European Commission has identified the GIPL project as a critical infrastructure project for security of gas supply, making a significant contribution to the EU's energy security.

The total length of the pipeline is 508 km, of which 165 km is within Lithuania. The capacity created will allow to transport natural gas to the Baltic States and Finland up to 27 TWh per year and to transmit gas to Poland up to 21 TWh per year, while the Baltic and Finnish gas markets became part of a single gas market of the EU.

GIPL became operational in May 2022, a new gas import and export route was officially opened on 5 May, thus, marking a historic event for a region that has long been an energy island, heavily dependent on Russian gas imports.

Enhancement of Latvia-Lithuania interconnection (ELLI). The purpose of the project is to enhance the capacity of Latvia-Lithuania interconnection, ensure safe and reliable gas supply and achieve a more effective use of the infrastructure and a better integration of the Baltic gas markets. This will also provide better conditions for the use of the Latvian Inčukalns underground gas storage facility. The project promoters are Amber Grid and the Latvian transmission system operator AS Conexus Baltic Grid.

Feasibility study and cost-benefit analysis of Lithuanian-Latvian gas interconnection capacity enhancement assessing the regional market gas demand and flow modelling showed that after the construction of the gas interconnections between Finland and Estonia (Balticconnector), between Poland and Lithuania (GIPL), greater capacity between Lithuania and Latvia will be needed to ensure the regional gas market demand and security of gas supply – up to 130.5 GWh per day in the direction to Latvia and up to 119.5 GWh per day in the direction to Lithuania.

As a result of implementation of the project, the enhanced gas transmission capacity between Lithuania and Latvia will also be beneficial due to already existing gas interconnection between Poland and Lithuania (GIPL).

To increase the interconnection capacity in the territory of Lithuania, it will be necessary to boost the capacity of Kiemėnai gas metering station and to restructure the gas pipeline at Panevėžys compressor station, and in the territory of Latvia – to reconstruct a part of the main gas pipelines in the southern, central and western parts of the country to increase the maximum design pressure in the pipelines up to 50 bar and to install a new compressor station near the Inčukalns underground gas storage.

The completion of the project is scheduled for the end of the year 2023.

Lithuanian Electricity Storage Facilities System Project. Lithuania's system of electricity storage facilities is essential to ensure the security of Lithuania's energy system and its ability to operate in isolated mode. The energy storage system, which will provide Lithuania with an instantaneous isolated operation electricity reserve until synchronization with the CEN, will be used after synchronization for the integration of energy produced from renewable sources. According to Article 6^1 of the Law of the Republic of Lithuania on Connection of the Lithuanian Power System to the Synchronous Grid of Continental Europe after synchronization project is finished, the energy storage system should be transferred to other subject during open, transparent, and non-discriminative competition. Terms and conditions of competition will be set by the Ministry of Energy.

At the end of July 2021, the Government appointed the Subsidiary Energy cells, as the operator of the instantaneous isolated operation electricity reserve for Lithuania's electricity storage facilities and entrusted it with the management of the electricity storage facilities system.

The European Commission has approved, under EU State aid rules, up to EUR 100 million Lithuanian measure to support the construction and operation of four electricity storage facilities (European

Commission decision No SA.63178). The measure will be funded by the Recovery and Resilience Facility, following the Commission's positive assessment of the Lithuanian recovery and resilience plan and its adoption by the Council. The support will take the form of a direct grant to Energy cells. The Commission assessed the measure under EU State aid rules, in particular under Article 107(3)(c) of the Treaty on the Functioning of the European Union, which allows the Member States to support the development of certain economic activities under certain conditions. Furthermore, financing of Energy cells activities is subject to national procedures via CPMA. CPMA in rare cases might not consider certain operating expenses to be eligible for the financed activities. If this is the case in this occasion, such expenses should be covered from Energy cells own funds.

Energy cells will install and integrate into Lithuania's energy system a system of four energy storage facilities (batteries) with a total combined power of 200 megawatts (MW) and capacity of 200 megawatt-hours (MWh). Energy cells will install four energy storage facilities with a capacity of 50 MW and power of 50 MWh each at transformer substations in Vilnius, Šiauliai, Alytus, and Utena. It is the largest energy storage development project in the Baltic States and one of the largest of its kind in Europe. It is expected that after the synchronization with the European continental networks project is completed in 2025, the energy storage facilities (batteries) will be offered to the market participants through an open and transparent tender procedure.

The high-capacity energy storage system will be installed and serviced by the Siemens Energy and Fluence consortium. The companies implementing the project on a joint deployment basis have won an international procurement launched by Energy cells for system installation services and energy storage technologies.

Pursuant to the EUR 109 million contract, Siemens Energy and Fluence will design, manufacture, and connect the energy storage facilities system to the electricity transmission system, as well as provide warranty service and maintenance for 15 years after the system is launched.

Installation of a physical barrier on the border with Belarus. On 23 August 2021, after the Belarusian regime launched a hybrid attack against Lithuania and after the influx of irregular migrants, the Government approved a proposal by the Ministry of the Interior to install a physical barrier on the border with Belarus. The Government also decided that the Company will be the promoter of this project of special importance to the State. Tetas, the Subsidiary will install a physical barrier along the border with Belarus, approximately 500 km long, by September 2022. The physical barrier consists of a side-by-side concertina prism and a fence with one concertina spiral on the top.

In the first stage, a physical barrier of approximately 100 km is installed at the most important State border barriers areas of Druskininkai, A. Barauskas and Adutiškis that pose the greatest threat of irregular migration. The Subsidiary Tetas is chosen to carry out the works on these border areas as it has significant experience in infrastructure projects and the necessary qualifications to carry out the works. The works of the first stage started in September 2021 and were completed in May 2022.

In order to install the physical barrier under competitive conditions and with maximum transparency, public procurement procedures were launched at the end of September 2021 for the second stage of the construction works, a section of the physical barrier of about 400 km. At the beginning of December 2021, contracts were signed with companies selected during public procurement: AB "Kauno tiltai", UAB "Alkesta", UAB "Brosta", and Tetas.

Physical barrier construction is financed from the State budget. Please also refer to Section *"Risks associated with the installation of physical barrier between Lithuania and Belarus"* for more information.

Issuer's Rating

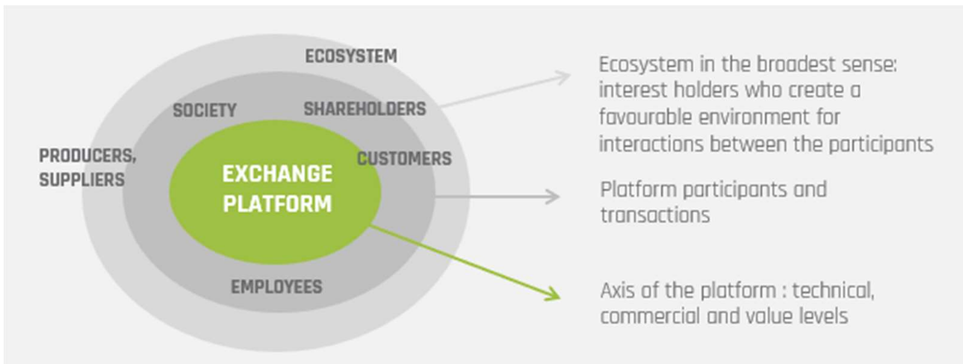
In April 2022, the international rating agency Moody's affirmed Issuer's long-term rating Baa1 and its outlook stable.

Strategy of the Issuer

EPSO-G, as a Group of electricity and gas transmission systems and energy exchange operators, has a key role in ensuring smooth and reliable Lithuania's transition to the energy system integrating high volumes of renewable energy, enabling decarbonization of the energy sector, initiating necessary system interconnection projects and facilitating exchange of climate-neutral energy. With the afore-mentioned energy system transformation needs in mind, the Group has developed its strategy until 2030 that rests on the three pillars of security, integration, and transformation.

The activity of the Group is understood as a platform business model which enables value-creating interactions between suppliers and customers, delivers an open, participatory infrastructure for those interactions and provides the participants with common rules. The Group's activity creates a sustainable, transparent ecosystem based on uniform standards, facilitating the exchange between producers/suppliers and customers and creating value for the society through the empowerment of sustainable energy choices and contribution to the country's competitiveness. The Group's companies enable and encourage platform participants to freely exchange energy, choose between the production or consumption of climate-neutral energy and obtain it at a competitive price whenever needed.

Figure 2: The Group's platform business model



Source: the Issuer

The Group's mission – to enable sustainable and efficient energy exchange – is defined via the commitments to five principal stakeholders:

- The Group commits **to the society** to promote climate-neutral energy choices for the long-term economic competitiveness of Lithuania;
- The Group commits to its **shareholders** to ensure a balanced and integrated energy exchange system;
- The Group commits to the **producers and suppliers** to develop a credible and transparent platform where it is easy and fast to enable energy products on a liquid market;
- The Group commits to the **customers** to develop a credible and transparent platform providing a wide range of energy options at competitive prices;
- The Group commits to **each other** to build an open and progressive team living the energy future.

Implementing the **Group's vision** to enable security, integration and transformation of Lithuanian energy sector is structured around five **strategic directions defined while assessing the interests of the principal stakeholders:**

(a) (Towards the society) A targeted reduction in the environmental impact of activities and energy systems adapted to the decarbonization of the energy sector:

- The Group will enhance geopolitical security through the successful implementation of the synchronization programme with the CEN, which will allow to disconnect Lithuania's electricity system from the Russian controlled IPS/UPS system.
- The Company seeks that the Group companies play a key role in enabling a smooth transformation of Lithuanian energy sector into a green energy system. Managing the integration of RES while ensuring system stability is an important challenge for which the Group is preparing by identifying priority areas of new competences to be acquired and by preparing for the integration of significant amounts of offshore wind, the development of guarantee of origin systems to facilitate the exchange of energy from RES, and the connection of biomethane and hydrogen producers.
- The Group will carry out an assessment of its own environmental impacts, including a GHG inventory, of the activities of the Group companies and set mitigation measures. To this end, a

comprehensive assessment of the environmental impact of the Group's activities is being carried out and courses of action are being defined.

- The Company intends to work towards adapting Lithuania's gas transmission system to hydrogen transportation. In addition to technical readiness and adaptation of the natural gas quality requirements, it is important to create favorable regulatory framework for green hydrogen integration and to promote cooperation on hydrogen in the region.

(b) (Towards the shareholders) Integrated development of Lithuania's energy system:

- The Group will create favorable conditions for connecting green energy producers to the infrastructure managed by the Group. It is anticipated that the gas transmission system will be prepared for blending biomethane and hydrogen, and the electricity transmission system will be adapted for integration of up to 7[2] GW of offshore and onshore wind and solar energy.
- The Company intends to promote the integration of different sectors to achieve an optimal system balancing. Together with partners, pilot demonstration projects linking the electricity, gas, heat, industry and transport sectors are being initiated.
- Ensuring the safety and reliability of system operations, focus on maintenance and quality assurance of contracted works are being prioritized as part of the implementation of the transformational changes in the sector.
- To adapt to the changes, the Group's corporate model at the governance level and the Group's corporate governance framework is being reviewed and updated.
- A 500 km long physical barrier at Lithuanian-Belarusian border is to be built by September 2022 intended to help ensuring the security and integrity of Lithuania.

(c) (Towards the producers and suppliers) A developed liquid regional market and infrastructure attractive for investment in energy production:

- The Group will strive to maintain high reliability of the transmission systems over the next decade and digitize the technological assets. Accordingly, the Group considers the transmission reliability indicators set annually by NERC as strategic transmission reliability indicators.
- NEIS sets an ambitious vision of 45% of final electricity consumption from RES by 2030. Taking into account the Group's competences and functions, the Group intends to prepare power transmission systems for the integration of up to 7 GW of onshore RES and offshore wind by 2030, integrating 700 MW of offshore wind already in 2027. Moreover, 200 MW energy storage system project will be implemented in 2022, with the main objective of ensuring the national security of the electricity system at the start of its operation and providing flexibility services after 2025.
- Successful completion of the synchronization programme with the CEN in 2025, in line with the strategic objectives of NEIS and NECAP (as described in Section *National priorities of the energy sector*), is a strategic priority. It will mark a fundamental change in the management of Lithuania's electricity system, with the Baltic countries disconnecting from the Russian-controlled IPS/UPS system and managing their own frequency.
- Prior to the synchronization with the CEN, together with the regional partners, a Baltic load-frequency control block and a common balancing services market is to be established by 2025. This will allow provision of the necessary load-frequency control services in the most efficient way, ensuring equal and non-discriminatory conditions for all market participants. From 2028 onwards, a mechanism for the exchange of ancillary services related to the frequency control in the Baltic Sea region will be created. This should allow the most effective utilization of the interconnections and create a level playing field for the Baltic Sea region market participants.
- The Group intends to increase the liquidity of markets by expanding the range of services for the gas exchange in order to reach the status of a developed market, while wider recognition and utilization of the biomass exchange is being stimulated through introduction of additional products (such as waste wood) and functionalities for the target markets in the Baltic Sea region. Moreover, the Group intends to open up market-relevant data, providing additional opportunities for producers and suppliers, as well as costumers, and increasing the usability of data.

[2] On 13 April 2022 the Government of the Republic of Lithuania has approved changes to the laws proposed by the Ministry of Energy which would help to achieve 7 GW of RES installed capacity for the year 2030, however, adoption of the respective changes by the Parliament of the Republic of Lithuania is still pending.

(d) (Towards the customers) Customer-focused organization that creates new opportunities:

- The Company strives to constantly develop as a customer service organization that implements and improves customer service standards and customer experience management, thus, customer satisfaction rate, currently measured by Global Customer Satisfaction Index (GCSI), is considered a strategic KPI.
- Bringing competitively priced energy resources to costumers is one of Group's strategic priorities. Thus, electricity and natural gas price differentials on the wholesale market between Lithuania and the target trading zones are being monitored, in case of electricity, between Lithuanian and Latvian, Polish and Swedish 4th trading zones; in case of natural gas – between Lithuanian and the Dutch TTF virtual trading point. In the gas sector, it is important to create a common Polish-Lithuanian-Latvian-Estonian-Finnish natural gas transmission tariff area by 2025 to ensure competitive natural gas prices. Consistent expansion of the commercial exploitation of the GIPL point is also expected to bring significant benefits to Lithuania and the whole Eastern Baltic region.
- The Group prioritizes creation of a wide range of opportunities for the trading of energy certificates of origin, taking into account the needs of customers to choose the energy they consume, including that produced from RES.

(e) (Towards each other) Recognition as future energy leaders in the region:

- The focus of the Group is concentrated on deepening competences in the supervision, management and deployment of new technologies and adaption of corporate structures and incentive systems to foster innovation (including progressively increasing funding for innovations) and the development of future energy solutions. The Group stresses the importance of the competences that will be important in achieving strategic objectives in relation to the implementation of the strategic projects foreseen in NEIS, decarbonization, cross-sectoral integration of energy systems, and in remaining competitiveness with a view to significantly increasing the Group's share of revenues from non-regulated activities and from foreign markets.

Financing and Capitalisation

The table below represents consolidated financial borrowings and capitalization of the Issuer, represented by the sum of short-term debt and long-term debt (borrowings, including EUR 84 million payable to AB "Ignitis grupė", which was fully repaid in March 2022 but does not include other interest-bearing liabilities or any other liability) and total shareholders' equity:

Table 5: Key information about the financing and capitalisation of the Issuer

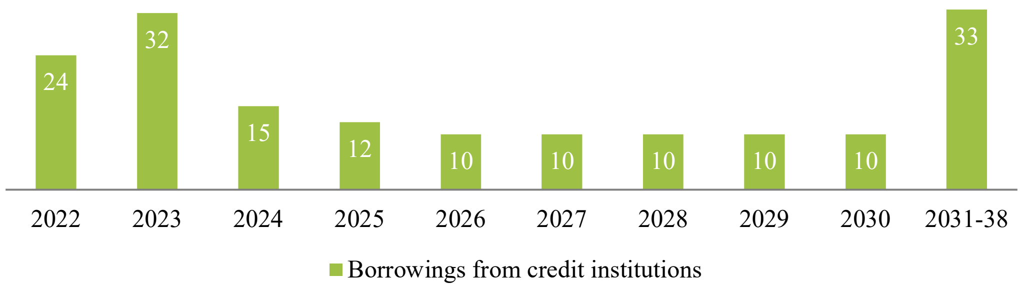
in EUR thousands (audited)	**31 December 2021**	**31 December 2020**
Short-term debt[1]	108,527	61,459
from which borrowings from credit institutions	*24,399*	*46,978*
from which payable to AB "Ignitis Grupė"	*84,128*[2]	*14,481*
Long-term debt	142,843	301,370
from which borrowings from credit institutions	*142,843*	*167,242*
from which payable to AB "Ignitis Grupė"	-	*134,128*
Total debt	251,370	362,829
Shareholders' equity	271,598	233,064
Total debt and shareholders' equity	522,968	595,893

[1] *Financial borrowing, including current portion of long-term borrowings, maturing within the next 12 months.*
[2] *Fully repaid in March 2022.*

Source: the IFRS Consolidated Financial Statements

Credit institutions, the Group had borrowings from which at the end of 2021 included European Investment Bank, Nordic Investment Bank and OP Bank.

The following graph depicts the maturity schedule of the Group's borrowings from credit institutions in terms of EUR million as of 31 December 2021:



The Group uses net debt to EBITDA ratio as the key metric for monitoring and managing its financial position. The Group targets net debt to EBITDA of below 5 times by 2030. In 2021 the ratio stood at 2.8 times.

At the end of 2021, the Group held EUR 41.3 million of cash and cash equivalents. The Group's liquidity position is further supported by undrawn committed credit facilities in the form of overdrafts from credit institutions which amounted to EUR 90 million as of the date of this Prospectus.

Group's Approach to Sustainability

The Issuer has a key role, ensuring a smooth and reliable transition within the Lithuanian energy system through integrating high volumes of RES, enabling decarbonization of the sector, initiating system interconnection projects and facilitating climate-neutral energy exchanges.

Its mission is to enable a sustainable and efficient energy exchange. This mission provides a clear direction for long-term strategy and operations of the Group, where sustainability considerations are fully integrated. Strategy of the Issuer also reflects the United Nations Sustainable Development Goals. Five of these goals have been identified as most relevant to the Group companies, to which the Issuer may provide the most meaningful contribution.

For the Issuer, sustainability means to transform the energy sector in a balanced manner between environmental, social, and economic goals, thus, empowering the establishment of a climate-neutral economy. The Issuer is taking responsibility for coming generations by contributing to sustainable development and engaging all stakeholders environmentally, socially and economically.

Thus, the Issuer has set three clear long-term directions in the areas of environment, social and economic performance in respect of relevant Sustainable Development Goals:

Figure 3: The Group's directions in the areas of environment, social and economic performance

Source: the Issuer

Environmental direction – enables a climate-neutral energy transition, reduces the impact of activities of the Group.

Social direction – creates a progressive and sustainable organization.

Governance direction – transparent, efficient management and development of the energy exchange platform.

Environmental, Social and Governance ("ESG") Policies

Through its long-term strategy, the Issuer aims to contribute to the development of climate-neutral energy. Being committed to fulfilling the role as an enabler of the energy transition, the Issuer seeks to transform the energy sector in a balanced manner between the environmental, social, and economic goals, thus, empowering the establishment of a climate-neutral economy.

For the Issuer acting sustainably means when making business decisions, specifically consider the short and long-term environmental, social, and economic impacts. As a state-owned company, the Issuer is strongly committed to including ESG factors in all its business activities. The main directions of the governing principles of sustainability and ESG management are set in EPSO-G Sustainability Policy, which is applied to all the Group companies.

The management of different ESG areas, i.e., the environment protection, occupational health and safety, transparency and anti-corruption, remuneration, development and performance review of employees, equal opportunities, etc., is regulated in detail by separate Group policies on these matters.

For the implementation of the principles of sustainability set out in the Sustainability Policy, the Issuer prepares implementation plans, integrates the principles into the annual business plans of the Group companies, coordinates the implementation of the environmental and GHG emissions reduction and sustainable development objectives.

Progress Report on Sustainability of the Issuer follows the principles of the UN Global Compact and the recommendations of the Global Reporting Initiative with the ambition to assess performance in relation to economic, environmental, social, and human rights indicators. In addition, the Group follows the reporting principles of the Transparency Guidelines for State-owned Enterprises of the Government of the Republic of Lithuania.

The principles of sustainability are implemented based on the related policies and other internal documents of the Issuer, such as:

Environmental Policy. This policy defines the key principles in the field of environmental protection, which shall be applied within the Group to reduce the environmental impact of the activities carried out and to implement a culture based on the principles of sustainable development within the Group and its environment.

Equal Opportunities Policy. This policy defines the key principles applied in the Group's companies to ensure that the principles of equal opportunities and non-discrimination are respected in all areas of employment relationships.

Remuneration, Employee Training, and Performance Review Policy. This policy is intended to properly manage wage costs, create motivational incentives, ensure the proper personal and professional development as well as transparent performance review system to all the employees within the Group.

Occupational Health and Safety Policy. The policy is aimed to ensure the health of employees in the workplace and creating a healthy, safe, and productive working environment within the Group.

Transparency and Communication Policy. The policy is aimed at fostering fair and efficient communication with each other and with the external stakeholders of the Group, i.e., society, shareholders, market regulators, etc.

Corruption Prevention Policy. The policy sets basic principles and requirements aimed at the prevention of corruption and imposes guidelines for ensuring compliance with them with an aim to create conditions for the highest standards of transparent business conduct applied in the group.

Interest Management Policy. The policy is intended to create an interest management system that is consistent with the common good practice and would allow ensuring that decisions in the companies of the group are made in an objective and impartial manner and would also form an environment that is unfavorable to corruption.

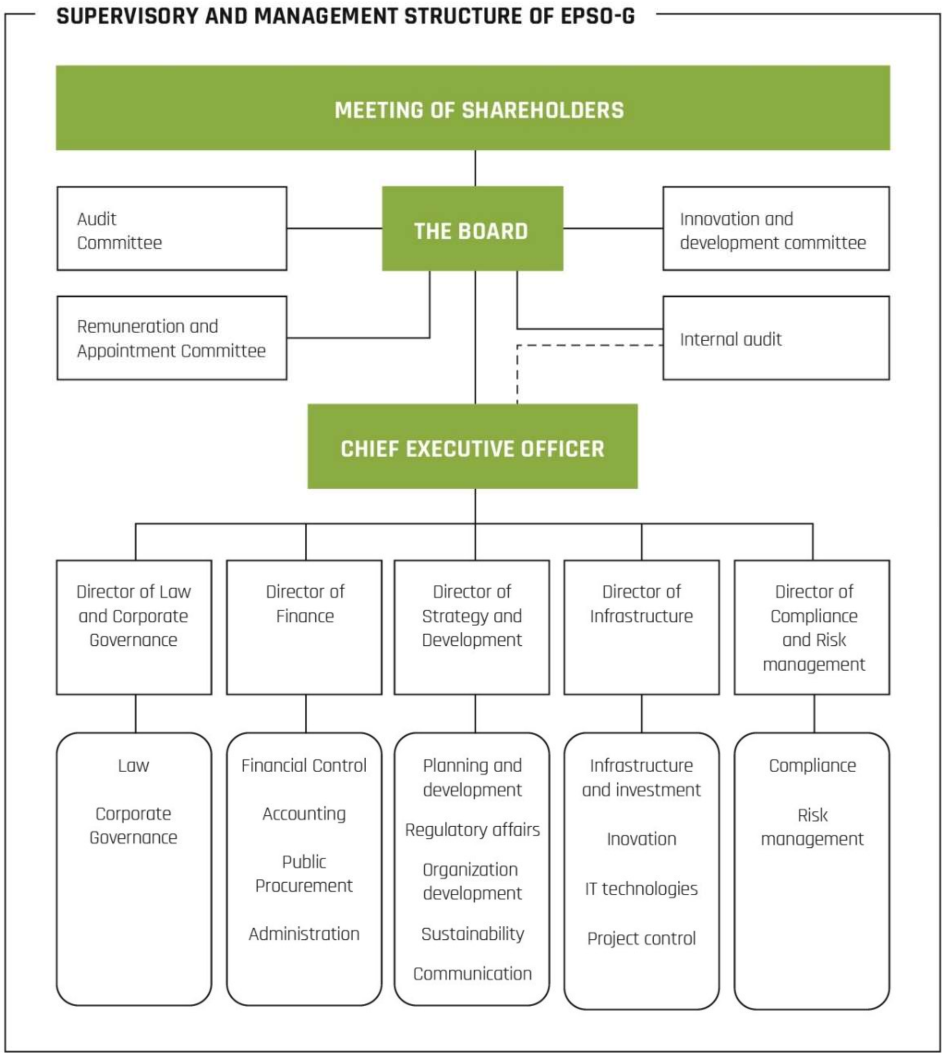
Donations' Policy. The policy is intended to ensure that the donations provided by the Group are public, cast no doubt in the society regarding its expediency and transparency of the granting process.

Code of Conduct. Its purpose is to set the same general guidelines of behavior for communication and cooperation with internal and external stakeholders of the Group: employees, customers, contractors, business partners, shareholders, national and municipal authorities, society, etc. The code's provisions are based not only on the employer's duty, but also on the personal understanding of each employee that his/her proper behavior improves the business reputation and value of the Company and the entire Group and reduces the probability of reputation risk.

Corporate Organizational Structure of the Issuer

The management, supervisory and organizational structure of the Issuer ensures its optimal organization of activities, accountability, process efficiency and responsibility. The Issuer's principal organizational structure is as follows:

Figure 4: The Issuer's principal organizational structure



Source: the Issuer

When implementing directions, priorities and principles set out by the Sole Shareholder, the Issuer sets strategic goals and objectives, supervises their implementation, analyses, and aims to improve operating efficiency of the Subsidiaries forming part of the Group. The strategic objectives of the Issuer are:

- implementation of the shareholder's rights and obligations;
- formation and laying down of the strategy of the Group of companies, operational guidelines, rules of conduct of advisory nature as well as the policies of the specific fields;
- regional and international cooperation by integrating energy infrastructure and markets;
- coordination and control of the activities of the companies of the Group, their expansion and development;
- management of finances and treasury of the Group of companies;
- provision of services to the companies of the Group of companies;
- representation of the Group of companies.

All the companies of the Group are responsible for efficient and timely implementation of the projects of energy transmission and exchange infrastructure, contributing to the goals set in the National Energy Strategy and creating a sustainable long-term value for the Sole Shareholder – the State of Lithuania, its society and economy. The Issuer implements strategic tasks of developing the country's electricity and gas infrastructure, integrates domestic infrastructure into the EU energy markets with focus on the Energy Union objectives.

The Group's corporate governance model and main functions are established in "The Guidelines for the corporate governance of the group of the state-owned companies of energy-sector", approved by the Ministry of Energy of the Republic of Lithuania, dated 24 April 2018 (as amended from time to time). The Corporate Governance Guidelines of the Group sets the main corporate governance principles which are as follows:

- *the principle of transparency*: the main activities and goals of the Group should be transparent and clearly declared, and the main documents of the Group, its vision, mission, goals, and other material events are publicly should be disclosed in accordance with the procedure established by law;
- *the principle of separation of state ownership and regulatory functions:* according to the Organization for Economic Co-operation and Development ("**OECD**") there should be a clear separation between the state's ownership function and other state functions that may influence the conditions for state-owned enterprises, particularly with regard to market regulation;
- *the principle of the clear definition of the objectives of the Group:* clear and transparent goals must be set for all the Group's companies;
- *the principle of sustainability:* Group activities should be aimed at achieving the long-term goals of the Group;
- *the principle of proper accountability to the shareholders:* the management system of a Group must ensure conditions to exercise an appropriate realization of rights and legitimate interests of all shareholders.

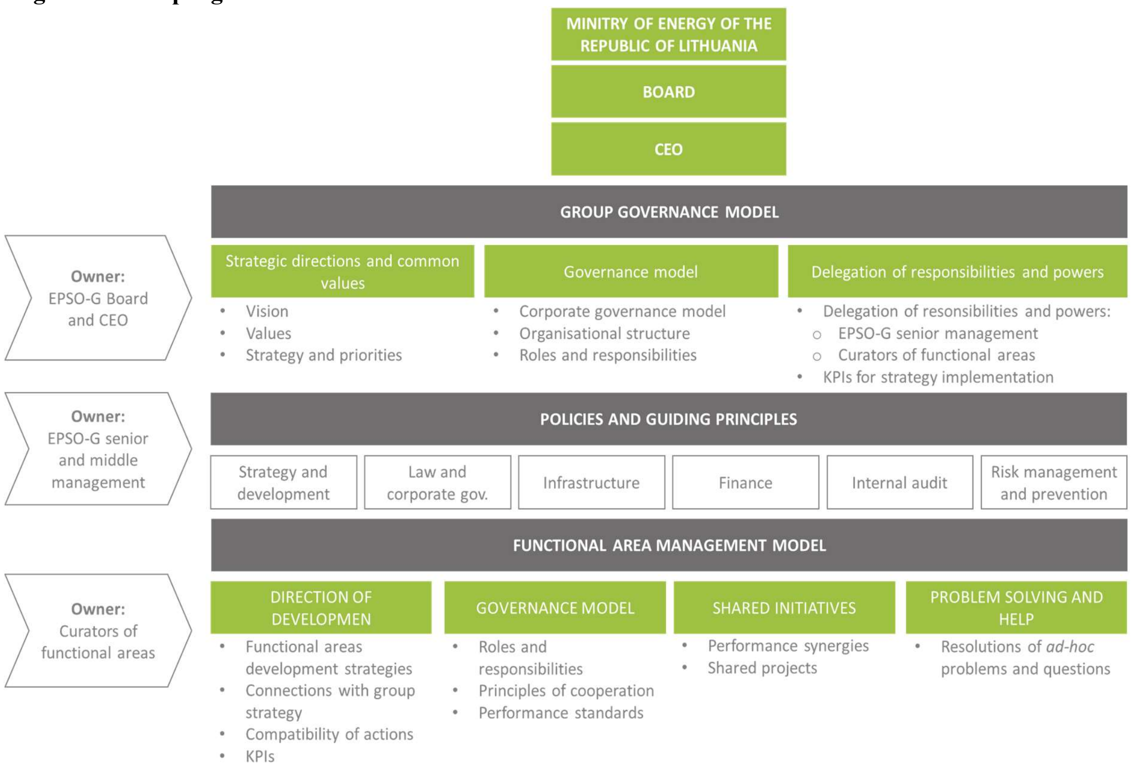
The corporate governance of the Issuer is a system designed to manage and control the Group with a view to achieving objectives that are common to the Group as well as to the Issuer. The corporate governance of the Group is exercised by the Issuer through the exercise of its parent functions. In the governance of the Group the Issuer follows *the principle of proportionality* – in order to ensure a balance between the supervision of the Group and the responsibility of the Subsidiaries, to implement as many corporate documents as necessary to ensure transparent, efficient, coordinated and high-quality operations. Furthermore, *the principles of trust and responsibility* are important in order not to duplicate the work performed, to follow the strategic direction.

The Issuer employs a functional leadership management approach that focuses on operational efficiency, shared resources and centralised services, as well as on allocated resources and enhanced competencies for key and long-term activities, e.g., strategy development, investment management and innovation. The Company has defined policies of the Group aiming to standardise core processes of the Group, sharing of good practices among the Subsidiaries and supporting initiatives to improve performance.

Following the approved new wording of the Corporate Governance Guidelines of the Group, the implementation thereof provides with new governance principles that grant the Management Board of the Issuer and Boards of the listed Subsidiaries (Litgrid and Amber Grid) with supervisory functions. When implementing the above-mentioned changes in the corporate governance model, new Management Board was formed in the Issuer in 2019, consisting of three independent members out of five. Also new Boards were formed in other Subsidiaries (Tetas, Baltpool and Get Baltic). Since February 2022, Robertas Vyšniauskas, an independent member of the Management Board, serves as a Chairman of the Management Board (for more information please see Section *Management of the Issuer*).

Principal scheme of the Group's governance model is as follows:

Figure 5: Group's governance model



Source: the Issuer

Sole Shareholder of the Issuer

On the day of this Prospectus the authorised capital of the Company is EUR 189,631,000 and is divided into 653,900,000 ordinary registered shares with a nominal value of EUR 0.29 each. All the shares issued by the Company entitle equal voting rights its sole shareholder.

The sole shareholder of the Issuer is the Republic of Lithuania, represented by the Ministry of Energy (the "**Sole Shareholder**"), holding 100% of shares and votes in the general meeting of shareholders of the Issuer (the "**General Meeting**").

Although the Sole Shareholder is not a managing body of the Issuer, it, among other, approves key operational guidelines (guidelines for corporate governance, collegiate body remuneration, etc.), as well as certain most material contracts to be entered by the Issuer.

The Issuer has no information about any other possible control over the Issuer, as well as the arrangements, the operation of which may at a subsequent date result in a change in control of the Issuer.

Management of the Issuer

The Issuer has management system, consisting of the management board (the "**Management Board**" or the "**Board**") and the general director of the Issuer (the "**CEO**").

The Management Board is responsible for the strategic management of the Issuer and adopts decisions on the core transactions to be concluded by the Issuer. Furthermore, the Management Board ensures implementation of the Issuer's strategy and good corporate governance with due regard to the interests of its shareholder, employees and other interest groups. Among other functions, the Management Board:

(a) Forms and approves common corporate governance policy and other main policies of the Group companies;

(b) Is responsible for the organizational and systematic development and management of the Group within the scope of its competence;

(c) Carries out the monitoring of organisation of activities of the Group, implementation strategy of the Group, financial status and results of commercial activity of the Group, implementation of documents approved by the Board and other decisions in the Group companies;

(d) Carries out the supervision and control of the management of the strategic projects carried out by the Group companies which are included in the national energy strategy, the projects of particular national interest, the economic projects of great state importance;

(e) Performs supervisory functions provided for in the Law on Companies, etc.

The CEO is a single-person executive management body, managing the Issuer's day-to-day operations and representing the Issuer in its dealings with third parties. Among other functions, the CEO:

(a) Organizes and controls the implementation of the Group's strategy, approves the plan of implementation thereof;

(b) Controls the activities of the Subsidiaries, provides the suggestions and conclusions to the Management Board regarding organization of the Group's activities and development thereof;

(c) Organizes and ensures monitoring of the implementation of the strategy, long-term (strategic), short-term (tactical) objectives of the Subsidiaries, assessment of their activities, provides proposals to the Management Board regarding improvement thereof, etc.

Members of the Management Board and the Manager

The Board consists of 5 (five) members appointed by the Sole Shareholder for a term of 4 (four) years, taking into consideration the recommendations, which provide the Remuneration and Nomination Committee and Selection Commission[3], according to the assigned competence to these bodies. Continuous term of office of each member of the Board shall not exceed 2 (two) consecutive terms, i.e., no more than 8 (eight) consecutive years. Members of the Board shall be elected by the Sole Shareholder, among other, ensuring that its composition meets the criteria, established in the legal acts, applicable to state-owned companies.

During the year 2021, 21 meetings of the Board were held (including decisions adopted in writing), 2 strategic and 2 cooperation sessions were arranged.

The CEO of the Issuer is appointed by the Management Board, taking into consideration the recommendations of the Remuneration and Nomination Committee. The CEO is accountable to the Management Board. Following Article 37-1 of the Law on Companies, the CEO may be elected for a term of five years and he/she shall serve as the CEO for 2 (two) consecutive terms, i.e., no more than 10 (ten) consecutive years. After former CEO has left his position, the election procedure of the new CEO has been initiated and he/she should be appointed in due course. As of the date of this Prospectus, the Issuer's CFO is appointed as acting CEO.

Table 6. Members of the Management Board and CEO

Name, surname	Position within the Issuer	Beginning of term	End of term
Robertas Vyšniauskas	Chairman of the Management Board (independent member)	20.03.2019	Until 20.03.2023, in any case not later than until the ordinary General Meeting in 2023
Gediminas Almantas	Member of the Management Board (independent member)	20.03.2019	

3 Abbreviation "Selection Commission" is understood, how it is described in the Selection Description of Candidates to the Collegial Supervisory or Management Body of the State or Municipal Enterprise or of the State-Owned or Municipal-Owned Company or of its Subsidiary, approved by the Resolution No 631 of the Government of the Republic of Lithuania, dated 17 June 2015.

Ramūnas Abazorius	Member of the Management Board (independent member)	27.04.2022	
Dainius Bražiūnas	Member of the Management Board	20.03.2019	
Tomas Daukantas	Member of the Management Board	06.05.2022	
Algirdas Juozaponis	CFO of the Issuer and, as of 06.01.2022, the Acting CEO	–	Indefinite as the CFO; until appointment of the new CEO as Acting CEO

Source: the Issuer

The business address of the members of the Management Board and of the CEO is Gedimino ave. 20, Vilnius, the Republic of Lithuania.

The Issuer is not aware of any potential conflict of interests between any duties to the Issuer of members of the Management Board and CEO of the Issuer as well as private interests or other duties of these persons.

The following are short profiles of the members of the Management Board and of CEO:

Robertas Vyšniauskas (born in 1981). Education – in 2010 he graduated from the Mykolas Romeris University where he gained a Master's of Law. He has 20 years of professional experience in commercial and business law and 10 years of top management roles with deep knowledge in corporate governance, risk management, business development and strategy, M&A, management of multinational complexed projects. Robertas Vyšniauskas was the independent member of the Management Board of UAB "Valstybės investicinis kapitalas", independent member of the Management Board of the state-owned company Infostrutūra, VĮ, member of the Management Board or CEO or lawyer of related or holding companies of Vilniaus prekyba, UAB. Since 2019 he serves as member of the Management Board and of the Audit Committee of the Issuer and since February 2022 – as a Chairman of the Management Board of the Issuer. Since 2020 he also serves as a CEO in UAB "Valstybės investicinis kapitalas" and as a member of the Management Board of UAB Vilniaus vystymo kompanija.

Gediminas Almantas (born in 1979). Education – in 2002 he graduated from the Vilnius University where he gained a Master's degree in Business Law. In 2005 Gediminas Almantas graduated from the University of Bern where he gained a Master's degree in International and European business Law. Furthermore, since 2010 Gediminas Almantas has been enrolled in the Industrial PhD programme on Negotiation and Business Ethics in Copenhagen Business School. Since 2021 he is a Compliance and Mediation Committee member in International Federation of Red Cross and Red Crescent Societies – IFRC and serves as a member of the Management Board of Lithuanian Airports. Since 2016 he serves as a member of the Management Board of the Issuer and from 2019 until February 2022 – he was also a Chairman of the Management Board of the Issuer. In addition to that he is a member of Remuneration and Nomination Committee of the Issuer.

Ramūnas Abazorius (born in 1973). Education – in 1997 he graduated from the Vilnius University where he gained a Master's degree in Finance. Since 2020 Ramūnas Abazorius serves as an investment manager at BRAITIN Investments and Director of UAB Akmenės laisvosios ekonominės zonos valdymas. Ramūnas Abazorius has more than 25 years of professional experience in various management roles. He served as a Group Chief Financial Officer at Vakarų medienos grupė, he also was a member of the Management Board and Chief Financial Officer at AB Luminor Bank and AB DNB Bankas (ex – AB DnB NORD).

Dainius Bražiūnas (born in 1983). Education – in 2005 he graduated from the Vilnius Gediminas Technical University where he gained a Bachelor's degree of Energy Sciences. Since 2019 Dainius Bražiūnas serves as a Head of the Energy Security Group in the Ministry of Energy, also since 2014 he serves as a member of the Management Board of Klaipėdos nafta AB. Since 2019 he serves as a member of the Management Board and Remuneration and Nomination Committee of the Issuer.

Tomas Daukantas (born in 1980). Education – in 2004 he graduated from the Mykolas Romeris University where he gained a Master's of Law. Since 2021 Tomas Daukantas serves as a Head of the Legal and Personnel in the Ministry of Energy. Tomas Daukantas has extensive experience in various governmental and non-governmental institutions – he was a chancellor of the Ministry of Education, Science and Sport, later he continued his career as a director of Legal and Administration Department in the same Ministry. He also served as a Chairman of the Management Committee in the Education Exchanges Support Foundation, was a Chairman and a member of the Management Board in European Social Fund Agency.

Algirdas Juozaponis (born in 1983). Education – in 2005 he graduated from the Vilnius University where he gained a Bachelor's degree of Economics (Banking) and in 2007 he graduated from the Vilnius University where he gained a Master's degree of Economics (Banking). From 2016 till 2018 Algirdas Juozaponis served as a member of the Management Board of the Issuer, and since 2015 he serves as a CFO of the Issuer. Since 2018 Algirdas Juozaponis also serves as member of the Management Board of Amber Grid and Litgrid.

Other bodies (the Committees) of the Issuer

To ensure effective internal control system and management of activities risk within the Group, the Management Board may conclude by its decision temporary (*ad hoc*) or permanent specialised committees (the "**Specialised Committees**"). They shall be tasked to consider and provide proposals and recommendations to the Management Board and/or to other bodies of the Issuer and of Group companies regarding the issues, assigned to the competence of such committees. Specialised Committees act as advisory bodies of the Board, however, the Board and other bodies, having adopted the respective decisions remain responsible for them.

The following permanent committees are formed in the Issuer – Audit Committee and Remuneration and Nomination Committee.

The Audit Committee

The key functions of the Audit Committee are: (i) to carry out the monitoring of the preparation and auditing of the financial statements of the Group companies; (ii) to ensure the observance of the independence and objectivity principles by the auditors of the Group companies and of audit companies; (iii) to monitor effectiveness of the internal control of the Group companies, risk and compliance management and internal audit function, activity processes; (iv) to evaluate the transactions concluded by the Group companies, the shares of which are admitted to trading on a regulated market, with the related parties.

Under the current Articles of Association of the Issuer (the "**Articles of Association**"), the Audit Committee shall be composed of at least 3 (three) members appointed by the Sole Shareholder for a maximum period of 4 (four) years, subject to the recommendations of the Remuneration and Nomination Committee (if provided). The continuous term of office of a member of the Audit Committee shall not exceed 2 (two) consecutive terms. Only an independent member may be elected to chair the Audit Committee.

Currently, 2 (two) members, Mr. Gediminas Šiušas (Chairman, independent member) and Mr. Robertas Vyšniauskas (independent member) serve on the Audit Committee. The third member of the Audit Committee should be appointed shortly.

The following is short profile of the Chairman of the Audit Committee:

Mr. Gediminas Šiušas (born in 1981). Education – in 2003 he graduated from Stockholm School of Economics in Riga where he gained a Bachelor's degree of Economics and Business Administration. In 2003 and 2005, he graduated from Vilnius University where he gained a Bachelor's degree of Management and Business Administration and Master's degree of Economics respectively. From 12 September 2016 to 12 September 2020 and from 22 October 2020 Mr. Gediminas Šiušas serves as a Chairman of the Audit Committee. Mr. Gediminas Šiušas also serves as the Head of Accounting in Convera Lithuania UAB.

The Renumeration and Nomination Committee

The key functions of the Renumeration and Nomination Committee are: (i) to assist in carrying out the selections of candidates to the members of the bodies in all companies of the Group; (ii) to provide the companies of the Group with recommendations regarding the nomination of the members of the management bodies, entry into contracts with them and setting remuneration; (iii) to provide recommendations regarding the documents of the corporate governance of the Group of remuneration of the employees of the collegiate bodies, the companies of the Group, assessment of their activities; (iv) to provide recommendations on the Group's collegial bodies, management, executives and planning system of substitutions of critical positions.

Under the current Articles of Association, the Remuneration and Nomination Committee shall be composed of at least 3 (three) members appointed by the Management Board for a period of up to 4 (four) years by a reasoned decision. The nomination of members of the Remuneration and Nomination Committee ensures that this Committee has at least 1 (one) independent member. The continuous term of office of a member of the Remuneration and Nomination Committee shall not exceed 2 (two) consecutive terms of office.

Mr. Gediminas Almantas (independent member), Mr. Dainius Bražiūnas and the Chairwoman Mrs. Jolita Lauciuvienė (independent member) serve on the Remuneration and Nomination Committee.

The following is short profile of the Chairwoman of the Remuneration and Nomination Committee:

Mrs. Jolita Lauciuvienė (born in 1969). Education – in 1992 she graduated from Vilnius University where she gained a Master's degree of Economics. In 2013 she graduated from Lithuanian University of Educational Sciences, where she gained a Bachelor's degree of Psychological Sciences. From 20 May 2019 Mrs. Jolita Lauciuvienė serves as a Chairwomen of the Remuneration and Nomination Committee. Mrs. Lauciuvienė also serves as Director of Personalo Vertė UAB.

Innovation and Development Committee

The Innovation and Development Committee is an advisory body to the Management Board on innovation, development and efficiency. It acts in the same way as the Audit Committee and the Remuneration and Nomination Committee – at the Group level, i.e., may submit conclusions, opinions, recommendations and proposals to the Board of the Group company concerned. The Innovation and Development Committee consists of independent management board members delegated from each Group company and appointed by the Management Board.

The purpose of forming the Innovation and Development Committee: (i) increasing focus on innovations, search for new activities of the Group, operational efficiency; (ii) synergies of innovative ideas at the Group level and coordination of innovation directions; (iii) greater engagement of independent members of the Board in the activities of the Group, use of their knowledge and experience; (iv) the members of the Innovation and Development Committee shall also act as ambassadors for innovation, development and efficiency in the Group companies.

Mr. Sigitas Žutautas (Chairman, independent Management Board member of Amber Grid), Mr. Nedas Karklius (independent Management Board member of Tetas), Artūras Vilimas (independent Management Board member of Litgrid) and Gediminas Mikaliūnas (independent Management Board member of Baltpool) serve on the Innovation and Development Committee. Additional member of the Innovation and Development Committee should be appointed following the selection procedure for independent Management Board member of the Issuer.

Legal proceedings and investigations

Within the framework of the normal business operations, the Issuer faces claims in civil lawsuits and disputes, most of which involve relatively limited amounts. As at the date of this Prospectus, the Issuer is not involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), during a period covering at least the previous 12 months which may have or have had in the recent past significant effects on the Issuer and (or) Group's financial position or profitability.

Material contracts

No contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Issuer that are, or may be, material or contain provisions under which the Issuer or any of its Subsidiaries has an obligation or entitlement which is, or may be, material to the ability of the Issuer to meet its obligations to the Noteholders in respect of the Notes.

MARKET ENVIRONMENT

The information presented in this Section has been extracted from publicly available sources and documents. The source of external information is always given if such information is used in this Section. While reviewing, searching for and processing macroeconomic, market, industry or other data from external sources such as the European Commission or government publications none of it has been independently verified by the Issuer, the Arranger (the Dealer) or any of their affiliates or the Issuer's advisers in connection with the Prospectus and/or issue of the Notes.

The Issuer does not intend to and does not warrant to update the data concerning the market or the industry as presented in this Section, unless such duties arise out of generally binding regulations.

National priorities of the energy sector

At national level, the most significant strategic planning documents affecting the Group's activity are: National Energy Independence Strategy ("**NEIS**") approved by the Parliament (in Lithuanian: *Seimas*) of the Republic of Lithuania in 2018 and National Energy and Climate Action Plan ("**NECAP**") which was approved by the Ministry of Environment of the Republic of Lithuania and the Ministry of Energy and submitted to the European Commission.

NEIS establishes the main strategic principles of Lithuanian energy sector – competitiveness, reliability, reduction of the impact on climate change and environmental pollution and participation of the country's business in achieving the progress.

With NEIS, Lithuania has set ambitious objectives that will significantly contribute to the implementation of Energy Union, the United Nations 2030 Agenda for Sustainable Development, the objectives set in the Paris Agreement and the objectives of 2030 EU Climate and Energy Policies. They aim to increase the share of RES (including biomethane and other RES-produced gases) in the country's total consumption: by 2030 – up to 45% and from 2050 – 80%.

NECAP sets out five key areas for reducing climate impact under Lithuania's commitments to the EU to reduce GHG emissions by 9% by 2030 (Compared to 2005), to reduce the intensity of energy consumption by at least 1.5 times (compared to 2017), to increase the share of RES in total energy up to 45%: reduction of dependence of fossil fuels, energy efficiency, energy security, development of the internal energy market, development of research and creation of innovations.

In 2019, the Group initiated the project "Raida 2050" which analysed scenarios for the development of Lithuanian electricity system and electricity market under the objectives set by NEIS and the implementation possibilities were analysed. In addition to that, the analysis of Power to Gas (P2G) and the analysis of the possibilities of application of hydrogen technologies in Lithuania were carried out. Prospects for electricity capacity modelling suggest that onshore and offshore wind power will be increasingly used to meet energy demand. This tendency should be significantly strengthened in 2030 when more than 50% of local electricity will be generated by solar and wind power plants. Until 2030, only modest development of P2G is foreseen in Lithuania, but later a wider use in the application of the technology is expected. In order to enable smooth connection of hydrogen production devices to the gas transmission grid and to exploit the synergies created by this technology in electricity and gas sectors, the Group intends to develop P2G pilot projects, to carry out the necessary research and adapt the system to the transmission of hydrogen gas.

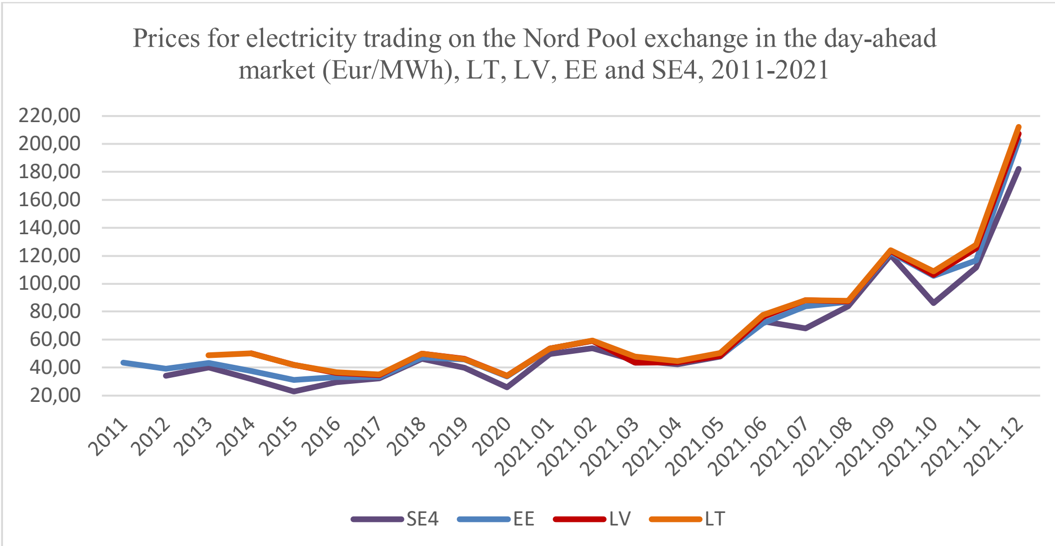
It is important to note that by mid-2022 national hydrogen guidelines until 2050 and their implementation plan until 2030 will be prepared and published and Group's plans will be adapted accordingly.

Electricity market dynamics in Lithuania

The trends in the Nord Pool power exchange (where over 90% of trade transactions in Lithuania take place), local electricity generation and level of development, electricity demand and customer habits constitute important factors in the formation of wholesale electricity prices in Lithuania. In 2015, with the launch of the cross-border electricity connections NordBalt (with Sweden) and LitPol Link (with Poland), a significant decrease in electricity prices in Lithuania was observed and later prices stabilised. Although prices in Sweden are usually lower than in Lithuania, Latvia and Estonia, a growing convergence of wholesale electricity prices between Lithuania, Latvia, Estonia and Sweden is evidenced in the last years.

In summer 2021 the wholesale electricity prices in Lithuania have increased substantially (the trend similar to the rest of Europe) mainly due to the spike in gas prices and the rise of CO2 prices (which approximately tripled as compared to the beginning of 2021). The high-prices trend continued throughout 2021 and the beginning of 2022.

Figure 6: Prices for electricity trading on the Nord Pool exchange



Source: data of *www.nordpoolgroup.com*

It is estimated that in the future the electricity market price will be determined by various factors and it will depend, inter alia, on the level of development of Lithuanian electricity system, existing and new electricity generation capacity, volume of the development of renewable energy resources (including offshore wind farms, solar, hydropower, biogas, etc.), their speed and integration into the common energy system, implementation of EU decarbonisation targets, cross-system/cross-border electricity flows, electricity consumption trends (including the ones in the transport sector) and future consumption habits.

According to the national balance report by Litgrid, during the period of the last five years, electricity demand and final electricity consumption in Lithuania slightly increased: in 2017 the demand (including possible technological losses) was 12.5 TWh, while final electricity consumption accounted for 10.8 TWh. In 2021, electricity demand rose to 13.7 TWh (annual average growth rate of approximately 2.4 %), while final electricity consumption reached 11.8 TWh (annual average growth rate of approximately 2.5%). Historical data for the last 5-year period are provided in the table below.

Table 7. Electricity demand and final electricity consumption in the Republic of Lithuania

	Demand, including possible technological losses, TWh	Final electricity consumption, TWh
2017	12.543	10.760
2018	12.853	11.176
2019	12.983	11.145
2020	13.051	10.977
2021	13.737	11.836

Source: the Issuer

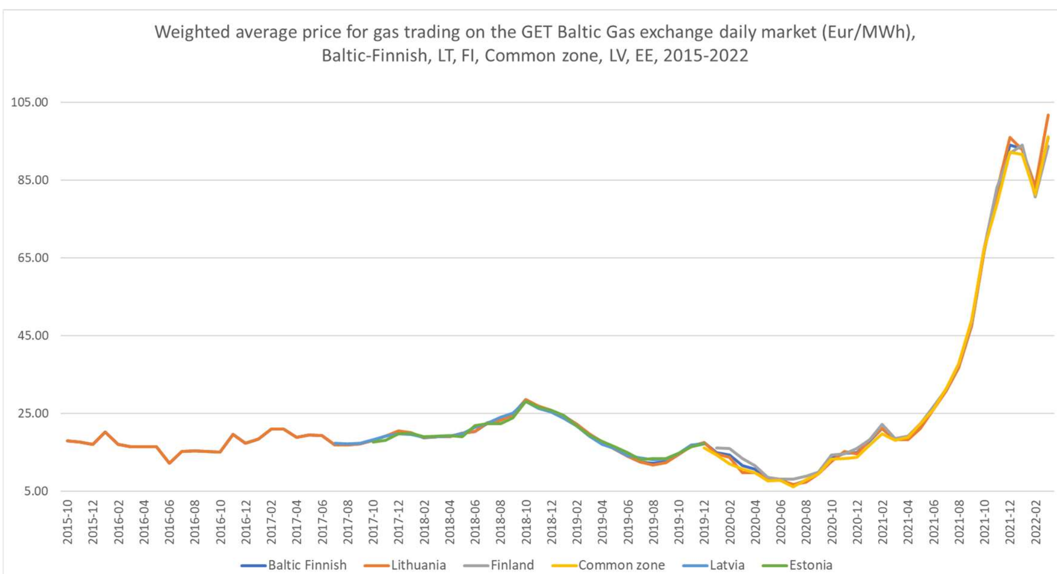
Based on the Development Plan of the Electric Power System and Transmission Grid 2021-2030[4], coordinated with NERC, similar tendencies will remain as it is estimated that in 2030 the total Lithuanian electricity consumption (including possible technological losses in Litgrid's network, but without energy consumed for loading/pumping Kruonis HPSPP) will increase to 15 TWh (average annual growth rate of approximately 2% from 2020 till 2030) and the final electricity consumption – to 13.7 TWh (average annual growth rate of approximately 2% from 2020 till 2030). In the future, electricity consumption and the maximum required power by the system will be further increased by electrification in industry, the household sector and especially in the transport sector, where rapid development of electric vehicles and electrification of railway lines is expected. It is estimated that in 2030 the maximum power demand of the system will increase to 2655 MW (on average by 2.0% per year).

Natural gas sector dynamics in Lithuania

Until summer of 2020, the downward trend in wholesale natural gas prices has been observed in Lithuania. This was to a large extent influenced by two factors. Firstly, Klaipėda LNG terminal started operating at the end of 2014 and allowed the diversification of natural gas supply sources, which eliminated Lithuania's dependence on a single supply source (Russia), also served as an alternative gas supply source and strengthened the negotiating position of Lithuania and the entire Eastern Baltic region in negotiations with the Russian gas suppliers. According to NERC and Get Baltic gas exchanges'[5] data, the natural gas import price in Lithuania decreased from ~30-35 EUR/MWh (in 2012–2014), to ~18-28 EUR/MWh (in 2015–2019), further to 6-7 EUR/MWh (in summer of 2020) respectively. Secondly, development of Get Baltic natural gas exchange in terms of services and geography in the Baltic-Finnish region ensured greater price transparency and competition. Annual turnover of Get Baltic gas exchange reached 8 TWh in 2021, exceeding previous year's turnover by 10 per cent.

The price trend has reversed since the summer of 2021 due to the developments in the global markets, including increased demand in Asian markets, reduced Russian gas supplies, changes in pricing of carbon allowances and unusually low level of gas at European gas storages. By December 2021, BGSI (Baltic – Finnish gas spot index) reached 94 EUR/MWh.

Figure 7: Prices for natural gas trading on the GET Baltic exchange



Source: The Issuer

The volume of gas transported via Amber Grid transmission system for the need of Lithuanian customers changes slightly every year: in 2017 it accounted for 24.3 TWh, in 2018 it accounted for 22.3 TWh of gas,

[4] https://www.litgrid.eu/index.php/grid-development-/-electricity-transmission-grid-ten-year-development-plan/3851.
[5] https://www.getbaltic.com/en/market-data/trading-data/?date_from=2020-01-01&period=day&graph=trades&area=0&show=price&display=table.

in 2019 – 23.5 TWh, in 2020 – 25.1 TWh and in 2021 – 24.1 TWh (historical data for the last 5-year period are provided in the table below). According to the Natural Gas Transmission System Operator's Amber Grid Ten-Year Network Development Plan for 2020-2029[6], it is estimated that from 2023 the annual volume could account for approximately 21 TWh per year.

Table 8. Quantities of gas transmitted for Lithuania's needs

	Quantities of gas transmitted for Lithuania's needs, TWh
2017	24.290
2018	22.319
2019	23.529
2020	25.144
2021	24.135

Source: The Issuer

In the Eastern Baltic Region, which encompasses Finland, Estonia, Latvia and Lithuania, after a significant contraction in the early 1990s, the demand for natural gas stabilised at the level reached in 2016 (according to Amber Grid data, in 2016 the demand in the region accounted for 67.6 TWh, in 2017 it was slightly lower at 65.2 TWh, in 2018 it accounted for 63.9 TWh and it reached 64.8 TWh in 2019). The projected natural gas consumption in the region in 2030 should account for approximately 60-65 TWh. Over the next 10 years, the demand in the Eastern Baltic region is expected to remain quite stable.

[6] https://www.ambergrid.lt/en/transmission-system/development-of-the-transmission-system/gas-transmission-system-development-plan.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in Lithuania or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

The summary covers Lithuanian tax consequences of ownership and disposition of the Notes to a resident individual, a resident entity or a non-resident entity acting through a permanent establishment in Lithuania (the "**Lithuanian Holder**") or a non-resident individual or a non-resident entity which is not acting through a permanent establishment in Lithuania that holds such Notes (the "**Non-Lithuanian Holder**").

As used in the preceding paragraph, a "resident individual" means an individual whose permanent place of residence is in Lithuania, or whose personal, social or economic interests are located in Lithuania or who is present in Lithuania continuously or intermittently for at least 183 days in the relevant tax period or at least 280 days in two consecutive tax periods and at least 90 days in one of these tax periods and a "resident entity" means an entity which is legally established in Lithuania. A "non-resident individual" means an individual whose permanent place of residence is outside Lithuania, whose personal, social or economic interests are located outside Lithuania and who is present in Lithuania for less than 183 days in the relevant tax period and less than 280 days in two consecutive tax periods or who is present in the Republic of Lithuania for more than 280 days in two consecutive tax periods, but less than 90 days in one of these tax periods and a "non-resident entity" means an entity which is legally established outside Lithuania.

Taxation of interest income and capital gains received by non-resident entities acting through a permanent establishment in Lithuania is the same as that of resident entities defined above. Therefore, it is not separately outlined in further Sections of this Prospectus. For relevant details on the taxation of Lithuanian permanent establishments of non-resident entities as Noteholders, please refer to the taxation of resident entities.

Withholding Tax, Income Tax

Taxation of interest

Payments to Lithuanian Holders

Payments in respect of interest on the Notes (including, to the extent applicable, the difference between the redemption price and the issue price of the Notes) to a resident individual will be subject to personal income tax at progressive tax rates of (i) 15%, if the total amount of income (excluding income from employment, self-employment, dividends, renumeration of board members and certain other types of income) received by a resident individual during a calendar year does not exceed the sum of 120 Lithuanian gross average salaries, which is determined on the basis of quarterly gross average salaries as published by Statistics Lithuania (in 2022, this figure would be EUR 180,492) and (ii) 20%, which will apply to any income (excluding income from employment, self-employment, dividends, renumeration of board members and certain other types of income) received by a resident individual during a calendar year, exceeding the aforementioned threshold. Part of the total amount of interest (including interest on the Notes) received by a resident individual during the calendar year up to the amount of EUR 500 will be exempt from personal income tax.

Payments in respect of interest on the Notes (including, to the extent applicable, the difference between the redemption price and the issue price of the Notes) to a resident entity will be included into calculation of its taxable profit. Taxable profit will be subject to corporate income tax at a general rate of 15% or an incentive rate applicable to the Noteholder. Banks and credit unions, including branches of foreign banks in the Republic of Lithuania, shall pay additional 5% corporate income tax on profits (subject to special calculation rules) exceeding EUR 2 million.

Payments to Non-Lithuanian Holders

Payments in respect of interest on the Notes (including, to the extent applicable, the difference between the redemption price and the issue price of the Notes) to a non-resident individual will be subject to personal income tax at progressive tax rates of (i) 15%, if the total amount of income (including Lithuanian-sourced interest, royalties, income from sports and entertainment activities, capital gains and rent from real estate located in the Republic of Lithuania and capital gains from movable property registerable in the Republic of Lithuania) received by a non-tax resident individual during the calendar year does not exceed the sum of 120 Lithuanian gross average salaries, which shall be determined on a basis of quarterly gross average salaries as published by Statistics Lithuania (in 2022, this figure would be EUR 180,492) and (ii) 20%, which shall be applied to the amount of the above listed categories of income exceeding the aforementioned threshold. Separate double tax treaties with the Republic of Lithuania may provide for a lower tax rate. The Issuer as a Lithuanian interest-paying entity will withhold 15% personal income tax and if it turns out at the end of the year that a part of the amount was subject to a 20% rate, a non-resident individual will pay the difference himself/herself.

Payments in respect of interest on the Notes (including, to the extent applicable, the difference between the redemption price and the issue price of the Notes) to a non-resident entity which is registered or otherwise organized in a state of the European Economic Area or in a state with which the Republic of Lithuania has concluded and brought into effect double tax treaty, will not be subject to withholding tax in Lithuania. The preceding provision shall apply provided that the Issuer has a substantiation that a Noteholder is registered or otherwise organized in a state of the European Economic Area or in a state with which a double tax treaty is concluded and brought into effect. Payments in respect of interest on the Notes to a non-resident entity other than listed above will be subject to 10% withholding tax.

If the Issuer as an interest-paying person is unable to identify the Noteholder and determine such Noteholder's eligibility for a lower tax rate or exemption from withholding tax, payments of interest in respect of the Notes to (including, to the extent applicable, the difference between the redemption price and the issue price of the Notes) to any such Noteholder will be subject to 15% withholding tax to be withheld and paid to the budget of the Republic of Lithuania by the Issuer.

Taxation on Disposition of Notes

Payments to Lithuanian Holders

Capital gains (i.e., the difference between the sale price and acquisition costs) on disposal of the Notes received by a resident individual will be subject to personal income tax at progressive tax rates of (i) 15%, if the total amount of income (excluding income from employment, self-employment, dividends, renumeration of board members and certain other types of income) received by a resident individual during a calendar year does not exceed the sum of 120 Lithuanian gross average salaries (in 2022, this figure would be EUR 180,492) and (ii) 20%, which will be applied to any income (excluding income from employment, self-employment, dividends, renumeration of board members and certain other types of income) received by a resident individual during a calendar year, exceeding the aforementioned threshold. Part of the capital gains received from the sale of securities (including the Notes) during the calendar year up to the amount of EUR 500 is exempt from personal income tax. The tax exemption will not apply if the sale proceeds are received from entities established in a tax haven or from individuals whose permanent place of residence is in a tax haven.

Capital gains (i.e., the difference between the sale price and acquisition costs) on disposal of the Notes received by a resident entity will be included into calculation of its taxable profit. Taxable profit will be subject to corporate income tax at a general rate of 15% or an incentive rate applicable to the Noteholder. Banks and credit unions, including branches of foreign banks in the Republic of Lithuania, shall pay additional 5% corporate income tax on profits (subject to special calculation rules) exceeding EUR 2 million.

Payments to Non-Lithuanian Holders

The disposition of Notes by non-resident individual or a non-resident entity which is not acting through a permanent establishment in Lithuania will not be subject to any Lithuanian income or capital gain tax.

Registration and Stamp Duty

Transfers of the Notes will not be subject to any registration or stamp duty in Lithuania.

Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall Lithuanian tax consequences of the ownership of the Notes.

SUBSCRIPTION AND SALE

General

Neither the Issuer nor the Dealer has made any representation in the Dealer Agreement related to issue of the Notes that any action will be taken in any jurisdiction by the Dealer or the Issuer that would permit a public offering of the Notes, or possession or distribution of this Prospectus (whether or not in final form) or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required. The Dealer has agreed that it will comply, to the best of its knowledge and belief in all material respects, with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Notes or has in its possession or distributes this Prospectus (whether or not in final form) or any such other material, in all cases at its own expense.

United States of America

The Notes have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver the Notes within the United States. Accordingly, neither it, its affiliates, nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes.

Prohibition of Sales to EEA Retail Investors

Dealer has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA. For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Prohibition of Sales to UK Retail Investors

The Dealer has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the UK. For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or

(ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of UK MiFIR.

United Kingdom

The Dealer has represented and agreed that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the UK.

Republic of Lithuania

Dealer has represented, warranted and agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy any Notes or distribute any draft or definite document in relation to any such offer, invitation or sale in the Republic of Lithuania other than in compliance with the Law of the Republic of Lithuania on Securities and any other laws applicable in the Republic of Lithuania governing the issue, offering and sale of Notes.

The Dealer Agreement

Dealer has represented, warranted and agreed that, to the best of its knowledge and belief, it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Prospectus or any related offering material, in all cases at its own expense. Other persons into whose hands this Prospectus comes are required by the Issuer and the Dealer to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any related offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealer shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealer.

Neither the Issuer or Dealer represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

GENERAL INFORMATION

Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in Lithuania, as applicable, in connection with the issue and performance of the Notes. The issue of the Notes was authorised by resolutions of the Management Board of the Issuer passed on 27 May 2022 and 1 June 2022.

Significant/Material Change

Since 31 December 2021 there has been no material adverse change in the prospects of the Issuer or the Issuer and its Subsidiaries nor any significant change in the financial position or performance of the Issuer or the Issuer and its Subsidiaries. In addition to that, there has been no significant change in the financial position of the Group which has occurred since 31 December 2021.

Auditors

PricewaterhouseCoopers UAB has audited the consolidated financial statements of the Group for the years ended 31 December 2021 and 31 December 2020. All these financial statements are attached as Annex 1 to this Prospectus. Audit company issued unqualified auditor's reports regarding all these financial statements.

PricewaterhouseCoopers UAB is a member of Lithuanian Chamber of Auditors.

Documents on Display

Electronic copies of the following documents (together with English translations thereof, where applicable) may be obtained from during normal business hours at the offices of the Issuer at Gedimino ave. 20, Vilnius, the Republic of Lithuania, or at www.epsog.lt for 12 months from the date of this Prospectus:

(i) the Articles of Association;

(ii) Sustainability-linked Financing Framework with the Sustainability-Linked Bond Principles;

(iii) Second Party Opinion issued by Cicero; and

(iv) this Prospectus.

In addition to that, an External Verifier will assess the Issuer's performance on the KPIs included in the Sustainability-Linked Note Framework on an annual basis as part of providing assurance on the integrated annual report of the Issuer. Such reports will be made available by the Issuer on its website at www.epsog.lt and (after the Notes are admitted to trading on Nasdaq Vilnius) on www.crib.lt and on www.nasdaqbaltic.com.

For the avoidance of doubt, unless specifically incorporated by reference to this Prospectus, information on the website of the Issuer does not form part of this Prospectus.

ISIN and Common Code

The Notes have been accepted for clearance through Nasdaq CSD. The International Securities Identification Number ("**ISIN**") for the Notes is LT0000406530.

Conflicts of Interest

There is no natural or legal person involved in the issue of the Notes and having an interest that is material to the issue of the Notes, other than the Dealer/Arranger and its affiliates who have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business. The Dealer/Arranger and its affiliates may have positions, deal or make markets, in the Notes, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of its business activities, the Dealer/Arranger and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer and its affiliates. The Dealer/Arranger and its affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, the Dealer/Arranger and its affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such positions could adversely affect future trading prices of the Notes. The Dealer/Arranger and its affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Second Party Opinion

The Issuer has appointed CICERO Shades of Green for an independent evaluation of the Sustainability-Linked Note Framework. The evaluation has resulted in the Second Party Opinion (the Framework and the Second Party opinion are both available on the Issuer's website (www.epsog.lt)).

No assurance or representation is given by the Issuer as to the suitability or reliability for any purpose whatsoever of the Second Party Opinion. For the avoidance of doubt, any such opinion or certification: (i) is not, nor shall be deemed to be, incorporated in and (or) form part of this Prospectus; (ii) is not, nor should be deemed to be, a recommendation by the Issuer or any other person to buy, sell or hold any Notes; and (iii) would only be current as of the date that it was initially issued. Prospective investors must determine for themselves the relevance of any such opinion or certification, the information contained therein and the provider of such opinion or certification for the purpose of any investment in the Notes.

Issuer Website

The Issuer's website is www.epsog.lt. Unless specifically incorporated by reference to this Prospectus, information contained on the website does not form part of this Prospectus and has not been scrutinised or approved by the Bank of Lithuania.

Validity of prospectus and prospectus supplements

For the avoidance of doubt, the Issuer shall have no obligation to supplement this Prospectus after the end of its 12-month validity period.

ANNEX I (IFRS CONSOLIDATED FINANCIAL STATEMENTS)

EPSOG
ENERGETIKOS EVOLIUCIJA

CONSOLIDATED AND THE COMPANY'S FINANCIAL STATEMENTS,
CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2021 AND
INDEPENDENT AUDITOR'S REPORT

PAGE

The financial statements were approved on 15 April 2022.

Algirdas Juozaponis Acting Chief Executive Officer	Žydrūnas Augutis Chief Financial Officer

Independent auditor's report

To the shareholder of EPSO-G UAB

Our opinion

In our opinion, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of EPSO-G UAB (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2021, and the Company's and the Group's separate and consolidated financial performance, and separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Company's and the Group's separate and consolidated financial statements comprise:

- the consolidated and the company's statement of financial position as at 31 December 2021;
- the consolidated and the company's statement of comprehensive income for the year then ended;
- the consolidated and the company's statement of changes in equity for the year then ended;
- the consolidated and the company's statement of cash flows for the year then ended; and
- the notes to the separate and consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

We are independent of the Company and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for 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 separate and consolidated 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 Statements.

Reporting on other information including the consolidated annual report

Management is responsible for the other information. The other information comprises the consolidated annual report (but does not include the separate and consolidated financial statements, our auditor's report thereon, and does not include Information on compliance with transparency guidelines, Notice of Compliance with the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius AB).

Our opinion on the separate and consolidated financial statements (together "the financial statements") does not cover the other information, including the consolidated 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 consolidated annual report, we considered whether the consolidated annual report includes the disclosures required by the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings, the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

On behalf of PricewaterhouseCoopers UAB

Rasa Radzevičienė
Partner
Auditor's Certificate No.000377

Vilnius, Republic of Lithuania
15 April 2022

The auditor's electronic signature is used herein to sign only the Independent Auditor's Report

(All amounts are in EUR thousands unless otherwise stated)

	Notes	GROUP At 31 Dec 2021	GROUP At 31 Dec 2020	COMPANY At 31 Dec 2021	COMPANY At 31 Dec 2020
Non-current assets					
Intangible assets	6	9,754	11,135	66	5
Property, plant and equipment	7	603 103	574,227	7	12
Right-of-use assets	8	11,127	9,829	213	307
Investments in subsidiaries	9			323,566	321,192
Deferred income tax assets	27	27,018	20,861	479	414
Non-current amounts receivable	12	4	105	-	-
Non-current portion of the balance of congestion management funds	24	-	18,041	-	-
Financial assets measured at fair value through other comprehensive income	10	781	1,089	-	-
Total non-current assets		651,787	635,287	324,331	321,930
Current assets					
Inventories	11	18,997	5,191	6	-
Prepayments and contract assets		3,712	3,431	204	132
Trade receivables	12	74,674	32,460	114	50
Other amounts receivable	13	106,767	83,315	11,339	27,663
Other financial assets	14	65,385	22,735	-	-
Cash and cash equivalents	15	41,284	5,113	36,868	3,362
Total current assets		310,819	152,245	48,531	31,207
TOTAL ASSETS		962,606	787,532	372,862	353,137
EQUITY AND LIABILITIES					
Equity					
Share capital	16	22,483	22,483	22,483	22,483
Revaluation reserve	17	310	406	-	-
Legal reserve	18	16,600	16,522	2,248	2,248
Other reserves	18	59,546	22,616	50	50
Retained earnings		160,775	160,232	168,002	155,446
Equity attributable to shareholders of the parent company		259,714	222,259	192,783	180,227
Non-controlling interest		11,884	10,805	-	-
Total equity		271,598	233,064	192,783	180,227
Liabilities					
Non-current liabilities					
Non-current borrowings	21	142,843	167,242	-	-
Other non-current financial liabilities	22	-	134,128	-	134,128
Lease liabilities	23	9,028	7,641	136	219
Congestion management funds	24	88,267	55,659	-	-
Provisions	25	1,877	5,313		
Other non-current amounts payable and liabilities	26	3,584	3,029	-	-
Total non-current liabilities		245,599	373,012	136	134,347
Current liabilities					
Current portion of non-current borrowings	21	24,399	26,959	-	2,560
Current borrowings	21	-	20,019	94,652	20,653
Current portion of other financial liabilities	22	84,128	14,481	84,128	14,481
Current portion of lease liabilities	23	1,395	1,523	83	90
Trade payables	28	75,433	36,118	284	87
Advance amounts received	29	57,867	14,891	-	-
Income tax liability	27	2,265	5,007	-	-
Current portion of congestion management funds	24	20,820	6,860	-	-
Provisions	25	3,795	885	-	-
Other current amounts payable and liabilities	30	175,307	54,713	796	692
Total current liabilities		445,409	181,456	179,943	38,563
Total liabilities		691,008	554,468	180,079	172,910
TOTAL EQUITY AND LIABILITIES		962,606	787,532	372,862	353,137

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

(All amounts are in EUR thousands unless otherwise stated)

	Notes	GROUP		COMPANY	
		2021	2020 (reclassified)	2021	2020 (reclassified)
Revenue	31	358,638	268,950	493	296
Other income	32	3,965	1 570	-	-
Dividend income and gain from disposal of associate	33	307	1,726	16,129	4,093
Total revenue , other income and gains		362,910	272,246	16,622	4,389
Operating expenses					
Expenses for purchase of balancing and regulating electricity		(91,007)	(29,688)		
Expenses for electricity system services		(61,860)	(81,741)		
Expenses for electricity technological needs		(40,165)	(15,190)	-	-
Expenses for natural gas system balancing service		(8,914)	(5,162)	-	-
Expenses for natural gas technological needs		(2,354)	(1,183)		
Depreciation and amortisation	6,7,8	(34,765)	(32,705)	(103)	(92)
Wages and salaries and related expenses		(35,423)	(30,400)	(2,408)	(1,769)
Repair and maintenance expenses		(6,469)	(6,890)	-	-
Levies and compulsory payments		(6,559)	(5,957)		
Telecommunications and IT maintenance expenses		(3,966)	(3,483)	(75)	(35)
Transport expenses		(3,021)	(2,317)	(31)	(37)
Write-off expenses of property, plant and equipment		(154)	(615)	-	-
Impairment expenses of property, plant and equipment		(17)	(233)	-	-
Write-off expenses of other assets		45	(65)		
Write-down allowance for inventory, expected credit losses of amounts receivable, impairment of investments		(255)	(471)	-	-
Other expenses		(23,226)	(13 959)	(673)	(522)
Total operating expenses		(318,110)	(230,058)	(3,290)	(2,455)
Operating profit		44,800	42,188	13,332	1,934
Financing activities					
Interest income		44	125	170	189
Interest expenses		(1,748)	(2,129)	(613)	(831)
Total finance costs, net value		(1,704)	(2,004)	(443)	(642)
Profit before income tax		43,096	40,183	12,889	1,292
Income tax					
Current year income tax expenses	27	(9,814)	(9,642)	-	-
Deferred income tax benefit/(expenses)	27	6,536	9,544	445	385
Total income tax		(3,278)	(98)	445	385
Profit for the period		39,818	40,085	13,334	1,677
Other comprehensive income that will not be reclassified subsequently to profit or loss					
Loss on revaluation of non-current financial assets	17,18	-	(61)	-	-
Effect of deferred income tax	27	-	9	-	-
Total other comprehensive income that will not be reclassified subsequently to profit or loss		-	(52)	-	-
Total comprehensive income for the period		39,818	40,033	13,334	1,677
Profit for the period is attributable to:					
Shareholders of the parent company		38,326	38,850	13,334	1,677
Non-controlling interest		1,492	1,235	-	-
		39,818	40,085	13,334	1,677
Total comprehensive income for the period is attributable to:					
Shareholders of the parent company		38,326	38,800	13,334	1,677
Non-controlling interest		1,492	1,233	-	-
		39,818	40,033	13,334	1,677

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

(All amounts are in EUR thousands unless otherwise stated)

		Equity attributable to shareholders of the Group								
GROUP	Notes	Share capital	Revaluation reserve	Revaluation reserve of financial assets	Legal reserve	Other reserves	Retained earnings	Subtotal	Non-controlling interest	Total
Balance at 1 January 2020		22,483	475	51	16,522	22,572	122,131	184,234	9,727	193,961
Comprehensive income										
Change in fair value of financial assets				(51)				(51)	(1)	(52)
Total other comprehensive income/(expenses) for the period	-	-	-	(51)	-	-	-	(51)	(1)	(52)
Profit for the period		-	-	-	-	-	38,850	38,850	1,235	40,085
Total comprehensive income/(expenses) for the period		-	-	(51)	-	-	38,850	38,799	1,234	40,033
Transfer to reserves		-	-	-	-	44	(44)	-	-	-
Depreciation of revaluation reserve and amounts written off			(69)				69	-	-	-
Dividends	19,33	-	-	-	-	-	(773)	(773)	(156)	(928)
Balance at 31 December 2020		22,483	406	-	16,522	22,616	160,232	222,259	10,805	233,064
Balance at 1 January 2021		22,483	406	-	16,522	22,616	160,232	222,259	10,805	233,064
Comprehensive income										
Profit for the period		-	-	-	-	-	38,326	38,326	1,492	39,818
Total comprehensive income/(expenses) for the period		-	-	-	-	-	38,326	38,326	1,492	39,818
Depreciation of revaluation reserve and amounts written off	17	-	(96)	-	-	-	96	-	-	-
Transfer to reserves		-	-	-	78	36,930	(37,008)	-	-	-
Dividends	19,33	-	-	-	-		(777)	(777)	(413)	(1,190)
Other movements							(94)	(94)	-	(94)
Balance at 31 December 2021		22,483	310	-	16,600	59,546	160,775	259,714	11,884	271,598

COMPANY	Notes	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2020		22,483	2,248	50	154,542	179,323
Comprehensive income/(expenses) for the period		-	-	-	1,677	1,677
Dividends	19,33	-	-	-	(773)	(773)
Balance at 31 December 2020		22,483	2,248	50	155,446	180,227
Balance at 1 January 2021		22,483	2,248	50	155,446	180,227
Comprehensive income/(expenses) for the period		-	-	-	13,334	13,334
Dividends	19,33	-	-	-	(777)	(777)
Balance at 31 December 2021		22,483	2,248	50	168,002	192,783

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

(All amounts are in EUR thousands unless otherwise stated)

	Notes	GROUP		COMPANY	
		2021	2020	2021	2020
Cash flows from operating activities					
Profit/(loss) for the period		39,818	40,085	13,334	1,677
Adjustments for non-cash items:					
Depreciation and amortisation expenses	6,7,8	34,765	32,705	103	92
Revaluation/impairment of property, plant and equipment	7,17	17	233	-	-
Expected credit losses /(reversal of losses) of amounts receivable		(79)	(248)	-	-
Income tax expenses	27	3,278	98	(445)	(385)
Grants recognised as revenue adjustment		(144)	-		-
Impairment of financial assets		213	719	-	-
Loss on disposal/write-off of property, plant and equipment		154	460	-	-
Elimination of results of financing and investing activities:					
Interest income		(44)	(100)	(170)	(189)
Interest expenses		1,748	2,038	613	831
Dividend income		(307)	(895)	(16,129)	(4,093)
Other finance (income)/costs		-	(765)	-	-
Changes in working capital:					
(Increase)/decrease in trade receivables		(35,973)	(8,713)	(64)	(12)
(Increase)/decrease in other amounts receivable		(29,526)	23,483	(211)	(60)
(Increase)/decrease in inventories, prepayments and other current assets		(15,137)	(2,738)	(78)	(51)
Increase/(decrease) in trade payables		36,557	2,897	241	(38)
Increase/(decrease) in other amounts payable, advance amounts received		166,370	(48,969)	104	267
Changes in other financial assets		(24,637)	(2,394)	-	-
Income tax (paid)/received		(12,669)	(5,749)	380	385
Net cash flows from/(used in) operating activities		164,404	32,147	(2,322)	(1,500)
Cash flows from investing activities					
(Acquisition) of property, plant and equipment and intangible assets		(114,633)	(137,967)	(65)	(7)
Disposal of property, plant and equipment and intangible assets		251	438	-	-
(Acquisition)/disposal of subsidiaries (associates)		-	1,652	(2,375)	-
Loans (granted)/loan repayments received		-	-	16,535	(20,020)
Grants received	20	57,548	26,964	-	-
Congestion management funds received	13,24	44,505	30,748	-	-
Interest received		28	96	170	189
Dividends received		307	895	16,129	4,093
Other cash flows from investing activities		-	46	-	-
Net cash flows from/(used in) investing activities		(11,994)	(77,128)	30,394	(15,745)
Cash flows from financing activities					
Proceeds from borrowings	21	-	60,000	94,017	-
Repayments of borrowings	21	(26,959)	(30,404)	(2,560)	(2,560)
Lease payments	23	(1,694)	(1,559)	(91)	(81)
Overdraft/current borrowings		(20,019)	20,019	(20,019)	20,654
Interest paid		(1,939)	(2,467)	(655)	(1,014)
Dividends paid		(1,147)	(962)	(777)	(773)
Repayment of other financial liabilities	21, 22	(64,481)	(8,003)	(64,481)	(7,965)
Net cash flows from/(used in) financing activities		(116,239)	36,624	5,434	8,261
Net increase/(decrease) in cash and cash equivalents		36,171	(8,357)	33,506	(8,984)
Cash and cash equivalents at the beginning of the period	15	5,113	13,470	3,362	12,346
Cash and cash equivalents at the end of the period	15	41,284	5,113	36,868	3,362

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

(All amounts are in EUR thousands unless otherwise stated)

1. General information

EPSO-G UAB (the "Company") is a private limited liability company registered in the Republic of Lithuania. The registered office address is Gedimino pr. 20, LT- 01103, Vilnius, Lithuania. The Company is a profit-seeking limited civil liability entity registered on 25 July 2012 with the Register of Legal Entities, company code 302826889.

EPSO-G is the parent company responsible for the activities of the group companies that include assurance of an uninterrupted, stable transmission of electricity over high voltage networks and transportation of natural gas via high pressure gas pipelines, as well as ensurance of management, maintenance and development of these transmission systems as well as organisation of trade on the natural gas and biofuel exchanges; and installation and management of electricity storage facilities operating as the primary capacity reserve and ensuring reliable, stable and consumer-focused operation of the Lithuanian electricity system.

Under the Resolution of the Government of the Republic of Lithuania of 23 August 2021, the Company was designated as an operator of the project of special importance to the state, i.e., the construction of the physical barrier at the border with Belarus (the "Project"). In performing the functions of the operator, the Company incurred the project administration expenses that are compensated by the client of the project – the State Border Guard Service under the Ministry of Interior of the Republic of Lithuania. Scopes of works performed and services provided (expenses incurred) by the Company and the Group until 31 December 2021 are disclosed in Note No. 34.

EPSO-G provides management services to the subsidiaries and the lower-tier subsidiaries. The purpose of the provision of management services is to increase the efficiency of operations of the EPSO-G group companies, optimise the use of resources, and implement uniform standards of operations. These services are provided in accordance with the agreements concluded through a public procurement process.

As at 31 December 2021 and 2020, the Company's share capital amounted to EUR 22,482,695. As at 31 December 2021 and 2020, the share capital was divided into ordinary registered shares with the nominal value of EUR 0.29 each. All the shares are fully paid.

The Company's shareholder	At 31 December 2021		At 31 December 2020	
	Share capital (EUR)	%	Share capital (EUR)	%
Republic of Lithuania represented by the Ministry of Energy of the Republic of Lithuania	22,482,695	100	22,482,695	100

The Company's management approved these financial statements on 15 April 2022. The shareholder of the Company has a statutory right not to approve these financial statements and require that the management prepares a new set of financial statements.

As at 31 December 2021, the EPSO-G group had 1,278 employees (31 December 2020: 1,081 employees) and the Company had 74 employees (31 December 2020: 32 employees).

The EPSO-G group (the "Group") consists of the Company, directly and indirectly controlled subsidiaries set out below.

Company name	Registered office address	Ownership interest (%)		Profile of activities
		At 31 Dec 2021	At 31 Dec 2020	
SUBSIDIARIES				
LITGRID AB	Karlo Gustavo Emilio Manerheimo g. 8, Vilnius	97.5	97.5	Electricity transmission system operator
Amber Grid AB	Laisvės pr. 10, Vilnius, Lithuania	96.6	96.6	Natural gas transmission system operator
BALTPOOL UAB	Žalgirio g. 90, Vilnius, Lithuania	67.0	67.0	Operator of the exchange for trading in energy resources (biomass products), the administrator of PSO funds*
TETAS UAB	Senamiesčio g. 102B, Panevėžys, Lithuania	100	100	Transformer substation, distribution station and electricity line design, construction, reconstruction and maintenance services
GET Baltic UAB (controlled through Amber Grid AB)	Geležinio Vilko g. 18A, Vilnius, Lithuania	96.6	96.6	Organisation of trading on the natural gas exchange

Energy Cells, UAB	Gedimino pr. 20, Vilnius	100	-	Installation and management of electricity storage facilities

*According to the Resolution of 7 November 2012 of the Government of the Republic of Lithuania, starting from 1 January 2013, Baltpool was appointed as administrator of the funds of public service obligations (PSO) in the electricity sector.

The Group's investments in the joint ventures are as follows:

Company name	Registered office address	The Group's shareholding, %		Profile of activities
		At 31 Dec 2021	At 31 Dec 2020	
LitPol Link Sp.z.o.o	Wojciecha Gorskiego 900-033 Warsaw, Poland	-	50.0	Liquidated

On 19 June 2019, the Polish and the Lithuanian transmission system operators Polskie Sieci Elektroenergetyczne and LITGRID, the sole shareholders of subsidiary LitPol Link, each holding 50% of the company's shares, decided to liquidate the company. The Group's share of monetary funds equal to EUR 45.6 thousand was received on 15 October 2020. LitPol Link Sp.z.o.o was liquidated on 10 March 2021.

On 7 July 2020, the Group company LITGRID together with Ignitis Grupė UAB completed the transaction under the share purchase-sale agreement regarding the sale of shares of Duomenų Logistikos Centras UAB. Under the agreement, the Group sold 20.36% of shares and Ignitis Grupė sold 79.64% of shares of Duomenų Logistikos Centras UAB. After the sale of shares held, the Group received EUR 1,652 thousand on 7 July 2020. Gain on disposal of shares amounting to EUR 831 thousand was accounted for in the statement of comprehensive income.

Investments in subsidiaries are described in more detail in Note 9.

On 26 January 2021 the Company established a wholly-owned subsidiary Energy Cells, UAB. The function of the newly established company is the installation of energy storage facilities with the total combined power and storage capacity of 200 megawatts. Energy storage facilities will serve as the primary capacity reserve ensuring reliable, stable and consumer-focused operation of the Lithuanian electricity system until the completion of the synchronisation with the continental European networks and in the future they will be used for the integration of rapidly growing renewable energy sources into the existing electricity transmission system.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Group's and the Company's financial statements for the year ended 31 December 2021 are presented below.

2.1 Basis of preparation

The Group's and the Company's financial statements for the year ended 31 December 2021 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

These financial statements have been prepared on a historical cost basis, except for property, plant and equipment which is recorded at revalued amount, less accumulated depreciation and estimated impairment losses, and financial assets measured at fair value through other comprehensive income.

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

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

The accounting policies applied in the preparation of the financial statements are consistent with those of the previous financial year, except as follows:

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

The following IFRSs, amendments thereto and IFRIC interpretations were adopted by the Company for the first time in the financial year ended 31 December 2021:

COVID-19-related rent concessions – Amendments to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 January 2020). An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30

June 2022. The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The Group and the Company believe these amendments have no material impact on the financial statements, since neither the Group nor the Company are subject to COVID-19-related rent concessions.

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (effective for annual periods beginning on or after 1 January 2020) The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.

The IBOR reform had no impact on the Company and the Group because all loans received and planned to be received and interest-bearing financial liabilities are linked to EURIBOR. Therefore, there was no need to apply the alternative benchmark interest rates. The change of a method for the determination of EURIBOR (i.e., transition from the quoted price-based methodology to the transaction-based methodology) had no impact on the interest rates applied as all loans linked with EURIBOR are subject to 12-month EURIBOR. In the opinion of the Group and the Company, these changes have no significant effect on the financial statements.

b) The following standards, amendments and interpretations were endorsed by the European Union, but are not yet effective and have not been early adopted by the Company:

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).

- The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.
- The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.
- IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.
- The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.
- Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.
- IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent.
- The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

The Group and the Company are currently assessing the impact of these amendments on the financial statements.

c) Standards, interpretations and their amendments that have not yet been adopted by the European Union and that have not been early adopted by the Company

IFRS 14 Regulatory deferral accounts (effective for annual periods beginning on or after 1 January 2016. The adoption of the standard was deferred until the preparation of its final version). IFRS 14 will permit first-time adopters to recognise amounts related to rate regulation in accordance with their GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard, i.e., it must present the effect of rate regulation separately from other items.
The new provisions of the standard are not relevant for the Group and the Company, since IFRS transition occurred in the previous periods.

Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28 (effective for annual periods beginning on the date which will be established by the International Accounting Standards Board (IASB) or on the later date). 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. 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 the sale of the assets that do not constitute a business, even if these assets are held by a subsidiary.
In the opinion of the Group and the Company, these amendments will have no significant effect on the Company's and the Group's financial statements.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.
Classification of liabilities as current or non-current, deferral of the effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.
The Group and the Company are currently assessing the impact of these amendments on their financial statements.

Disclosure of accounting policies – Amendments to IAS 1 and IFRS Practice Statement 2 (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.
The Group and the Company are currently assessing the impact of these amendments on their financial statements.

Definition of accounting estimates – Amendments to IAS 8 (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.
The Group and the Company are currently assessing the impact of these amendments on their financial statements.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. Amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

The Group and the Company are currently assessing the impact of these amendments on their financial statements.

Principles of consolidation

Subsidiaries

Subsidiaries are all entities that the Company has a power to exercise control over the entity to which investment is made (i.e., has effective rights that at the current moment grant the right to control relevant activities). The Company controls an entity when it can or has a right to receive variable returns from this relation and it can have impact on these returns due to the power to govern the entity to which the investment is made.

The consolidated financial statements of the Group include EPSO-G and its subsidiaries. The financial statements of the subsidiaries have been prepared for the same reporting periods and using uniform accounting policies as those of the parent company's financial statements.

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

Business combinations

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

Other business combinations are accounted for under the acquisition method. The cost of an acquisition is measured as the fair value of the assets transferred, the equity interest issued and liabilities incurred or assumed at the date of exchange. Transaction costs related to the acquisition of and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

The acquiree's assets acquired, liabilities and contingent liabilities assumed meeting recognition criteria laid down in IFRS 3 *Business combinations* are identified. They are recognised at their fair values at the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Change in ownership interest in subsidiaries resulting in no change in control.

Transactions with non-controlling interests that do not result in a loss of control are accounted for as transactions with the equity owners that are recorded in equity. The difference between the fair value of the consideration paid and the carrying amount of the relevant share of net assets of the acquired subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Investments in associates and joint ventures

An associate is an entity over which the Group/Company has significant influence but no control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Significant influence generally accompanies a shareholding of between 20% to 50% of the voting rights.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

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

The Group's share of the acquired associate's and joint venture's post-acquisition profits or losses is recognised in profit or loss, and the Group's share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The carrying amounts of investments in associates are adjusted by these amounts.

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

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

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

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

Gains and losses on decrease in ownership interest in an associate are recognised in profit or loss .

2.2 Investments in subsidiaries, associates and joint ventures (in the Company's separate financial statements)

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

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

2.3 Assets held for sale and discontinued operations

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

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

2.4 Property, plant and equipment and intangible assets

<u>Property, plant and equipment</u>

All property, plant and equipment is shown at revalued amounts, based on periodic (at least every 5 years) property valuations, less the amounts of accumulated depreciation, recognised grants and impairment losses.

Fair value is established for each cash generating unit (electricity and gas grid) by applying income approach; the impairment loss being the difference between fair value and carrying value of assets is allocated to all individual assets of the cash generating units in proportion to their carrying value.

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

Capitalisation of borrowing costs. General and specific 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, the capitalisation rate is applied to costs attributable to the acquisition of a qualifying asset.

Variable considerations, which depend on future events, are excluded from the carrying amount of the asset at the time it is ready for its intended use, and no liability is recognised in respect of those variable considerations. Variable considerations are capitalised as part of the cost of the asset at the time they are paid.

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'.

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

Property, plant, and equipment is recorded at acquisition (production) cost, less grants received/receivable for the acquisition of property, property, plant, and equipment. Grants comprise financing from the EU support funds, a portion of congestion management revenue designated for the financing of investments, payments for the expenses incurred during the connection of producers to the transmission network and performance of works for the relocation/reconstruction of the transmission network's installations initiated by customers.

Intangible assets

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

After initial recognition, intangible assets are carried at cost, less accumulated amortisation and accumulated impairment losses, if any.

Depreciation and amortisation

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

Categories of property, plant and equipment and intangible assets	Useful lives (in years)
Buildings	20 - 75
Structures and equipment	18 - 70
Plant and machinery	5 - 35

Motor vehicles	4 - 10
Other property, plant and equipment	3 - 10
Intangible assets, whereof:	3 - 4
Statutory servitudes and protection zones of the transmission network	Not subject to amortisation

Statutory servitudes and protection zones have an indefinite useful life because the right to use protection zones on the basis of servitude is unlimited in time.

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

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

2.5 Impairment of property, plant and equipment and intangible assets

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying value, the carrying value of the asset (cash-generating unit) is reduced to its recoverable value. The impairment loss is recognised immediately in profit or loss, unless such an asset was previously revalued. In that case, the impairment loss is accounted for as decrease in revaluation reserve.

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

Each year the Group and the Company estimate the recoverable amount of intangible assets with the indefinite life in order to estimate the impairment of such assets (if any).

2.6 Right-of-use assets

Right-of-use assets are assets that the Group and the Company have the right to manage during the lease term. The Group and the Company recognise right-of-use assets for all types of leases, including the lease of a right-of-use asset in case of sublease, but excluding leases of intangible assets, short-term leases and leases of low value assets.

Initial measurement of right-of-use assets

At the commencement date, the Group and the Company measure right-of-use assets at cost, which consists of: the present value of the initial measurement of the lease liability, initial costs incurred directly attributable to the underlying asset, any lease payments at the commencement date, less any lease incentives.

Subsequent measurement of right-of-use assets

After the initial recognition, the Group and the Company apply a cost method for right-of-use assets: the carrying amount of the asset at the respective date is calculated as the difference between the acquisition cost and the accumulated depreciation, plus any subsequent adjustments for the remeasurement of lease liability.

The calculation of depreciation of right-of-use assets is started from the date on which the assets are transferred for the use (the commencement date) until the earlier of these dates: the end of the lease term and the end of the useful life.

The Company calculates depreciation of right-of-use assets using the following useful lives:

Land*	99 years
Buildings	from 2 to 10 years
Motor vehicles	from 2 to 4 years
Other property, plant and equipment	from 2 to 3 years

* The Group applies the portfolio method for the land lease agreements concluded with the municipalities not by auction, i.e., a set of the agreements of a respective Group company is accounted for as a single agreement due to similar criteria. Regardless of the remaining term of the land lease agreement, in accordance with the requirements of the legal acts, the agreements must be extended for as long as the facilities of the Group companies exist on the land plots. When assessing the flow generated by the infrastructure assets of the Group companies (for the calculation of the recoverable amount of assets), an infinite flow is projected as the ongoing reconstruction and repair works allow using the assets for a longer period than the established original depreciation rates. For this reason, the lease of land is subject to a substantially infinite rate corresponding to the original term of the agreement – 99 years.

2.7 Financial assets

For the purposes of applying IFRS 9 *Financial instruments* financial assets are classified into the following three categories:

- financial assets subsequently measured at amortised cost;
- financial assets subsequently measured at fair value through other comprehensive income; and
- financial assets subsequently measured at fair through profit or loss.

The business model applied to the group of financial assets is determined at a level that reflects how all groups of financial assets are managed together to achieve a particular business objective. The intentions of the management regarding separate instruments have no effect on the applied business model. The Group and the Company may apply more than one business model to manage their financial assets.

The business model for managing financial assets is a matter of facts which are typically observable through the activities that the Group and the Company undertake to achieve the objective of the business model.

The Group and the Company recognise a financial asset in the statement of financial position when, and only when, the Group and the Company become party to the contractual provisions of the instrument. The purchase or sale of financial assets is recognised and derecognised, as applicable, using the trade date accounting.

At initial recognition, the Group and the Company measure financial assets at fair value, except for trade receivables that do not have a significant financing component. When a financial asset is not measured at fair value through profit or loss, the initial measurement of the financial asset includes the fair value of the instrument and transaction costs directly attributable to the acquisition of the financial asset.

Transaction costs comprise all fees and commissions that the Group would not have paid if it had not entered into an agreement on the financial instrument.

If the fair value of the financial asset at initial recognition differs from the transaction price, the difference is recognised in profit or loss, except for Level 3 financial assets (i.e. assets with fair established with reference to unobservable market inputs).

In view of the business model applied for managing the group of financial assets, the accounting for financial assets is as follows:

<u>Financial assets measured at amortised cost</u>

Cash and cash equivalents comprise cash balances in the Group's and the Company's bank accounts and their equivalents in various currencies the use of which is not restricted. Cash equivalents comprise 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.

Loans granted by the Group and amounts receivable are accounted for under the business model the purpose of which is to hold financial assets in order to collect contractual cash flows that can contain cash flows related to the payment of the principal amount and interest inflows.

Loans and amounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the date of the statement of financial position. These are classified as non-current assets.

Loans and receivables are initially recognised at cost (the fair value of consideration receivable) and subsequently carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when loans and receivables are derecognised, impaired or amortised.

Financial assets measured at fair value through profit or loss

The Group and the Company measure financial assets, which are stated at fair value in subsequent periods, through profit or loss, using the business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Company does not have any financial assets held for trading and acquired for the purpose of selling in the near term and attributes to this category only financial assets arising from the disposal of business or investments classified as non-equity contingent consideration.

Financial assets measured at fair value through other comprehensive income

The Group had assets related to equity securities that was classified with respect to fair value changes under the category of financial assets measured at fair value through comprehensive income.

Effective interest method

The effective interest method is used in the calculation of the amortised cost of a financial asset and in the allocation of the interest revenue in profit or loss over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash inflows through the expected life of the financial asset to the gross carrying amount of the financial asset that shows the amortised cost of the financial asset, before adjusting for any loss allowance. When calculating the effective interest rate, the Group and the Company estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, option to purchase and similar options) but does not consider the expected credit losses. The calculation includes all fees and other amounts paid or received by the parties to the contract, and which are an integral part of the effective interest rate, transaction costs, as well as any other bonuses or discounts. The calculation of the effective interest rate assumes that the cash flows and the expected life of a similar group of financial instruments can be measured reliably. When it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or a group of financial instruments), the Group and the Company use the contractual cash flows over the entire validity period of the financial instrument (or a group of financial instruments) established in the contract.

Expected credit losses

Credit losses incurred by the Group and the Company are calculated as the difference between the total contractual cash flows that are due to the Group and the Company in accordance with the contract and the total cash flows that the Group and the Company expect to receive (i.e., the total cash shortfalls), discounted at the original effective interest rate. The Group and the Company estimate cash flows by considering all contractual terms of the financial instrument through the expected life of that financial instrument, including cash flows from the collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses show the weighted average of credit losses with the respective risks (probability) of a default occurring as the weights.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the period from the date of initial recognition of a financial asset to the subsequent date of settlement of the financial asset or ultimate write-off of the financial asset.

The Group and the Company recognise lifetime expected credit losses before a financial instrument becomes past due. Typically, credit risk increases significantly before a financial instrument becomes past due or other borrower-specific delay factors (for example, a modification or restructuring) are observed. Consequently, when reasonable and supportable information that is more forward-looking than past due information is available without undue cost or effort, it must be used to assess changes in credit risk.

Expected credit losses are recognised by taking into consideration individually or collectively assessed credit risk of loans granted and trade receivables. Credit risk is assessed based on all reasonable and verifiable information including forward-looking information.

The lifetime expected credit losses of trade receivables are assessed based on the individual assessment basis. The management decides on the performance of the assessment on an individual basis reflecting the possibility of obtaining information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information that would allow to timely determine whether there has been a significant increase in the credit risk of that particular borrower, thus enabling making judgement on the recognition of lifetime expected credit losses in respect of that particular borrower.

The lifetime expected credit losses of trade receivables are recognised at the time of recognition of amounts receivable.

When issuing a loan, 12-month expected credit losses are assessed and accounted for. In subsequent reporting periods, in case there is no significant increase in credit risk related to the borrower, the balance of 12-month expected credit losses is adjusted in view of the outstanding balance of the loan at the assessment date. Having determined that the financial position of the borrower has deteriorated significantly compared to the financial position that existed upon the issue of the loan, all lifetime expected credit losses of the loan are accounted for. The latest point at which the Group and the Company recognise all lifetime expected credit losses of the loan issued is identified when the borrower is late to pay a regular instalment or the entire debt for more than 30 days. In case of other evidence available, all lifetime expected credit losses of the loan issued are accounted for, irrespective of the more than 30 days past due presumption. Loans for which lifetime expected credit losses were calculated are considered credit-impaired financial assets.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:
a) significant financial difficulties of the borrower;
b) a breach of contract, such as failure to pay the debt or a regular instalment in due time;
c) a concession granted to the borrower due to economic or contractual reasons relating to the borrower's financial difficulties, which otherwise would not be granted by the lender;
d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties;
f) financial assets are purchased or granted at a deep discount that reflects the incurred credit losses.
The combined effect of several events that may occur simultaneously or subsequently throughout the term of validity of the agreement on the financial assets may have caused financial assets to become credit-impaired.
The lifetime expected credit losses of loans receivable and trade receivables are recognised in profit or loss through the contrary account of doubtful receivables.
The Group derecognises loans receivable and trade receivables when it loses the right to receive contractual cash flows from financial assets.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, i.e. to realize the assets and settle the liabilities simultaneously.

Derecognition of financial assets

The Group and the Company derecognise financial assets when:
- the rights to receive cash flows from the asset have expired;
- the Group and the Company have retained the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Group and the Company have transferred their right to receive cash flows from the asset and/or (a) have transferred substantially all the risks and rewards of the asset, or (b) have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset:
- if the Group and the Company have not retained control, they shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;
- if the Group and the Company have retained control, they shall continue to recognise the financial asset to the extent of their continuing involvement in the financial asset.

Whether the Group and the Company have retained control of the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, it is considered that the Group and the Company have not retained control. In all other cases, the Group and the Company have retained control.

2.8 Inventories

Inventories are initially recorded at the acquisition cost. Subsequent to initial recognition, inventories are stated at the lower of cost and net realisable value. The acquisition cost of inventories includes the acquisition price and related taxes that are not subsequently recovered from the tax administration authorities and the costs associated with bringing inventory into their current condition and location. The acquisition cost of inventories (other than natural gas) is determined on the first-in, first-out (FIFO) basis. The cost of the remaining amount of natural gas is determined using the weighted average cost. Inventories that are no longer expected to be realised are written off. Net realisable value is the estimated selling price, less the estimated costs of completion and selling expenses.

2.9 Trade payables and other financial liabilities, borrowings

Financial liabilities, borrowings

Financial liabilities are recognised initially at fair value, less transaction costs.

In subsequent periods, financial liabilities are measured at amortised cost using the effective interest rate method. Interest expenses are recognised using the effective interest method.

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

Trade payables

Trade payables represent commitments to pay for goods and services acquired from suppliers in the ordinary course of business. Trade payables are classified as current liabilities if the term of their settlement is not longer than one year; otherwise they are included in non-current liabilities.

Derecognition of financial liabilities

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

2.10 Dividend distribution

Dividend distribution to the Group's and the Company's shareholders and to non-controlling shareholders of subsidiaries is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Group's and the Company's shareholders.

2.11 Foreign currency

In the consolidated financial statements, results of operations and financial position of each entity of the Group are presented in the euros, which is the functional currency of the Company and its subsidiaries and the presentation currency of the Group's consolidated financial statements. All financial information presented in the euros has been rounded to the nearest thousand unless otherwise stated. Due to rounding effects, some of the tabular amounts may not add up.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or at the dates of measurement (if the line items are being remeasured). Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

2.12 Grants

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

Asset-related grants

The government and the EU grants received in the form of property, plant and equipment or intended for the purchase of property, plant and equipment are considered as asset-related grants. These grants are accounted for by reducing by the carrying amount of respective property, plant and equipment. For the purpose of the statement of comprehensive income, grants are recorded by reducing the depreciation charge of the related asset over the expected useful life of the asset.

Public service obligations (PSO) funds allocated to the Group for the preparation and implementation of the strategic projects and a portion of congestion management funds, which is used to finance investments agreed with the National Energy Regulatory Council, are recognised as asset-related grants.

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

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

Income-related grants

Income-related grants include government and the European Union grants received as a compensation for the expenses or unearned income of the current or previous reporting period and also comprise all the grants which are not grants related to assets, are considered as grants related to income. 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.

Income-related grants are recognised in profit or loss by increasing other income over the period in which the grant is received or when there is reasonable assurance that the grant will be received and that the Company complies with the conditions for the allocation of the grant established in the grant agreement.

2.13 Provisions

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

Provisions for servitudes and for registration of protection zones of the transmission network are recognised only when the Group has a legal obligation or irrevocable commitment, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Expenses related to provisions for servitudes are recognised as non-current intangible assets in view of the amounts to be compensated. If the effect of the time value of money is material, provisions are discounted using the effective interest rate (before tax) for the period, taking into account the specific risk of the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Compensations to landowners and expenses for the registration of protection zones are accounted for by reducing provisions, and the recalculation of provisions due to a change in assumptions is accounted for as a change in the value of intangible assets (Note 3).

2.14 Employee benefits

Social security contributions

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

Variable part of remuneration

The Company and the Group recognise the liability and expenses for a variable component of remuneration based on the achievement of the pre-defined results by the Group and the Company and their employees. The Group and the Company recognise the liability and expenses for a variable component of remuneration where contractually obliged or where there is a past practice that has created a constructive obligation.

Pension benefits to employees of retirement age

According to the legal acts of the Republic of Lithuania, each employee leaving the Group and the Company at the retirement age is entitled to a one-off benefit. Employee benefit liability is recognised in the balance sheet and it reflects the present value of these benefits at the reporting date. The above-mentioned long-term employee benefit liability as at the reporting date is calculated with reference to actuarial valuations using the projected unit credit method. The present value of the defined non-current employee benefit obligation is determined by discounting the estimated future cash flows using the effective interest rates as set for government debentures denominated in a currency in which payments to employees are expected to be made and with maturity similar to that of the related liability.

2.15 Lease liabilities

The Group and the Company as the lessees

Initial measurement of lease liability

The amount of the initial measurement of lease liability is calculated as the present value of lease payments not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The incremental borrowing rate (or interest rate implicit in the lease if it determinable) is the rate at which the Group and the Company would be able to borrow funds for the purpose of acquiring certain assets for a respective period.

At the commencement date, lease payments included in the measurement of a lease liability include:

- fixed lease payments less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be payable by the Group and the Company under residual value guarantees;
- the exercise price of the purchase option, if exercise of that option by the Company is reasonably certain;
- fines for the termination of the lease, if it is assumed that the Group and the Company will exercise the option to terminate the lease during the lease term.

Subsequent measurement of lease liability

Subsequent to initial recognition, changes in the value of the Group's and the Company's lease liability are reflected by:

- increasing the value of the liability by the amount of interest charged;
- reducing the carrying amount by the lease payments made;
- remeasuring the liability for lease modifications or revised payments.

Interest expenses related to lease liabilities for each period during the lease term represent the amount that results in a constant periodic interest rate on the remaining amount of the lease liability. The periodic interest rate is the discount rate or, if applicable, the revised discount rate.

Remeasurement of lease liability

Subsequent to initial recognition, the lease liability is remeasured to reflect changes in lease payments. The Group and the Company treat remeasurements as adjustments to the right-of-use assets. If the carrying amount the right-of-use assets is reduced to zero and the lease liability is reduced as well, the Group and the Company recognise any remaining remeasurement amount in profit or loss.

Revised discount rate

The Group and the Company remeasure the lease liability by discounting the revised lease payments using the revised discount rate if the lease term changes. The Group and the Company calculate the revised lease payments on the basis of the revised lease term or whenever there is a change in the option to purchase the leased property, depending on events and circumstances, in the context of the option to purchase.

In the event of a change in the lease term or a change in the assessment of a purchase option, the Group and the Company set the revised discount rate as the lessee's incremental borrowing rate (or rate implicit in the lease if it can be determined) at the remeasurement date.

Unchanged discount rate

The Group and the Company determine the revised lease payments for the remaining lease term on the basis of the revised contractual payments.

For the purpose of discounting revised lease payments, the Group and the Company use the unchanged discount rate unless lease payments change due to changes in variable interest rates. In this case, the Group and the Company use a revised discount rate that reflects changes in the interest rate.

Lease modifications

The Group and the Company treat a lease modification as a separate lease if both of the following conditions are met:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets;

and

- the consideration for the lease increases by an amount equivalent to the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a modification that is not a separate lease, at the effective date of the modification the Group and the Company:
- allocates the consideration in the modified contract;
- establishes the term of the modified lease; and
- remeasures the lease liability by discounting the revised lease payments using the revised discount rate.

When a lease modification is not accounted for as a separate lease, the Group and the Company account for the adjustment to the lease liability:
- by decreasing the carrying amount of the right-of-use assets to reflect the full or partial termination of the lease due to lease modifications by which the scope of the lease is reduced. Any gain or loss related to a full or partial termination of the lease is recognised by the Group and the Company in profit or loss;
- by making a corresponding adjustment to the right-of-use asset for all other lease modifications.

The Group and the Company present lease liabilities separately from other liabilities in the statement of financial position. Interest expenses related to lease liabilities are reported separately from the depreciation of the right-of-use assets. Interest expenses related to lease liabilities is a component of finance costs which is presented in the statement of comprehensive income.

2.17. Leases

The Group is a lessor
Operating lease income is recognised on a straight-line basis over the lease term.

2.18 Revenue recognition

Revenue from contracts with customers

The Group's revenue is recognised according to a single, principles based five-step model that is applied to all contracts with customers. The Group recognises revenue from the provision of services in the reporting period during which the performance obligation is satisfied, i.e., the control of services or goods is transferred to the customer. This control may be transferred over time or at a point in time. For certain service contracts, revenue is recognised on the basis of the actual service provided before the end of the reporting period as part of the total services to be provided, as the customer benefits from and uses the services simultaneously.

Revenue from electricity transmission and related services

Electricity revenue from contracts with customers comprises revenue from electricity transmission, system services, trade in imbalance and balancing electricity and revenue from connection of new consumers. The Group recognises electricity revenue from contracts with customers in the reporting period during in which the performance obligation is satisfied, i.e., the control of the good is transferred or the service is provided, except for revenue from connection of new consumers, which is recognised by the Group over the useful life of the created asset (change in the accounting principles is described in this note). When recognising revenue the Group takes into consideration the terms of contracts signed with customers and all significant facts and circumstances, including the nature, amount, timing and uncertainty relating to cash flows arising from the contract with the customer. The main sale contracts are signed for the term of one year and coincide with the reporting period. Values are not retrospectively adjusted, and contract modifications are rare.

Prices for the electricity transmission services are regulated by the National Energy Regulatory Council (NERC) by establishing the upper limit of the prices for the transmission service. Specific prices and tariffs for the transmission services are established by the

Group company within the limits approved by NERC. When establishing prices for the next year, deviations of the current year (the year not yet ended) and deviations of the previous year (the year that already ended) and various forecasts for the upcoming year are assessed, i.e., they increase or decrease the prices for the next year, i.e., the prices are not adjusted retrospectively. All possible price adjustments in the future periods for excess profit/higher loss incurred in the previous/current years are not treated as a variable part of the price under IFRS 15. Such decrease (due to excess profit earned) or increase (due to higher expenses incurred) in future revenue does not meet the general accounting criteria for the recognition of liabilities or assets because it depends on the Group's operations in the future and is treated as regulatory assets or liabilities and therefore, in the opinion of the Group's management, it does not fall within the scope of IFRS 15.

The Group purchases system services from the producers and later provides this service to the distribution network operators and electricity consumers using the tariff established by NERC. The Group recognises the gross amounts of revenue as it acts as a principal in the provision of system services.

Revenue from natural gas transmission and related services

Revenue from system users for the natural gas transmission service is recognised on a monthly basis with reference to the available 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 natural gas transmission system and from disbalance charges is related to management of gas flows in order to ensure operation of the natural gas transmission system in line with an acceptable pressure range. Revenue from technological balancing of natural gas is related to changes in volumes of natural gas contained in the pipelines. Proceeds from sale of such gas to a buyer are recorded as revenue when the ownership of gas is passed on to the buyer.

Revenue from construction, repair and technical maintenance services

Revenue from construction projects is generally recognised over the period in which services are rendered. The Group uses the percentage-of-completion method to determine the appropriate amount of revenue to recognise in a given period. The stage of completion is measured by reference to the construction contract costs actually incurred to the reporting date as a percentage of the total estimated costs for each construction contract. The total sum of planned costs is reassessed upon the change of circumstances and increase or decrease in recognised revenue is accounted for in the reporting period when the Group becomes aware of the change of circumstances. When it is probable that total estimated contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Project contract costs are recognised as expenses in the period in which they are incurred.

Revenue from repair and technical maintenance services is recognised at a point in time, i.e., during the reporting period in which the services were rendered, by reference to stage of completion of the specific transaction.

Contract assets and contract liabilities

A contract asset is the right to consideration in exchange for goods or services transferred to the customer, if the right to consideration is not conditional on the passage of time. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). A contract liability is recognised as revenue when the Group satisfies a performance obligation.

Revenue from trading on the natural gas exchange and related services

On the natural gas exchange, the Group is not a principal, but it acts as an agent. Revenue from the trading on the exchange is measured according to the agent's (intermediary's) fee specified in the contract with the customer and does not comprise amounts collected on behalf of third parties. Therefore, the amounts collected for gas sold on the exchange are not recognised as revenue.

Other services provided by the Group include the organisation of trade on the gas exchange under the service fees agreed with NERC:
- The initial registration fee – a one-off fee paid upon becoming the participant of the exchange;
- The annual membership fee – the exchange participant's fee paid each year for the membership on the exchange. This revenue is recognised over a period of time, because the exchange participant receives benefit of the membership over the course of the year. The annual membership fee is payable for the calendar year (adjusted in proportion to the remaining number of days in a year in case the market participant joins the exchange at some point of time in the course of a year).

- The variable trading fee – a fee expressed in the euros per 1 MWh paid by the exchange participant who concluded the transaction for the quantity of natural gas acquired and (or) sold on the natural gas exchange.

The Group's revenue from contracts with customers also comprises: services of the REMIT data provision to the European Agency for the Cooperation of Energy Regulators (ACER), services of the administration of the inside information portal, services of allocation of indirect natural gas transmission capacities at the interconnection points, services of the administration of the secondary capacity trade platform and services of announcement of threshold prices for balancing. The above revenue is recognised by the Group over a period of time using the service fees applied by the Group.

Revenue from the biofuel exchange, thermal energy auctions, PSO funds administration

Biofuel trade transactions are made among the exchange participants, and the settlements among the participants are made directly. Fees approved by NERC for trade on the biofuel exchange are recognised by the Group as revenue. Such revenue is recognised at a point in time when the transaction is conducted.

Collected commissions according to the fees approved by the Group and agreed with NERC are recognised by the Group as revenue from the organisation of the timber auctions. Such revenue is recognised at a point in time when the transaction is conducted.

Collected commissions from the participants for actually conducted transactions according to the fees approved by the Group are recognised by the Group as revenue from the organisation of the thermal energy auctions. Such revenue is recognised at a point in time when the transaction is conducted.

When performing the function of the PSO funds administrator, the Group recognises as revenue only PSO funds allocated to the Group by NERC to cover PSO funds administration expenses.

Revenue from public service obligations

Public service obligations (PSO) funds are the funds paid to the PSO service providers, the list of which is established by the Government of the Republic of Lithuania or the institution authorised by it. The annual quantities of PSO funds are established by NERC.

PSO funds allocated by NERC are accounted for by the Group as income-related grants as they are designated to compensate the deficit of revenue from services provided by the electricity producers using renewable energy sources. PSO funds are recognised in amount of service provided.

Such grants are recognised as income:

- PSO funds allocated by NERC to the Group for balancing of electricity produced using renewable energy resources.
- PSO funds approved by NERC and assigned to the Group for the connection of electricity generation facilities using wind, biomass, solar energy or hydro energy in the process of electricity generation to transmission networks, for the optimisation, development and/or reconstruction of transmission networks in relation to acceptance and transmission of electricity from the producers using renewable energy sources.

LNG terminal administration income

Based on the provisions of Article 5(2) of the Lithuanian Law on Liquefied Natural Gas Terminal the Group 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 the connector* as approved by the Commission's Resolution No 03-294 of 9 October 2012.

In collecting and administering the LNG terminal funds the Group acts as an intermediary on behalf of the state, and this activity does not generate any revenue/profit for the Group in the ordinary course of business, except for the portion of the LNG terminal funds intended to cover the administration expenses of the LNG terminal funds, which is considered as the Group's revenue. The LNG terminal funds, which are collected from the payers of the LNG terminal funds and transferred to the beneficiaries of the LNG terminal funds (the company responsible for the implementation of the LNG terminal project or the LNG terminal operator), are not treated as the Group's revenue/expenses, but they are accounted for as other receivables/other payables and other financial assets. Revenue is recognised on a monthly basis, as the fee for administration is fixed.

Interest income

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

Dividend income

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

Other income

Gain from disposal of property, plant and equipment, lease income, income from default charges and fines collected from the contractors as a result of late fulfilment of works, including property, plant and equipment under construction, are recognised by the Company as other income.

Default charges and fines collected from the contractors as a result of late fulfilment of works are calculation upon the completion of a project or a stage thereof and upon notifying a supplier, and they are offset against the supplier's debt. In case of a legal dispute over the amount of default charges or fines and when it is more likely than unlikely that the amounts of default charges or fines will be reduced or annulled, provisions are recognised.

Compensation of expenses incurred in managing the project on the construction of the physical barrier

In performing the functions of the operator in the project on the construction of the physical barrier, the Company incurs the project administration expenses that are compensated by the client of the project – the State Border Guard Service under the Ministry of Interior of the Republic of Lithuania. As the project operator the Company/ Group acts as an intermediary on behalf of the state and this activity does not generate profit margin for the Company / Group as the provisions of the legal acts stipulate that the Company is not entitled to gain profit from this activity. As a result, the Company does not recognise payments received from the client as revenue and records them as an expense compensation.

Connection of new consumers and producers to the transmission network

With effect from 1 January 2020, revenue received from the connection of new consumers to the transmission network is accounted for by the Group over the useful life of the created asset, if the connection of a new consumer is related to further consumption and related revenue.

The connection of producers to the transmission network is accounted for using the principle applicable to grants by offsetting the acquisition cost of assets created for the connection of the producer against the compensation receivable from the connected producer.

When the third parties (clients) require relocation of the transmission network installations and when the relocation results in the creation of the assets with the use of the Group's resources, the grants principle is applied and the cost of the created asset is offset against the amount of compensations receivable from the client. When the asset is created by the client and transferred to the Group free of charge, the assets received from the third parties are offset against the value of the assets. If the major improvement was not performed during the relocation and the asset was created by the Group, such asset is not recognised, i.e., compensation income from the customer and expenses for the creation of such asset are accounted for. When no major improvement is performed and the asset is created by the customer, the asset received from the customer free of charge is not recognised and accounted for in off-balance sheet accounts.

2.19 Congestion management funds/liabilities

Congestion management revenue arises from different electricity market prices in Lithuania, Sweden, Poland and Latvia as a result of insufficient capacity of electricity lines. Revenue that was received as a result of price differences at different bidding areas is distributed equally by the power exchange operator (Nord Pool AS) to the transmission system operators of the countries operating the interconnections.

Regulation (EU) No 2019/943 of the European Parliament and of the Council of 5 June 2019 on conditions for access to the network for cross-border exchanges in electricity stipulates that congestion management revenue may be used for the following purposes: a) guaranteeing the actual availability of the allocated capacity of the interconnections; b) maintaining or increasing networks' capacities through network investments, in particular in new interconnections; c) if revenue cannot be efficiently used for the purposes set out in points a) and/or b) they may be used, subject to approval by the regulatory authorities of the Member States concerned, up to a maximum amount to be decided by those regulatory authorities, as income to be taken into account by the regulatory authorities when approving the methodology for calculating network tariffs and/or fixing network tariffs.

In line with the provisions of the EU Regulation, congestion management revenue is recognised in the following order of priority:

a) when revenue is used for guaranteeing availability of the allocated capacity of the interconnections, it is recognised as income in the period during which the related expenses are incurred. In case of unplanned disconnection of the electricity interconnection and when the trade in the interconnection's capacities has already been completed at the electricity exchange (i.e., when they have already been allocated), the operators of the line ensure that the capacities traded are available to the market participants. In such a case, the operators incur costs that arise as a result of the price difference between the price of electricity traded by the operators and the price of regulation and (or) balancing electricity purchased/sold by the Group.
b) when revenue is used for maintaining or increasing the interconnections' capacities, congestion management revenue is accounted for using the accounting policies applicable to grants, i.e., initially congestion management revenue is recognised as liability and recorded by reducing the value of the asset concerned, and subsequently it is recognised by reducing depreciation expenses of the related asset over the useful life of that asset.
c) when revenue is used for reducing the tariff, revenue is recognised as income in the period during which the Group generates lower revenue due to lower tariffs.

The Group estimates that a substantial portion of congestion funds balance as at 31 December 2021 will be used to finance investments in the projects, including the synchronisation projects, agreed with NERC by 2025. Only a EUR 0.2-1 million portion of congestion management revenue will be used annually to compensate losses resulting from disconnection of the interconnections and safeguarding the use of traded capacity.

From May 2019, the bank account of the accumulated congestion management funds was linked to the EPSO-G Group account and was used to finance the subsidiary's, which receives the funds, operations until there is no need to finance investments. In the Group's statement of financial position, the balance of this bank account is presented as *balance of congestion management funds* by distinguishing non-current and current portions (the amounts planned to be used for investments in property, plant and equipment within 12 months).

Upon the receipt of the permission of the National Energy Regulatory Council (NERC), the subsidiary and EPSO-G UAB concluded the group account (cashpool) agreement on 26 February 2021, under which free congestion management funds are used for the Group's intercompany lending and borrowing purposes.

In the statement of financial position, unused congestion management fund liabilities are split as non-current and current liabilities.

2.20 Income tax

Income tax expense comprises the current income tax and deferred tax expense (income). Income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case income tax is also recognised in other comprehensive income or directly in equity.

Current income tax

The income tax expense for the current year is calculated on the current year's profit before tax, as adjusted for certain non-deductible expenses/non-taxable income. Income tax is calculated using the tax rate effective as at the date of issue of the financial statements. The income tax rate of 15% was used in 2021 and 2020.

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 Group changes its activities due to which these losses were incurred, except when the Group does not continue its activities due to reasons which do not depend on the Group 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. Tax losses carried forward can be used to reduce the taxable income earned during the reporting year by maximum of 70%.

In accordance with the provisions of the legal acts, the Group companies transfer tax losses to other companies of the Group for a fee equal to 15% of the amount of tax losses.

The Group companies are entitled to tax reliefs for investments in qualifying assets. The Group accounts for such reliefs as tax credits, which means that the reliefs reduce the amount of tax payable and the current year's tax expenses.

Deferred income tax

Deferred income tax is accounted for using the balance sheet liability method. Deferred tax assets and deferred tax liability are recognised for future tax purposes to reflect differences between the carrying amount of assets and liabilities in the financial statements and their tax base.

The Group also recognises deferred income tax assets for accumulated tax credits – the amounts of the unused investment relief which are expected to reduce income tax liability in the future. Deferred tax liabilities are recognised for all temporary differences that will subsequently increase taxable profit, and deferred tax assets are recognised to the extent to which they are expected to reduce taxable profit in the future. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss.

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

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

Current income tax and deferred income tax

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

2.21 Contingencies

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

2.22 Events after the end of the reporting period

Events after the end of the reporting period that provide additional information about the Group's and the Company's position at the date of the financial statements (adjusting events) are disclosed in the financial statements. Events after the end of the reporting period that are not adjusting events are disclosed in the notes when material.

2.23 Inter-company offsetting

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

2.24 Fair value measurement

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are 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) 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 in the market.

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

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

In the financial statements as at 31 December 2021 and 2020, the Group did not have significant assets or liabilities re-measured or measured at fair value, except for financial assets measured at fair value through other comprehensive income (Note 10) and property, plant and equipment (Notes 3 and 7).

The Group's and the Company's principal financial assets not measured at fair value comprise cash and cash equivalents, trade and other receivables. Financial liabilities not measured at fair value comprise trade payables, other amounts payable and liabilities, borrowings. Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value of a financial asset is not less than the amount discounted from the first day, on which payment may be required.

2.25 The Company's and Group's ability to continue as a going concern

As at 31 December 2021, the Company's current liabilities exceeded current assets by EUR 131.1 million, the Group's current liabilities exceeded current assets by EUR 134.6 million. As disclosed in Note 35 the Company's current ratio declined as a result of the reclassification of the EUR 84.1 million amount payable to Ignitis Grupė AB from non-current to current liabilities – the established contractual maturity of the liabilities is 30 September 2022.

The Company is planning to attract additional long-term financing by the end of the third quarter of 2022, and plans issuing in the second or third quarter of 2022 fixed yield sustainability-linked debt securities with the value of up to EUR 135 million and five years' duration. From the beginning of 2022 the Company carries out active preparatory works – the rating process is being performed, the prospectus is being drafted, sustainability criteria are being agreed and verified and other preparatory actions are performed. The Company applied for an issuer credit rating for the first time. The rating process is already completed with an investment grade rating, which is confidential at the date of the issue of these financial statements and it should be converted to public rating in the near future.

Considering temporarily free short-term funds held by the Group and available unwithdrawn overdraft limits, the issue of debt securities may be postponed until the third quarter of 2022.

As an alternative, in case of particularly unfavourable capital market terms, financing is expected to be ensured by obtaining borrowing(s) with the maturity of not less than 12 months from commercial banks and deferring the issue of debt securities for the first half of 2023.

As disclosed in Note 38 Events after the end of the reporting period, the Company has ensured combined maximum overdraft facilities amounting EUR 90 million and agreements are valid for more than 12 months.

3. Significant accounting estimates and assumptions

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

Valuation of property, plant and equipment

As described in Note 7, the Group tested the value of property, plant and equipment to determine whether it is consistent with its fair value. The determination of the assets' fair value is mainly affected by the assumptions used in assessing the transmission service income for the future periods. The assumptions used in determining the fair value of property, plant and equipment are described in more detail in the above-mentioned note.

Impairment testing of investments in subsidiaries

The Company records investments in subsidiaries at cost less impairment. The Company assesses at each annual reporting date whether there is any indication that investments may be impaired. If such indications exist, the Company calculates impairment as the difference between the subsidiary's carrying amount and its recoverable amount and records the result as profit or loss.

The Company performed impairments tests for investments in subsidiaries and found out that there are no impairment in investments to subsidiaries.

Valuation of the premium to the final price of LITGRID AB and deferred liability adjustment

As part of the implementation of Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 and the requirements of the Law on Electric Energy, on 4 July 2014 the Lithuanian Government adopted Resolution No 826 *On the establishment of a private limited liability company and investment of state-owned assets*, under which the Ministry of Energy was committed to establish a private limited liability company and make all the decisions necessary to transfer the shares of LITGRID AB held by Lietuvos Energija UAB (the former Visagino Atominė Elektrinė UAB, from 2019 Ignitis Grupė UAB, hereinafter "Ignitis Grupė") to the newly established private limited liability company EPSO-G in return for consideration based on the market value of shares determined by the independent valuers.

In September 2012, an agreement was signed between Ignitis Grupė and the Company on the sale of shares of the electricity transmission system operator LITGRID AB. Under the agreement, 97.5% shareholding in LITGRID AB was sold to the Company by Ignitis Grupė at the market value, i.e. EUR 217,215 thousand, and to the estimated premium to the final price considering the uncertainties of future changes in the principles of determining the tariffs for regulated services.

The premium to the final price was calculated with reference to the assumptions used in calculation of return on investments for 2015-2018. The Company performed the initial assessment of the price premium and determined a negative price premium of EUR 27,075 thousand. Ignitis Grupė did not agree with the presented arguments and the calculation and in its assessment, the negative price premium would amount to EUR 4,679 thousand. As at 31 December 2021 and 2020, the price premium was estimated to be equal to EUR 17,961 thousand. The price premium was accounted for by reducing the amount payable for shares that was recorded in the line item 'other non-current financial liabilities' in the statement of financial position.

In December 2021, the Group and Ignitis Grupė reached agreement that the negative price premium could be equal to EUR 17,961 thousand, if the Group covers the related liabilities by the end of the term established in the share purchase-sale agreement, i.e., 30 September 2022. As indicated in the note of events after the end of the reporting period, the Company finally settled with Ignitis group on 31 March 2022, the latter confirmed that all agreement obligations were fulfilled.

Measurement of protection zones

A protection zone means a territory set by Law designated for the protection of the electricity transmission network installed on the land plot not owned and in which special land use conditions are applied. Certain limitations or prohibitions of economic activities in the predefined protection zone are applied for an indefinite period.

Under the Law on Special Land Use Conditions that became effective from 2020 the Group has the obligation to register the protection zones established for the protection of operated engineering networks by 31 December 2022.

The initial provision, as an intangible asset, and non-current liability were recognised based on the amendments to the provisions of the property cadastre adopted in 2020 that are necessary for the obligation established by the Lithuanian Law on Special Land Use Conditions to form the register of protection zones by 1 December 2022 and taking into consideration the description of the procedure for the setting up and approval of protection zones approved by Order No 1 -339 of the Minister of Energy of the Republic of Lithuania of 13 October 2020. The provision was calculated, as described in Notes 6 and 25 by estimating:

- expenses expected to be incurred for the formation of protection zones and fees for the registration of entries multiplying them by the number of protection zones;
- effective discount rate - a borrowing rate for similar liabilities.

In 2021, the Group revised the established provision in consideration of:

- expenses expected to be incurred for the formation of protection zones and fees for the registration of entries multiplying them by the number of protection zones according to the information on already effected purchases of services;
- effective discount rate - a borrowing rate for similar liabilities.

Impact of COVID-19 on the Group's operations

Presented below are the main areas considered by the Group in assessing the impact of COVID-19.

Going concern

Due to the threat of the spread of COVID-19, , the impact of factors related to coronavirus COVID-19 on the Group's and the Company's activities and results of operations is assessed on a continuous basis. The assessment is focused on potential disruptions or impact on: cash flows,) supply and demand for services,) availability of funding, possible COVID-19 infection of employees fulfilling critical functions, late fulfilment of projects being implemented.

When analysing all information available at the date of the issue of these financial statements on threats posed by COVID-19 in the future, the Group and the Company did not establish any circumstances that could rise doubt regarding the Group's and the Company's ability to continue as a going concern.

Expected credit losses: financial assets

The Group has assessed past events, current and future economic conditions of which it is aware at the date of issue of these financial statements to determine expected credit losses resulting from the impact of COVID-19.

The monitoring of the main clients of the Group did not reveal any significant negative impact due to COVID-19. The Group does not expect any liquidity or credit risk issues. The main clients of the Group are the large enterprises that are often also regulated and (or) are not included into the list of companies with risk. The Group companies have signed credit insurance contracts for amounts receivable, the imbalance market participants have provided the bank guarantees of the established amount or have paid deposits.

Net book value of assets and their useful life: property, plant and equipment and intangible assets

Management has reviewed the main assumptions used to determine the fair and recoverable value of property, plant and equipment and did not establish any circumstances indicating that COVID-19 could cause significant adjustments to the management's forecasts for 2022-2026 and the discount rate. In addition, based on the assessment of the relevant information and long-term forecast no significant change in the investment return indicator is expected. COVID-19 is not expected to result in any significant changes in the legal regulation and the scope of provided services. Management has not establish any COVID-19 pandemic related circumstances that could cause significant changes in the value of property, plant and equipment stated at the revalued amount.

Environmental, social and governance (ESG) issues

In the Group, as in many other advanced companies in the world, large attention is devoted to ESG issues when developing the operational plans.

Dropping prices of technologies, rising prices of fossil fuel, more stringent environmental requirements of the European Union in the context of fight against climate change, promotion of the use of renewable energy sources and their development, more efficient use of energy as well as the common determination of the society encourage to choose sustainable solutions, change attitude to sustainability and sustainable investments.

The Group's strategy and operations plans until 2030 provide a significant increase of solar and wind generation capacity in Lithuania. Due to this reason one of the priorities of the restoration and expansion of the electricity transmission network is fight against climate change through the development and adaptation of the electricity transmission systems for electricity generation using renewable energy sources and the reduction of the impact of infrastructure on the environment.

Natural gas will play an important role as a transition period energy towards the achievement of the European and national-level objectives on the reduction of greenhouse gas emissions to the atmosphere. The share of green gas is expected to grow: biomethane and gas produced during the process of the conversion of green electricity – green hydrogen and synthetic methane. One of the Group's main objectives in the area of sustainable operations is the reduction of the impact of operations on the environment by two thirds by 2030.

Currently, the impact of climate change has no significant effect on the consolidated financial statements.

(All amounts are in EUR thousands unless otherwise stated)

4. Reclassifications of the comparative figures in the financial statements

The Group decided to reclassify revenue in the statement of comprehensive income by distinguishing other, non-typical activity income. A detailed classification of revenue is presented in Notes 31-33.

Group	
2020 before reclassification	
Revenue from contracts with customers	Amounts
Revenue from electricity transmission and related services	195,626
Revenue from natural gas transmission and related services	49,080
Other revenue from contracts with customers	14,828
	259,534
Other income	10,986
Dividend income and income from disposal of associates	1,726
Total revenue	272,246
2020 after reclassification	
Revenue	268,950
Other income	1,570
Dividend income and gain from disposal of associates	1,726
Total revenue , other income and gains	272,246

The Group and the Company decided to submit not only results of financing activities, but also interest income and interest expenses in the statement of comprehensive income:

	Group 2020		Company 2020	
	Before reclassification	After reclassification	Before reclassification	After reclassification
Results of financing activities	(2 004)	-	(642)	
Financing activities				
Interest income	-	125		189
Interest expenses	-	(2 129)		(831)
Total finance costs, net value	-	(2 004)		(642)

The Group decided to reclassify operating expenses presented by nature in the statement of comprehensive:

Operating expenses	2020 Before reclassification	2020 After reclassification
Expenses of electricity transmission and related services	(128 391)	-
Expenses for purchase of balancing and regulating electricity		(29 688)
Expenses for electricity system services		(81 741)
Expenses for electricity technological needs		(15 190)
Expenses of natural gas transmission and related services	(6 345)	
Expenses for natural gas system balancing service		(5 162)
Expenses for natural gas technological needs		(1 183)
Write-off expenses of other assets		(65)
Other expenses	(12 252)	(13 950)

(All amounts are in EUR thousands unless otherwise stated)

5. Segment reporting

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

Management assesses the Group's performance based on three business segments which are consistent with the business directions stipulated in the Group's strategy:

- The electricity transmission segment comprises the activities conducted by LITGRID AB:
- The natural gas transmission segment comprises the activities conducted by Amber Grid AB;
- The segment of other activities that comprises:
    - activities conducted by energy sources exchange operator Baltpool, UAB;
    - activities conducted by natural gas exchange operator GET Baltic UAB;
    - activities conducted by energy facilities construction and contracting company TETAS UAB;
    - activities conducted by parent company EPSO-G UAB,

Considering that revenue, profit measure (EBITDA) and total assets after consolidation adjustments of the entities which comprise the segment of other activities do not reach 10% of the specified financial indicators of all segments, all elements are aggregated to a single segment of other activities.

The Group has a single geographical segment – the Republic of Lithuania. The Group's operations in foreign countries is not material for the Group. The chief operating decision-maker monitors the results with reference to the financial reports that have been prepared using the same accounting policies as those used for the preparation of the financial statements, i.e., information on profit or loss, including the reported amounts of income and expenses. The key performance indicators are profit and profit before interest, taxes, depreciation and amortisation (EBITDA), operating expenses, excluding electricity, gas and related expenses, depreciation, write-off and impairment expenses. All indicators are calculated on the basis of data reported in the financial statements.

In 2021, revenue from the Lithuanian clients accounted for 85% of the Company's total revenue (2020: 89%).

The table below contains the Group's information on segments for the period ended 31 December 2021:

	Transmission of electricity	Transmission of natural gas	Other activities	Elimination of intersegment transactions	Total
Revenue and other income	270,588	66,973	36,759	(11,717)	362,603
Operating expenses, excluding electricity, gas and related expenses, depreciation, write-off and impairment expenses	(31,348)	(21,197)	(36,966)	10,847	(78,664)
EBITDA	46,206	34,508	(201)	(874)	79,639
Total adjustments to profit (loss) for the period	(26,193)	(11,344)	14,323	(16,607)	(39,821)
Depreciation and amortisation	(21,337)	(11,882)	(1,546)		(34,765)
Assets write-offs, impairment	(344)	(101)	64		(381)
Interest income	21	2	176	(155)	44
Interest expenses	(752)	(388)	(763)	155	(1 748)
Income tax	(4,088)	547	263		(3 278)
Dividend income and gain on disposal of associates	307	478	16,129	(16,607)	307
Profit (loss) for the period	20,013	23,164	14,122	(17,481)	39 818
Total assets	489,825	318,520	593,152	(438,891)	962 606
Net debt	(68 544)	(108,727)	(149,242)	105,746	(220 767)
Additions in Property, plant and equipment and Intangible assets	(57,664)	(45 707)	(10 086)	1,285	(112 172)

(All amounts are in EUR thousands unless otherwise stated)

The table below contains the Group's information on segments for the period ended 31 December 2020:

	Transmission of electricity	Transmission of natural gas	Other activities	Elimination of intersegment transactions	Total
Revenue and other income	207,516	50,831	29,059	(16,886)	270,520
Operating expenses, excluding electricity, gas and related expenses, depreciation, write-off and impairment expenses	(29,137)	(19,380)	(27,652)	13,164	(63,005)
EBITDA	51,789	25,076	1,406	(3,722)	74,549
Total adjustments to profit (loss) for the period	(25,186)	(7,644)	2,041	(3,675)	(34,464)
Depreciation and amortisation	(20,354)	(10,934)	(1,417)		(32,705)
Assets write-offs, impairment	(1,379)	15	(21)		(1,385)
Interest income	63	3	193	(134)	125
Interest expenses	(964)	(363)	(934)	134	(2,129)
Income tax	(4,278)	3,635	127	418	(98)
Dividend income and gain on disposal of associates	1,726		4,093	(4,093)	1,726
Profit (loss) for the period	26,603	17,432	3,447	(7,397)	40,085
Total assets	414,353	304,793	423,635	(355,249)	787,532
Net debt	(84,726)	(121,818)	(190,889)	30,290	(367,143)
Additions in property, plant and equipment and Intangible assets	(54,039)	(91,723)	(676)	765	(145,673)

The Group's revenue from the major clients in 2021:

Company name	2021
Energijos Skirstymo Operatorius AB	169,129
Ignitis UAB	38,622
Ignitis Gamyba AB	18,844
Total revenue from major clients:	226 595

The Group's revenue from the major clients in 2020:

Company name	2020
Energijos Skirstymo Operatorius AB	162,925
Ignitis UAB	12,802
Ignitis Gamyba AB	10,927
Orlen	6,002
Total revenue from major clients	192,656

(All amounts are in EUR thousands unless otherwise stated)

6. Intangible assets

Group	Note	Goodwill	Patents and licences	Computer software	Other intangible assets	Statutory servitudes and protection zones*	Total
Net book amount at 31 December 2019		61	281	5,758	210	1,600	7,910
Additions		-	14	1,109	138	4,088	5,349
Write-offs		-	-	(15)	-	-	(15)
Reclassification between categories		-	14	(31)	17	-	-
Value adjustment due to a change in assumptions		-	-	-	-	165	165
Offsetting with grants		-	-	(177)	-	-	(177)
Amortisation charge		-	(132)	(1,905)	(60)		(2,097)
Net book amount at 31 December 2020		61	177	4,739	305	5,853	11,135
At 31 December 2020							
Cost		61	855	10,611	446	5,853	17,826
Accumulated amortisation		-	(676)	(5,882)	(133)		(6,691)
Net book amount		61	179	4,729	313	5,853	11,135
Net book amount at 31 December 2020		61	179	4,729	313	5,853	11,135
Additions		-	31	1860	83	-	1,974
Write-offs		-	-	(6)	-	-	(6)
Reclassification with PP&E		-	-	479	37	-	516
Reclassification between categories		-	4	(182)	178	-	-
Value adjustment due to a change in assumptions		-	-	-	-	(1,188)	(1,188)
Offsetting with grants	20	-	-	(313)	-	-	(313)
Amortisation charge		-	(94)	(2,142)	(128)	-	(2,364)
Net book amount at 31 December 2021		61	120	4,425	483	4,665	9,754
At 31 December 2021							
Acquisition cost		61	878	11,667	746	4,665	18,017
Accumulated amortisation		-	(758)	(7,242)	(263)		(8,263)
Net book amount		61	120	4,425	483	4,665	9,754

*As at 31 December 2021, the provision of EUR 3,825 thousand for protection zones and the related intangible assets were established by the Group in accordance with the principles described in Note 3 and with the planned value of services according to the effected purchases using the discount rate of 0.62%. As at 31 December 2020, the provision and intangible assets amounted to EUR 4,088 thousand according to purchases of services planned at that time using the discount rate of 0.62%.

The Group tested the goodwill, statutory servitudes and protection zones for potential impairment, the items were included in cash generating units of Litgrid assets and Amber grid assets (see Note 7). The test indicated that there is no impairment for the Group's goodwill, statutory servitudes and protection zones.

The Company's intangible assets amounted to EUR 66 thousand as at 31 December 2021 (31 December 2020: EUR 5 thousand).

(All amounts are in EUR thousands unless otherwise stated)

7. Property, plant, and equipment

Group	Note	Land	Buildings	Structures and machinery	Motor vehicles	Other property, plant and equipment	Construction in progress	Total
Net book amount at 31 December 2019		645	23,375	466,549	1,359	12,312	21,659	525,899
Additions		-	-	314	194	2,373	139,206	142,087
Prepayments for PP&E		-	-	-	-	-	(1,763)	(1,763)
(Impairment)/reversal of impairment		-	-	(233)	-	-	250	17
Disposals		-	(26)	(380)	(36)	-	-	(442)
Write-offs		-	(10)	(818)	-	(11)	-	(839)
Reclassification to/from inventories		-	-	98	-	(12)	-	86
Put into operation (from construction in progress)		388	1,487	20,974	-	2,117	(24,966)	-
Off-set of grants against non-current assets	20	-	(45)	(2,124)	-	(111)	(59,429)	(61,709)
Depreciation charge		-	(975)	(24,694)	(360)	(3,080)	-	(29,109)
Net book amount at 31 December 2020		1,033	23,806	459,686	1,157	13,588	74,957	574,227
At 31 December 2020								
Cost		1,033	25,610	501,468	2,415	19,642	74,957	625,125
Accumulated depreciation		-	(1,804)	(41,549)	(1,258)	(6,054)	-	(50,665)
Accumulated impairment		-	-	(233)	-	-	-	(232)
Net book amount		1,033	23,806	459,686	1,157	13,589	74,957	574,227
Net book amount at 31 December 2020		1,033	23,806	459,686	1,157	13,589	74,957	574,227
Additions		37	54	1,140	230	1,633	95,297	98,391
Prepayments for PP&E		-	-				11,807	11,807
Disposals		-	(67)		(8)	(1)		(76)
Write-offs		-		(1,965)		(1)	(43)	(2,009)
Reclassification to/from inventories				(4)		(175)	(89)	(268)
Put into operation (from construction in progress)		(388)	3,201	89,097		3,329	(95,239)	-
Reclassification (from intangible assets)						(479)	(37)	(516)
Off-set of grants against non-current assets	20		(54)	(959)		(272)	(46,393)	(47,678)
Depreciation charge			(861)	(26,179)	(330)	(3,405)		(30,775)
Net book amount at 31 December 2021		682	26,079	520,816	1,049	14,217	40,260	603,103
At 31 December 2021								
Cost		682	28,774	588 777	2,637	23 676	40,260	672 062
Accumulated depreciation		-	(2,665)	(67 728)	(1,588)	(9 459)	-	(81 439)
Accumulated impairment		-	-	(233)	-	-	-	(233)
Net book amount		682	26,081	520,813	1,050	14,217	40,260	603,103

(All amounts are in EUR thousands unless otherwise stated)

Prepayments for property, plant, equipment (PPE), included in the item Construction in progress

	2021	2020
Carrying amount at the beginning of the period	771	1,844
Prepayments paid for PPE over the period	14,903	1,419
Transfer to construction in progress	(2,961)	(2,492)
Carrying amount at the end of the period	12,713	771

As at 31 December 2021, the Group's interest capitalised as part of property, plant and equipment amounted to EUR 186 thousand; the annual interest capitalisation rate was 0.7% (2020: EUR 219 thousand; the interest rate applied – 0.8%).

In 2021 and 2020, the Group's major investments were made in the strategic projects of national significance and in the projects on the restoration and modernisation of the electricity and gas network. In 2021, investments in the strategic projects of national significance accounted for EUR 67.7 million (2020: EUR 108.6 million) and investments in the restoration of the network represented around EUR 26.9 million (2020: EUR 24.2 million) of the Group's total investments.

In 2021, the main object of assets put into operations, which were reclassified from item "construction in progress", amounting to EUR 64,862 thousand, excluding grants, comprised the gas interconnection between Poland and Lithuania (GIPL). Part of gas interconnection system constructed under the GIPL project was already used in 2021 for the gas transmission within Lithuania, but as at 31 December 2021 GIPL pipeline was not completed and was not ready for its intended use, as the connection with Poland was not finalised. Because GIPL pipeline was not ready for its intended use as at 31 December 2021, the GIPL compensation ("CBCA contribution") established under cross-border cost allocation criteria was not included in the acquisition cost of property, plant and equipment. According to the Group's accounting policy (note 2.4), the CBCA contribution is treated as a variable payment and will be recognised as a part of the cost of property, plant and equipment when the compensation will be paid, no liability has been recognised in respect of that contribution.

As at 31 December 2021, the Group's commitments for the acquisition of property, plant and equipment to be fulfilled in the upcoming periods amounted to EUR 233,017 thousand (31 December 2020: EUR 79,993 thousand). In the amount of liabilities, the Group's estimated share of the CBCA contribution amounting to EUR 54.9 million, 50% of which will not be financed from the EU support funds under the CEF (Connecting Europe Facility) contract and shall be paid to GAZ-SYSTEM S.A. Under the decision of NERC, the CBCA contribution is included in the prices of natural gas transmission services from 2022.

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

The Group's property, plant, and equipment is accounted for at a revalued amount. The Group performed the last revaluation of its property, plant and equipment on 31 December 2018, it was performed using the Group's internal resources and not engaging an independent external valuer.

The Group performed the value test for property, plant and equipment (including construction in progress) as at 31 December 2021 and 31 December 2020 and established that the carrying amount of the assets within the materiality limits corresponds to their fair value. The value corresponded to Level 3 of the fair value hierarchy (Note2.24), it was performed using the Group's internal resources and not engaging an independent external valuer. The Group estimated the fair value of the assets as at 31 December 2021 and 31 December 2020 under the income method using the discounted cash flows calculation technique. The value of the assets was determined as the present value of net future cash flows.

The value test assumptions are presented below:

The Group's activities are regulated. The assets are operating as a single network. The fair value of the whole network is assessed using income method, but its assessment excluded all activities related to the transmission network development (and not related to the present assets being assessed), i.e., investments in the development projects, connection of new consumers/producers, grants for the development projects.

The value of Litgrid's assets as at 31 December 2021 was calculated using the following main assumptions:

• The updated Long – run Average Incremental Costing model (hereinafter - LRAIC model) is applied in the regulatory pricing from 2022 setting the regulatory asset base and the cost of capital. The cost of capital comprises depreciation expenses of the regulated assets and return on investments, which is calculated by multiplying the regulated asset base by the rate of return on investments. Over the regulatory period of five years, the cost of assets under optimisation (planned to be restored) is determined using the present (replacement) value, and investments in the optimised assets over the regulatory 5 years period are consistent with the replacement value of assets calculated under the LRAIC model. The cost of capital of the assets that are not optimised is determined using the historical value. Furthermore, taking into consideration available financing sources and aiming to retain a sustainable level of the Company's debt, an additional component was established for the financing of investments increasing the level of revenue from the regulated activities.

(All amounts are in EUR thousands unless otherwise stated)

• The amounts of investments until 2031 from the ten-year investment plan adjusted according to the actual data with all development investments eliminated from it.

• All operating expenses attributable to the regulated activities are compensated through transmission revenue, except for the compensation of remuneration expenses, the compensation assumption of which is 92-95%.

• The refund of the 2018-2021 investment return and the result of the system services in excess of the amount permitted by National Energy Regulatory Council (hereinafter - NERC) (excess profit), following the assessment of efficient saving of operating expenses that increases the permitted investment return, to the network consumers (lower transmission price and revenue) was estimated when calculating the 2022-2024 cash flows.

• The rate of return on investments before tax (ROI) is equal to 4.03% in 2022-2026 (equivalent to a 3.42% WACC after tax) and from 2027 is the same as the discount rate, i.e., 4.09% (equivalent to a 3.48% WACC after tax). In the calculations of the assets' value as at 31 December 2020 – the rate of return on investments (WACC before tax) was equal to 3.92% for 2022-2026 (equivalent to a 3.34% WACC after tax), and from 2027 it is the same as the discount rate, i.e., 4.17% (equivalent to a 3.55% WACC after tax).

• Net cash flows generated from the assets were discounted using the discount rate (WACC after tax) equal to 3.48% which was calculated by the Company. As at 31 December 2020, net cash flows generated from the assets were discounted using the discount rate (WACC after tax) equal to 3.55% which was calculated by the Company.

The value of Amber Grid's assets as at 31 December 2021 was calculated using the following main assumptions:

• 3.42% discount rate was used for discounting cash flows;

• 3.94% ROI rate as set by NERC was used for 2022-2023, and a 4.12% ROI rate was used for 2024-2025 based on the NERC's WACC Methodology updated in 2020;

• The terminal value is established by aligning the rate of return on investments (4.02% before income tax) with the discount rate;

• the Company's surplus earnings from regulated activities in excess of the established ROI rate arising from increased gas transmission quantities (higher capacities and quantities actually ordered by the system users) and incurred expenditure, after taking into account the operational efficiency achieved during 2019-2021, will reverse in future by cutting the transmission prices for the system users (one-off effect);

• The annual growth coefficient is not applied to the indefinite period of time (equal to 0).

• Considering that the regulatory environment did not experience significant changes during 2021, and taking into account all of the above assumptions, the Company concluded as a result asset value test that there were no indications of impairment of the carrying amount of property, plant and equipment as at 31 December 2021 and that the carrying amount approximated the fair value. In the opinion of the Company's management, one-off fluctuations in the Company's surplus earnings from regulated activities in excess of the ROI rate set by NERC have no impact on the value of property, plant and equipment, and accordingly, no adjustments for changes in the value are necessary for the accounting purposes.

The table below presents the net book amounts of the Group's property, plant and equipment, which would have been recognised had the historical cost method been used, excluding prepayments for PPE and after deducting grants received, as at 31 December 2021 and 31 December 2020:

	Land	Buildings	Plant and machinery	Other property, plant and equipment	Construction work in progress	Total
At 31 December 2021	645	26,609	650,667	15,354	26,930	**720,205**
At 31 December 2020	1,033	24,278	603,363	14,853	74,050	**717,577**

(All amounts are in EUR thousands unless otherwise stated)

Had the value of the Group's property, plant and equipment not been reduced by the amount of grants, its carrying amount would have been EUR 459,500 thousand higher as at 31 December 2021 (31 December 2020: EUR 424,509 thousand). The following table shows information on property, plant and equipment, the value of which was reduced by the amount of grants received/receivable:

	At 31 Dec 2021	At 31 Dec 2020
Carrying amount at the beginning of the period	424 509	373,834
Additions	47,678	61,709
Depreciation charge	(12,241)	(10,962)
Write-offs	(446)	(72)
Carrying amount at end of the period	459,500	424,509

Company	Other property, plant and equipment	Total
Net book amount at 31 December 2019	19	19
Additions	2	2
Depreciation charge	(9)	(9)
Net book amount at 31 December 2020	12	12
Cost	77	77
Accumulated depreciation	(65)	(65)
Net book amount at 31 December 2020	12	12
Net book amount at 31 December 2020	12	12
Additions	2	2
Depreciation charge	(7)	(7)
Net book amount at 31 December 2021	7	7
Cost	79	79
Accumulated depreciation	(72)	(72)
Net book amount at 31 December 2021	7	7

As at 31 December 2021 and 2020, the Company's other property, plant and equipment comprised computer hardware and furniture.

8. Right-of-use assets

The Company has concluded the lease contracts for premises and motor vehicles and the Group has concluded the lease contracts for premises, motor vehicles, state land and other property, plant and equipment. The lease contracts for motor vehicles are concluded for the term of 3-4 years, for premises – 5-8 years, for other property, plant and equipment –2-3 years; the land lease contracts are concluded for the term of 99 years. When recognising right-of-use assets and lease liabilities and determining the lease terms the Group and the Company assessed extension and early termination options of the lease contracts.

The Group's and the Company's right-of-use assets comprised as follows:

Group	Land	Buildings	Motor vehicles	Other property, plant and equipment	Total
Net book amount at 31 December 2019	5,685	1,420	2,024	249	9,378
New contracts	-	218	2,096	-	2,314
Indexation		3			3
Write-offs	-	(354)	-	(11)	(365)
Depreciation charge	(58)	(447)	(947)	(49)	(1,501)
Net book amount at 31 December 2020	5,627	840	3,173	189	9,829
Cost	5,743	1,648	4,750	287	12,428
Accumulated depreciation	(116)	(808)	(1,577)	(98)	(2,599)
Net book amount at 31 December 2020	5,627	840	3,173	189	9,829
New contracts	328	2,315	363	-	3,006
Write-offs	-	(47)	(34)	-	(81)
Depreciation charge	(61)	(515)	(1,016)	(34)	(1,626)
Net book amount at 31 December 2021	5,894	2,592	2,486	155	111,27
Cost	6,071	3,915	5,079	287	15,352
Accumulated depreciation	(177)	(1,323)	(2,593)	(132)	(4,225)
Net book amount at 31 December 2020	5,894	2,592	2,486	155	11,127

(All amounts are in EUR thousands unless otherwise stated)

Company					
Net book amount at 31 December 2019	-	212	64	-	276
New contracts	-	114	-	-	114
Depreciation charge	-	(60)	(23)	-	(83)
Net book amount at 31 December 2020	-	266	41	-	307
Cost		369	81	-	450
Accumulated depreciation	-	(103)	(40)	-	(143)
Net book amount at 31 December 2020	-	266	41	-	307
New contracts	-	-	-		-
Depreciation charge	-	(69)	(25)		(94)
Net book amount at 31 December 2021	-	197	16	-	213
Cost	-	369	81		450
Accumulated depreciation	-	(172)	(65)		(237)
Net book amount at 31 December 2021	-	266	16	-	213

In 2021, the main acquisitions of right-of-use assets comprised the lease of the new office premises (a group of buildings) by the Group company, the lease term – 10 years, the acquisition cost – EUR 1,716 thousand. Due to annual increase in the land lease tax, the Group remeasured right-of-use assets and lease liabilities.

The Group and the Company had no leases with variable payments not included in the value of lease liabilities.

9. Investments in subsidiaries

The Company's investments in subsidiaries

As at 31 December 2021 and 2020, the Company had a shareholding in the following Group companies:

Group company	Acquisition cost	Impairment	Carrying amount	Ownership interest (%)
LITGRID AB	217,215	26,090	191,125	97.5
Amber Grid AB	126,529	-	126,529	96.6
BALTPOOL UAB	388	-	388	67.0
TETAS UAB	3,150	-	3,150	100.0
Energy Cells, UAB	2,374	-	2,374	100.0
Total	349,656	26,090	323,566	

On 26 January 2021, the Company established a wholly-owned subsidiary Energy Cells UAB by subscribing and paying for 500,000 shares of the newly established company with the nominal value of EUR 1.

The Company adopted the decision on 26 November 2021, under which the share capital was reduced from EUR 500 thousand to EUR 125 thousand and the difference amount was used to cover the subsidiary's operating losses and additionally paid EUR 1,875 thousand contribution to the capital of Energy Cells UAB

As disclosed in Note 3, the Company tested the subsidiaries for impairment and did not identify any impairment indications. The recoverable amount of investments in LITGRID and Amber Grid was estimated as the difference between the subsidiary's total assets and total liabilities, which are measured at fair value, reflecting the fair value of net assets. Based on to the calculation results presented in Note 3, no adjustments to the impairment of investments were made and no additional impairment was accounted for.

Presented below is the summarised statement of financial position of the Group companies with non-controlling interest as at 31 December 2021 and 2020.

(All amounts are in EUR thousands unless otherwise stated)

Company name Year	Current assets and liabilities			Non-current assets and liabilities			Net assets
	Assets	Liabilities	Total net current assets	Assets	Liabilities	Total net non-current assets	
LITGRID							
At 31 December 2021	122,538	121,562	976	367,287	146,755	220,532	**221,508**
			Net assets attributable to minority interest as at 31 Dec 2021				*5,538*
At 31 December 2020	38,965	66,116	(27,151)	375,388	130,200	245,188	**218,037**
			Net assets attributable to minority interest as at 31 Dec 2020				*5,451*
Amber Grid							
At 31 December 2021	46,318	43,369	2,949	272,202	97,578	174,624	**177,573**
			Net assets attributable to minority interest as at 31 Dec 2021				*6,073*
At 31 December 2020	49,144	42,987	6,157	255,649	107,396	148,253	**154,410**
			Net assets attributable to minority interest as at 31 Dec 2020				*5,281*
Baltpool							
At 31 December 2021	113,615	113,051	564	190	55	135	**699**
			Net assets attributable to minority interest as at 31 Dec 2021				*231*
At 31 December 2020	45,776	45,260	516	177	82	96	**612**
			Net assets attributable to minority interest as at 31 Dec 2020				*202*
GET Baltic							
At 31 December 2021	62,995	62,329	666	653	83	570	**1,236**
			Net assets attributable to minority interest as at 31 Dec 2021				*42*
At 31 December 2020	11,836	11,414	422	783	110	673	**1,095**
			Net assets attributable to minority interest as at 31 Dec 2020				*37*
			Total net assets attributable to minority interest as at 31 Dec 2021				11 884
			Total net assets attributable to minority interest as at 31 Dec 2020				10 971

Presented below is the summarised statement of comprehensive income of the Group companies with non-controlling interest for 2021 and 2020.

Company name Year	Revenue	Profit before income tax	Other comprehensive income	Income tax (expenses) /benefit	Total comprehensive income for the period	Comprehensive income attributable to non-controlling interest	Dividends paid to non-controlling interest
LITGRID							
At 31 December 2021	270,588	24,101	-	(4,088)	20,013	500	(413)
At 31 December 2020	207,516	30,881	(61)	(4,269)	26,551	664	(102)
Amber Grid							
At 31 December 2021	66,973	22,617	-	547	23,164	792	-
At 31 December 2020	50,831	13,797	-	3,635	17,432	596	-
Baltpool							
At 31 December 2021	1,269	106	-	(17)	89	29	-
At 31 December 2020	1,132	213	-	(31)	182	60	(54)
GET Baltic							
At 31 December 2021	1,660	731	-	(112)	619	21	*(16)*
At 31 December 2020	1,503	789	-	(51)	738	25	-

Presented below is the summarised statement of cash flows of the Group companies with non-controlling interest for 2021 and 2020.

Company name Year	Net cash flows from operating activities	Net cash flows from investing activities	Net cash flows from financing activities	Net increase /(decrease) in cash flows	Cash and cash equivalents at the beginning of the year	Cash and cash equivalents at the end of year
LITGRID						
At 31 December 2021	66,373	(32,714)	(31,873)	1,786	33	1,819
At 31 December 2020	27,103	(7,397)	(19,709)	3	30	33
Amber Grid						
At 31 December 2021	66,373	(32,714)	(15,623)	9	3	12
At 31 December 2020	23,559	(70,898)	47,145	(194)	197	3
Baltpool						
At 31 December 2021	63,587	(45,084)	18,602	12	726	738
At 31 December 2020	(18,537)	(14)	18,329	51	675	726
GET Baltic						
At 31 December 2021	723	(38)	(555)	130	764	894
At 31 December 2020	1,113	(179)	(206)	728	36	764

10. Financial assets measured at fair value through other comprehensive income

The Group's financial assets measured at fair value through other comprehensive income comprised shares of TSO Holding AS:

	At 31 December 2021	At 31 December 2020
Value of shares (2%) of TSO Holding AS, EUR '000	781	1,089

On 15 January 2020, the Group together with other shareholders of Nord Pool Holding AS, i.e., TSOs of the Nordic and Baltic countries, through TSO HOLDING AS (the Group holds 2% of shares) sold 66% of shares of NordPool Holding AS to Euronext and used this transactions as a basis for the determination of the fair value of the investment; in subsequent periods the fair value is determined referring to expected dividends received.

As at 31 December 2021, the fair value of shares of TSO HOLDING AS corresponded to Level 3 of the fair value hierarchy when the value was determined on the basis of the transactions performed in 2020.

11. Inventories

	Group	
	At 31 Dec 2021	At 31 Dec 2020
Raw materials, spare parts, other consumables,	12,334	2,873
Natural gas	7,289	1,443
Consumables for construction projects	-	1,374
Less: write-down allowance	(626)	(499)
Carrying amount	18,997	5,191

As at 31 December 2021, the acquisition cost of the Group's inventories stated at net realisable value amounted to EUR 3,338 thousand (31 December 2020: EUR 2,847 thousand). The cost of inventories recognised as expenses during the year amounted to EUR 24,174 thousand (31 December 2020: EUR 14,670 thousand).

Materials, spare parts and other inventories increased significantly as at 31 December 2021 compared to their amounts as at 31 December 2020 due to inventories acquired for the purpose of the implementation of the project on the construction of the physical barrier with the Republic of Belarus. Changes in prices of natural gas had a major impact on changes in inventories of natural gas in 2021 compared to 2020.

Movements in write-down allowance for inventories in 2021 and 2020 are indicated below:

	Group	
	2021	2020
Carrying amount as at 1 January	499	640
Change in write-down allowance	127	(141)
Carrying amount at 31 December	626	499

The write-down allowance charge was included in other expenses in the statement of comprehensive income.

(All amounts are in EUR thousands unless otherwise stated)

12. Trade receivables

Trade receivables comprised:

	Group		Company	
I. Trade receivables under contracts with customers	At 31 December 2021	At 31 December 2020	At 31 December 2021	At 31 December 2020
I.1. Non current trade receivables	*4*	*159*	-	-
Less: expected credit losses of non-current amounts receivable	-	(54)		
Net book value of non current receivables	4	105	-	-
I.2. Current trade receivables				
Amounts receivable for electricity transmission	50,508	23,099	-	-
Amounts receivable for transmission and transit of natural gas	9,574	5,799	-	-
Amounts receivable for contractual works and other services	6,488	1,895	114	50
Less: expected credit losses of trade receivables	(112)	(225)	-	-
Net book amount of trade receivables under contracts with customers	66,458	30,568	114	50
	-	-	-	-
II. Trade receivables under other contracts:	-	-	-	-
Other trade receivables	4,475	1,155	-	-
Receivable congestion funds	3,741	737		
Less: expected credit losses of trade receivables	-	-	-	-
Net book amount of trade receivables under other contracts:	8,216	1,892	-	-
Total current trade receivables:	74,674	32,460	-	-

Current trade receivables / Expected credit losses of trade receivables

Trade receivables under other contracts comprised congestion funds receivable, receivables from ITC fund, natural gas imbalance and lease of assets. The fair value of trade receivables under contracts with customers approximates their carrying amount.

As at 31 December 2021, amounts receivable for electricity transmission increased compared to 31 December 2020 because the balancing price increased 4.5 times as at 31 December 2021 and the volume increased by 72% compared to December 2020.

The Company did not recognise any doubtful debts.

The Group applies a simplified credit risk assessment approach as required by IFRS 9 and accounts for loss allowances for lifetime credit losses from initial recognition of amounts trade receivables. To determine credit losses of amounts trade receivable the Group applies the individual assessment and a loss coefficient matrix. The loss coefficient matrix is based on historical data for a period exceeding 36 months on settlements of debts by customers. The loss coefficients may be adjusted in view of macroeconomic forecasts. The loss coefficients are classified into separate groups of trade receivables on the basis of credit risk characteristics and overdue period.

Trade receivables	Not past due	Trade receivables past due				Total
		1-30 days	31-90 days	91-180 days	181 and more days	
At 31 December 2021						
Current trade receivables, where off:	73,358	1,249	88	0	91	74,786
State – owned enterprises	49,050					49,050
Expected credit losses, %	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Other customers	24,308	1,249	88	0	5	25,650
Expected credit losses, %	*0*	*1,4%*	*2%*	*15%*	*100%*	
Impairment		*17*	*4*	*0*	*5*	*26*
Customers undergoing or in bankruptcy / liquidation					86	86
Expected credit losses, %		*100%*	*100%*	*100%*	*100%*	
Impairment					*86*	*86*
Total expected credit losses:		*17*	*4*	*0*	*91*	*112*

(All amounts are in EUR thousands unless otherwise stated)

Movements in the account of impairment of trade receivables during the year 2021 and 2020 were as follows:

	2021	2020
Carying amount as at 1 January	225	387
Reversal of impairment	(113)	(162)
Carying amount as at 31 December	112	225

In 2021, the Group accounted for the EUR 112 (in 2020 -EUR 162) thousand reversal of expected credit losses with regard to amounts paid.

13. Other amounts receivable

	Group		Company	
	At 31 December 2021	At 31 December 2020	At 31 December 2021	At 31 December 2020
Financial assets				
Loans to subsidiaries	-	-	11,095	27,630
Other amounts receivable	11,941	2,214	244	33
Less: expected credit losses of other receivables	(23)	(23)	-	-
Carrying amount	11,918	2,191	11,339	27,663
Non-financial assets				
Administered PSO funds receivable	59,159	39,351	-	-
Administered LNG terminal funds receivable	13,385	12,834	-	-
VAT receivable from the state budget	2,075	120	-	-
Grants receivable	20,230	28,819	-	-
Carrying amount	94,849	81,124	-	-
Carrying amount in total	106,767	83,315	11,339	27,663

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

The major part of the Group's other amounts receivable and past due amounts receivable consisted of PSO and LNG terminal funds receivable. The Group is not exposed to credit risk in collecting PSO and LNG terminal funds as its acts as an administering entity, therefore expected credit losses are not formed for these past due amounts.

The line item of grants receivable includes grants receivable from the EU structural funds for the projects being implemented by the Group. Support receivable from the EU structural funds for the project on the construction of the gas interconnection between Lithuania and Poland amounted to EUR 8,840 thousand as at 31 December 2021 (31 December 2020: EUR 24,934 thousand). Grants receivable from the EU for the implementation of the strategic projects of the electricity transmission network amounted to EUR 9,900 thousand as at 31 December 2021.

As at 31 December 2021, the amount of EUR 10,838 thousand reported in the Group's other receivables (31 December 2020: EUR 2,073 thousand) comprised amounts receivable from the natural gas exchange participants for gas traded on the exchange.

Other amounts receivable	Not past due	Other amounts receivable				Total
		1-30 days	31-90 days	91-180 days	181 and more days	
At 31 December 2021						
Other amounts receivable, where off:	11,918				23	11,941
Amounts receivable for natural gas from participants of exchange	10,838					10,838
Expected credit losses, %	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Other receivables	1,080				23	1103
Expected credit losses, %	*0%*	*0%*	*0%*	*0%*	*100%*	*0%*
Impairment					*23*	*23*

(All amounts are in EUR thousands unless otherwise stated)

14. Other financial assets

	Group	
	At 31 December 2021	At 31 December 2020
Administered LNG terminal funds	1,305	3
Funds deposited for guarantees and deposits	5,359	1,619
Unused congestion management funds (note 24)	-	6,860
Funds of the exchange participants	58,721	14,253
Carrying amount	65,385	22,735

Funds of the exchange participants consist of their cash deposits and prepayments (alternative – provision of bank guarantees) ensuring the possibility to participate in the trading on the exchange. Due to the possibility of short-term disposal of these funds and their use only for settlements for products purchased on the exchange, they are not included in cash and cash equivalents.
According to the requirements prescribed by laws, cash designated for the payment of the LNG terminal funds to beneficiaries is held separately from other assets of the Group, and can only be used for the settlement of the LNG terminal liabilities.
The fair value of other financial assets as at 31 December 2021 and 2020 approximated their carrying amount.

15. Cash and cash equivalents

	Group		Company	
	At 31 December 2021	At 31 December 2020	At 31 December 2021	At 31 December 2020
Cash at bank	41,284	5,113	36,868	3,362
Carrying amount	41,284	5,113	36,868	3,362

The fair value of cash and cash equivalents is equal to their nominal and carrying amounts.

16. Share capital

As at 31 December 2021 and 31 December 2020, the share capital of the Company amounted to EUR 22,482,694.57 and it was divided into 77,526,533 ordinary registered shares with the nominal value of EUR 0.29 each. All the shares are fully paid.

Capital management

Capital consists of equity recorded in the statement of financial position.
According to the Law on Companies of the Republic of Lithuania, equity of the Company must account for at least 1/2 of the amount of the share capital. As at 31 December 2021 and 31 December 2020, the Company and all companies of the Group complied with this requirement.
The Company's and the Group's main objective when managing capital is to maintain an optimal capital structure in order to ensure ability to continue as a going concern, minimisation of the cost of capital and risk. The structure of the capital of the Group companies is formed taking into consideration demand for operating activities, planned investments and development.

The Company's Board approved the dividend policy, which sets uniform principles for the payment of dividends for all companies of the Group to ensure sustainable growth of the value of the business of the Group and its companies, long-term benefit to the shareholders, achievement of long-term and short-term objectives. The dividend policy is one of the capital risk management tools. According to the dividend policy, the allocation of dividends depends on the return on the companies' equity, availability of financial resources for payment of dividends, implementation of projects important for the State and other circumstances. Between 60% and 85% of net profit is allocated for the payment of dividends, depending on the return on equity and other conditions affecting the company's solvency.

The allocation of the Company's dividends for 2016-2021 is regulated by Resolution No 1116 of the Government of the Republic of Lithuania of 9 November 2016 *On the payment of dividends by EPSO-G UAB for the shares held by the State by the right of ownership*. Under the provisions of this Resolution, the holders of the Company's shares can each year allocate 0.5% of retained earnings to dividends, if financial position of the Company would be negatively impacted by higher dividend payments.
There were no changes in the capital management objectives compared to the previous year.

17. Revaluation reserve

The revaluation reserve arises from revaluation of property, plant and equipment due to the value increase.

(All amounts are in EUR thousands unless otherwise stated)

Group	Revaluation reserve	Deferred income tax	Net of deferred income tax
Balance at 31 December 2019	557	(82)	475
Depreciation of revaluation reserve	(62)	9	(53)
Write-offs of property, plant and equipment	(19)	3	(16)
Balance at 31 December 2020	476	(70)	406
Depreciation of revaluation reserve	(48)	7	(41)
Write-offs of property, plant and equipment	(65)	10	(55)
Balance at 31 December 2021	363	(53)	310

18. Legal reserve and other reserves

Legal reserve

A legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfers of not less than 5 per cent of net profit are required until the reserve reaches 10 per cent of the share capital. The legal reserve can only be used to cover future losses. As at 31 December 2021, this reserve was fully formed at the Company.

Other reserves

Other reserves are formed based on the decision of shareholders (eg, for business development purposes) and can be redistributed on the distribution of the next year's profit.

19. Dividends

During the Ordinary General Meeting of Shareholders of EPSO-G UAB held on 11 May 2021, the decision was made in relation to the payment of dividends in the amount of EUR 777,224, dividends per share amounted to EUR 0.01. During the Ordinary General Meeting of Shareholders of EPSO-G UAB held on 30 April 2020, the decision was made in relation to the payment of dividends in the amount of EUR 772,704, dividends per share amounted to EUR 0.01.

The Company followed to provisions of above mentioned on 9 November 2016, the Government of the Republic of Lithuania Resolution No 1116, when paid dividends for the year 2021 and 2020 and used the ability to allocate 0.5% of profit.

20. Grants

Grants comprise grants for the acquisition of non-current assets and compensation of expenses. Movements in grants in 2021 and 2020 were as follows:

	Group	
Balance at the beginning of period	2021	2020
Grants receivable (Note 13)	28,819	2,754
Grants received in advance (non-current liabilities)(Note 26)	(1,677)	(1,398)
Grants received in advance (current liabilities) (Note 29)	(5,023)	(6,384)
	22,119	(5,028)
Grants recognised		
Transferred to PPE (Note 7)	47,678	61,709
Transferred to Intangible assets (Note 6)	313	177
Grants used for compensation of expenses	144	230
	48,135	62,116
Grants received		
Grants received in cash (CFS)	57,548	26,964
Congestion management funds transferred to grants (Note 24)	2,954	8,005
	60,502	32,858
Grants received in kind (PPE)	1,086	-
Balance at the end of period		
Grants receivable (Note 13)	20,230	28,819
Grants received in advance (non-current liabilities)(Note 26)	(1,677)	(1,677)
Grants received in advance (current liabilities) (Note 29)	(9,887)	(5,023)
	8,666	22,119

(All amounts are in EUR thousands unless otherwise stated)

21. Borrowings

The Group's and the Company's borrowings comprise as follows:

	Group		Company	
	At 31 December 2021	At 31 December 2020	At 31 December 2021	At 31 December 2020
Non-current borrowings				
Bank borrowings	142,843	167,242	-	-
Current borrowings				
Current portion of non-current borrowings	24,399	26,959	-	2,560
Overdraft	-	20,019	-	20,019
Current borrowing from the Group companies	-	-	94,652	634
Total borrowings	167,242	214,220	94,652	23,213

Non-current borrowings by maturity:

	Group		Company	
	At 31 December 2021	At 31 December 2020	At 31 December 2021	At 31 December 2020
Between 1 and 2 years	32,120	24,399	-	-
Between 2 and 5 years	37,552	59,564	-	-
Over 5 years	73,171	83,279	-	-
Total	142,843	167,242	-	-

As at 31 December 2021 and 2020, no assets were pledged as collateral by the Group and the Company.

The loan agreements provide for financial and non-financial covenants that the individual Group companies are obliged to comply with. The Group companies complied with all such covenants in 2021 and 2020.

As at 31 December 2021, the Group's borrowings with a fixed interest rate represented 57% (31 December 2020: 46%). The remaining borrowings are linked to the variable interest rate of 3 and 6 month EURIBOR. In case interest rate of EURIBOR base is negative, applied value equals to 0.

The weighted average interest rate of the Group's borrowings was 0.57% at 31 December 2021 (31 December 2020: 0.63%).

As at 31 December 2021 and 2020, the Group's undrawn borrowings amounted to EUR 5,000 thousand, the Group's and the Company's undrawn overdrafts – EUR 20,000 thousand.

Borrowings received by the Company from the subsidiaries under the cashpool agreements amounted to EUR 94,652 thousand as at 31 December 2021. Funds taken by the Company from the Group companies are disclosed as loans received and funds granted to other group companies are disclosed as loans granted. This accounting treatment of funds taken and granted is selected because the Company takes over the risk of the repayment of funds, bears interest expenses charged by a bank, administrates lending and borrowing limits, searches for most effective ways to invest funds.

Reconciliation of net debt balances and cash flows from financing activities in 2021 and 2020:

Group	Cash	Borrowings	Other non-current financial liabilities	Lease liabilities	Total
Net debt at 31 December 2019	13,470	(164,664)	(156,897)	(8,945)	(317,036)
Received borrowings and new lease contracts		(60,000)		(2,129)	(62,129)
Increase/(decrease) in cash and cash equivalents	(8,357)	-		„-	(8,357)
Change in overdraft	-	(20,019)		-	(20,019)
Repayment of borrowing	-	30,404		-	30,404
Adjustment of the value of lease liabilities				351	351
Repayment of non-current financial liabilities			7,965		7,965
Lease payments				1,559	1,559
Other changes					
Interest (expenses and capitalised)		(1,538)	(687)	(123)	(2,348)
Interest payments		1,474	870	123	(2,467)
Net debt as at 31 December 2020	5,113	(214,343)	(148,749)	(9,164)	(367,143)

(All amounts are in EUR thousands unless otherwise stated)

New lease contracts				(2,799)	(2,799)
Increase/(decrease) in cash and cash equivalents	36,171				36,171
Change in overdraft		20,019			20,019
Repayment of borrowing		26,959			26,959
Repayment of non-current financial liabilities			64,481		64,481
Lease payments				1,540	1,540
Other changes					
Interest (expenses and capitalised)		(1,352)	(470)	(112)	(1,934)
Interest payments		1,315	512	112	1,939
Net debt as at 31 December 2021	41,284	(167,402)	(84,226)	(10,423)	(220,767)

Company	Cash	Borrowings	Other non-current financial liabilities	Lease liabilities	Total
Net debt at 31 December 2019	12,346	(5,120)	(156,897)	(276)	(149,947)
Increase/(decrease) in cash and cash equivalents	(8,984)	-		-	(8,984)
Change in overdraft	-	(20,019)		-	(20,019)
Received borrowings		(635)			(635)
New lease contracts		-		(114)	(114)
Lease payments		-		81	81
Repayment of borrowing		2,560		-	2,560
Repayment of non-current financial liabilities			7,965		7,965
Other changes					
Interest (expenses and capitalised)		(143)	(687)	(1)	(831)
Interest payments		143	870	1	1,014
Net debt as at 31 December 2020	3,362	(23,214)	(148,749)	(309)	(168,910)
Increase/(decrease) in cash and cash equivalents	33,506	-		-	33,506
Change in overdraft	-	20,019		-	20,019
Received borrowings		(94,017)			(94,017)
Lease payments	-	-		90	90
Repayment of borrowing	-	2,560		-	2,560
Repayment of non-current financial liabilities			64,481		64,481
Other changes					
Interest (expenses and capitalised)		(142)	(470)	(1)	(613)
Interest payments		142	512	1	655
Net debt as at 31 December 2021	36,868	(94,652)	(84,226)	(219)	(142,229)

22. Other non-current financial liabilities

The Group's and the Company's liability to Ignitis Grupė UAB under the share purchase and sale agreement of 27 September 2012, based on the calculated basic price, is classified as financial liabilities measured at amortised cost.

The Group's and the Company's contingent consideration part to the price of LITGRID's shares, considering the Company's prudent assessment of the amount of the share premium and the Company's agreement with Ignitis Grupė described in Note 3, amounted to EUR (17,961) thousand (being negative, therefore in substance a receivable) as at 31 December 2021 and 2020. The net liability is classified within the category of financial liabilities measured at fair value through profit or loss and attributed to Level 3 of the fair value hierarchy. In 2021 and 2020, there were no changes in fair value of the premium to the price of LITGRID's shares recognised in profit or loss.

The table below presents the Group's and the Company's liabilities of this nature and their movement in 2021 and 2020.

(All amounts are in EUR thousands unless otherwise stated)

	Group	
	At 31 December 2021	At 31 December 2020
Non-current portion		
Amount payable for shares of LITGRID AB based on the basic price	-	152,089
Contingent consideration (receivable) of the premium to the price of LITGRID's shares	-	(17,961)
Total non-current portion		134,128
Current portion		
Amount payable for shares of LITGRID AB based on the basic price	102 089	14 481
Contingent consideration (receivable) of the premium to the price of LITGRID's shares	(17 961)	
Total current portion	*84,128*	*14,481*
Total financial liabilities	84,128	148,609
Maturity of non-current portion of liabilities:		
Between 1 and 2 years	-	134,128

On notifying and obtaining approval from Ignitis Grupė AB the Company made an early repayment of the EUR 50,000 thousand part of the loan in 2021 for the shares of Litgrid AB under the agreement of 27 September 2012 on the purchase and sale of shares of LITGRID, therefore the liability associated with the basic price had decreased accordingly.

Financial liabilities are subject to a variable interest rate of 12 month EURIBOR. The weighted average interest rate of these liabilities was 0.35% at 31 December 2021 (31 December 2020: 0.44%).

Accrued interest amounted to EUR 92 thousand as at 31 December 2021 (31 December 2020: EUR 134 thousand) and was recorded within 'other current amounts payable and liabilities'.

23. Lease liabilities

The Group's and the Company's lease liabilities and their movements:

	Group		Company	
	At 31 Dec 2021	At 31 Dec 2020	At 31 Dec 2021	At 31 Dec 2020
Carrying amount at the beginning of the period	9,164	8,945	309	276
Concluded lease contracts	3,006	2,129	-	114
Terminated lease contracts	(81)	(357)		
Interest charged	112	123	1	1
Lease payments (principal and interest)	(1,778)	(1,682)	(91)	(82)
Indexation	-	6		
Carrying amount at the end of the period	10,423	9,164	219	309
Non-current lease liabilities	9,028	7,641	136	219
Current lease payments	1,395	1,523	83	90

Future lease payments of principle under non-cancellable lease contracts are as follows:

	Group		Company	
	At 31 Dec 2021	At 31 Dec 2020	At 31 Dec 2021	At 31 Dec 2020
Total lease liabilities:	10,423	9,164	219	309
Current portion	1,395	1,523	83	90
Repayment terms of non-current liabilities:	9,028	7,641	136	219
Between 1 and 2 years	1,111	1,244	83	83
Between 2 and 3 years	627	628	53	68
Between 3 and 5 years	594	198	-	68
Over 5 year	6,696	5,571	-	-

The Group's interest calculated on lease liabilities and included in finance costs amounted to EUR 112 thousand in 2021 (2020: EUR 123 thousand) (EUR 1 thousand for the Company in 2021 and 2020 each).

Information on rights of use assets and description of contracts is disclosed in note 8.

(All amounts are in EUR thousands unless otherwise stated)

24. Congestion management funds

Movement in congestion management funds in 2021 and 2020:

	Notes	Group 2021	Group 2020
Opening balance of congestion management funds		62,519	39,135
Congestion management funds received during the period		50,112	32,381
Used to finance property, plant and equipment	20	(2,954)	(8,005)
Congestion management funds used to compensate disconnection losses during the period		(590)	(992)
Closing balance of congestion management funds		109,087	62,519

The principles of receipt and use of congestion management funds are set out in Note 2.19. Funds balance unused according to the purposes set out in Regulation (EC) No 714/2009 of the European Parliament and of the Council amounted to EUR 109,087 thousand as at 31 December 2021 (EUR 62,519 thousand – as at 31 December 2020). The current portion of liabilities is expected to be settled (used) within 12 months.

Current and non-current liability portions	Group At 31 Dec 2021	Group At 31 Dec 2020
Non-current portion of congestion management funds	88,267	55,659
Current portion of congestion management funds	20,820	6,860
Total	109,087	62,519

As at 31 December 2020, unused congestion management funds were held separately on a bank account and amounted EUR 24,901 thousand (non-current amount was EUR 18,041 thousand and current was EUR 6,860 thousand). In 2021 the Group obtained a permission to use the free funds for intercompany lending purposes.

25. Provisions

	Group At 31 December 2021	Group At 31 December 2020
Provisions for pension benefits to employees*	924	841
Provisions for servitude liabilities	277	1,250
Provisions for registration of protection zones **	3,803	4,088
Provision for litigations / claims***	668	19
Carrying amount	5,672	6,198
Non-current provisions	1,877	5,313
Current provisions	3,795	885

*Provisions for pension benefits represent amounts payable by the Lithuanian laws and payable under the collective employment agreements effective at the Group companies (Note 2.14).

**As at 31 December 2020, the Group recognised a provision of EUR 4,088 thousand and the related intangible assets for the formation of special land use requirements (protection zones) (Note 3). In 2021, according to the revised estimate the provision was reduced by EUR 263 thousand.

***Provisions for litigations/claims as at 31 December 2021 comprise a provision for a potential payment under the court's ruling to Šiaulių Energija AB (Note No 37)

26. Other non-current amounts payable and liabilities

	Group At 31 December 2021	Group At 31 December 2020
Advance amounts received from connection of new consumers	-	-
Grants received in advance	1,667	1,667
Contractual obligations under connection agreements	1,305	1,337
Other	612	25
Carrying amount	3,584	3,029

(All amounts are in EUR thousands unless otherwise stated)

Grants received in advance comprised monetary funds received from the CEF (Connecting Europe Facility) fund for the implementation of the synchronisation program. Expenditures for which a grant was received are planned to be incurred in 2023.

Contractual obligations under connection agreements comprised new consumers' funds designated for the connection to the gas transmission system. These obligations will be recognised as income over the useful life of the assets created during the connection. A part of contractual obligations, which will be recognised as income within one year, was recorded in current liabilities from contracts with customers.

27. Current year and deferred income tax

Income tax expenses comprised as follows:

	Group		Company	
	At 31 December 2021	At 31 December 2021	At 31 December 2020	At 31 December 2020
Current year income tax	9,814	9,642	-	-
Deferred income tax (benefit)	(6,536)	(9,544)	(445)	(385)
Income tax expenses/(benefit) for the reporting period	3,278	98	(445)	(385)

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

Group

Deferred income tax assets	PP&E revaluation (impairment)	Impairment for other assets	Conges-tion managem ent revenue	Differences in depreciation rates	Unused investment relief	Other	Total
At 31 December 2019	4,253	87	8,412	156	-	766	13,674
Recognised in profit and loss	(191)	129	4,667	29	3,923	1,267	9,824
Deferred income tax assets offset against deferred income tax liabilities	-	-	-	-	-	(385)	(385)
At 31 December 2020	4,062	216	13,079	185	3,923	1,648	23,113
Recognised in profit and loss	(112)	1	5,532	29	685	486	6,621
Deferred income tax assets offset against deferred income tax liability (tax loss utilised)						(380)	(380)
At 31 December 2021	3,950	217	18,611	214	4,608	1,754	29,354

Deferred income tax liabilities	Revaluation of PP&E (increase in value)	Tax relief on acquisition of PP&E	Other	Total
At 31 December 2019	(89)	(1,544)	(349)	(1,982)
Recognised in profit and loss	16	119	(414)	(279)
Recognised in other comprehensive income	9	-	-	9
At 31 December 2020	(64)	(1,425)	(763)	(2,252)
Recognised in profit and loss	18	138	(240)	(84)
At 31 December 2021	(46)	(1,287)	(1,003)	(2,336)

Deferred income tax assets, net, at 31 December 2020	20,861
Deferred income tax assets, net, at 31 December 2021	27,018

Pursuant to the provisions of the Law on Corporate Income Tax, the income tax relief may be applied to investments in non-current assets that meet the criteria set out in this law. The Company applied the above-mentioned relief when calculating income tax for the year 2021 and reduced income tax expenses by the total amount of EUR 3,865 thousand (2020: EUR 5,888 thousand) (including recognised deferred income tax assets).

In 2021, the Company incurred tax losses of EUR 2,950 thousand (2020: EUR 2,566 thousand). The Company transfers tax losses to the Group companies for consideration (15%). Consideration received by EPSO-G in 2021 for tax losses relating to the year 2020 transferred by LITGRID amounted to EUR 380 thousand.

(All amounts are in EUR thousands unless otherwise stated)

The table below presents reconciliation of income tax expenses reported in the statement of comprehensive income to income tax expenses calculated at a statutory income tax rate on profit before income tax:

	Group		Company	
	At 31 December 2021	At 31 December 2020	At 31 December 2021	At 31 December 2020
Profit/(loss) before income tax	43,096	40,183	12,889	1,292
Income tax calculated at a rate of 15%	6,464	6,028	1,933	194
Investment relief effect	(3,180)	(1,965)	-	-
Deferred income tax (unused investment relief)	(685)	(3,923)	-	-
Tax effect of non-taxable income and non-deductible expenses	638	(17)	(2,378)*	(579)
Prior year adjustment	41	42	-	-
Offsetting of tax loss		(67)	-	-
Income tax expenses/(benefit) recognised in profit or loss	3,278	98	(445)	(385)
Income tax expenses/(benefit) recognised in other comprehensive income	-	(9)	-	-

*In Company's Income tax calculations the main amount of non-taxable income concluded received dividends from subsidiaries – EUR 16,129 thousand.

28. Trade payables

	Group		Company	
	At 31 December 2021	At 31 December 2020	At 31 December 2021	At 31 December 2020
Amounts payable for electricity	42,280	13,123	-	-
Amounts payable for natural gas	4,502	1,016	-	-
Amounts payable for contractual works, services	17,132	6,118	-	-
Amounts payable for property, plant and equipment	11,432	14,942	-	-
Other trade payables	87	919	284	87
Carrying amount	75,433	36,118	284	87

Amounts payable for electricity comprise amounts payable for balancing and regulation energy which increased due to the price and volume of the balancing service that increased several times. Amounts payable for balancing and regulation energy totalled EUR 29.9 million as at 31 December 2021 (31 December 2020: EUR 3.2 million).
The fair value of trade payables approximates their carrying amounts.

29. Advance amounts received

	Group	
	At 31 December 2021	At 31 December 2020
Deposits received from the exchange participants	44,969	8,246
Grants received in advance	9,887	5,023
Guarantee for fulfilment of obligations	2,359	953
Advance amounts received from new consumers	581	611
Other advance amounts received	71	58
Carrying amount	57,867	14,891

As disclosed in Note 13, the exchange participants transfer funds in advance prior to trading, which are later offset against the products acquired or refunded. The deposits received from gas and electricity exchange participants are used on the date of settlement of the exchange participants, unless there is a request of a participant not to use the deposits, thereby reducing the amount payable for commodity and exchange services. The deposit amounts not used in full or in part remains for other settlements of an exchange participant. If a deposit amount has not been used by an exchange participant for over 1 year, such amount is refunded to the exchange participant.

Grants received in advance comprise monetary funds received from the CEF (Connecting Europe Facility) fund, which will be used to finance incurred expenses in 2022.

(All amounts are in EUR thousands unless otherwise stated)

30. Other current amounts payable and liabilities

	Group		Company	
	At 31 December 2021	At 31 December 2020	At 31 December 2021	At 31 December 2020
Non-financial liabilities				
Administered PSO funds payable	94,614	20,294	-	-
Payable administered LNG terminal funds	12,259	10,670	-	-
Accrued administered LNG terminal funds*	2,406	2,174	-	-
Employment-related liabilities	4,726	5,052	511	427
Accrued expenses relating to vacation reserve	3,087	2,656	175	109
VAT payable	10,440	2,227		
Real estate tax payable	1,350	921		
Advance amounts received to carry out contracts	19,772	-		
Non-financial liabilities in total	148,654	43,994	686	536
Financial liabilities				
Dividends payable	572	519		
Interest payable	160	213	92	134
Accrued other expenses	1,094	880	18	22
Deposits received	-	5,599	-	-
Other amounts payable and current liabilities	814	1,340	-	-
Amounts payable to exchange participants for gas	24,013	2,168		
Financial liabilities in total	26,653	10,719	110	156
Carrying amount of financial and non-financial liabilities	175,307	54,713	796	692

*Accrued administered LNG terminal funds are recognised upon issuing a VAT invoice to the natural gas transmission system users. Administered LNG terminal funds are recognised as payable when Klaipėdos Nafta AB and Ignitis UAB issue a VAT invoice to the Group for the extra charge on the natural gas transmission price related to natural gas supply security.

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

(All amounts are in EUR thousands unless otherwise stated)

31. Revenue

The Group's revenue included as follows:

	Group	
	2021	2020
The Group's revenue from contracts with customers		
Revenue from electricity transmission and related services		
Electricity transmission services	80,070	83,363
Trade in balancing/imbalance electricity	71,720	21,217
System services	91,653	86,702
Revenue from other sales of electricity and related services	2,618	4,344
Total revenue from electricity transmission and related services	*246,061*	*195,626*
Revenue from natural gas transmission and related services		
Natural gas transmission services	53,748	45,897
Revenue from balancing services in the transmission system	12,540	4,588
Revenue from connection of new customers	-	1,405
Total revenue from natural gas transmission and related services	*66,288*	*49,080*
Other revenue from contracts with customers		
Revenue from construction, repair and technical maintenance services	22,827	12,411
Revenue from trading on the gas exchange and related services	1,476	1,454
Revenue from the biofuel exchange, thermal energy auctions, PSO funds administration and other income	789	963
Total other revenue	*25,092*	*14,828*
The Group's total revenue from contracts with customers	337,441	259,534
The Group's revenue not attributable to contracts with customers		
PSO services*	19,978	8,959
Congestion revenue	590	991
Other services related to electricity	629	844
Revenue from connection of producers and relocation of electrical installations	-	(1,378)
Total revenue not attributable to contracts with customers:	21,197	9,416
Total revenue	358,638	268,950

*the amount represents income-related grants (note 2.18)

The Company's revenue from contracts with customers comprised revenue from the provision of management services and it amounted to EUR 493 thousand in 2021 (2020: EUR 296 thousand).

	Group	
	2021 m.	2020 m.
Revenue recognised over time		
Revenue from electricity transmission and related services	267,258	205,021
Revenue from natural gas transmission and related services	66,288	49,080
Revenue from construction contracts	9,629	487
Revenue from membership fees	70	55
Total revenue recognised over time:	346,329	254,643
Revenue recognised at a point in time upon provision of services		
Revenue from utilities repair and maintenance	12,713	12,036
Revenue from trading activity in exchange	2,680	2,271
Total revenue recognised at a point in time upon provision of services:	12,309	14,307
Total revenue:	358,638	268,950

(All amounts are in EUR thousands unless otherwise stated)

32. Other income

The Group's other income comprised as follows:

	Group	
	2020	2020
Income from lease of assets	661	594
Penalties and default charges	2,877	240
Other income	427	736
Total other income	3,965	1,570

33. Dividend income and income from disposal of the associate

	Group		Company	
	2021	2020	2021	2020
Dividend income	307	895	16,129	4,093
Gain from disposal of the associate	-	831		
Total income from dividends and investing activities	307	1,726	16,129	4,093

The Group's income from disposal of the associate comprised a gain of EUR 831 thousand from the sale of shares of Duomenų Logistikos Centras UAB carried out in 2020 (Note 1).

In 2021 and 2020, the Group received dividends from its entity TSO Holding (Note 10).
In 2021 and 2020, the Company received dividends from its subsidiaries. Dividends paid by the Group companies to the Group's non-controlling interest amounted to EUR 413 thousand in 2021 (2020: EUR 156 thousand).

34. Related-party transactions

As at 31 December 2021 and 2020, the Group's and the Company's ultimate controlling party was the Republic of Lithuania represented by the Ministry of Energy of the Republic of Lithuania. For the purposes of the related-party disclosure the Republic of Lithuania excludes central and local government authorities. Disclosures comprise transactions and balances on transactions with the shareholder, the subsidiaries (in the Company's transactions), all state-controlled or significantly influenced companies (the list of such companies is published at https://vkc.sipa.lt/apie-imones/vvi-sarasas and transactions are disclosed only when the amount of transactions exceeds EUR 100 thousand during a calendar year) and the management and their family members.
Transactions with related parties are carried out in line with the tariffs approved under relevant legal acts or in accordance with the requirements of the Law on Public Procurement. The settlement period is set as 30-60 days.
The Group's transactions conducted with the related parties during the twelve-month period of 2021 and balances arising on these transactions as at 31 December 2021 were as follows:

(All amounts are in EUR thousands unless otherwise stated)

Related party	Purchases of services	Purchases of gas in exchange, PSO funds, LNG funds*	Sales of services	Sales of gas in exchange, PSO funds, LNG funds*	Amounts payable for services	Accounts payable for gas, PSO funds, LNG funds	Other liabilities	Amounts receivable for services	Receivables for gas, PSO funds, LNG funds	Finance costs
Ignitis group companies:										
AB „Ignitis grupė"	-						84 220**	174		470
AB Energijos skirstymo operatorius	27 187	23 043	274 082	104 787	995	721		23 309	19 966	2
UAB Ignitis	6 474	35607	29 623	33 754	3 146	7 315		15 343	1 318	
AB Ignitis gamyba	67 007	7 924	18 965	72 525	19 072	4 931		4 996	15 561	
UAB Ignitis grupės paslaugų centras	8		278		1			30		
UAB Vilniaus kogeneracinė jėgainė	243		437		175			1		
UAB Kauno kogeneracinė jėgainė	262		128		43					
UAB Transporto valdymas	816				98					
Other state-owned companies:										
AB Lietuvos geležinkeliai										
State Enterprise Ignalina Nuclear Power Plant	128		984	725	10			99	74	
Klaipėdos Nafta AB		27 732				7 005				
State Enterprise Geoterma								45	65	
LTG Infra AB	826		499	242	826			69	37	
State Border Guard Service under the Ministry of Interior			6 835		19,592			2 151		
Other state-owned companies	181		140		516			5		
Total	103 132	94 306	331 971	212 033	44,474	19 972	84 220	46 222	37 021	472

* Gas purchases and gas sales in exchange, Group purchases and sales of PSO funds and LNG funds are not included in the Group's Statement of profit and loss, as the Group acts as intermediary, collecting and allocating mentioned funds.

** Liabilities include the liability for shares and contingent consideration accounted for by the Group (Note 22).

The Group's transactions conducted with the related parties during the twelve-month period of 2020 and balances arising on these transactions as at 31 December 2020 were as follows

(All amounts are in EUR thousands unless otherwise stated)

Related party	Purchases of services	Purchases of gas in exchange, PSO funds, LNG funds*	Sales of services	Sales of gas in exchange, PSO funds, LNG funds*	Amounts payable for services	Accounts payable for gas, PSO funds, LNG funds	Other liabilities	Amounts receivable for services	Receivables for gas, PSO funds, LNG funds	Finance costs
Ignitis group companies:										
AB „Ignitis grupė“	-						148 743**	127		687
AB Energijos skirstymo operatorius	1 045	58 918	163 405	85 688	379	3 923		19 347	13 717	
UAB Ignitis	4 338	52 256	19 369	21 346	725	3 968		2 394	1 424	
AB Ignitis gamyba	80 881	63 434	10 929	33 957	8 614	8 718		1 403	1 479	
UAB Ignitis grupės paslaugų centras			261					27		
UAB Vilniaus kogeneracinė jėgainė			32		100					
UAB Kauno kogeneracinė jėgainė	192		282					28		
UAB Transporto valdymas	1 066				110					
Energetikos paslaugų ir rangos organizacija	712									6
UAB Duomenų logistikos centras	8		240					25		
Other state-owned companies:										
State Enterprise Ignalina Nuclear Power Plant	177		1 109	683	23			116	90	
Klaipėdos Nafta AB		35 729				7 240				
State Enterprise Geoterma								45	65	
LTG Infra AB			492	179				52	29	
Other state-owned companies	170		127		149			4		
Total	88 589	210 337	196 246	141 853	10 100	23 849	148 743	23 568	16 804	693

*Gas purchases and gas sales in exchange, Group purchases and sales of PSO funds and LNG funds are not included in the Group's Statement of profit and loss, as the Group acts as intermediary, collecting and allocating mentioned funds.
** Liabilities include the liability for shares and contingent consideration accounted for by the Group (Note 22)..

(All amounts are in EUR thousands unless otherwise stated)

The Company's transactions conducted with related parties in 2021 and balances arising from these transactions as at 31 December 2021 were as follows:

Related party	Finance income	Dividend income	Finance costs	Amounts payable	Amounts receivable	Loans granted/(received)	Purchases	Sales
Ignitis Grupė AB			470	84,220*	174	-	-	-
Subsidiaries:								
Litgrid AB	-	16,129	-	-	53	(43,594)	-	247
Amber Grid AB	99		-	-	32	3,284	-	110
Tetas UAB	38		-	-	10	(5,973)	-	44
Baltpool UAB	28		-	-	7	(45,084)	-	33
GET Baltic UAB			-	-	2	-	-	7
Energy Cells, UAB	5		-	-	30	7,811	-	52
Other related parties								
State Border Guard Service under the Ministry of Interior of the Republic of Lithuania					203			308
Transporto Valdymas UAB				3			34	
Total	170	16,129	470	84,223	511	83,556	34	801

Liabilities include the liability for shares and contingent consideration accounted for by the Company (Note 22)..

The Company's transactions conducted with related parties in 2020 and balances arising from these transactions as at 31 December 2020 were as follows:

Related party	Finance income	Dividend income	Finance costs	Amounts payable	Amounts receivable	Loans granted	Purchases	Sales
Ignitis Grupė AB	-		687	148,743*	127	-	-	-
Subsidiaries:								
Litgrid AB	-	3,983	-	-	27	-	-	136
Amber Grid AB	69		-	-	18	7,852	-	129
Tetas UAB	23		-	635	8	1,239	-	13
Baltpool UAB	95	110	-	-	22	18,539	-	18
GET Baltic UAB	1		-	-	-	-	-	-
Other related parties								
Transporto Valdymas UAB	-		-	-	-	-	32	-
Total	188	4,093	687	149,378	202	27,630	32	296

* Liabilities include the liability for shares and contingent consideration accounted for by the Company (Note 22)..

(All amounts are in EUR thousands unless otherwise stated)

	Group		Company	
Payments to key management personnel	At 31 Dec 2021	At 31 Dec 2020	At 31 Dec 2021	At 31 Dec 2020
Employment-related payments	2,848	2,395	653	534
Whereof: termination benefits	67	98	7	6
Number of key management personnel (average number	28	23	6	5

No loans, guarantees or any other benefits were paid or calculated, nor any assets were transferred to the Group's and the Company's management in 2021 and 2020.

Key management personnel consists of heads of administration and directors of departments. In 2021, payments to the members of the collegial management bodies amounted to EUR 253 thousand (2020: EUR 220 thousand).

35. Financial risk management

The Group and the Company are exposed to financial risks in their operations. In managing these risks, the Group and the Company seek to mitigate the impact of factors which could adversely affect the Group's and the Company's financial performance. The Group and the Company comply with the Treasury and Financial Risk Management Policy of the EPSO-G UAB Group, as approved by the Board of EPSO-G UAB (hereinafter "the Risk Policy").

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

	Group		Company	
Financial assets	At 31 December 2021	At 31 December 2020	At 31 December 2021	At 31 December 2020
Trade receivables (Note 12)	74,674	32,460	114	50
Other amounts receivable (Note 13)	11 918	2,191	11,339	27,663
Balance of congestion management funds (Note 24)	-	24,901		
Other financial assets (Note 14)	65,385	15,874	-	-
Cash and cash equivalents	41,284	5,113	36,868	3,362
Financial assets measured at amortised cost	193,261	80,539	48,321	31,075
Other financial assets				
Financial assets measured at fair value through other comprehensive income	781	1 089	-	-
Total financial assets	194,042	81 ,628	48 321	31 075

	Group		Company	
Financial liabilities	At 31 December 2021	At 31 December 2020	At 31 December 2021	At 31 December 2020
Liability for acquisition of LITGRID AB	84,128	148,609	84,128	148,609
Borrowings	167,242	214,220	94,652	23,213
Lease liabilities	10,423	9,164	219	309
Trade payables	75,433	36,118	284	87
Advance amounts received*(Note 29)	44,969	8,246		
Other amounts payable and liabilities (Note 30)	26,653	10,719	110	156
Total	408,848	427,076	179,393	172,374

* Only deposits received from the exchange participants

Credit risk

As at 31 Dece mber 2021 and 31 December 2020, the maximum exposure to credit risk is the carrying amount of financial assets at amortised costs:

	Group		Company	
	At 31 December 2021	At 31 December 2020	At 31 December 2021	At 31 December 2020
Financial assets at amortised cost*	193,261	80,539	48,321	31,075

Credit risk from trade receivables and other receivables are disclosed in notes No.12 and No.13.

Administered PSO and LNG terminal funds receivable are not included in the calculation of credit risk. If these funds were not collected, the Group would not incur any losses because the Group is not a recipient of funds, but an administrator.

(All amounts are in EUR thousands unless otherwise stated)

The Group has a significant credit risk concentration, because exposure to credit risk is shared among 10 main customers, amounts receivables from which accounted for approximately 96% as at 31 December 2021 (31 December 2020: approximately 95%) of the Group's total trade receivables (financial assets). As at 31 December 2021, amounts payable by the major customer, distribution network operator Energijos Skirstymo Operatorius AB, accounted for 31% (31 December 2020: 61%) of the Group's total trade receivables (financial assets).
Credit risk is managed through a regular performance of monitoring procedures (individual monitoring of debtors, monitoring and analysis of buyers to anticipate potential future solvency problems, etc.). The Group companies have approved regulations for trade receivables management, which sets out specific actions and deadlines required for the reduction of trade receivables.
The table below provides the ratings of the banks in which the Group and the Company hold their cash and cash equivalents (Note 15) and other financial assets (Note 14):

Swedbank*	AA-
SEB*	AA-
OP Corporate Bank	AA-

* The ratings assigned to the parent banks as at 31 December 2021 are provided.

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

Liquidity risk

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

The Group's cash flows from operating activities were positive in 2021, therefore its exposure to liquidity risk is not significant. As at 31 December 2021, the Group's current ratio (total current assets / total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) were 0.7 and 0.65, respectively (31 December 2020: 0.84 and 0.81, respectively). As at 31 December 2021, the Company's current and quick ratios were 0.27 and 0.27, respectively (31 December 2020: 0.81 and 0.72, respectively). The Group's and the Company's current ratio declined mainly as a result of the reclassification of the amount payable to Ignitis Grupė from non-current to current liabilities.
Liquidity risk is managed by making regular short-term and long-term cash flow forecasts of the Company. Liquidity is ensured with the help of solutions supporting the solvency of the Company – the dividends to be received. Liquidity risk of the EPSO-G group is managed with the help of loan restructuring solutions. For more information refer note 2.25

The table below discloses the contractual maturities of the Group's and the Company's financial liabilities. This information has been prepared based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Group	Less than 3 months	Between 4 months and 1 year	Between 2 and 5 years	Over 5 years	Total liabilities
At 31 December 2021					
Trade and other amounts payable	101,382	704			102,086
Borrowings	2,252	22,886	71,800	74,584	171,522
Lease liabilities	364	1,236	2,854	11,342	15,796
Other financial liabilities		84,441	-	-	84,441
At 31 December 2020					
Trade and other amounts payable	44,362	2,095	380		46,837
Borrowings	23,169	25,608	86,698	85,125	220,600
Lease liabilities	374	1,225	2,236	9,002	12,837
Other financial liabilities		14,999	134,608		149,607

(All amounts are in EUR thousands unless otherwise stated)

Company	Less than 3 months	Between 4 months and 1 year	Between 2 and 5 years	Over 5 years	Total liabilities
At 31 December 2021					
Trade and other amounts payable	284	796			1,080
Borrowings	94,652				94,652
Lease liabilities	23	61	137		221
Other financial liabilities		84,441			84,441
At 31 December 2020					
Trade and other amounts payable	87	692	-	-	779
Borrowings	20,656	2,563	-	-	23,219
Lease liabilities	23	69	220		312
Other financial liabilities		14,999	134,608		149,607

Market risk

The Group's and the Company's income, expenses and cash flows from operating activities are substantially independent of changes in market interest rates. The Group has non-current and current borrowings with interest rates linked to EURIBOR. A increase / decrease of interest rate by 1 b.p. would result in EUR 235 thousand decrease / increase on the Group's profit before tax as at 31 December 2021 (2020: decrease / increase EUR 249 thousand).

Natural gas and electricity energy price risk

The Group is exposed to the risk related to changes in the natural gas purchase price. Changes are caused by various fluctuations in international markets. In 2021, the Group did not take any measures to mitigate the natural gas price risk.

Fair value of financial assets and financial liabilities

The Group's and the Company's principal financial assets and liabilities not carried at fair value are trade and other amounts receivable, term deposits, cash and cash equivalents, borrowings, trade and other amounts payable. The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

- The carrying amount of current trade and other amounts receivable, time deposits, other financial assets, cash and cash equivalents, current borrowings, current trade and other amounts payable approximates their fair value (Level 3).
- The fair value of non-current borrowings is based on the quoted market price for the same or similar loan or on the current rates available for loan with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts (Level 3). The fair value of the Group's non-current borrowings with fixed interest rates was approximately EUR 306 thousand lower than their carrying amount as at 31 December 2021 (31 December 2020: EUR 384 thousand lower).

36. Regulation of prices and profitability of the Group

As at 31 December 2021, the result of electricity transmission services for the years 2018-2020 already approved by NERC, which was recognised by the Group (a difference between revenue and expenses to be reflected in the next years tariffs, i.e. when establishing the price of electricity transmission services tariff will be reduced by the amount of the difference) was EUR 23.6 million. A part of this amount, i.e. EUR 15.1 million Eur, has already been taken into account (revenue was reduced) in establishing the price of electricity transmission services for 2022 and the remaining part of EUR 8.5 million will be taken into account when establishing the price for 2023.
The result of electricity transmission services for the year 2021 was negative due to significantly higher prices of electricity in electric energy markets and also due to higher costs of electricity purchase for compensating technological losses in transmission grid. The result has not yet been approved by NERC. In establishing the price of electricity transmission for 2023, it should be reflected by increasing the price of services accordingly.

As at 31 December 2021, the result of electricity system services for the year 2020 already approved by NERC, which was recognised by the Group (a difference between revenue and expenses to be reflected in the next years tariffs, i.e. when establishing the price of system services, tariff will be reduced by the amount of the difference) is EUR 4.4 million Eur. The result has already been taken into account (revenue was reduced) in establishing the price of system services for 2022.
The result of system services for 2021 is positive and has not yet been approved by NERC. In establishing the price for 2023, it should be reflected by reducing the price of services.

The preliminary result of regulated natural gas transmission activities for 2021 yet to be approved by NERC (a difference between revenue and expenses to be reflected in the next years tariffs, i.e. when establishing the price of gas transmission services tariff will be reduced by the amount of the difference) amounted to approx. EUR 10 million. This amount should be taken into account by NERC, when setting the tariff and prices of natural gas transmission services for 2023 by reducing the allowed revenue of services.

37. Contingent liabilities

Litigations

LITGRID AB group litigations

On 12 March 2020, claimant Šiaulių Energija AB brought a claim against Energijos Skirstymo Operatorius AB for compensation of damages amounting to EUR 1,272 thousand, a procedural interest of 6% on the amount of EUR 1,272 thousand starting from the date of the filing of this claim with the court until a full execution of the court's ruling. The dispute arose over the accident that occurred on 25 March 2019 at the Šiauliai cogeneration power station managed by claimant Šiaulių Energija AB, during which, as stated in the claimant's claim, the three-phase synchronous generator installed in the power station went out of operation. The status of LITGRID AB in the case was changed to the status of defendant additionally requesting to award the amount claimed solidarily from defendants Energijos Skirstymo Operatorius AB and LITGRID AB.
Under the ruling of Vilnius Regional Court of 6 April 2021 the claim was satisfied in part: losses of EUR 590 thousand were awarded from LITGRID AB and the annual interest of 6% on the awarded amount from the date of the initiation of the court proceedings (12 March 2020) until a full execution of the court's ruling. Litigation expenses of EUR 8 thousand were also awarded for the benefit of Šiaulių Energija AB. The claim was rejected in respect of the part of Energijos Skirstymo Operatorius AB.
The court's ruling is objected to a full extent. LITGRID AB filed an appeal on 7 May 2021. The date for investigation by the instance of appeal has not been set yet. The Group has formed a provision for a full amount awarded.

On 30 March 2021, claimant Žilinskio ir CO UAB filed a claim with Kaunas Regional Court against defendant Grid Solutions SAS for the awarding of interest on late payment amounting to EUR 923 thousand. LITGRID is involved in the case as a third party because the circumstances recognised in the case may have an impact on the resolution of the issue of default charges with respect to contractor Žilinskio ir CO UAB as the latter company is late to perform works under agreement No 19SUT-65 of 20 March 2019 *Agreement on environmental impact assessment, design and construction works of phase I of the expansion of the LitPol Link interconnection*. In March 2022, the investigation of the case was completed, the ruling was adopted on the rejection of the claim, however it has not yet come into force and could be subject to appeal. LITGRID is currently assessing whether the grounds exists for the review of interest on late payment claimed by Žilinskio ir CO.

Amber Grid AB litigations

Currently, Amber Grid has initiated two civil cases regarding the award of additional component of the natural gas transmission price related to natural gas supply security (the LNG terminal funds) from Achema AB. Amber Grid acts solely as an administrator of the LNG terminal funds and transfers the LNG terminal funds to their recipients only after collecting them from the buyers, and accordingly, the Company does not incur credit risk arising from the disputed amounts. The latter civil case is being investigated by the court of first instance, i.e., Kaunas Regional Court. On 11 January 2022, Achema AB executed the court's order and filed the request regarding the elimination of deficiencies and the revised counterclaim by the established deadline. The date of the investigation of the case in substance has not yet been set by the court.

BALTPOOL UAB litigations

On the basis of claims filed by BALTPOOL and statements for the issuance of court orders, intense litigations took place/were continued in the civil cases initiated before the courts regarding the award of PSO funds debt from the debtors of PSO funds: Lifosa AB, ORLEN Lietuva AB, and Dainavos Elektra UAB. The amounts recovered from the above-mentioned debtors of PSO funds were/would be entered to the PSO funds budget, therefore the above-mentioned litigations had no/will have no direct impact on the financial position of Baltpool.

The civil cases for the reward of PSO funds from debtors Achema AB and Lifosa AB remained/were suspended in 2021. The amounts recovered from the above-mentioned debtors of PSO funds would be entered to the PSO funds budget, therefore the above-mentioned litigations will have no direct impact on the financial position of Baltpool.

38. Events after the end of the reporting period

As disclosed in Note 3 the Group and the Company made a final settlement with Ignitis Grupė on 31 March 2022 by repaying the remaining outstanding part of the liability and paying related interest. Ignitis Grupė confirmed that the Company has fully and properly fulfilled all obligations laid down in the agreement.

The Company prolonged committed overdraft facility agreement with SEB bankas and concluded additional committed overdraft facility agreement with OP Corporate Bank. Combined maximum amount which could be drawn is EUR 90 million and agreements are valid for more than 12 months.

To ensure optimal use of the potential of the opening of the European gas market and provide the possibility to offer the most advanced gas trading solutions to the clients of the regional gas exchange GET Baltic UAB, the Group announced the selection of the strategic partner for the exchange on 1 February 2022. The planned sale of a part of shares of GET Baltic UAB was approved by the Boards of Amber Grid AB and the Group. The participant that meets the qualification requirements and offers the highest price for shares of GET Baltic UAB will be able to acquire a 66% shareholding in GET Baltic UAB.

Due to military actions started by the Russian Federation in Ukraine on 24 February 2022 the Group will apply all sanctions, business restrictions that were initiated and announced by the Lithuanian or foreign institutions, will take action in one or other way related to the activities of the Russian and Belarusian legal or natural persons, their shareholders, members of the management bodies.

Natural gas transmission activity

The natural gas transmission system operated by the Group has a physical connection with the gas transmission system of Belarus and gas is transported to the territory of Lithuania through this connection and transmitted through transit to the Kaliningrad Region of Russia. The Group's transmission revenue generated from the transit service accounts for up to 20% of revenue from the natural gas activity. In case transit services are restricted for a certain period of time due to insolvency of the system user, lower revenue from gas transmission through transit would be received for a certain period of time. Together with the Polish transmission operator Gaz-System the Group announced that from 1 May 2022 the gas market participants will be able to start using the GIPL pipeline and the connection and the commercial gas flows between Lithuania and Poland will start. The Group projects that this connection will gain significance and become accessible at the regional level and this will have a larger than projected impact on the revenue growth and would compensate a possible decline in revenue due to restriction of services of transit to Russia.

Electricity transmission activity

The Group's subsidiary LITGRID AB does not have any suppliers or buyers in Ukraine, Russia or Belarus, therefore the war started by Russia against Ukraine is not expected to have a direct significant impact on the financial indicators of the electricity transmission activity. Indirect impact could be caused by:

- fluctuations in the price of electricity in the market that would affect technological loss expenses incurred. In case such fluctuations would occur, the impact would be of a short-term nature because the regulator would compensate incurred losses in the subsequent periods.
- increase in the prices of the network's repair works carried out the contractors and elements used in the investment projects which were previously acquired in the above-mentioned states. The share of such elements is very small, the impact of the change (change of the suppliers of such elements) on the financial indicators of the electricity transmission activity would be insignificant.

Activities of the exchange operators

Events in Ukraine can have an indirect impact on the activity of the natural gas exchange operator. No Russian or Belarusian participants are registered on the exchange - neither buyers nor sellers. Natural gas import from Russia to the Baltic, Finnish regions and to Europe is not currently restricted. In 2021, the portion of trade on the exchange represented only around 12% (8 TWh) of the region's total demand (65 TWh). Following Russia's suspension of the natural gas supply to the region, around 2/3 of the region's natural gas demand could be ensured by importing gas through the Klaipėda LNG terminal. It should be noted that 100% of the natural gas demand of Lithuania could be ensured through the Klaipėda LNG terminal and the volume of natural gas purchased in the Lithuanian bidding area comprises around 50-60% of the trade turnover of the exchange. As a result, a possible suspension of import from Russia would not have a large impact on the turnover of the Lithuanian bidding area of the exchange.
From the short-term perspective, the exchange instrument is usually used as an alternative gas supply source, particularly, in case of unexpected circumstances, therefore various unplanned events usually have a positive short-term impact on the turnover of the exchange.

Events in Ukraine can also have an indirect impact on the activity of the energy sources exchange operator:

- In case of decline or termination of the biofuel import flow from Belarus, this could affect the formation of the biofuel warehouses in the warm period of the year. Restrictions of biofuel import could lead to increase in prices of biofuel in Lithuania and increase in prices of heat, however they would not have a major impact on the trade volumes of biofuel. Changes in the biofuel market would not have a major influence on revenue generated by the operator of the exchange as its service fees (commission fees) are linked to the biofuel energy units traded on the exchange – tons of oil equivalent (toe).
- If the European Union decides to terminate the natural gas import from Russia, gas prices are expected to increase significantly leading to higher prices of heat in the Lithuanian towns that are highly dependent on gas supply. Higher prices of heat would not cause significant changes in the company's revenue from heat auctions because commission fees are linked to the energy units traded at auctions – GWh.
- It is expected that production volumes of a part of industrial electricity consumers will decline and consequently their electricity consumption will also decline resulting in lower proceeds to the PSO funds budget. In assessing expenses of the PSO funds budget it should be noted that the above-mentioned geopolitical events do not create preconditions for the reduction of the electricity market prices. Therefore, as the electricity market price remains higher than a fixed support tariff applied with respect to most producers of electricity from renewable energy sources that are supported with PSO funds, expenses of the PSO budget funds in 2022 are also expected to be lower than projected.

On 27 January 2022, decisions were adopted at the Boards of LITGRID AB and EPSO-G to seek to acquire additional shares of TSO Holding AS (Nord Pool) by LITGRID (a shareholding of 2% is currently held) and upon acquisition transfer them to EPSO-G.

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WORD FROM THE CHAIRMAN OF THE BOARD

Dear All,

At the beginning of 2022, pandemic-related issues on the agendas of the media, the public and politicians were replaced overnight by the news about the war and security in our region. Attention has also shifted to the impact of energy resources on international relations, once again highlighting their importance for our daily lives. I have no doubt that 2022 will mark a new phase in global geopolitical processes and that it will also be a significant milestone for energy across the region.

Lithuania is confidently and successfully moving towards energy independence. In the morning of 24 February, the commitment of the entire EPSO-G team to pursue this path as rapidly as possible was further strengthened.

We monitor and assess developments in global energy markets and energy technologies. But we are even more focused on initiating energy changes in Lithuania. We set the main guidelines and directions for change last year with the adoption of the group Strategy 2030. We will maintain the rapid pace of integration into the Western European markets. For energy producers, we will continue to develop a regional market and infrastructure to encourage investment in green energy production. All this will allow reducing environmental footprint and achieving our decarbonisation targets in Lithuania.

We forecast that if all goals of the strategy are met, the socio-economic benefits of the investment for Lithuania over a decade will be around EUR 4 billion, with a financial return of about EUR 160 million.

In order to achieve these goals, EPSO-G group companies will have to change significantly, becoming even more focused on the changing expectations of customers and society. Although they are natural and regulated monopolies in their respective fields, the group companies have already embarked on a systemic change to continuously improve the service they provide to their customers. We are committed to substantially strengthening the group companies as a whole by expanding their activities and adjusting the operating model of the group companies accordingly.

Together with the targets set out in the strategy, we have committed to reducing the environmental impact of the group companies by two-thirds by 2030. Last year, we took the first consistent, effective and measurable steps towards sustainable operations. In the future, we are looking forward to introducing new technologies, improving our processes and our supply chain.

The group companies continue to strive for the highest standards of good governance and transparency – last year we received the governance rating A.

In 2021, the EPSO-G team underwent some changes. Rokas Masiulis successfully took over the management of Litgrid at the beginning of the year. Rolandas Zukas, who had been working for EPSO-G almost from the outset, left the group at the year-end. The new CEO of the group, who will start work in the spring, will intensify international expansion and will be a catalyst for a faster transformation of the group companies and, at the same time, of the Lithuanian energy sector at large.

In recent months, I have had many opportunities to observe the focus and motivation of the EPSO-G team and all group companies, as well as of the representatives of shareholders, board and committee members and partners, to overcome the challenges. Especially in response to the situation that has changed overnight. I invite and wish us all to work together with the same focus and motivation in the future.

Robertas Vyšniauskas, Chairman of the Board of EPSO-G

WORD FROM THE ACTING CEO

Dear All,

The year 2021 was an important and exciting year in many ways. The rapid development of the Lithuanian economy has led to increased energy needs in the country, which in turn contributed to the increased business volumes of EPSO-G group companies. Increased electricity and gas transmission activity, successful operation of gas and biofuel exchanges and smooth implementation of strategic infrastructure development projects boosted revenues of the group companies by a third to EUR 363 million.

Last year, we successfully followed the path of energy independence. Litgrid successfully completed two important projects for synchronisation with the continental European grids: the extension of the LitPol Link interconnection with Poland and the optimisation of the North-Eastern Lithuanian grid. All other synchronisation projects are progressing well and will be completed by 2025. The test in December last year showed that LitPol Link would enable the country's electricity system to operate in synchrony with the Polish system and, in an emergency, also with the continental Europe.

In December, Amber Grid completed the works of construction of the GIPL gas pipeline between Lithuania and Poland in Lithuania. Lithuania's interconnection of its gas pipelines with the Polish gas market, and thus with the European gas market as a whole, will open up new opportunities for international gas trade this year. Amber Grid has therefore launched the selection of a strategic partner for the GET Baltic gas exchange. Together with our future partner, we will be able to exploit the potential of the European gas market and offer our customers the cutting-edge gas trading solutions.

Last year, we launched the implementation of the Physical Barrier at the border with Belarus. The lion's share of the work was carried out by the group company Tetas, which, by the year-end, had installed concertina barriers at key border crossings. And together with other construction companies, they will install the entire physical barrier along more than 500 kilometres of the border by September this year.

Baltpool has also been successful, with growing volumes of biofuels traded on the exchange and the resulting market development has significantly increased the incentives to move away from fossil fuels.

The youngest company in the group, Energy Cells, last year started and will this year complete the project on the system of electricity storage facilities. The 200 megawatts and 200 megawatt-hours of capacity will enable Lithuania to have an instantaneous reserve of isolated operation power, which is crucial for synchronisation.

Last year, EPSO-G group companies invested more than EUR 97 million in the country's strategic energy infrastructure facilities. We are looking to the future in the light of the strategy of the group companies until 2030, which was adopted last year. The strategy includes further strengthening the country's energy independence and transforming the entire energy sector of Lithuania.

At the beginning of 2022, in just a few hours and a few days, we had to decisively change many of the decisions that had guided us for months and years. This period has highlighted that Lithuania has been confidently and successfully pursuing the path of energy independence for many years. It has also shown that the employees working in the group companies are focused and determined to meet all challenges.

I would like to extend my thanks to the customers, employees and partners of EPSO-G and all group companies for the joint work in 2021. I wish us all continued focus and determination. The year 2022 will also be very challenging. We are heading in the right direction.

Algirdas Juozaponis, Acting CEO of EPSO-G

(All amounts are in EUR thousands unless otherwise stated)

2021 CONSOLIDATED ANNUAL REPORT OF EPSO-G AND GROUP COMPANIES

The consolidated report of the holding company EPSO-G and the Group companies prepared for the twelve months period ended on 31 December 2021.

1. General information on EPSO-G Group companies

Company name	EPSO-G UAB
Legal form	Private limited company
Date and place of incorporation	25 July 2012, the Register of Legal Entities of the Republic of Lithuania
Company code	302826889
Registered office address	Gedimino pr. 20, LT-01103 Vilnius
Mail address	Gedimino pr. 20, LT-01103 Vilnius
Telephone	+370 685 84866
E-mail	info@epsog.lt
Website	www.epsog.lt
Authorised capital	EUR 22,482,695
Sole shareholder	The Republic of Lithuania, the property and non-property rights of which are implemented by the Ministry of Energy of the Republic of Lithuania

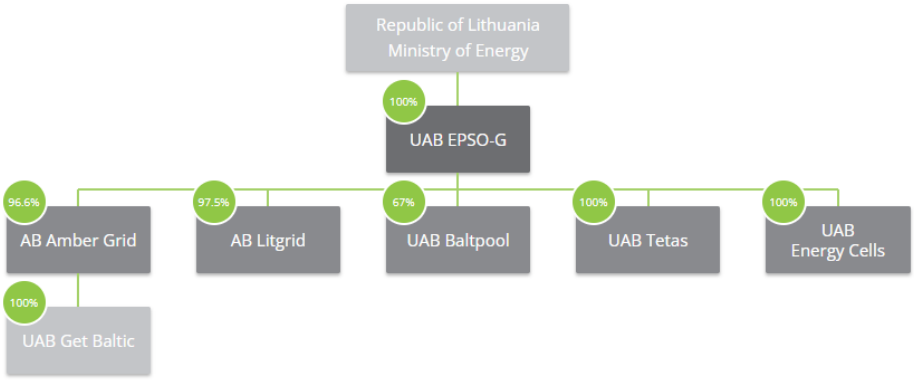
EPSO-G is a 100 % state-owned Group of energy transmission and exchange companies. The rights and obligations of EPSO-G holding shareholder are implemented by the Ministry of Energy of the Republic of Lithuania.

The main activity of the EPSO-G Group with 1,278 employees is to ensure uninterrupted, stable electricity transmission through high voltage grids and natural gas transportation through high-pressure pipelines and efficient management, maintenance and development of these transmission systems. The Group also manages and develops the biofuel, natural gas and timber trade platforms designed to ensure competition in the market of energy resources and roundwood.

All the companies belonging to the EPSO-G Group are responsible for effective and timely implementation of the projects of energy transmission and exchange infrastructure development that are important for the state by contributing to the implementation of the goals set in the National Energy Strategy thus creating a sustainable long-term value for the shareholder – the State of Lithuania, people and the economy of the country.

As at 31 December 2021, the EPSO-G Group (the "Group") consisted of the holding company EPSO-G UAB ("EPSO-G" or the "Company"), five directly controlled companies of the Group: (LITGRID AB ("Litgrid"), Amber Grid AB ("Amber Grid"), BALTPOOL UAB ("Baltpool"), TETAS UAB ("Tetas"), Energy Cells UAB ("Energy Cells"), and the indirectly controlled company GET Baltic UAB ("GET Baltic")).

The structure of the EPSO-G Group companies as at 31 December 2021:



ENDED ON 31 DECEMBER 2021 (thousand EUR, unless specified otherwise)

Name	LITGRID AB	Amber Grid AB	BALTPOOL UAB	TETAS UAB	GET Baltic UAB	Energy Cells UAB
Legal form	Public limited liability company	Public limited liability company	Private limited liability company	Private limited liability company	Private limited liability company	Private limited liability company
Date and place of incorporation	16 November 2010, the Register of Legal Entities of the Republic of Lithuania	11 June 2013, the Register of Legal Entities of the Republic of Lithuania	10 December 2009, the Register of Legal Entities of the Republic of Lithuania	8 December 2005, the Register of Legal Entities of the Republic of Lithuania	13 September 2012, the Register of Legal Entities of the Republic of Lithuania	26 January 2021, the Register of Legal Entities of the Republic of Lithuania
Company code	302564383	303090867	302464881	300513148	302861178	305689545
Registered office address	Karlo Gustavo Emilio Manerheimo g. 8, LT-05131 Vilnius	Laisvės pr. 10, LT-04215 Vilnius	Žalgirio g. 90, LT-09303 Vilnius	Senamiesčio g. 102B, LT-35116 Panevėžys	Geležinio Vilko g. 18 A, LT-08104 Vilnius	Gedimino pr. 20, LT-01103 Vilnius
Telephone	+370 707 02171	+370 5 236 0855	+370 5 239 3157	+370 45 504 670	+370 5 236 0000	+370 659 00748
E-mail	info@litgrid.eu	info@ambergrid.lt	info@baltpool.eu	info@tetas.lt	info@getbaltic.com	info@energy-cells.eu
Website	www.litgrid.eu	www.ambergrid.lt	www.baltpool.eu	www.tetas.lt	www.getbaltic.com	www.energy-cells.eu
Nature of the activity	Electricity Transmission System Operator	Natural Gas Transmission System Operator	Energy exchange operator, administrator of the funds of services of public interest	Specialised services of maintenance, repair and installation of transformer substations and distribution points, works of testing and tests, design of energy objects	Operator of Natural Gas Exchange	Providing the electricity transmission system operator with the electricity reserve guarantee service required for the isolated operation of electricity system
Shares held by EPSO-G	97.5%	96.6%	67.0%	100.0%	96.6%	100.0%

ENDED ON 31 DECEMBER 2021 (thousand EUR, unless specified otherwise)

EPSO-G IN BRIEF

34.0% – increase in consolidated revenue of EPSO-Gs in 2021 (to EUR 362.6 million)

6.8% – increase in earnings (EBITDA) in 2021 (to EUR 79.6 million)

15.8%– return on equity of the EPSO-G Group in 2021

11 TWh – amount of electricity transmitted to Lithuanian residents and business entities (+8.4%)

24.1 TWh – amount of natural gas transmitted to Lithuanian residents and business entities (-4%)

5.8 TWh – amount of biofuel sold on the Baltpool exchange in 2021 (+5.8%)

10.4%– increase in volume of gas traded on the GET Baltic exchange

A – rating of the governance transparency and accountability of the EPSO-G Group

Key performance indicators of the EPSO-G Group:

	2021	2020	Change	
			+/-	%
Revenue, thousand EUR	362,603	270,519	92,084	34.0%
EBITDA[1], thousand EUR	79,639	74,549	5,090	6.8%
Net profit, thousand EUR	39,818	40,085	-267	-0.7%
Return on equity (ROE)[2], %	15.8%	18.8%		
Number of employees	1,278	1,081	197	18.2%
Total electricity transmitted, GWh	10,937	10,089	848	8.4%
Total gas transported, GWh	24,136	25,144	-1,008	-4.0%
Turnover of the natural gas exchange, GWh	7,957	7,206	751	10.4%
Amount of biofuel sold on the energy exchange, TOE	5,781	5,466	315	5.8%

1) EBITDA = profit (loss) before tax + finance costs – finance income + depreciation and amortization charges + impairment charges (including a negative revaluation of non-current tangible assets) + asset write-off – impact of atypical activities

2) Return on Equity (ROE) = net profit/ ((equity at the beginning of the period + equity at the end of the period)/2)

1.1. EPSO-G Group

EPSO-G is a 100 % state-owned Group of energy transmission and exchange companies. The rights and obligations of EPSO-G holding shareholder are implemented by the Ministry of Energy of the Republic of Lithuania.

The main activity of the EPSO-G Group with 1,278 employees is to ensure uninterrupted, stable electricity transmission through high voltage grids and natural gas transportation through high-pressure pipelines and efficient management, maintenance and development of these transmission systems. The Group also manages and develops the biofuel, natural gas and timber trade platforms designed to ensure competition in the market of energy resources and roundwood.

All the companies belonging to the EPSO-G Group are responsible for effective and timely implementation of the projects of energy transmission and exchange infrastructure development that are important for the state by contributing to the implementation of the goals set in the National Energy Strategy thus creating a sustainable long-term value for the shareholder – the State of Lithuania, people and the economy of the country.

As at 31 December 2021, the EPSO-G Group (the "Group") consisted of the holding company EPSO-G UAB ("EPSO-G" or the "Company"), five directly controlled companies of the Group (LITGRID AB ("Litgrid"), Amber Grid AB ("Amber Grid") BALTPOOL UAB ("Baltpool"), TETAS UAB ("Tetas"), Energy Cells UAB ("Energy Cells"), and the indirectly controlled company GET Baltic UAB ("GET Baltic")).

1.2. Holding company EPSO-G

EPSO-G UAB is a holding company with the objective of the sole shareholder – the Ministry of Energy of the Republic of Lithuania – to create a group of energy transmission system and exchange operators providing advanced, efficiently managed and long-term benefits to shareholders, which ensures the implementation of the strategic Lithuanian energy interests and contributes to the expansion of the state's competitiveness and building the public well-being.

By implementing the activities outlined in the National Energy Independence Strategy ("NEIS") and the letter of the shareholder's expectations, the holding company establishes the strategic goals and tasks of the Group and its constituent companies, supervises their implementation, identifies and manages operational risks and implements measures to increase the efficiency of the Group companies.

The holding company also lays down the operating rules that are in line with a good business practice and coordinates the activities of the companies which are part of the Group in the fields of human resources, risk management, audit, social responsibility, communication and in other fields increasing operational transparency and accountability in order to increase by means of socially responsible work a long-term value for Lithuania's people, business and shareholders.

The uniform good corporate governance practice of the EPSO-G Group is implemented in accordance with the Corporate Governance Policy, joined by the companies of the Group, and by the direct involvement of the representatives nominated by the holding company in the work of the boards of the subsidiaries.

The holding company EPSO-G carries out its supervisory and control functions with the help of these measures:

- By making decisions within the competence of the General Meeting of Shareholders in its subsidiaries, thus ensuring interconnection among policies, objectives, targets and measures;
- By nominating the employees of EPSO-G to the Boards of the companies of the Group, thus ensuring the targeted implementation of the goals set by the shareholder, coordinating the operating strategies of the subsidiaries of the Group with the directions of the Group's strategy;
- By organizing and carrying out the activities of the Audit Committee, thus ensuring the transparency, control and accountability of the decisions made in the Group;
- By organizing and carrying out the activities of the Remuneration and Appointment Committee, thus ensuring equal principles of appointment and remuneration in the Group;
- By setting up a centralized Group-wide internal audit that is accountable to the Audit Committee and the Board of the Company and is not subordinate to the administration of the companies;
- By adopting the Group's policies that regulate various areas of activity, thus implementing good sustainable development practices in the Group;

- By providing representative, standardised draft documents to the companies of the Group that equalize the activity of the companies;
- By implementing functional mentoring of activities in the Group;
- By providing consulting services to the companies of the Group.

Tasks and functions of the holding company EPSO-G and activities related to their implementation:

Tasks of EPSO-G	Projects / Functions	Activities
Management of strategic projects	Synchronization GIPL	▪ Control of strategic energy projects ▪ Representation of interests in Lithuania and international institutions ▪ Adjustment of actions towards result and ensuring integrity ▪ Ensuring transparency and efficiency of public procurement
Corporate governance	Competent representation of shareholder interests in the governance bodies of the companies of the Group	▪ Group strategy and common objectives implementing shareholder expectations ▪ Integrated, uniform principles-based financial and business management practices (uniform Group policy) ▪ Implementation of good business practices
	Goal setting and integration	▪ Coordination and approval of business plans of companies ▪ Establishment of annual goals on boards, compatibility assurance
	Opportunities identification and development empowerment	▪ Setting of ambitious goals, development of new activities, acquisitions of new companies
	Ensuring efficiency	▪ Assessment of the efficiency and anticipation and implementation of optimization measures of the activities of the companies of the Group ▪ Budgetary tasks and control of operational management costs ▪ Unified, mature and market-comparable remuneration management
	Operational control	▪ Centralized audit function ▪ Supervision of the implementation of operational plans ▪ Evaluation of annual results on boards
	Compliance and risk management	▪ Setting of compliance management principles ▪ Control of the identification and management of risk management tools
Ensuring accountability	Accountability to the shareholder	▪ Accountability according to the requirements of the Letter of Expectations ▪ High-quality and immediate information on the status of the companies of the Group

		▪ High-quality and immediate information on the status of the projects ▪ Formal and non-formal communication
	Management of relations with stakeholders	▪ Identification of interest groups ▪ Determination of the expectations of stakeholders ▪ Ensuring communication strategy and functional leadership in risk management ▪ Communication
	Procurement criteria, control	▪ Participation in procurement commissions ▪ Analysis, evaluation and approval of essential contract terms on boards
	Determination of business and behavioural models	▪ Common values, policies and procedures that are followed by all companies of the Group
	Transparency	▪ Ensuring accountability to stakeholders ▪ Ensuring corruption prevention
Ensuring synergies	Finance management	▪ General treasury management
	Operational management	▪ Joint purchases ▪ Services for the companies of the Group ▪ Know-how ▪ Search and implementation of innovations

Clients

The client of EPSO-G - the shareholder of the Group and the companies of the Group. Highly qualified specialists and a good reputation of the holding company are essential for quality management decisions that are crucial to the operations of the companies they manage, for the effective supervision of operations and consulting.

Detailed information on the activities of the EPSO-G holding company is provided in Section 7 (*Governance Report*) of this report.

1.3. LITGRID

Litgrid, the electricity transmission system operator which is part of the EPSO-G Group, ensures a reliable transmission of electricity and electricity balance, manages and operates a high-voltage electricity transmission grid as well as DC connection LitPol and NordBalt. The company takes care of the development of the transmission network and electricity market, coordinates electricity flows and maintains a stable functioning of the domestic power network.

In line with the long-term goals identified in the National Energy Independence Strategy, the most important activity areas and responsibilities of Litgrid are the following: maintenance of the country's electricity infrastructure and its integration with the Western and Northern European electricity infrastructure; development of the electricity market and participation in the creation of a single electricity market of the Baltic and European countries; and integration of the electricity systems of Lithuania and continental Europe for synchronous operations.

The mission of the company: a reliable transmission of high quality electricity in the European market creating a value for the society.

Services provided by Litgrid:

- Electricity transmission over high voltage (110 and 330 kV) electrical installations. The transmission system operator (TSO) transmits electricity from producers to consumers that are connected to the transmission network, and to the operators of the distribution networks. Electricity transmission is an activity regulated by the state. The main activities of the TSO include the management of the high voltage electricity transmission network and securing reliable, effective, high-quality, transparent and safe transmission of electricity.

- System services to maintain reliable system functioning. Litgrid purchases from energy generating companies the services for the capacity reserve assurance at the electricity generation facilities, reactive power and voltage management, and emergency, disruption prevention and response services, and provides consumers with system services. The capacity reserve is needed when electricity production suddenly and unexpectedly falls or its consumption increases.
- Trade in imbalance and balancing electricity to ensure a balance between production and consumption. The TSO organises trade in imbalance electricity, buys and sells imbalance electricity that is necessary to ensure the country's electricity production and consumption balance. Balancing electricity is electricity that is bought and/or sold on instruction of the transmission system operator as electricity necessary for performing the function of balancing the country's electricity consumption and production. The TSO organises trading in balancing electricity by auction. Litgrid, together with Estonian and Latvian operators, organizes a common Baltic balancing energy market, in which the single Baltic balancing is managed, and balancing energy is traded on equal terms and conditions**.**
- Services under public service obligation (PSO) scheme. These are the services that ensure and enhance the national energy security and promote integration and use of electricity produced from renewable energy sources. The list of PSO services, their providers and procedures for the provision of PSO services are approved by the Government of the Republic of Lithuania, or an institution authorised by it, having regard to the public interests in the electricity sector. PSO funds are funds that are paid to the providers of PSO services. Litgrid provides the following PSO services: connection of power generation equipment that uses wind, biomass, solar energy, or hydropower to the transmission network as well as the transmission network's optimisation, development and/or reconstruction related to the acceptance and transmission of electricity generated by producers that use renewable energy sources; balancing of electricity produced from renewable energy sources connected to the transmission network for which the measure to promote the exemption from balancing responsibilities is intended.
- Technical maintenance, operation and management services for high voltage direct current connections.

Balancing and regulating electricity suppliers – electricity generating and supplying entities.

Key financial indicators of Litgrid:

	2021	2020	Change	
			+/-	%
Revenue, thousand EUR	270,588	207,516	63,072	30.4%
EBITDA[1], thousand EUR	46,206	51,199	-4,993	-9.8%
Net profit, thousand EUR	20,013	26,603	-6,590	-24.8%
Asset, thousand EUR	489,825	414,353	75,472	18.2%
Number of employees	335	308	27	8.8%

1) EBITDA = profit (loss) before tax + finance costs – finance income + depreciation and amortization charges + impairment charges (including a negative revaluation of non-current tangible assets) + asset write-offs – impact of atypical activities

1.4 AMBER GRID

Amber Grid, the natural gas transmission system operator, which is part of the EPSO-G Group, is responsible for the natural gas transmission and operation of trunk gas pipelines, secure and reliable operation and development of gas transmission system. Amber Grid also administers the National Register of Guarantees of Origin for gas produced from renewable energy sources (RES).

The mission of the company is to efficiently and reliably carry out gas transmission, creating favourable conditions for competition in the gas market and development of renewable energy resources.

The transmission system managed by Amber Grid consists of trunk gas pipelines, gas compressor stations, gas distribution stations, gas accounting stations, anti-corrosion equipment for gas pipelines, data transmission and communication systems and other asset attributed to the transmission system.

The Lithuanian gas transmission system is connected to the Latvian, Belarusian natural gas transmission systems and those of Kaliningrad Region of the Russian Federation, Klaipėda LNG floating storage and regasification unit terminal, the distribution systems of Lithuanian distribution system operators and to the consumer systems directly connected to the transmission system.

Services

Amber Grid provides system users, other operators and participants of the gas market with natural gas transmission services in the territory of Lithuania: it transmits gas to domestic consumers, as well as transports natural gas to Latvia and Kaliningrad District of the Russian Federation.

The company renders these services to the system users, other operators, the participants of the gas market:

- Gas transmission in the territory of Lithuania;
- Gas flow balancing in the transmission system;
- Administration of the funds intended for the installation of the LNG floating storage and regasification unit terminal, its infrastructure and connections, and for the constant operating costs, and for the compensation of the reasonable costs of supply of the necessary amount of liquefied natural gas of the appointed supplier;
- Administration of the register of guarantees of origin of gas produced from renewable energy sources (RES).

Customers

The customers of Amber Grid are the major Lithuanian companies of electricity, district heating generation as well as industrial companies, and the medium-sized Lithuanian business companies, including energy and natural gas supply companies of the Baltic states and the third countries to which the services of natural gas transmission are rendered.

GET Baltic

Amber Grid holds 100% of shares of GET Baltic UAB. GET Baltic UAB is a licensed natural gas market operator that has the status of a Registered Reporting Mechanism (RRM) granted by the Agency for the Cooperation of Energy Regulators (ACER). The company administrates the electronic trading platform for trading short-term and long-term natural gas products in the market area in Lithuania, the single market area of Latvia and Estonia, and the market area in Finland. By developing the solutions suitable for trading natural gas, GET Baltic seeks to improve the liquidity, competitiveness, and transparency of the wholesale gas market in the Baltic countries and Finland.

Key financial indicators of Amber Grid:

	2021	2020	Change	
			+/-	%
Revenue, thousand EUR	68,595	52,286	16,309	31.2%
EBITDA[1], thousand EUR	35,372	26,060	9,312	35.7%
Net profit, thousand EUR	23,211	18,170	5,041	27.7%
Asset, thousand EUR	380,214	316,371	63,843	20.2%
Number of employees	324	319	5	1.6%

1) EBITDA = profit (loss) before tax + finance costs – finance income + depreciation and amortization charges + impairment charges (including a negative revaluation of non-current tangible assets) + asset write-offs - impact of atypical activities

1.5. BALTPOOL

Baltpool, the operator of the exchange for the energy resources and trade in timber, organises trade, i.e. creates equal conditions for market participants to acquire biofuel and timber under competitive terms and thus ensure the maximum benefit to the consumers and return to the state.

Baltpool organises auctions of heat supplied to centralised networks and acts as an administrator of the electronic timber trading system.

The target set for the company is to create equal conditions for market participants to purchase biofuel and timber under competitive conditions and thus create conditions for the formation of prices that reflect the relationship between supply and demand.

The exchange operates in Lithuania, Latvia, Estonia, Poland, Denmark, Finland and Sweden.

Baltpool customers by activities performed:

- The key customers in the activity of the biofuel exchange are the biofuel buyers (district heating companies, independent heat generating entities and other companies using in their activity the biofuel products traded in the exchange) and biofuel suppliers (manufacturers and suppliers of wood pellets and chips);
- Timber sellers, specifically the State Forestry Enterprise and its territorial subdivisions, are the key customers in the activity of timber auction organising. Timber buyers are the companies using timber products in their activity: from timber processing companies to biofuel supply companies.
- The most important customers in the activity of heat auction organising are heat supply companies, which are obliged to buy the necessary quantity of heat from independent heat suppliers at heat auctions and independent heat suppliers connected to the heat supply systems and sell heat at the auction.
- The customers in the activity of administration of the PSO funds are the electricity consumers, which as per the valid legal regulation must pay the PSO funds for the electricity consumed by them. The PSO funds are collected from the electricity consumers connected to the distribution network through the distribution network operator. The consumers connected to the networks managed by the transmission system operator transfer the PSO funds directly to the administrator. The energy companies which in accordance with the legal acts render the services of public interest also are the customers of the company, i.e. the services such as generation of electricity from renewable energy sources, the services of electricity generation which is necessary for the ensuring security of electricity supply, and other services stipulated in the description of the procedure of rendering the services of public interest in the electricity sector.

Special obligations:

Under the resolution of 2012 of the Government of the Republic of Lithuania, Baltpool is appointed to implement the special obligation to perform the functions of a PSO funds administrator in the power sector. Detailed information and reports on the implementation of this function are publicly available on the Baltpool website: https://www.baltpool.eu/lt/viap-gautos-ismoketos-likutis.

Key financial indicators of Baltpool:

	2021	2020	Change	
			+/-	%
Revenue, thousand EUR	1,269	1,132	137	12.1%
EBITDA[1], thousand EUR	186	273	-87	-31.9%
Net profit, thousand EUR	89	182	-93	-51.1%
Asset, thousand EUR	113,806	45,953	67,853	147.7%
Number of employees	19	18	1	5.6%

1) EBITDA = profit (loss) before tax + finance costs – finance income + depreciation and amortization charges + impairment charges (including a negative revaluation of non-current tangible assets) + asset write-offs – impact of atypical activities

1.6. TETAS

The main activity of Tetas is construction and repair of engineering networks, i.e. electrical equipment up to 400 kV. The company also performs construction works: constructs and installs building structures, installs electricity supply and distribution equipment, builds electrical networks, performs the installation of electrical engineering systems for buildings:

- Construction and operation of electrical equipment up to 400 kV voltage: construction, reconstruction, maintenance and repair of power lines, switchgears and substations up to 400 kV, power transformers and other facilities.
- Construction of electrical networks: construction, maintenance and reconstruction of 0.4-110 kV new cable lines.
- Installation of renewable energy sources: installation of solar power plants, supply / assembly of equipment, maintenance and troubleshooting.
- Connection of electrical equipment of new electricity consumers to the networks, including installation of electricity networks owned by a consumer.
- Relay protection and automation (RPA) configuration and start-up and adjustment works are performed.
- Projects for the construction, reconstruction and repair of critical energy and communication buildings or their separate parts from the initial study of the object development to the project preparation are prepared. Project implementation supervision works are performed.
- Projects for connecting new electricity consumers' electrical equipment to the networks are prepared.

In addition, TETAS UAB carries out the installation of fiber-optic cable engineering infrastructure, and has started providing photovoltaic power plant design services and installation works. The company has a division providing design services, ensuring the provision of high intellectual and value-added services. The Company also provides the market with unique testing and diagnostic services for electrical equipment.

Key financial indicators of Tetas:

	2021	2020	Change	
			+/-	%
Revenue, thousand EUR	33,338	26,129	7,209	27.6%
EBITDA[1], thousand EUR	1,679	2,218	-539	-24.3%
Net profit, thousand EUR	382	854	-472	-55.3%
Asset, thousand EUR	32,657	11,926	20,731	173.8%
Number of employees	498	395	103	26.1%

1) EBITDA = profit (loss) before tax + finance costs – finance income + depreciation and amortization charges + impairment charges (including a negative revaluation of non-current tangible assets) + asset write-offs - impact of atypical activities

2. Mission, vision, values

EPSO-G, as a group of transmission system operators and energy exchange, plays a key role in ensuring a streamlined and secure transition to the energy system integrating high-volume RES, enabling decarbonisation of the sector, initiating system interconnection projects and facilitating climate-neutral energy exchange.

EPSO-G vision - to enable the security, integration and transformation of the Lithuanian energy sector.

EPSO-G mission - to enable a sustainable and efficient energy exchange.

Implementation of the mission, pursuit of the vision and all activities of EPSO-G Group are based on the fundamental human and professional values: professionalism, cooperation, and progress.

EPSO-G values:

Professionalism - we strive for every employee in the group to be recognized and be able to grow as a professional in their field of activity. We understand what an important role professional knowledge, hands-on experience and continuous learning play in terms of the results of the Group and ensuring continuity of activity.

Cooperation - we emphasize sincere and constructive cooperation with each other which makes it possible to pursue the goals set in a concerted manner.

Progress - openness to new business practices and ideas promotes the creation, renewal, implementation of meaningful changes and leads us forward.

2.1. OPERATING AND REGULATORY ENVIRONMENT

In 2021, EPSO-G Group companies were most affected by the cold winter and cool spring of 2020-2021 (which increased the demand for energy, especially electricity), the recovery of the global and Lithuanian economies after the COVID-19 pandemic, the significant increase in demand for electricity and electricity transmission services, respectively, due to the situation in global and European energy markets - the increased prices for natural gas and electricity in wholesale markets, which also affected the costs and revenue incurred by transmission system operators in providing system balancing services.

Record high natural gas prices in European markets in 2021 (which started to rise sharply in the summer and reached around EUR 180/MWh at the EU's most liquified gas points of sale at the end of the year) were also affected by unusually low natural gas reserves in European natural gas storage facilities, an increase in the prices of emission allowances (the price of CO_2 increased about 3 times in 2021 and reached around EUR 80/ton at the end of 2021), an increased gas demand in Asian markets, possible political tensions between East and West, and untapped opportunities for exports of gas of Russian origin to Europe, as well as an increased demand for electricity, regimes for the generation of electricity from renewable energy sources in Europe had led to an increase in wholesale electricity prices in Europe to unprecedented levels over the last decade - in the market of spot transactions reaching several hundred or even a thousand euros per megawatt hour (MWh) on certain days or hours in the second half-year 2021.

Accordingly, these trends have led to the fact that in 2021, Lithuania had the highest wholesale electricity price since 2013. According to Nord Pool, in Lithuania, the average wholesale electricity market price, compared to 2020, increased by 66% to EUR 90.45/MWh.

According to the import/export (net) ratio, in 2021, 66% of Lithuania's electricity demand was imported: 44% of electricity was imported across the border with Latvia, 31% from Scandinavia via NordBalt connection, 17% of electricity imports was from third countries, and 7% via the LitPol Link interconnection with Poland. In 2020, 52% of Lithuania's electricity demand was imported.

In 2021, annual final electricity consumption in Lithuania (without quantities for loading of Kruonis Pumped Storage Power Plant (Kruonis PSPP) and costs of technological networks) was by 8% higher, compared to 2020. The upward trend in consumption is expected to continue in the future. Litgrid forecasts that electricity demand (the country's overall need) will grow by an average of slightly over 2% per year over the next decade and will reach around 15 TWh in 2030 (2020: 12 TWh). Electricity consumption will be most affected by general economic trends, increasing efficiency of electricity consumption, the number of electric cars and heat pumps, the amount of electricity consumed. It will also be affected by the global trend towards energy sources producing lesser amount of greenhouse gases, and the European Union's ambition to have a climate-neutral economy within its borders by 2050.

Respectively, in 2021, the annual amount of electricity transmitted by Litgrid to the country's needs was by 8.4% higher in comparison to 2020 and amounted to almost 11 TWh (2020: 10.1 TWh). The growth of the amount of transmitted electricity was mainly determined by the growing economy of the country. According to the preliminary data of the Bank of Lithuania, in 2021, Lithuania's gross domestic product (GDP) grew by about 5%.

Amber Grid's transmission system, as in the last few years, had provided considerable amounts of natural gas transmission by ensuring the country's energy and at the same time national security.

According to Amber Grid data, in 2021, 26 terawatt-hours (TWh) of natural gas was transported to consumers in Lithuania, Latvia, Estonia and Finland. Of these, 24 TWh of gas (by 4% less than in 2020) was consumed by Lithuania and almost 2 TWh - by other Baltic countries and Finland (by 76% less compared to 2020).

As a result of the competitiveness of liquefied natural gas in the market, gas transportation through the Klaipėda LNG terminal was high as well. In 2021, gas imports through the LNG terminal accounted for 62% of the total amount of gas supplied to the EU gas market through Lithuania (2020: 65%, 2018: 35%). 12% (3.2 TWh) of gas was transported via the connection from Latvia to the Lithuanian gas transmission system, and 26% (6.8 TWh) of gas - from Belarus.

In 2021, gas transportation from Belarus via Lithuania to the Kaliningrad region amounted to 26.7 TWh and was by 7.2% higher than in 2020, while 24.9 TWh of gas was transmitted by transit to Kaliningrad.

In total, in 2021, almost 53 TWh of natural gas was transported through the Lithuanian gas transmission system operated by Amber Grid (2020: 58 TWh).

According to Amber Grid, the developed transmission infrastructure ensures the flows meeting the needs of gas system consumers being sufficiently permeable to transmit them and resistant to adverse conditions. Specialists estimated that gas consumption in Lithuania had stabilized in recent years and in the upcoming years should reach 22-25 TWh per year.

Despite the increase in gas prices in Europe and the region, the turnover of the GET Baltic gas exchange in 2021 was record high and reached 8 TWh, i.e. was higher by 10% in comparison to 2020 (7.2 TWh). According to GET Baltic, the trading results at the gas exchange reflect the active involvement of the participants in the wholesale gas market and the sustainable growth trends of the exchange. Lithuania's role in the common gas market of the region is expected to become even more intense in 2022 - after the completion of the construction of the gas pipeline connection with Poland (GIPL) on the Lithuanian side in 2021 and the use of a new alternative gas supply and transportation channel launched in 2022.

The amount of biofuel sold on the Energy Exchange grew by 6% last year and amounted to 5.8 TWh.

According to the latest Lithuanian Economic Development Scenario made public by the Ministry of Finance, 3.5-3.7% of Lithuania's GDP growth is forecasted for 2022-2024. Accordingly, the positive trends are expected to be reflected in the performance of EPSO-G Group in subsequent periods.

The activities and strategic choices of EPSO-G Group are materially influenced by legislative initiatives and strategic planning documents at national and EU level:

- At national level, the most important strategic planning documents influencing EPSO-G Group's activities are: the updated National Energy Independence Strategy (NEIS) approved by the Seimas of the Republic of Lithuania in 2018 and the National

Energy and Climate Plan (NECP) approved in 2020 and submitted to the European Commission. NEIS has set ambitious goals that will significantly contribute to the Energy Union, the United Nations 2030 Agenda for Sustainable Development, the goals set in the Paris Agreement and the implementation of objectives of 2030 EU climate and energy policies. They aim to increase the share of renewable energy sources (including biomethane and other RES-produced gases) in the country's total final energy consumption: by 2030 - 45%, and from 2050 - 80%.

- In the EU context, the umbrella of the European Green Deal covering a wide range of economic sectors is of a great importance for EPSO-G Group. The Green Deal sets the target that by 2050 climate neutrality will be achieved in Europe, while by 2030, CO_2 emissions will be reduced by 55% compared to 1990. In the scope of the Green Deal, the strategies for the Energy System Integration, Hydrogen and Offshore Wind presented in 2020 directly influence the plans of the companies of the Group (first of all, transmission system operators) and the long-term goals set for them, put focus on the importance of new technology integration and cross-sectoral initiatives.
- In the EU context, the package of European Union (EU) legislative proposals published by the European Commission on 15 December 2021 to decarbonise the EU gas market by facilitating the uptake of renewable and low-carbon gases, including hydrogen, and ensuring security of energy supply for all European citizens, potentially having a significant impact on EPSO-G Group, and in particular Amber Grid, is also important. Decisions on the entry into force of this package at the EU level are likely to be taken in 2022.

2.2. Regulatory environment

Electricity and natural gas transmission activities carried out by EPSO-G Group companies and the activities of the operators of energy resources and gas markets are licensed. The licenses grant exclusive rights to render the services of transmission and market operators in the territory of the Republic of Lithuania.

The operators of electricity and natural gas transmission systems, which are part of EPSO-G Group companies, are exclusive in Lithuania entitled to provide these services. They operate under the conditions of a natural monopoly and therefore prices of their activities are state regulated. The tariffs charged for the energy resources belonging to EPSO-G Group and set by gas market operators on trading exchanges are coordinated with the regulatory authority.

The regulatory function and the supervision of the performance of the licensed activity in Lithuania is carried out by the National Energy Regulatory Council (hereinafter - the Council or the NERC).

The financial performance of regulated EPSO-G Group companies, the allocation of necessary operating costs, investments to ensure the reliability of electricity and gas transmission systems, as well as the possibility of financing strategic projects with own or borrowed funds depend directly on the decisions taken by the regulatory authority.

The prices of the transmission of electricity and natural gas are regulated by establishing price and / or revenue caps. The permitted level of income consists of the reasonable required costs, including a return on investment that meets the criterion of reasonableness. The specific service prices that are within the established revenue caps are set by the service providers (operators), while the Council after verification and establishment that they have been calculated in accordance with the NERC pricing and / or tariff requirements set out in the methodologies (procedures) of operators for calculating prices and / or revenue caps and that they do not discriminate against consumers and are not erroneous, shall approve them.

The price and / or revenue caps of electricity and natural gas transmission are set for the regulatory period of five years (the period duration may be changed by a reasoned decision of the NERC). They may be adjusted in the presence of significant changes of one or several factors, in accordance to which they were established, including the factors of the scope of services, inflation, taxes and other objective factors independent of the operators. The caps of the electricity transmission prices may be adjusted maximum twice a year, while the caps of natural gas prices - once a year.

As from 1 January 2021, electricity and natural gas transmission prices set by transmission system operators and approved by the Council and the price of Litgrid system services were applicable for 2021. In addition, Baltpool's trading fee at biomass exchange set by the NERC in August 2020 applicable from 1 September 2020 by extending the validity of the fee applied until 1 September 2020, only after conversion to other energy units, and other Baltpool fees were valid in 2021. The fees of GET Baltic natural gas exchange services set by the NERC back in December 2015 were valid as well.

The average price of transmission services applied by Amber Grid for 2021 (according to prices approved by the NERC) for the needs of Lithuanian consumers was EUR 1.40/MWh. The average price for 2021 compared to the average price of EUR 1.22/MWh applied in 2020 was by about 15% higher, and compared to the average price for to 2019 (EUR 1.46 /MWh) was by about 4% lower. This change was mainly due to a one-off adjustment of the return on investment in 2020 for previous periods.

The average price of Litgrid's electricity transmission service approved for 2021 amounting to EUR 0.721/kWh, compared to 2020 (EUR 0.814/kWh) was by 11.4% lower. This was mainly due to the higher return on investment compared to the previous periods set by the Council, part of which was repaid in 2021.

The average undifferentiated price of Litgrid's system services for 2021 approved by the NERC and applied from 1 January 2021, compared to the one applied in 2020 (EUR 0.785/kWh), decreased by 2.9% to EUR 0.762/kWh. The main reasons for the change in this price were lower power reserve costs forecasted for 2021, especially the costs of the tertiary active power reserve service, which, due to the significantly lower purchase price of the tertiary active power reserve service, were forecasted to be about 34% lower than those set for 2020. Lower costs for reactive power management are also projected.

The following Baltpool and GET Baltic service fees (excluding VAT) were applied in 2021, continue to be applied from 2022 and/or started to be applied in 2022:

- Baltpool regulated/licensed activities:
  - The fee of trading on the biomass exchange for transactions in 2021 and 2022 according to which biofuels are supplied in Lithuania is EUR 41.27/1,000 MWh (excluding VAT). This fee set by the decision of the NERC adopted in August 2020 effective from 1 September 2020 corresponds to the fee of EUR 0.48/TOE applied before 1 September 2020, when its validity from 1 September 2020 was extended by converting the fee into other units (the fee of EUR 0.48/TOE applied until 1 September 2020 was converted into EUR 41.27/1,000 MWh units from 1 September 2020, by applying a coefficient of 1 TOE = 11.63 MWh). The fee of EUR 0.48/TOE on the Baltpool biomass exchange was applied since 1 November 2019 and was by 21.3% lower than the previously valid fee (EUR 0.61/TOE). The decrease in the fee was mainly due to Baltpool's revenue earned in 2017-2018 from active trading on the biomass exchange, as a result, this amount was reimbursed by reducing the price of services for exchange participants;
  - Timber exchange fee is equal to 0.12% of the value of a timber purchase-sale contract concluded in the ETTS (Electronic Timber Trading System).
  - From 1 December 2021, the fee of EUR 15.65/1,000 MWh for the specified amount of heat came into force in the trading heat auction segment (the fee of EUR 9.84/1,000 MWh set by the NERC in May 2018 was valid until then) (the fee was adjusted with regard to the forecasted costs for 2021-2024, allowable profit rates, indicators of services to be provided and performance results in 2018-2020);
  - From 15 January 2022, the fee of the settlement system for fuel from renewable energy sources (FRES) of EUR 0.017 per thousand FRES settlement units (new Baltpool activities were launched - administration of the FRES system) was applied.
- Baltpool's unregulated activities:
  - The fee of trading on the biomass exchange in 2021 and 2022 when biofuels are supplied outside Lithuania - 0.5% of the transaction value;
- GET Baltic:
  - Annual membership fee for 2021 and 2022 - fixed fee for a calendar year is EUR 5,000/year for Plan No. 1 and EUR 0/year for Plan No. 2;
  - Variable trading fee in 2021 and 2022 for the amount of a product purchased and/or sold on the exchange is EUR 0.08/MWh for Plan No. 1 and EUR 0.12/MWh for Plan No. 2 (the above fees are the fees approved by the decision of the NERC as of December 2015, applicable from 2016);

Detailed information on the fees of other services provided by GET Baltic (including REMIT data provision services, data exchange services, etc.) is published on GET Baltic's website: https://www.getbaltic.com/wp-content/uploads/GET-Baltic-paslaug%C5%B3-%C4%AFkainiai_20211120.pdf. On 1 January 2022, the electricity and natural gas transmission prices set by the transmission system operators and approved by the Council and the price of Litgrid system services came into force. In the case of Amber Grid, the revenue ceiling set for 2021 and the prices for 2022 were adjusted accordingly, and in the case of Litgrid, the price cap for the new 2022-2026 regulatory period and the prices for 2022 were set accordingly.

On 31 May 2021, with regard to natural gas transmission revenue ceiling adjusted by the decision of the Council of 10 May 2021, the Council approved the prices of natural gas transmission services set by the Board of Amber Grid, effective from 1 January 2022.

It was approved that the average price of gas transmission services for the needs of Lithuanian consumers in 2022, as compared to the average price applied in 2021 (EUR 1.40/MWh), will decrease by one third or 29%, and will amount to EUR 1/MWh. In 2022, the lowest price of the gas transmission service applicable to consumers/system users so far was mainly determined by the higher return on investment than the one set by the Council for 2019-2020. In 2022, the prices of transmission services were also affected by public consultations that took place in December 2020 - February 2020 on the applicable transmission pricing methodologies for 2022-2023, the results of the survey on the commercial use of the GIPL connection conducted by Amber Grid in 2020, and the launch of operation of the GIPL connection in 2022.

On 1 October 2021, the Council approved a price cap of EUR 0.684/kWh for high-voltage electricity transmission services for the new 2022-2026 regulatory period effective from 1 January 2022, which compared to the one set in 2021 (EUR 0.721/kWh) is by 5.1% lower. This change was mainly due to the forecasted amount of electricity to be transmitted to Lithuanian consumers by about 10% higher (than forecasted for 2021 prices) (a factor lowering the price cap). It was also influenced by (1) Litgrid's higher return on investment in 2018-2020 compared to the one set by the Council (a factor lowering the price cap); (2) Changes in projected costs included in the allowable revenue level of 2022 for Litgrid's new regulatory period: forecasted higher costs for technological needs driven by the situation in the electricity markets (factor increasing the price cap), return on investment (WACC) due to the new WACC methodology applied from 2022 onwards, and the declining situation in the financial markets from 5.34% (2021) to 4.03% (2022) (a factor lowering the price cap), as well as other changes in costs. Within this limit and in accordance with the decision of the Council of 15 October 2021 on the price of electricity system services, Litgrid set the prices for electricity transmission services and the procedure for their application in accordance which, as provided by legislation, on 29 October 2021, was announced by the Council.

From 1 January 2022, the approved average price of the electricity transmission service decreased by 5.1% to EUR 0.684/kWh, accordingly.

The average undifferentiated price of Litgrid system services approved by the Council from 1 January 2022 decreased by 22.7% to EUR 0.589/kWh. The main reasons for the change in this price was the forecasted amount of system services to be provided by about 10% higher (in comparison to the forecast when setting the price of system services in 2021) and system services costs for 2022 forecasted to be by about 15% lower (compared to those set in 2021) mainly due to lower costs for isolated operation of the electricity system and due to lower costs of system services incurred in 2020 (compared to the forecast when setting the price of system services in 2020).

More relevant changes in the electricity balancing market:

- From the beginning of June 2021, the Baltic electricity market data has been published on a newly developed platform. The Baltic electricity transmission system operators (TSOs): Lithuania's Litgrid, Latvia's AST, and Estonia's Elering have launched a new Baltic electricity market data publishing platform, Baltic Transparency Dashboard (https://baltic.transparency-dashboard.eu) that replaced the Baltic CoBa Balancing Dashboard system. The new solution is more market participant-friendly, while operators are given more flexibility along with the possibility to publish even more system data;
- To meet further harmonization requirements among EU Member States, the Rules for imbalance settlement in the Baltic balancing region were updated in 2021 in accordance with the results of a public consultation conducted in July-August;
- On 5 October 2021, Litgrid announced the Baltic Balancing Market Development Plan prepared together with the Latvian and Estonian TSOs. For this purpose, by the end of 2024, the Baltic PSOs plan to establish the Baltic load-frequency control (LFC) block, a common Baltic balancing capacity market by implementing capacity market and cross-border capacity allocation mechanisms to enable balancing service providers in the Baltics to compete in the liquid market, ensuring the most efficient balancing capacity procurement in the Baltics. More information about the plan is available on the Litgrid's website: https://www.litgrid.eu/index.php/naujienos/naujienos/baltijos-saliu-balansavimo-planas/31646;
- On 30 November 2021, the NERC agreed on the updated standard terms of the sale-purchase contract of imbalancing prepared by Litgrid. According to the NERC, the renewed procedures should, compared to the conditions in force until then, provide a greater inducement for market participants to avoid imbalances and ensure a more consistent and harmonized application of the Rules for imbalance settlement, while at the same time contributing to the efficiency of the electricity system for the benefit of end-users.

For the transmission system to be easily accessible and flexible and for the promotion of regional gas market development, the gas transmission prices at the entry points have been harmonised since 2020 with those applicable in the adjacent tariff zone that covers Latvia, Estonia and Finland. In addition, for the purpose of ensuring the best possible conditions for the market participants to benefit from the Lithuanian LNG terminal and in order to increase the competitors' pressure on the prices in the gas market, a 75% discount has been applied since 2019 to the gas transmission price at the entry point in Klaipėda. The same pricing will be applicable in 2022 as well.

When assessing the discussions and plans across the national authorities, the responsible ministries, and the transmission system operators of Lithuania, Latvia, Estonia, and Finland to create a common tariff zone between Lithuania and FINESTLAT (Latvia, Estonia and Finland), changes in the transmission price structure of Amber Grid are possible in the future.

It should also be noted that the activities of Energy Cells, as the designated operator of the storage facilities (hereinafter - DOSF), during the period of DOSF 's appointment until the connection of the electricity system of the Republic of Lithuania to the continental European network (until the end of the implementation of the synchronization project), including service prices , is regulated by the state. The price of the isolated operation reserve service to be provided by Energy Cells is expected to be included in the price of Litgrid's system services. Appropriate decisions on the price of the isolated operation reserve service and its inclusion in the price of Litgrid's system services should be made by the first half-year 2022 in accordance with the applicable legislation.

3. OPERATIONAL STRATEGY AND PROGRESS IN IMPLEMENTING THE STRATEGY

3.1. Operational strategy

In respect of the letter on the goals pursued by the state and expectations placed on EPSO-G UAB, which was approved by the order of the Minister of Energy of 3 May 2021, the Group's new strategy till 2030 was approved on 2 July 2021. EPSO-G Strategy 2030 defines the Group's vision, mission, values, strategic directions, goals and projected financial and other performance indicators till 2030. These elements enable the EPSO-G Group to ensure a sustainable and efficient energy exchange and to fulfil its mission for the identified key stakeholders: consumers, producers and suppliers, the founder, society and employees (for each other).

EPSO-G, as a group of transmission system operators and energy exchange, plays a key role in ensuring a streamlined and secure transition to the energy system integrating high-volume RES, enabling decarbonisation of the sector, initiating system interconnection projects and facilitating climate-neutral energy exchange. EPSO-G's activities are seen through the platform's business model with the following key features: enabled value-creating interactions between suppliers and consumers; an open, participatory infrastructure for those interactions and common rules. Therefore, the Group's activities create a sustainable, transparent ecosystem based on uniform standards, which facilitates the exchange between producers/suppliers and consumers, and creates value for society through the empowerment of sustainable energy choices and its contribution to the country's competitiveness.

EPSO-G mission - to enable a sustainable and efficient energy exchange. To carry out its mission, EPSO-G undertakes the following:

- For consumers - to develop a reliable and transparent platform offering a wide range of energy purchasing options at competitive prices;
- For producers and suppliers - to develop a reliable and transparent platform for the easy and fast sale of energy products in a liquid market;
- For the founder – to ensure a balanced and integrated energy exchange system;
- For society - to promote climate-neutral energy choices in pursuit of Lithuania's long-term economic competitiveness;
- For each other - to build an open and progressive team living up to the energy of the future.

EPSO-G mission - to enable the security, integration and transformation of the Lithuanian energy sector. Accordingly, the directions for the implementation of the vision till 2030 are as follows:

- For consumers - a consumer-oriented organization creating new opportunities;
- For producers and suppliers - a developed liquid regional market and an infrastructure attractive for investment in energy production;
- For the founder - an integrated development of the Lithuanian energy system;
- For society - targeted reduction of the environmental impact of activities and energy systems adapted to the decarbonisation of the energy sector;
- For each other - recognized regional future energy leaders.

3.2. Progress in implementing the strategy

For consumers: a consumer-oriented organization to create new opportunities.

Increasing customer satisfaction is one of the EPSO-G Group's strategic goals, contributing to the streamlined implementation of EPSO-G Strategy 2030 to create a customer-oriented organization. Group-wide customer satisfaction surveys under a unified methodology were conducted for the first time in November-December 2021. 221 customers using the services of Amber Grid, Baltpool, GET Baltic, Litgrid, and Tetas participated in the surveys. GCSI and NPS methodologies were used to analyse the EPSO-G Group's customer satisfaction with the services provided, meeting customer expectations, and their willingness to recommend these services to others. The Group companies' indices ranged from 75 to 88 according to GCSI methodology, while the Group strategy's long-term goal is to ensure that the customer satisfaction index of the Group companies is ≥80, i.e. the results of the companies are among the market leaders.

The strategy aims to create a common natural gas transmission tariff zone for Lithuania, Poland, Latvia, Estonia and Finland by 2025 to ensure competitive natural gas prices. Consistent expansion of the opportunities for commercial use of the GIPL point is expected to provide significant benefits to Lithuania and the entire Eastern Baltic region.

Active debates with regional partners regarding Lithuania's joining the adjacent tariff zone covering Latvia, Estonia and Finland (the FINESTLAT tariff zone) and the effective Baltic and Finnish gas market integration measures in 2021 were underway. For Lithuania to join the FINESLAT tariff zone on beneficial and balanced terms for all countries, an analysis of alternatives for a potential Inter-TSO Compensation (ITC) Mechanism was prepared in 2021 together with other operators. The Baltic states and Finland will continue to coordinate their positions on further market integration. In 2022, a public consultation on the creation of a common tariff zone and the introduction of an ITC mechanism is planned. If a compromise solution were reached, Lithuania would join the FINESTLAT tariff zone from 2023-2024.

Given the needs of consumers to choose the energy they use, including the one produced from RES, it is important to create wide opportunities for trading in certificates of origin. The national registers of guarantees of origin for electricity and gas produced from RES are administered by Litgrid and Amber Grid, respectively. An efficient and reliable system of certificates of origin for electricity was aimed to be in place by 2021, while opportunities for trade in guarantees of origin for biomethane across LT-LV-EE-FI were aimed to be created by 2022. The implementation of the latter measure has been suspended by a decision of the Baltic and Finnish TSO. Due to amendments to the legislation initiated in Estonia and the adoption of delayed legislation related to the operation of guarantees of origin in Latvia and Finland, the possibility to trade the guarantees of origin for biomethane (with sustainability certifications) between the Baltic states and Finland will move to the end of 2022 or 2023. Meanwhile, the integration of the National System of Guarantees of Origin for Gas Produced from RES (including Hydrogen) into the regional and emerging European System took place in 2021 within the deadlines set by the REGATRACE project.

The Group places a great deal of importance on the preparation for the opening of market-relevant data and increasing digitization maturity. In 2021, the data governance, data analytics, and open data project of the Group companies was launched as the first step towards a data-based group of organizations - relevant cultures and ecosystems enabling to fully use and integrate data and analytics into the Group's operations and make the best operational decisions.

The value created by the Group's services and a wider range of options for making selections from more sources (e.g. regional integration of the gas market after the implementation of the GIPL), suppliers, services (e.g. adaptation of the gas transmission system for hydrogen transportation, trade in certificates of origin, preparation of electricity infrastructure for railway electrification, accelerating the connection of electricity consumer systems) will contribute to the well-being of the population, the creation of a climate-neutral energy system, and at the same time (through competitive energy prices) the increase of the competitiveness of the national economy.

For producers and suppliers: a developed liquid regional market and an infrastructure attractive for investment in energy production

Over the next decade, the set strategy will aim at maintaining a high level of reliability in transmission systems and digitizing technological assets. This is relevant for all participants of the platform, the key stakeholders identified. Accordingly, we see transmission reliability indicators annually set by the NERC as strategic KPIs. In the electricity sector, the indicators of AIT (average interruption time, in minutes) and ENS (energy not supplied, kWh) did not exceed acceptable values in 2021. In the gas sector, there were no unplanned interruptions due to operator liability in 2021.

During the period of implementation of the strategy, it is important to improve long-term system development planning to reduce transmission network capacity constraints by ensuring efficient implementation of international connections, internal network development projects, and connection of new generating sources and new users.

An ambitious vision developed by the National Energy Independence Strategy (NEIS) foresees 45% of RES in final electricity consumption by 2030. According to Litgrid, with the expansion of renewable energy sources to achieve more ambitious RES development goals, the share of RES in consumption may reach up to 90% in 2030. Therefore, in 2021, special attention was paid to assessing the capacity of the grid to adapt to the integration of renewable energy sources and the introduction of energy storage technologies, and to ensure the readiness of the energy transmission system for the integration of up to 5 GW of onshore RES and offshore wind by 2030. The 200 MW energy storage system project, which will be completed in 2022, will contribute to the smoother integration of RES, with the main goal of ensuring the national security of the electricity system after launch and providing flexibility services after 2025 at a later stage.

For society: targeted reduction of the environmental impact of activities and energy systems adapted to the decarbonisation of the energy sector

The Group's goal by 2030 is to reduce the environmental impact of activities by 2/3. 2021 An environmental impact assessment of the activities of the EPSO-G Group companies, including a greenhouse gas (GHG) emissions inventory, was launched in 2021, as the environmental impact of the Group's activities had not been systematically assessed so far. In 2021, the GHG emissions inventory was completed in all the companies participating in the project, and an interim GHG emissions inventory report was submitted on a group-wide basis with the main sources of CO2 emissions in the activities of each company identified. In 2022, calculations of the remaining environmental impacts will be performed, lines for action will be defined, and mitigation action plans will be prepared. The list of measures to reduce the climate impact by the Group's activities (such as green procurement, fleet vehicle powered by RES) will be updated and expanded annually. A dialogue with the regulator on creating an environment conducive to climate neutrality will also be further developed.

According to our assessment, the Group companies play an important role in enabling the streamlined transformation of the Lithuanian energy sector into a system based on green energy. To manage RES integration while ensuring system stability is an important challenge for the Group to get ready for after identifying priority areas for new competencies required to acquire and in preparation to integrate significant amounts of offshore wind, to develop systems of guarantees of origin to facilitate the exchange of energy from RES, and to connect biomethane and hydrogen producers. The adaptation of the Lithuanian gas transmission system to hydrogen transportation will be pursued, which is a strategically important and complex task with regard to the EU Hydrogen Strategy and the Strategy for Energy System Integration. In addition to the technical readiness and adaptation of gas quality requirements, it is important to create changes in the regulatory environment essential for the integration of green hydrogen and to promote cooperation on hydrogen issues in the region. Accordingly, the drafting of the national guidelines for the development of hydrogen technology in Lithuania till 2050 was started in 2021; a research and development plan for technical feasibility of hydrogen transportation was started off together with the Baltic and Finnish gas transmission system operators; the implementation of the demonstration project for blending green hydrogen into gas networks continued.

For each other: recognized regional future energy leaders

The EPSO-G Group having an extensive know-how on international projects employs a large number of highly qualified staff. The development of a sustainable employer-employee partnership aims to strengthen and further nurture corporate governance and energy competencies that will be relevant to the strategic goals relating to the implementation of strategic projects under the NEIS, decarbonisation, cross-sectoral integration of energy systems, to become and remain competitive in order to significantly increase the share of the Group's revenue from unregulated activities and the expansion of foreign markets.

In 2021, the Group started updating its competency models. The Group companies improved their competency models consisting of general and leadership competencies, and priority areas were selected for the development of Amber Grid and Litgrid's functional competency models. In addition, an employer image improvement program was initiated at the Group level and directions for improving the employer image were identified.

The Group's goal was to increase the percentage of revenue from unregulated activities and foreign markets in the revenue structure. In 2021, this indicator reached 10.5% and was slightly lower than planned (11%).

For the founder: an integrated development of the entire Lithuanian energy system

The Group's strategy emphasises the need to create favourable conditions for the connection of green energy producers to the infrastructure managed by the Group, i.e. o prepare the system for blending biomethane and hydrogen, to adapt the electricity transmission system for further development of offshore and onshore wind and solar energy.

In addition, it is important to promote the integration of different sectors to achieve an optimal balancing of the system. Together with the partners, pilot demonstration projects were initiated to integrate the electricity and district heating sectors (power-to-heat) and to connect a hydrogen producer (in a pilot environment) to the transmission system (power-to-gas). Such cooperation of different economic sectors in energy, both domestically and in the region, will allow optimal use of the available infrastructure, reduce the need to limit RES energy in the future, and increase the overall efficiency of the system.

3.3 Operational and financial goals

Based on the operational directions stated in the Shareholder's Letter of Expectations and approved in the strategy of EPSO-G, the Board set the following operational goals for the holding company for 2021.

No	Annual goal	Indicator forecast to be achieved	Weight of the goal (%)
1.	Management of the implementation of strategic projects of the Group companies	1. LitPol Link expansion project was implemented - weight 25%; 2. Contract for the procurement of compensators was signed - weight 25%; 3. Timely implementation of the guidelines and completions for the synchronization with CEN program projects - weight 20 %; 4. Timely implementation of the guidelines and completion of the GIPL project - weight 10 %; 5. Timely implementation of the guidelines and completion of the electricity storage facilities (200 MW) project - weight 20%.	40%
2.	Strengthening the reliable operation of the electricity system of the Republic of Lithuania	Implementation of the project of emergency connection of the electricity system of the Republic of Lithuania to the electricity networks of the Republic of Poland for synchronous operation (test of emergency assistance via synchronous connection with Poland) and proposals submitted for the integrated plan for the development of the LES.	15%
3.	The blockade of electricity from the unsafe Astravets Nuclear Power Plant was ensured within the scope of competence	1. Legal regulation for trade in electricity from third countries and capacity setting was established ensuring the implementation of the Law on Necessary Measures to prevent trade in electricity produced by Belarus in the Baltic States and not to finance the activities of the Astravets Nuclear Power Plant. (Q2) - weight 70%; 2. Opportunities were analysed, solutions and the action plan for the gradual reduction of electricity permeability from Belarus to Lithuania by 2025 were prepared. (Q2) - weight 30%.	15%
4.	Increasing the value of the holding company	1. Until 2 July, measurable indicators for maximising the value of the holding company were reviewed and identified. They were related to the following: i) Progress in implementing the Group 's strategy for 2030; ii) Review of the corporate model; iii) System for formulating and cascading the goals of the holding company and the Group; iv) Definition of the Group's competence centre - weight 34%; 2. The goals and indicators refined in accordance with Clause 1 were met to the extent agreed - weight 66%.	20%

5.	Implementation of the installation of the physical barrier at the border with Belarus to the intended extent	1. SECTION 2 - 397 km – to sign contracts with general contractors by 1 December and start works by 31 December - weight 40%. 2. to install a concertina barrier at Druskininkai, Adutiškis, A. Barauskas, Kabeliai, and Kapčiamiestis border areas before 31 December 2021 - weight 60%.	10%

The Chief Executive Officer of EPSO-G is accountable to the Board for the achievement of the goals set. The Company's financial and non-financial goals are identical to those of the CEO of EPSO-G.

The Board annually evaluates the achievement of the goals set. The result determines the amount of the variable pay component of remuneration, which does not exceed the proportion established in the remuneration policy.

The goals set for the holding company EPSO-G, according to the Board, were met by 93,4 % in 2021.

3.4 Summary of significant infrastructure projects

3.4.1. Preparation of the power grid for a synchronous operation with the continental European network

The main target of the synchronization of the Baltic states through continental European network is to adapt the legal framework of the European Union in the fields of electricity market, electricity system management and development, and to eliminate the politicized and discriminatory system management practices before 2025. The synchronous work of the Baltic States with the CEN is important in political and technical aspects: the management of the system in accordance with non-discriminatory principles agreed with other TSOs, which meet the requirements of the EU third energy package; equal opportunities for competition with third countries in the electricity market; conditions for trading and securing electricity reserves in the single European market; decentralized frequency regulation based on the technological capabilities of power plants, which will ensure greater independence of the Baltic power system.

Synchronous work with the continental European network will ensure:

- Reliable operation of energy systems and secure transmission of electricity;
- Combined actions for facility maintenance and network development planning;
- Common rules for the management of energy systems - network codes that will be applied equally in all European Union countries;
- Availability to electricity from Western European energy systems.

By emphasizing the importance of integration with the continental European network, on 14 April 2020, the Government of the Republic of Lithuania set up a special commission for the network synchronization project ensuring the coordination of works at the highest level. The Commission is chaired by the Prime Minister of Lithuania with a participation of the Ministers of Energy, the Environment, Finance, Foreign Affairs and Agriculture, as well as the executives of Litgrid and EPSO-G.

In 2020, the Seimas of the Republic of Lithuania adopted an amendment to the Law on Integration of the Lithuanian Power System into the European Power Network establishing special security requirements for project of synchronization with the continental European network. They are intended to effectively manage potential risks and to implement infrastructure projects for the integration of the power system with the continental European network in a streamlined way.

The law stipulates the obligation of the transmission system operator Litgrid to ensure the requirements of the stability, security, reliability, protection of confidential information, compliance of contractors with the interests of national security, the requirements of cyber security and equipment security.

Cooperation with transmission system operators of the Baltic states and Poland:

The streamlined implementation of the synchronization with the CEN programme is closely interrelated and depends on international cooperation and action coordination with regional partners, in particular with Latvia, Estonia, Poland and Sweden.

In 2021, Litgrid took active part in continuing of this cooperation in three directions:

Coordination of the synchronisation programmes:

- On 5 March 2021, an additional agreement on the system management contract was signed between the Republics of Lithuania and Poland for the isolated operation of the electricity system.
- On 30 March 2021, the Baltic electricity transmission system operators signed a service contract with the Consortium of European Transmission System Operators for 5 studies aimed at providing recommendations on how to ensure the safe and stable operation of the Baltic States in the synchronous zone of continental Europe from 2025 onwards.
- On 29 October 2021, an emergency support test contract was signed between Litgrid and PSE.
- On 21 December 2021, an agreement was reached with the Swedish TSO on an active power reserve for isolated operation.

Implementation of joint projects:

The technical scenario for the synchronization of the Baltic states forecasts that the synchronization with CEN will take place using the existing connection between Lithuania and Poland (LitPol Link) by laying a new submarine cable between these countries. This scenario was approved on 14 September 2018 by the BEMIP high-level group. The network synchronization process is monitored by the Regional Group Continental Europe of the European Network of Transmission System Operators for Electricity (ENTSO-E), while the Harmony Link project will be implemented by PSE and Litgrid.

The planned capacity of Harmony Link interconnector is 700 MW, the length is about 330 km.

In implementing this joint Harmony Link project with PSE, in 2021, the following significant progress was made:

- Permit was obtained to carry out seabed surveys in the Swedish Exclusive Economic Zone;
- A plot of land for the construction of Darbėnai substation was purchased;
- On 31 May 2021, cable technical specification, procurement strategy were approved;
- On 9 July 2021, the procurement of the production and installation of high-voltage direct current converters organized by the Polish transmission system operator PSE was announced;
- On 10 August 2021, the procurement of cable design, manufacture, and installation works was announced;
- On 17 August 2021, the main phase of the seabed survey of the Harmony Link construction project was completed and the survey report was approved;
- On 14 September 2021, the construction engineering infrastructure development plan for Harmony Link construction and Darbėnai 330 kV switchyard was approved;
- The preparation of documentation for the procurement of works by the customer's representative, organized by the Polish transmission system operator PSE, was started.

Financing of the programme:

In October 2021, Litgrid together with PSE (Poland), AST (Latvia) and Elering (Estonia) submitted the application for the financing of the implementation of stage III of the Baltic synchronisation project using funds of the Connecting Europe Facility (CEF).

On 26 January 2022, the coordination committee of the EU funding instrument Connecting Europe Facility gave the highest scores to the joint application of the Lithuanian, Latvian, Estonian and Polish TSOs.

Four states sought investment in projects with a total value of EUR 238 million, of which the CEF contribution would compensate for a maximum reimbursable amount of EUR 170 million. The value of Lithuanian projects is EUR 41 million, Latvian projects - EUR 49 million, Estonian projects - EUR 37 million, Polish projects - EUR 111 million. The funds would be allocated for grid upgrades, frequency management equipment and information systems projects.

The financing of the Lithuanian share is planned for four Litgrid projects: the construction of Darbėnai substation, the reconstruction of the 330 kV electricity transmission overhead line Klaipėda-Grobinė on the border with Latvia, electricity transmission system information technology systems, and information technology systems of Lithuanian-Swedish electricity interconnection NordBalt. The contract for Phase III funding from the CEF is planned to be negotiated and signed in the first half-year 2022.

Investments:

The total investment value of the synchronization with the CEN project for the three Baltic states is up to EUR 1,650 million. This project is included in the European Commission's list of Projects of Common Interest. The project will be implemented in separate funding phases.

- The total value of the investments in the first financing phase of the three Baltic states amounts to EUR 430.4 million, of which EUR 166.33 million - for the renewal and strengthening of the Lithuanian electricity system. In 2019, for the first investment phase, the EU allocated EUR 124.7 million to Lithuania or 75% of the necessary amount from the Connecting Europe Facility for infrastructure.
- The total value of the investments in the implementation of the second financing phase of the Baltic states and Poland amounts to EUR 956.6 million, out of which EUR 400.6 million is allocated to Lithuania. The value of investments in this phase is the largest due to the planned construction of the submarine interconnection Harmony Link and the planned construction of synchronous compensators in Lithuania, Latvia and Estonia. The amount allocated to Lithuania in the financing agreement signed in December 2020 is EUR 300.45 million.
  In addition, in 2019, an agreement was signed with the EC on the financing of the preparatory works for stage II of the Baltic synchronization project. The total investments of Poland and Lithuania under this agreement amount to EUR 20.58 million, including Lithuanian investments of EUR 8.12 million. The CEF will finance 50% of investment, which amounts to EUR 10.29 million for both countries, and EUR 4.06 million for Lithuania.

Progress in the implementation of projects of national importance

For the purpose of the implementation of the synchronization with CEN, the Government of the Republic of Lithuania passed Resolution No 918 of 4 September 2019 whereby it approved the Plan for the Actions and Measures of the Electricity System Synchronisation Project (the "Plan for the Actions and Measures of the Synchronisation Project" or the "PAM") and obliged Litgrid AB, as the Lithuanian TSO, to implement this plan in close cooperation with the operators of the Baltic countries and Poland and under supervision of the Ministry of Energy of the Republic of Lithuania.

All actions and measures of the PAM with the implementation term expiring in 2021 were implemented (25 actions) except for ensuring the co-financing of projects and works of the second part of the second phase of the project with financial support from the Connecting Europe Facility (CEF), the completion deadline of which was updated by the Government of the Republic of Lithuania and set for Q3 2022. Additionally, one action was completed during 2021, the implementation term of which covers the year 2022. During 2021, two projects important for the synchronization programme were implemented. At the end of the reporting period, 5 out of 14 projects foreseen in the programme were carried out.

Expansion of LitPol Link interconnection. The expansion of the LitPol Link interconnection is one of the key projects for the synchronisation programme and, in particular, for securing the possibility of emergency connection in a synchronised mode to the Polish electricity networks. In December 2021, the project was successfully completed.

The project for the expansion of the LitPol Link interconnection consisted of the reconstruction of the LitPol Link switchgear, the Alytus transformer substation, and the adjacent 330 kV and 110 kV power transmission overhead lines. One of the main elements of the renewed LitPol Link switchgear is three 600 MVA autotransformers. These are the most powerful devices of this type in the Baltic States. It is they that will allow the interconnection of the electricity networks of the Baltic States and continental Europe with one frequency. The total value of the LitPol Link expansion project is EUR 22.5 million. The project is co-financed by the EU's Connecting Europe Facility. Following the completion of the construction works, this connection was successfully tested on 4 December in an emergency test with the Polish operator PSE in case synchronization would have to be completed by 2025 due to unforeseeable reasons.

Optimisation of the North-East Lithuanian electricity transmission network and preparation for synchronous work with the energy system of the continental Europe. This project consisted of the reconstruction of the 330 kV and 110 kV switchgears of the Ignalina NPP and Utena transformer substations, and the reconstruction of the 330 kV switchgear of the Lithuanian power transformer substation by moving the controlled shunt reactor from the Ignalina NPP substation to the Elektrėnai complex.

During the implementation of the project, Litgrid prepared the Ignalina NPP and Utena transformer substations and related transmission lines for synchronization with the continental European networks. The implemented project not only brings the state closer to the strategic goal, but also contributes to the efficiency and reliability of the Lithuanian electricity system.

The value of the whole project is about EUR 24 million. The project is co-financed by the European Regional Development Fund measure Modernization and Development of the Electricity Transmission System. Complex implementation of the project will save investments amounting to around EUR 6 million in the electricity transmission network and an additional around EUR 0.6 million per year due to lower operating costs for electrical equipment.

Implementation of synchronous compensators in the Lithuanian electricity system. During the implementation of this project, three synchronous compensator stations will be built in Lithuania, which will be connected to the 330 kV transformer substations in Telšiai, Alytus and Neris (Nemenčinė, Vilnius district).

On 29 December 2021, Litgrid signed a contract with Siemens Energy, which will install three synchronous compensators in Lithuania by the end of 2024, which are necessary in preparation for the synchronization of the Baltic States with continental Europe. The value of the contract for the design, manufacture and installation of the synchronous compensators concluded with Siemens Energy, which won the international tender, is EUR 87.4 million (excl. VAT). The company will not only have to install synchronous compensators, but also provide after-sales service and supply of spare parts necessary to ensure reliable operation of synchronous compensators.

At the same time, the reconstruction works of the substations necessary for the installation of the synchronous compensators were carried by Tetas UAB. They are scheduled for completion in 2022.

Centralized control of project implementation

In EPSO-G Group, by centralizing the project control, four ePMO (enterprise project management office) Project Manager positions have been introduced and filled in 2021.

This will further improve the uniform project management culture throughout all companies of the Group, provide methodological assistance to the companies' divisions and project managers on project implementation, risk or problem management and other issues related to these functions.

Functions of EPSO-G's ePMO Project Managers:

- Centralized control of project portfolios, programmes and project implementation and verification of compliance with processes in force;
- Collection of data on project implementation indicators, preparation of reports on projects and their portfolios and presentation to the management;
- Development of effective project management and control methods, procedures and tools, implementation of the most advanced project management practices in the Group;
- Consulting the Group's employees.

The status of the projects' implementation as at 31 December 2021.

Project	Completion Date*	PCI number	Works in progress
Expansion of LitPol Link in Alytus	2021	4.8.11	Project completed.
Construction of Darbenai substation	2024	4.8.15	Engineering Design phase ongoing.
Construction of Harmony Link marine cable connection	2025	4.8.10	HVDC cable and converter station tenders are ongoing.
Expansion of Bitenai transformer substation	2019	-	Project completed.
Construction of Pagegiai-Bitenai 110 kV overhead line	2020	-	Project completed.
Reconstruction of Lietuvos E-Vilnius 330 kV overhead line	2020	4.8.17	Project completed.
Construction of Vilnius-Neris 330 kV overhead line	2025	4.8.8	Public tender for design and construction works is ongoing.
Construction of Musa substation	2025	4.8.13	The procurement tender was restarted in March 2022.
Construction of Darbenai-Bitenai 330 kV overhead line	2025	4.8.16	Phase I design activities are ongoing. Construction works have commenced for Phase II.
Construction of Kruonio HAE-Bitenai 330 kV overhead line	2025	4.8.14	Ongoing design activities for Phase I of the project, construction work on the Phase II has begun, public tender is ongoing for Phase III.
Grid optimisation in North-Eastern Lithuania	2021	4.8.12	Project is completed.
Implementation of New Synchronous Condensers	2024	4.8.23	The Engineering Design activities are in progress.
Implementation of Frequency Stability Assessment System (FSAS)	2024	4.8.9	Synchronisation studies are in progress.
Implementation of Automatic Generation Control System	2024	4.8.9	The procurement for the new SCADA/EMS system is ongoing.
Reconstruction of Neris transformer substation	2024	-	The Engineering Design activities are ongoing.
Emergency support test of Lithuanian power system from Polish power system	2021	-	Project completed.
Lithuanian Power System Island Operation Test	2022	-	The island operation study is ongoing, preliminary tests are being performed with generators.
The implementation of an electricity storage facilities system	2022	-	Project is being implemented.

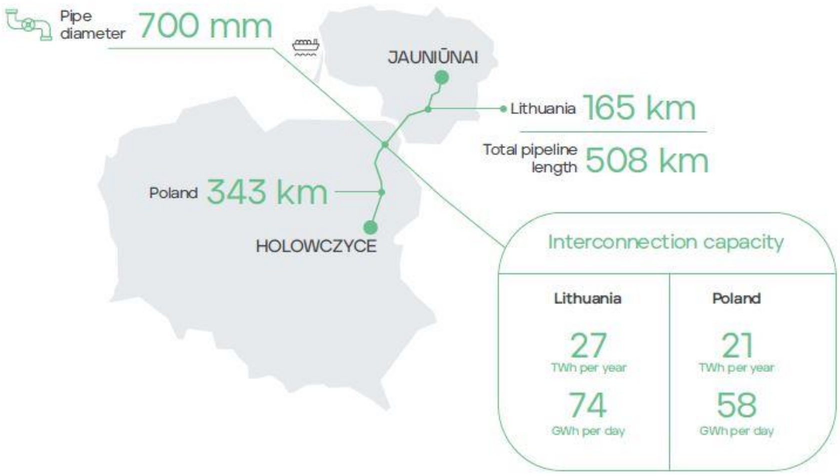
3.4.2. Gas Interconnection Poland-Lithuania

The project is intended for integration of the gas markets of the Baltic states into the common EU gas market, to diversify the gas supply sources and increase gas supply security. Amber Grid implements a part of the gas project in the territory of the Republic of

Lithuania, and a part thereof in the territory of the Republic of Poland is implemented by the Polish gas transmission system operator GAZ-SYSTEM S.A.

Gas Interconnection Poland-Lithuania (GIPL) is a natural gas infrastructure connecting the transmission systems of Poland and Lithuania, as well as the Baltic states and Finland, with the European Union (EU) system.

The European Commission has identified the GIPL project as a critical infrastructure project for security of gas supply, making a significant contribution to the EU's energy security.



GIPL project objectives:

- Integrate the Baltic and Finnish gas markets into a single gas market of the EU;
- Diversify gas supply sources;
- Improve security of gas supply.

The total length of the planned pipeline is up to 508 km, of which 165 km inside Lithuania. The capacity created will allow transport to the Baltic countries up to 27 TWh per year; transmitted gas flow to Poland - up to 21 TWh per year, while the Baltic gas and Finnish markets will become a part of a single gas market in the EU.

Benefits of the GIPL project:

- Integration of the Baltic and Finish natural gas markets into a single gas market in the EU;
- Provision of access to alternative gas supply sources and improvement of competitiveness;
- Improvement of security and reliability of gas supply by providing both additional gas transmission capacity and possibility to apply the EU solidarity measures in case of emergency;
- Provision of conditions allowing more flexible and efficient use of the LNG terminals and transmission infrastructure in Poland and Lithuania;
- Improvement of liquidity of gas trade in the Polish and Baltic market areas and strengthening of their role across the region.

The construction works of the international gas pipeline connecting Lithuania and Poland in the territory of Lithuania launched in January 2020 were completed on 31 December 2021, when the last certificate of completion for construction of the GIPL project was received. In Poland, the construction is scheduled to be completed in the first half-year 2022.

During the construction of GIPL, a gas pipeline was built in Lithuania through nine municipalities from Širvintos to Lazdijai. The project was implemented by a consortium of companies consisting of Alvora UAB and Šiaulių Dujotiekio Statyba UAB. The pipeline was laid under the largest Lithuanian rivers, the Nemunas and the Neris, using the environmentally friendly horizontal directional drilling method HDD; mass archaeological research was carried out, Santaka gas metering and pressure regulation station was built, the pipeline in Lithuania was connected to the Polish pipeline by welding a gold seam at the crossing of state borders. The entire pipeline was inspected for maximum load and filled with gas.

The GIPL pipeline is expected to become operational in mid-2022. The specific date will be announced in agreement with the Polish gas transmission system operator when the construction of all interconnection infrastructure is close to putting into service.

Investments:

The GIPL project is funded from own and borrowed funds of Amber Grid and GAZ-SYSTEM S.A., using the EU financial assistance under the European Commission Trans-European Networks for Energy (TEN-E) Programme and the EU Connecting Europe Facility (CEF). In addition to the EU financial assistance, the construction operations of the GIPL project will be funded by Lithuania, Latvia and Estonia under the Cross-Border Cost Allocation, whereby they will cover part of the GIPL infrastructure costs in the territory of Poland. EUR 500 million investments in the GIPL project on the Lithuanian side were lower by about EUR 22 million due to high competition in the procurement tender compared to the initially planned EUR 136 million.

More information on the GIPL project, its progress, and news can be found on the project website:
(www.ambergrid.lt/lt/projektai/dujotiekiu-jungtis-tarp-lenkijos-ir-lietuvos-gipl).

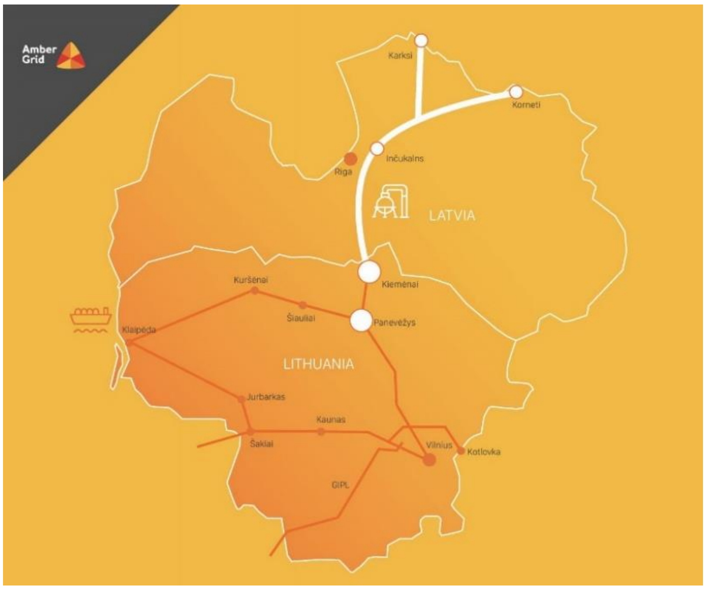
3.4.3. Enhancement of Latvia-Lithuania interconnection (ELLI)

The purpose of the project is to enhance the capacity of Latvia-Lithuania interconnection, ensure safe and reliable gas supply and achieve a more effective use of the infrastructure and a better integration of the Baltic gas markets. This will provide better conditions for the use of the Latvian Inčukalns underground gas storage facility. The project promoters are Amber Grid and the Latvian transmission system operator AS Conexus Baltic Grid.

Feasibility study and cost-benefit analysis of the Lithuanian-Latvian gas interconnection capacity enhancement assessing the regional market gas demand and flow modelling showed that after the construction of the gas interconnections between Finland and Estonia (Balticconnector) and between Poland and Lithuania (GIPL), and between Lithuania and Latvia, greater capacity will be needed to ensure the regional gas market demand and security of gas supply - up to 130.47 GWh per day in the direction of Latvia and up to 119.5 GWh per day in the direction of Lithuania.

As a result of implementation of the project, the enhanced gas transmission capacity between Lithuania and Latvia will also be beneficial due to the already existing gas interconnection between Poland and Lithuania (GIPL).

To increase the interconnection capacity in the territory of Lithuania, it will be necessary to boost the capacity of Kiemėnai gas metering station and to restructure the gas pipeline at Panevėžys compressor station, and in the territory of Latvia - to reconstruct a part of the main gas pipelines in the southern, central and western parts of the country to increase the maximum design pressure in the pipelines up to 50 bar and to install a new compressor station near the Inčukalns underground gas storage. The completion of the project is scheduled for the end of the year 2023.



Investments:

The planned investment amount of the project is EUR 10.2 million, of which EUR 4.7 million - in the territory of Lithuania.

Significant events during the reporting period:

- Designing work completed;
- Construction permits were obtained for both parts of the reconstruction project;
- Procurement of the works was announced and a list of winners was drawn up for the performance of parts I and II of the contract. The signing of the contracts is scheduled for Q1 2022, and the contract work is scheduled to run until the end of 2023.

3.4.4. Lithuanian Electricity Storage Facilities System Project

Lithuania's system of electricity storage facilities is essential to ensure the security of Lithuania's energy system and its ability to operate in isolated mode. The energy storage system, which will provide Lithuania with an instantaneous isolated operation electricity reserve until synchronisation with the continental European networks (CEN), will be used after synchronisation for the integration of energy produced from renewable sources.

At the end of July 2021, the Government of the Republic of Lithuania appointed Energy Cells, a company of the EPSO-G Group, as the operator of the instantaneous isolated operation electricity reserve for Lithuania's electricity storage facilities and entrusted it with the management of the electricity storage facilities system. Energy Cells will install and integrate into Lithuania's energy system a system of four energy storage facilities (batteries) with a total combined capacity of 200 megawatts (MW) and 200 megawatt-hours (MWh). Energy Cells will install four energy storage facilities with a capacity of 50 MW and power of 50 MWh each at transformer substations in Vilnius, Šiauliai, Alytus, and Utena. It is the largest project in the Baltic States and one of the largest of its kind in Europe.

Investments:

The planned investment amount of the project is around EUR 103 million, of which part (up to EUR 100 million) will be funded by the Recovery and Resilience Facility.

Significant events during the reporting period:

- In January 2021, Energy Cells, a special-purpose wholly-owned subsidiary of EPSO-G Group, was established.
- In January 2021, an international tender was launched for the design, manufacture, and installation of a battery energy storage facilities system, as well as for technical support services for the works of the Lithuanian electricity system.
- In October 2021, Energy Cells signed a contract with the winning Siemens Energy and Fluence consortium.
- In November 2021, energy storage facilities system design works were started.

The design, manufacture, and installation of the battery energy storage facilities system will be completed by 2022. After their completion, electricity system isolated operation reserve guarantee service is foreseen to be started.

3.4.5. Installation of a physical barrier at the border with Belarus

After the Belarusian regime launched a hybrid attack on Lithuania and the influx of illegal migrants into Lithuania began, on 23 August 2021, the Cabinet of Ministers approved the proposal of the Ministry of the Interior to install a physical barrier on the border with Belarus. The government had also decided that EPSO-G Group companies controlled by the Ministry of Energy will be the executor of this project of national importance.

EPSO-G will install a physical barrier along the border with Belarus, approximately 500 km long, by 1 September 2022. The total length of the Lithuania's border with Belarus is 679 kilometres, with more than 100 kilometres along rivers and lakes, where the physical barrier is not planned to be installed. The wall will also not be built in reserves, forested wetlands or other places that are impassable due to difficult natural conditions and serve as a natural barrier.

Investments:

The planned investment amount of the project - EUR 152 million.

Significant events during the reporting period:

- On 23 August 2021, the Government decided on the installation of a physical barrier at the border with Belarus with EPSO-G being commissioned.
- On 10 September 2021, EPSO-G launched a consultation with market participants on the installation of a physical barrier at the Belarusian border.
- On 13 September 2021, the contracts on the first stage of the physical barrier at the border with Belarus was signed with EPSO-G Group company Tetas UAB.
- On 21 September 2021, EPSO-G completed market consultations on the second stage of the physical barrier, public procurement to be launched next week.
- On 29 September 2021, following the market consultations, the second stage procurement of the physical barrier at the border with Belarus was announced.
- On 29 November 2021, contracts for the installation of the second stage physical barrier at the border with Belarus were signed with Tetas UAB, Brosta UAB and Kauno Tiltai UAB.

3.5. Transmission network development

Whilst respecting the right of stakeholders to assess in advance the impact of projects developed in the near environment on their economic and social interests, the companies of EPSO-G Group, which are the transmission system operators, annually update and publish ten-year network development plans.

3.5.1. Electricity transmission network development plan

According to the Law on Electricity of the Republic of Lithuania, a electricity transmission system operator (TSO) shall manage electricity transmission grids, ensure the distribution grids operation, development, maintenance and long-term ability of these grids to satisfy the grounded needs of electricity distribution, and shall also be responsible for the interconnection of the electricity system of the Republic of Lithuania with the electricity systems of other countries, shall perform balancing and dispatching of the electricity system, as well as hold the appropriate operating license.

The Plan for the Development of 400-110 kV Networks of the Lithuanian Electricity System for 2021-2030 was updated by Litgrid in 2021. The plan was agreed upon on 28 October 2021. The plan presents forecasts of electric power and energy consumption needs, capacities of power plants (generation facilities), assessment of the electricity system adequacy, forecast of electric power and energy balances of the electricity market and system, as well as information on the electricity transmission network, its development and restoration, innovations and planned investments.

The Ten-Year Transmission Network Development Plan provides the following:

- Investments required for the development of the electricity transmission network may total to around EUR 1.35 billion for 2021-2030. About a half of the planned investments will be designated for the implementation of strategic projects of national significance. The remaining half (around 52%) of the planned investments is intended to be allocated for an effective development and systemic renewal of the network, physical and information security, development of the information systems as well as research and innovations;
- During the preparation for connection to Europe, synchronization-related projects will be completed: the construction of the submarine electricity link with Poland Harmony Link; in addition, internal electricity transmission lines with the length of around 430 km will be built, two new 330 kV switchgears, new synchronous compensators, and EES frequency stability assessment and automatic generation control systems will be installed;
- In addition to the network's development to ensure connection to Europe, Litgrid plans to construct 84 km of new lines in order to secure reliability of the electricity network. It is also planned to complete, continue or start the reconstruction of about 118 units of 330-110 kV transformer substations in 2021-2030;
- Irrespective of short-term decline in electricity consumption caused by the COVID-19 pandemic, it is projected that the final electricity consumption will increase by 1.9% annually on average over the upcoming ten years and will reach 13.7 TWh in 2030 (2021: 11.97 Twh). Electricity consumption will be mainly affected by general economic tendencies, increasing efficiency of electricity consumption, higher number of electric cars and thermal pumps, and railway electrification;

- The number of electric cars may total to around 230 thousand in 2030 in the country, and they will consume around 507 Gwh of electricity per year. There were2,548 electric cars in Lithuania at the end of 2020. Litgrid estimates that no difficulties will arise with regard to the transmission system even if the number of electric cars would be twice as large as it is projected in the country - the transmission system will be prepared for this.
- Particular attention is paid to the assessment of the network's ability to adapt for the integration of renewable energy sources and introduction of energy storage technologies. A trial energy storage system with the power capacity of 1 MW and batteries with the storage capacity of 1 MWh was installed in the transformer substation in Vilnius at the end of 2021. It will allow testing possibilities for the use of the battery storage systems under actual conditions of the Lithuanian electricity system. Results and knowledge obtained will help Litgrid develop competences and install energy storage means and define additional services that could be provided by the batteries;
- For the development of renewable energy sources, it is planned that in the achievement of more ambitious RES development goals, the share of RES in consumption in 2030 may reach up to 90%.
- In contribution to the implementation of the objectives of the green energy policy, it is planned to use the Baltic Sea regional cooperation in the development of offshore wind energy and international electricity transmission. Therefore, in the future, Litgrid will pay special attention to the connection of offshore wind farms to the transmission network.

Litgrid's Ten-Year Electricity Transmission Network Development Plan is available at: https://www.litgrid.eu/index.php/tinklo-pletra/lietuvos-elektros-perdavimo-tinklu-10-metu-pletros-planas-/3850

3.5.2 Gas Transmission Network Development Plan

Pursuant to the provisions of the Law on Natural Gas, Amber Grid prepares a Ten-Year Network Development Plan of the transmission system operator every two years. In June 2020, Amber Grid prepared and submitted a Ten-Year (2020-2029) Transmission Network Development Plan to the NERC (which was approved by the NERC on 1 October 2020). It estimates the value of investments in development projects of the gas transmission network in the next decade amounting to EUR 229.15 million (including the GIPL project completed in 2021 in the territory of Lithuania, as well as the part of continuous investments made before 2020). Gas consumption in Lithuania is forecast to increase slightly over the next ten years. In 2022, there will be an opportunity to transport gas in new directions - via the gas pipeline between Poland and Lithuania. The Network Development Plan also sets out the main directions for the development of the transmission system, including a focus on innovation and the development of green energy.

More information on the planned investments is available on the Company's website: https://www.ambergrid.lt/lt/perdavimo-sistemos-pletros-planas.

In 2022, it is planned to update the Ten-Year Transmission Network Development Plan of the TSO.

4. PERFORMANCE REVIEW

4.1. Significant events during the reporting period

January

On 21 January 2021, the sole shareholder of EPSO-G – the Ministry of Energy – approved the decision of the company's Board regarding the establishment of a special purpose subsidiary Energy Cells. Under the approved concept of the project ensuring national security interests, the company's function is the installation of the energy storage facilities system in Lithuania with a total combined power and storage capacity of at least 200 megawatts and 200 megawatt hours. Energy Cells was registered with the Register of Legal Entities on 26 January 2020.

February

On 3 February 2021, the Baltic seabed survey was started in the submarine electricity link project implemented by the Lithuanian and Polish electricity transmission operators Litgrid and PSE. During the surveys, the route with the length of 290 km and the width of 300 will be explored in the Baltic sea, samples of the seabed will be examined, objects identified on the seabed, including dangerous wrecks and explosives, will be analysed. The survey report data will be used for the preparation of the cable construction and protection strategy.

On 9 February 2021, the Board of Litgrid, after evaluation of the results of the public recruitment process and the competence and experience of the candidate, appointed Rokas Masiulis as the Chief Executive Officer of Litgrid effective from 22 February 2021.

On 24 February 2021, Litgrid announced that the ten-year plan for the development of the 400-110 kV networks of the Lithuanian electricity system was agreed with the National Energy Regulatory Council. The plan stipulates that Litgrid's investments in the development of the electricity transmission network in 2020-2029 will amount to EUR 1.25 billion, of which around 54% are planned to be used for the implementation of the projects of strategic importance to the state. Around 46% of planned investments will be allocated for an effective development and systemic renewal of the network, physical and information security, development of the information systems as well as research and innovations.

March

On 4 March 2021, the Lithuanian and Polish electricity transmission operators Litgrid and PSE completed the study on the implementation of the project on the submarine electricity link between Lithuania and Poland that served as a basis for the terms and conditions of the planned to be announced procurements for converters and the cable.

On 17 March 2021, the biofuel exchange Baltpool expanded its activities by starting trade in a new product – used wood. This solution enables various companies engaged in the recycling of construction and industrial waste to participate in biofuel trade auctions and offer used wood to the energy and heat producers of the Baltic and Scandinavian countries.

On 23 March 2021, the Board of GET Baltic appointed Jūratė Marcinkonienė as an Acting CEO of the company replacing the head of GET Baltic Giedrė Kurmė as of 13 April during her maternity and child care leaves.

April

On 1 April 2021, Baltpool started trade in biofuel at the seaports of the Baltic and Scandinavian countries and Poland. Trade in biofuel with ships is conducted as usual on the electronic trade platform of Baltpool under the standardised trade rules. This creates more opportunities for biofuel producers to increase trade volumes of products and geographical coverage in the international markets and the buyers from the Scandinavian countries will have more opportunities to acquire sustainable biofuel from the countries of the Baltic sea region.

In April 2021, a newly elected member of the Board, Director of the Legal and Administration Department Ingrida Kudabienė started the work at the Board of GET Baltic, Chief Financial Officer of EPSO-G Viktoras Baltuškonis was elected as the Chairman of the Board.

May

On 31 May 2021, the shareholders of Litgrid and PSE approved investments in the construction of the submarine link Harmony Link. Following the adoption of a financing solution in both countries, the project implementation phase will be started and the works stipulated in the project schedule will commence. Investments earmarked for the Harmony Link project amount to EUR 680 million, of which EUR 493 million will comprise the maximum possible amount of support received from the Connecting Europe Facility (CEF).

June

On 4 June 2021, Litgrid informed the operators of the other parties to the BRELL agreement, among them the Belarusian operators, on the initiated legal process regarding the control of the Lithuanian and Belarusian electricity interconnections. These measures were taken by Litgrid in implementing the provisions of the Law on measures necessary to protect from threats posed by the unsafe nuclear power plants of the third countries. The provisions of this law prohibit the flow of electricity from the third parties, in which unsafe nuclear power plants operate, to the Lithuanian electricity market.

In June 2021, Tetas became the official contractor of energy giant E.ON. The company's qualification application was approved for the participation in the construction tenders of one of the largest energy concerns in Europe E.ON.

On 11 June 2021, three electricity transmission system operators of the Baltic countries – Litgrid, Latvian AST and Estonian Elering – launched a new platform for the publication of the electricity market data of the Baltic countries Baltic Transparency Dashboard. The new solution will be more convenient to the market participants, while the operators will have more flexibility and will be able to announce even more data of the system.

July

On 5 July 2021, Litgrid informed the operators of the BRELL parties on the planned reduction of the maximum transmission capacity from Belarus to Lithuania. The aim of this action is to ensure that electricity lines of our country are not used for trade in electricity produced in Belarus and to implement the provisions of the Law on measures necessary to protect from threats posed by the unsafe nuclear power plants of the third countries.

On 20 July 2021, the public tender for the preparation of guidelines for the Lithuanian hydrogen sector development was announced. As Lithuania focuses on the development of the green hydrogen sector, the public international tender was announced for the preparation of the study on the hydrogen sector utilisation and expansion until 2050. The agreement with the entity preparing the study is expected to be signed already in this autumn, whereas the national guidelines for the hydrogen sector development and their implementation action plan will be prepared by spring of 2022.

On 28 July 2021, the Government designated Energy Cells as the operator of the electricity storage facilities system.

August

On 18 August 2021, Litgrid announced the procurement for the performance of the study that would lay down terms and conditions for the isolated operation of the Lithuanian electricity system. In preparing for the country's energy system synchronisation with the grids of continental Europe, Litgrid aims to ensure that, if needed, the system could operate independently, separately from other states and the networks of Western Europe and the IPS / UPS electricity system.

On 23 August 2021, the Government of the Republic of Lithuania decided that the EPSO-G group will act as the operator of the project on the construction of the physical barrier at the border with Belarus. The company group has resources necessary for the implementation of this project, experience in installing complex infrastructural objects and is able to manage risks related to the implementation of projects of such type.

On 26 August 2021, EPSO-G presented the group strategy until 2030 that was prepared in line with expectations of the company's shareholder established in the letter on the State's goals and expectations approved by the Minister of Energy of the Republic of Lithuania. The new strategy stipulates that until 2030 investments are expected to amount to approximately EUR 1.8 billion.

September

On 14 September 2021, the Lithuanian, Latvian, Estonian and Finish gas transmission system operators Amber Grid, Conexus Baltic Grid, Elering and Gasgrid Finland signed the memorandum of understanding regarding the promotion of the development of the market of green gas, also called renewable gas.

On 14 September 2021, EPSO-G signed the agreement with Tetas on phase I of the construction of the physical barrier at the border with Belarus.

On 20 September 2021, at the Vilnius transformer substation Litgrid installed the first battery connected to the electricity transmission network. The battery with the power of 1 MW and storage capacity of 1 MWh is the first pilot project in the Baltic countries, during which Litgrid specialists will test capacities of such an installation to operate in the transmission network.

October

On 15 October 2021, Energy Cells signed the agreement with the companies that will operate under the basis of a joint arrangement Siemens Energy and Fluence regarding the design, manufacturing and installation of the system containing installations with the power of 200 megawatts (MW) and storage capacity of 200 megawatt hours (MWh) and servicing works of this system.

On 19 October 2021, the gas transmission system operators of the Baltic countries and Finland started the preparation of the research and development plan on technical capacities of hydrogen transport.

On 22 October 2021, at the Lithuanian-Polish border, after the construction of the sections of the international GIPL gas pipeline on the sides of both countries, a symbolic golden weld was welded marking a physical connection of the gas transmission systems of two European Union countries.

November

On 9 November 2021, the electricity transmission operators of the Baltic countries – Lithuanian Litgrid, Estonian Elering and Latvian AST – agreed to jointly establish the Regional Coordination Centre of the Baltic countries which will operate in Tallinn.

On 15 November 2021, Litgrid successfully completed the project on the expansion of the Lithuanian and Polish electricity interconnection LitPol Link. This is one of four most important synchronisation projects implemented up to date as the expanded LitPol Link interconnection located near Alytus will now, upon necessity, be able to operate with the continental European networks in a synchronised mode.

On 26 November 2021, the supervisory commission for the project on the physical barrier at the border with Belarus approved the results of the public tender conducted by EPSO-G and approved the material terms and conditions of the contracts concluded with the companies that will be constructing the barrier in the sections of phase II of the project. Later that year the company signed the agreements with companies Tetas, Brosta and the consortium of companies Kauno Tiltai and Alkesta.

December

On 6 December 2021, Energy Cells announced a symbolic start of the project's implementation works. The company will start the provision of the service of assurance of the reserve of an instantaneous isolated operation of the electricity transmission system from December 2022.

On 8 December 2021, the operators of the Lithuanian and Polish electricity transmission systems Litgrid and PSE carried out a unique testing, during which a part of the Lithuanian electricity system operated with the Polish system and also with the synchronous zone of continental Europe in a synchronised mode for the first time in history.

On 22 December 2021, Litgrid successfully implemented the project on the optimisation of the North-East Lithuanian electricity transmission network. The company prepared the transformer substations of the Ignalina Nuclear Power Plant and Utena and the related transmission lines for synchronisation with the continental European networks. The implemented project not only contributes towards achieving the state's strategic objective, but also improves efficiency and reliability of the Lithuanian electricity system.

On 29 December 2021, on Wednesday Litgrid signed the agreement with company Siemens Energy, which will install three synchronous compensators in Lithuania by 2024 necessary for the preparation for synchronisation of the Baltic countries with continental Europe.

Performance indicators

In 2021, the operations of EPSO-G group were mostly positively affected by a particularly high growth rate of the country's economy, significant deviations of weather temperature from a standard climate norm at the beginning of the year that increased demand for electricity transmission at the end of the year. Changes in the structure of transmission flows had impact on higher revenue from natural gas transmission.

The quantity of electricity transmitted via high voltage transmission networks to households and businesses during the period was equal to nearly 11 terawatt hours (TWh), which is 8.4% more compared to the 12-month period of 2020.

The key indicators of the electricity transmission system reliability were improved. The AIT (average interruption time) and the ENS (energy not supplied) indicators were lower in 2021 compared to the indicators of 2020. The AIT indicator was equal to 0.112 minutes (2020: 0.209 minutes) and the ENS indicator totalled 3.356 MWh (2020: 6.300 MWh).

In 2021, the overall availability of the interconnections with Sweden and Poland NordBalt and LitPol Link was 97.3% and 87.5%, respectively. The availability of the LitPol Link interconnection declined compared to the year 2020 due to scheduled maintenance works in May and temporary disconnections during the completion of the project on the expansion of the LitPol Link interconnection.

In 2021, 26 terawatt hours (TWh) of natural gas were supplied to gas consumers in Lithuania, the Baltic region and Finland, excluding gas transmission to the Kaliningrad Region. 24 TWh of gas of that quantity were consumed in Lithuania (4% less than in 2020) and nearly 2 TWh were transported to other Baltic countries and Finland (76% less than in 2020).

During 2021, 16.3 TWh of gas were supplied from the Klaipėda LNG terminal representing 62% of the total gas input dedicated to consumers of Lithuania, Latvia, Estonia and Finland. 3.2 TWh (12%) and 6.8 TWh (26%) of gas were transported through the interconnection from Latvia and from Belarus, respectively, to the Lithuanian gas transmission system.

The availability of the natural gas transmission network to the system users reached 100%.

Key performance indicators of the EPSO-G Group:

	2021	2020	Change +/-	Change %	
Electricity					
Quantity of electricity transmitted, GWh	10,937	10,089	848	8,4%	10,277
ENS (Electricity Not Supplied due to interruptions), MWh **	3.36	6.21			32.3
AIT (Average Interruption Time), min. *	0.11	0.21			1.13
Availability of NordBalt, %	97.3%	95.6%			97.6%
Availability of LitPol Link, %	87.5%	92.4%			97.9%
Natural gas					
Quantity of gas transported to the domestic exit point, GWh	24,136	25,144	-1,008	-4.0%	23,530
Quantity of gas transported to adjacent transmission systems, GWh**	28,595	32,861	-4,266	-13.0%	31,991
Turnover of the natural gas exchange, GWh	7,957	7,206	751	10.4%	2,858
Biofuel					
Quantity of biofuel traded on the energy exchange, thousand GWh	5,781	5,466	315	5.8%	5,023

*Only for the reasons falling within the responsibility of the operator and for unidentified reasons.
**Transmission systems of Latvia and the Kaliningrad Region of the Russian Federation

In 2021, the total traded volume of the natural gas exchange GET Baltic in Lithuania, Latvia, Estonia and Finland reached nearly 8 terawatt hours (TWh). Compared to 2020, the total traded volume increased nearly 10%. Higher traded volumes mainly resulted from colder than usual weather at the beginning and the end of the year, and power generation increase.

In 2021, trade in biofuel on the energy sources exchange Baltpool increased nearly 6% – 5.8 terawatt hours (TWh) were traded in 2021 (2020: 5.5 TWh). Nearly 8 thousand transactions with the value of EUR 99.7 million were conducted on the exchange. Transactions on purchase-sale of heat of 4.9 GWh were conducted in the Company's heat auction data management system and transactions on sale of 1.722 million cubic metres of wood for EUR 106.90 million were conducted in the wood auction system EMPS.

4.3 Financial indicators

Financial indicators, EUR '000	2021	2020	Change +/-	Change %	2019
Revenue	362,603	270,519	92,084	34.0%	250,985
Operating expenses	318,110	230,058	88,052	38.3%	235,210
EBITDA[1]	79,639	74,549	5,090	6.8%	47,790
Net profit (loss)	39,818	40,085	-267	-0.7%	11,403
Assets	962,606	787,532	175,074	22.2%	719,546
Non-current assets	651,787	635,287	16,500	2.6%	565,052
Current assets	310,819	152,245	158,574	104.2%	154,494
Equity	271,598	233,066	38,532	16.5%	193,961
Liabilities	691,008	554,466	136,542	24.6%	525,585
Net debt [2]	220,509	366,881	-146,372	-39.9%	316,654
Dividends*	not allocated	777	-	-	773

Financial ratios

EBITDA margin [3]	22.0%	27.6%		18.9%
Return on equity (ROE)[4]	15.8%	18.8%		6.0%
Total assets turnover ratio [5]	37.7%	34.4%		34.9%
Net debt to EBITDA ratio	2.8	4.9		6.6
Net debt to equity ratio	81.2%	157.4%		158.6%
Equity to assets ratio	28.2%	29.6%		27.0%

*Dividends for the reporting year are paid in the next year.

1) EBITDA = profit/(loss) before tax + finance costs – finance income + depreciation and amortisation expenses + impairment expenses of assets (including a negative revaluation of property, plant and equipment) + write-offs of assets - impact of atypical activities
2) Net debt = non-current borrowings + current borrowings + lease liabilities + liability to Ignitis UAB for the acquisition of shares of Litgrid AB – short-term investments – term deposits – cash and cash equivalents
3) EBITDA margin = EBITDA / Revenue
4) Return on equity = net profit/(equity at the beginning of the period + equity at the end of the period)/2
5) Total assets turnover = revenue/assets

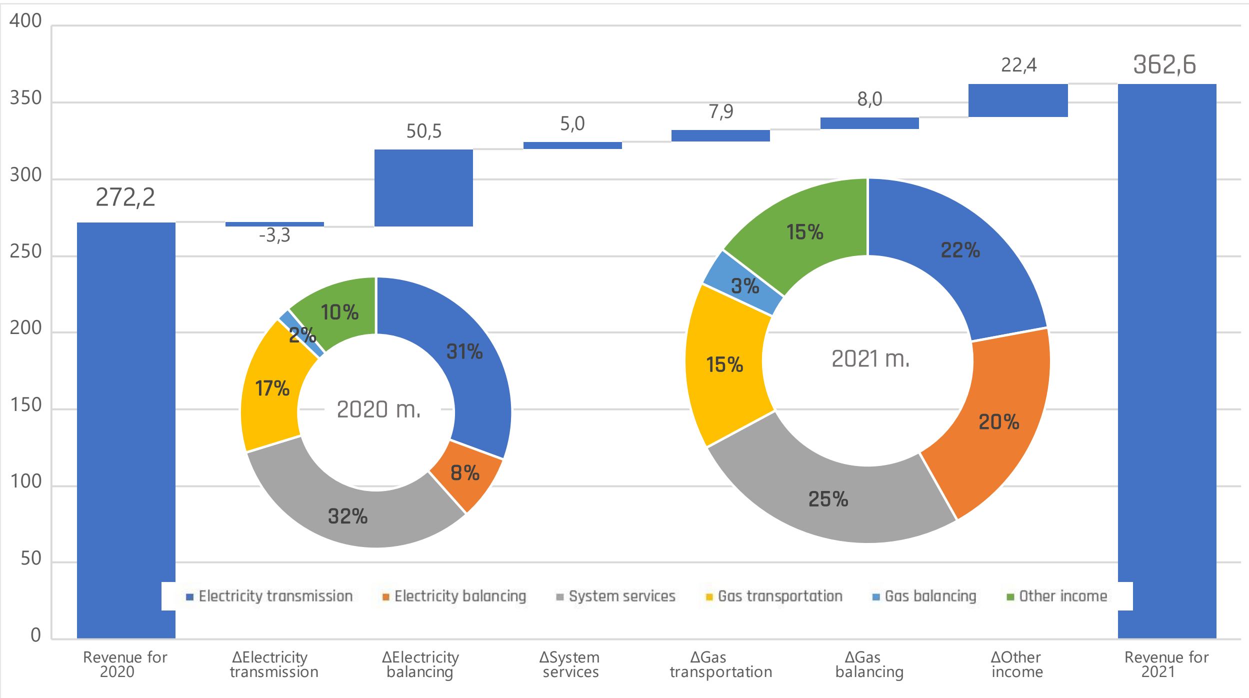
Revenue

The EPSO-G Group's consolidated revenue increased by EUR 92.1 million or 34.0% in 2021 compared to 2020, i.e. from EUR 270.5 million to EUR 362.6 million.

Revenue from electricity transmission and related activities increased by 30.4% in 2021 compared to 2020 and amounted to EUR 267.3 million. Revenue growth resulted mainly from imbalance and balancing electricity revenue, which amounted to EUR 71.7 million and were 3.4 times higher than in 2020. Growth of this revenue has no impact on the Company's long-term profitability.

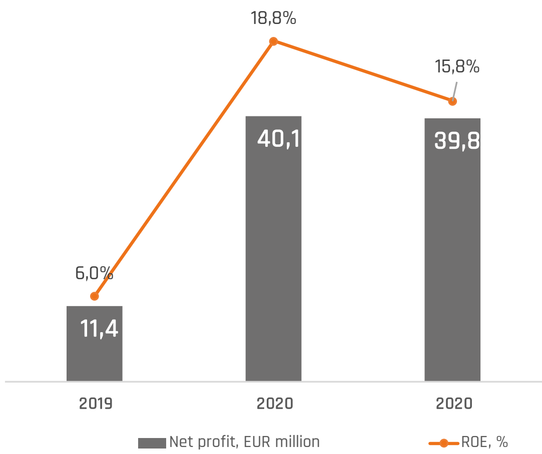
Revenue generated in 2021 from gas transmission and related services, and natural gas trade organisation amounted to EUR 68.6 million or 31% more than in 2020. Higher revenue level was influenced by cold weather in winter of 2021 and cool weather in spring as well as changes in the structure of transmission flows resulting in higher transportation volumes through the points at which higher prices of transmission services are applied.

The Group's other income, including PSO, amounted to EUR 29.1 million, the major portion of which represented income of the subsidiary Tetas (including income of EUR 6.7 million received in implementing the project on the physical barrier with Belarus; this project is mainly implemented under the *de-minimis* principle, therefore the impact on profitability is limited).

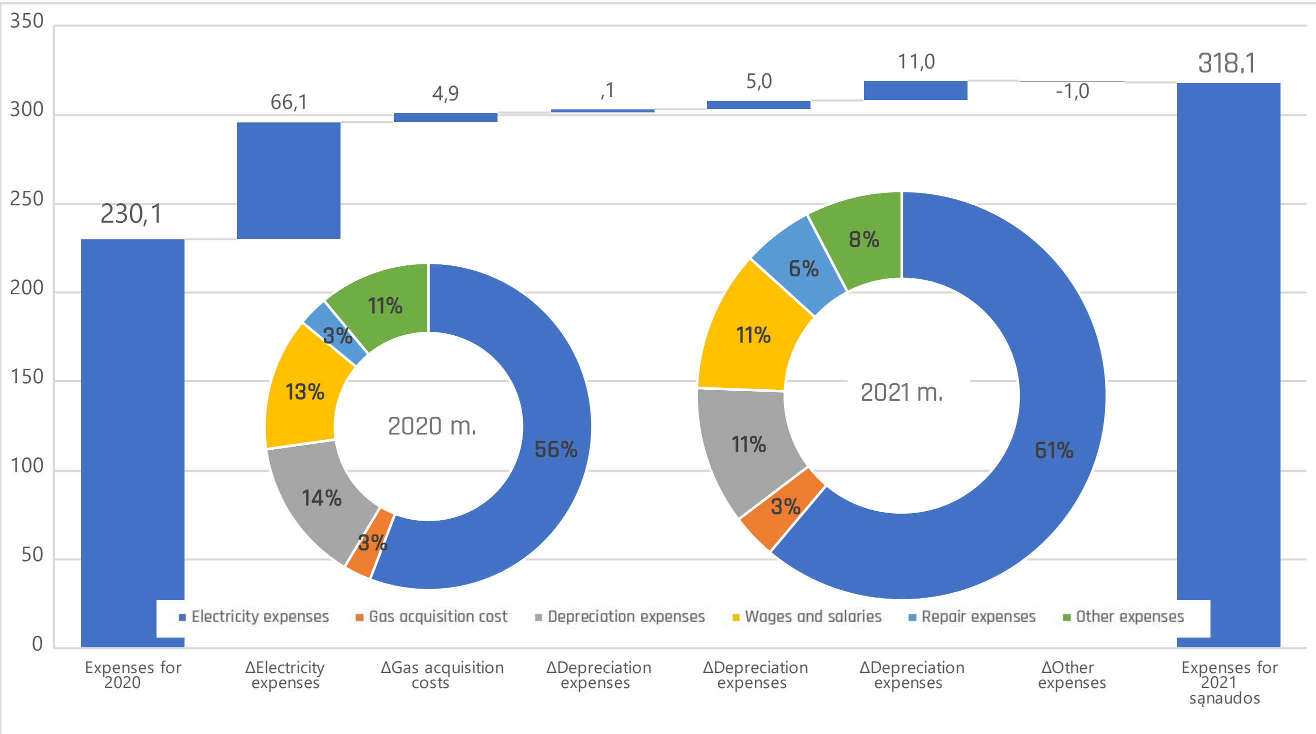


Operating expenses

The Group's general operating expenses in 2021 amounted to EUR 318.1 million. Mainly as a result of significantly higher average prices of energy resources these expenses were 38.3% or EUR 88.1 million higher compared to 2020. Increase in expenses was also caused by expenses incurred by the subsidiary Tetas in implementing the physical barrier project.



The largest portion of operating expenses consisted of purchases of energy resources and related services amounting to EUR 205.7 million (purchase costs of electricity and related services amounted to EUR 194.5 million, acquisition costs of natural gas amounted to EUR 11.3 million) or 64.5 % of the total expenses. Depreciation and amortisation expenses were equal to almost EUR 34.8 million, wages and salaries and related expenses amounted to EUR 35.4 million, contract and subcontract works and materials totalled EUR 11.7 million, repair and maintenance expenses reached EUR 6.2 million, telecommunications and ITT expenses amounted to EUR 4 million, and the remaining amount of expenses was equal to EUR 20.4 million (a large portion comprised the cost of the implementation of the physical barrier project).



Results of operations

In 2021, the Group's earnings before tax, interest, depreciation and amortisation (EBITDA) amounted to EUR 79.6 million and increased by 6.8% compared to 2020, while the EBITDA margin was 22.0% in 2021 (2020: 27.6%).

The main reasons for the increase in the Group's EBITDA:

- Compared to 2020, revenue from electricity transmission and related services was 30% higher.
- Compared to 2020, revenue from natural gas transmission and related services were 35% higher.

Negative impact on EBITDA was caused by 51.5% higher expenses for the purchase of electricity and related services and 77.6% higher expenses for the purchase of natural gas and related services that, in turn, were affected by higher prices of energy resourced. Higher balancing and technological expenses of the transmission systems will be compensated in the subsequent periods through the price regulation mechanism.

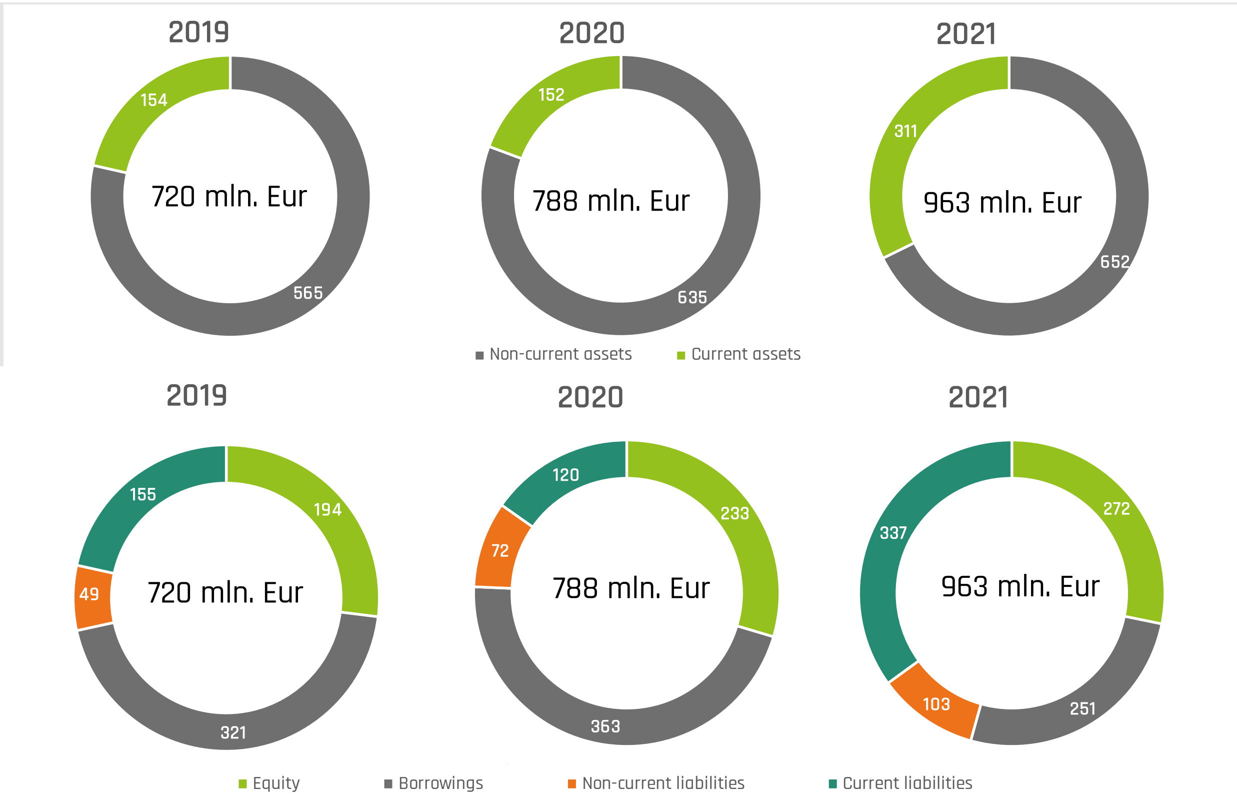
Net profit of the EPSO-G Group for 2021 amounted to EUR 39.8 million, which is 0.7% lower compared to 2020 when net profit amounted to EUR 40.1 million.

Return on equity of the EPSO-G Group for 2021 was 15.8%, while the target of the average return on equity set by the Government of the Republic of Lithuania for the EPSO-G Group for the period of 2019-2021 was 5.7%.

It should be noted that electricity and gas transmission activities are regulated, and therefore, the earned excess profit is refunded to the consumers of the country by reviewing the applied tariffs for the services in the upcoming regulatory periods.

Statement of financial position

As at 31 December 2021, the Group's assets totalled EUR 962.6 million, the Group's non-current assets amounted to EUR 651.8 million and accounted for 67.7% of the Group's total assets. Non-current assets mostly increased due to the completion of construction works of the gas interconnection GIPL and investments in the electricity transmission infrastructure. The shareholders' equity increased by 16.5% up to EUR 271.6 million, and the equity's portion with respect to the Group's consolidated assets was equal to 28.2% at the year-end. The Group's current assets amounted to EUR 310.8 million at the end of 2021 and more than doubled compared to 2020. This change was mostly affected by higher prepayments made by the participants of the natural gas exchange due to a significant increase in the price of gas at the end of the year, PSO funds collected but not yet paid due to a high electricity price and higher accumulated congestion revenue. The latter factors also determined a temporary increase in current liabilities.



At the end of 2021, the Group's financial liabilities to creditors, including lease liabilities, amounted to EUR 220.5 million (including liability of EUR 84.1 million to Ignitis Grupė AB for the acquisition of shares of Litgrid in 2012, which was reduced by nearly EUR 65 million during 2021). Cash and cash equivalents at the end of the period amounted to EUR 41.3 million, and the net debt (including lease liabilities) to equity ratio of the EPSO-G Group was 81.3%.

At the end of 2021, congestion revenue accumulated by Litgrid amounted to EUR 109.1 million – these funds will be used to finance synchronisation projects in the near future.

Investments

In 2021, Litgrid's investments, irrespective of the settlement terms, amounted to EUR 51.6 million, and Amber Grid's investments totalled EUR 45.6 million mainly related to the completion works of the construction of the gas interconnection to Poland GIPL that are carried out from the beginning of 2020.

4.4 Research and development activity

The goals of the National Energy Independence Strategy for the integration of renewable energy sources and the ongoing Baltic synchronization project with the continental European network, as well as regional gas market integration processes, invites EPSO-G Group companies to search for new innovative solutions for the reliable operation of the Lithuanian energy system at present and in the future. Research and studies, planning and implementation of innovation activities encourage the companies of the Group to increase the efficiency of their activities by applying new methods, tools, and good practices.

In carrying out these activities, EPSO-G Group companies follows the Guidelines of Scientific Research, Experimental Development and Innovative Activities (hereinafter - GSREDIA) in order to ensure continuity, effectiveness, competitiveness of the activities of the Group companies, creation of competitive conditions, significant contribution into implementation of the National Energy Independence Strategy, and creation of added value to the society through research, innovations and new solutions.

GSREDIA determine common concepts of scientific research, experimental development, innovations and innovative activities applicable to the entire group EPSO-G, common performance directions and priorities, classification principles and recommendations for operators of transmission system regarding funds attributable to the GSREDIA activities not covered by the regulated activities.

During the implementation of innovation activities in 2021, 38 new projects of various scopes were initiated in the Group companies, 21 projects were completed. By involving employees in solving topical challenges, creative thinking workshops were organized for the Group's employees.

At the end of 2021, the Group's innovation portfolio consisted of 40 instruments focused on advanced and efficient systems management and monitoring, modern asset management solutions, the development of the Group's ITT and digitization, and the development of new business organization and services. Some of such projects are as follows:

- Preparation of Lithuanian hydrogen development guidelines and development plan;
- Power-to-Heat pilot project;
- Adaptation of gas transmission system for transportation of hydrogen and natural gas mixture;
- Dynamic line rating (DLR) pilot project;
- Demonstration project of flexibility services ONENET;
- First gas-insulated substations (SF_6);
- Pilot project on smart electric vehicle chargers;
- Offshore network optimization study;
- Research on the application of innovative measures in integrating RES power plants and methodology for determining optimal solutions;
- Pilot project on using satellite imagery for airline surveillance.

To engage employees in the development of innovation, the Group has a system of additional incentives, on the basis of which, in 2021, the following teams for these projects were awarded:

- Pilot flight over the main gas pipeline for laser photography and scanning;
- Secondary transmission capacity trading platform;
- Data exchange via application programming interface;
- RAIDA 2050 and P2G analysis;
- Use of drones for spotting the location of a transmission network overhead line failure;
- Smart NordBalt cable fault location;
- Implementation of cyber security measures in the workplace of privileged users.

4.5. Membership in organizations

In 2021, the holding company EPSO-G and the transmission system operators participated in the activities of the national (Lithuania's National Energy Association - Lith. NLEA) and various international organisations and associations, such as the European Association of Transmission System Operators for Electricity (ENTSO-E) and the European Association of Transmission System Operators for Gas (ENTSO-G), the Central Europe Energy Partners Association (CEEP), TSOs and the Association of Other Electricity Companies *Best Grid*.

Mr. Vytautas Bitinas, the Director for Strategy and Development of the holding company EPSO-G, is a member of the newly elected Board of Lithuania's National Energy Association. He replaced Mr. Rolandas Zukas, who took office by January 2022.

Memberships of EPSO-G Group companies:

Organisation	Representing company	Link	Organisation description
Bioenergy Europe	Baltpool	www.bioenergyeurope.org	The association bringing together national bioenergy associations and bioenergy companies based in Europe, as well as academic and research institutions in Europe
Central Europe Energy Partners (CEEP)	EPSO-G	www.ceep.be	The association bringing together the companies of energy and energy-intensive sectors of the Central Europe
International Council on Large Electric Systems (CIGRE)	Litgrid	www.cigre.org	Global non-profit organization, the scope of the activities of which includes the technical and economic aspects of the electrical grid, as well as the environmental and regulatory aspects
Lithuania's National Energy Association (Lith. LNEA)	EPSO-G Amber Grid Litgrid	www.nlea.lt	The association bringing together Lithuanian companies operating in the electricity and natural gas sectors, as well as scientific establishments
ENTSO-E	Litgrid	www.entsoe.eu	The organisation bringing together European electricity transmission system
ENTSO-G	Amber Grid	www.entsog.eu	The organisation bringing together European natural gas transmission system operators
European Renewable Gas Registry	Amber Grid	www.ergar.org	An organization with the objective to develop trade in guarantees of origin for gas produced from renewable energy sources among countries
EASEE-gas	Amber Grid	EASEE-gas	The association established to develop and promote simplified and streamlined physical transportation and trade of gas throughout Europe
Infobalt	EPSO-G Amber Grid	www.infobalt.lt	DigiTech Sector association to create the best conditions for technology application, market development and export
FIF Marketing	Baltpool		

Polish-Lithuanian Chamber of Commerce	Amber Grid Litgrid	www.plcc.lt	The association seeking to improve economic cooperation between Lithuania and Poland
Lithuanian Project Management Association	EPSO-G	www.ipma.lt	The association bringing together project management professionals
Lithuanian Hydrogen Platform	Amber Grid EPSO-G	https://enmin.lrv.lt/lt/veiklos-sritys-3/vandenilio-technologijos-1	It is a format of cooperation bringing together representatives of the country's scientific institutions, business and the public sector for the common goal - to seek for the development of hydrogen technologies in the country
Lithuanian Hydrogen Energy Association	Amber Grid	www.h2lt.eu	The association uniting the country's scientists and business organizations that participates in the formation of national, regional and EU policies and objectives, including the preparation of the strategy and action plan for the development of hydrogen in the legislative process regulating the Lithuanian hydrogen
Lithuanian LNG platform	Amber Grid		The platform partners are seeking to promote the use of LNG as a new, cleaner and quieter fuel in the transport, industrial and other sectors and to create a common information and work platform for all potential participants of the LNG market.
Association of Personnel Management Professionals (Lith. PVPA)	EPSO-G	www.pvpa.lt	An association uniting personnel management professionals.
European Green Hydrogen Alliance	Amber Grid	https://www.ech2a.eu/	An alliance for the development of hydrogen technology in Europe
Intelligent Energy Lab	EPSO-G	https://iel.lt/	Intelligent Energy Lab is an open platform operating in Vilnius with companies, universities, institutes, and associations cooperating on innovation

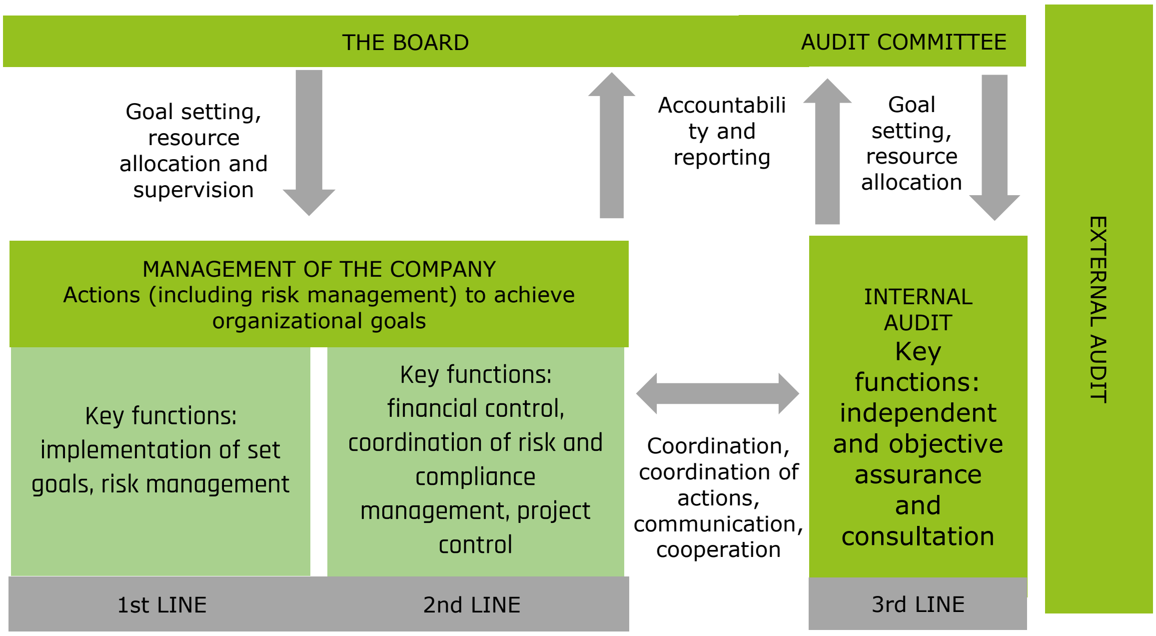
4.6 Transactions with related parties

In 2021, EPSO-G followed the Policy of Transactions with Related Parties. It establishes the supervision and disclosure procedures of the transactions carried out by EPSO-G Group companies with related parties that allow assessing properly the conflicts of interests related to such transactions and minimizing possible negative consequences of such transactions to the companies, minority shareholders and unrelated persons. This document is published on EPSO-G website, in the menu item *Operating Policies*.

Information on the transactions with related parties is disclosed in annual financial statements in Note 34.

5. COMPLIANCE AND RISK MANAGEMENT, AND AUDIT

In 2021, EPSO-G has further consistently held the view that in the course of the implementation of the operating strategy proper risk management is a prerequisite for increasing the efficiency of subsidiaries, quality of management, safe environment for the employees, and in creating the trust of the stakeholders in the Group companies.



1st line includes the executives and employees of EPSO-G identifying and managing operational risk in the daily activities.

2nd line secures the functions of EPSO-G with the responsibility of forecasting risk:

- The function of financial control includes the responsibility for the continuous control of the financial results of the Group.
- The function of risk management includes the responsibility for the creating and coordinating of the risk management system of the Group. This function summarizes the main risk areas of all companies of the Group and coordinates the implementation of their actions of management.
- The function of compliance management includes coordination and improvement of the Group's compliance management system. This function helps to ensure compliance in a coordinated manner in the priority areas where the non-compliance could have the greatest impact on the Group companies concerned.
- The data protection function includes the ongoing monitoring of the functioning of personal data protection measures.

3rd line includes the responsibility for the independent and objective assurance and consultations on the applicability and effectiveness of the organisation's management and risk management (including internal control), and supports the implementation of the organisation's strategy and promotes and contributes to continuous improvement. The Centralized Internal Audit Unit provides an assessment to the Board performing supervisory functions and the Audit Committee, whether the first two lines adequately perform their functions. In accordance with the laws, the annual financial statements of EPSO-G Group companies are audited by independent audit firms of external audit. The companies of external audit are elected by the General Meetings of Shareholders of the Group companies.

5.1. Risk management system

EPSO-G understands risk management as a structured approach to uncertainties management by methodologically evaluating risk effect and probability, and by applying the proper measures of management.

In 2021, EPSO-G Group followed the Group's Risk Management Policy and Risk Management Methodology. They imbedded a uniform risk management system that is based on common principles and meeting good practice according to COSO ERM (Committee of Sponsoring Organisations of the Treadway Commission Enterprise Risk Management) methodology and standards applicable in the international practice.

All Group companies have joined the Risk Management Policy of EPSO-G and, by using the Risk Management Methodology of the Group, have identified the risks relevant to them, assessed them, set risk monitoring indicators, as well as made plans for managing these risks that were approved at the Boards of the Company groups.

The Group companies identified operational risks for 2021, assessed them, set risk monitoring indicators and provided risk management measures.

After assessing the risks identified and managed in the Group companies and their level (impact on the Company's activities as well as on EPSO-G Group as a whole), the Board of EPSO-G approved EPSO-G group-level risk list. The following main criteria for including a risk in the EPSO-G group-level risk list were set:

- The risk is directly identified in the strategy of the Group companies,
- The risk has a material impact on the achievement of strategic goals;
- Risks assessed as top (extreme) and very high level.

In each quarter of 2021, the Audit Committee of EPSO-G had assessed the changes in the key risk indicators of each company of the Group, the effectiveness of risk management and presented its conclusions and recommendations to the Boards of the companies.

1. Risk of breaching regulatory requirements for key activities
2. Business transparency risk
3. **Risk of lack of relevant qualification and motivation employees, employee turnover**
4. Risk of non-compliance with occupational safety requirements
5. Information security (cyber security) risk
6. Technological risk
7. Risk of delays in the implementation of strategic projects
8. Risk in prices in the gas and electricity sectors
9. Debt repayment risk
10. Risk of the Group's revenue from unregulated activities and foreign markets

Impact					
Very high	1,4	5, 8, 9	10	7	
High		2			
Medium			3,6		
Low					
Very low					
Likelihood	Very low	Low	Medium	High	Very high

The Group's Risk Map

The following key risks identified in the strategy of the Group's operations were included in the group-level risk lists:

1. Risk of breaching regulatory requirements for key activities

   The prices of electricity and natural gas transmission and related services are regulated, the price caps are set by the NERC. Substantial changes in regulatory principles may affect the return on investment of regulated entities and, accordingly, the financing and implementation of significant investment projects, as well as the ability to pay dividends. In managing the risk of violation of the regulatory requirements of the main activities, continuous monitoring of legislation prepared and/or amended by the NERC and other institutions regulating regulated activities was performed during the reporting period. Moreover, comments and suggestions on draft legislation being prepared and/or amended are provided, and the Group's common position formulated, where relevant.

2. Business transparency risk

   EPSO-G Group implements the projects of the regional and national significance. These are major investment projects. Their success depends on the awareness, trust and support of the shareholders, partners, controlling and regulating institutions and the people of Lithuania. Accordingly, much attention is paid by EPSO-G in its activities to the supervision of procurement (including public procurement) procedures and the prevention of corruption.

   EPSO-G has consistently implemented the requirements of the Law on the Adjustment of Public and Private Interests, under the provisions of which executives of all EPSO-G Group companies and members of the Boards are obliged to declare their interests publicly. The requirements of the law have been implemented to a greater extent than required by law, in accordance with the Policy of Management of Interests of Members of Collegial Bodies, Executives and Employees of EPSO-G Group.

   During the reporting period, the companies of EPSO-G Group purposefully focused on the intolerance of corruption, protection of family members, relatives, friends, or any other forms of trading in influence, and consistent and systematic implementation of the prevention of conflicts of interest between the Company and private interests. The companies of the Group encourage the employees and other interest holders to report directly or anonymously possible violations, unethical or unfair behaviour by trust line at pranesk@epsog.lt without fear of any negative consequences or directly to the Special Investigation Service of the Republic of Lithuania (SIS).

3. **Risk of lack of relevant qualification employees, employee turnover and motivation**
EPSO-G Group companies are facing the emerging labour market challenges, the competition for highly qualified professionals, who can contribute to the implementation of projects of strategic importance to the Lithuanian state.

To manage the risk of lack of relevant qualification employees, employee turnover and motivation, EPSO-G Group companies applied a uniform Employee Remuneration Policy during the reporting period; an independent annual analysis of remuneration and market trends, and an analysis of the reasons for leaving employment identified by job leavers were performed; rotation plans for critical positions in the companies of the Group were drawn up and actions provided for therein were taken to minimize this risk. In this way, the Group companies periodically assess the engagement of employees and take relevant actions to attract, motivate and retain talent, regularly measure employee competencies; special professional development training and education programs are carried out; the Group companies work closely with universities and other educational institutions to attract talented employees and contribute to the practical training of students.

4. Risk of non-compliance with occupational safety requirements
Litgrid, Amber Grid and Tetas held by the Group places great emphasis on occupational safety. Occupational risk assessment plans are prepared. Workplaces, work equipment, technological processes with the highest level of work safety risk are identified. Work safety days are organized in the departments. There is cooperation with customers as work safety partners to achieve effective work safety control and a higher work safety culture. Attention is paid to preventive check-ups of occupational safety.

5. Information security (cyber security) risk
EPSO-G and its subsidiaries Litgrid and Amber Grid are companies crucial for the national security. They manage facilities and assets important for national security as well. The information and data managed by the Group companies are of strategic importance for the national security of Lithuania, therefore, loss of such information and / or data, illegal change or disclosure, damage thereof, or termination of the data flow which is necessary for a secure operation of transmission systems may cause disturbances of the activities of EPSO-G Group companies, cause damage to other natural persons and legal entities.

When managing this risk during the reporting period, Litgrid carried out the monitoring of the critical infrastructure data network; the processes required to ensure cyber security were implemented, the requirements and control procedures for all external parties affecting the security of the company were developed. In Amber Grid, the installation of a backup data centre, the development of a critical infrastructure data network monitoring system, as well as the updating and installation of software required to ensure cyber security were carried out.

6. Technological risk
One of the most important functions and responsibilities of EPSO-G Group companies is to ensure secure, reliable, and efficient operation of natural gas and electricity transmission systems.

As a result, Litgrid and Amber Grid have been introducing and improving specialized information systems, modern business management systems, updating accident and technological disruption and emergency management, business continuity plans on a continuous basis, and posing high requirements for the contractors.

When managing this risk by Litgrid during the reporting period, the testing of isolated operation resulted in ensuring system services for the prevention and elimination of accidents and disturbances, as well as power reserves for isolated operation. In order to manage the risk, when overhead power lines are disconnected due to unforeseen actions or omissions of the third parties, changes and amendments to the Rules on the Use of the Transmission Grid were performed, the need for the electricity storage (battery) system was escalated. During the reporting period, measures were also implemented to manage the disconnection risks of NordBalt and LitPol Link interconnectors; high-quality operation and availability of connections, timely provision of services and works, and the supply of critical spare parts were ensured.

Amber Grid carried out pipeline diagnostics during the reporting period, which is planned to be continued in 2022 by eliminating identified critical defects in the trunk pipeline in a timely manner. As part of the international project SecureGas together with partners from Italy to search for gas leaks, in 2021, an innovative unmanned aerial vehicle (drone) was developed. With the help of a laser sensor it measures the concentration of methane gas in the air and determines the coordinates of gas leakage by flying a planned route above the main gas pipeline. In order to manage the risk of relocation of the sections of the pipeline, where the construction standard was exceeded, a study was performed at the Company's expense on the assessment of restrictions in the area class unit, on the basis of which drafts of adjustments to the rules for the installation and development of the main gas pipeline and other related legislation will be prepared in 2022. The results of the study were presented to the representatives of the Ministry of Energy and the NERC.

7. Risk of delays in the implementation of strategic projects

   By managing this group-level risk, EPSO-G monitors key risk indicators and implemented risk management measures within the tolerance threshold set due to inefficient project control in the Group companies, disagreements between a customer and contractor in the implementation of strategic and joint projects, and the dissemination of incorrect and negative information in the risks.

   By managing this risk in Amber Grid and aiming to implement the non-implementation of the GIPL project within the set deadlines, the Company adhered to the standard of good project management and quality management practices, monitored the progress of construction works according to the work schedule (guidelines) agreed with the contractors, and carried out regular check-ups. The construction works of the pipeline were carried out according to the approved work schedule, the project was implemented on time. In order to manage the risk of non-compliance with the Project Portfolio Plan, the Company carried out timely procurements, ensuring schedule non-deviation and full compliance with the legal acts regulating public procurement procedures, limited and minimized the resulting intermediate delays in the performance of works.

   By managing this group-level risk, Litgrid manages the delays in ensuring the readiness of the Lithuanian ES for full synchronization with the CEN, the deviation of the investment value of the projects of the Synchronization Program, the synchronization with the KET human resources and other related risks. To address these risks, the Company implemented procurement measures (market consultations and research, early involvement of stakeholders in the spatial planning, project coordination and construction phases), strengthened contract control, streamlined project management by providing standardized requirements for contract schedules, and implemented other measures.

The group-level risk list also included the most important risks related to the achievement of the objectives of the Group's business strategy:

8. Risk in prices in the gas and electricity sectors

   Amber Grid's risk management measures in 2021 were aimed at diversifying gas supplies and increasing transit potential to other EU countries by seeking a joint agreement with the Baltic States and Finland on a regional market project and building a gas pipeline connection with Poland (GIPL). To attract the supply of *green* gas to the gas transmission networks, decisions were made on the application of the National Registry of Guarantees of Origin to international trade in Guarantees of Origin; the work was continued on the implementation of a demonstration project for the integration of *raw* hydrogen into gas grid, and technical conditions were issued to 9 biogas producers for their connection to the Lithuanian gas transmission networks. Litgrid cooperated with the NERC, the Ministry of Energy, and the Baltic operators to manage the risk of non-compliance with EU's CACM and FCA codes and sought consensus on the development of a legal and technical environment for Multi-NEMO.

9. Debt repayment risk

   To manage the debt repayment risk of Ignitis Grupė UAB, EPSO-G conducted a survey of market participants on the terms of debt refinancing and made the necessary decisions on the sources of refinancing. Portion of the debt was also repaid during the reporting period.

10. Risk of the Group's revenue from unregulated activities and foreign markets

    By managing this group-level risk, Baltpool, Tetas, and GET Baltic apply management tools such as diversification of customers, activities, markets, sales analysis and other measures to ensure the achievement of the objectives of the sales plans in the Lithuanian and foreign markets.

COVID-19 risk management and coordination within the Group

In 2021, in all Group companies, new business continuity and prevention measures were continued and planned: means of organizing remote work, employee flow management were continued, information to employees on preventive measures was disseminated, employees were provided with personal protective equipment, and vaccinations were made available. Additional organizational measures were further applied at Litgrid and Amber Grid in the system control centres, technical and replacement measures in the system control centres in case of the virus spread. In addition, these companies reviewed their Emergency Management Plans, prepared the following additional documentation and implemented measures: lists of critical functions, lists of measures necessary to ensure uninterrupted implementation of these actions, as well as resources and responsible individuals and other documents and means.

5.2. Information on the Compliance Management Process

We seek to establish a uniform compliance management system in the Group companies that would:

1. Enable to protect the Group companies from financial or reputational damage that may result from behaviour that does not meet internal and external requirements;
2. Enable to manage the risks of non-compliance and mitigate their impact and / or likelihood of occurrence;
3. Promote a culture of compliance, i. e. encourage the Group's employees to work in accordance with the set requirements and to justify their application on the Group's values.

In 2021, in accordance with the approved Compliance Management Policy and the Compliance Management Methodology implementing it, Amber Grid, EPSO-G, and Litgrid implemented a number of actions and measures to methodically ensure the compliance in selected priority areas where the occurrence of non-compliance risks would have the greatest negative impact on the above companies and the Group as a whole. The priority areas are the regulatory areas of independence of transmission system operators and separation of activities, procurement, protection of personal data, information undisclosed and required to be made public.

The key compliance-ensuring actions set out in the 2022 Compliance Management Methodology will be implemented in the priority areas approved by the Boards of Tetas and Baltpool, while the compliance management actions of Amber Grid, EPSO-G, and Litgrid will be continued. From 2022, the prevention of corruption has been added to the list of priority areas.

5.3 Information on the internal audit

The internal audit mission of EPSO-G is to create added value for all the companies of the Group and to contribute to the achievement of their operational objectives by systematically and comprehensively assessing and helping to improve the effectiveness of management, risk management, and control processes. These functions are implemented through an independent and objective assurance and advisory activity.

In order to ensure transparency and efficiency of operations, a centralized Internal Audit Unit operates in EPSO-G Group companies. The Unit carries out the functions assigned at the Group level and is directly accountable to the EPSO-G Board, the majority of which are independent members.

The auditors of the holding company EPSO-G are not subordinate to the administration of a company audited. This creates better preconditions for identifying possible deficiencies in order to eliminate them and to highlight the areas for increasing efficiency.

The staff members of the Unit carry out internal audits and monitor on a regular basis the way the recommendations are implemented, as well how the other deficiencies related to the internal control, which have been identified by the external auditors, regulatory authority and the public control institutions, are corrected.

The activities of the centralized Internal Audit Unit in 2021 covered the following areas that were selected based on the performed assessment of risks and by identifying the priority companies / processes to be inspected:

- Assessment of controls of application for default and dispute resolution processes;
- Assessment of controls of commercial activities (sales);
- Assessment of controls of public procurements;
- Assessment of staff management;
- Assessment of project management quality;
- Assessment of controls in determining and paying remuneration.

Internal audits also assessed control measures aimed to prevent corruption. Much attention was also paid to monitoring the implementation of internal audit recommendations by companies and to assessing the impact of implemented actions.

Internal audit findings along with recommendations for areas subject to improvement are submitted to the management of the audited companies and the Boards of the companies of the Group, as well as to the Board and Audit Committee of EPSO-G.

5.4 Information on the external audit

In 2020, EPSO-G carried out an open tendering procedure of joint public procurement of audit services for financial statements for the period of 2020-2021 for the Group companies. With regard to the results of the public procurement of external audit services, the offer of PricewaterhouseCoopers UAB was recognized as the winner.

The Audit Committee of EPSO-G, having assessed the results of the selection procedure for the audit firm, decided to recommend the Boards of the Group companies to propose to their General Meetings of Shareholders to select PricewaterhouseCoopers UAB as an audit firm to perform the audit of financial statements for the period 2020-2021 by paying the remuneration for the audit services specified in the offer of this audit firm.

At the General Meetings of Shareholders of the Group companies, decisions were made to select PricewaterhouseCoopers UAB as the audit firm to perform the audit of financial statements for the period of 2020-2021 and to set the annual remuneration for the audit services of financial and related statements specified in the offer of the audit firm.

Following the establishment of EPSO-G's subsidiary Energy Cells UAB in 2021, the tender of PricewaterhouseCoopers UAB was received through a public procurement. As recommended by the EPSO-G's Audit Committee, by the decision of the sole shareholder, PricewaterhouseCoopers UAB was selected as the audit firm to perform the audit of financial statements for the period of 2020-2021 by paying the renumeration for the audit services specified in the offer of this audit firm.

Information on the external audit firms of EPSO-G Group companies and their remuneration for audit services:

Company	Firm that performed the audit of the financial statements 2021	Remuneration for the audit firm for the audit of the financial statements 2021, EUR (VAT excluded)*	Firm that performed the audit of the financial statements 2020	Remuneration for the audit firm for the audit of the financial statements 2020, EUR (VAT excluded)
EPSO-G	Pricewaterhouse Coopers UAB	20,570	Pricewaterhouse Coopers UAB	20,570
Litgrid		61,710		61,710
Amber Grid		50,490		50,490
Baltpool		14,960		14,960
Tetas		26,180		26,180
Get Baltic		13,090		13,090
Energy Cells		6,000		-

In 2021, PricewaterhouseCoopers UAB provided uninsured non-audit services for EUR 4,074, in 2020, tax consultations for EUR 9,438 to EPSO-G Group companies. The services were procured in accordance with the provisions of EPSO-G Group's policy on acquisition of non-audit services from an audit firm or any network to which the audit firm belongs.

6. SHAREHOLDERS AND DIVIDENDS

6.1 Shareholders

The Republic of Lithuania is the sole shareholder of EPSO-G (100% of the shares). The property and non-property rights of the shareholder, in accordance with Clause 2.3 of the Resolution No 826 *On the Establishment of a Private Limited Liability Company and Investment of State-Owned Capital* of the Government of the Republic of Lithuania of 4 July 2012, are implemented by the Ministry of Energy of the Republic of Lithuania represented by the Minister of Energy of the Republic of Lithuania.

No changes occurred in the structure of the shareholders of EPSO-G in 2021. The share capital of the Company did not change.

On 31 December 2020, the share capital of EPSO-G amounted to EUR 22,482,695 and divided into 77,526,533 ordinary registered uncertificated shares of a nominal value of EUR 0.29 each. All shares are fully paid.

Shareholder of the company	Number of shares	The nominal value per share, EUR	Share capital, EUR	Shareholding, %
The Republic of Lithuania represented by the Minister of Energy of the Republic of Lithuania	77,526,533	EUR 0.29	22,482,695	100

Restrictions on the transfer of securities other than those stipulated in the legal acts are not applied for the shares of EPSO-G.

Neither EPSO-G nor the companies of the Group have issued the convertible securities.

EPSO-G has not acquired own shares. EPSO-G has neither acquired nor transferred own shares during the reporting period. The subsidiaries of the Company have not acquired the shares of the Company either.

The shareholder of EPSO-G does not have special rights of control other than those stipulated by the legal acts of the Republic of Lithuania.

Shares of EPSO-G's subsidiaries Litgrid and Amber Grid are traded on Nasdaq Vilnius stock exchange:

Company	ISIN code	Securities	Trading list	Securities manager
LITGRID AB	LT0000128415	LGD1L	BALTIC SECONDARY LIST	SEB Bankas AB
Amber Grid AB	LT0000128696	AMG1L	BALTIC SECONDARY LIST	SEB Bankas AB

Securities of other companies controlled by EPSO-G are not traded on the stock exchange.

6.2 Dividends

On the basis of the decision of the Government of the Republic of Lithuania, until 2022, EPSO-G must pay to the state budget dividends equal to 0.5% of profit available for direct distribution.

This was decided in view of the necessity to allocate sufficient funds for the settlement of financial liability of EUR 217 million to state-owned company Ignitis Grupė (former name Lietuvos Energija) for shares of subsidiary Litgrid. In the second quarter of 2021, EPSO-G made a scheduled repayment of EUR 14.5 million and at the end of the year additionally reduced its financial liability for shares of subsidiary Litgrid to state-owned company Ignitis Grupė by EUR 50 million whereby reducing its debt to EUR 84.1 million.

On the basis of the resolution of the Government of the Republic of Lithuania, in 2021 EPSO-G paid directly to the state budget dividends of EUR 777 thousand for the year 2020 (EUR 773 thousand for the year 2019) at the same time ensuring a sustainable financial position of the Group when preparing for works related to the integration of significant synchronisation and regional energy markets and fulfilling financial liabilities to state-owned company Ignitis Grupė for shares of Litgrid.

6.3 Dividend policy

On 7 February 2020, the EPSO-G Board renewed the Dividend Policy of the Group. The adjustments are related to the changes in the corporate governance structure, i.e. the elimination of the Supervisory Board, as well as changes in the legislation governing the payment of dividends. Other key policy provisions have not changed.

The Dividend Policy of EPSO-G that governs the procedure of determining the dividend amount, pay-out and publication on dividends for all companies forming the Group, establishes clear guidelines of expected return on equity and return on investment for the existing and potential shareholders while at the same time ensuring a sustainable long-lasting growth of corporate value, timely implementation of strategic projects that are of great importance for the country, thereby gradually strengthening confidence in the entire energy transmission and exchange Group of companies.

The Dividend Policy of EPSO-G directly links the amount of payable dividends with the efficiency of use of the company's equity - the bigger benefit is created by the company for the shareholder, the bigger share of profit it may allocate for the further development and implementation of other important projects.

The Dividend Policy is published on the EPSO-G website in the menu item *Operating Policies*.

6.4 Ratings

The international credit rating agencies have not assigned credit ratings to the EPSO-G Group companies.

7. GOVERNANCE REPORT

In 2021, corporate governance of the holding company EPSO-G was carried out in accordance with the Corporate Governance Guidelines of EPSO-G Group companies adopted by the decision of the sole shareholder of 24 April 2018. They establish the common corporate governance principles, which are applicable to the entire EPSO-G Group companies, the management organizing model, the structure of management, the systems of accountability, and performance supervision and control.

The holding company EPSO-G adhered to the following key corporate governance principles:

- Operational transparency;
- Separation of state ownership and regulatory functions;
- Certainty and sustainability of objectives;
- Proper realization of the shareholders' rights;
- Compliance with the legislative requirements and best practice standards;
- Operational efficiency, sustainability, and competitiveness;
- Responsibility and accountability of the management and supervisory bodies to the shareholders.

EPSO-G observes good governance practices outlined in the recommendations of good governance published by the Organization for Economic Cooperation and Development (OECD), the recommendations of the United Nations and NASDAQ Baltic stock exchange, other internationally recognized standards, and the recommendations of good governance, the main objective of which is to ensure that the state-owned enterprises are managed in an efficient and transparent manner.

In an effort to purposefully build trust in ongoing strategic projects and extremely focus on transparency and accountability, the joint governance quality of EPSO-G Group companies has been rated A. This was evidenced by the Good Governance Index of State-Owned Enterprises (SOE) 2020/2021 published by the Public Enterprise Governance Coordination Centre (GCC). GCC's Good Governance Index is the most comprehensive tool for evaluating the quality of management of all SOEs. The index consists of three main assessment dimensions: transparency, collegial bodies, and strategic planning and implementation.

In terms of the transparency dimension, EPSO-G received the rating A, by identifying areas for improvement in future sustainability practices.

The highest possible rating A+ was awarded for the work of collegial bodies, the process of selection of their members, competence and engagement, and compliance of the functions of the collegial bodies with the principles of good governance.

EPSO-G's strategic planning and implementation received the rating A.

In preparation of the action plan for 2022, the holding company EPSO-G will proceed with further implementation of measures and improvement of the governance quality in line with GCC recommendations with a strong focus on improving sustainability practices.

7.1 The Articles of Association of EPSO-G

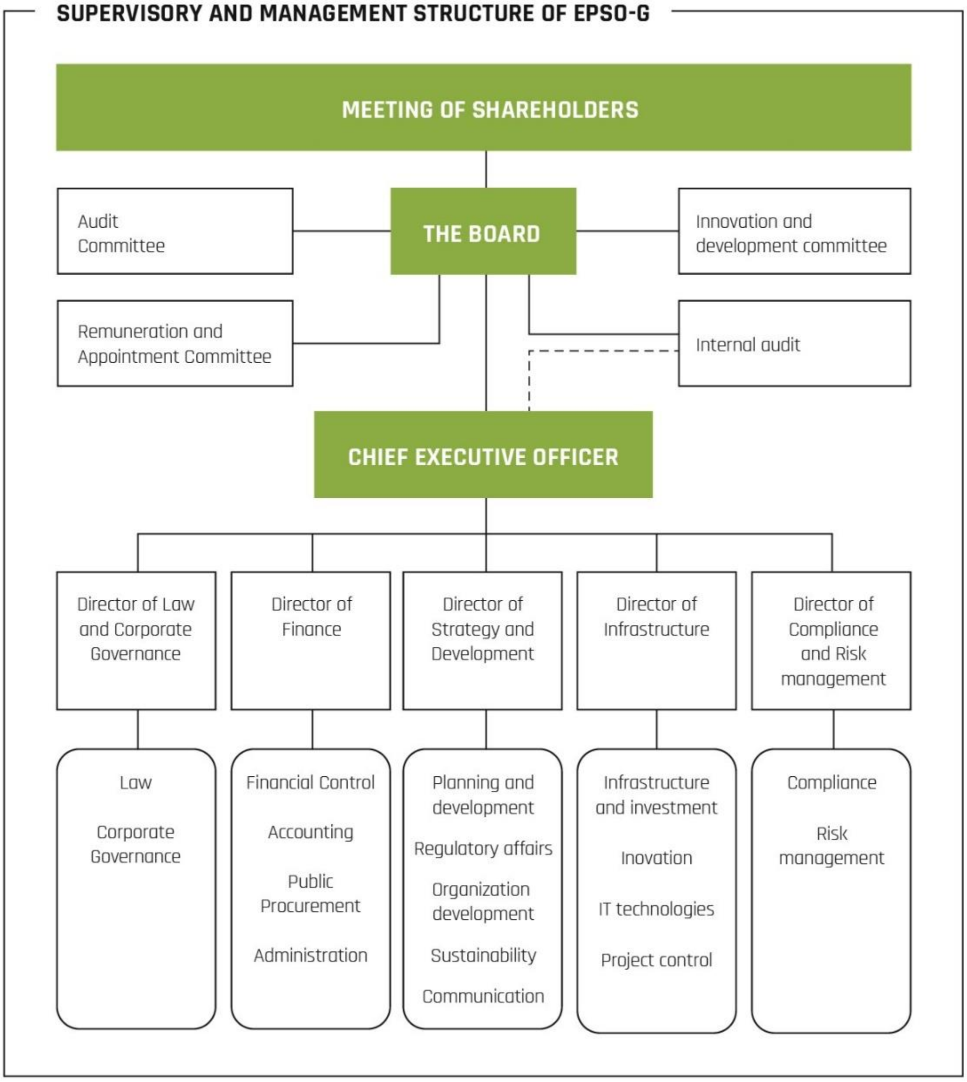
The updated version of the Articles of Association of the holding company EPSO-G was registered on 22 February 2021 with the Register of Legal Entities. Substantial amendments to the Articles of Association are the following: The approval of EPSO-G's 3-year business plan shall fall within the competence of the CEO; It is expressly stated that long-term and short-term, financial and non-financial goals shall be set out in the Group's strategy; in the interests of clarity, it is stated that the CEO of the Company shall ensure the implementation of the Group's strategy within the limits set by legislation.

The current corporate governance model ensures the effectiveness of EPSO-G Group's organizational and management structure, and compliance with the highest standards of governance.

The Articles of Association of EPSO-G are available at the website: www.epsog.lt, in the menu item *Corporate Governance*.

7.2 Supervisory and management system and functions of EPSO-G

The management, supervisory, and organisational structure of EPSO-G ensures an optimal organization of activities, accountability, process efficiency, and responsibility:



EPSO-G Group's corporate governance documentation system consists of the following:

- Corporate Governance Guidelines of EPSO-G Group companies;
- Articles of Association of the holding company EPSO-G and its subsidiaries;
- Corporate Governance Policy;
- Rules of Procedures of the Board of EPSO-G;
- Regulations of the Audit Committee of EPSO-G;
- Regulations of the Remuneration and Nomination Committee;
- Regulations of the Innovation and Development Committee;
- Approved corporate governance documents of the Group companies;
- Documents of the Group companies approved on the basis of corporate governance documents.

All the above documents are available at the website of the holding company EPSO-G: www.epsog.lt.

7.3. General Meeting of Shareholders of EPSO-G

The rights and obligations of the sole shareholder of the holding company EPSO-G are implemented by the Ministry of Energy of the Republic of Lithuania.

The sole shareholder of EPSO-G:

- Adopts decisions on strategic issues of operational activities;
- Approves key operational guidelines (guidelines for corporate governance, collegiate body remuneration, etc.).

In 2021, EPSO-G's sole shareholder took the following key decisions:

Date	Key decisions
21 January 2021	Decision taken to take up new activities - to implement the project *Installation of Electricity Storage Facilities (200 MW)* and to establish a new legal entity Energy Cells UAB.
12 February 2021	Approved the new wording of the Articles of Association of EPSO-G UAB. Set operating budgets for the Board and the Audit Committee for 2021 and beyond.
11 May 2021	Approved the set of EPSO-G's consolidated and company's financial statements 2020. Approved the decision on profit distribution.
23 August 2021	Approved the decision of the EPSO-G's Board to implement the project for the installation of a physical barrier as defined in the Law on the Installation of a Physical Barrier on the Territory of the Republic of Lithuania at the EU External Border with the Republic of Belarus.
22 December 2021	Approved the new wording of the Articles of Association of Energy Cells UAB.

7.4. The Board of EPSO-G

According to the current version of the Articles of Association of EPSO-G, the Board consists of 5 (five) members appointed by the sole shareholder of EPSO-G for a term of 4 (four) years with regard to the recommendations of the Remuneration and Nomination Committee.

The continuous term of office of a member of the Board shall not exceed 2 (two) consecutive terms, i.e. no more than 8 (eight) consecutive years. Members of the Board are elected in accordance with *The Selection Description of a List of Candidates to the Board of the State or Municipal Enterprise and the Candidates to the Board of the State or Municipal Enterprise for the Selection of a Collegial Supervisory or Management Body Elected by the General Meeting of Shareholders*, approved by the Resolution No 631 of the Government of the Republic of Lithuania of 17 June 2015.

In February 2022, Robertas Vyšniauskas, an independent member, was elected Chairman of the Board of EPSO-G. Until then, from March 2019, Gediminas Almantas held this position, who will continue to serve on the Board until the end of its term in 2023.

The Board of EPSO-G:

- Forms a common corporate governance policy of the Group companies;
- Is responsible for the organizational and systematic development and management of the Group within the scope of its competence;
- Carries out the monitoring of the implementation of the activities of the Group companies, their strategies, operational objectives and plans, the documents approved by the Board and other decisions in the Group companies;
- Carries out the supervision and control of the management of the strategic projects carried out by the Group companies that are included in the national energy strategy, the projects of particular national interest, the economic projects of great state importance.
- Performs supervisory functions as provided for in the Law on Companies of the Republic of Lithuania.

During the reporting period, 21 (twenty-one) meetings of the Board were held, in which 2 (two) decisions were adopted by a written vote. During the reporting year, 2 (two) strategic sessions and 2 (two) cooperation sessions were arranged.

The composition of the Board of EPSO-G as of 31 December 2021:

Full name	Position held	Term of office	Other positions	Education
Robertas Vyšniauskas	Independent member, chairman (from February 2022)	From 20 March 2019	CEO of Valstybės Investicinis Kapitalas UAB; the member of the Board of Vilniaus Vystymo Kompanija UAB	Mykolas Romeris University, Master of EU Law.
Gediminas Almantas	Independent member	From 20 March 2019	Member of the Board of the Lithuanian Airports	Master's degrees in Law from Vilnius University and the University of Bern, Switzerland; Industrial PhD fellow, Business Negotiation Ethics at Copenhagen Business School.
Dainius Bražiūnas	Member	From 20 March 2019	Ministry of Energy of the Republic of Lithuania, Head of the Energy Security Group; the member of the Board of Klaipėdos Nafta AB	Vilnius Gediminas Technical University, Bachelor of Energy Sciences.
Gediminas Karalius	Member	From 20 March 2019	Ministry of Energy of the Republic of Lithuania; Senior Advisor of Energy Security Group;	Mykolas Romeris University, Master of EU Law; ISM University of Management and Economics, Master of Science in Management and Business

Attendance and key decisions of the Board meetings in 2021:

● Present
○ Absent

No	Meeting date	Gediminas Almantas	Dainius Bražiūnas	Gediminas Karalius	Tomas Tumėnas*	Robertas Vyšniauskas
1.	January 8	●	●	●	●	●
2.	January 15	●	●	●	●	●
3.	January 29	●	○	●	●	●
4.	February 19	●	●	●	●	●
5.	February 26	●	●	●	●	●
6.	March 19	●	●	●	●	●
7.	April 2	●	●	●	●	●
8.	April 16	●	●	●	●	●
9.	May 14	●	●	●	●	●

No	Meeting date	Gediminas Almantas	Dainius Bražiūnas	Gediminas Karalius	Tomas Tumėnas*	Robertas Vyšniauskas
10.	May 28	●	●	●	●	●
11.	July 2	●	●		●	●
12.	August 4	●	●	●	●	●
13.	August 23		●	●	●	●
14.	August 30	●	●	●	●	●
15.	September 17	●	●	●	●	●
16.	September 24	●	●	●	●	●
17.	October 29	●	●	●	●	●
18.	November 10	●	●	●	●	●
19.	November 26	●	●	●	●	●
20.	December 2	●	●	●	N/A	●
21.	December 21	●	●	●	N/A	●

*On 1 December 2021, Mr. T. Tumėnas, the member of the Board of EPSO-G submitted a resignation from the position of the members of the Board of the Company as from 16 December 2021 (up until then, he was removed) subject to mandatory legal requirements related to the requirements of the EU's Third Energy Package and to the new position of Mr. T. Tumėnas.

Key decisions of the Board 2021:

January 2021	February 2021	March 2021	April 2021	May 2021	July 2021
January 8 Decision taken on voting at the Extraordinary General Meeting of Shareholders of Litgrid January 15 Decision taken on EPSO-G's new activities in the electricity storage project January 29 Decision taken on the approval of the new organizational structure of the Company, internal audit	February 19 Decisions taken on pricing of management consulting, appointment of a member of the Board Tetas to the IDC, voting at the Extraordinary General Meeting of Shareholders of Tetas took place February 26 The updated Group's Project Management and Group's Remuneration, Performance Assessment, and Training Policies	March 19 Decision taken on the implementation of the CEO's 2020 performance targets, the application of the Group's policies to Energy Cells resolved	April 2 Operational targets for 2021 set, a decision to assess the achievement of 2020 targets of the Head of Internal Audit and to set the targets for 2021 taken April 16 An updated list of posts and organizational structure of EPSO-G approved; the 2020 report on the implementation of EPSO-G Group's business strategy	May 14 Decision taken on the voting at the Extraordinary General Meeting of Shareholders of Litgrid, the amendment of the mutual conditions between the Company and Tetas resolved May 28 Actions to implement the recommendations made by the internal audit of human resources approved	July 2 The Company's budget updated, the Group's strategy for 2030 approved, the updated Integrated Planning and Monitoring Policy adopted, an a decision taken on the Company's joining the association INFOBALT

activity plan by 2023, and the group-level risks list	approved, conclusion of a cashpool contract with Litgrid resolved		for 2017-2025 approved; the voting at Ordinary Shareholders' Meetings of the subsidiaries resolved; the Company's and consolidated annual report and the Company's and consolidated annual financial statements, profit distribution project approved, and the Ordinary General Meeting of Shareholders initiated.		

August 2021	September 2021	October 2021	November 2021	**December 2021**
August 4 The list of risks and the plan of management measures of the Group reviewed and updated August 23 Decision taken on the implementation of the project for the installation of a physical barrier as defined in the Law on the Installation of a Physical Barrier on the Territory of the Republic of Lithuania at the EU External Border with the Republic of Belarus August 30 Decisions of the sole shareholder of Tetas regarding the appointment of the members of the Board adopted, taking into account the physical barrier installation project, the organizational structure of the Company was updated, and voting at the Extraordinary General Meeting of Litgrid took place	September 17 Amendment of mutual conditions between the Company and Tetas resolved September 24 The strategic direction of corporate governance approved, and the Group's Integrated Planning and Monitoring Policy updated	October 29 The Group's Share Sale Transactions, Environmental, Occupational Safety and Health Policies approved, decisions taken on setting salary ranges, voting at the Extraordinary General Meeting of Litgrid shareholders took place, decisions taken on concluding a cashpool contract with Energy Cells	November 15 The updated draft strategy for the EPSO-G Group companies by 2030 approved November 26 Decisions taken to amend the Articles of Association of Energy Cells, voting at the Extraordinary General Meeting of Litgrid took place, the Group's Equal Opportunities and Sustainability Policies approved, decision taken on the Board's action plan for 2022	December 2 Process of replacing the CEO resolved December 21 Decision taken to amend the cashpool contract with Baltpool, the list of risks and the plan of management measures for 2022 approved, activity plans of the RNC, AC and IDC approved, the Group's Remuneration, Performance Assessment, Training, and Procurement Policies updated, the list of compliance priority areas approved

7.5. Remuneration and Nomination Committee of EPSO-G (RNC)

Under the current Articles of Association of EPSO-G, the Remuneration and Nomination Committee shall be composed of at least 3 (three) members appointed by the Board for a period of up to 4 (four) years by a reasoned decision. The nomination of members of the Remuneration and Nomination Committee ensures that this Committee has at least 1 (one) independent member. The continuous term of office of a member of the Remuneration and Nomination Committee shall not exceed two consecutive terms of office.

In 2021, Mr. Gediminas Almantas, Mr. Dainius Bražiūnas, and the Chair Mrs. Jolita Lauciuvienė served on the Remuneration and Nomination Committee.

The Remuneration and Nomination Committee of EPSO-G:

- Assists in carrying out the selections of candidates to the members of the bodies in all companies of the Group;
- Provides the companies of the Group with recommendations regarding the nomination of the members of the management bodies, entry into contracts with them and setting remuneration;
- Provides recommendations regarding the documents of the corporate governance of the Group of remuneration of the employees of the collegiate bodies, the companies of the Group, assessment of their activities;
- Provides recommendations on the Group's collegial bodies, management, executives, and planning system of substitutions of critical positions;
- etc.

10 (ten) meetings of the Remuneration and Nomination Committees were held in 2021.

The composition of the Remuneration and Nomination Committee of EPSO-G as of 31 December 2021:

Full name	Position held	Term of office	Other positions	Education
Jolita Lauciuvienė	Independent member, Chair	From 20 May 2019	Personalo Vertė Verslui UAB, Director	Vilnius University, Master of Economics; Lithuanian University of Educational Sciences, Bachelor of Psychological Sciences.
Dainius Bražiūnas	Member	From 29 March 2019	Ministry of Energy of the Republic of Lithuania, Head of the Energy Security Group; the member of the Board of Klaipėdos Nafta AB	Vilnius Gediminas Technical University, Bachelor of Energy Sciences.
Gediminas Almantas	Independent member	From 29 March 2019	Member of the Board of the Lithuanian Airports	Master's degrees in Law from Vilnius University and the University of Bern, Switzerland; Industrial PhD fellow, Business Negotiation Ethics at Copenhagen Business School.

Attendance and key decisions of the Remuneration and Nomination Committee in 2021:

● - Present
○ - Absent

No	Meeting date	Jolita Lauciuvienė	Gediminas Almantas	Dainius Bražiūnas
1.	January 22	●	○	●
2.	February 10	●	●	●
3.	March 3	●	●	●
4.	April 7	●	●	●
5.	May 5	●	●	●
6.	August 30	●	●	●
7.	September 8	●	●	●
8.	October 6	●	●	●

9.	November 16	●	●	●
10.	December 8	●	●	●

Key decisions of the Remuneration and Nomination Committee 2021:

January 2021	February 2021	March 2021	April 2021	May 2021
January 22 Recommendation to the Board of Litgrid regarding candidates for the position of Litgrid CEO made	February 10 Recommendation on the Group's Remuneration, Performance Assessment, and Training Policies made, the process of self-assessment of the activities of collegial bodies discussed, issues of measuring the value created by collegial bodies discussed, and the results of the Group's employee engagement survey examined.	March 3 Recommendations on the activities and composition of the collegial bodies of the Group companies made, self-assessment was performed, RNC activity report approved	April 7 Recommendation on the proposed candidate for the members of the Board of GET Baltic made, the turnover of top level management discussed	May 5 The report on the Employee Policy and the Policy of Managing Interests of Members of Collegial Bodies, Executives and Employees (to the extent that it relates to the independence criteria of collegial bodies and their evaluation) discussed, the areas for improvement identified in the Group's employee engagement survey resolved

August 2021	September 2021	October 2021	November 2021	December 2021
August 30 Recommendation regarding the Board members to the Board of Tetas made	September 8 Issues related to the executive remuneration system and project payment discussed	October 06 Recommendation on the analysis / competitiveness of remuneration of the remuneration levels of the Group companies and remuneration levels in the market made	November 16 Recommendation on the competency matrix of the Board of Energy Cells, on the factors reducing the results of the target assessment	December 8 The principles of remote working of employees abroad examined, recommendation on the Group's Remuneration, Performance Assessment, and Training Policies, and the selection process for the EPSO-G's CEO discussed

7.6. Audit Committee of EPSO-G (AC)

According to the current version of the Articles of Association of EPSO-G, the Audit Committee shall be composed of at least 3 (three) members appointed by the sole shareholder of EPSO-G for a maximum period of 4 (four) years, subject to the recommendations of the Remuneration and Nomination Committee (if any). The continuous term of office of a member of the Audit Committee shall not exceed 2 (two) consecutive terms. Only an independent member may be elected to chair the Audit Committee.

During the reporting period, the Audit Committee had two independent members, Mr. Gediminas Šiušas and Mr. Robertas Vyšniauskas, as well as Mr. Gediminas Karalius, a member of the EPSO-G Board nominated by the Ministry of Energy.

The Audit Committee of EPSO-G:

- Carries out the monitoring of the preparation and auditing of the financial statements of the Group companies;
- Is responsible for the ensuring of the observance of the independence and objectivity principles by the auditors of the Group companies and of audit firms;
- Is responsible for the monitoring of effectiveness of the internal control of the Group companies, compliance and risk management, and internal audit systems, activity processes;
- Is responsible for the control of provision of non-audit services by the auditor of the Group companies and / or audit firm; evaluates the transactions concluded by the Group companies, the shares of which are admitted to trading on a regulated market, with the parties concerned.

18 meetings and 6 votings in writing of the Audit Committee took place during the reporting period.

The composition of the Audit Committee of EPSO-G as of 31 December 2021:

Full name	Position held	Term of office	Other positions	Education
Gediminas Šiušas	Independent member, Chairman	From 22 October 2020	Convera Lithuania UAB, Head of Accounting	Stockholm School of Economics in Riga, Bachelor of Economics and Business Administration; Vilnius University, Bachelor of Management and Business Administration;
Gediminas Karalius	Member	From 22 October 2020	Ministry of Energy of the Republic of Lithuania; Senior Advisor of Energy Security Group	Mykolas Romeris University, Master of EU Law; ISM University of Management and Economics, Master of Science in Management and Business
Robertas Vyšniauskas	Independent member	From 22 October 2020	CEO of Valstybės Investicinis Kapitalas UAB; the member of the Board of Vilniaus Vystymo Kompanija UAB	Mykolas Romeris University, Master of EU Law.

Attendance and key decisions of the Audit Committee in 2021:

- Present
- Absent

No	Meeting date	Gediminas Šiušas	Gediminas Karalius	Robertas Vyšniauskas
1.	January 7	●	●	●
2.	January 25	●	●	●
3.	February 5	●	●	●
4.	February 11	●	●	●
5.	February 17	●	●	●
6.	February 22	●	●	●
7.	March 1	●	○	●
8.	March 10	●	●	●
9.	March 15	●	●	●
10.	March 17	●		●
11.	March 29	●	● ●	●
12.	April 12	●	●	●
13.	April 14	●	●	●
14.	May 3	●	●	●
15.	May 20	●	●	●
16.	June 1	●	●	●
17.	June 14	●	●	●
18.	July 29	●	●	●
19.	August 23	●	●	●
20.	September 13	●	●	●
21.	October 25	●	●	●
22.	November 15	●	●	●
23.	December 6	●	●	●
24.	December 16	●	●	●

Key decisions of the Audit Committee 2021:

January 2021	February 2021	March 2021	April 2021	May 2021	June 2021
January 7 The addition of a new risk to Litgrid's list of risks and the plan of management	February 22 AC's opinions on Litgrid and Amber Grid's intended transactions with a related party	March 15 AC's opinion confirmed that after AC's review of the decisions of	April 12 The addition of EPSO-G's Centralized Internal Audit Subdivison with the position of the Chief	May 3 Reports on the results of risk management, compliance and internal audits	June 1 AC's opinion on Litgrid's intended transaction with

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measures of 2021 approved January 27 The addition of new risks to Litgrid's list of risks and the plan of management measures of 2021 approved and recommendations for monitoring risk management measures and indicators made; AC's opinion on Litgrid's intended transaction with a related party approved; the internal audit plan for 2021-2023 approved; the group-level risk list for 2021 approved	approved; recommendation for Energy Cells to join the Group policies approved	the selected Group companies in the second half-year 2020 did not reveal any discrepancies March 17 Opinion on separate and consolidated financial statements of Litgrid, Baltpool, Tetas, and GET Baltic for 2020 approved. March 29 Opinion on separate and consolidated financial statements of Amber Grid for 2020 approved. Report of the Head of Internal Audit on the achievement of 2020 goals and 2021 goals approved	Internal Auditor approved April 14 Opinion on separate and consolidated financial statements of EPSO-G for 2020 approved	for Q1 2021 discussed	a related party approved June 14 Amendments to EPSO-G, Tetas, and Amber Grid's lists of risks and the plans of management measures of 2021 approved

July 2021	August 2021	September 2021	October 2021	November 2021	December 2021
July 29 Amendments to EPSO-G's list of risks and the plan of management measures of 2021 approved; the new wording of the draft guidelines for the implementation of the Centralized Internal Audit in the Group approved	August 23 AC's opinion on GET Baltic's intended transaction with a related party of Amber Grid approved	September 13 Recommendation on selecting the audit firm PricewaterhouseCoopers UAB to audit 2021-2022 financial statements of Energy Cells made; AC's opinion on Litgrid 's intended transaction with a related party approved	October 25 Amendments to Litgrid's list of risks and the plan of management measures of 2021 approved; AC's opinion on Amber Grid's intended transaction with a related party approved	November 15 AC's opinion confirmed that after AC's review of the decisions of the selected Group company in the first half-year 2021 did not reveal any discrepancies; Amber Grid and Baltpool's lists of risks and the plans of management measures of 2022 approved	December 06 Lists of compliance priority areas of EPSO-G, Amber Grid, Litgrid, Baltpool, and Tetas approved; Internal Audit of 2022-2024 approved; AC's draft action plan for 2022 approved; Litgrid, Tetas, GET Baltic, Energy Cells, and EPSO-G's lists of risks and the plans of management measures of 2022 approved December 16 2 AC's opinions on Litgrid's intended transactions with a related party approved

7.7. Innovation and Development Committee (IDC)

In line with the Articles of Association of EPSO-G, the EPSO-G Board has the right to set up temporal (*ad hoc*) or permanent specialized committees tasked with examining and making proposals and recommendations on areas and issues falling within the competence of such committees to the EPSO-G Board or other bodies of the Group or Group companies in order to ensure an effective internal control system and operational risk management at the Group level.

The Innovation and Development Committee is an advisory body to the EPSO-G Board on innovation, development and efficiency. It acts in the same way as the Audit Committee and the Remuneration and Nomination Committee - at the Group level, i.e. may submit conclusions, opinions, recommendations and proposals to the Board of the competent Group company on issues related to the functions and responsibilities of the Innovation and Development Committee.

The Board approves and amends the regulations and the action plan of the Innovation and Development Committee, and forms tasks for the Committee.

The purpose of forming the Innovation and Development Committee: (i) increasing focus on innovations, search for new activities of the Group, operational efficiency; (ii) synergies of innovative ideas at the Group level and coordination of innovation directions; (iii) greater engagement of independent members of the Board in the activities of the Group, use of their knowledge and experience; (iv) the members of the Innovation and Development Committee shall act as ambassadors for innovation, development and efficiency in the Group companies.

The composition of Innovation and Development Committee and its changes as of 31 December 2021:

Full name	Position held	Term of office	Other positions	Education
Sigitas Žutautas	Independent member, Chairperson*	From 29 November 2019	Independent member of the Board of Amber Grid AB	Vilnius University, Bachelor of Economics and Banking, Master of Accounting and Auditing. Baltic Institute of Corporate Governance, studies of a professional board member
Tomas Tumėnas	Independent member	From 29 November 2019 to 16 December 2021**	Independent member of the Board of EPSO-G; CFO of Limedika UAB; the member of the Board of Linas Agro Group AB	Vilnius University, Master of Science in Financial Management; Aalborg University, Economics of International Business; Manchester Business School,
Artūras Vilimas	Independent member	From 1 June 2020	Independent member of the Board of Litgrid AB	Kaunas University of Technology (KTU), Engineering Degree
Gediminas Mikaliūnas	Independent member	From 1 June 2020	Independent member of the Board of Baltpool UAB, Head of Automation and Transformation of IT Operations at Barclays IT	Baltic Management Institute, Executive MBA programme; Vilnius University, Master of Information Technology
Nedas Karklius	Independent member	From 1 March 2021	Independent member of the Board of Tetas UAB; the car wash franchise owner and CEO of Švaros Broliai UAB; the owner and CEO of Ultraprojektai UAB.	Baltic Institute of Corporate Governance (BICG), the Board Member Education program; Baltic Management Institute (BMI), Master's studies in Management; Vilnius University, Master of Law; Kaunas University of Technology (KTU), Master of Management.

* The Chairman of the Innovation and Development Committee as from 6 January 2020, re-elected on 17 June 2020.

** On 1 December 2021, Mr. T. Tumėnas, the member of the Board of EPSO-G submitted a resignation from the position of the members of the Board of the Company as from 16 December 2021 (up until then, he was removed) subject to mandatory legal requirements related to the requirements of the EU's Third Energy Package and to the new position of Mr. T. Tumėnas. At the same time, Mr. T. Tumėnas' term at the IDC expired.

No	Meeting date	Sigitas Žutautas	Tomas Tumėnas	Artūras Vilimas	Gediminas Mikaliūnas	Nedas Karklius
1.	January 19	●	●	●	●	-
2.	February 12	●	●	●	●	-
3.	March 17	●	●	●	●	●
4	March 23	●	●	●	●	●
5.	April 7	●	●	●	●	●

No	**Meeting date**	Sigitas Žutautas	Tomas Tumėnas	Artūras Vilimas	Gediminas Mikaliūnas	Nedas Karklius
6.	May 7	●	●	●	●	●
7.	June 16	●	●	●	●	●
8.	September 14	●	●	●	●	●
9.	November 4	●	●	●	●	●
10.	November 24	●	●	●	●	●
11.	December 17	●	-	●	●	●

Key decisions of the Innovation and Development Committee 2021:

January 2021	February 2021	March 2021	April 2021	May 2021
January 19 The report on the status of the innovation project portfolio reviewed; insights following the analysis of the study RAIDA 2050 and P2G	February 12 The Group's digital transformation strategy discussed; the Group's innovation process reviewed	March 17 Discussion on the activities of the natural gas exchange March 23 The directions and priorities of Baltpool development discussed; the innovation dimension in the strategies of the Group companies discussed	April 07 A new model of innovation management in the Group companies discussed; IDC's annual activity report approved; the status report of the innovation project portfolio revised	May 7 Recommendation on the incentives of innovation project teams accepted

June 2021	September 2021	November 2021	December 2021
June 17 The plans of Tetas UAB in solar energy discussed. The progress of the digital transformation program reviewed. The financial promotion of innovation and related regulation discussed. Presentation of the results of TEPCO study Technical and Economic Analysis of Synthetic Inertia for HVDC Links, Battery Energy Storage Systems or RES Generation Units Such as Wind and Solar by Grid Forming Convertor Control in Baltic States.	September 14 The integration of Agile methodologies and the tools designed for this discussed. The choice of technological asset management model and measurement indicators discussed.	November 4 The functional action plan for innovations discussed, proposals for corrections presented. The report on innovation portfolio status reviewed. November 24 The functional action plan for innovations reviewed. IDC's action plan for 2022 approved. The recommendation to the Board for approval submitted. The schedule of IDC's meetings for 2022 approved.	December 17 The current situation and plans of the development function in the Group companies discussed. Investment opportunities discussed.

7.8. Chief Executive Officer

The Chief Executive Officer of EPSO-G is appointed by the Board of the Company taking into account the recommendations of the Remuneration and Nomination Committee. The Chief Executive Officer is accountable to the Board.

Mr. Juozaponis is the CFO of EPSO-G, and since January 2022, the acting CEO of the holding company EPSO-G. He took office after Mr. Rolandas Zukas, the former head of EPSO-G, resigned from the position of the CEO. Mr. A. Juozaponis will hold this position until the new head of the company is appointed.

The competence of the CEO does not differ from the competence of the head of the company established by the Law on Companies, except for the additional competence provided for in the Articles of Association.

The Chief Executive Officer of EPSO-G:

- Organizes and controls the implementation of the Group's activities strategy and ensures the implementation of the Company's strategy, which is a part of the Group's strategy, and the implementation of the decisions of the General Meeting of Shareholders and the Board of the Company;
- Controls the activities of the subsidiaries, makes suggestions and conclusions to the EPSO-G Board regarding the organization of the Group's activities and development thereof;
- Organizes and ensures the monitoring of the implementation of the strategy, long-term (strategic), short-term (tactical) objectives of the subsidiaries, the activities assessment, makes suggestions to the EPSO-G Board regarding the activities improvement;
- etc.

7.9 Additional information on the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, and the Head of the Internal Audit:

Robertas Vyšniauskas (Chairman of the Board from February 2022) – Mr. Vyšniauskas holds the position of the Chairman of the EPSO-G Board from February 2022. Mr. Vyšniauskas also holds the position of the General Manager at the company Valstybės Investicinis Kapitalas (State Investment Capital), is the member of the Board of the company Vilniaus Vystymo Kompanija (Vilnius Development Company), and is a consultant in the field of corporate governance, law and taxes.

Gediminas Almantas (Chairman of the Board until February 2022) – Mr. Almantas held the position of the Chairman of the Board of EPSO-G from 30 March 2019. Mr. Almantas is an independent member of the Board of the state enterprise Lithuanian Airports, the member of the Compliance and Mediation Committee of the International Federation of Red Cross and Red Crescent Societies, the Chairman of the Lithuanian Red Cross Society and the Chairman of the Board of the Open Lithuania Foundation, the member of the Procurement and Investment Policy Committee of the Lithuanian National Radio and Television.

Acting Chief Executive Officer Algirdas Juozaponis holds this position from 3 January 2022. Mr Juozaponis is the Chief Financial Officer of EPSO-G UAB from 15 October 2015, the member of the Board of Litgrid AB from 20 April 2020 and the Chairman of the Board from 18 August 2020. From 20 April 2020, he holds the position of the Chairman of the Board of Amber Grid AB. Mr. Juozaponis holds a Master's degree in Banking from Vilnius University, he is a professional member of the Board of the Baltic Institute of Corporate Governance.

Mr. Žydrūnas Augutis (Chief Financial Officer) - Mr. Augutis has more than 20 years of experience in financial accounting and taxation and holds the position of the Chief Financial Officer of EPSO-G from 29 April 2019. Before joining EPSO-G, he held the position of the Chief Financial Officer of the subsidiary Litgrid for two years, was the head of the Accounting Department of Lietuvos Dujos AB (following the separation of the transmission activities from it, Amber Grid was established). In 2017-2019, Mr. Augutis was a member of the Board of EPSO-G's subsidiary TETAS. Mr. Augutis holds a Master's degree in Accounting and Auditing in Economics from Vilnius University.

Ms. Rasa Juodelytė (Head of Internal Audit) holds the position of the Head of the EPSO-G Centralised Internal Audit Unit from 2 January 2017. Before starting to serve in this position, she was responsible for the Internal Audit Unit's activities at the subsidiary Litgrid for four years; she held the same position at the international company of wholesale and retail trade in petroleum products. In 2020, Ms. Juodelytė was also a member of the Audit and Risk Committee of the state enterprise Ignalina Nuclear Power Plant. Ms. Juodelytė holds a Master's degree in Accounting and Auditing from Vilnius University.

The CVs of the members of the Board, the Committees and the Chief Executive Officer of the Company are published on the website of EPSO-G at www.epsog.lt.

7.10 Operating policies

Good governance practices in EPSO-G Group were implemented during the reporting period through the application and continuous targeted improvement of the operating policies approved by the Board, applicable to all the Group companies.

The operating policies of EPSO-G Group are intended to implement a consistent and effective organizational management system helping the employees in successful implementation of important strategic projects and transparent and effective benefit creation for both the people of the country and the business.

To ensure the efficiency of the operating policies, all companies of the Group annually reports on the progress of implementation of the operating policies to the Board of the holding company EPSO-G. Progress reports on the implementation of the policies of the individual Group companies are presented to the Board of a respective company as well.

During the reporting period, special attention was paid to reinforcing sustainability practices - new policies on the environment, occupational safety and health, and equal opportunities were approved. The Sustainability (former Social Responsibility) and Procurement Policies have been substantially revised. In addition, in implementing mandatory legal requirements, a new Policy for the Conclusion of the Group's Share Sale Transactions was prepared.

During the reporting period, the Group's policy framework was continued to be improved through other updates of the policies.

The policies or summaries thereof are published on EPSO-G website www.epsog.lt in the menu item *Operating Policies*.

7.11. Functional area governance model

The holding company EPSO-G employs a functional leadership model that, based on international practice, creates the greatest value for the Group companies.

Using the functional leadership model, the holding company EPSO-G:

- Mostly focuses on operational efficiency, shared resources, and centralized services;

- Allocates resources and enhances competence for key, long-term value creation activities - strategy development, investment management, and innovation;
- Defines the policies of the Group companies, standardizes the core processes of the Group;
- Promotes the sharing of good practices among the patronized companies and supports initiatives to improve performance.

Effectiveness of the governance model

The effectiveness of the governance model is measured by EPSO-G through an employee engagement survey. Based on the survey results, areas for improvement are identified and a further action plan for the development of the organization is adjusted accordingly.

7.12 Self-assessment and results of the activities of the collegial supervisory and management bodies

With respect to the guidelines prepared by the Remuneration and Appointment Committee, at the beginning of 2022, the governing bodies of the holding company EPSO-G and its subsidiaries carried out the self-assessment of their activities of 2021.

The summarized assessments of the members of each collegial body were discussed during the meeting of each collegial body. The fields of activity to be improved were identified and the directions for improvement of the operational processes were established by drawing up a coherent plan of actions and tasks for the year 2022.

The evaluation of its performance carried out by collegial bodies was coordinated and summarised by the Remuneration and Appointment Committee of EPSO-G.

The Remuneration and Appointment Committee identified the following key areas for improvement for 2022:

- Enhancement of cooperation between the collegial bodies of the companies of the EPSO-G group.

7.13 Information on compliance with the Code of Conduct

The holding company EPSO-G complies with the provisions of the Corporate Governance Code of the Companies listed on NASDAQ OMX Vilnius (available at: www.nasdaqbaltic.com). The Code applies to the extent that the Articles of Association of the Company do not provide otherwise. The Company discloses its compliance with the provisions of the Corporate Governance Code in Annex II to this Annual Report.

7.14 Information on Compliance with Transparency Guidelines

The EPSO Group complies with Resolution No 1052 of the Government of 14 July 2010 *On the Approval of the Description of the Guidelines for Ensuring the Transparency of the Activities of State-Owned Enterprises* (the "Transparency Guidelines"). The application of the Transparency Guidelines is mandatory for the holding company EPSO-G.

In order to ensure compliance with the Transparency Guidelines at the EPSO-G Group, the Business Transparency and Communication Policy is effective at the Group, which considers in detail the requirements set forth in the Transparency Guidelines, and defines their applicability to the companies of the group.

The implementation of the Transparency Guidelines is largely ensured through disclosure of information in the annual report and on the official websites, where information is disclosed in the format that is acceptable and comprehensible to the stakeholders.

Structured information on the implementation of the Transparency Guidelines is presented in Annex 1 to this annual report.

8. REPORT ON THE IMPLEMENTATION OF THE REMUNERATION POLICY

We create an open, progressive organization guided by the objectives of sustainable development, where the professional partnership between an employer and employees prevails, where everyone has opportunities for self-realization, grows together with the organization and is able to take responsibility for their decisions and actions.

In our activities we are guided by these values: professionalism, cooperation and progress.

When implementing the strategic and business goals set by the shareholder: to create an energy transmission and exchange platform interconnected with the European Union countries and enabling sustainable and efficient energy exchange for regional consumers, and thus increasing the competitiveness of the country's business and the well-being of Lithuanian people, we seek to attract and retain competent, responsible professionals following the provisions of the Group's Code of Conduct and reaching their targeted goals.

We constantly foster employee improvement and upgrade of their skills. We develop employees' professional (functional) and general (values-based) competencies. We pay much attention to the development of managerial competencies.

We set goals related to the strategy for employees and evaluate their achievement. We encourage all employees to propose and implement innovations in their activities: from innovative work methods and tools that facilitate everyday processes to breakthrough innovations that lead to new activities.

We operate efficiently, ensure optimal operating costs and investments based on the best possible cost-benefit ratio, and we are responsible in managing the remuneration budget. We pay employees a performance-based salary, offer incentives for achieving goals that require additional efforts.

8.1 Formation and monitoring of the Remuneration and Nomination Policy

The Board of the Company is responsible for the implementation and supervision of the Remuneration Policy of EPSO-G.

In order to ensure the proper formulation, monitoring and management of the remuneration fund, EPSO-G Group has a three-member Remuneration and Nomination Committee, the majority of which are independent members.

When performing this function, the Remuneration and Nomination Committee of EPSO-G:

- Provides recommendations regarding the terms and conditions of the contracts entered into with the members of the Board and / or heads, including the maximum amount of the remuneration for these persons, the maximum annual operating budget for their remuneration;
- Prepares the main criteria of the assessment of the activities of the heads of the companies of EPSO-G Group and the remuneration guidelines applicable when establishing the remuneration for the activities in the Board, the Remuneration and Nomination Committee, the Audit Committee, other specialized committees, if any are formed, of the subsidiaries of the Company and the Group. The committee reviews their implementation at least once a year;
- Makes suggestions to the management bodies regarding the individual salaries for the management personnel and the members of bodies in order they would meet the remuneration guidelines and the assessment of the activities of these persons;
- When performing this function, the Remuneration and Nomination Committee is informed about the total remuneration received by the management personnel and the members of the bodies from the other related companies;
- Ensures that the individual salaries paid to the management personnel and/or to the members of the governing body would be in proportion with the salary of other management personnel of the Company and/or of the Group companies or of the members of the bodies and of other employees of the subsidiaries of the Company and/or the Group companies;
- Provides recommendations regarding the policy established by the Board of payment for the work of the heads, deputy heads and other management personnel of the subsidiaries and sub-subsidiaries of the Company, also regarding the review of the policy and its implementation at least once a year;
- Monitors and provides conclusions on how the Company and the companies of EPSO-G Group comply with the valid provisions concerning the publication of information related to salaries;
- Provides the management personnel of the companies and/or the members of the bodies the general recommendations regarding an amount and structure of the salaries of these employees and/or members of bodies, also the recommendations to monitor an amount and structure of their salaries based on the information provided by the Company and the subsidiaries of the Group companies;

- Collects and systematises all information collected and received in the spheres of its competence, and on the basis of such information provides recommendations to the relevant body of the Group companies and, when necessary, directly to the Supervisory Board;

- Once a year the Remuneration and Nomination Committee reports in writing to the Board about its activities covering one calendar year;

- The Board and other bodies of the Company and / or of the subsidiaries of the Group companies shall have the right to apply to the Remuneration and Nomination Committee and to provide conclusions on the specific issues raised by them if such the issues fall within the Competence of the Remuneration and Nomination Committee.

8.2 Remuneration Policy

The uniform remuneration policy based on the principles of responsibility and accountability has been introduced in the companies of EPSO-G Group. The aim of the policy: effective management of the salary costs of the Group and creation of motivational incentives in order an amount of salary would depend directly on the implementation of the objectives pursued by the Company and each employee.

This means that the performance of the employee is considered when determining the remuneration. Therefore, the remuneration of the employees of EPSO-G consists of two components, i.e. fixed and variable. The component depends on the responsibility level related to the position held, which is determined according to the methodology applied in the international practice. The variable pay component of remuneration is paid when the individual objectives established during the annual assessment are achieved and the companies report to the shareholder and the Board for the achievement of the annual objectives of the company.

Based on international good governance practice, the Remuneration Policy of EPSO-G is approved or changed by the Board only after the Remuneration and Nomination Committee, which includes independent members, provides its recommendations.

All companies of the Group are subject to the same principles of the Remuneration Policy:

- The identical principles of the Remuneration Policy are applied for all employees (including executives).
- The remuneration fund is approved by the Boards of the companies. The Remuneration and Nomination Committee monitors whether there is a balanced control of salary costs with motivation of the employees who are properly performing their duties.
- The remuneration of the executives and employees of EPSO-G consists of two components: fixed and variable.
- The fixed component depends on the level of responsibility of the position. It is determined according to a methodology recognized and widely used in international practice.
- The variable pay component is paid when individual goals set during the annual performance assessment are attained, and the company reports to the Board for the achievement of annual goals.
- Annual goals for executives and employees are set in accordance with the Employee Performance Assessment Policy of EPSO-G Group companies.
- The variable pay component of remuneration is not paid if performance results do not meet the expectations according to the established evaluation criteria and the financial results are assessed as unsatisfactory.
- The variable pay component of remuneration is not a bonus. It cannot exceed 20-30 percent of the fixed component of remuneration.
- The amount of variable pay component of remuneration is estimated in the company's budget and recorded in the financial result, which is audited and made public.
- The variable pay component of remuneration of the company's CEO depends on the implementation of the goals set out in the company's strategy, which are announced publicly on the company's website.
- The variable pay component of remuneration is not paid to members of the collegial bodies.
- Severance pays are paid to employees in accordance with the procedure laid down in the Labour Code of the Republic of Lithuania and in employment contracts.
- Severance pays do not exceed amounts other than that established by the legal acts of the Republic of Lithuania, other than exceptional cases, when for objective reasons higher amounts are agreed upon. The relevant board of the Group company must be informed about the payment of such amounts and the grounds for their payment at its subsequent meeting.

- The amount of work, remuneration, as well as severance pay of the top management of companies is determined by the board of the company.
- It is provided that performance of particular importance not foreseen for in the employee's annual targets may, in exceptional cases, be subject to an incentive payment not exceeding the amount specified in the policy. The relevant board of the Group company must be informed on the above at its next meeting.
- Prior agreements on severance pays, except for company directors whose terms of employment are determined by the Board, are not concluded.
- The Remuneration Policy does not provide for any remuneration by granting a CEO, a member of the collegial body or an employee the right to the shares, stock options or the right to receive remuneration based on changes in share prices other financial instruments.
- The companies of EPSO-G Group reward their employees in emotional non-financial form in order to promote their engagement and loyalty. Indirect reward includes events for the employees, recognition and appreciation for very good performance.

In order to ensure the effectiveness of the Remuneration Policy, the fixed and variable pay components of remuneration are made public by groups of posts. This creates assumptions for the companies of EPSO-G Group companies to adequately remunerate the employees, who reach the objectives and exceed expectations, on the basis of the average market value.

The assessment of the competitiveness of companies and employees' remuneration is based on market research data. In the preparation of the Remuneration Policy of EPSO-G, the services of external consultants were not used.

8.3 Employee performance assessment

Employee performance assessment is one of the most important conditions of management and effective leadership that helps achieving the objectives of EPSO-G Group companies and creating a positive relationship between the leaders and their subordinates, allows planning employee careers, increasing their motivation and engagement.

An annual performance review is a performance assessment tool ensuring that personal objectives of EPSO-G employees are tailored to the objectives of the Company. The performance review is intended to discuss and set measurable, time-defined and motivating objectives for the employees.

The annual and interim performance reviews are intended to assess the achievement of objectives set for an employee of EPSO-G and to set the new ones, forms a feedback culture between a leader and a subordinate. The need for the employee's competence development and further professional growth, and career opportunities are discussed during the review as well.

In the companies of EPSO-G Group, individual objectives are discussed with each employee and set annually. Their implementation has a direct impact on the variable pay component, which also depends on the overall achievement of the Company's objectives.

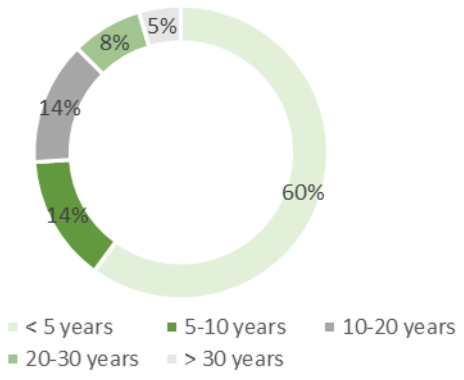
8.4 Employees

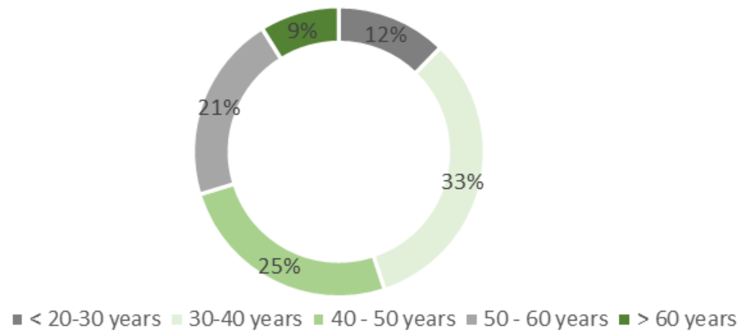
Number of employees in EPSO-G Group companies and separate companies

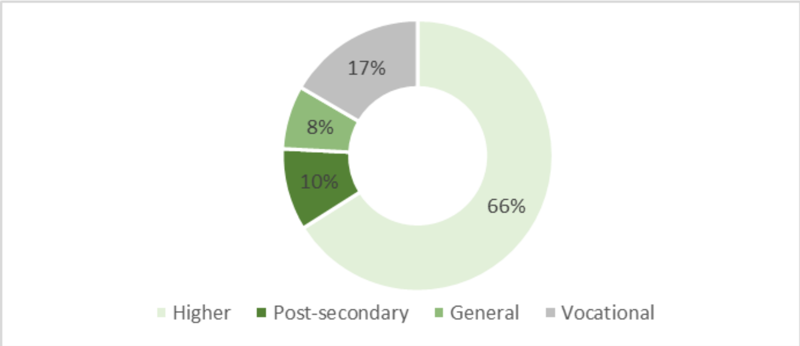
	As at 31 December 2021	As at 31 December 2020
EPSO-G Group companies	1,278	1,081
EPSO-G	74	32
Amber Grid	324	319
Litgrid	335	308
Tetas	498	395
Baltpool	19	18
Get Baltic	8	9
Energy Cells	20	-

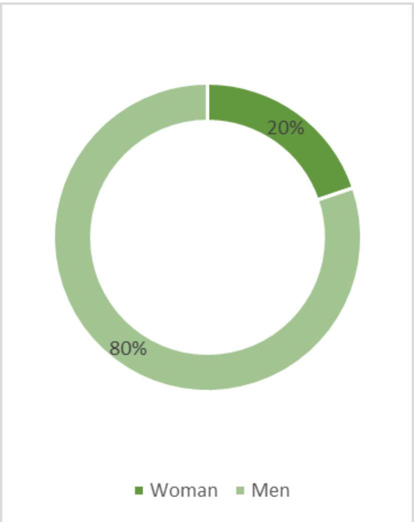
Distribution of employees by position groups as of 31 December 2021 (people)

Distribution of employees by service record, age group, educational background, gender as of 31 December 2021 (%)




9%
12%
21%
33%
25%
< 20-30 years
30-40 years
40 - 50 years
50 - 60 years
> 60 years


17%
8%
10%
66%
Higher
Post-secondary
General
Vocational


20%
80%
Woman
Men

8.5 Information on remuneration

As at 31 December 2021, EPSO-G Group had 1,278 employees (as at 31 December 2020: 1,081 employees). Wage Guarantee Fund of EPSO-G Group for 2021 was EUR 35,133 thousand (2020: EUR 29,885 thousand).

Information on average monthly pay

Average monthly pay by category of employees	Group			
	Number of employees (at the end of the period)		Average monthly pay (including the variable pay component)	
	2021	2020	2021	2020
CEO	7	6	9,063	9,094
Senior management	21	20	7,999	7,650
Middle-level management	135	103	4,518	4,326
Specialists	725	623	2,582	2,385
Workers	390	329	1,375	1,257
Total	1,278	1,081	2,561	2,339
Wage Guarantee Fund, EUR '000			35,133	29,885

Information on the holding company EPSO-G's fixed and variable pay components

Average monthly pay by category of employees	Company					
	Number of employees (at the end of the period)		2021		2020	
	2021	2020	Average monthly pay, EUR	Variable pay component for results achieved in 2020, EUR	Average monthly pay, EUR	Variable pay component for results achieved in 2019, EUR
CEO	1	1	8,078	2,140	8,040	2,179
Senior management	5	4	7,142	1,794	6,838	1,971
Middle-level management	17	12	4,676	798	4,594	924
Specialists	51	15	3,031	177	2,769	400
Total	74	32	4,254	647	4,280	904
Wage Guarantee Fund, EUR '000			2,495		1,609	

8.6 Information on renumeration of collegial members

The members of EPSO-G's supervisory and management bodies are appointed for the term of office of four years. Civil contracts detailing their responsibilities, duties, rights and functions are concluded with them.

In 2019, the sole shareholder of the holding company, the Ministry of Energy, approved the updated EPSO-G's Remuneration Guidelines. They came into force as from 1 December 2021 and were applied in 2021 and 2020.

In 2021, the following amounts of remuneration were set for independent members of the Board (before taxes):

- EUR 2,150 (two thousand one hundred and fifty euros), taking into account the additional administrative functions of the chairman of the collegial body, for the Chairman of the Board also holding the position of at least one member of the Board's Committee formed in the Group; and for the Chairman of the Committee also serving as an independent Board member in the Group;
- EUR 1,800 (one thousand eight hundred euros), considering the additional administrative functions of the chairman of the collegial body, for the Chairman of the Board, who does not hold any of the positions of a member of the Board's Committee formed in the Group;
- EUR 1,750 (one thousand seven hundred and fifty euros) for independent members of the Board also holding the position of at least one member of the Board's Committee formed in the Group;
- EUR 1,400 (one thousand four hundred euros) for independent members of the Board, who do not hold any of the positions of a member of the Board's Committee formed in the Group;
- EUR 850 (eight hundred and fifty euros) for independent members of the Board's Committee who are not independent members of the Boards. These members acting as the Chairman of the Board's Committee are remunerated EUR 1,100 (one thousand one hundred euros);

Given that the above amounts have been calculated in accordance with the applicable tax legislation, i.e. including taxes payable in the event of a change in the tax regime, until new decisions on remuneration are made, the remuneration paid to members of collegial bodies after tax shall not change compared to the estimated amount based on the above amounts.

It was established that in case an independent member of the Board is elected a member of the Board's Committee formed in the Group and / or the Chairman of the Board, or an independent member of the Board is revoked / resigns from the position of a member of the Board formed in the Group and / or the chairman of the Board, the remuneration of such independent member of the Board shall be changed based on the above-mentioned amounts of remuneration of the independent members of the Board of the Company. Accordingly, the General Manager of the Company shall be authorized and obliged to sign on behalf of the Company the amendments to agreements with independent members of the Board of the Company, establishing such changes in the remuneration of the respective independent members of the Board.

The variable pay component is not paid to members of the collegial bodies.

The members of the Board of EPSO-G, appointed by the only shareholder, the Ministry of Energy, are not remunerated under a civil contract of a member of the Board.

The remuneration for the execution of the rights and obligations of the shareholder in the subsidiaries in accordance with the civil contract of a member of the Board is not paid also to members of the Board who are appointed by the holding company EPSO-G as the largest shareholder. This principle is applicable for the subsidiaries appointing members to their subsidiaries.

The contracts entered into with the members of supervisory and management bodies do not grant any rights to the shares of the companies of EPSO-G Group, other forms of remuneration or additional benefits.

The contracts do not provide for any severance pays and notice periods.

Information on activities and payouts for collegial members of the holding company EPSO-G's supervisory and management bodies:

	As of 31 December 2021	As of 31 December 2020
Number of meetings of collegial supervisory and management bodies	94	65
Number of members of collegial bodies remunerated (persons)*	4	5
Payouts related to members of management bodies (thousand EUR)	94	92

* As of 31 December 2020, the remuneration was paid to 5 members of collegial bodies.

Information on individual payouts for collegial members of supervisory and management bodies

Full name of the member	As of 31 December 2021	As of 31 December 2020
Gediminas Almantas*	25,800	25,800
Robertas Vyšniauskas*	20,546	20,542
Tomas Tumėnas*	21,000	21,000
Gediminas Šiušas**	13,200	11,760
Jolita Lauciuvienė**	13,200	13,200

* total remuneration for activities as an independent member of the Board and a member of a corresponding EPSO-G Group's Board Committee;

** remuneration for activities as a member of EPSO-G Group's Board Committee.

8.7 LEGAL DISPUTES AND UNCERTAINTIES

Information on legal disputes and uncertainties is disclosed in Note 38 to the financial statements of this Annual Report.

8.8 INFORMATION ON SPECIAL OBLIGATIONS

8.8.1 PSO funds administration activities

- The company Baltpool, which is part of EPSO-G Group, under the Resolution No 1338 *On the Appointment of the Administrator of Funds of Public Service Obligations in the Power Sector* of the Government of the Republic of Lithuania of 7 November 2012 was appointed to implement the special obligation to perform the functions of the administrator of funds of public service obligations (PSO) in the power sector.
- In performing this function, Baltpool collects, pays and administers PSO funds in accordance with the procedure established by legislation. The costs of PSO funds administration in accordance with the procedure established by legislation are reimbursed from the PSO funds budget not from the state budget.
- As from 1 April 2019, PSO price differentiation system was introduced, which will be applied until 31 December 2028. Entities using large amounts of electricity (≥ 1 GWh per year), having concluded contracts with Baltpool, which performs the functions of the PSO funds administrator, and meeting the requirements established by legal acts, will be able to reimburse 85% of the PSO price paid during the previous calendar year for the amount of electricity exceeding 1 GWh, intended to promote electricity production from renewable energy sources. Power-intensive entities undertake to invest at least 75% of the reimbursable part of the PSO price in the implementation of the best energy efficiency measures. Entities can benefit from this exemption for the period from 1 January 2019 until 31 December 2028.
- A total of 48 entities operating in power-intensive industries were connected to the PSO differentiation system until 31 December 2021: 39 have joined the scheme in 2019, 16 - in 2020, and 6 - in 2021, however, in October-December 2021, Baltpool initiated the termination of contracts with 13 entities that failed to comply with the requirements for legislation.

- In 2021, Baltpool reimbursed a total of EUR 12,310,759 (VAT incl.) of the part of the PSO price paid in 2020 to the thirty-eight (38) electricity consumers that had been participating in the PSO differentiation scheme.
- Until 1 July 2022, forty-five (45) entities operating in the power-intensive industry that have concluded contracts with Baltpool on the reimbursement of a part of the PSO price will be eligible to submit applications for reimbursement of a part of the PSO price for 2021 to the PSO administrator (three (3) entities will be eligible to apply for a reimbursement of the PSO price for 2022 only). After examining these applications in the prescribed manner, Baltpool will decide on the reimbursement of the part of the PSO price paid in 2021.

8.8.2 Implementation of the functions of the project executor for the installation of a physical barrier at the border with Belarus

Upon the implementation of the Law on the Installation of a Physical Barrier on the Territory of the Republic of Lithuania at the EU External Border with the Republic of Belarus (hereinafter - the Law on the Physical Barrier of the RL), under the Resolution No 680 *On the Implementation of the Law on the Installation of a Physical Barrier on the Territory of the Republic of Lithuania at the EU External Border with the Republic of Belarus* of the Government of the Republic of Lithuania of 23 August 2021, EPSO-G UAB has been assigned a special obligation, i. e. to perform the functions of the executor of the project for the installation of a physical barrier, as defined in Paragraph 1 of Article 2 of the Law on the Physical Barrier of the RL (hereinafter - the physical barrier). EPSO-G UAB has the right, where appropriate, to use its controlled legal entities to perform the assigned functions.

Detailed information on the physical barrier project, related project objectives, and key events during the reporting period is provided in Section 3.4.5 (*Installation of a physical barrier at the border with Belarus*) and EPSO-G website: https://www.epsog.lt/lt/projects/fizinio-barjero-prie-sienos-su-Baltarusija-irengimas-1.

Information on these special obligations fulfilled by EPSO-G UAB and its subsidiaries is also provided in *the List of Special Obligations Performed by State-Owned Enterprises and their Subsidiaries* approved by the Order No 4-193 of the Minister of Economy and Innovation of the Republic of Lithuania of 16 March 2021 (with subsequent amendments).

Significant events after the end of the reporting period

January

On 6 January 2022, the CEO of EPSO-G ceased his employment at the Group of companies. The Board authorised Chief Financial Officer Algirdas Juozaponis to serve as an Acting Chief Executive Officer.

On 27 January 2022, the Coordination Committee of the infrastructure networks fund Connecting Europe Facility (CEF) of the European Union granted the highest scores to the joint application of the operators of the Lithuanian, Latvian, Estonian and Polish transmission systems and opened up possibilities to receive the largest possible support of EUR 170 million. These funds will ensure further smooth implementation of the most important infrastructure projects and will enable the electricity systems of the Baltic countries to operate independently under the frequency with Poland and other countries of continental Europe already in 2025.

On 27 January 2022, Litgrid completed the testing of the first 1 MW battery connected to the electricity transmission network in the Baltic countries. Data collected during the testing is important for the preparation of the Lithuanian electricity transmission network for synchronisation with the networks of continental Europe, assurance of the system's reliability and rapid development of renewable energy in the country.

February

On 1 February 2022, Amber Grid started the selection of the strategic partner for its subsidiary GET Baltic, the regional gas exchange. The aim of the attraction of the partner is to optimally use the potential of the opening of the European gas market and to provide the possibility to offer the most advanced gas trading solutions to the clients of GET Baltic.

On 10 February 2022, Amber Grid signed the contract worth of EUR 2.8 million with the winner of the public tender MT Group, the energy contracting company, regarding one of the phases of construction works of the ELLI project – reconstruction works of the gas metering station in Kiemėnai.

On 28 February 2022, Robertas Vyšniauskas, the independent member of the EPSO-G Board, was elected as the Chairman of the Board of EPSO-G. Gediminas Almantas, the present Chairman of the Board, will continued his activities at the Board until the end of the term of office of the Board in 2023.

March

On 2 March 2022, Litgrid and the transmission network operators of other Baltic countries adopted a decision to reduce commercial flows from the Russian networks. The operation of the electricity system will be ensured by local electricity generation in Lithuania and import from the strategic partners – the European Union countries via the available interconnections with Sweden, Poland and Latvia.

April

From the beginning of April, the Lithuanian gas transmission system started operating without Russian gas imports.

9. SUSTAINABILITY REPORT

The goal of EPSO-G sustainable business is to implement the transformation of the energy sector, striking a sustainable balance between environmental, social and economic objectives, thereby contributing to the creation of a climate-neutral economy.

Approach to sustainable development

EPSO-G believes that sustainability principles must be integrated into the activities and processes of all Group companies. As a manager of strategically important energy infrastructure, EPSO-G aims to contribute to the implementation of the commitments on climate change and the environment set out in the Paris Agreement, the European Green Deal, the National Energy Independence Strategy and the National Climate Change Management Agenda

The main directions of sustainable development of EPSO-G stem from the activities defined in the Group's long-term strategy until 2030:

EPSO-G's sustainability directions:

ENVIRONMENT	SOCIAL	GOVERNANCE
Enable climate-neutral energy by reducing the environmental impact of activities	Create a progressive, sustainable organisation	Transparent and efficient management and development of the energy exchange platform

EPSO-G also aims to contribute directly to the United Nations Sustainable Development Goals by focusing on ensuring access to affordable clean and modern energy, combating climate change, developing modern infrastructure and innovation, creation of safe and decent working conditions, worker well-being and a sustainable supply chain.

EPSO-G contributes to each of the United Nations Sustainable Development Goals by the following actions:

Goal 7. Affordable and clean energy:

- We aim to facilitate the connection of renewable energy producers to electricity and natural gas transmission infrastructure
- We develop a system for exchange of green gas guarantees of origin and maintain a system for green electricity guarantees of origin

- We aim to adapt gas transmission systems for hydrogen transport

Goal 8 – Decent work and economic growth:

- We take proactive approach to occupational safety and health
- We create an organisational culture based on respect for human rights
- We invest in the professional and personal development of our employees
- We ensure clear and transparent principles of remuneration for employees
- We support voluntary trade union membership of employees

Goal 9. Industry, innovation and infrastructure

- We ensure reliable and safe operation of electricity and gas transmission systems
- We aim to adapt corporate structures and incentive systems to foster innovation

Goal 12. Responsible consumption and production

- We aim to apply to our business partners not only qualitative, but also fairness and sustainability criteria
- We ensure responsible sorting and management of waste generated in operations of companies
- We conduct public procurement in observance of green criteria

Goal 13. Climate action

- We assess environmental impacts of our activities and develop plans to mitigate these impacts
- We implement advanced environmental management systems and prevention measures
- We aim to increase the use of green energy in our operations

Long-term sustainability goals and actions to achieve them

For each long-term sustainability direction, EPSO-G has set specific targets and indicators to measure the progress on sustainability of the group.

Sustainability direction	Long-term goal until 2030	EPSO-G's actions 2021	Upcoming actions
Environment - enabling climate-neutral energy by reducing the environmental impact of operations	Reduce the environmental impact of companies of EPSO-G operations by 2/3 by 2030	• GHG audits were conducted in all group companies (except Energy Cells) and the assessment of remaining impacts was started • Innovative circuit breakers and metering transformers free of SF6 (sulphur hexafluoride) gas and insulating oil are to be used in the reconstructed Vilnius and Šiauliai transformer substations. • The gas transmission system operator installed nearly 1.5 megawatts (MW) own solar power plants, which will reduce the company's electricity costs by around 50 %.	• Based on the GHG and impact assessment results, we will prepare impact mitigation plans to be integrated into operational plans • The use of renewable energy sources to meet the technological needs of electricity and gas transmission networks will be expanded • The Group will shift to green energy in all its administrative activities

			• Vehicles used in administrative activities will be replaced by vehicles that do not use fossil fuel products
	• Ensure 0 significant environmental incidents in company operations	• Environmental policies were developed and environmental management practices were harmonised at the group level. • In infrastructure and construction activities, preventive inspections of contractors were carried out regarding their compliance with environmental requirements	• In electricity transmission, we aim to standardise our environmental management system according to the international ISO standard
	• Adapt gas transmission systems for hydrogen transportation	• Lithuanian gas transmission system operator Amber Grid, Energijos skirstymo operatoraius (ESO) and SG dujos Auto signed the cooperation agreement on the development of power-to-gas (P2G) hydrogen technology. As part of the project, for the first time, a green hydrogen plant will be connected to the Lithuanian gas system. The pilot project is expected to be completed and the production of green hydrogen gas using P2G technology will start in Lithuania in 2024. • Lithuanian, Latvian, Estonian and Finnish gas transmission system operators started working on a technical feasibility study and development plan for hydrogen transportation.	• In the context of the energy transformation, the decarbonisation of the economy and the implementation of the European Green Deal, the preparation of national roadmaps for the development of hydrogen technology in Lithuania will start. Following a comprehensive analysis, independent foreign experts, working together with Lithuanian institutions and companies, will present possible solutions for the hydrogen value chain.
	• Facilitate the connection of	• Lithuanian electricity transmission system operator	• Preparations are under way to develop a study

	green energy producers to the infrastructure managed by the Group	Litgrid continue cooperation with Japanese energy company TEPCO Power Grid and has started preparing a study to assess the technical and economic alternatives for offshore wind integration. • The first 10 MWh of green gas were imported to Lithuania through the origin guarantee system, for which Amber Grid, as the National Register of Guarantees of Origin for Gas from Renewable Energy Sources, has provided guarantees of origin to prove it. The country of origin of this green, biomethane gas is Denmark and the gas was purchased by the Lithuanian company SG dujos. The guarantee of origin of the green gas confirms that the gas has been produced using renewable energy sources.	on the transformation of Lithuania's energy system, which will provide proposals on alternatives for the development and expansion of the energy system as Lithuania shifts to green energy and becomes an energy-exporting country;

Sustainability direction	Long-term goal until 2030	EPSO-G's actions 2021	Upcoming actions
Social sphere – create a progressive and sustainable organization	• Ensure 0 cases of human rights violations or discrimination	• We have harmonised the Group's principles on human rights and the prevention of discrimination by developing a new Group-wide Equal Opportunities Policy • Until now, equal opportunities in the Group's companies have been governed by separate internal policies and other documents, but employees have had the opportunity to report observed cases of human rights violations or discrimination, with no such reports received during 2021.	• Possibilities of auditing the equal opportunities situation in the group are being assessed
	• Ensure 0 cases of serious or fatal accidents in our operation	• We have drafted and approved a new Occupational Health and Safety Policy, which harmonises the principles and practices of occupational health and safety management across the Group • In the infrastructure and construction activities, we implemented preventive inspections of contractors for compliance with occupational safety and health requirements • Training on the occupational safety was organised for employees of infrastructure and construction companies, as well as for employees of contractors • No serious or fatal accidents have been registered in group	• In our electricity transmission activities, we aim to standardise our occupational safety and health management system according to the international ISO standard

		companies (including the activities of contractors).	
	• Achieve customer satisfaction rate of at least 70 %	• In November-December 2021, in cooperation with the research company Synopticom, we carried out the customer satisfaction survey (GCSI) of EPSO-G companies, in which more than 220 customers participated. The survey has shown that services provided by EPSO-G companies are highly appreciated by customers, with an average overall satisfaction level of 80.8 %.	• Customer feedback from the survey will be used to develop plans for improving services and customer support • Possibilities for developing a customer support standard are under consideration
	• Ensure that at least 70 % of our employees, producers, suppliers and consumers perceive EPSO-G as an open, progressive and sustainable organisation	• Customer satisfaction survey was conducted in 2021, and the remaining stakeholders involved in achieving this target will be surveyed at a later date.	• Possibilities of conducting a study to assess the level of stakeholder attitudes towards EPSO-G are under consideration

Sustainability direction	Long-term goal until 2030	EPSO-G's actions 2021	Upcoming actions
Governance - transparent and efficient management and development of the energy exchange platform	• Reliable and safe operation of electricity and gas transmission systems	• Electricity quantity not transmitted via the transmission grid (ENS) – 3,356 MWh (target ≤ 6,3 MWh) • Average outage time (AOT) for electricity transmission – 0.112 min. (target ≤ 0.29 min.)	• The NERC has set new indicators for 2022-2026. The aim will be to maintain the new high targets each year. The average duration of electricity transmission outage will not exceed 0.934 minutes and the amount of electricity not transmitted through the transmission grid will not exceed 27.251 MWh.
	• Achieve the Good Governance Index of A+	• In order to ensure compliance with the SOE Governance Policy, the State has mandated the Governance Coordination Centre (GCC) to carry out regular monitoring of the SOE governance. To assess the quality of the SOE governance, the assessment tool developed by the GCC – the SOE Good Corporate Governance Index - is applied. The EPSO-G rating for 2020 – 2021 is A.	• Taking into account the recommendations issued by the GCC, we make improvements in sustainability and other necessary areas.
	• Ensure 0 cases corruption	• In 2021, the survey on the perception of corruption among employees of EPSO-G companies was carried out. • In 2021, no investigations into corruption in EPSO-G were opened, and no corruption related offences were identified. • The Group provided training on the prevention of corruption.	• Corruption risks will continue to be assessed and staff training will be provided to raise the level of corruption awareness within the group.
		• In 2021, the group updated its Public procurement Policy to	• The list of green procurement criteria

• Apply green criteria in all our public procurement	include green and sustainable procurement criteria. • EPSO-G has committed to achieving 100 % green procurement by 2023, measured in terms of value of procurement.	continues to be expanded, and procurement documents are being updated and completed. • Green procurement and special events are organised for EPSO-G's suppliers and main contractors.
• Integrate sustainability criteria into the requirements for contracting companies	• Preliminary analysis of the main suppliers of EPSO-G was carried out to assess the extent to which the main suppliers of contracting services have adopted international ISO standards in the areas of environmental and occupational safety and health management.	• Development of the Supplier Code of Conduct, which will cover not only environmental, but also transparency and social performance criteria for all suppliers of goods and services to the EPSO-G, is under way.
• Adapt corporate structures and incentive systems to promote innovation	• Lithuanian digital technology association Infobalt and energy group EPSO-G have formed the EnergyTech Digital group to promote the wider use of digital technologies in the energy sector. EnergyTech Digital will bring together energy and information technology companies and experts from the country's leading universities in a close-knit community. It will act as a bank of innovative ideas and a centre of exportable competences, providing opportunities for sharing insights and experiences within the community. • In terms of innovation activities, 38 new projects of various scales have been initiated and 21 completed in the group in 2021. Involving	• Continued active participation in the EnergyTech Digital group will aim to identify innovations that can be exploited in the energy field.

		employees in solving current challenges, creative thinking workshops were organised for Group employees. At the end of 2021, the group's innovation portfolio consisted of 40 instruments focusing on advanced and efficient systems management and monitoring, modern asset management solutions, the development of the group's ITT and digitisation, and the development of new business organisation and services. • The group has introduced the additional incentive system to engage employees in the development of innovation, which resulted in 7 innovation project teams being rewarded in 2021.	
	• Achievement of the ROE set by the State for EPSO-G group anually	The normalised ROE of EPSO-G was 15.6 %. The target set by the State for the group for 2019–2021 was to achieve an average ROE of 5.7 %.	• In the following periods, the aim will be to meet the level of ROE set for EPSO-G.

The comprehensive Sustainability Report 2021 of EPSO-G, detailing the progress of group companies in this area, will be prepared and published separately after this report. It will also present the results of evaluation of the relevance of EPSO-G sustainability issues.

Stakeholder involvement

In designing and implementing sustainable development actions, EPSO-G seeks the full involvement of its stakeholders and promotes transparent and fair cooperation with consumers, producers and suppliers, the public, the owner, employees, media and other stakeholders.

Stakeholder	Our commitment	Why this group is important	How we cooperate
Customers	• Building professional and reliable partnerships for mutual benefit.	• Group companies operate in B2B (business-to-business) sphere	• Group companies initiate and organise timely information events for their customers, taking into account the complexity of the services provided and economic expectations. • We develop services and/or solutions that meet customer needs.
Employees	• To act in a targeted way to ensure that the uniform corporate culture and remuneration policy promote employee engagement and motivation in the pursuit of the objectives of the strategy; • Ensure that employees of the group are sufficiently and timely informed about the group's values, objectives, activities and developments.	• Experienced, competent and values-driven professional employees are a key to achieving our goals and vision.	• We conduct employee engagement surveys and adjust action plans accordingly. • We apply the same principles of reward and social responsibility to our employees. • We organise at least quarterly meetings between managers and employees to discuss issues important to employees. • We improve the methods and content of internal communication.
Shareholders	• To ensure the sustainable management, growth and long-term benefits of the group; • To provide up-to-date, truthful and timely information to enable shareholders to assess the group performance and prospects and to make appropriate decisions; • To ensure effective feedback.	• The success of our strategic projects depends directly on the trust of our shareholders and quick and timely decisions.	• We hold regular meetings to discuss relevant topics; • At least quarterly, we report on our financial and non-financial performance against the objectives set out in the Shareholder Expectations Letter. • We ensure group-wide communication of breaking news from major companies of the Group in the Daily News section

			published every business day.
Group companies	• To create value through meaningful management decisions; • Responding to rapidly changing environment, to mobilise the strengths of group companies to efficiently achieve the goals.	• The performance of the group depends on the focused and synchronised work of its companies in achieving the strategic goals.	• We are members of the management bodies of group companies; • We apply the model of functional leadership. • We develop and implement uniform group-wide operational policies to enable coordinated action in implementing good governance practices.
Foreign partners - energy transmission and biofuel exchange operators	• To ensure coordination of mutually beneficial agreements and actions in the implementation of strategic projects.	• Synchronisation of the Baltic electricity transmission systems with the European energy system, creation of a regional gas market and development of a biofuel trading system depend directly on the involvement of foreign partners.	• We aim to establish and regularly maintain businesslike relationships based on mutual trust; • We initiate and participate in professional meetings and/or conferences to present the objectives of the strategy.
State representatives	• To provide relevant information in a clear and accessible format so as to serve as a reliable basis for assessing the performance, results and benefits to society of group companies.	• Cooperation with government representatives is essential to ensure the shaping of a coherent and long-term vision for the energy sector and the smooth implementation of projects of national and regional importance.	• We initiate meetings as needed to discuss relevant issues; • We present or speak on topical issues in the committees of the Seimas of the RL and at the meetings of the Government of the RL; • We participate in the activities of interinstitutional working groups.
National regulatory authority	• To ensure consistent compliance with legislative provisions within the group; • To establish a culture of open and transparent dialogue with the regulator.	• The main activities of the group are regulated, so it is important to ensure effective business relationships based on transparency, openness and accountability.	• We provide timely information necessary for ensuring the regulator's functions; • We cooperate in introducing new market mechanisms; • We initiate meetings to discuss relevant issues.

Contractors	• To work with professional contractors who adhere to professional and ethical standards.	• Group companies implement highly complicated and complex projects, which is why it is important to set a high bar for quality, transparency and worker safety for contractors.	• We organise annual information events for potential contractors; • We publish procurement plans and consultations in advance to ensure greater competition between market players.
Suppliers of services and goods	• To acquire quality services from reputable suppliers in a competitive environment;	• Suppliers who deliver quality and value-adding goods and services on time contribute to the continuity and efficiency of the Group' operations.	• We consult with market players and carry out market research; • We publish plans for scheduled procurement.
Non-governmental organisations (NGO)	• Communication and cooperation with environmental and business transparency promoting organisations helps identify public needs and the ways to address them.	• Group companies carry out ongoing monitoring of the environmental impact. • Group companies implement good governance practices in the areas of accountability and corruption prevention	• Together with the Ornithological Society, we implement measures to reduce environmental impact. • We cooperate with the Lithuanian Fund for Nature in the construction of the GIPL pipeline to minimise the environmental impact in the work areas. • We maintain active cooperation with the archaeological community in carrying out excavations along the route of construction of the GIPL gas pipeline.
Trade unions	• Ensure constructive and positive social dialogue between the employer and representatives of employees.	• Employees are the key to the success of the group. It is important that employment relations and the decisions that govern them ensure fair and equal treatment of all employees and	• We enable trade unions and/or works councils to operate. • We conclude a collective agreement with trade unions and/or works councils. • We discuss the implementation of the collective agreement at periodic meetings with

		safeguard their legitimate interests.	employees and/or their representatives. • We inform and consult representatives of trade unions and/or works councils when taking decisions concerning employment relations.
General public and media	• To add value for the society, business and for the competitiveness of the national economy; • To act in a socially responsible way; • To provide relevant information in a comprehensible form based on the principles of relevance, reliability, comparability and accessibility.	• EPSO-G's mission is to ensure the achievement of Lithuania's strategic energy objectives, the safe operation of energy transmission systems, and to enable the use of efficiently operating infrastructure; • Taking advantage of the opportunities offered by energy exchanges to contribute to the welfare of society.	• We follow the Transparency and Communication Policy of the group; • We maintain constructive relations with the media representatives who cover energy issues, providing sufficient information to assess the group's financial and non-financial performance and the ongoing projects.
Local communities	• To build trust and acceptance of local communities for projects through the alignment of interests; • To contribute to the creation of opportunities for growth and a decent life.	• A crucial element for success of projects is support from local communities built by fostering mutual trust, understanding, cooperation and ownership.	• Group companies share experiences on spatial planning; • Organising awareness raising events for local communities. • Project implementation work is adjusted in line with reasonable observations received at the meetings.

Sustainability implementation and management

EPSO-G and its group companies see sustainable development as an integral and inseparable part of their activities. The Group has in place the following policies:

- Corporate Governance Policy. Its purpose is to ensure good corporate governance practices within the Group by establishing uniform corporate governance principles across the group and ensuring interaction between the parent company and other group companies.
- Sustainability Policy. It defines the key directions and principles for the sustainability development that would guide activities of group companies and create a progressive organisational culture. Managers of group companies and those responsible for overseeing the functional area of sustainability are responsible for the implementation of this policy.

- Occupational Safety and Health policy. It defines the general principles of occupational safety and health in EPSO-G and the main guidelines for its implementation. The aim of the policy is to ensure the health of employees in the workplace and to create a healthy, safe and efficient working environment.
- Equal Opportunities Policy. It defines the key principles applied at the level of group companies to ensure that equal opportunities and non-discrimination are respected in all areas of employment relationship. Managers of group companies are responsible for the implementation of provisions of this policy in each company of the group.
- Environmental Policy. It defines the key principles in the area of environmental protection applied across the group, with the aim of minimising the environmental impact of its activities and implementing a culture based on the principles of sustainable development in the group and its environment.
- Transparency and Communication Policy. It aims to facilitate more effective interaction with each other and with external stakeholders: the public, shareholders, market regulators, etc.
- Corruption Prevention Policy. It aims to set the key principles and requirements for the prevention of corruption within the group and the guidelines for ensuring compliance with these principles and requirements, the implementation of which enable and facilitate the implementation of the highest standards of transparent business conduct.
- Remuneration, Performance Review and Training Policy. The aim is to establish clear and transparent principles of remuneration of the group employees for their work and the employee remuneration system based on these principles, in order to effectively manage remuneration expenses and to provide motivational incentives for employees to achieve the objectives set for the organisation.
- Accounting Policy. It aims to ensure that interested parties can evaluate the performance and prospects of group companies and take appropriate economic decisions.
- Dividends Policy. Its objective is to set clear benchmarks for the expected return on ownership and investment for existing and potential shareholders, while ensuring sustainable long-term growth in corporate value, the timely implementation of strategic projects of national importance, and thus consistently building confidence in the entire group of energy transmission and exchange companies.
- Interest Management Policy. It aims to establish, at the group level, the interest management system that is unified and in line with best practices, to ensure objective and impartial decision making within the group companies, as well as to create the zero corruption environment and to increase confidence in the activities of group companies.
- Sensitive Information Protection Policy. Its aim is to implement a uniform system for the identification, use and protection of confidential and proprietary information and to help members of the management bodies and employees of group companies to protect the confidential information entrusted to them against improper and harmful disclosure.
- Technological Asset Development and Exploitation Policy. Its aim is to consistently implement cost-benefit principles for the management and development of electricity and natural gas infrastructure, to introduce advanced technologies, and to manage and develop energy transmission infrastructure in a socially responsible manner, taking into account occupational health and safety and environmental requirements.
- Donations Policy. It aims to ensure that the donations are public and do not call into question their appropriateness and the transparency of the process of their granting.
- Code of Ethics. Its purpose is to establish uniform general guidelines for conduct in dealing and cooperating with internal and external stakeholders: service users, contractors, business partners, shareholders, public authorities and municipal bodies, the public, etc. The provisions of the code are based not only on the employer's duty, but also on the employee's personal awareness that good conduct enhances the reputation and value of the company, as well as the group as a whole, and reduces the probability of reputational risk. The provisions of the code are directly derived from the group values, leadership principles and complement the related operational policies.

EPSO-G develops implementation plans to implement the sustainability principles, integrates the principles into the business plans of group companies, coordinates the implementation of the environmental impact and GHG emission reduction and sustainability objectives for group companies.

EPSO-G undertakes to review the environmental, socio-economic impacts and sustainability priority themes with group companies on a regular basis, but at least once every two years, by carrying out a materiality analysis and ensuring stakeholder involvement. Group companies report once a year on the implementation of sustainability activities, either through separate public sustainability reports or by integrating their sustainability performance into the Sustainability Report of EPSO-G.

Long-term sustainable development goals are integrated into EPSO-G operational strategy until 2030 approved by the Board.

Information on compliance with the Transparency Guidelines

EPSO-G adheres to Resolution No 1052 of the Government of the Republic of Lithuania of 14 July 2010 on the approval of the description of guidelines for ensuring transparency of the state-owned enterprises (hereinafter – the Transparency Guidelines).

The Transparency Guidelines are mandatory for the management company, as it is a state-owned enterprise falling within the category of large enterprises, as defined by the Law of the Republic of Lithuania on Financial Statements of Enterprises.

In order to implement compliance with the Transparency Guidelines in group companies, the group has in place the Transparency and Communication Policy which takes account, in sufficient detail, the requirements set out in the Transparency Guidelines and determines the scope of their application to the group companies.

The implementation of the Transparency Guidelines is mainly ensured through the information disclosures in the annual activity report and on the websites with the aim of providing information to stakeholders in an accessible and understandable form.

Structured information on the implementation of the Transparency Guidelines is provided in Annex I to this Annual Report.

The management company EPSO-G also complies with the Corporate Governance Code for companies listed on Nasdaq Vilnius AB. The Code applies unless otherwise provided by the Articles of Association of the Company. The Company discloses its compliance with the provisions of the Corporate Governance Code in Annex II to this Annual Report.

Management of transparency (corruption) risks

In 2021, risks likely to occur in the procurement process and risks of abuse of office were identified in EPSO-G Group companies.

In the activities of the EPSO-G management company, the following risks were identified: the Risk of inadequate preparation of technical terms and conditions of public procurement (R1), the Risk of breach of procurement procedures (R2), the Risk of failure to conduct procurement on time (R3), the Risk of breaches in performing public procurement contracts (R4), the Risk of corruption in public procurement (R5), and the Risk of abuse of office in the use of assets and funds of EPSO-G (R6). EPSO-G risk management methodology was applied to assess the likelihood and impact of these risks and the level of corruption in public procurement. To manage these risks, the following measures were planned and approved by the Board and applied in 2021: market research, consultations with experts in group companies or market consultations, control of the most risky procurements based on the "four eyes" principle, communication with the Public Procurement Office (PPO) following the investigation into a possible breach of the public procurement rules. In managing the risk of corruption in the procurement being conducted, the declarations of private interests of members of the procurement commission, procurement initiators and experts and of EPSO-G employees conducting procurement and recommendations on withdrawals and proper management of conflicts of interest were analysed. The indicators established for risk monitoring included the number of withdrawals in the course of procurement, the number of received substantiated complaints, the number of requests for information from the Public Procurement Office on ongoing procurement, the number of limited competition (where less than three suppliers participate in procurement). Tolerance thresholds for key risk indicators have been set above which additional corruption risk management measures must be taken. The management of the risk of abuse of office through the use of EPSO-G assets and funds ensures that EPSO-G decisions relating to the use of financial resources are taken using established control mechanisms such as endorsement, internal audit, etc. Indicators such as investigations opened regarding improper decisions and complaints, reports on misconduct of staff members were recorded and analysed on an ongoing basis; there were no investigations or complaints regarding misconduct of EPSO-G staff members in 2021.

In Litgrid, the Risk of inefficient public procurement process (R7) and the Risk of failure to ensure competition of suppliers in public procurement (R8) have been identified and managed. Measures taken in 2021 to manage these risks include training of staff members involved in procurement, procurement planning, improvement of the procurement process according to identified needs, analysis of indicators, and standardisation of qualification requirements. In 2021, the control over procurement was also strengthened: by recording and analysing the cases of procurement procedures where a single supplier is contacted directly (and where a tender is submitted by only one tenderer) and periodic reports on the conducted procurement procedures. In 2021, a review of the procurement process was carried out to ensure that project managers are not involved in all stages of procurement initiation, conduct and evaluation of tenders.

In Amber Grid, the following risks were identified and managed: the Risk of insufficient competition of suppliers (R9), the Risk of failure to conduct procurement on time (R10), the Risk of termination of procurement due to inadequate / unreasonable requirements (R11), the Risk of inadequate performance of contracts (R12), the Risk of lack of competition of suppliers (R13), and the Risk of breach of the procurement procedures (R14). To manage these risks, in 2021, market consultations with potential suppliers were conducted before the procurement, also including the envisaged requirements to be applied to suppliers and the procurement object, additional control of contract values, the introduction of the asset management information system to control contractual quantities, deadlines and various other measures were implemented.

In 2021, in Baltpool, the Risk of improper conduct of public procurement procedures (R15) was identified and managed. In 2021, to manage this risk, the risk management measures applied included controlling the procurement process according to the "four eyes" principle. The Company ensured the declaration of interests, compliance with, and control over, the provisions of the Interest Management Policy and the Procurement Policy, and used the tools of the document management system for initiating and conducting low-value procurements to ensure control over the conducted procurement.

In Tetas, in 2021, the following risk were identified and managed: the Risk of non-compliance with planned procurement procedures and/or arrangements (R16) and the Risk of inadequate planning (initiation of procurement) (R17). For the purpose of managing these risks, the current situation was monitored and registered, and managers were informed. The Risk of abuse of office in the use of assets and funds of the company (R18) was identified and managed by Tetas. In managing this risk, it has been established that decisions relating to the use of financial resources, supplies and other assets were taken using established control mechanisms such as endorsement, internal audit, etc., declarations of interest, and the process regarding breaches of labour discipline was approved.

In GET Baltic, in 2021, the Risk of conduct of procurement procedures was identified and managed (R19). To manage this risk, the procurement process has been controlled according to the "four eyes" principle and the approved procurement rules.

Assessment of transparency (corruption) risks of EPSO-G group companies

Impact					
Very high					
High	R19	R5	R14, R9	R6	
Medium	R15		R3, R4, R10, R11, R12,R18	R1, R17	R13, R16
Low	R2			R5	
Very low				R7, R8	
Probability	Very low	Low	Medium	High	Very high

Corruption prevention

During the reporting period, EPSO-G group companies have consistently and systematically pursued zero tolerance of corruption, no patronage of family members, relatives, friends or any other forms of trading in influence, and consistent and systematic implementation of the prevention of conflicts of corporate and private interests. The measures taken to prevent corruption must work in a way that enables EPSO-G managers and employees recognise the signs of corruption and take effective and timely measures to ensure that no breach of laws giving rise to corruption takes place in companies.

Group companies encourage employees and other stakeholders to report potential violations, unethical or unfair conduct directly or anonymously via the helpline pranesk@epsog.lt, the helpline of group companies or directly to the address of the Special Investigation Service of the Republic of Lithuania, without fearing negative consequences. Helpline is also in place in the subsidiaries.

Corruption prevention activities of companies are based on national legal frameworks and voluntary obligations that go beyond them:

- All managers of group companies are directly responsible for the implementation of anti-corruption measures and set an example for their employees;
- The proportionate, risk-based anti-corruption procedures are in place;
- The corruption related risks are regularly assessed, measures to mitigate corruption risks are planned and adapted, the effectiveness of anti-corruption activities is monitored and, where necessary, more effective measures are introduced.
- Group companies and their employees are required to comply with the requirements of legal and business ethics standards.

Any employee who breaches these obligations may be subject to disciplinary sanctions according to the internal procedures and grounds established by the companies, including the termination of employment contract with such employee.

In December 2021, the survey on corruption perceptions by employees of EPSO-G group companies was conducted. 513 employees took part in the survey (298 in 2020). According to the survey data, 94 % of respondents negatively assess bribers (98 % in 2020); 97 % of respondents have not faced corruption in their work in the last 3 years (98 % in 2020); 89 % of respondents know where to go if they face corruption (91 % in 2020). The results of the survey reveal that the perception of corruption among employees in EPSO-G group companies remains very high.

Interest management

During the reporting period, the EPSO-G group companies followed the recast Policy on the management of interests of members of collegiate management and supervisory bodies, managers and employees of EPSO-G group companies approved on 13 December 2019. The objective is to apply a uniform system of interest management in line with best practices to ensure objective and impartial decision-making in group companies, to create an environment that is not conducive to corruption, and to increase confidence in the performance of group companies.

This policy sets out for EPSO-G:

- the principles of management of interests and resolution of potential conflicts of interest;
- the requirements for the system of declaration of interests;
- the independence criteria applicable to the members of the collegiate management and supervisory bodies.

EPSO-G's Interest Management Policy and applicable independence criteria are available at www.epsog.lt under the "Operational Policies" section.

At the end of the reporting period:

- The members of the collegiate management bodies and administration have not acquired any shares in EPSO-G group companies, except for Nemunas Biknius, CEO of Amber Grid, who held 0.001055 % of shares in Amber Grid as at 30 June 2021. His shareholding remained unchanged during the reporting period.
- The declarations of interests of EPSO-G board members and the CEO are submitted and published in the Register of Private Interests (PINREG) on the website of the Chief Official Ethics Commission (COEC) and at www.epsog.lt. All managers of EPSO-G group companies have submitted declarations of interest to the management company to the extent and according to the procedure set out in EPSO-G Interest Management Policy, which is available at www.epsog.lt under the "Operational Policies" section.
- Members of the collegiate management bodies and managers of companies have not been involved in any conflicts of interest as regards their obligations to EPSO-G and their private interests and/or other duties.
- There were no family relationships between members of the collegiate management bodies and administrative staff.
- Members of the collegiate management bodies and managers of companies have not been convicted of any criminal offence, have not been subject to any indictment or sanction by any regulatory authority in the last five years, have not been barred

by a court from holding any office as a member of the administrative, management or supervisory bodies of the Company or from holding any managerial position or from managing the affairs of any issuer.

- EPSO-G has not entered into any transactions with the above-mentioned persons which are outside the operating activities of the company or which have not been duly notified to and authorised by EPSO-G collegiate management bodies.

All employees of the EPSO-G management company have declared public interests in accordance with requirements of the Law on Alignment of Public and Private Interests.

Annex 1

INFORMATION ON COMPLIANCE WITH TRANSPARENCY GUIDELINES

EPSO-G (hereinafter – EPSO-G or the Company) and its subsidiaries comply[1] with the Resolution No 1052 of the Government of the Republic of Lithuania as of 14 July 2010 on the Approval of the Description of the Guidelines for Ensuring the Transparency of State-Owned Enterprise Activities (hereinafter – the Transparency Guidelines). The Transparency Guidelines are subject to mandatory application by EPSO-G UAB, as EPSO-G UAB is a state-owned enterprise (hereinafter – SOE). EPSO-G UAB group of companies, the policy of transparency and communication of the activities of EPSO-G UAB group of companies was adopted at the Group's level with a detailed regard to requirements set out in the Transparency Guidelines and their established application for the companies of EPSO-G UAB group of companies.

The implementation of the Transparency Guidelines by EPSO-G UAB is materially ensured through information disclosure in the annual report and ant the disclosure of the information on EPSO-G UAB website aiming to submit the information for stakeholders in an accessible and understandable format.

Article 3 of the Transparency Guidelines states that SOE shall comply with the provision of the Corporate Governance for listed companies in Nasdaq Vilnius AB, related to public disclosure of information. Information on EPSO-G compliance with the provisions of this Code is set out in Annex II to EPSO-G Annual Report, entitled *"EPSO-G UAB Report on Compliance with the Corporate Governance Code for Listed Companies on Nasdaq Vilnius AB".*

Structured information on the implementation of the Transparency Guidelines is presented below:

Information/other requirements subject to publication on EPSO-G website(www.epsog.lt):	
Name and code of the Company and register where data about the Company is stored and kept, registered office (address)	Executed
Legal status subject to reorganization (the method of reorganization shall be indicated), liquidation or bankruptcy of EPSO-G	Not applicable
Information about the state representing institution, i.e. the Ministry of Energy and a link to its website	Executed
Operational goals, vision and mission	Executed
Structure	Executed
Data of Director General*	Executed
Data of Chairman and members of the Board*	Executed
Data of Chairman and members of the Supervisory Board *	Not applicable
Names of committees, details of their chairmen and members *	Executed
**The following data is published:* *name, surname, date of commencement of current positions, other current management positions in other legal entities, education, qualification, professional experience; it shall be indicated whether a member of the collegial body has been elected or appointed as an independent member.*	
Amount of nominal value of shares held by the state (to the nearest euro cent) and percentage of the share capital of EPSO-G	Executed
Special obligations are fulfilled, which are determined in accordance with the recommendations approved by the Minister of Economy and Innovation of the Republic of Lithuania: the objective of special obligations, the state budget appropriations allocated to them in the current calendar year and legal acts assigning SOEs with the performance of a special obligation are indicated, the conditions for the performance of the special obligation and / or regulated pricing are set	Executed
Information on social responsibility initiatives and measures, important ongoing or planned investment projects	Executed

[1] *In accordance with Article 17.11 of the Transparency Guidelines, in the event of non-compliance with the Transparency Guidelines, explanations shall be provided.*

If EPSO-G is a participant in other legal entities (does not apply to subsidiaries and downstream subsidiaries), the name, code and register of such legal entities in which the Company's data are collected and stored, registered office (address), website addresses	Not applicable
EPSO-G set of annual financial statements, EPSO-G annual report, and auditor's report on the annual financial statements of EPSO-G shall be published on EPSO-G website within 10 working days of the approval of the annual financial statements	Executed
EPSO-G set of interim financial statements, EPSO-G interim annual reports shall be published on the website not later the 2 months after reporting period	Executed
Considering that EPSO-G is patronizing company additional information shall be published on the EPSO-G website (www.epsog.lt):	
Structure of EPSO-G group companies	Executed
EPSO-G subsidiaries and downstream subsidiaries:	
Name and code of the Company and register where data about the Company is stored and kept, registered office (address)	Executed
Website addresses	Executed
Percentage of EPSO-G shares in the companies' share capital	Executed
Consolidated financial statements and consolidated annual reports	Executed
The documents / other ,requirements subject to publication on EPSO-G website (www.epsog.lt):	
EPSO-G articles of association	Executed
Letter from the Ministry of Energy on the setting of state objectives and expectations for EPSO-G	Executed
Operational strategy or a summary in cases when it contains confidential information or information treated as a commercial (industrial) secret	Executed
Remuneration policy including the remuneration of EPSO-G management and the remuneration of members of collegiate bodies and committees set up by EPSO-G	Executed
EPSO-G annual and interim reports	Executed
The sets of annual and interim financial statements reports and auditor's reports on the annual financial statements for the period not less than 5 years	Executed
The documents listed above are published in PDF format and technical possibilities for printing	Executed
Other requirements subject to publication / implementation in the annual report and the set of financial statements:	
The accounting of EPSO-G shall be administered according to the International Financial Reporting Standards.	Executed
EPSO-G is preparing a set of interim financial statements for six months	Executed
Additionally to annual report EPSO-G is preparing interim report for six months	Executed
In addition to the requirements set by the Law on Financial Reporting of the Republic of Lithuania the EPSO-G annual report shall contain[2]:	
Short description of EPSO-G business model	Executed
Information on major events during and after the financial year (prior to the preparation of the annual report) which had substantial impact on the activity of EPSO-G	Executed
Results of the implementation of the goals set in operational strategy	Executed
Ratios of profitability, liquidity, asset turnover and debt	Executed
Fulfilment of special obligations	Executed
Implementation of investments policy, investment projects in progress and planned and investments during the reporting period	Executed

[2] *If the information is treated as SOE's commercial (industrial) secret or confidential information, SOE shall not disclose such information, therefore it should be indicated in SOE's annual report including reason for non-disclosure.*

Implementation of risk management policy applied by EPSO-G	Executed
Implementation of dividends policy	Executed
Implementation of the remuneration policy	Executed
General annual wage fund, average monthly salary according to position and (or) departments	Executed
For SOEs that are not required to prepare report of social responsibility it is recommended to provide information related to environmental, social and personnel, human rights, anti-corruption and bribery accordingly in annual report or annual activity report	Executed
Consolidated annual report contains structure of the group of companies, name and code of each subsidiary and the register where company data is stored and kept, registered office (address), part (percentage) of shares held in the authorized capital of the subsidiary, financial and non-financial results of the financial year	Executed
EPSO-G interim annual report contains short description of EPSO-G business model, analysis of financial operating results of the reporting period, information on major events of the reporting period, and also ratios of profitability, liquidity, asset turnover and debt including its changes in comparing to previous year period	Executed

Annex 2

EPSO-G UAB Notice of Compliance with the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius AB

In line with the Description of the Guidelines for Ensuring the Transparency of State-owned Enterprises approved by Resolution No 1052 of the Government of the Republic of Lithuania dated 14 July 2010 and the Transparency and Communication Policy of the EPSO-G Group of Companies, EPSO-G UAB (the Company or EPSO-G) discloses in this annual report its compliance with the provisions of the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius AB. In case of non-compliance with this Code or some of its provisions, the specific provisions that are not complied with must be indicated and the reasons of such non-compliance must be specified.

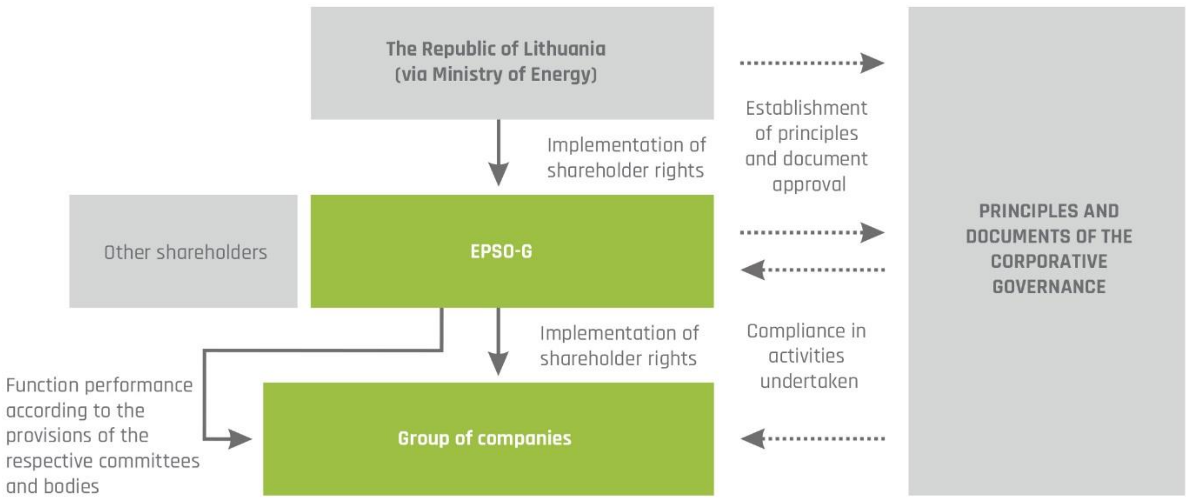
The implementation of the recommendations of the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius AB is, in principle, ensured through information disclosed in the annual report and information extensively published on the EPSO-G's website aiming to provide information to stakeholders in an accessible and comprehensible format.

1. Free-form summary of the Company's corporate governance report

A state-owned company EPSO-G is the parent company of the EPSO-G group of companies (the Group).

Rights and obligations of the shareholder of the holding company EPSO-G are implemented by the Ministry of Energy of the Republic of Lithuania (the Ministry of Energy, ME). The Company's corporate governance structure and the governance model are established by the Company's Articles of Association, the Corporate Governance Guidelines of the EPSO-G Group of Companies approved by the sole shareholder Ministry of Energy on 24 April 2018 and the Corporate Governance Policy of the EPSO-G Group of Companies. All the above-mentioned documents are published on the Company's website.

Scheme 1. Principal scheme of the implementation of corporate governance of EPSO-G.



The corporate governance structure:

- The General Meeting of Shareholders;
- The Board (five members, three of whom are independent members, the other two members are nominated by the sole shareholder Ministry of Energy);
- The committees operating at the Group level:
  - The Remuneration and Nomination Committee (mainly composed of independent members);
  - The Audit Committee (mainly composed of independent members);

- The Innovation and Development Committee (mainly composed of independent members).

- The Chief Executive Officer.

The Group has a centralised internal audit function. In order to ensure the independence of the internal audit, it is established that the head of the internal audit function is appointed and dismissed by the Board of the holding company EPSO-G, which is mainly composed of independent members. The internal audit shall also be accountable to the Audit Committee of EPSO-G, which is also mainly composed of independent members. The internal audit recommendations are analysed by the Board of the Company, which also approves the plan of measures for the implementation of recommendations.

On the basis of the Risk Management Policy of the EPSO-G Group of Companies, the uniform risk management system of the Group is implemented according to the COSO ERM standards applicable in the international practice setting out risk identification, assessment and management principles and responsibilities. Risk management coordination is performed at the Group level.

Good governance practice is implemented at the EPSO-G Group by the approved operating policies. The aim of these policies is to introduce a consistent and effective organisational management system helping employees successfully implement important strategic projects and create value to residents and businesses of the country in a transparent and effective manner. To ensure the efficiency of the operating policies, the Company annually reports on the progress of implementation of the operating policies. Progress reports on the implementation of the operational policies of individual Group companies are also presented to the Board of Directors of the respective company.

In order to achieve the objectives set out in the Shareholder Expectations Letter, the managing company EPSO-G has established guidelines and, where appropriate, specific rules in the following areas of the Group's business.

EPSO-G relies on the good governance practices outlined in the recommendations of good governance published by the Organisation for Economic Cooperation and Development (OECD), the recommendations of the United Nations and Nasdaq Vilnius, other internationally recognised standards and the recommendations of good governance, the main objective of which is to ensure that the state-owned companies are managed in an efficient and transparent manner.

2. Structured table:

PRINCIPLES/GUIDELINES	YES / NO / IRRELEVANT	COMMENTS
Principle 1: General meeting of shareholders, equitable treatment of shareholders, and shareholders' rights. The corporate governance framework should ensure the equitable treatment of all shareholders. The corporate governance framework should protect the rights of shareholders.		
All shareholders should be equally provided with access to the information and/or documents established in the legal acts on equal terms to participate in the decision-making process where significant corporate matters are discussed.	YES	The Company has the sole shareholder.
It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to their holders.	YES	All shares of the Company are ordinary registered shares of EUR 0.29 per value.
It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	IRRELEVANT	The Company has the sole shareholder. The company is not listed on the exchange.
Exclusive transactions that are particularly important to the company, such as transfer of all or almost all assets of the company which in principle would mean the transfer of the company, should be	YES	Article 43 of the Articles of Association of the Company specifies the cases when the approvals of the sole shareholder are required - these cases are established with regard to the fact that the

subject to approval of the general meeting of shareholders.		underlying assets of the Company are the shares of the subsidiaries.
Procedures for convening and conducting a general meeting of shareholders should provide shareholders with equal opportunities to participate in the general meeting of shareholders and should not prejudice the rights and interests of shareholders. The chosen venue, date and time of the general meeting of shareholders should not prevent active participation of shareholders at the general meeting. In the notice of the general meeting of shareholders being convened, the company should specify the last day on which the proposed draft decisions should be submitted at the latest.	IRRELEVANT	The Company has the sole shareholder and it is not listed on the exchange.
With a view to ensure the right of shareholders living abroad to access the information, it is recommended, where possible, that documents prepared for the general meeting of shareholders in advance should be announced publicly not only in Lithuanian language but also in English and/or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders after the signing thereof and/or adopted decisions should be made available publicly not only in Lithuanian language but also in English and/or other foreign languages. It is recommended that this information should be placed on the website of the company. Such documents may be published to the extent that their public disclosure is not detrimental to the company or the company's commercial secrets are not revealed.	IRRELEVANT	The Company has the sole shareholder and it is not listed on the exchange.
Shareholders who are entitled to vote should be furnished with the opportunity to vote at the general meeting of shareholders both in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	YES	The shareholder has an option of voting in writing.

With a view to increasing the shareholders' opportunities to participate effectively at general meetings of shareholders, it is recommended that companies should apply modern technologies on a wider scale and thus provide shareholders with the conditions to participate and vote in general meetings of shareholders via electronic means of communication. In such cases, the security of transmitted information must be ensured and it must be possible to identify the participating and voting person.	IRRELEVANT	The Company has the sole shareholder and it is not listed on the exchange.
It is recommended that the notice on the draft decisions of the general meeting of shareholders being convened should specify new candidatures of members of the collegial body, their proposed remuneration and the proposed audit company if these issues are included into the agenda of the general meeting of shareholders. Where it is proposed to elect a new member of the collegial body, it is recommended that the information about his/her educational background, work experience and other managerial positions held (or proposed) should be provided.	IRRELEVANT	The Company has the sole shareholder and it is not listed on the exchange.
Members of the company's collegial management body, heads of the administration[3] or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders should take part in the general meeting of shareholders. Proposed candidates to member of the collegial body should also participate in the general meeting of shareholders in case the election of new members is included into the agenda of the general meeting of shareholders.	IRRELEVANT	The Company has the sole shareholder and it is not listed on the exchange.

Principle 2: Supervisory board

2.1. Functions and liability of the supervisory board

The supervisory board of the company should ensure representation of the interests of the company and its shareholders, accountability of this body to the shareholders and objective monitoring of the company's operations and its management bodies as well as constantly provide recommendations to the management bodies of the company.

The supervisory board should ensure the integrity and transparency of the company's financial accounting and control system.

[3] For the purposes of this Code, Chief Executive Officers are those employees of a company who hold the most senior management positions.

2.1.1. Members of the supervisory board should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders and represent their interests, having regard to the interests of employees and public welfare.	IRRELEVANT	The Supervisory Board is not formed in the Company.
2.1.2. Where decisions of the supervisory board may have a different effect on the interests of the company's shareholders, the supervisory board should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed about the company's strategy, risk management and control, and resolution of conflicts of interest.	IRRELEVANT	The Supervisory Board is not formed in the Company.
2.1.3. The supervisory board should be impartial in passing decisions that are significant for the company's operations and strategy. Members of the supervisory board should act and pass decisions without an external influence from the persons who elected them.	IRRELEVANT	The Supervisory Board is not formed in the Company.
2.1.4. Members of the supervisory board should clearly voice their objections in case they believe that a decision of the supervisory board is against the interests of the company. Independent[4] members of the supervisory board should: a) maintain independence of their analysis and decision-making; b) not seek or accept any unjustified privileges that might compromise their independence.	IRRELEVANT	The Supervisory Board is not formed in the Company.

[4] For the purposes of this Code, the criteria for the independence of the members of the Supervisory Board shall be understood in the same way as the criteria for unaffiliated persons are defined in Article 31(7) and (8) of the Law of the Republic of Lithuania on Joint Stock Companies.

2.1.5. The supervisory board should oversee that the company's tax planning strategies are designed and implemented in accordance with the legal acts in order to avoid faulty practice that is not related to the long-term interests of the company and its shareholders, which may give rise to reputational, legal or other risks.	IRRELEVANT	The Supervisory Board is not formed in the Company.
2.1.6. The company should ensure that the supervisory board is provided with sufficient resources (including financial ones) to discharge their duties, including the right to obtain all the necessary information or to seek independent professional advice from external legal, accounting or other experts on matters pertaining to the competence of the supervisory board and its committees.	IRRELEVANT	The Supervisory Board is not formed in the Company.
2.2. Formation of the supervisory board The procedure of the formation of the supervisory board should ensure proper resolution of conflicts of interest and effective and fair corporate governance.		
2.2.1. The members of the supervisory board elected by the general meeting of shareholders should collectively ensure the diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance between the qualifications of the members of the supervisory board, it should be ensured that members of the supervisory board, as a whole, should have diverse knowledge, opinions and experience to duly perform their tasks.	IRRELEVANT	The Supervisory Board is not formed in the Company.
2.2.2. Members of the supervisory board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience.	IRRELEVANT	The Supervisory Board is not formed in the Company.

2.2.3. Chair of the supervisory board should be a person, whose current or past positions constituted no obstacle to carry out impartial activities. A former manager or management board member of the company should not be immediately appointed as chair of the supervisory board either. Where the company decides to depart from these recommendations, it should provide information on the measures taken to ensure impartiality of the supervision.	IRRELEVANT	The Supervisory Board is not formed in the Company.
2.2.4. Each member should devote sufficient time and attention to perform his duties as a member of the supervisory board. Each member of the supervisory board should undertake to limit his other professional obligations (particularly the managing positions in other companies) so that they would not interfere with the proper performance of the duties of a member of the supervisory board. Should a member of the supervisory board attend less than a half of the meetings of the supervisory board throughout the financial year of the company, the shareholders of the company should be notified thereof.	IRRELEVANT	The Supervisory Board is not formed in the Company.
2.2.5. When it is proposed to appoint a member of the supervisory board, it should be announced which members of the supervisory board are deemed to be independent. The supervisory board may decide that, despite the fact that a particular member meets all the criteria of independence, he/she cannot be considered independent due to special personal or company-related circumstances.	IRRELEVANT	The Supervisory Board is not formed in the Company.
2.2.6. The amount of remuneration to members of the supervisory board for their activity and participation in meetings of the supervisory board should be approved by the general meeting of shareholders.	IRRELEVANT	The Supervisory Board is not formed in the Company.

2.2.7. Every year the supervisory board should carry out an assessment of its activities. It should include evaluation of the structure of the supervisory board, its work organisation and ability to act as a group, evaluation of the competence and work efficiency of each member of the supervisory board, and evaluation whether the supervisory board has achieved its objectives. The supervisory board should, at least once a year, make public respective information about its internal structure and operational procedures.	IRRELEVANT	The Supervisory Board is not formed in the Company.
Principle 3: Management board 3.1. Functions and liability of the management board The management board should ensure the implementation of the company's strategy and good corporate governance with due regard to the interests of its shareholders, employees and other interest groups.		
3.1.1. The management board should ensure the implementation of the company's strategy approved by the supervisory board if the latter has been formed at the company. In such cases where the supervisory board is not formed, the management board is also responsible for the approval of the company's strategy.	YES	Article 39 of the Articles of Association of the Company defines that the Board approves the Company's strategy, which also comprises a formulated joint mission and vision of the group of companies. In addition, the Board regularly reviews reports on the implementation of the strategy carrying out its supervisory function.
3.1.2. As a collegial management body of the company, the management board performs the functions assigned to it by the Law and in the articles of association of the company, and in such cases where the supervisory board is not formed in the company, it performs inter alia the supervisory functions established in the Law. By performing the functions assigned to it, the management board should take into account the needs of the company's shareholders, employees and other interest groups by respectively striving to achieve sustainable business development.	YES	Article 44 of the Articles of Association of the Company provides that the Board of the Company performs supervisory functions.

3.1.3. The management board should ensure compliance with the laws and the internal policy of the company applicable to the company or a group of companies to which this company belongs. It should also establish the respective risk management and control measures aimed at ensuring regular and direct liability of managers.	YES	Articles 39 and 41 of the Articles of Association of the Company define that the Board approves the documents of the group of companies (e.g. guidelines, policies, procedures, etc.), forms the joint corporate governance policy of the group of companies and sets the basic principles of such corporate governance, guidelines, codes of conduct and other regulations of indicative nature applied for the companies of the group of companies. In addition, by separate decisions, the Board appoints the CEO to provide regular reports on the indicators followed by the Board (e.g. the Company's strategy, activity plan, budget etc.).
3.1.4. Moreover, the management board should ensure that the measures included into the OECD Good Practice Guidance[5] on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards.	YES	The Company has a variety of documents to ensure the highest level of internal control, ethics and compliance management tools, such as: - internal audit is accountable to the Board which is formed from external members (3 members are independent); - the Audit Committee is composed of the majority of independent members, to whom internal audit is also accountable; - the Company applies the Code of Conduct and the Corruption Prevention Policy of EPSO-G UAB group of companies, the Sponsorship and Charity Policy of EPSO-G UAB group of companies, the policy for managing the conflict of interests of the members, executives and employees of collegiate management and supervision bodies of EPSO-G UAB group of companies, the Risk Management Policy of EPSO-G UAB group of companies, the Transparency and Communication Policy of EPSO-G UAB group of companies, etc.
3.1.5. When appointing the manager of the company, the management board should take into account the appropriate balance between the candidate's qualifications, experience and competence.	YES	The Articles of Association of the Company defines that the Company's CEO is appointed by the Board taking into account the recommendations of the Remuneration and Appointment Committee.

[5] Reference to the OECD good practice guidelines on internal control, ethics and compliance: https://www.oecd.org/daf/anti-bribery/44884389.pdf

		Article 81 of the Articles of Association of the Company defines that, in assessment of suitability of the candidate for the position of the CEO, the Board shall consider his/her compliance with requirements specified by these Articles of Association and regulations, and therefore may require that the candidate submitted documents supporting this compliance and/or contact competent authorities for obtaining necessary information about the candidate.
3.2. Formation of the management board		
3.2.1. The members of the management board elected by the supervisory board or, if the supervisory board is not formed, by the general meeting of shareholders should collectively ensure the required diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance in terms of the current qualifications possessed by the members of the management board, it should be ensured that the members of the management board would have, as a whole, diverse knowledge, opinions and experience to duly perform their tasks.	YES	Members of the Board of Directors of the Company shall be elected according to the procedure established by the Government of the Republic of Lithuania. When electing members of the Board, it is ensured that the Board consists of at least three (3) independent members whose independence is determined in accordance with the criteria set out in mandatory law and the EPSO-G Group Policy on the management of the interests of members of collegial bodies, managers and employees and that Board members have competence in line with the responsibilities and functions of the Board of Directors and, if possible, seek to avoid appointing employees to the Board of Directors. The Board members have a yearly assessment of their performance. In addition, the Remuneration and Appointment Committee evaluates the performance of the Board on an annual basis with recommendations on performance improvement.

3.2.2. Names and surnames of the candidates to become members of the management board, information on their educational background, qualifications, professional experience, current positions, other important professional obligations and potential conflicts of interest should be disclosed without violating the requirements of the legal acts regulating the handling of personal data at the meeting of the supervisory board in which the management board or individual members of the management board are elected. In the event that the supervisory board is not formed, the information specified in this paragraph should be submitted to the general meeting of shareholders. The management board should, on yearly basis, collect data provided in this paragraph on its members and disclose it in the company's annual report.	YES	Article 33 of the Company's Articles of Association stipulates that the meeting, when assessing the suitability of a candidate for the position of a member of the Board, assesses his / her compliance with the requirements established in the Articles of Association and applicable legal acts. According to Article 34 of the Company's Articles of Association, each candidate for the position of a member of the Board must submit the candidate's declaration of interests to the general meeting of shareholders. Information on the appointed members of the Board is published and updated on the Company's website. This information is not repeated additionally in the Annual Report, however the Annual Report contains the information on the chairman of the Board, CEO and the chief accountant and the head of the Internal Audit
3.2.3. All new members of the management board should be familiarised with their duties and the structure and operations of the company.	YES	The members of the Board are introduced to the structure and activities of the Company by sharing key corporate documents of the Company.
3.2.4. Members of the management board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience and sufficiently frequent reconfirmation of their status.	YES	Board members are elected for a term of 4 years. A member of the Board may continuously serve maximum 2 subsequent full terms of office, i.e. no longer than 8 years in a row.
3.2.5. Chair of the management board should be a person, whose current or past positions constitute no obstacle to carry out impartial activity. Where the supervisory board is not formed, the former manager of the company should not be immediately appointed as chair of the management board. When a company decides to depart from these recommendations, it should furnish information on the measures it has taken to ensure the impartiality of supervision.	YES	The Articles of Association of the Company provides the criteria for which a person cannot be elected as a member of the Board. According to Article 52 of the Company's Articles of Association, the Chairman of the Board must be an independent member of the Board.

3.2.6. Each member should devote sufficient time and attention to perform his duties as a member of the management board. Should a member of the management board attend less than a half of the meetings of the management board throughout the financial year of the company, the supervisory board of the company or, if the supervisory board is not formed at the company, the general meeting of shareholders should be notified thereof.	YES	The Company's taken minutes record the attendance of the Board members and voting in decision-making process. The Board's participation in the meetings is set out in the Annual Report. Each year, the Board members perform an assessment of his/her activities, the results of which are submitted to the shareholders and the Remuneration and Appointment Committee.
3.2.7. In the event that the management board is elected in the cases established by the Law where the supervisory board is not formed at the company, and some of its members will be independent[6], it should be announced which members of the management board are deemed as independent. The management board may decide that, despite the fact that a particular member meets all the criteria of independence established by the Law, he/she cannot be considered independent due to special personal or company related circumstances.	YES	The Company's website and Annual Report contain information about the members of the Board of the Company, specifying the independent members.
3.2.8. The general meeting of shareholders of the company should approve the amount of remuneration to the members of the management board for their activity and participation in the meetings of the management board.	YES	The Articles of Association of the Company provide that the general meeting of shareholders shall make decisions on the remuneration guidelines applicable to the determination of remuneration for activities in the boards of the Company and the group of companies.
3.2.9. The members of the management board should act in good faith, with care and responsibility for the benefit and the interests of the company and its shareholders with due regard to other stakeholders. When adopting decisions, they should not act in their personal interest; they should be subject to non-compete agreements and they should not use the business information or opportunities related to the company's operations in violation of the company's interests.	YES	Taking into account the objective to monitor the absence of conflicts of interest of the members of the Board of the Company, each year the members of the Board renew their declarations of interests. The Company has the approved policy for managing the conflict of interests of the members, executives and employees of collegiate management and supervision bodies of EPSO-G UAB group of companies.

[6] For the purposes of this Code, the criteria of independence of members of the Board of Directors shall be understood in the same way as the criteria of independence of non-related persons are defined in Article 33(7) of the Law of the Republic of Lithuania on Public Limited Liability Companies.

		In addition, the Articles of Association of the Company stipulates that the members of the Board may have another job or occupy another position compatible with their activities in the Board, including without limitation the managing positions occupied in other legal entities, a job in a state or statutory service, position in the Company and in other legal entities (within the limits set by the Articles of Association) only with prior notice to the Board. The Board members have signed commitments to protect confidential information. There are no non-compete agreements concluded with the members of the Board – the need for such agreements was not established.
3.2.10. Every year the management board should carry out an assessment of its activities. It should include evaluation of the structure of the management board, its work organisation and ability to act as a group, evaluation of the competence and work efficiency of each member of the management board, and evaluation whether the management board has achieved its objectives. The management board should, at least once a year, make public respective information about its internal structure and working procedures in observance of the legal acts regulating the processing of personal data.	YES	The Board carries out an assessment of its activities every year and prepares a performance improvement plan on its basis. The results of the assessment of the Board's performance are presented in the Company's Annual Report.
Principle 4: Rules of procedure of the supervisory board and the management board of the company The rules of procedure of the supervisory board, if it is formed at the company, and of the management board should ensure efficient operation and decision-making of these bodies and promote active cooperation between the company's management bodies.		

4.1. The management board and the supervisory board, if the latter is formed at the company, should act in close cooperation in order to attain benefit for the company and its shareholders. Good corporate governance requires an open discussion between the management board and the supervisory board. The management board should regularly and, where necessary, immediately inform the supervisory board about any matters significant for the company that are related to planning, business development, risk management and control, and compliance with the obligations at the company. The management board should inform the supervisory board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this.	IRRELEVANT	The Supervisory Board is not formed in the Company.
4.2. It is recommended that meetings of the company's collegial bodies should be held at the respective intervals, according to the pre-approved schedule. Each company is free to decide how often meetings of the collegial bodies should be convened but it is recommended that these meetings should be convened at such intervals that uninterruptable resolution of essential corporate governance issues would be ensured. Meetings of the company's collegial bodies should be convened at least once per quarter.	YES	The Articles of Association of the Company stipulate that the Board takes its decisions in the Board meetings that are usually convened as necessary for the Board to be able to properly perform its functions and take decisions attributed to its competence. At the beginning of each year, the Board of the Company approves the schedule and activity plan of the current year (preliminary questions for the respective Board meeting).
4.3. Members of a collegial body should be notified of the meeting being convened in advance so that they would have sufficient time for proper preparation for the issues to be considered at the meeting and a fruitful discussion could be held and appropriate decisions could be adopted. Along with the notice of the meeting being convened all materials relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body present at the meeting agree with such change or supplement to the agenda, or certain issues that are important to the company require immediate resolution.	YES	According to the rules of procedures of the Board, the material shall be submitted to the Board 5 working days prior to the ordinary meeting

<table>
<tr><td>4.4. In order to coordinate the activities of the company's collegial bodies and ensure effective decision-making process, the chairs of the company's collegial supervision and management bodies should mutually agree on the dates and agendas of the meetings and close cooperate in resolving other matters related to corporate governance. Meetings of the company's supervisory board should be open to members of the management board, particularly in such cases where issues concerning the removal of the management board members, their responsibility or remuneration are discussed.</td><td>IRRELEVANT</td><td>The Supervisory Board is not formed in the Company.</td></tr>
<tr><td colspan="3">Principle 5: Appointment, remuneration and audit committees
5.1. Purpose and formation of committees

The committees formed at the company should increase the work efficiency of the supervisory board or, where the supervisory board is not formed, of the management board which performs the supervisory functions by ensuring that decisions are based on due consideration and help organise its work in such a way that the decisions it takes would be free of material conflicts of interest.
Committees should exercise independent judgment and integrity when performing their functions and provide the collegial body with recommendations concerning the decisions of the collegial body. However, the final decision should be adopted by the collegial body.</td></tr>
<tr><td>5.1.1. Taking due account of the company-related circumstances and the chosen corporate governance structure, the supervisory board of the company or, in cases where the supervisory board is not formed, the management board which performs the supervisory functions, establishes committees. It is recommended that the collegial body should form the appointment, remuneration and audit committees [7].</td><td>YES</td><td rowspan="2">The Company has the Remuneration and Appointment Committee and Innovation and Development Committees (the first meeting was held on 6 January 2020; more detailed information is available in the annual report) formed by the Board of EPSO-G UAB, which operate in accordance with the rules of procedures approved by the body that forms it, and the Audit Committee formed by the sole shareholder EPSO-G UAB operating at the Group level and acting in compliance with the rules of procedures approved by the body that forms it.

Given that the issues of remuneration and appointment are closely related and experts with the same qualifications are required to deal with these issues, it was decided to form a single Remuneration and Appointment Committee.</td></tr>
<tr><td>5.1.2. Companies may decide to set up less than three committees. In such case, companies should explain in detail why they have chosen the alternative approach, and how the chosen approach corresponds with the objectives set for the three different committees.</td><td>YES</td></tr>
</table>

[7] Legislation may provide for an obligation to set up an appropriate committee. For instance, the Law on Auditing Financial Statements of the Republic of Lithuania provides that public interest entities (including, but not limited to, joint stock companies whose securities are traded on a regulated market in the Republic of Lithuania and/or any other member state) must establish an audit committee (the legislation provides for exceptions where the functions of the audit committee can be performed by a collegial body exercising supervisory functions).

5.1.3. In the cases established by the legal acts the functions assigned to the committees formed at companies may be performed by the collegial body itself. In such case, the provisions of this Code pertaining to the committees (particularly those related to their role, operation and transparency) should apply, where relevant, to the collegial body as a whole.	IRRELEVANT	Please refer to Comment under Item 5.1.1.
5.1.4. Committees established by the collegial body should normally be composed of at least three members. Subject to the requirements of the legal acts, committees could be comprised only of two members as well. Members of each committee should be selected on the basis of their competences by giving priority to independent members of the collegial body. The chair of the management board should not serve as the chair of committees.	YES	Chapters 7.8 and 7.9 of the Articles of Association of the Company regulate the formation and competence of committees within the group. The aforementioned Articles of Association stipulate that the Remuneration and Appointment Committee and the Audit Committee shall consist of not less than 3 members. The Remuneration and Appointment Committee ensures that there is at least 1 independent member and at least 2 independent members in the Audit Committee in the group of 3 members. The Chairpersons of the Remuneration and Appointment and Audit Committees shall be independent members of the Committees, none of whom shall serve as Chairperson of the Board. Not all members of the Remuneration and Appointment Committee and the Audit Committee are appointed from the Board of EPSO-G. One member to each of the Committees is appointed on the basis of competence when performing the external selection of an independent member of the Committee.

5.1.5. The authority of each committee formed should be determined by the collegial body itself. Committees should perform their duties according to the authority delegated to them and regularly inform the collegial body about their activities and performance on a regular basis. The authority of each committee defining its role and specifying its rights and duties should be made public at least once a year (as part of the information disclosed by the company on its governance structure and practice on an annual basis). In compliance with the legal acts regulating the processing of personal data, companies should also include in their annual reports the statements of the existing committees on their composition, the number of meetings and attendance over the year as well as the main directions of their activities and performance.	YES/NO	The terms of reference of the committees are determined by the EPSO-G Charter and the decision of the body forming the committee: the terms of reference of the Remuneration and Nomination Committee are approved by the EPSO-G Board of Directors and the terms of reference of the Audit Committee are approved by the EPSO-G sole shareholder, in accordance with the requirements for Audit Committee members approved by the Bank of Lithuania. The Rules of Procedures of the Committees are published on the EPSO-G website. Information about the structure of committees, activities, etc. is presented in the Consolidated Group's Annual Report.
5.1.6. With a view to ensure the independence and impartiality of the committees, the members of the collegial body who are not members of the committees should normally have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or request that certain employees of the company or experts would participate in the meeting. Chair of each committee should have the possibility to maintain direct communication with the shareholders. Cases where such practice is to be applied should be specified in the rules regulating the activities of the committee.	YES	The Rules of Procedures of the Committees provide for the right of the members of the Committees to invite, at their discretion, to their meetings the members of the bodies, employees, representatives, candidates for certain positions of EPSO-G group of companies, or other persons, and to obtain from them the necessary explanations within their competence as well as require for that purpose that necessary actions would be carried out needed for the performance of the functions of the Committees.
5.2. Appointment committee.		
5.2.1. The key functions of the appointment committee should be the following: 1) to select candidates to fill vacancies in the membership of supervisory and management bodies and the administration and recommend the collegial body to approve them. The appointment committee should evaluate the balance of skills, knowledge and experience in the management body, prepare a description of the functions and capabilities required to assume a particular position and assess the time commitment expected;	YES	The Remuneration and Appointment Committee of EPSO-G serves as the advisory body to the Board acting on the Group level, the main functions of which are the following: - assists in the selection of candidates for members of the collegial bodies in all undertakings of the group of companies; - provides recommendations for the undertakings of the group of companies on the appointment of members of the collegial bodies, conclusion of contracts with them and determination of remuneration for them;

2) assess, on a regular basis, the structure, size and composition of the supervisory and management bodies as well as the skills, knowledge and activity of its members, and provide the collegial body with recommendations on how the required changes should be sought; 3) devote the attention necessary to ensure succession planning.		- provides recommendations on the policies of the group of companies that govern the remuneration policy and employee performance assessment; - provides recommendations on the planning system of shifts of critical positions.
5.2.2. When dealing with issues related to members of the collegial body who have employment relationships with the company and the heads of the administration, the manager of the company should be consulted by granting him/her the right to submit proposals to the Appointment Committee.	YES	It is defined in the Rules of Procedures that that the right of initiative to convene the Remuneration and Appointment Committee is exercised by the Boards or managers of the group of companies, as well as to propose the agenda of the meeting by submitting issue related material and draft resolutions. Currently, this provision is not practically relevant, as there are no employees of the Company in the Board.
5.3. Remuneration committee.		
The main functions of the remuneration committee should be as follows: 1) submit to the collegial body proposals on the remuneration policy applied to members of the supervisory and management bodies and the heads of the administration for approval. Such policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as conditions which would allow the company to recover the amounts or suspend the payments by specifying the circumstances under which it would be expedient to do so; 2) submit to the collegial body proposals regarding individual remuneration for members of the collegial bodies and the heads of the administration in order to ensure that they would be consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned; 3) review, on a regular basis, the remuneration policy and its implementation.	YES	Please refer to Comment under Item 5.2.1.
5.4. Audit committee.	YES	

5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee[8]. 5.4.2. All members of the committee should be provided with detailed information on specific issues of the company's accounting system, finances and operations. The heads of the company's administration should inform the audit committee about the methods of accounting for significant and unusual transactions where the accounting may be subject to different approaches.		The Audit Committee of EPSO-G serves as an advisory body of the Company's Board on the Group level, the main functions of which are the following: - supervises the audit and financial reporting of the group of companies; - takes responsibility for ensuring compliance with the principles of independence and objectivity of the auditors of the Group's companies and audit firms; - takes responsibility for monitoring the internal control, risk management and internal audit systems, effectiveness of operational processes of the Group's companies; - takes responsibility for monitoring the provision of non-audit services by the auditor of the Group's companies and/or audit firm; - ensures the functioning of complaints system and complaints handling; - evaluates transactions with related parties.
5.4.3. The audit committee should decide whether the participation of the chair of the management board, the manager of the company, the chief finance officer (or senior employees responsible for finance and accounting), the internal and external auditors in its meetings is required (and, if required, when). The committee should be entitled, when needed, to meet the relevant persons without members of the management bodies present.	YES	The Rules of Procedures of the Audit Committee stipulate that the members of the Committee, at their own discretion, may invite to their meetings the members of the bodies, employees, representatives, candidates for certain positions of the group of companies, or other persons, and obtain from them the necessary explanations within their competence, as well as require for that purpose that necessary actions would be taken for the performance of the functions of the Committee.
5.4.4. The audit committee should be informed about the internal auditor's work programme and should be furnished with internal audit reports or periodic summaries. The audit committee should also be informed about the work programme of external auditors and should receive from the audit firm a report describing all relationships between the independent audit firm and the company and its group.	YES	The Audit Committee is periodically, at least quarterly, introduced to the internal audit reports and at least once every six months with the internal audit plan; it may make recommendations to the Boards of the group of companies. The Audit Committee organizes meetings with the external auditors to discuss the auditors' work program and the uncertainties arising during the audit, and following the external audit, their conclusions and recommendations are discussed with the external auditors. The audit firm before the start of annual audits submits its declaration of independence to the Audit Committee and to the companies at the beginning of each year.

[8] The activities of audit committees are regulated by Regulation No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on Special Audit Requirements for Public Interest Entities, the Law of the Republic of Lithuania on Auditing Financial Statements, and the rules of the Bank of Lithuania regulating the activities of audit committees.

5.4.5. The audit committee should examine whether the company complies with the applicable provisions regulating the possibility of lodging a complaint or reporting anonymously his/her suspicions of potential violations committed at the company and should also ensure that there is a procedure in place for proportionate and independent investigation of such issues and appropriate follow-up actions.	YES	The Rules of Procedures of the Audit Committee provide that the Audit Committee ensures the effective functioning of the complaints system and the proportionate and independent investigation of submitted complaints. In performing this function, the Chairman of the Audit Committee is immediately informed about significant complaints received, as well as periodically reports to the Audit Committee on all complaints received by the Group companies, their investigation and decisions based on the findings of investigations.
5.4.6. The audit committee should submit to the supervisory board or, where the supervisory board is not formed, to the management board its activity report at least once in every six months, at the time that annual and half-yearly reports are approved.	YES	The Rules of Procedures of the Audit Committee stipulate that the Audit Committee shall submit quarterly activity report to the Board of EPSO-G. In addition, it shall submit an annual activity report to the Ordinary General Meeting and to the Board of EPSO-G.
Principle 6: Prevention and disclosure of conflicts of interest The corporate governance framework should encourage members of the company's supervisory and management bodies to avoid conflicts of interest and ensure a transparent and effective mechanism of disclosure of conflicts of interest related to members of the supervisory and management bodies. The corporate governance framework should recognise the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle, the concept "*stakeholders*" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.		
Any member of the company's supervisory and management body should avoid a situation where his/her personal interests are or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory or management body should, within a reasonable period of time, notify other members of the same body or the body of the company which elected him/her or the company's shareholders of such situation of a conflict of interest, indicate the nature of interests and, where possible, their value.	YES	Such an obligation is set out in the rules of procedures of the Board, an agreement signed with a Board member and the policy of managing the interests of members of the collegial bodies, managers and employees of EPSO-G UAB group of companies. Article 34 of the Company's Articles of Association stipulates that each candidate for a member of the Board must immediately inform the Board of any new circumstances that may give rise to a conflict of interest.
Principle 7: Remuneration policy of the company The remuneration policy and the procedure for review and disclosure of such policy established at the company should prevent potential conflicts of interest and abuse in determining remuneration of members of the collegial bodies and heads of the administration, in addition it should ensure the publicity and transparency of the company's remuneration policy and its long-term strategy.		

7.1. The company should approve and post the remuneration policy on the website of the company; such policy should be reviewed on a regular basis and be consistent with the company's long-term strategy.	YES	The Company applies the Guidelines on the establishment of remuneration for the activity at EPSO-G UAB and corporate bodies of EPSO-G UAB group of companies approved by the sole shareholder of EPSO-G UAB, which are publicly available. The Company applies the Remuneration Policy of EPSO-G UAB group of companies and Employee Performance Assessment Policy of EPSO-G UAB group of companies in full that are both publicly available.
7.2. The remuneration policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as the conditions specifying the cases where the company can recover the disbursed amounts or suspend the payments.	YES	All the possible forms of remuneration of the collegial bodies and the personnel are established in the Guidelines on the establishment of remuneration for the activity at EPSO-G UAB and corporate bodies of EPSO-G UAB group of companies and the Remuneration Policy of EPSO-G UAB group of companies, which are both publicly available.
7.3. With a view to avoid potential conflicts of interest, the remuneration policy should provide that members of the collegial bodies which perform the supervisory functions should not receive remuneration based on the company's performance.	YES	The Company applies the guidelines for determining remuneration for activities in the bodies of UAB EPSO-G and EPSO-G UAB group of companies regulating a fixed monthly remuneration for members of collegial bodies. The members of the Board are not remunerated depending on the results of the Company.
7.4. The remuneration policy should provide sufficient information on the policy regarding termination payments. Termination payments should not exceed a fixed amount or a fixed number of annual wages and in general should not be higher than the non-variable component of remuneration for two years or the equivalent thereof. Termination payments should not be paid if the contract is terminated due to inadequate performance.	YES/NO	The Remuneration Policy of EPSO-G UAB group of companies stipulates that the Group's companies do not conclude advance agreements on termination benefits (except for the CEOs whose terms of employment are determined by the Board). The amounts of benefits related to the termination of employment relationships are determined by taking into account the mandatory minimum amounts of such benefits under labour law, excluding exceptional cases where there are objective reasons for the agreement on higher benefits. The relevant Board of the Group's company shall be informed of the disbursement of such benefits and the grounds for their payment at its forthcoming meeting.

7.5.In the event that the financial incentive scheme is applied at the company, the remuneration policy should contain sufficient information about the retention of shares after the award thereof. Where remuneration is based on the award of shares, shares should not be vested at least for three years after the award thereof. After vesting, members of the collegial bodies and heads of the administration should retain a certain number of shares until the end of their term in office, subject to the need to compensate for any costs related to the acquisition of shares.	IRRELEVANT	The financial incentive scheme is not applied in the Company.
7.6. The company should publish information about the implementation of the remuneration policy on its website, with a key focus on the remuneration policy in respect of the collegial bodies and managers in the next and, where relevant, subsequent financial years. It should also contain a review of how the remuneration policy was implemented during the previous financial year. The information of such nature should not include any details having a commercial value. Particular attention should be paid on the major changes in the company's remuneration policy, compared to the previous financial year.	YES	Information on the implementation of the Company's Remuneration Policy and average salary levels of individual employee groups is publicly disclosed in the Company's Annual Report, on the Company's website. Public information on the remuneration of employees is provided on a quarterly basis on the Company's website.
7.7. It is recommended that the remuneration policy or any major change of the policy should be included on the agenda of the general meeting of shareholders. The schemes under which members and employees of a collegial body receive remuneration in shares or share options should be approved by the general meeting of shareholders.	YES	The remuneration of the members of the Board of the Company is determined by the General Meeting of Shareholders of the Company. Remuneration is subject to the Guidelines on the establishment of remuneration for the activity at EPSO-G UAB and corporate bodies of EPSO-G UAB group of companies, which are approved by the sole shareholder of EPSO-G UAB. Such schemes are not applied in the Company.
Principle 8: Role of stakeholders in corporate governance The corporate governance framework should recognise the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.		

8.1. The corporate governance framework should ensure that the rights and lawful interests of stakeholders are protected.	YES	The Company applies the Transparency and Communication Policy of EPSO-G UAB group of companies, which establishes goals to increase awareness and understanding of stakeholders about the activities of EPSO-G UAB group of companies and individual group companies; to ensure employee engagement; to create and maintain sustainable relationship with stakeholders based on the mutual respect.
8.2.The corporate governance framework should create conditions for stakeholders to participate in corporate governance in the manner prescribed by law. Examples of participation by stakeholders in corporate governance include the participation of employees or their representatives in the adoption of decisions that are important for the company, consultations with employees or their representatives on corporate governance and other important matters, participation of employees in the company's authorised capital, involvement of creditors in corporate governance in the cases of the company's insolvency, etc.	YES	The Company, together with the representatives of the Company's employees, conducts consultations, negotiations and briefings on the optimisation processes implemented in the Company. Stakeholders can take part in the corporate governance to the extent permitted by law.
8.3.Where stakeholders participate in the corporate governance process, they should have access to relevant information.	YES	Please refer to Comment under Item 8.1. and 8.2.
8.4. Stakeholders should be provided with the possibility of reporting confidentially any illegal or unethical practices to the collegial body performing the supervisory function.	NO	The Corruption Prevention section of the Company's website contains the Trust Line contacts. In the prepared notification form, you are invited to report on the breaches of legislation and conduct, violations of ongoing economic transactions and accounting; bribery, bribery, corrupt practices, affectation of trade, abuse; conflicts of interest, nepotism and cronyism; breaches of transparency, equality, non-discrimination, proportionality and impartiality in procurement conducted by the executives and the employees of EPSO-G UAB and directly or indirectly controlled companies (LITGRID AB, Amber Grid AB, BALTPOOL UAB, TETAS UAB, Power Link Service UAB, GET Baltic UAB), The information is sent to this address only to an EPSO-G corruption prevention officer, who ensures the confidentiality of its sender. The Audit Committee acting EPSO-G UAB group of companies-wide ensures the functioning of the system of lodging complaints and their handling.

		It is expected that a system will be established in the near future to provide information to a group-wide Audit Committee.
Principle 9: Disclosure of information The corporate governance framework should ensure the timely and accurate disclosure of all material corporate issues, including the financial situation, operations and governance of the company.		
9.1. In accordance with the company's procedure on confidential information and commercial secrets and the legal acts regulating the processing of personal data, the information publicly disclosed by the company should include but not be limited to the following:	YES	The Transparency and Communication Policy is established at EPSO-G UAB. This information is disclosed in the Company's Annual Report and on the Company's website.
operating and financial results of the company;	YES	-
objectives and non-financial information of the company;	YES	-
the persons owning or controlling a shareholding in the company, directly and/or indirectly and/or jointly with related persons, as well as the structure of the group of companies and the interrelationships between them, indicating the final beneficiary;	YES	-
reports of the existing committees on their composition, number of meetings and attendance of members during the last year as well as the main directions and results of their activities;	YES	-
reports of the existing committees on their composition, number of meetings and attendance of members during the last year as well as the main directions and results of their activities;	YES	-
the company's transactions with related parties;	YES	-
objectives and non-financial information of the company;	YES	-
main issues related to employees and other stakeholders (for instance, human resource policy, participation of employees in corporate governance, award of the company's shares or share options as incentives, relationships with creditors, suppliers, local community, etc.);	YES	-
structure and strategy of corporate governance;	YES	-
Initiatives and measures of social responsibility policy and anti-corruption fight, significant current or planned investment projects.	YES	-

This list is deemed minimum and companies are encouraged not to restrict themselves to the disclosure of information included into this list. This principle of the Code does not exempt companies from their obligation to disclose information as provided for in the applicable legal acts.		
9.2.When disclosing the information specified in Item 9.1.1 of recommendation 9.1, it is recommended that the company which is a parent company in respect of other companies should disclose information about the consolidated results of the whole group of companies.	YES	EPSO-G UAB, as a parent company, discloses information on the financial results of the Group and the operations of the companies of the Group.
9.3.When disclosing the information specified in Item 9.1.4 of recommendation 9.1, it is recommended that the information on the professional experience and qualifications of members of the company's supervisory and management bodies and the manager of the company as well as potential conflicts of interest which could affect their decisions should be provided. It is further recommended that the remuneration or other income of members of the company's supervisory and management bodies and the manager of the company should be disclosed, as provided for in greater detail in Principle 7.	YES	This information is disclosed in the Company's Annual Report and on the Company's website.
9.4.Information should be disclosed in such manner that no shareholders or investors are discriminated in terms of the method of receipt and scope of information. Information should be disclosed to all parties concerned at the same time.	IRRELEVANT	The Company has the sole shareholder and it is not listed on the exchange.
Principle 10: Selection of the company's audit firm The company's audit firm selection mechanism should ensure the independence of the report and opinion of the audit firm		
10.1. With a view to obtain an objective opinion on the company's financial condition and financial results, the company's annual financial statements and the financial information provided in its annual report should be audited by an independent audit firm.	YES	An independent audit firm is appointed by the General Meeting of Shareholders.
10.2. It is recommended that the audit firm would be proposed to the general meeting of shareholders by the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company.	YES	The Audit Committee operating at the Group level is actively involved in the selection process of an auditor. The Audit Committee provides a recommendation to the Board on the auditor's nomination. The final decision shall be made by the General Meeting of Shareholders, convened by the Board, which also proposes draft decisions.

10.3. In the event that the audit firm has received remuneration from the company for the non-audit services provided, the company should disclose this publicly. This information should also be available to the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company when considering which audit firm should be proposed to the general meeting of shareholders.	YES	The audit firm provides non-audit services in accordance with the policy approved by the Audit Committee of EPSO-G UAB on the procurement of non-audit services of EPSO-G UAB group of companies from an audit firm or other firm that is a part of the network of the audit firm. Remuneration received by the audit firm for non-audit services provided to the group of companies during the reporting period is published in the annual report. The provision of non-audit services is supervised by the Audit Committee operating at the Group level, which, as mentioned in Item 10.2, is actively involved in the selection process of an auditor. Thus, the Audit Committee, when submitting a recommendation to the Board on the auditor, has all the necessary information on auditors.

The following electronic signatures are used herein to sign the Financial Statements and Annual Report:

Algirdas Juozaponis on behalf of Chief Executive Officer and
Žydrūnas Augutis on behalf of Chief Financier

Electronic signatures confirm that this is the English version of the documents which were prepared in Lithuanian and signed on 13 April 2021

EPSOG
ENERGETIKOS EVOLIUCIJA

CONSOLIDATED AND THE COMPANY'S FINANCIAL STATEMENTS, CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2020 AND INDEPENDENT AUDITOR'S REPORT

PAGE

The financial statements were approved on 13 April 2021.

Rolandas Zukas Chief Executive Officer	Žydrūnas Augutis Chief Financier

Independent auditor's report

To the shareholder of EPSO-G UAB

Our opinion

In our opinion, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of EPSO-G UAB (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2020, and the Company's and the Group's separate and consolidated financial performance, and separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Company's and the Group's separate and consolidated financial statements comprise:

- the consolidated and the company's statement of financial position as at 31 December 2020;
- the consolidated and the company's statement of comprehensive income for the year then ended;
- the consolidated and the company's statement of changes in equity for the year then ended;
- the consolidated and the company's statement of cash flows for the year then ended; and
- the notes to the separate and consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

We are independent of the Company and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for 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 separate and consolidated 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 Statements.

Reporting on other information including the consolidated annual report

Management is responsible for the other information. The other information comprises the consolidated annual report (but does not include the separate and consolidated financial statements, our auditor's report thereon, and does not include Information on compliance with transparency guidelines, Notice of Compliance with the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius AB).

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Our opinion on the separate and consolidated financial statements (together "the financial statements") does not cover the other information, including the consolidated 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 consolidated annual report, we considered whether the consolidated annual report includes the disclosures required by the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings, the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

On behalf of PricewaterhouseCoopers UAB

Rasa Radzevičienė
Partner
Auditor's Certificate No.000377

Vilnius, Republic of Lithuania
13 April 2021

The auditor's electronic signature is used herein to sign only the Independent Auditor's Report. Electronic signature confirms that this is the English version of the auditor's report, which was prepared in Lithuanian and signed on 13 April 2021

(All amounts are in EUR thousands unless otherwise stated)

		GROUP		COMPANY	
		At 31 Dec 2020	At 31 Dec 2019 (restated)	At 31 Dec 2020	At 31 Dec 2019
Non-current assets					
Intangible assets	5	11,135	7,910	5	-
Property, plant and equipment	6	574,227	525,899	12	19
Right-of-use assets	7	9,829	9,378	307	276
Investments in subsidiaries, associates	8			321,192	321,192
Deferred income tax assets	26	20,861	11,692	414	412
Amounts receivable after one year	12	105	4	-	-
Non-current portion of the balance of congestion management revenue	10	18,041	8,185	-	-
Financial assets measured at fair value through other comprehensive income	9	1,089	1,984	-	-
Total non-current assets		635,287	565,052	321,930	321,899
Current assets					
Inventories	11	5,191	2,695	-	-
Prepayments and contract assets		3,431	2,448	132	81
Trade receivables	12	32,460	24,752	50	38
Other amounts receivable	13	83,315	65,992	27,663	7,585
Prepaid income tax		-	3	-	-
Other financial assets	14	22,735	45,121	-	-
Cash and cash equivalents	15	5,113	13,470	3,362	12,346
		152,245	154,481	31,207	20,050
Non-current assets held for sale		-	13	-	-
Total current assets		152,245	154,494	31,207	20,050
TOTAL ASSETS		787,532	719,546	353,137	341,949
EQUITY AND LIABILITIES					
Equity					
Share capital	16	22,483	22,483	22,483	22,483
Revaluation reserve	17	406	475	-	-
Revaluation reserve of financial assets	18	-	51	-	-
Legal reserve	18	16,522	16,522	2,248	2,248
Other reserves	18	22,616	22,572	50	50
Retained earnings		160,232	122,131	155,446	154,542
Equity attributable to shareholders of the parent company		222,259	184,234	180,227	179,323
Non-controlling interest		10,805	9,727	-	-
Total equity		233,064	193,961	180,227	179,323
Liabilities					
Non-current liabilities					
Non-current borrowings	21	167,242	134,202	-	2,560
Other non-current financial liabilities	22	134,128	148,609	134,128	148,609
Lease liabilities	23	7,641	7,736	219	210
Congestion management revenue	10	55,659	34,672	-	-
Provisions	24	5,313	1,368		
Other non-current amounts payable and liabilities	25	3,029	5,510	-	-
Total non-current liabilities		373,012	332,097	134,347	151,379
Current liabilities					
Current portion of non-current borrowings	21	26,959	30,403	2,560	2,560
Current borrowings	21	20,019	-	20,653	-
Current portion of other non-current borrowings	22	14,481	7,965	14,481	7,965
Current portion of lease liabilities	23	1,523	1,209	90	66
Trade payables		36,118	33,797	87	49
Advance amounts received	28	14,891	19,441	-	-
Income tax liability	26	5,007	1,116	-	-
Provisions	24	885	1,313		
Other current amounts payable and liabilities	29	61,573	98,244	692	607
Total current liabilities		181,456	193,488	38,563	11,247
Total liabilities		554,468	525,585	172,910	162,626
TOTAL EQUITY AND LIABILITIES		787,532	719,546	353,137	341,949

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

(All amounts are in EUR thousands unless otherwise stated)

	Notes	GROUP 2020	GROUP 2019 (restated)	COMPANY 2020	COMPANY 2019
Revenue from contracts with customers					
Revenue from electricity transmission and related services	30	195,626	173,636	-	-
Revenue from natural gas transmission and related services	30	49,080	53,685	-	-
Other revenue from contracts with customers	30	14,828	11,344	296	230
		259,534	238,665	296	230
Other income	31	10,986	12,320	-	-
Dividend income and income from disposal of associates	32	1,726	174	4,093	7,677
Total revenue		272,246	251,159	4,389	7,907
Operating expenses					
Expenses of electricity transmission and related services	33	(128,391)	(134,946)	-	-
Expenses of natural gas transmission and related services	33	(6,345)	(11,336)	-	-
Depreciation and amortisation	5,6,7	(32,705)	(31,667)	(92)	(77)
Wages and salaries and related expenses		(30,400)	(27,827)	(1,769)	(1,477)
Repair and maintenance expenses		(6,890)	(7,541)	-	-
Taxes and compulsory payments		(5,957)	(5,338)		
Telecommunications and IT maintenance expenses		(3,483)	(2,886)	(35)	(29)
Transport expenses		(2,317)	(2,473)	(37)	(46)
Write-off expenses of property, plant and equipment		(615)	(109)	-	-
Impairment expenses of property, plant and equipment		(233)	(239)	-	-
Impairment of inventories and amounts receivable		(471)	-		
Other expenses		(12,252)	(10,848)	(522)	(452)
Total operating expenses		(230,058)	(235,210)	(2,455)	(2,081)
Operating profit/(loss)		42,188	15,949	(1,934)	5,872
Results of financing activities	34	(2,004)	(2,437)	(642)	(964)
Profit/(loss) before income tax		40,183	13,512	1,292	4,908
Income tax					
Current year income tax expenses	26	(9,642)	(6,034)		
Deferred income tax (expenses)/benefit	26	9,544	3,925	385	362
Total income tax		(98)	(2,109)	385	362
Profit/(loss) for the period		40,085	11,403	1,677	5,270
Other comprehensive income that will not be reclassified subsequently to profit or loss					
Gain/(loss) on revaluation of property, plant and equipment and non-current financial assets	17,18	(61)	(318)	-	-
Effect of deferred income tax	26	9	48	-	-
Total other comprehensive income that will not be reclassified subsequently to profit or loss		(52)	(270)	-	-
Total comprehensive income for the period		40,033	11,133	1,677	5,270
Profit/(loss) for the period is attributable to:					
Shareholders of the parent company		38,850	10,953	1,677	5,270
Non-controlling interest		1,235	450	-	-
		40,085	11,403	1,677	5,270
Total comprehensive income for the period is attributable to:					
Shareholders of the parent company		38,800	10,690	1,677	5,270
Non-controlling interest		1,233	443	-	-
		40,033	11,133	1,677	5,270

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

(All amounts are in EUR thousands unless otherwise stated)

		Equity attributable to shareholders of the Group								
GROUP	Notes	Share capital	Revaluation reserve	Reserve for changes in fair value of financial assets	Legal reserve	Other reserves	Retained earnings	Subtotal	Non-controlling interest	Total
Balance at 1 January 2019		22,483	216	639	16,522	61,776	72,663	174,299	9,574	183,873
Comprehensive income										
Revaluation of property, plant and equipment			324					324	8	332
Change in fair value of financial assets				(588)				(588)	(15)	(603)
Total other comprehensive income/(expenses) for the period	-	-	324	(588)	-	-	-	(264)	(7)	(270)
Profit for the period		-	-	-	-	-	10,937	10,937	450	11,403
Total comprehensive income/(expenses) for the period		-	324	(588)	-	-	10,937	10,673	443	11,116
Transfer to retained earnings		-	-	-	-	(39,204)	39,204	-	-	-
Depreciation of revaluation reserve and amounts written off			(77)				77	-	(2)	(2)
Dividends	32	-	-	-	-	-	(750)	(750)	(276)	(1,026)
Change in ownership interest in the subsidiary		-	12	-	-	-		12	(12)	-
Balance at 31 December 2019		22,483	475	51	16,522	22,572	122,131	184,234	9,727	193,961
Balance at 1 January 2020		22,483	475	51	16,522	22,572	122,131	184,234	9,727	193,961
Comprehensive income										
Change in fair value of financial assets				(51)				(51)	(1)	(52)
Total other comprehensive income/(expenses) for the period	-	-	-	(51)	-	-	-	(51)	(1)	(52)
Profit for the period		-	-	-	-	-	38,850	38,850	1,235	40,085
Total comprehensive income/(expenses) for the period		-	-	(51)	-	-	38,850	38,799	1,234	40,033
Depreciation of revaluation reserve and amounts written off	17	-	(69)	-	-	-	69	-	-	-
Transfer to reserves		-	-	-	-	44	(44)	-	-	-
Dividends	32	-	-	-	-		(773)	(773)	(156)	(928)
Balance at 31 December 2020		22,483	406	-	16,522	22,616	160,232	222,259	10,805	233,064

COMPANY	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2019	22,483	2,248	50	150,022	174,803
Comprehensive income/(expenses) for the period	-	-	-	5,270	5,270
Dividends	-	-	-	(750)	(750)
Transfer to reserves	-	-	-	-	-
Balance at 31 December 2019	22,483	2,248	50	154,542	179,323
Balance at 1 January 2020	22,483	2,248	50	154,542	179,323
Comprehensive income/(expenses) for the period	-	-	-	1,677	1,677
Dividends	-	-	-	(773)	(773)
Balance at 31 December 2020	22,483	2,248	50	155,446	180,227

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

(All amounts are in EUR thousands unless otherwise stated)

	Notes	GROUP		COMPANY	
		2020	2019	2020	2019
Cash flows from operating activities					
Profit/(loss) for the period		40,085	11,403	1,677	5,270
Adjustments for non-cash items:					
Depreciation and amortisation expenses	5,6,7	32,705	31,667	92	77
Revaluation/impairment of property, plant and equipment	6,17	233	239	-	-
Impairment/(reversal of impairment) of amounts receivable		(248)	(236)	-	-
Income tax expenses	26	98	2,109	(385)	(362)
Deferred revenue (amortisation)/revenue adjustment		-	661	-	-
Impairment of financial assets		719	-	-	-
(Gain)/loss on disposal/write-off of property, plant and equipment		460	138	-	-
Elimination of results of financing and investing activities:					
Interest income		(100)		(189)	(35)
Interest expenses		2,038	2,429	831	999
Dividend income		(895)	(174)	(4,093)	(7,677)
Other finance (income)/costs		(765)	8	-	-
Changes in working capital:					
(Increase)/decrease in trade receivables		(8,713)	(2,304)	(12)	399
(Increase)/decrease in other amounts receivable		23,483	-	(60)	-
(Increase)/decrease in inventories, prepayments and other current assets		(2,738)	1,015	(51)	(73)
Increase/(decrease) in trade payables		2,897	-	(38)	-
Increase/(decrease) in other amounts payable, grants, deferred revenue and prepayments received		(48,969)	14,571	267	54
Changes in other financial assets		(2,394)	(7,139)	-	-
Income tax (paid)/received		(5,749)	(3,891)	385	-
Net cash flows from/(used in) operating activities		32,147	50,496	(1,500)	(1,348)
Cash flows from investing activities					
(Acquisition) of property, plant and equipment and intangible assets		(137,967)	(62,675)	(7)	(4)
Disposal of property, plant and equipment and intangible assets		438	193		
(Acquisition)/disposal of subsidiaries (associates)		1,652	-	-	(3,150)
Loans (granted)/loan repayments received		-	-	(20,020)	4,936
Grants received	20	26,964	21,789	-	-
Congestion management revenue received	10	30,748	27,366	-	-
Interest received		96	-	189	35
Dividends received		895	174	4,093	7,677
Other cash flows from investing activities		46	2,713	-	-
Net cash flows from/(used in) investing activities		(77,128)	(10,440)	(15,745)	9,494
Cash flows from financing activities					
Proceeds from borrowings	21	60,000	10,000	-	-
Repayments of borrowings	21	(30,404)	(34,761)	(2,560)	(2,560)
Lease payments	23	(1,559)	(1,149)	(81)	(63)
Overdraft / current borrowings		20,019	(6,889)	20,654	
Interest paid		(2,467)	(2,674)	(1,014)	(1,096)
Dividends paid		(962)	(1,026)	(773)	(750)
Other cash flows from financing activities	22	(8,003)	-	(7,965)	
Net cash flows from/(used in) financing activities		36,624	(36,499)	8,261	(4,469)
Net increase/(decrease) in cash and cash equivalents		(8,357)	3,557	(8,984)	3,677
Cash and cash equivalents at the beginning of the period	15	13,470	9,913	12,346	8,669
Cash and cash equivalents at the end of the period	15	5,113	13,470	3,362	12,346

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

(All amounts are in EUR thousands unless otherwise stated)

1. General information

EPSO-G UAB (the "Company") is a private limited liability company registered in the Republic of Lithuania. The registered office address is Gedimino pr. 20, LT- 01103, Vilnius, Lithuania. The Company is a profit-seeking limited civil liability entity registered on 25 July 2012 with the Register of Legal Entities, company code 302826889.

EPSO-G is the parent company responsible for the activities of the group companies that include ensurance of an uninterrupted, stable transmission of electricity over high voltage networks and transportation of natural gas via high pressure gas pipelines, as well as ensurance of management, maintenance and development of these transmission systems as well as organisation of trade on the natural gas and biofuel exchanges.

EPSO-G provides management services to the subsidiaries and the lower-tier subsidiaries. The purpose of the provision of management services is to increase the efficiency of operations of the EPSO-G group companies, optimise the use of resources, and implement uniform standards of operations. These services are provided in accordance with the agreements concluded through a public procurement process.

As at 31 December 2020 and 2019, the Company's share capital amounted to EUR 22,482,695. As at 31 December 2020 and 2019, it was divided into ordinary registered shares with the nominal value of EUR 0.29 each. All the shares are fully paid.

The Company's shareholder	At 31 Dec 2020		At 31 Dec 2019	
	Share capital (EUR)	%	Share capital (EUR)	%
Republic of Lithuania represented by the Ministry of Energy of the Republic of Lithuania	22,482,695	100	22,482,695	100

The Company's management approved these financial statements on 12 April 2021. The shareholder of the Company has a statutory right not to approve these financial statements and require that the management prepares a new set of financial statements.

As at 31 December 2020, the EPSO-G group had 1,081 employees (31 December 2019: 993 employees) and the Company had 32 employees (31 December 2019: 25 employees).

The EPSO-G group (the "Group") consists of the Company, directly and indirectly controlled subsidiaries, associates and joint ventures set out below.

Company name	Registered office address	Ownership interest (%)		Profile of activities
		At 31 Dec 2020	At 31 Dec 2019	
SUBSIDIARIES				
LITGRID AB	Viršuliškių skg. 99B, Vilnius, Lithuania	97.5	97.5	Electricity transmission system operator
Amber Grid AB	Savanorių pr. 28, Vilnius, Lithuania	96.6	96.6	Natural gas transmission system operator
BALTPOOL UAB	Žalgirio g. 90, Vilnius, Lithuania	67.0	67.0	Operator of the exchange for trading in energy resources (biomass products), the administrator of PSO funds
TETAS UAB (controlled through LITGRID AB until 29 November 2019)	Senamiesčio g. 102B, Panevėžys, Lithuania	100	100	Transformer substation, distribution station and electricity line design, construction, reconstruction and maintenance services
GET Baltic UAB (controlled through Amber Grid AB)	Geležinio Vilko g. 18A, Vilnius, Lithuania	96.6	96.6	Organisation of trading at the natural gas exchange
ASSOCIATES AND JOINT VENTURES				
Duomenų Logistikos Centras UAB	Žvejų g. 14, Vilnius, Lithuania	-	20	IT services
LitPol Link Sp.z.o.o	Warszawska 165, 05-520, Konstancin-Jeziorna, Warsaw, Poland	50	50	Under liquidation

On 29 November 2019, under the share purchase-sale agreement the Company acquired from subsidiary LITGRID AB 100% of shares of TETAS UAB for a price of EUR 3.15 million established by the independent property valuer. Before this transaction the Company indirectly (through LITGRID AB) held 97.5% of shares of TETAS UAB.

Sale of shares of Duomenų Logistikos Centras UAB

On 7 July 2020, the Group company together with AB Ignitis Grupė UAB completed the transaction under the share purchase-sale agreement regarding the sale of shares of Duomenų Logistikos Centras UAB. Under the agreement, the Group sold 20.36% of shares and Ignitis Grupė sold 79.64% of shares of Duomenų Logistikos Centras UAB. After the sale of shares held, the Group received EUR 1,652 thousand on 7 July 2020. Gain on disposal of shares amounting to EUR 831 thousand was accounted for in the statement of comprehensive income. Under the terms and conditions of the agreement, considering the variable price criteria, the sale price of the Group's portion of shares may amount up to EUR 2 million.

Liquidation of LitPol Link Sp.z.o.o

On 19 June 2019, the Polish and the Lithuanian transmission system operators Polskie Sieci Elektroenergetyczne and LITGRID, the sole shareholders of subsidiary LitPol Link, each holding 50% of the company's shares, decided to liquidate the company. As at 31 December 2020, the acquisition cost of the investment in LitPol Link Sp.z.o.o. was EUR 250 thousand (EUR 295 thousand as at 31 December 2019), which was fully provided for. The Group's share of monetary funds equal to EUR 45.6 thousand was received on 15 October 2020. The liquidation process of the joint venture is expected to be completed in 2021.

Investments in the subsidiaries are described in more detail in Note 8.

As disclosed in Note 39, on 26 January 2021, the Company established a wholly-owned subsidiary Energy Cells, UAB. The function of the newly established company will be the installation of energy storage facilities with the total combined power and storage capacity of 200 megawatts. Energy storage facilities will serve as the primary capacity reserve ensuring reliable, stable and consumer-focused operation of the Lithuanian electricity system until the completion of the synchronisation with the continental European networks and in the future they will be used for the integration of rapidly growing renewable energy sources into the existing electricity transmission system.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Group's and the Company's financial statements for the year ended 31 December 2020 are presented below.

2.1 Basis of preparation

The Group's and the Company's financial statements for the year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

These financial statements have been prepared on a historical cost basis, except for property, plant and equipment which is recorded at revalued amount, less accumulated depreciation and estimated impairment losses, and financial assets measured at fair value through other comprehensive income.

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

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

The accounting policies applied in the preparation of the financial statements are consistent with those of the previous financial year, except as follows:

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

IFRSs, their amendments and IFRIC interpretations adopted by the Company for the first time in the financial year ended 31 December 2020 are as follows:

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020). The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, development of the accounting policies. The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. According to the Group's and the Company's management, the first-time adoption of the amendments did not have any significant impact on the financial statements.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for business acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The amendments revise the definition of a business. This amendment had no impact on the Group's and Company's financial statements.

Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. In the opinion of the Group and the Company, these amendments had no significant impact on the financial statements.

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). This amendment had no impact on the Group's and Company's financial statements.

COVID-19-related rent concessions – Amendments to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 January 2020). The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. This amendment had no impact on the Group's and Company's financial statements.

b) *Standards, amendments and interpretations that have been approved by the European Union, but are not yet effective and have not been early adopted by the Company*

There were no such amendments.

c) *Standards, interpretations and their amendments that have not yet been adopted by the European Union and that have not been early adopted by the Company*

Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28 (effective for annual periods beginning on the date which will be established by the International Accounting Standards Board (IASB) or on the later date). 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. 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. In the opinion of the Group's and the Company's management, these amendments will have no significant impact on the financial statements.

Classification of liabilities as current or non-current – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2022) These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. The Group and the Company are currently assessing the impact of these amendments on their financial statements.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (effective for annual periods beginning on or after 1 January 2022).

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. . Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

The Group's and the Company's management is currently assessing the potential impact of these amendments on the financial statements.

2.2 Principles of consolidation

Subsidiaries

Subsidiaries are all entities that the Company has a power to exercise control over the entity to which investment is made (i.e. has effective rights that at the current moment grant the right to control relevant activities). The Company controls an entity when it can or has a right to receive variable returns from this relation and it can have impact on these returns due to the power to govern the entity to which the investment is made.

The consolidated financial statements of the Group include EPSO-G and its subsidiaries. The financial statements of the subsidiaries have been prepared for the same reporting periods and using uniform accounting policies as those of the parent company's financial statements.

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

Business combinations

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

Other business combinations are accounted for under the acquisition method. The cost of an acquisition is measured as the fair value of the assets transferred, the equity interest issued and liabilities incurred or assumed at the date of exchange. All acquisition-related costs are expensed when incurred except the cases when such costs are material. The acquiree's assets acquired, liabilities and contingent liabilities assumed meeting recognition criteria laid down in IFRS 3 *Business combinations* are identified. They are recognised at their fair values at the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Non-controlling interest in the acquiree is initially measured at the non-controlling interest's proportional share of the fair value of the recognised amounts of net assets, liabilities and contingent liabilities.

Change in ownership interest in subsidiaries resulting in no change in control.

Transactions with non-controlling interests that do not result in a loss of control are accounted for as transactions with the equity owners that are recorded in equity. The difference between the fair value of the consideration paid and the carrying amount of the relevant share of net assets of the acquired subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Investments in associates and joint ventures

An associate is an entity over which the Group/Company has significant influence but no control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Significant influence generally accompanies a shareholding of between 20% to 50% of the voting rights.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

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

The Group's share of the acquired associate's and joint venture's post-acquisition profits or losses is recognised in profit or loss in the statement of comprehensive income, and the Group's share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The carrying amounts of investments in associates are adjusted by these amounts.

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

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

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

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

Gains and losses on decrease in ownership interest in an associate are recognised in the statement of comprehensive income.

2.3 Investments in subsidiaries, associates and joint ventures (in the Company's separate financial statements)

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

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

2.4 Assets held for sale and discontinued operations

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

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

2.5 Property, plant and equipment and intangible assets

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

Property, plant and equipment

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

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

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

Intangible assets

Intangible assets are initially recognised at cost. Intangible assets are recognised only if they are expected to provide economic benefit to the Group and the Company in future periods and their cost can be measured reliably.
After initial recognition, intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any.

Depreciation and amortisation

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

Estimated useful lives of property, plant and equipment and intangible assets are as follows:

Categories of property, plant and equipment and intangible assets	Useful lives (in years)
Buildings	20 - 75
Structures and equipment	18 - 70
Plant and machinery	5 - 35
Motor vehicles	4 - 10
Other property, plant and equipment	3 - 10
Intangible assets, whereof:	3 - 4
- Statutory servitudes and protected zones of the transmission network	Not subject to amortisation

Statutory servitudes and protected zones have an indefinite useful life because the right to use protected zones on the basis of servitude is unlimited in time.

Gain or loss on disposal of non-current assets is calculated as the difference between the proceeds from sale and the book value of the disposed asset and is recognised in the statement of comprehensive income of the reporting year.

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

2.6 Impairment of property, plant and equipment and intangible assets

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying value, the carrying value of the asset (cash-generating unit) is reduced to its recoverable value. The impairment loss is recognised immediately in profit or loss, unless such an asset was previously revalued. In that case, the impairment loss is accounted for as decrease in revaluation reserve.

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

2.7 Right-of-use assets

Right-of-use assets are assets that the Group and the Company have the right to manage during the lease term. As of 1 January 2019, the Group and the Company recognise right-of-use assets for all types of leases, including the lease of a right-of-use asset in case of sublease, but excluding leases of intangible assets, short-term leases and leases of low value assets.

Initial measurement of right-of-use assets

At the commencement date, the Group and the Company measure right-of-use assets at cost, which consists of: the present value of the initial measurement of the lease liability, initial costs incurred directly attributable to the underlying asset, any lease payments at the commencement date, less any lease incentives.

Subsequent measurement of right-of-use assets

After the initial recognition, the Group and the Company apply a cost method for right-of-use assets: the carrying amount of the asset at the respective date is calculated as the difference between the acquisition cost and the accumulated depreciation, plus any subsequent adjustments for the remeasurement of lease liability.

The calculation of depreciation of right-of-use assets is started from the date on which the assets are transferred for the use (the commencement date) until the earlier of these dates: the end of the lease term and the end of the useful life.

The Company calculates depreciation of right-of-use assets using the following useful lives:

Land*	99 years
Buildings	from 2 to 8 years
Motor vehicles	from 2 to 4 years
Other property, plant and equipment	from 2 to 3 years

* The Group applies the portfolio method for the land lease agreements concluded with the municipalities not by auction, i.e. a set of the agreements of a respective Group company is accounted for as a single agreement due to similar criteria. Regardless of the remaining term of the land lease agreement, in accordance with the requirements of the legal acts, the agreements must be extended for as long as the facilities of the Group companies exist on the land plots. When assessing the flow generated by the infrastructure assets of the Group companies (for the calculation of the recoverable amount of assets), an infinite flow is projected as the ongoing

reconstruction and repair works allow using the assets for a longer period than the established original depreciation rates. For this reason, the lease of land is subject to a substantially infinite rate corresponding to the original term of the agreement – 99 years.

2.8 Financial assets

For the purposes of applying IFRS 9 *Financial instruments* financial assets are classified into the following three new categories:

- financial assets subsequently measured at amortised cost;
- financial assets subsequently measured at fair value through other comprehensive income; and
- financial assets subsequently measured at fair through profit or loss.

The business model applied to the group of financial assets is determined at a level that reflects how all groups of financial assets are managed together to achieve a particular business objective. The intentions of the management regarding separate instruments have no effect on the applied business model. The Group and the Company may apply more than one business model to manage their financial assets.

The business model for managing financial assets is a matter of facts which are typically observable through the activities that the Group and the Company undertake to achieve the objective of the business model.

The Group and the Company recognise a financial asset in the statement of financial position when, and only when, the Group and the Company become party to the contractual provisions of the instrument. The purchase or sale of financial assets is recognised and derecognised, as applicable, using the trade date accounting.

At initial recognition, the Group and the Company measure financial assets at fair value, except for trade receivables that do not have a significant financing component. When a financial asset is not measured at fair value through profit or loss, the initial measurement of the financial asset includes the fair value of the instrument and transaction costs directly attributable to the acquisition of the financial asset.

Transaction costs comprise all fees and commissions that the Group would not have paid if it had not entered into an agreement on the financial instrument.

If the fair value of the financial asset at initial recognition differs from the transaction price, the difference is recognised in profit or loss.

In view of the business model applied for managing the group of financial assets, the accounting for financial assets is as follows:

Financial assets measured at amortised cost

Cash and cash equivalents comprise cash balances in the Group's and the Company's bank accounts and their equivalents in various currencies the use of which is not restricted. Cash equivalents comprise 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.

Loans granted by the Group and amounts receivable are accounted for under the business model the purpose of which is to hold financial assets in order to collect contractual cash flows that can contain cash flows related to the payment of the principal amount and interest inflows.

Loans and amounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the date of the statement of financial position. These are classified as non-current assets.

Loans and receivables are initially recognised at cost (the fair value of consideration receivable) and subsequently carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when loans and receivables are derecognised, impaired or amortised.

Financial assets measured at fair value through profit or loss

The Group and the Company measure financial assets, which are stated at fair value in subsequent periods, through profit or loss, using the business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Company does not have any financial assets held for trading and acquired for the purpose of selling in the near term and attributes to this category only financial assets arising from the disposal of business or investments classified as non-equity contingent consideration.

Financial assets measured at fair value through other comprehensive income

The Group had equity financial instruments, which were elected to be classified at fair value through other comprehensive income.

Effective interest method

The effective interest method is used in the calculation of the amortised cost of a financial asset and in the allocation of the interest revenue in profit or loss over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash inflows through the expected life of the financial asset to the gross carrying amount of the financial asset that shows the amortised cost of the financial asset, before adjusting for any loss allowance. When calculating the effective interest rate, the Company estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, option to purchase and similar options) but does not consider the expected credit losses. The calculation includes all fees and other amounts paid or received by the parties to the contract, and which are an integral part of the effective interest rate, transaction costs, as well as any other bonuses or discounts. The calculation of the effective interest rate assumes that the cash flows and the expected life of a similar group of financial instruments can be measured reliably. When it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or a group of financial instruments), the Group and the Company use the contractual cash flows over the entire validity period of the financial instrument (or a group of financial instruments) established in the contract.

Expected credit losses

Credit losses incurred by the Group and the Company are calculated as the difference between the total contractual cash flows that are due to the Group and the Company in accordance with the contract and the total cash flows that the Group and the Company expect to receive (i.e. the total cash shortfalls), discounted at the original effective interest rate. The Group and the Company estimate cash flows by considering all contractual terms of the financial instrument through the expected life of that financial instrument, including cash flows from the collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses show the weighted average of credit losses with the respective risks (probability) of a default occurring as the weights.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the period from the date of initial recognition of a financial asset to the subsequent date of settlement of the financial asset or ultimate write-off of the financial asset.

The Group and the Company recognise lifetime expected credit losses before a financial instrument becomes past due. Typically, credit risk increases significantly before a financial instrument becomes past due or other borrower-specific delay factors (for example, a modification or restructuring) are observed. Consequently, when reasonable and supportable information that is more forward-looking than past due information is available without undue cost or effort, it must be used to assess changes in credit risk.

Expected credit losses are recognised by taking into consideration individually or collectively assessed credit risk of loans granted and trade receivables. Credit risk is assessed based on all reasonable and verifiable information including forward-looking information.

The lifetime expected credit losses of trade receivables are assessed based on the individual assessment basis. The management decides on the performance of the assessment on an individual basis reflecting the possibility of obtaining information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information that would allow to timely determine whether there has been a significant increase in the credit risk of that particular borrower, thus enabling making judgement on the recognition of lifetime expected credit losses in respect of that particular borrower.

The lifetime expected credit losses of trade receivables are recognised at the time of recognition of amounts receivable.

When issuing a loan, 12-month expected credit losses are assessed and accounted for. In subsequent reporting periods, in case there is no significant increase in credit risk related to the borrower, the balance of 12-month expected credit losses is adjusted in view of the outstanding balance of the loan at the assessment date. Having determined that the financial position of the borrower has deteriorated significantly compared to the financial position that existed upon the issue of the loan, all lifetime expected credit losses of the loan are accounted for. The latest point at which the Group and the Company recognise all lifetime expected credit losses of the loan issued is identified when the borrower is late to pay a regular instalment or the entire debt for more than 30 days. In case of other evidence available, all lifetime expected credit losses of the loan issued are accounted for, irrespective of the more than 30 days past due presumption. Loans for which lifetime expected credit losses were calculated are considered credit-impaired financial assets.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:
a) significant financial difficulties of the borrower;
b) a breach of contract, such as failure to pay the debt or a regular instalment in due time;
c) a concession granted to the borrower due to economic or contractual reasons relating to the borrower's financial difficulties, which otherwise would not be granted by the lender;
d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties;
f) financial assets are purchased or granted at a deep discount that reflects the incurred credit losses.
The combined effect of several events that may occur simultaneously or subsequently throughout the term of validity of the agreement on the financial assets may have caused financial assets to become credit-impaired.
The lifetime expected credit losses of loans receivable and trade receivables are recognised in profit or loss through the contrary account of doubtful receivables.
The Group derecognises loans receivable and trade receivables when it loses the right to receive contractual cash flows from financial assets.

Derecognition of financial assets

The Group and the Company derecognise financial assets when:
- the rights to receive cash flows from the asset have expired;
- the Group and the Company have retained the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Group and the Company have transferred their right to receive cash flows from the asset and/or (a) have transferred substantially all the risks and rewards of the asset, or (b) have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset:
- if the Group and the Company have not retained control, they shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;
- if the Group and the Company have retained control, they shall continue to recognise the financial asset to the extent of their continuing involvement in the financial asset.

Whether the Group and the Company have retained control of the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, it is considered that the Group and the Company have not retained control. In all other cases, the Group and the Company have retained control.

2.9 Inventories

Inventories are initially recorded at the acquisition cost. Subsequent to initial recognition, inventories are stated at the lower of cost and net realisable value. The acquisition cost of inventories includes the acquisition price and related taxes that are not subsequently recovered from the tax administration authorities and the costs associated with bringing inventory into their current condition and location. The acquisition cost of inventories (other than natural gas) is determined on the first-in, first-out (FIFO) basis. The cost of the remaining amount of natural gas is determined using the weighted average cost. Inventories that are no longer expected to be realised are written off. Net realisable value is the estimated selling price, less the estimated costs of completion and selling expenses.

2.10 Trade payables and other financial liabilities, borrowings

Financial liabilities, borrowings

On initial recognition, financial liabilities are classified as financial liabilities measured at fair value through profit or loss (FVPL), borrowings and amounts payable. All financial liabilities are initially recognised at fair value and, in case of borrowings and amounts payable, net of directly attributable transaction costs.

When performing the measurement of financial liabilities in subsequent periods, they are classified in two categories:

– financial liabilities measured at FVPL;

– financial liabilities measured at amortised cost.

Financial liabilities measured at FVPL comprise financial liabilities held for trading and financial liabilities classified as measured at FVPL on initial recognition. In 2020 and 2019, the Group and the Company had no financial liabilities held for trading.

The category of financial liabilities measured at amortised cost is the most relevant to the Group and the Company. Subsequent to initial recognition, trade payables, interest-bearing borrowings and liabilities are accounted for at amortised cost using the effective interest rate method. Gain and losses are recognised in profit or loss in the statement of comprehensive income when liabilities are derecognised or amortised using the effective interest rate method. Amortised cost is calculated by reference to the discount or premium on acquisition, as well as taxes or costs that are an integral part of the effective interest rate. Amortisation is included in finance costs.

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

Derecognition of financial liabilities

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

Trade payables

Trade payables represent commitments to pay for goods and services acquired from suppliers in the ordinary course of business.
Trade payables are classified as current liabilities if the term of their settlement is not longer than one year; otherwise they are included in non-current liabilities.

2.11 Dividend distribution

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

2.12 Foreign currency

In the consolidated financial statements, results of operations and financial position of each entity of the Group are presented in the euros, which is the functional currency of the Company and its subsidiaries and the presentation currency of the Group's consolidated financial statements. All financial information presented in the euros has been rounded to the nearest thousand unless otherwise stated. Due to rounding effects, some of the tabular amounts may not add up.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or at the dates of measurement (if the line items are being remeasured). Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

2.13 Grants

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

Asset-related grants

The government and the EU grants received in the form of property, plant and equipment or intended for the purchase of property, plant and equipment are considered as asset-related grants. These grants are accounted for by reducing by the carrying amount of respective property, plant and equipment. For the purpose of the statement of comprehensive income, grants are recorded by reducing the depreciation charge of the related asset over the expected useful life of the asset.

Public service obligations (PSO) funds allocated to the Group for the preparation and implementation of the strategic projects and a portion of congestion management revenue, which is used to finance investments agreed with the National Energy Regulatory Council, are recognised as asset-related grants.

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

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

Income-related grants

Government and the European Union grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. 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.

Income-related grants are recognised in profit or loss by increasing other income over the period in which the grant is received or when there is reasonable assurance that the grant will be received and that the Company complies with the conditions for the allocation of the grant established in the grant agreement.

2.14 Provisions

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

Provisions for servitudes and for registration of protected zones of the transmission network are recognised only when the Group has a legal obligation or irrevocable commitment, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Expenses related to provisions for servitudes are recognised as non-current intangible assets in view of the amounts to be compensated. If the effect of the time value of money is material, provisions are discounted using the effective interest rate (before tax) for the period, taking into account the specific risk of the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.
Compensations to landowners and expenses for the registration of protected zones are accounted for by reducing provisions, and the recalculation of provisions due to a change in assumptions is accounted for as a change in the value of intangible assets (Note 3).

2.15 Employee benefits

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

Variable part of remuneration
The Company and the Group recognise the liability and expenses for a variable component of remuneration based on the achievement of the pre-defined results by the Group and the Company and their employees. The Group and the Company recognise the liability and expenses for a variable component of remuneration where contractually obliged or where there is a past practice that has created a constructive obligation.

Termination benefits for employees
According to the legal acts of the Republic of Lithuania, each employee leaving the Group and the Company at the retirement age is entitled to a one-off benefit. Employee benefit liability is recognised in the balance sheet and it reflects the present value of these benefits at the reporting date. The above-mentioned long-term employee benefit liability as at the reporting date is calculated with reference to actuarial valuations using the projected unit credit method. The present value of the defined non-current employee benefit obligation is determined by discounting the estimated future cash flows using the effective interest rates as set for government debentures denominated in a currency in which payments to employees are expected to be made and with maturity similar to that of the related liability.

2.16 Lease liabilities

The Group and the Company as the lessees

Initial measurement of lease liability

The amount of the initial measurement of lease liability is calculated as the present value of lease payments not paid at the commencement date. Lease payments are discounted using the incremental borrowing rate. The incremental borrowing rate is determined by the rate at which the Group and the Company would be able to borrow funds for the purpose of acquiring certain assets for a respective period.

At the commencement date, lease payments included in the measurement of a lease liability include:

- fixed lease payments less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be payable by the Group and the Company under residual value guarantees;
- the exercise price of the purchase option, if exercise of that option by the Company is reasonably certain;
- fines for the termination of the lease, if it is assumed that the Group and the Company will exercise the option to terminate the lease during the lease term.

Subsequent measurement of lease liability

Subsequent to initial recognition, changes in the value of the Group's and the Company's lease liability are reflected by:

- increasing the value of the liability by the amount of interest charged;
- reducing the carrying amount by the lease payments made;
- remeasuring the liability for lease modifications or revised payments.

Interest expenses related to lease liabilities for each period during the lease term represent the amount that results in a constant periodic interest rate on the remaining amount of the lease liability. The periodic interest rate is the discount rate or, if applicable, the revised discount rate.

Remeasurement of lease liability

Subsequent to initial recognition, the lease liability is remeasured to reflect changes in lease payments. The Group and the Company treat remeasurements as adjustments to the right-of-use assets. If the carrying amount the right-of-use assets is reduced to zero and the lease liability is reduced as well, the Group and the Company recognise any remaining amount of the remeasurement in profit or loss.

Revised discount rate

The Group and the Company remeasure the lease liability by discounting the revised lease payments using the revised discount rate if the lease term changes. The Group and the Company calculate the revised lease payments on the basis of the revised lease term or whenever there is a change in the option to purchase the leased property, depending on events and circumstances, in the context of the option to purchase.

In the event of a change in the lease term or a change in the assessment of a purchase option, the Group and the Company set the revised discount rate as the lessee's incremental borrowing rate at the remeasurement date.

Unchanged discount rate

The Group and the Company determine the revised lease payments for the remaining lease term on the basis of the revised contractual payments.

For the purpose of discounting revised lease payments, the Group and the Company use the unchanged discount rate unless lease payments change due to changes in variable interest rates. In this case, the Group and the Company use a revised discount rate that reflects changes in the interest rate.

Lease modifications

The Group and the Company treat a lease modification as a separate lease if both of the following conditions are met:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets;

and

- the consideration for the lease increases by an amount equivalent to the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a modification that is not a separate lease, at the effective date of the modification the Group and the Company:

- allocates the consideration in the modified contract;
- establishes the term of the modified lease; and
- remeasures the lease liability by discounting the revised lease payments using the revised discount rate.

When a lease modification is not accounted for as a separate lease, the Group and the Company account for the adjustment to the lease liability:

- by decreasing the carrying amount of the right-of-use assets to reflect the full or partial termination of the lease due to lease modifications by which the scope of the lease is reduced. Any gain or loss related to a full or partial termination of the lease is recognised by the Group and the Company in profit or loss;
- by making a corresponding adjustment to the right-of-use asset for all other lease modifications.

The Group and the Company present lease liabilities separately from other liabilities in the statement of financial position. Interest expenses related to lease liabilities are reported separately from the depreciation of the right-of-use assets. Interest expenses related to lease liabilities is a component of finance costs which is presented in the statement of comprehensive income.

2.17. Leases

The Group is a lessor
Operating lease income is recognised on a straight-line basis over the lease term.

2.18 Revenue recognition

Revenue from contracts with customers

The Group's revenue is recognised according to a single, principles based five-step model that is applied to all contracts with customers. The Group recognises revenue from the provision of services in the reporting period during which the performance obligation is satisfied, i.e. the control of services or goods is transferred to the customer. This control may be transferred over time or at a point in time. For certain service contracts, revenue is recognised on the basis of the actual service provided before the end of the reporting period as part of the total services to be provided, as the customer benefits from and uses the services simultaneously.

Revenue from electricity transmission and related services

Electricity revenue from contracts with customers comprises revenue from electricity transmission, system services, trade in imbalance and balancing electricity and revenue from connection of new consumers. The Group recognises electricity revenue from contracts with customers in the reporting period during in which the performance obligation is satisfied, i.e. the control of the good is transferred or the service is provided, except for revenue from connection of new consumers, which is recognised by the Group over the useful life of the created asset (change in the accounting principles is described in this Note.). When recognising revenue the Group takes into consideration the terms of contracts signed with customers and all significant facts and circumstances, including the nature, amount, timing and uncertainty relating to cash flows arising from the contract with the customer. The main sale contracts are signed for the term of one year and coincide with the reporting period. All subsequent value adjustments for previous periods are not made, and contract modifications are rare.

Prices for the electricity transmission services are regulated by the National Energy Regulatory Council (the "NERC") by establishing the upper limit of the prices for the transmission service. Specific prices and tariffs for the transmission services are established by the Group company within the limits approved by the NERC. When establishing prices for the next year, deviations of the current year (the year not yet ended) and deviations of the previous year (the year that already ended) and various forecasts for the upcoming year are assessed, i.e. they increase or decrease the prices for the next year, i.e. the prices are not adjusted retrospectively. All possible price adjustments in the future periods for excess profit/higher loss incurred in the previous/current years are not treated as a variable part of the price under IFRS 15. Such decrease (due to excess profit earned) or increase (due to higher expenses incurred) in future revenue does meet the general accounting criteria for the recognition of liabilities or assets because it depends on the Group's operations in the future and is treated as regulatory assets or liabilities and therefore, in the opinion of the Group's management, it does not fall within the scope of IFRS 15.

The Group purchases system services from the producers and later provides this service to the distribution network operators and electricity consumers using the tariff established by the NERC. The Group recognises the gross amounts of revenue as it acts as a principal in the provision of system services.

Revenue from natural gas transmission and related services

Revenue from system users for the natural gas transmission service is recognised on a monthly basis with reference to the available 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 from imbalance charges is related to management of gas flows in order to ensure operation of the natural gas transmission system in line with an acceptable pressure range. Revenue from the technical balancing of natural gas is related to changes in gas reserves in the pipeline and the sale of such reserves to a buyer is recognised as income when the ownership of the gas is transferred to the buyer.

Revenue from construction, repair and technical maintenance services

Revenue from projects is generally recognised in the period in which services are rendered. The Group uses the percentage-of-completion method to determine the appropriate amount of revenue to recognise in a given period. The stage of completion is measured by reference to the construction contract costs actually incurred to the reporting date as a percentage of the total estimated costs for each construction contract. The total sum of planned costs is reassessed upon the change of circumstances and increase or decrease in recognised revenue is accounted for in the reporting period when the Group becomes aware of the change of circumstances. When it is probable that total estimated contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Project contract costs are recognised as expenses in the period in which they are incurred.

Revenue from repair and technical maintenance services is recognised at a point in time, i.e. during the reporting period in which the services were rendered, by reference to stage of completion of the specific transaction.

Contract assets and contract liabilities

A contract asset is the right to consideration in exchange for goods or services transferred to the customer, if the right to consideration is not conditional on the passage of time. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). A contract liability is recognised as revenue when the Group satisfies a performance obligation.

Revenue from trading at the natural gas exchange and related services

At the natural gas exchange, the Group is not a principal, but it acts as an agent. Revenue from the trading at the exchange is measured according to the agent's (intermediary's) fee specified in the contract with the customer and does not comprise amounts collected on behalf of third parties. Therefore, the amounts collected for gas sold at the exchange are not recognised as revenue.

Other services provided by the Group include the organisation of trade at the gas exchange. The service fees agreed with the NERC are applied:

- The initial registration fee – a one-off fee paid upon becoming the participant of the exchange;
- The annual membership fee – the exchange participant's fee paid each year for the membership at the exchange. This revenue is recognised over a period of time, because the exchange participant receives benefit of the membership over the course of the year. The annual membership fee is paid for a calendar year (if the market participant became the exchange participant in the course of the year, the fee is calculated in proportion to the remaining days of the year).
- The variable trading fee – a fee expressed in the euros per 1 MWh paid by the exchange participant who concluded the transaction for the quantity of natural gas acquired and (or) sold at the natural gas exchange.

The Group's revenue from contracts with customers also comprises: services of the REMIT data provision to the European Agency for the Cooperation of Energy Regulators (ACER), services of the administration of the inside information portal, services of allocation of indirect natural gas transmission capacities at the interconnection points, services of the administration of the secondary capacity trade platform and services of announcement of threshold prices for balancing. The above revenue is recognised by the Group over a period of time using the service fees applied by the Group.

Revenue from the biofuel exchange, thermal energy auctions, PSO funds administration and other income

Biofuel trade transactions are made among the exchange participants, and the settlements among the participants are made directly. Fees approved by the NERC for trade at the biofuel exchange are recognised by the Group as revenue. Such revenue is recognised at a point in time when the transaction is conducted.

Collected commissions according to the fees approved by the Group and agreed with the NERC are recognised by the Group as revenue from the organisation of the timber auctions. Such revenue is recognised at a point in time when the transaction is conducted.

Collected commissions from the participants for actually conducted transactions according to the fees approved by the Group are recognised by the Group as revenue from the organisation of the thermal energy auctions. Such revenue is recognised at a point in time when the transaction is conducted.

When performing the function of the PSO funds administrator, the Group recognises as revenue only PSO funds allocated to the Group by the NERC to cover PSO funds administration expenses.

Other income

Public service obligations (PSO) funds are the funds paid to the PSO service providers, the list of which is established by the Government of the Republic of Lithuania or the institution authorised by it. The annual quantities of PSO funds are established by the NERC.

PSO funds allocated by the NERC are accounted for by the Group as income-related grants as they are designated to compensate for the loss of revenue from services provided by the electricity producers using renewable energy sources. Such grants are recognised as income:

- PSO funds allocated by the NERC to the Group for balancing of electricity produced using renewable energy resources.
- when the NERC allocates PSO funds to the Group for the connection of electricity generation facilities using wind, biomass, solar energy or hydro energy in the process of electricity generation to transmission networks, for the optimisation, development and/or reconstruction of transmission networks in relation to acceptance and transmission of electricity from the producers using renewable energy sources.

LNG terminal administration income

Based on the provisions of Article 5(2) of the Lithuanian Law on Liquefied Natural Gas Terminal the Group 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 the connector* as approved by the NERC Resolution No 03-294 of 9 October 2012.

In collecting and administering the LNG terminal funds the Group acts as an intermediary on behalf of the state, and this activity does not generate any revenue/profit for the Group in the ordinary course of business, except for the portion of the LNG terminal funds intended to cover the administration expenses of the LNG terminal funds, which is considered as the Group's revenue. The LNG terminal funds, which are collected from the payers of the LNG terminal funds and transferred to the beneficiaries of the LNG terminal funds (the company responsible for the implementation of the LNG terminal project or the LNG terminal operator), are not treated as the Group's revenue/expenses, but they are accounted for as other receivables/other payables and other financial assets. Revenue is recognised on a monthly basis, as the fee for administration is fixed.

Interest income

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

Dividend income

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

Other income

Gain from sale of property, plant and equipment, income from lease of assets, income from interest on late payment and default charges are recognised by the Group as other income.

Change in the accounting policy of revenue from connection of new consumers to the transmission network and infrastructure

In 2020, the Group made a decision to change from 1 January 2020 the accounting policy for the connection of new consumers and producers to the electricity and gas transmission network and for the services related to the relocation of infrastructure in order to better reflect the substance of these services.

According to the new accounting policy revenue received from connection of new consumers will be accounted for by the Group over the useful life of the created asset because the connection of new consumers is related to further consumption and related revenue (before 1 January 2020 revenue was recognised at the time of provision of services).

The Group reviewed and decided to change the accounting policy of the connection of producers and relocation works of the transmission network infrastructure aiming to more accurately present the substance of these services. Based on the Group's assessment, these services are not within the scope of IFRS 15 as the customers of such services are the Group's clients as defined by IFRS 15. From 1 January 2020, the connection of producers is accounted for similarly to the principle applicable to grants by offsetting assets received from the third parties or their financed construction value against the value of the assets.

(All amounts are in EUR thousands unless otherwise stated)

In case of relocation works of the transmission network when major improvements are performed and when the assets are created by the Group, the grant principle is applied and the assets are offset against the amount of compensation receivable from the customer, and when the assets are created by the customer, the assets received from the third parties are offset against the value of the assets. If the major improvement was not performed during the relocation and the asset was created by the Group, such asset is not recognised, i.e. compensation income from the customer and expenses for the creation of such asset are accounted for. When no major improvement is performed and the asset is created by the customer, the asset received from the customer free of charge is not recognised and accounted for in off-balance sheet accounts.

This change of the accounting policy had no significant impact on the Group's previous periods, therefore the related adjustments were accounted for prospectively by making a corresponding reduction of revenue, assets and recognising liabilities in 2020:

	2020
Statement of financial position	
Non-current assets	
Property, plant and equipment	(1,378)
Deferred income tax assets	417
Equity	
Retained earnings	(2,366)
Non-current liabilities	
Other non-current amounts payable and liabilities	1,405
Statement of comprehensive income	
Revenue from contracts with customers	(1,405)
Other income	(1,378)
Income tax	
Deferred income tax (expenses)/benefit	417
Total comprehensive income for the period	(2,366)

2.19 Congestion management revenue/liabilities

Congestion management revenue arises from different electricity market prices in Lithuania, Sweden, Poland and Latvia as a result of insufficient capacity of electricity lines. Revenue that was received as a result of price differences at different bidding areas is distributed equally by the power exchange operator (Nord Pool AS) to the transmission system operators of the countries operating the interconnections.

Regulation (EU) No 2019/943 of the European Parliament and of the Council of 5 June 2019 on conditions for access to the network for cross-border exchanges in electricity stipulates that congestion management revenue may be used for the following purposes: a) guaranteeing the actual availability of the allocated capacity of the interconnections; b) maintaining or increasing networks' capacities through network investments, in particular in new interconnections; c) if revenue cannot be efficiently used for the purposes set out in points a) and/or b) they may be used, subject to approval by the regulatory authorities of the Member States concerned, up to a maximum amount to be decided by those regulatory authorities, as income to be taken into account by the regulatory authorities when approving the methodology for calculating network tariffs and/or fixing network tariffs.

In line with the provisions of the EU Regulation, congestion management revenue is recognised in the following order of priority:

a) when revenue is used for guaranteeing availability of the allocated capacity of the interconnections, it is recognised as income in the period during which the related expenses are incurred. In case of unplanned disconnection of the electricity interconnection and when the trade in the interconnection's capacities has already been completed at the electricity exchange (i.e. when they have already been allocated), the operators of the line ensure that the capacities traded are available to the market participants. In such a case, the operators incur costs that arise as a result of the price difference between the price of electricity traded by the operators and the price of regulation and (or) balancing electricity purchased/sold by the Group.
b) when revenue is used for maintaining or increasing the interconnections' capacities, congestion management revenue is accounted for using the accounting policies applicable to grants, i.e. initially congestion management revenue is recognised as liability and recorded by reducing the value of the asset concerned, and subsequently it is recognised by reducing depreciation expenses of the related asset over the useful life of that asset.
c) when revenue is used for reducing the tariff, revenue is recognised as income in the period during which the Company generates lower revenue due to lower tariffs.

The Group estimates that a substantial portion of congestion revenue balance as at 31 December 2020 will be used to finance investments in the projects, including the synchronisation projects, agreed with the NERC by 2025. Only a EUR 0.2-1 million portion of congestion management revenue will be used annually to compensate losses resulting from disconnection of the interconnections and safeguarding the use of traded capacity. Deferred income tax assets arising from congestion revenue will be realised over the useful life of the asset acquired using congestion revenue. In the long term, the regulation ensures the Company's profitability , therefore, in the management's opinion, deferred income tax assets will be realised in the future by reducing income tax.

From May 2019, the account of the accumulated congestion management revenue was linked to the EPSO-G Group account and is used to finance the subsidiary's operations until there is no need to finance investments. In the Group's statement of financial position, the balance of this account is presented as unused funds balance of congestion management revenue by distinguishing non-current and current portions (the amounts planned to be used for investments in property, plant and equipment within 12 months).

In the statement of financial position, the Group records unused congestion management revenue as non-current and current liabilities (a part of congestion management revenue planned to be used for investments in property, plant and equipment within 12 months).

As disclosed in Note 39, after the receipt of the permission from the NERC, the cash pool agreement was concluded between the subsidiary and EPSO-G on 26 February 2021, which establishes the possibility to use free congestion management revenue for the Group's intercompany lending and borrowing purposes (not only for the subsidiary's – the holder of congestion revenue). As previously, congestion management revenue will used for short-term financing of the activities of the Group companies until there is a need to finance the subsidiary's investments agreed with the NERC.

2.20 Income tax

Income tax expense comprises the current income tax and deferred tax expense (benefit). Income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case income tax is also recognised in other comprehensive income or directly in equity.

Current income tax

The income tax expense for the current year is calculated on the current year's profit before tax, as adjusted for certain non-deductible expenses/non-taxable income. Income tax is calculated using the tax rate effective as at the date of issue of the financial statements. The income tax rate of 15% was used in 2020 and 2019.

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 Group changes its activities due to which these losses were incurred, except when the Group does not continue its activities due to reasons which do not depend on the Group 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. Tax losses carried forward can be used to reduce the taxable income earned during the reporting year by maximum of 70%.

In accordance with the provisions of the legal acts, the Group companies transfer tax losses to other companies of the Group for a fee equal to 15% of the amount of tax losses.

The Group companies are entitled to tax reliefs for investments in qualifying assets. The Group accounts for such reliefs as tax credits, which means that the reliefs reduce the amount of tax payable and the current year's tax expenses.

Deferred income tax

Deferred income tax is accounted for using the balance sheet liability method. Deferred tax assets and deferred tax liability are recognised for future tax purposes to reflect differences between the carrying amount of assets and liabilities in the financial statements and their tax base.

The Group also recognises deferred income tax assets for accumulated tax credits – the amounts of the unused investment relief which are expected to reduce income tax liability in the future. Deferred tax liabilities are recognised for all temporary differences that will subsequently increase taxable profit, and deferred tax assets are recognised to the extent to which they are expected to reduce taxable profit in the future. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss.

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

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

Current income tax and deferred income tax

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

2.21 Contingencies

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

2.22 Events after the end of the reporting period

Events after the end of the reporting period that provide additional information about the Group's and the Company's position at the date of the financial statements (adjusting events) are disclosed in the financial statements. Events after the end of the reporting period that are not adjusting events are disclosed in the notes when material.

2.23 Inter-company offsetting

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are 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) 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 in the market.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.
Valuations are performed by the management at each reporting date. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of assets or liabilities and the level of the fair value hierarchy as explained above.
In the financial statements as at 31 December 2020 and 2019, the Group did not have significant assets or liabilities re-measured or measured at fair value, except for financial assets measured at fair value through other comprehensive income (Note 9) and property, plant and equipment (Notes 3 and 6).

The Group's and the Company's principal financial assets not measured at fair value comprise cash and cash equivalents, trade and other receivables. Financial liabilities not measured at fair value comprise trade payables, other amounts payable and liabilities, borrowings. Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value of a financial asset is not less than the amount discounted from the first day, on which payment may be required.

3. Significant accounting estimates and assumptions

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

Valuation of property, plant and equipment

The Group's property, plant and equipment is accounted for at revalued amount determined based on periodic property valuations performed at least once every 5 years. At the end of each year, the Group assesses whether there is any indication that the value of property, plant and equipment may materially differ from its fair value. If such indications exist, the Group performs the impairment test and revaluation of assets.

As described in Note 6, the Group tested the value of property, plant and equipment to determine whether it is consistent with its fair value. The determination of the assets' fair value is mainly affected by the assumptions used in assessing the transmission service income for the future periods. The assumptions used in determining the fair value of property, plant and equipment are described in more detail in the above-mentioned note.

Impairment testing of investments in subsidiaries

The Company records investments in subsidiaries at cost less impairment. The Company assesses at each annual reporting date whether there is any indication that investments may be impaired. If such indications exist, the Company calculates impairment as the difference between the subsidiary's carrying amount and its recoverable amount and records the result in income/(expenses) in the statement of comprehensive income.

In assessing impairment indications and calculating the value of investments in subsidiaries LITGRID and Amber Grid, the Company is not referring to the data of Nasdaq OMX stock exchange. In the assessment of the Company's management, this market is not active reflecting only the price of the minority (2.5-3.5%) shares, therefore the price of shares announced by the stock exchange cannot be used in determining the recoverable value of the shareholding of the subsidiaries.

In the Company's opinion, the recoverable amount of investments in shares of LITGRID and Amber Grid can be reliably estimated as the difference between the subsidiary's total assets and total liabilities, which are measured at fair value, reflecting the fair value of net assets. Property, plant and equipment comprise around 90% of the subsidiaries' assets, the value of which is calculated under the income method using the discounted cash flows calculation technique. The valuation of investments in the listed subsidiaries according to the fair value of their net assets corresponds to Level 3 of the fair value hierarchy (Note 2.24).

The value of the net assets of LITGRID calculated as at 31 December 2020 attributed to the Company's equity amounted to EUR 212,592 thousand and exceeded the investment's carrying amount by 11%. In the previous periods, the Company had recognised impairment losses of EUR 26,090 thousand in respect of the investment in LITGRID. Although the calculated recoverable value of the investment exceeded its carrying amount, the accumulated impairment was not reversed due to uncertainty and sensitivity of assumptions affecting the value of LITGRID's net assets (mainly the value of property, plant and equipment): sensitivity of assumptions used in the calculation of the value of property, plant and equipment, uncertainties during the new 2022-2026 regulatory period, decline in net assets due to planned payment of dividends. The value of the net assets of LITGRID calculated as at 31 December 2019 attributed to the Company's equity amounted to EUR 191,829 thousand and, in principle, was consistent with the investment's carrying amount.

The value of the investment in the shareholding in Amber Grid as at 31 December 2020 and 2019 was not adjusted as the calculated fair value of net assets exceeded the investment's acquisition cost. No impairment was accumulated for the investment in Amber Grid.

On 29 November 2019, the price of the purchase of a 100% shareholding in TETAS was determined by the independent valuers. The value of TETAS was determined using the income method by discounting a free cash flow. The value calculation included projected cash flows for 2019-2023 and going concern cash flow. The analysis performed showed that the actual free flow for 2019-2020 exceeds the projected flow used in the assessment. The flow approved in the 2021 budget (based on the signed agreements) exceeds the projected flow, therefore, in the Company's assessment, there were no impairment indications for the investment in TETAS as at 31 December 2020 and 2019.

Valuation of the premium to the final price of LITGRID AB and deferred liability adjustment

As part of the implementation of Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 and the requirements of the Law on Electric Energy, on 4 July 2014 the Lithuanian Government adopted Resolution No 826 *On the establishment of a private limited liability company and investment of state-owned assets*, under which the Ministry of Energy was committed to establish a private limited liability company and make all the decisions necessary to transfer the shares of LITGRID AB held by Lietuvos Energija UAB (the former Visagino Atominė Elektrinė UAB, from 2019 AB Ignitis Grupė , hereinafter "Ignitis Grupė") to the newly established private limited liability company EPSO-G in return for consideration based on the market value of shares determined by the independent valuers.

By its Letter No (11.2-13)3-2428 of 10 July 2012 *On the implementation of the Lithuanian Government Resolution*, the Lithuanian Ministry of Energy committed Ignitis Grupė to ensure that all the decisions necessary for unbundling of LITGRID AB will be made. In September 2012, an agreement was signed between Ignitis Grupė and the Company on the sale of shares of the electricity transmission system operator LITGRID AB. Under the agreement, a 97.5% shareholding in LITGRID AB was sold to the Company by Ignitis Grupė at the market value.

In September 2012, an independent valuation of shares of LITGRID AB was performed. The basic sale price of shares specified in the agreement on sale/purchase of shares of LITGRID AB was equal to the market value determined by the independent valuer, i.e. EUR 217,215 thousand, and to the estimated premium to the final price considering the uncertainties of future changes in the principles of determining the tariffs for regulated services. In view of the results of the independent valuation, assumptions used and uncertainties pertaining to future changes in the principles of determining the tariffs for regulated services (the implementation of which is prescribed by the new provisions of the Lithuanian Law on Electric Energy adopted on 17 January 2012), the agreement on sale/purchase of shares of LITGRID AB provided for a premium to the final sale price that depends on potential future changes in the regulatory environment.

The premium to the final price was calculated with reference to the assumptions used in calculation of return on investments for 2015-2018. Under the agreement, "the premium to the final price is determined in view of the substantial changes in the principles of determining the tariffs for regulated services of LITGRID AB". In the management's assessment, several major changes have occurred in the establishment of the tariffs:

1) The NECR carried out the audits for 2011-2013, during which it established that Litgrid exceeded the permitted revenue level, as a result of which the electricity transmission tariff for 2014-2017 was reduced and thus the return to the new shareholder EPSO-G declined.
2) The NECR established the value of the regulated assets under the historical cost method retrospectively for 2016 and noted that it plans to use the same principles until the new regulatory period in 2021. The regulated asset base in 2016-2020 will be calculated using the historical cost method. A change in the method for the calculation of the regulated asset base reduces the return for the shareholders.
3) When establishing the price of the shareholding in Litgrid the independent valuer did not include the new strategic projects (the interconnections with Poland and Sweden) in the valuation. The investments were not included in the calculation of neither the cash flows, nor the regulated assets. In the opinion of EPSO-G, the same principles should be applied both in determining the preliminary price and the final premium to the price. Therefore, the regulatory assets should not include strategic projects, the costs of which were incurred when Litgrid was already controlled by EPSO-G.

The Company treats all arguments as significant and has calculated a negative price premium of EUR 27,075 thousand. Ignitis Grupė disagrees with the presented arguments and the calculation, therefore discussions are currently taking place aiming to solve this issue. The management of EPSO-G has decided to assess the situation with prudence and include only arguments 1 and 2 in the final price premium calculation as at 31 December 2018, i.e. the arguments, the reasonableness of which is confirmed by the letters presented by the Commission.

In view of these assumptions, under the prudent valuation scenario, the Company assessed the price premium to be equal to EUR 17,961 thousand as at 31 December 2020 and 2019. The price premium was accounted for by reducing the amount payable for shares that was recorded in the line item 'other non-current financial liabilities' in the statement of financial position.

Provisions for servitude compensations

Amendments to the Law on Electricity of the Republic of Lithuania came into effect on 1 November 2017 setting forth compensation for servitudes established for the construction of electricity networks on land plots not owned by the operator. The Law on Electricity provides that the construction of electricity transmission networks or other types of electricity installations will be subject to the payment of one-off compensations for damages related with the establishment of statutory servitudes. On 31 July 2018, the methodology for the calculation of compensations came into force. The methodology sets forth the terms and conditions for the payment of compensations. On initial recognition, the Group recognised intangible assets and provisions amounting to EUR 2,300 thousand that are measured on the basis of available information on servitudes used and expected compensation amount. The amount of compensations was reported at the discounted value using a discount rate of 2.24%.

As at 31 December 2019, based on the information available on servitude compensations paid for the year 2019 and after the recalculation of the amount of compensations of subsequent periods, the Group adjusted intangible assets and the related provision by EUR 700 thousand.

On 8 July 2020, the Constitutional Court of the Republic of Lithuania announced the resolution whereby it confirmed that the provisions of the methodology on compensations for servitudes related to the principles on the establishment of the coefficient and the value of the land plot were in contradiction to the Constitution and the laws. The resolution is effective only for future periods and previously paid compensations should not be recalculated. In view of the resolution of the Constitutional Court, the Group recalculated the provision established for compensations for statutory servitudes by taking into consideration the average amount of actually paid compensations and by applying a 0.5 coefficient to one third of the land plots with electricity lines constructed from 11 March 1990 until 10 July 2004. The Group also has reviewed the applied discount rate and has applied the discount rate of 0.62%. A change in the discount rate had no significant impact on the present value of the provision. After the recalculation the Group increased intangible assets and the related provision by EUR 165 thousand.

The provisions of the Law on Special Land Use Requirements came into effect from 1 January 2020 and on 31 December 2020, the Group recognised the provision of EUR 4,098 thousand and the related intangible assets for the formation of special land use requirements (protected zones). The provision was established based on the amendments to the provisions of the property cadastre adopted in 2020 that are necessary for the obligation established by the Lithuanian Law on Special Land Use Requirements to form the register of protected zones by 2023 and taking into consideration the description of the procedure for the setting up and approval of protected zones approved by Order No 1 -339 of the Minister of Energy of the Republic of Lithuania of 13 October 2020. The provision was calculated on the basis of expenses for the formation of protected zones and fees for the registration of entries multiplying them by the number of protected zones. The discount rate of 0.62% was applied for the discounting of the provision.
Having assessed the recoverable value of statutory servitudes the Group did not establish any impairment of assets as at 31 December 2020. The Group companies (each separately) assessed property, plant and equipment and intangible assets as one cash-generating unit as described in Note 6.

Impact of COVID-19 on the Group's operations

Presented below are the main areas considered by the Group in assessing the impact of COVID-19.

Going concern

Due to the threat of the spread of COVID-19, the Group and the Company has reviewed and implemented business continuity and preventive measures: employees responsible for the monitoring of the situation and provision of information to the Group's management were appointed; business units and employees performing the critical functions and administrating the main systems were identified; additional organisational measures were implemented at the system control centres; technical and substitution measures were planned in case of the spread of the virus. The Group regularly reviews its emergency situation management plan to ensure the continuity of critical activities.
The quantities of energy transported increased during 2020 compared to 2019, therefore revenue reduction was not identified due to the impact of COVID-19.

The Group's subsidiary partially suspended works in foreign markets due to restrictions on movement caused by the COVID-19 pandemic and was added to the list of entities that suffered negative consequences as a result of the COVID-19 pandemic. Government subsidies were received – subsidies granted to the employers during the stoppage of work and to the employers after the end of the stoppage of work and the employers added to the State Tax Inspectorate's list of entities that suffered negative consequences as a result of the COVID-19 pandemic. The subsidies received were used to cover a part of the remuneration of employees.

Net book value and useful life of assets: property and equipment and intangible assets

The Group reviewed the useful lives of non-current assets to assess whether they are consistent with the expected nature and purpose of use of non-current assets in view of a possible impact of COVID-19 on that assets. The review of the useful life was based on projected events and economic circumstances that could occur in the future due to the COVID-19 pandemic. After the review, no significant disruptions in the use of property, plant and equipment in the short and long term were identified.

(All amounts are in EUR thousands unless otherwise stated)

Considering that COVID-19 had no negative impact on the results of operations and cash flows, in the Group's assessment, there are no impairment indications of the value of non-current assets. Even if the results of operations or cash flows would deteriorate in the short term, cash flows and value of property, plant and equipment would not be negatively affected in the long term due to the regulatory mechanism.

Expected credit losses: financial assets

The Group has assessed past events, current and future economic conditions of which it is aware at the date of issue of these financial statements to determine expected credit losses resulting from the impact of COVID-19.

The monitoring of the main clients of the Group did not reveal any significant negative impact due to COVID-19. The Group does not expect any liquidity or credit risk issues. The main clients of the Group are the large enterprises that are often also regulated and (or) are not included into the list of companies with risk. Due to specifics of the Group's clients, expected credit losses of amounts receivable are assessed individually in view of the probability (risk) of default. The Group has assessed the current and expected future economic condition of the main clients and has not identified any significant differences. At the time of preparation of the financial statements settlements were conducted as usual. The Group companies have signed credit insurance contracts for amounts receivable, the imbalance market participants have provided the bank guarantees of the established amount or have paid deposits. In 2020, expected credit losses remained at the same level as in 2019.

Based on the Group's assessment, in the short term the spread of the COVID-19 pandemic will have no significant impact on the results of operations and cash flows. In the long term, bad debts expenses incurred due to COVID-19 (if any) will be recovered by the Group (through the regulatory mechanism) and will be compensated in the subsequent periods of the establishment of tariffs for the regulated services.

4. Restatements of comparative figures in the financial statements

The Group decided to eliminate contract assets from the line item of other amounts receivable in the statement of financial position and present these amounts together with prepayments according to the definition of 'contract assets' provided in IFRS 15 by restating comparatives accordingly:

	2019 (restated)	Restatement	2019
Current assets			
Prepayments	-	(1,486)	1,486
Prepayments and contract assets	2,448	2,448	-
Other amounts receivable	65,992	(962)	66,954

Due to a higher value and materiality the Group decided to present the value of provisions in a separate line item in the statement of financial position by restating comparatives accordingly:

	2019 (restated)	Restatement	2019
Non-current liabilities			
Provisions	1,368	1,368	0
Other non-current amounts payable and liabilities	5,510	(1,368)	6,878
Current liabilities			
Provisions	1,313	1,313	0
Other current amounts payable and liabilities	98,244	(1,313)	99,557

The Group decided to reclassify revenue from contracts with customers, other income in the statement of comprehensive income according to the provisions of IFRS 15, and to eliminate dividend income from the Company's and the Group's finance income:

Group 2019 before restatement	
Revenue	
Revenue from electricity transmission and related services	184,675
Revenue from natural gas transmission and related services	53,685
Other sales revenue	12,460
Total sales revenue	250,820
Other operating income	165

(All amounts are in EUR thousands unless otherwise stated)

2019 after restatement			
Revenue from contracts with customers			
Revenue from electricity transmission and related services			173,636
Revenue from natural gas transmission and related services			53,685
Other revenue from contracts with customers			11,344
Total revenue from contracts with customers:			238,665
Other income			12,320
Company	2019 (restated)	Restatement	2019
Finance income	35	(7,677)	7,712
Dividend income and income from disposal of associates	7,677	7,677	0
Group			
Finance income	51	(174)	225
Dividend income and income from disposal of associates	174	174	0

The Group decided to provide a more detailed breakdown of significant expense line items within operating expenses in the statement of comprehensive income by restating comparatives accordingly:

Operating expenses	2019 (restated)	Restatement	2019
Taxes and compulsory payments	(5,338)	(5,338)	0
Transport expenses	(2,473)	(2,473)	0
Other expenses	(10,848)	7,811	(18,659)

5. Intangible assets

Group	Goodwill	Patents and licences	Computer software	Other intangible assets	Statutory servitudes and protected zones*	Total
Net book amount at 31 December 2018	61	270	6,228	8	2,300	8,867
Additions	-	185	1,538	117	-	1,840
Write-offs	-	-	-	-	(700)	(700)
Reclassification between categories	-	38	(146)	108	-	-
Amortisation charge	-	(212)	(1,862)	(23)	-	(2,097)
Net book amount at 31 December 2019	61	281	5,758	210	1,600	7,910
At 31 December 2019						
Cost	61	773	10,751	256	1,600	13,441
Accumulated amortisation		(492)	(4,993)	(46)		(5,531)
Net book amount	61	281	5,758	210	1,600	7,910
Net book amount at 31 December 2019	61	281	5,758	210	1,600	7,910
Additions	-	14	1,109	138	4,088	5,349
Write-offs	-	-	(15)	-	-	(15)
Reclassification with PP&E				-		-
Reclassification between categories	-	14	(31)	17	-	-
Value adjustment due to a change in assumptions					165	165
Offsetting with grants			(177)			(177)
Amortisation charge	-	(132)	(1,905)	(60)	-	(2,097)
Net book amount at 31 December 2020	61	177	4,739	305	5,853	11,135
At 31 December 2020						
Cost	61	801	11,637	411	5,853	18,756
Accumulated amortisation	-	(624)	(6,898)	(106)		(7,628)
Net book amount	61	177	4,739	305	5,853	11,135

* As disclosed in Note 3, as at 31 December 2018, the Group recognised the provision of EUR 2 300 thousand for payments for servitudes and the related intangible assets. In 2020 and 2019, following the Group's review of the main assumptions used in the calculation of the provision and the amounts of actual payment, the value of the provision and intangible assets was adjusted to EUR 1,765 thousand.

As at 31 December 2020, the Group also recognised the provision of EUR 4,098 thousand and the related intangible assets for the formation of special land use requirements (protected zones). The discount rate of 0.62% was applied for the discounting of the provision.

The Company's intangible assets amounted to EUR 5 thousand as at 31 December 2020. The Company had no property, plant and equipment as at 31 December 2019.

(All amounts are in EUR thousands unless otherwise stated)

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6. Property, plant, and equipment

Group	Land	Buildings	Structures and machinery	Motor vehicles	Other property, plant and equipment	Construction in progress	Total
Net book amount at 31 December 2018	645	15,537	462,454	2,682	10,723	17,780	509,821
Reclassification to right-of-use assets	-	-	-	(1,194)	-	-	(1,194)
Net book amount at 1 January 2019	645	15,537	462,454	1,488	10,723	17,780	508,627
Additions	-	-	511	270	773	63,716	65,270
Prepayments for PP&E	-	-	-	-	-	(449)	(449)
Revaluation	-	391	-	-	-	(239)	152
Disposals	-	-	(163)	(3)	(1)	-	(,167)
Write-offs	-	(25)	(344)	-	(2)	-	(371)
Reclassification to/from inventories	-	-	(156)	-	125	5	(26)
Reclassification between categories	-	8,226	28,574	-	3,689	(40,489)	-
Off-set of grants against non-current assets	-	-	-	-	-	(18,665)	(18,665)
Depreciation charge	-	(754)	(24,327)	(396)	(2,995)	-	(28,472)
Net book amount at 31 December 2019	645	23,375	466,549	1,359	12,312	62,148	525,899
At 31 December 2019							
Cost	645	24,470	491,176	2,840	16,412	21,898	557,441
Accumulated depreciation	-	(1,095)	(24,627)	(1,481)	(4,100)	-	(31,303)
Accumulated impairment	-	-	-	-	-	(239)	(239)
Net book amount	645	23,375	466,549	1,359	12,312	21,659	525,899
Net book amount at 31 December 2019	645	23,375	466,549	1,359	12,312	21,659	525,899
Additions	-		314	194	2,373	139,206	142,087
Prepayments for PP&E	-					1,763	1,763
(Impairment)/reversal of impairment	-		(233)			250	17
Disposals		(26)	(380)	(36)			(442)
Write-offs	-	(10)	(818)		(11)		(839)
Reclassification to/from inventories			98		(12)		86
Reclassification between categories	388	1,487	20,974		2,117	(24,966)	-
Off-set of grants against non-current assets			(155)		(14)	(59,429)	(59,598)
Depreciation charge		(975)	(24,694)	(360)	(3,080)		(29,109)
Off-set of connection fees against non-current assets		(45)	(1,969)	-	(97)		(2,111)
Net book amount at 31 December 2020	1,033	23,806	459,686	1,157	13,588	74,957	574,227
At 31 December 2020							
Cost	1,033	25,610	501,468	2,415	19,643	74,957	625,125
Accumulated depreciation	-	(1,802)	(41,552)	(1,257)	(6,054)	-	(50,665)
Accumulated impairment	-	-	(233)-	-	-	-	(233)
Net book amount	1,033	23,806	466,549	1,158	13,589	74,957	574,227

As at 31 December 2020, the Group's interest capitalised as part of property, plant and equipment amounted to EUR 219 thousand; the annual interest capitalisation rate was established at 0.8% (2019: EUR 138 thousand; the interest rate was established at 0.9%).

As at 31 December 2020, the Group's commitments for the acquisition of property, plant and equipment to be fulfilled in the upcoming periods amounted to EUR 79,993 thousand (31 December 2019: EUR 213,589 thousand).

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

The Group's property, plant, and equipment is accounted for at a revalued amount. The Group performed the last revaluation of its property, plant and equipment on 31 December 2018. As at 31 December 2020 and 2019, the Group tested the value of the property using the discounted cash flow calculation technique (the income method).

The valuation assumptions are presented below. No regulatory decisions that could materially affect the value of the property were adopted in 2020 and 2019. The carrying amount of the property within the materiality limits corresponds to its fair value, therefore, the value of the property was not adjusted as at 31 December 2020 and 2019. The valuation corresponded to Level 3 of the fair value hierarchy (Note 2.24), it was performed using the Group's internal resources and not engaging an independent external valuer.

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

The value of Litgrid's assets as at 31 December 2020 was calculated using the following main assumptions:

- When establishing the price cap for electricity transmission in the current regulatory period (until 2021), the cost of capital is calculated under the LRAIC model value, however the actual return is calculated under a historical cost basis. Starting from 2022, the LRAIC model is applied in the regulatory pricing, i.e. the cost of capital is determined under the LRAIC model both when determining the price cap, and when calculating the actual return, if investments in the optimised assets over the longer period catch up the assets value calculated under the LRAIC model, i.e. the value of the assets calculated under the LRAIC model and under the historical cost basis is the same at the end of 2036.
- The amounts of investments until 2031 from the ten-year investment plan adjusted according to the actual data with all development investments eliminated from it; the annual average of the 2021-2032 investments is applied in 2033-2036.
- All operating expenses attributable to the regulated activities are compensated through transmission revenue, except for the compensation of remuneration expenses in 2022-2026, the compensation assumption of which is 90%.
- The refund of the 2018-2020 investment return in excess of the amount permitted by the NERC (excess profit), following the assessment of efficient saving of operating expenses that increases the permitted investment return, to the network consumers (lower transmission price and revenue) was estimated when calculating the 2021-2022 cash flows.
- The rate of return on investments (WACC before tax) is equal to 3.92% in 2022-2026 (equivalent to a 3.34% WACC after tax) and from 2027 is the same as the discount rate, i.e. 4.17% (equivalent to a 3.55% WACC after tax). The calculation of the assets' value as at 31 December 2019 – the rate of return on investments (WACC before tax) is equal to 3.41% in 2022-2026 (equivalent to a 2.9% WACC after tax) and from 2027 is the same as the discount rate, i.e. 4.46% (equivalent to a 3.79% WACC after tax).
- Net cash flows generated by the assets were discounted using the discount rate (WACC after tax) equal to 3.55% which was calculated by the Company. As at 31 December 2019, net cash flows generated by the assets were discounted using the discount rate (WACC after tax) equal to 3.79% which was calculated by the Company.

The value of Amber Grid's assets as at 31 December 2020 was calculated using the following main assumptions:

- Cash flows were discounted using the discount rate of 3.58% (as at 31 December 2019, cash flows were discounted using the discount rate of 3.67%);
- The rate of return on investments of 3.86% established by the NERC is applied in 2021-2023; according to the WACC Methodology updated by the NERC in 2020, the rate of return on investments of 4.12% is applied in 2024-2025; the rate of return on investments of 3.72% was projected in the calculations of the assets' value as at 31 December 2019 after the update of the WACC Methodology by the NERC;
- The value of the going concern cash flow is established by aligning the rate of return on investments (4.21% before income tax) with the discount rate; the discount rate of 4.32% was applied to the going concern cash flow in the calculations of the assets' value in 2019;
- The Company's regulated profit of 2019-2020 in excess of the established return on investments that arose from the transmission volumes (higher capacities and quantities actually ordered by the system users), incurred expenses, having assessed operational efficiency, will be reversed in the future through the reduction of the transmission prices to the system users (one-off effect);
- the annual growth coefficient is not applied to the indefinite period of time (equal to 0).

(All amounts are in EUR thousands unless otherwise stated)

Had the value of the Group's property, plant and equipment not been reduced by the amount of grants, its carrying amount would have been EUR 422,398 thousand higher as at 31 December 2020 (31 December 2019: EUR 373,655 thousand). The following table shows information on property, plant and equipment, the value of which was reduced by the amount of grants received/receivable:

	At 31 Dec 2020	At 31 Dec 2019
Carrying amount at the beginning of the period	373,655	365,577
Additions	59,598	18,733
Depreciation charge	(10,783)	(10,635)
Write-offs	(72)	(20)
Carrying amount at the end of the period	422,398	373,655

Company	Other property, plant and equipment	Total
Net book amount at 31 December 2018	29	29
Additions	4	4
Depreciation charge	(14)	(14)
Net book amount at 31 December 2019	19	19
Cost	75	75
Accumulated depreciation	(56)	(56)
Net book amount at 31 December 2019	19	19
Net book amount at 31 December 2019	19	19
Additions	2	2
Depreciation charge	(9)	(9)
Net book amount at 31 December 2020	12	12
Cost	77	77
Accumulated depreciation	(65)	(65)
Net book amount at 31 December 2020	12	12

As at 31 December 2020 and 2019, the Company's other property, plant and equipment comprised computer hardware and furniture.

7. Right-of-use assets

The Company has concluded the lease contracts for premises and motor vehicles and the Group has concluded the lease contracts for premises, motor vehicles, state land and other property, plant and equipment. The lease contracts for motor vehicles are concluded for the term of 3-4 years, for premises – 5-8 years, for other property, plant and equipment –2-3 years; the land lease contracts are concluded for the term of 99 years. When recognising right-of-use assets and lease liabilities and determining the lease terms the Group and the Company assessed extension and early termination options of the lease contracts.

The Group's and the Company's right-of-use assets comprised as follows:

Group	Land	Buildings	Motor vehicles	Other property, plant and equipment	Total
Recognised at 1 January 2019	5,743	1,210	2,557	138	9,648
Additions	-	601	97	160	858
Write-offs	-	(30)	-	-	(30)
Depreciation charge	(58)	(361)	(630)	(49)	(1,098)
Net book amount at 31 December 2019	5,685	1,420	2,024	249	9,378
Cost	5,743	1,781	2,654	298	10,476
Accumulated depreciation	(58)	(361)	(630)	(49)	(1,098)
Net book amount at 31 December 2019	5,685	1,420	2,024	249	9,378
New contracts	-	218	2,096	-	2,314
Indexation		3			3
Write-offs	-	(354)	-	(11)	(365)
Depreciation charge	(58)	(447)	(947)	(49)	(1,501)
Net book amount at 31 December 2020	5,627	840	3,173	189	9,829
Cost	5,743	1,648	4,750	287	12,428
Accumulated depreciation	(116)	(808)	(1,577)	(98)	(2,599)
Net book amount at 31 December 2020	5,685	840	3,173	189	9,829

(All amounts are in EUR thousands unless otherwise stated)

Company					
Recognised at 1 January 2019	-	255	2	-	257
Additions	-	-	81	-	81
Depreciation charge	-	(43)	(19)	-	(62)
Net book amount at 31 December 2019	-	212	64	-	276
Cost		255	81	-	336
Accumulated depreciation	-	(43)	(17)	-	(60)
Net book amount at 31 December 2019	-	212	64	-	276
Additions	-	114	-	-	114
Depreciation charge	-	(60)	(23)	-	(83)
Net book amount at 31 December 2020	-	267	40	-	307
Cost	-	369	81	-	450
Accumulated depreciation	-	(103)	(40)	-	(143)
Net book amount at 31 December 2020	-	266	41	-	307

In November 2020, the Group completed the procurement procedures for the lease of the new office premises and although the agreement was signed in 2021, it is certain that the option to extend the agreement for the lease of office premises will not be exercised. The Group reviewed the term for the lease of office premises and remeasured lease liabilities. After the performance of the above assessment, right-of-use assets of EUR 354 thousand were written off.

The Group and the Company had no leases with variable payments not included in the value of lease liabilities.

In 2020, short-term lease (up to 12 months) and low value lease (up to EUR 4,000) payments included in expenses amounted to EUR 916 thousand for the Group and EUR 47 thousand for the Company (2019: EUR 1,381 thousand for the Group and EUR 33 thousand for the Company).

In 2020, the Group concluded the sale and leaseback transaction for the drilling equipment. Under the latter transaction, the drilling equipment was sold for EUR 396 thousand, of which EUR 201 thousand was offset as lease payments at the commencement date of the lease and the remaining amount of EUR 195 thousand was attributed to lease liabilities.

8. Investments in subsidiaries

The Company's investments in subsidiaries

As at 31 December 2020 and 2019, the Company had a shareholding in the following Group companies:

Group company	Acquisition cost	Impairment	Carrying amount	Ownership interest (%)
LITGRID AB	217,215	26,090	191,125	97.5
Amber Grid AB	126,529	-	126,529	96.6
BALTPOOL UAB	388	-	388	67.0
TETAS UAB	3,150	-	3,150	100.0
Total	347,282	26,090	321,192	

Under the agreement for the purchase and sale of 100% of shares of TETAS UAB of 29 November 2019 concluded with subsidiary LITGRID AB, the Company acquired a shareholding in TETAS UAB. 400,000 ordinary registered shares (with the nominal value of EUR 1) of TETAS were acquired for the price of EUR 3,150 thousand, which was established by the independent property valuer, by paying the price at the date of the acquisition of shares.

As disclosed in Notes 1 and 39, on 26 January 2021, the Company established a wholly-owned subsidiary Energy Cells by subscribing and paying for 500,000 shares of the newly established company with the nominal value of EUR 1. Shares were paid by making a monetary contribution.

As disclosed in Note 3, the Company tested the subsidiaries for impairment and did not identify any impairment indications. The recoverable amount of investments in LITGRID and Amber Grid was estimated as the difference between the subsidiary's total assets and total liabilities, which are measured at fair value, reflecting the fair value of net assets. Based on to the calculation results presented in Note 3, no adjustments to the impairment of investments were made and no additional impairment was accounted for.

Presented below is the summarised statement of financial position of the Group companies with non-controlling interest as at 31 December 2020 and 2019.

(All amounts are in EUR thousands unless otherwise stated)

Company name Year	Current assets and liabilities			Non-current assets and liabilities			Net assets
	Assets	Liabilities	Total net current assets	Assets	Liabilities	Total net non-current assets	
LITGRID							
At 31 December 2020	38,965	66,116	(27,151)	375,388	130,200	245,188	**218,037**
At 31 December 2019	25,505	54,971	(29,466)	350,693	125,656	225,037	**195,571**
Amber Grid							
At 31 December 2020	49,144	42,987	6,157	255,649	107,396	148,253	**154,410**
At 31 December 2019	28,094	45,226	(17,132)	209,426	55,316	154,110	**136,978**
TETAS							
At 31 December 2020	7,676	9,645	(1,969)	4,250	912	3,338	**1,369**
At 31 December 2019	4,200	5,974	(1,774)	4,197	1,908	2,289	**515**
Baltpool							
At 31 December 2020	45,776	45,260	516	177	82	96	**612**
At 31 December 2019	67,426	66,912	514	211	131	80	**594**
GET Baltic							
At 31 December 2020	11,836	11,414	422	783	110	673	**1,095**
At 31 December 2019	19,059	19,378	(319)	805	129	676	**357**

Presented below is the summarised statement of comprehensive income of the Group companies with non-controlling interest for 2020 and 2019.

Company name Year	Revenue	Profit before income tax	Other comprehensive income	Income tax (expenses)/ benefit	Total comprehensive income for the period	Comprehensive income attributable to non-controlling interest	Dividends paid to non-controlling interest
LITGRID							
At 31 December 2020	207,516	30,881	(61)	(4,269)	26,551	664	(102)
At 31 December 2019	183,913	3,146	(709)	(81)	2,356	59	(193)
Amber Grid							
At 31 December 2020	50,831	13,797	-	3,635	17,432	596	-
At 31 December 2019	55,080	14,697	-	(2,160)	12,537	429	(179)
Baltpool							
At 31 December 2020	1,132	213	-	(31)	182	60	(54)
At 31 December 2019	975	108	-	(15)	93	31	(36)
GET Baltic							
At 31 December 2020	1,503	789	-	(51)	738	25	-
At 31 December 2019	595	37	-	(2)	35	1	-

Presented below is the summarised statement of cash flows of the Group companies with non-controlling interest for 2020 and 2019.

Company name Year	Net cash flows from operating activities	Net cash flows from investing activities	Net cash flows from financing activities	Net increase/(decrease) in cash flows	Cash and cash equivalents at the beginning of the year	Cash and cash equivalents at the end of year
LITGRID						
At 31 December 2020	27,103	(7,397)	(19,709)	3	30	33
At 31 December 2019	24,071	6,458	(30,896)	(367)	397	30
Amber Grid						
At 31 December 2020	23,559	(70,898)	47,145	(194)	197	3
At 31 December 2019	26,951	(12,542)	(14,246)	163	34	197
Baltpool						
At 31 December 2020	(18,537)	(14)	18,329	51	675	726
At 31 December 2019	311	(33)	(150)	128	547	675
GET Baltic						
At 31 December 2020	1,113	(179)	(206)	728	36	764
At 31 December 2019	264	(250)	14	28	8	36

9. Financial assets measured at fair value through other comprehensive income

The Group's financial assets measured at fair value through other comprehensive income comprised shares of TSO Holding AS:

	At 31 December 2020	At 31 December 2019
Value of shares (2%) of TSO Holding AS, EUR'000	1,089	1,984

On 15 January 2020, the Group together with other shareholders of Nord Pool Holding AS, i.e. the TSOs of the Nordic and Baltic countries, through a jointly controlled entity TSO HOLDING AS (the Group holds 2% of shares) sold 66% of shares of NordPool Holding AS to Euronext. In view of to the price established under the share purchase and sale agreement, on 31 December 2019 the Group adjusted the value of shares of Nord Pool Holding AS and accounted for the result in other comprehensive income and reduced the revaluation reserve.
After the receipt of dividends of EUR 895 thousand from TSO Holding AS in 2020, the Group adjusted the value of shares of TSO Holding AS by the same amount: accounted for EUR 834 thousand in finance costs and EUR 61 thousand in other comprehensive income and reduced the revaluation reserve.
The valuation corresponded to Level 2 of the fair value hierarchy when the value was determined on the basis of the performed transaction.

10. Congestion management revenue

Movement in congestion management revenue in 2020 and 2019:

	Group	
	2020	2019
Opening balance of congestion management revenue	**39,135**	**15,754**
Congestion management revenue received during the period	32,381	27,366
Used to finance property, plant and equipment	(8,005)	(3,787)
Congestion management revenue used to compensate disconnection losses during the period	(992)	(198)
Closing balance of congestion management revenue	**62,519**	**39,135**
Congestion management revenue temporarily used to finance operating activities	37,618	26,487
Unused congestion management revenue included in non-current assets	18,041	8,185
Unused congestion management revenue included in current assets	6,860	4,463

The principles of receipt and use of congestion management revenue are set out in Note 2.19. Revenue balance unused according to the purposes set out in Regulation (EC) No 714/2009 of the European Parliament and of the Council amounted to EUR 62,519 thousand as at 31 December 2020.

As explained in Note 2.19, the difference between the balance of congestion revenue included in current liabilities and in current assets resulted from a temporary use of funds to finance the Company's operating activities.

	Group	
Liability portion	At 31 Dec 2020	At 31 Dec 2019
Non-current liability portion of congestion management revenue	55,659	34,672
Current liability portion of congestion management revenue	6,860	4,463
Total	62,519	39,135

11. Inventories

	Group	
	At 31 Dec 2020	At 31 Dec 2019
Raw materials, spare parts, other consumables, and assets held for sale	2,873	1,684
Natural gas	1,443	1,651
Consumables for construction projects	1,374	-
Assets held for sale	-	13
Less: write-down allowance	(499)	(640)
Carrying amount	5,191	2,708

(All amounts are in EUR thousands unless otherwise stated)

As at 31 December 2020, the acquisition cost of the Group's inventories stated at net realisable value was EUR 2,374 thousand (31 December 2019: EUR 1,684 thousand). The cost of the Group's inventories recognised as expenses during the year amounted to EUR 9,922 thousand (31 December 2019: EUR 14,573 thousand).

Movements in write-down allowance for inventories in 2020 and 2019 are indicated below:

	Group	
	2020	2019
Carrying amount as at 1 January	640	603
Change in write-down allowance	(141)	37
Carrying amount at 31 December	499	640

The write-down allowance charge was included in other expenses in the statement of comprehensive income.

12. Trade receivables

Trade receivables comprised:

	Group		Company	
I. Trade receivables under contracts with customers	At 31 December 2020	At 31 December 2019	At 31 December 2020	At 31 December 2019
I.1. Trade receivables after one year	*159*	-	-	-
Less: impairment of non-current amounts receivable	(54)	-		
Net book amount of amounts receivable after one year:	105	-		
I.2. Current trade receivables				
Amounts receivable for electricity transmission	23,099	15,203	-	-
Amounts receivable for transmission and transit of natural gas	5,799	5,524	-	-
Amounts receivable for contractual works and other services	1,895	2,547	50	38
Less: impairment of trade receivables	(225)	(387)	-	-
Net book amount of trade receivables under contracts with customers	30,568	22,887	50	38
II. Trade receivables under other contracts:				
Other trade receivables	1,892	1,865		
Less: impairment of trade receivables	-	-		
Net book amount of trade receivables under other contracts:	1,892	1,865		
Total current trade receivables:	32,460	24,752		

Amounts receivable after one year

The amount receivable after one year of EUR 105 thousand at 31 December 2020 comprised the amount receivable under the restructuring agreement signed with the client.

Current trade receivables / Impairment of trade receivables (expected credit losses)

Trade receivables under other contracts comprised congestion revenue funds receivable, receivables from ITC fund, lease of assets. The fair value of trade receivables under contracts with customers approximates their carrying amount. In 2020, the Group accounted for impairment reversal of EUR 162 thousand with regard to amounts paid.

The Company did not recognise any doubtful debts.

(All amounts are in EUR thousands unless otherwise stated)

13. Other amounts receivable

	Group		Company	
	At 31 December 2020	At 31 December 2019	At 31 December 2020	At 31 December 2019
Administered PSO funds receivable	39,351	47,042	-	-
Administered LNG terminal funds receivable	12,834	16,020	-	-
VAT receivable from the state budget	120	3	-	-
Grants receivable	28,819	2,754	-	-
Reclassification with grants received in advance	-	1,168	-	-
Loans to subsidiaries	-	-	27,630	7,581
Other amounts receivable	2,214	617	33	4
Less: impairment of other receivables	(23)	(23)	-	-
Carrying amount	83,315	65,992	27,663	7,585

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

The line item of grants receivable includes support of the EU structural funds for the projects being implemented by the Group. Support receivable from the EU structural funds for the project on the construction of the gas interconnection between Lithuania and Poland amounted to EUR 24,934 thousand as at 31 December 2020 (31 December 2019: EUR 1,917 thousand).

The major part of the Group's other amounts receivable and past due amounts receivable consisted of PSO and LNG terminal funds receivable. Past due PSO funds amounted to EUR 23,883 thousand and past due LNG terminal funds amounted to EUR 5,253 thousand as at 31 December 2020. The Group is not exposed to credit risk in collecting PSO and LNG terminal funds as its acts as an administering entity, therefore impairment provision is not established for these past due amounts.

As at 31 December 2020 and 2019, the cash pool agreement was concluded between the Company and the Group companies for the balancing of the working capital. Loans granted are subject to variable interest rates, the variable interest rate is linked to 3 and 6 month EURIBOR.

14. Other financial assets

	Group	
	At 31 December 2020	At 31 December 2019
Administered PSO funds	-	14,172
Administered LNG terminal funds	3	4
Funds deposited for guarantees and deposits	1,619	1,619
Unused funds of congestion management revenue	6,860	4,463
Financial assets held for sale	-	752
Funds of the exchange participants	14,253	24,111
Carrying amount	22,735	45,121

Funds of the exchange participants consist of their cash deposits ensuring the possibility to participate in the trading at the exchange. Due to the possibility of short-term disposal of these funds and their use only for settlements for products purchased on the exchange, they are not included in cash and cash equivalents.

According to the requirements prescribed by laws, the PSO funds and the LNG terminal funds intended for the recipients of these funds should be reported separately from other cash and cash equivalents of the Group and can only be used for the disbursement of PSO funds and LNG terminal funds, respectively.

As disclosed in Note 10, a current portion of congestion management revenue funds is expected to be used for the purposes set out in the EU Regulation within 12 months.

As at 31 December 2020 and 2019, the carrying amount of other financial assets approximates their fair value.

15. Cash and cash equivalents

	Group		Company	
	At 31 December 2020	At 31 December 2019	At 31 December 2020	At 31 December 2019
Cash at bank	5,113	13,470	3,362	12,346
Carrying amount	5,113	13,470	3,362	12,346

The fair value of cash and cash equivalents is equal to their nominal and carrying amounts.

(All amounts are in EUR thousands unless otherwise stated)

16. Share capital

As at 31 December 2020 and 31 December 2019, the authorized and issued share capital of the Company amounted to EUR 22,482,694.57 and it was divided into 77,526,533 ordinary registered shares with the nominal value of EUR 0.29 each. All the shares are fully paid.

Capital management

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

According to the Law on Companies of the Republic of Lithuania, equity of the Company must account for at least 1/2 of the amount of the share capital. As at 31 December 2020 and 31 December 2019, the Company and all companies of the Group complied with this requirement.

The Company's and the Group's main objective when managing capital is to maintain an optimal capital structure in order to ensure ability to continue as a going concern, minimisation of the cost of capital and risk. The structure of the capital of the Group companies is formed taking into consideration demand for operating activities, planned investments and development.
The Company's Board approved the dividend policy, which sets uniform principles for the payment of dividends for all companies of the Group to ensure sustainable growth of the value of the business of the Group and its companies, long-term benefit to the shareholders, achievement of long-term and short-term objectives. The dividend policy is one of the capital risk management tools. According to the dividend policy, the allocation of dividends depends on the return on the companies' equity, availability of financial resources for payment of dividends, implementation of projects important for the State and other circumstances. Between 60% and 85% of net profit is allocated for the payment of dividends, depending on the return on equity and other conditions affecting the company's solvency.
The allocation of the Company's dividends for 2016-2021 is regulated by Resolution No 1116 of the Government of the Republic of Lithuania of 9 November 2016 *On the payment of dividends by EPSO-G UAB for the shares held by the State by the right of ownership*. Under the provisions of this Resolution, the holders of the Company's shares can each year allocate 0.5% of profit to be appropriated for the payment of dividends, if after the payment of dividends liabilities set out in the Resolution would exceed the Company's equity.
There were no changes in the capital management objectives compared to the previous year.

17. Revaluation reserve

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

Group	Revaluation reserve	Deferred income tax	Net of deferred income tax
Balance at 31 December 2018	254	(38)	216
Depreciation of revaluation reserve	(87)	13	(74)
Write-offs of property, plant and equipment	(3)	-	(3)
Revaluation of property, plant and equipment	381	(57)	324
Change in non-controlling interest of revaluation reserve	12	-	12
Balance at 31 December 2019	557	(82)	475
Depreciation of revaluation reserve	(62)	9	(53)
Write-offs of property, plant and equipment	(19)	3	(16)
Balance at 31 December 2020	476	(70)	406

18. Legal reserve and other reserves

Legal reserve

A legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfers of not less than 5 per cent of net profit are required until the reserve reaches 10 per cent of the share capital. The legal reserve can only be used to cover future losses. As at 31 December 2020, this reserve was fully formed at the Company.

Revaluation reserve of financial assets

The revaluation reserve of financial assets arises from revaluation of financial assets, which is measured at fair value through other comprehensive income, due to the value increase. In accordance with the Lithuanian legislation, this reserve can be used to increase the share capital. However, this reserve cannot be used to reduce losses.

In 2019, the Group revalued its 2% shareholding in TSO Holding AS, which controls the electricity and market coupling exchange operators. Based on the price of the conducted transaction, the revaluation reserve was reduced to EUR 51 thousand. After the receipt of dividends from TSO Holding in 2020, the Group reduced the value of shares by the same amount and annulled the revaluation reserve (refer to Note 9 for more information).

(All amounts are in EUR thousands unless otherwise stated)

Group	Revaluation reserve of financial assets without non-controlling interest	Deferred income tax	Net of deferred income tax
Balance at 31 December 2018	752	(113)	639
Revaluation of financial assets	(692)	104	(588)
Balance at 31 December 2019	60	(9)	(51)
Revaluation of financial assets	(60)	9	(51)
Balance at 31 December 2020	0	0	0

<u>Other reserves</u>

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

19. Dividends

During the Ordinary General Meeting of Shareholders of EPSO-G UAB held on 30 April 2020, the decision was made in relation to the payment of dividends in the amount of EUR 773 thousand.

On 9 November 2016, the Government of the Republic of Lithuania passed Resolution No 1116 whereby it was established that EPSO-G UAB will allocate 0.5% of profit to be appropriated for the payment of dividends for the financial year 2016-2021. This provision is applied if in a respective financial year after the payment of dividends EPSO-G UAB borrowings, finance lease liabilities and other non-current amounts payable and liabilities, except for deferred revenue, deferred income tax liabilities and grants, would exceed the equity of EPSO-G UAB.

20. Grants

Grants comprise grants for the acquisition of non-current assets and compensation of expenses. Movements in grants in 2020 and 2019 were as follows:

	Group
Balance at 31 December 2018	0
Grants received	15,175
Grants receivable	(133)
Grants received in advance	6,614
Congestion revenue (Note 10)	3,787
Transfer to property, plant and equipment (Note 6)	(18,665))
Grants used for compensation of expenses	(164)
Transfer to advance amounts received under liabilities	(6,614)
Balance at 31 December 2019	0
Grants received	24,773
Grants receivable	27,224
Congestion revenue	8,005
Connection fees received	2,111
Grants received in advance	80
Transfer to property, plant and equipment and intangible assets (Notes 5 and 6)	(61,886)
Used for compensation of expenses	(227)
Transfer to advance amounts received under liabilities	(80)
Balance at 31 December 2020	0

(All amounts are in EUR thousands unless otherwise stated)

21. Borrowings

The Group's and the Company's borrowings comprise as follows:

	Group		Company	
	At 31 December 2020	At 31 December 2019	At 31 December 2020	At 31 December 2019
Non-current borrowings				
Bank borrowings	167,242	134,202	-	2,560
Current borrowings				
Current portion of non-current borrowings	26,959	30,403	2,560	2,560
Overdraft	20,019	-	20,019	-
Current borrowing from the Group companies	-	-	634	-
Total borrowings	214,220	164,605	23,213	5,120

Non-current borrowings by maturity:

	Group		Company	
	At 31 December 2020	At 31 December 2019	At 31 December 2020	At 31 December 2019
Between 1 and 2 years	24,399	22,959	-	2,560
Between 2 and 5 years	59,564	70,056	-	-
Over 5 years	83,279	41,187	-	-
Total	167,242	134,202	-	2,560

As at 31 December 2020 and 2019, no assets were pledged as collateral by the Group and the Company.

In June 2020, the Group company signed the agreement for the long-term financing of up to EUR 65,000 thousand with the European Investment Bank on the financing of the construction of the section of the gas interconnection between Poland and Lithuania in the territory of the Republic of Lithuania. As at 31 December 2020, the withdrawn amount of the loan was equal to EUR 60,000 thousand.

The loan agreements provide for financial and non-financial covenants that the individual Group companies are obliged to comply with. The Group companies complied with all such covenants in 2020 and 2019.

As at 31 December 2020, the Group's borrowings with a fixed interest rate represented 46% (31 December 2019: 35%). The remaining borrowings are linked to the variable interest rate of 3 and 6 month EURIBOR (variable interest rate of 12 month EURIBOR in case of the Company).

As at 31 December 2020, the weighted average interest rate of the Group's and the Company's borrowings was 0.63% and 0.52%, respectively (31 December 2019: 0.75% and 0.52%, respectively).

As at 31 December 2020, the Group's and the Company's undrawn borrowings amounted to EUR 5,000 thousand, overdrafts – EUR 20,000 thousand (31 December 2019: EUR 20,000 thousand).

Reconciliation of net debt balances and cash flows from financing activities of 2020 and 2019:

Group	Cash	Borrowings	Lease liabilities	Total
Net debt at 31 December 2018	9,913	(196,255)	(820)	(187,162)
Additions		(10,000)	(9,264)	(19,264)
Increase/(decrease) in cash and cash equivalents	3,557			3,557
Change in overdraft		6,889		6,889
Repayment of borrowing		34,761		34,611
Lease payments			1,139	1,139
Net debt at 31 December 2019	13,470	(164,605)	(8,945)	(160,080)
Additions		(60,000)	(2,129)	(62,129)
(Decrease) in cash and cash equivalents	(8,357)	-	-	(8,357)
Change in overdraft	-	(20,020)	-	(20,020)
Repayment of borrowing	-	30,405	-	30,405
Adjustment of the value of lease liabilities			351	351
Lease payments			1559	1,559
Net debt at 31 December 2020	5,113	(214,220)	(9,164)	(218,271)

(All amounts are in EUR thousands unless otherwise stated)

Company	Cash	Borrowings	Lease liabilities	Total
Net debt at 31 December 2018	8,669	(7,680)	-	989
(Decrease) in cash and cash equivalents	3,677			3,677
Additions			(338)	(338)
Lease payments			62	62
Repayment of borrowing		2,560	-	2,560
Net debt at 31 December 2019	12,346	(5,120)	(276)	6,950
(Decrease) in cash and cash equivalents	(8,984)	-	-	(8,984)
Change in overdraft	-	(20,020)	-	(20,020)
Current borrowings (received)		(634)		(634)
Additions	-	-	(114)	(114)
Lease payments	-	-	81	81
Repayment of borrowing	-	2,560	-	2,560
Net debt at 31 December 2020	3,362	(23,214)	(309)	(20,161)

22. Interest-bearing financial liabilities

The Group's and the Company's liability to AB Ignitis Grupė under the share purchase and sale agreement of 27 September 2012, based on the calculated basic price, is classified as financial liabilities measured at amortised cost.

The Group's and the Company's liability (the amount receivable) for the premium to the price of LITGRID's shares, considering the Company's prudent assessment of the amount of the share premium described in Note 3, amounted to EUR (17,961) thousand. This liability is classified within the category of financial liabilities measured at fair value through profit or loss and attributed to Level 3 of the fair value hierarchy. In 2020 and 2019, there were no changes in the fair value of the premium to the price of LITGRID's shares recognised in profit or loss.

The table below presents the Group's and the Company's liabilities of this nature and their movement in 2020 and 2019.

	Group	
	At 31 December 2020	At 31 December 2019
Non-current portion		
Amount payable for shares of LITGRID AB based on the basic price	152,089	166,570
Amount payable (receivable) of the premium to the price of LITGRID's shares	(17,961)	(17,961)
Total non-current portion	*134,128*	*148,609*
Current portion		
Amount payable for shares of LITGRID AB based on the basic price	14,481	7,965
Total financial liabilities	148,609	156,574
Maturity of non-current portion of liabilities:		
Between 1 and 2 years	134,128	14,481
Between 2 and 3 years	-	134,128

Financial liabilities are subject to a variable interest rate of 12 month EURIBOR. The weighted average interest rate of these liabilities was 0.44% at 31 December 2020 (31 December 2019: 0.60%).

Accrued interest amounted to EUR 134 thousand as at 31 December 2020 (31 December 2019: EUR 185 thousand) and was recorded within 'other current amounts payable and liabilities'.

(All amounts are in EUR thousands unless otherwise stated)

23. Lease liabilities

The Group's and the Company's lease liabilities and their movements:

	Group		Company	
	2020	2019	2020	2019
Carrying amount at the beginning of the period*	8,945	820	276	-
Initial recognition of lease liabilities under IFRS 16 (1 Jan 2019)	-	8,453		257
Concluded lease contracts	2,129	841	114	81
Terminated lease contracts	(357)	(30)		-
Interest charged	123	123	1	2
Lease payments (principal and interest)	(1,682)	(1,262)	(82)	(64)
Indexation	6			
Carrying amount at the end of the period	9,164	8,945	(309)	276
Non-current lease liabilities	7,641	7,736	219	210
Current lease payments	1,523	1,209	90	66

*At 1 January 2019, lease liabilities comprised liabilities under the finance lease contracts.

Future lease payments under non-cancellable lease contracts are as follows:

	Group		Company	
	At 31 Dec 2020	At 31 Dec 2019	At 31 Dec 2020	At 31 Dec 2019
Total lease liabilities:	9,164	8,945	309	276
Current portion	1,523	1,209	90	66
Maturity of non-current lease liabilities:	7,641	7,736	219	210
Between 1 and 2 years	1,244	1,044	83	66
Between 2 and 3 years	628	623	68	58
Between 3 and 5 years	198	466	68	86
Over 5 years	5,571	5,603	-	-

The Group's interest calculated on lease liabilities and included in finance costs amounted to EUR 123 thousand in 2020 and 2019 (for the Company – EUR 1 thousand in 2020 and EUR 2 thousand in 2019).
Lease payments (principal and interest) made by the Group and the Company in 2020 amounted to EUR 1,682 thousand and EUR 82 thousand, respectively (2019: EUR 1,262 thousand and EUR 64 thousand, respectively).

24. Provisions

	Group	
	At 31 December 2020	At 31 December 2019
Provisions for pension benefits to employees*	841	880
Provisions for servitude liabilities**	1,250	1,161
Provisions for registration of protection zones ***	4,088	-
Provision for settlement of current liabilities	19	640
Carrying amount	6,198	2,681
Non-current provisions	5,313	1,368
Current provisions	885	1,313

*Provisions for pension benefits represent amounts calculated according to the Lithuanian laws and payable under the collective employment agreements effective at the Group companies (Note 2.15).

**As explained in Note 3, the Group recognised intangible assets and provisions amounting to EUR 2,300 thousand as at 31 December 2018. In 2019, provisions for servitude liabilities were reduced by EUR 700 thousand. In 2020, provisions for servitude liabilities were increased by EUR 165 thousand.

***As at 31 December 2020, the Group recognised a provision of EUR 4,088 thousand and the related intangible assets for the formation of special land use requirements (protected zones) (Note 3). The provision was established based on the amendments to the provisions of the property cadastre adopted in 2020 that are necessary for the obligation established by the Lithuanian Law on Special Land Use Requirements to form the register of protected zones by 2023 and taking into consideration the description of the procedure for the setting up and approval of protected zones approved by Order No 1 -339 of the Minister of Energy of the Republic of Lithuania of 13 October 2020. The discount rate of 0.62% was applied for the discounting of the provision.

(All amounts are in EUR thousands unless otherwise stated)

25. Other non-current amounts payable and liabilities

	Group	
	At 31 December 2020	At 31 December 2019
Advance amounts received from connection of new consumers	-	801
Grants received in advance	1,667	4,686
Contractual obligations under connection agreements	1,337	
Other	25	23
Carrying amount	3,029	5,510

Grants received in advance comprised monetary funds received from the CEF (Connecting Europe Facility) fund for the implementation of the synchronisation program. Expenditures for which a grant was received are planned to be incurred in 2023.

Contractual obligations under connection agreements comprised new consumers' funds designated for the connection to the gas transmission system. These obligations will be recognised as income over the operation period of the assets created during the connection. A part of contractual obligations, which will be recognised as income within one year, was recorded in current liabilities from contracts with customers.

26. Current and deferred income tax

Income tax expenses comprised as follows:

	Group		Company	
	At 31 December 2020	At 31 December 2019	At 31 December 2020	At 31 December 2019
Current income tax	9,642	6,034	-	-
Deferred income tax (benefit)	(9,544)	(3,925)	(385)	(362)
Income tax expenses/(benefit) for the reporting period	98	2,109	(385)	(362)

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

Group

Deferred income tax assets	PP&E revaluation (impairment)	Impairment for other assets	Conges-tion mana-gement revenue	Differences in depreciation rates	Unused investment relief	Other	Total
At 31 December 2018	1,251	28,956	4,379	-	-	426	35,012
Reclassification with deferred income tax liability	3,121	(3,558)	-	152	-	-	(285)
Recognised in profit and loss	(119)	(410)	4,033	4	-	340	3,848
Deferred income tax assets offset against deferred income tax liabilities	-	(24,901)	-	-	-	-	(24,901)
At 31 December 2019	4,253	87	8,412	156	-	766	13,674
Recognised in profit and loss	(191)	129	4,667	29	3,923	882	9,439
At 31 December 2020	4,062	216	13,079	185	3,923	1,648	23,113

(All amounts are in EUR thousands unless otherwise stated)

Deferred income tax liabilities	Revaluation of PP&E (increase in value)	Differences in depreciation rates	Tax relief on acquisition of PP&E	Other	Total
At 31 December 2018	(33)	(25,303)	(1,682)	(,277)	(27,295)
Reclassification with deferred income tax liability	(117)	402	-	-	285
Recognised in profit and loss	13	-	138	(72)	79
Deferred income tax assets offset against deferred income tax liabilities	-	24,901	-	-	24,901
Recognised in other comprehensive income	48	-	-	-	48
At 31 December 2019	(89)	-	(1,544)	(349)	(1,982)
Recognised in profit and loss	16	-	119	(414)	(279)
Recognised in other comprehensive income	9	-	-	-	9
At 31 December 2020	(64)	-	(1,425)	(763)	(2,252)

Deferred income tax assets at 31 December 2019 – net	11,692
Deferred income tax assets at 31 December 2020 – net	20,861

Pursuant to the provisions of the Law on Corporate Income Tax, the income tax relief may be applied to investments in non-current assets that meet the criteria set out in this law. The Company applied the above-mentioned relief when calculating income tax for the year 2020 and reduced income tax expenses by the total amount of EUR 5,888 thousand (including recognised deferred income tax assets).

In 2020, the Company incurred tax losses of EUR 2,650 thousand (2019: EUR 2,600 thousand). The Company transfers tax losses to the Group companies for consideration (15%). Consideration received by EPSO-G in 2020 for tax losses relating to the year 2019 transferred by LITGRID amounted to EUR 385 thousand.

The table below presents reconciliation of income tax expenses reported in the statement of comprehensive income to income tax expenses calculated at a statutory income tax rate on profit before income tax:

	Group		Company	
	At 31 Dec 2020	At 31 Dec 2019	At 31 Dec 2020	At 31 Dec 2019
Profit/(loss) before income tax	40,183	13,512	1,292	4,908
Income tax calculated at a rate of 15%	6,028	2,026	194	736
Investment relief effect	(1,965)	(218)		-
Recognised deferred income tax	(3,923)	-	-	-
Tax effect of non-taxable income and non-deductible expenses	(17)	196	(579)	(1,098)
Prior year adjustment	42	105		-
Offsetting of tax loss	(67)			-
Income tax expenses/(benefit) recognised in profit or loss	98	2,109	(385)	(362)
Income tax expenses/(benefit) recognised in other comprehensive income	(9)	(48)	-	-

27. Trade payables

	Group		Company	
	At 31 December 2020	At 31 December 2019	At 31 December 2020	At 31 December 2019
Amounts payable for electricity	13,123	11,837	-	-
Amounts payable for natural gas	1,016	3,830	-	-
Amounts payable for contractual works, services	6,118	7,236	-	-
Amounts payable for property, plant and equipment and inventories	15,623	10,729	-	-
Other trade payables	238	165	87	49
Carrying amount	36,118	33,797	87	49

The fair value of trade payables approximates their carrying amounts.

(All amounts are in EUR thousands unless otherwise stated)

28. Advance amounts received

	Group	
	At 31 December 2020	At 31 December 2019
Advance amounts received from the exchange participants	8,246	15,672
Grants received in advance	5,023	1,928
Reclassified from other amounts receivable	-	1,168
Guarantee for fulfilment of obligations	953	-
Advance amounts received from new consumers	611	628
Other advance amounts received	58	45
Carrying amount	14,891	19,441

As disclosed in Note 14, the exchange participants transfer funds in advance prior to trading, which are later offset against the products acquired or refunded.

Advance amounts received from new consumers include advance amounts received from new consumers for connection to electricity networks. These advances will be recognised as income upon the provision of connection services.

Grants received in advance comprise monetary funds received from the CEF (Connecting Europe Facility) fund, which will be used to finance incurred expenses in 2021.

29. Other current amounts payable and liabilities

	Group		Company	
	At 31 December 2020	At 31 December 2019	At 31 December 2020	At 31 December 2019
Administered PSO funds payable	20,294	61,213	-	-
Administered LNG terminal funds payable	10,670	13,562	-	-
Accrued administered LNG terminal funds	2,174	2,461	-	-
Employment-related liabilities	5,052	1,629	427	305
Accrued expenses relating to vacation reserve	2,656	2,149	109	99
VAT payable	2,227	1,268		-
Real estate tax payable	921	966		-
Dividends payable	519	552		-
Interest payable	213	253	134	185
Accrued other expenses	880	2,458	22	18
Deposits received	5,599	5,468	-	-
Congestion management revenue	6,860	4,463	-	-
Other amounts payable and current liabilities	3,508	3,115	-	-
Carrying amount	61,573	98,244	692	607

Accrued administered LNG terminal funds are accounted for when the natural gas system users are issued with a VAT invoice. LNG terminal funds are allocated to the account of LNG terminal funds payable when Klaipėdos Nafta AB and Litgas UAB issue a VAT invoice to Amber Grid AB for the additional natural gas supply security component to be included in the natural gas transmission price.

The Group's deposits received mainly comprised deposits for trading at the exchange.

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

(All amounts are in EUR thousands unless otherwise stated)

30. Revenue from contracts with customers

The Group's revenue from contracts with customers comprised as follows:

	Group	
	2020	2019
Revenue from electricity transmission and related services		
Electricity transmission services	83,363	69,315
Trade in balancing/imbalance electricity	21,217	26,376
System services	86,702	70,750
Revenue from other sales of electricity and related services	4,344	7,195
Total revenue from electricity transmission and related services	*195,626*	*173,636*
Revenue from natural gas transmission and related services		
Natural gas transmission services	45,897	45,845
Revenue from balancing services in the transmission system	4,588	8,665
Revenue from connection of new customers	(1,405)*	(825)
Total revenue from natural gas transmission and related services	*49,080*	*53,685*
Other revenue from contracts with customers		
Revenue from construction, repair and technical maintenance services	12,411	9,828
Revenue from trading at the exchange and related services	1,454	542
Revenue from the biofuel exchange, thermal energy auctions, PSO funds administration and other income	963	975
Total other revenue	*14,828*	*11,345*
The Group's total revenue from contracts with customers	259,534	238,666

* Revenue from new customer connection fees was adjusted in 2020 due to the new accounting principle applied from 2020 with respect to this type of revenue as disclosed in Note 2.18.

In 2019, revenue from new customer connection was reduced by EUR 825 thousand as a result of the recalculated connection fee when the customer purchases a higher quantity of transmission services than it was projected when calculating the connection fee.

The Company's revenue from contracts with customers comprised revenue from the provision of management services and it amounted to EUR 296 thousand in 2020 (2019: EUR 230 thousand).

31. Other income

The Group's other income comprised as follows:

	Group	
	2020	2019
Public service obligations	8,959	9,274
Congestion revenue	991	198
Income from lease of assets	594	555
Other services related to electricity	844	189
Interest on late payment and default charges	240	91
Other income*	736	635
Income from connection of producers and relocation of electricity equipment**	(1,378)	1,378
Total revenue from electricity transmission and related services	10,986	12,320

* The Group's other income includes grants recognised as income, gain on disposal of non-current assets, income from administration of LNG terminal funds.

** From 1 January 2020, the Group changed the accounting policy of the services of connection of producers to the transmission network and relocation of electricity equipment as disclosed in Note 2.18.

32. Dividend income and income from disposal of the associate

	Group		Company	
	2020	2019	2020	2019
Dividend income	895	174	4,093	7,677
Income from disposal of the associate	831			
Total income from dividends and investing activities	1,726	174	4,093	7,677

The Group's income from disposal of the associate comprised a gain of EUR 831 thousand from the sale of shares of Duomenų Logistikos Centras UAB carried out in 2020 (Note 1).

(All amounts are in EUR thousands unless otherwise stated)

In 2020, the Group received dividends from a jointly controlled entity TSO Holding (Note 9) and in 2019 – from Duomenų Logistikos Centras UAB.

In 2020 and 2019, the Company received dividends from its subsidiaries. Dividends paid by the Group companies to the Group's non-controlling interest amounted to EUR 156 thousand in 2020 (2019: EUR 279 thousand).

33. Expenses of electricity and natural gas transmission and related services

The Group's expenses of electricity and natural gas transmission and related services comprised as follows:

	Group	
	2020	2019
Expenses of electricity transmission and related services		
Electricity expenses for compensation of technological losses	15,190	22,226
Expenses for system services	81,740	74,396
Expenses for PSO services (balancing of generation using renewable energy sources)	8,855	9,166
Expenses for balancing/regulating electricity	20,833	25,917
Expenses for the participation in the ITC mechanism of the European Network of Transmission System Operators for Electricity (ENTSO-e)	781	3,043
Expenses for guaranteeing the availability of allocated capacities of the interconnections	992	198
Total expenses of electricity transmission and related services	*128,391*	*134,946*
Expenses of natural gas and related services		
Gas expenses for compensation of technological losses	1,183	1,689
Gas expenses for balancing of the transmission system	5,162	9,647
Total expenses of natural gas transmission and related services	*6,345*	*11,336*
Total expenses of electricity and natural gas transmission and related services	134,736	146,282

Expenses attributable to electricity and related services decreased by 5% in 2020 compared to 2019. Expenses for system services increased by 9.9% to EUR 81.7 million mainly due to higher expenses related to ensuring the isolated operation of the Lithuanian energy system. Imbalance and balancing electricity expenses decreased by 19.1% and amounted to EUR 21 million due to decrease in sales volumes and the average purchase price. Expenses of compensating for electricity purchase technological losses in the transmission network decreased by 31.7% to EUR 15.2 million due to a 30.5% decrease in the average purchase price of electricity.

Expenses of natural gas transmission and related services decreased by 44% in 2020 compared to 2019 due to lower prices of gas.

34. Financing activities

	Group		Company	
	2020	2019	2020	2019
Interest income	96	-	189	35
Other finance income	29	51	-	-
Interest expenses	(1,997)	(2,429)	(831)	(982)
Other finance costs	(132)	(59)	-	(17)
Results of financing activities	(2,004)	(2,437)	(642)	(964)

35. Related-party transactions

As at 31 December 2020 and 2019, the Group's and the Company's parent was the Republic of Lithuania represented by the Ministry of Energy of the Republic of Lithuania. For the purposes of the related-party disclosure, the Republic of Lithuania excludes central and local government authorities. Disclosures comprise transactions and balances on transactions with the shareholder, the subsidiaries (in the Company's transactions), all state-controlled or significantly influenced companies (the list of such companies is published at https://vkc.sipa.lt/apie-imones/vvi-sarasas and transactions are disclosed only when the amount of transactions exceeds EUR 100 thousand during a calendar year) and the management and their family members.

Transactions with related parties are carried out on an arm's length basis in line with the tariffs approved under relevant legal acts or in accordance with the requirements of the Law on Public Procurement.

(All amounts are in EUR thousands unless otherwise stated)

The Group's transactions conducted with related parties in 2020 and balances arising from these transactions as at 31 December 2020 were as follows:

Related party	Purchases (payments)*	Sales (proceeds)*	Amounts payable*	Amounts receivable*	Finance income	Finance costs
Ignitis group companies:						
AB Ignitis Grupė	-	-	148,743	127	-	687
Energijos Skirstymo Operatorius AB	59,963	249,093	4,302	33,064	-	
Ignitis UAB	56,594	40,715	4,693	3,818	-	-
Ignitis Gamyba AB	144,315	44,886	17,322	2,882	-	-
Ignitis Grupės Paslaugų Centras UAB		261		27	-	-
Vilniaus Kogeneracinė Jėgainė UAB		32	100		-	-
Kauno Kogeneracinė Jėgainė UAB	192	282		28	-	-
Transporto Valdymas UAB	1,066		110		-	-
Energetikos Paslaugų ir Rangos Organizacija UAB	712				-	6
Duomenų Logistikos Centras UAB	8	240		25		-
Other state-owned companies:						-
Lietuvos Geležinkeliai AB					-	-
State Enterprise Ignalina Nuclear Power Plant	177	1,792	23	206	-	-
Klaipėdos Nafta AB	35,729		7,240		-	-
State Enterprise Geoterma				110	-	-
LTG Infra AB		671		81		
Other state-owned companies	170	127	149	4	-	-
Total	298,926	338,099	182,682	40,372	-	693

* Purchases and sales, amounts receivable and payable comprise turnovers and balances with PSO and LNG terminal funds.

The Group's transactions conducted with related parties in 2019 and balances arising from these transactions as at 31 December 2019 were as follows:

Related party	Purchases (payments)*	Sales (proceeds)*	Amounts payable*	Amounts receivable*	Dividend income	Finance costs
Ignitis group companies:						
AB Ignitis Grupė	-	-	156,759	66	-	937
Energijos Skirstymo Operatorius AB	52,462	218,891	7,478	24,915	-	2
Ignitis UAB	60,706	45,918	4,937	4,205	-	-
Ignitis Gamyba AB	112,242	28,628	26,479	2,643	-	-
Ignitis Grupės Paslaugų Centras UAB	-	263	-	26	-	-
Vilniaus Kogeneracinė Jėgainė UAB	-	264	35	-	-	-
Kauno Kogeneracinė Jėgainė UAB	-	279	-	281	-	-
Transporto Valdymas UAB	589	-	101	-	-	-
Energetikos Paslaugų ir Rangos Organizacija UAB	989	90	240	-	-	6
Duomenų Logistikos Centras UAB	178	253	34	21	81	-
Other state-owned companies:						-
Lietuvos Geležinkeliai AB	-	593	2	23	-	-
State Enterprise Ignalina Nuclear Power Plant	178	1,705	41	181	-	-
Klaipėdos Nafta AB	67,724	-	10,156	-	-	-
State Enterprise Geoterma	-	-	-	110	-	-
Other state-owned companies	148	93	150	4	-	-
Total	295,216	296,977	206,412	32,475	81	945

* Purchases and sales, amounts receivable and payable comprise turnovers and balances with PSO and LNG terminal funds.

(All amounts are in EUR thousands unless otherwise stated)

The Company's transactions conducted with related parties in 2020 and balances arising from these transactions as at 31 December 2020 were as follows:

Related party	Finance income	Dividend income	Finance costs	Amounts payable	Amounts receivable	Loans granted	Purchases	Disposals
AB Ignitis Grupė	-		687	148,743	127	-	-	-
Litgrid AB	-	3,983	-	-	27	-	-	136
Amber Grid AB	69		-	-	18	7,852	-	129
Tetas UAB	23		-	635	8	1,239	-	13
Baltpool UAB	95	110	-	-	22	18,539	-	17
GET Baltic UAB	1		-	-	-	-	-	-
Transporto Valdymas UAB	-		-	-	-	-	32	-
Total	188	4,093	687	149,378	202	27,630	32	296

The Company's transactions conducted with related parties in 2019 and balances arising from these transactions as at 31 December 2019 were as follows:

Related party	Finance income	Dividend income	Finance costs	Amounts payable	Amounts receivable	Loans granted	Purchases	Disposals
AB Ignitis Grupė	-		937	156,759	67	-	-	-
Litgrid AB	17	2,557	-	-	16	-	-	113
Amber Grid AB	5	5,048	-	-	21	6,272	-	103
Tetas UAB	13		-	-	1	1,129	-	8
Baltpool UAB	72	72	-	-	-	-	-	6
GET Baltic UAB	-		-	-	-	180	-	-
Transporto Valdymas UAB	-		-	3	-	-	40	-
Total	107	7,677	937	156,762	105	7,581	40	230

	Group		Company	
Payments to key management personnel	At 31 Dec 2020	At 31 Dec 2019	At 31 Dec 2020	At 31 Dec 2019
Employment-related payments	2,353	2,249	525	480
Whereof: termination benefits	90	70	6	-
Number of key management personnel (average number	23	23	5	5

No loans, guarantees or any other benefits were paid or calculated, nor any assets were transferred to the Group's and the Company's management in 2020 and 2019.

Key management personnel consists of heads of administration and directors of departments. In 2020, payments to the members of the collegial management bodies amounted to EUR 220 thousand (2019: EUR 134 thousand).

36. Financial risk management

The Group and the Company are exposed to financial risks in their operations. In managing these risks, the Group and the Company seek to mitigate the impact of factors which could adversely affect the Group's and the Company's financial performance. The Group and the Company abide by the Treasury and Financial Risk Management Policy of the EPSO-G UAB Group, as approved by the Board of EPSO-G UAB (hereinafter "the Risk Policy").

(All amounts are in EUR thousands unless otherwise stated)

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

Financial assets	Group		Company	
	At 31 December 2020	At 31 December 2019	At 31 December 2020	At 31 December 2019
Trade receivables	32,460	24,752	50	38
Other amounts receivable	2,273	632	27,663	7,585
Portion of unused funds balance of congestion management revenue	24,901	12,648		
Other financial assets	15,874	40,657	-	-
Cash and cash equivalents	5,113	13,470	3,362	12,346
Financial assets at amortised cost	80,741	92,159	31,075	19,969
Other financial assets				
Financial assets measured at fair value through other comprehensive income	1,089	1,984	-	-
Total financial assets	81,830	94,143	31,075	19,969

Financial liabilities	Group		Company	
	At 31 December 2020	At 31 December 2019	At 31 December 2020	At 31 December 2019
Liability for acquisition of LITGRID AB	148,609	156,574	148,609	156,574
Borrowings	214,220	164,605	23,213	5,120
Lease liabilities	9,164	8,945	309	276
Trade payables	36,118	33,797	87	49
Other amounts payable and liabilities	19,231	26,640	156	167
Total	427,342	390,561	172,374	162,186

Credit risk

As at 31 December 2020 and 31 December 2019, credit risk was related to the following items:

	Group		Company	
	At 31 December 2020	At 31 December 2019	At 31 December 2020	At 31 December 2019
Financial assets at amortised cost*	80,741	92,159	31,075	19,269

*The Group's maximum exposure to credit risk is equal to the amount of trade receivables (excluding LNG terminal and PSO receivables), other receivables, cash and other current financial assets, less recognised impairment losses. Administered PSO and LNG terminal funds receivable are not included in the calculation of credit risk. If these funds were not collected, the Group would not incur any losses because the Group is not a recipient of funds, but an administrator.

The Group has a significant credit risk concentration, because exposure to credit risk is shared among 10 main customers, amounts receivables from which accounted for approximately 95% as at 31 December 2020 (31 December 2019: approximately 81%) of the Group's total trade receivables (financial assets). As at 31 December 2020, amounts payable by the major customer, distribution network operator Energijos Skirstymo Operatorius AB, accounted for 61% (31 December 2019: 50%) of the Group's total trade receivables (financial assets).

Credit risk is managed through a regular performance of monitoring procedures (individual monitoring of debtors, monitoring and analysis of buyers to anticipate potential future solvency problems, etc.). The Group companies have approved regulations for trade receivables management, which sets out specific actions and deadlines required for the reduction of trade receivables.

The table below provides the ratings of the banks in which the Group and the Company hold their cash and cash equivalents (Note 13) and other financial assets (Note 12):

Swedbank	AA-
SEB*	AA-
OP Corporate Bank	AA-

* The ratings assigned to the parent banks as at 31 December 2020 are provided.

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

(All amounts are in EUR thousands unless otherwise stated)

Liquidity risk

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

The Group's cash flows from operating activities were positive in 2020, therefore its exposure to liquidity risk is not significant. As at 31 December 2020, the Group's current ratio (total current assets / total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) were 0.84 and 0.81, respectively (31 December 2019: 0.8 and 0.8, respectively). As at 31 December 2020, the Company's current and quick ratios were 0.81 and 0.72, respectively (31 December 2019: 1.78 and 1.78, respectively).

Liquidity risk is managed by making regular short-term and long-term cash flow forecasts of the Company. Liquidity is ensured with the help of solutions supporting the solvency of the Company – the dividends to be received. Liquidity risk of the EPSO-G group is managed with the help of loan restructuring solutions.

The table below discloses the contractual maturities of the Group's and the Company's financial liabilities. This information has been prepared based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Group	Less than 3 months	Between 4 months and 1 year	Between 2 and 5 years	Over 5 years	Total liabilities
At 31 December 2020					
Trade and other amounts payable	55,367	2,095	380		57,842
Borrowings	23,169	25,608	86,698	85,125	220,600
Lease liabilities	374	1,225	2,236	9,002	12,837
Other financial liabilities		14,999	134,608		149,607
At 31 December 2019					
Trade and other amounts payable	68,464	2,860	497	-	71,821
Borrowings	7,738	30,339	95,846	42,304	176,227
Lease liabilities	309	952	2,349	9,145	12,755
Other financial liabilities	-	8,703	151,430		160,133

Company	Less than 3 months	Between 4 months and 1 year	Between 2 and 5 years	Over 5 years	Total liabilities
At 31 December 2020					
Trade and other amounts payable	87	692	-	-	779
Borrowings	20,656	2,563	-	-	23,219
Lease liabilities	23	69	220		312
Other financial liabilities		14,999	134,608		149,607
At 31 December 2019					
Trade and other amounts payable	68	588	-	-	656
Borrowings	7	2,572	2,566	-	5,145
Lease liabilities	17	50	211		278
Other financial liabilities	-	8,703	151,430	-	160,133

Market risk

The Group's and the Company's income, expenses and cash flows from operating activities are substantially independent of changes in market interest rates. The Group has non-current and current borrowings and the overdraft with interest rates linked to EURIBOR. A +/- 0.1 p.p. shift in the interest rate would result in EUR 249 thousand impact on the Group's profit before tax as at 31 December 2020 (2019: EUR 251 thousand).

b) Natural gas price risk
The Group is exposed to the risk related to changes in the natural gas purchase price. Changes are caused by various fluctuations in international markets. In 2020, the Group did not take any measures to mitigate the natural gas price risk.

37. Fair value of financial assets and financial liabilities

The Group's and the Company's principal financial assets and liabilities not carried at fair value are trade and other amounts receivable, term deposits, cash and cash equivalents, borrowings, trade and other amounts payable. The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

- The carrying amount of current trade and other amounts receivable, time deposits, other financial assets, cash and cash equivalents, current borrowings, current trade and other amounts payable approximates their fair value (Level 3).
- The fair value of non-current borrowings is based on the quoted market price for the same or similar loan or on the current rates available for loan with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts (Level 3). The fair value of the Group's non-current borrowings with fixed interest rates was approximately EUR 384 thousand lower than their carrying amount as at 31 December 2020 (31 December 2019: EUR 483 thousand).

38. Contingent liabilities

Litigations

LITGRID AB group litigations

After the appeal of Achema AB was rejected on 7 May 2020, the case of Achema AB regarding losses resulting from the power outage in the ammonia production department of Achema AB was closed and the provision of EUR 567 thousand related to this case was reversed.

On 12 March 2020, claimant Šiaulių Energija AB brought a claim against Energijos Skirstymo Operatorius AB for compensation of damages. The dispute arose over the accident that occurred in March 2019 at the Šiauliai cogeneration power station managed by claimant Šiaulių Energija AB, during which, as stated in the claimant's claim, the three-phase synchronous generator installed in the power station went out of operation.

In accordance with the provisions of the Regulations on investigation and recording of accidents and disruptions of energy facilities, an accident investigation commission was formed by the order of the Chairman of the National Energy Regulatory Council of 4 September 2019. After analysing the causes of the accident, the compliance of the claimant's activities with the requirements of regulatory acts, the compliance of technical solutions with the power station design project, the commission issued an accident investigation report stating that "the cause of the accident was that the generator's protections installed by the claimant failed to protect the generator's installations from the external short circuit" that originated in the external network the way it was specified in the design of the electrical relay protection and automation part and in the rules for the installation of electrical relay protection and automation. LITGRID AB is involved in the case as a third party, but on 28 December 2020, the claimant's statement on the clarification of the subject matter of the claim, on the change of the status of LITGRID AB in the case to the status of the defendant was submitted stating that defendants Energijos Skirstymo Operatorius AB and LITGRID AB are to be held jointly and severally liable for paying claimant Šiaulių Energija AB damages amounting to EUR 1,272,075.59. The claimant's statement was adopted by resolution. Following the assessment of the claim's arguments and presented evidence, the provision was not established.

Amber Grid AB litigations

Currently, the Company has initiated two civil cases regarding the award of additional component of the natural gas transmission price related to natural gas supply security (the LNG terminal funds) from Achema AB. The Company acts solely as an administrator of the LNG terminal funds and transfers the LNG terminal funds to their recipients only after collecting them from the buyers, and accordingly, the Company does not incur credit risk arising from the disputed amounts.

In addition, litigation procedure is pending regarding the legitimacy of the decisions of the Company's Procurement Commission passed at the time of procurement of contract works for the gas interconnection between Poland and Lithuania (GIPL) project. On 21 May 2020, the Lithuanian Court of Appeal passed a ruling, by which the decision of 29 February 2020 of Vilnius Regional Court was left unchanged (the outcome of the procurement was left unchanged as well). The claimant has filed an appeal in cassation, which has been accepted and its hearing was held on 27 January 2021 at the Lithuanian Supreme Court. On 3 March 2021, the Lithuanian Supreme Court passed a ruling to repeal the decision of Vilnius Regional Court of 28 February 2020 and the ruling of the panel of judges from the Division of Civil Cases of the Lithuanian Court of Appeal of 21 May 2020, and to remit the case back to the court of first instance.

BALTPOOL UAB litigations

On the basis of claims filed by BALTPOOL and statements for the issuance of court orders, intense litigations took place/were continued in the civil cases initiated before the courts regarding the award of PSO funds debt from the debtors of PSO funds: Lifosa AB, ORLEN Lietuva AB, and Dainavos Elektra UAB. The amounts recovered from the above-mentioned debtors of PSO funds were/would be entered to the PSO funds budget, therefore the above-mentioned litigations had no/will have no direct impact on the financial position of Baltpool.

The civil cases for the reward of PSO funds from debtors Achema AB and Lifosa AB remained/were suspended in 2020. The amounts recovered from the above-mentioned debtors of PSO funds would be entered to the PSO funds budget, therefore the above-mentioned litigations will have no direct impact on the financial position of Baltpool.

On the basis of the claim filed by Robmona UAB, the civil case was initiated before the District Court of Vilnius City, in which the claimant filed the claim to the court with the request to amend the agreement concluded with buyer Šiaulių Energija AB at the exchange according to Article 6.204 of the Civil Code (material change of the balance between the parties to the agreement). BALTPOOL disagrees with the claim filed as the aim of the claim's statement presented by Robmona UAB is, in principle, not the restoration of the balance of the rights and obligations of the parties to the agreement, but rather the avoidance of the fine imposed for improper fulfilment of the agreement (the issue of the imposition of the fine has already been investigated by the courts of all instances in another civil case between claimant Šiaulių Energija AB and defendant Robmona UAB, in which BALTPOOL did not participate). No material requirements have been presented to defendant BALTPOOL. The litigation will have no impact on rights or obligations as well as financial position of BALTPOOL.

39. Events after the end of the reporting period

On 26 January 2021, EPSO-G established a wholly-owned subsidiary Energy Cells UAB by subscribing and paying for 500,000 shares of the newly established company with the nominal value of EUR 1. Shares were paid by making a monetary contribution. The function of Energy Cells UAB will be the installation of energy storage facilities in Lithuania with the total combined power and storage capacity of 200 megawatts. Energy storage facilities will serve as the primary capacity reserve ensuring reliable, stable and consumer-focused operation of the Lithuanian electricity system until the completion of the synchronisation with the continental European networks and in the future they will be used for the integration of rapidly growing renewable energy sources into the existing transmission system.

After the receipt of the permission from the National Energy Regulatory Council, the cash pool agreement was concluded between LITGRID AB and EPSO-G on 26 February 2021, which establishes the possibility to use free congestion management revenue for the Group's intercompany lending and borrowing purposes.

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CONSOLIDATED ANNUAL REPORT OF EPSO-G UAB

STATEMENT OF THE CHAIRMAN OF THE BOARD

Dear all,

Statement of the Chairman of the Board

2020 was a year of substantial achievements and target-oriented changes for EPSO-G Group, while ensuring a reliable operation of the domestic energy transmission and exchange systems and continuity of implementation of the strategic projects, with further focus on good governance practice across the entire Group.

The timely and effective response demonstrated by EPSO-G Group's management and those in charge following the outbreak of COVID 19 pandemic by taking care of the staff and implementing effective business continuity and prevention measures deserves the utmost respect.

Regardless of the significant changes caused by the pandemic in the operating environment, all companies of the Group were profitable, managed to save job places and to meet all their obligations to social and business partners.

By working hand in hand with the Baltic and Polish partners, the synchronization with the continental Europe was continued, a reliable supply of electricity and gas was ensured for the domestic private and business consumers, and better opportunities were created for large energy consumers to connect faster to the transmission network or to become a balancing market participant.

The purposeful development of the gas transmission infrastructure, regional integration and streamlined launch of the gas exchange in the Finnish market have opened up new opportunities for the market participants to benefit from the notably favourable prices in the global market. This has contributed to the price convergence across the region and facilitated the cross-border trade between the Finnish and Baltic gas markets.

The fact that the most complex gas interconnection Poland-Lithuania (GIPL) works have already been accomplished under the country's largest rivers, and that the laid section has been tested and connected to the gas transmission system, enables us to feel confident that all the work of this substantial project will be completed on time. It is now important to find solutions, in cooperation with the regional partners, to make more effective use of the economic potential of the new interconnection, which is about to become operational.

We feel proud that, while maintaining the continuity of the Group's daily operations and strategic choices, we have been awarded the highest possible governance rating A+, and EPSO-G has been recognised as a leader in the quality of management of its subsidiaries. This was achieved by a continuous focus on the implementation of operating policies across the Group: at the end of the reporting period, EPSO-G Group had in essence all policies governing good governance, including EPSO-G Group's compliance management policy (approved in 2020) and compliance management methodology implementing the policy.

In accordance with the provisions of the above documents, throughout 2021, a uniform compliance management system will be further developed and ensured across the Group, which will help prevent the Group companies from financial or reputational damages that may result from internal and external misconduct. The major focus and additional resources will be dedicated to the priority areas selected by the Boards of the Group companies, where the highest likelihood of non-compliance cases or non-compliance risks arises or may arise. The development of EPSO-G's long-term procurement strategy and a modern electronic document management system will be beneficial for that purpose.

Moreover, in 2020, the Board of EPSO-G approved a new organisational structure for the holding company by expanding the range of competencies and functions. This change is linked with the strategic choice to increase the value created by the holding company for all Group companies and the shareholder.

This is an introduction to the next stage of the corporate reform, which will be implemented together with the Group's new strategy before 2030. The changes introduced in 2020 were focused on project, finance, and strategic compliance management. They reflect the already achieved maturity of integration of the Group companies, as well as their preparedness for the implementation of the new strategy, the most important elements of which will be energy security, market integration and transformation aspects in creating a harmonious and sustainable energy future.

In parallel to our daily activities, we should have a long-term perspective and understand the ongoing paradigm shifts in the energy sector. For the first time in Europe in 2020, more electricity was generated from renewable natural resources than from fossil fuels. For this reason, the year 2020 is considered to be a turning point for sustainable investment. Not only are the solid government financial instruments being directed towards green and sustainable practices, but the business world has also made a significant turn.

On the other hand, we are well aware that hasty decisions, similarly as in any other field, may pose risks. Therefore, in this context, an excellent tool for assessing newly opening opportunities and responsibilities of all EPSO-G Group companies, as well as the entire energy sector, was a study *RAIDA 2050* that was carried out by EPSO-G in 2020 in order to analyse the development scenarios of the Lithuanian power system and power market during 2020-2050 in line with the objectives identified in the National Energy Independence Strategy.

Witnessing the today's energy sector changing faster than ever before, we should also understand that a successful outcome of the change is determined firstly by our professional and engaged employees able to transform challenges into new opportunities.

Therefore, as I look with confidence at the 2021 goals and express my gratitude to each of the Company's customers, employees, shareholders, board and committee members for their joint work, I encourage first and foremost to be guided by our values – professionalism, cooperation, and progress – in any efforts directed towards creating the future of energy in our country.

Yours faithfully,
Gediminas Almantas
Chairman of the Board, EPSO-G

STATEMENT OF THE CHIEF EXECUTIVE OFFCER

Dear shareholders, partners, employees and all stakeholders,

I am proud to introduce the 2020 consolidated results of operations of the holding company EPSO-G and the Group. They reflect that regardless of the significant changes in operating conditions due to the COVID 19 pandemic, all companies in the Group were profitable, and the financial result of 2020 was the best since the launch of EPSO-G Group. We have managed to achieve this as a result of the professionalism of each of our colleagues and the joint work of all of them.

We earned EUR 270.5 million revenue, which is almost higher by one tenth in comparison to EUR 250,8 million earned in 2019. Earnings before depreciation, amortization, interest and income tax (EBITDA) during the period increased from EUR 47.7 million up to EUR 74,8 million. We reduced the debt to Ignitis Group for Litgrid shares by almost EUR 8 million to EUR 148.6 million. Net profit rose to EUR 40,1 million from EUR 11.4 million in 2019. Energy transmission activities are regulated, and therefore, the surplus earnings are refunded to the domestic consumers. We have refunded a part of the surplus already in 2020.

In 2020, the benefits from purposeful development of the energy transmission infrastructure and integration of the regional markets became more than self-evident.

The positive dynamics of the results were mainly driven by a significant increase in the volume of gas transmission services to Latvia due to favourable gas prices and launch of the interconnection between Estonia and Finland, as well as by a marked increase in gas consumption in the domestic energy sector. Those results offset lower revenue in the beginning of the year due to warmer weather conditions and a nearly 2% decline in electricity transmission services due to local economic slowdown. The result of operations was also affected by the change in the prices of regulated services and lower operating expenses.

With the launch of operations in Finland in the beginning of the previous year and a significant increase in the number of exchange participants and transactions, GET Baltic's traded volume increased more than two and a half times, with 11% of the total gas consumed in the Baltic and Finnish markets acquired on the exchange.

The trends favourable to the consumers have continued in the biomass market - due to the competitive environment, the price of biomass transactions on the Baltpool exchange decreased by almost one fifth. A particularly positive trend is that district heating producers are increasingly focusing on price risk management, taking advantage of the opportunities offered by the biomass market.

Following a substantial reorganization of the management of the contractor company Tetas, resulting in lower dependence on one customer, the company operates profitably and seeks proactively for opportunities in the market of renewable energy sources.

At the same time, we have continued the implementation of the strategic projects for the integration of electricity and gas transmission systems with Europe, and after assessing the possible energy development scenarios, we have started planning our work essential for a sustainable energy future.

Last year, two more out of total 14 projects approved by the Government as important for the synchronization with the European networks were completed, and the European Union provided the maximum possible support for the construction of a submarine connection with Poland and for installation of synchronous compensators. The fact that the most complex gas interconnection Poland-Lithuania (GIPL) works have already been carried out under the country's largest rivers and that the laid section has been tested and connected to the gas transmission system, enable us to feel confident that this important project will be completed in full by the end of the year. In parallel, we are working with the regional partners aiming to make most effective use of the regional potential of the new interconnection.

We have continued other important planned work - with the new strategy of EPSO-G Group gaining clear outlines, based on the results of the study *RAIDA 2050*, the most important directions of the activities of the Group companies for the next decade have been identified. Continuing to focus on transparency and accountability, the quality of EPSO-

G's governance has again been awarded the highest A+ rating. This shows that we are and can be even better as we follow the provisions of the new compliance policy.

I am well aware that all this has not been easy to achieve, especially when working remotely. I also understand that the risks of COVID 19 have not disappeared and that we will need to work hard and stay focused in the near future to neutralize the impact of the pandemic on the projects we are implementing. We continue our close monitoring of the situation and must be constantly prepared to adjust our actions accordingly.

I also believe that each of us can feel proud of the results achieved in 2020. Accordingly, with a confident look at the ambitious targets set for 2021, I would like to express my sincere appreciation to each employee, shareholder, Board and Committee member of the Group. For professionalism. For cooperation. For the ability to see the opening opportunities. For the determination not only to pursue, but also to exceed the set targets in creating the future of the local energy.

Rolandas Zukas, CEO, EPSO-G

ENDED ON 31 DECEMBER 2020 (thousand EUR, unless specified otherwise)

EPSO-G IN BRIEF

7.9% - the increase of EPSO-G's consolidated revenue in 2020 (to EUR 270.7 million)

2.2% - the decrease of EPSO-G's consolidated operating expenses in 2020 (to EUR 229.9 million)

56.6% - the increase of earnings (EBITDA) in 2020 (to EUR 74.3 million)

18.8% - EPSO-G Group's return on equity in 2020

10 TWh - the amount of electricity transmitted to the residents of Lithuania and business entities (-1.8%)

25 TWh - the amount of natural gas transmitted to the residents of Lithuania and business entities (+6.9%)

2.5 times - the increase in volume of gas trading on the GET Baltic exchange following the launch of activities in the Finnish market

19% - the fall in price of the amount of biofuels purchased on the Baltpool exchange in 2020 (470 thousand TOE)

A+ - the rating of the governance transparency and accountability of EPSO-G Group

Key performance indicators of EPSO-G Group:

	2020	2019	Change	
			+/-	%
Revenue, thousand EUR	270,520	250,820	19,700	7.9%
EBITDA[1], thousand EUR	74,763	47,750	27,013	56.6%
Net profit, thousand EUR	40,085	11,403	28,682	251.5%
Return on Equity (ROE)[2], %	18.8%	6.0%		
Number of employees	1,081	993	89	9.0%
Total electricity transmitted, GWh	10,088	10,277	-189	-1.8%
Total gas transported, GWh	25,144	23,530	1,614	6.9%
Turnover of the natural gas exchange, GWh	7,201	2,858	4,343	151.9%
Amount of biomass sold in the Energy Exchange, TOE	470	432	38	8.8%

1) EBITDA = profit (loss) before tax + finance costs – finance income + depreciation and amortization charges + impairment charges (including a negative revaluation of non-current tangible assets) + asset write-offs
2) Return on Equity (ROE) = net profit/ ((equity at the beginning of the period + equity at the end of the period)/2)

ENDED ON 31 DECEMBER 2020 (thousand EUR, unless specified otherwise)

2020 CONSOLIDATED ANNUAL REPORT OF EPSO-G AND GROUP COMPANIES

The consolidated report of the holding company EPSO-G and the Group companies prepared for the twelve months period ended on 31 December 2020.

1. General information on EPSO-G Group companies

Company name	EPSO-G UAB
Legal form	Private limited company
Date and place of incorporation	25 July 2012, the Register of Legal Entities of the Republic of Lithuania
Company code	302826889
Registered office address	Gedimino pr. 20, LT-01103 Vilnius
Mail address	Gedimino pr. 20, LT-01103 Vilnius
Telephone	+370 685 84866
E-mail	info@epsog.lt
Website	www.epsog.lt
Authorised capital	EUR 22,482,695
Sole shareholder	Republic of Lithuania whose property and non-property rights are implemented by the Ministry of Energy of the Republic of Lithuania

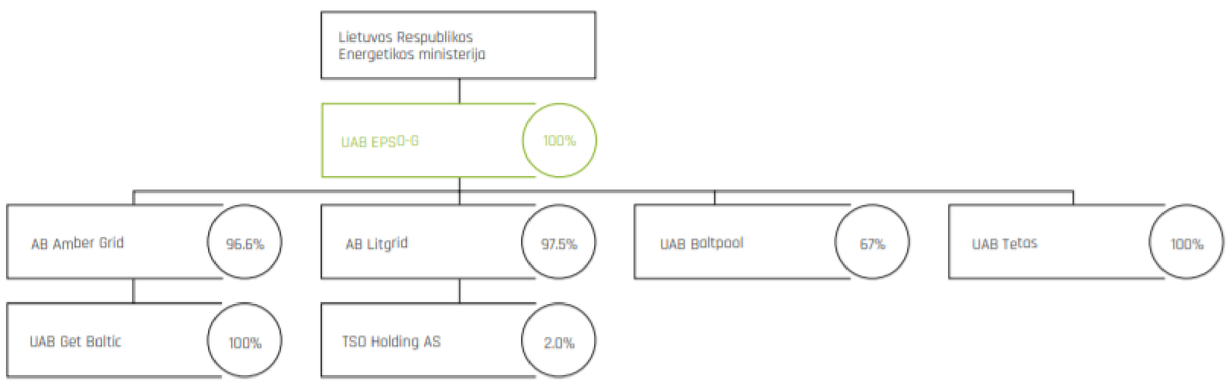
EPSO-G is a 100 % state-owned Group of energy transmission and exchange companies. The rights and obligations of EPSO-G holding shareholder are implemented by the Ministry of Energy of the Republic of Lithuania.

The main activity of EPSO-G Group with more than 1,081 qualified employees is to ensure uninterrupted, stable electricity transmission through high voltage grids and natural gas transportation through high-pressure pipelines and efficient management, maintenance and development of these transmission systems. The Group also manages and develops the biomass, natural gas and timber trade platforms designed to ensure competition in the market of energy resources and roundwood.

All the companies belonging to EPSO-G Group are responsible for effective and timely implementation of the projects of energy transmission and exchange infrastructure development that are important for the state by contributing to the implementation of the goals set in the National Energy Strategy thus creating a sustainable long-term value for the shareholder – the State of Lithuania, people and the economy of the country.

As of 31 December 2020, EPSO-G Group (hereinafter – EPSO-G Group or the Group) consisted of the holding company EPSO-G UAB (hereinafter – EPSO-G or the Company), four directly controlled companies of the Group (LITGRID AB (hereinafter – Litgrid), Amber Grid, AB (hereinafter – Amber Grid) BALTPOOL UAB (hereinafter – Baltpool), TETAS UAB (hereinafter – Tetas) and the indirectly controlled company GET Baltic UAB (hereinafter – GET Baltic)).

The structure of EPSO-G Group companies as at 31 December 2020:



(thousand EUR, unless specified otherwise)

Name	LITGRID AB	Amber Grid AB	BALTPOOL UAB	TETAS UAB	GET Baltic UAB
Legal form	Public limited company	Public limited company	Private limited company	Private limited company	Private limited company
Date and place of incorporation	16 November 2010, the Register of Legal Entities of the Republic of Lithuania	11 June 2013, the Register of Legal Entities of the Republic of Lithuania	10 December 2009, the Register of Legal Entities of the Republic of Lithuania	8 December 2005, the Register of Legal Entities of the Republic of Lithuania	13 September 2012, the Register of Legal Entities of the Republic of Lithuania
Company code	302564383	303090867	302464881	300513148	302861178
Registered office address	Viršuliškių skg 99B, LT-05131, Vilnius	Savanorių pr. 28, LT-03116 Vilnius	Žalgirio g. 90, LT-09303, Vilnius	Senamiesčio g. 102B, LT-35116, Panevėžys	Geležinio Vilko g. 18 A, LT-08104 Vilnius
Telephone	+370 5 278 2777	+370 5 236 0855	+370 5 239 3157	+370 640 38334	+370 5 236 0000
Fax	+370 5 272 3986	+370 5 236 0850			
E-mail	info@litgrid.eu	info@ambergrid.lt	info@baltpool.eu	info@tetas.lt	info@getbaltic.com
Website	www.litgrid.eu	www.ambergrid.lt	www.baltpool.eu	www.tetas.lt	info@getbaltic.com
Nature of the activity	Electricity Transmission System Operator	Natural Gas Transmission System Operator	Energy exchange operator, administrator of the funds of services of public interest	Specialised services of maintenance, repair and installation of transformer substations and distribution points, works of testing and tests, design of energy objects	Operator of Natural Gas Exchange
Shares held by EPSO-G	97.5%	96.6%	67.0%	100%	96.6%

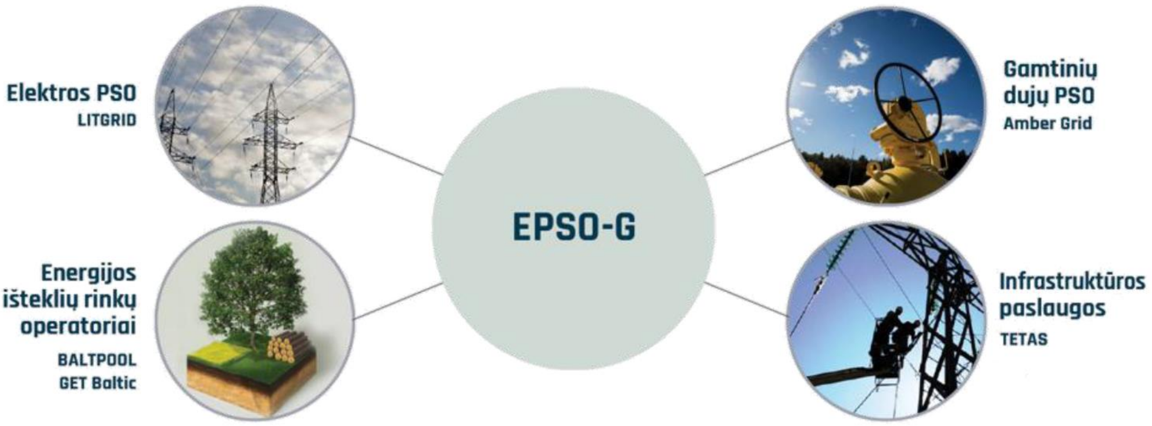
1.1. EPSO-G Group

EPSO-G, the holding company of the Group of Energy Transmission and Exchange Companies, was established on 25 July 2012 as a result of the implementing of the mandatory requirements of the III Energy Package regarding the separation of energy production and distribution and transmission activities. Originally, the Company operated as a financial holding, the main function of which was consolidation of the financial results of the Group companies.

As Lithuania aimed to become the member of the Organization for Economic Co-operation and Development (OECD), it was decided by means of the decisions of the Government and the direct shareholder (the Ministry of Energy of the Republic of Lithuania) in 2015-2016 to carry out a major restructuration of EPSO-G into an active management company directly participating in the management of the subsidiaries, carrying out supervision and control of their activities, performing other independent functions related to the integrated management of the Group.

In accordance with the decisions of the Government of the Republic of Lithuania and the Ministry of Energy of the Republic of Lithuania "The Guidelines for the Corporate Governance of the Group of the State-Owned Companies of Energy Sector" (hereinafter – the "Guidelines for the corporate governance") have been approved by the Order No 1-212 of the Minister of Energy of the Republic of Lithuania of 7 September 2015. The Guidelines have consolidated the new corporate governance model and core functions of the Group.

As of 31 December 2020, EPSO-G Group consists of the holding company, the transmission system operators managing the infrastructures of electricity and natural gas transmission, the market operators managing natural gas, biomass and timber exchanges, as well as the companies providing the infrastructure maintenance services:



1.2. Holding company EPSO-G

EPSO-G UAB is a holding company with the objective of the sole shareholder – the Ministry of Energy – to create a group of energy transmission system and exchange operators providing advanced, efficiently managed and long-term benefits to shareholders, which ensures the implementation of the strategic Lithuanian energy interests and contributes to the expansion of the state's competitiveness and building the public well-being.

By implementing the activities outlined in the National Energy Independence Strategy (hereinafter – the NEIS) and the letter of the shareholder's expectations, the holding company establishes the strategic goals and tasks of the Group and its constituent companies, supervises their implementation, identifies and manages operational risks and implements measures to increase the efficiency of the Group companies.

The company also lays down the operating rules that are in line with a good business practice and coordinates the activities of the companies which are part of the Group in the fields of human resources, risk management, audit, social responsibility, communication and in other fields increasing operational transparency and accountability in order to increase by means of socially responsible work a long-term value for Lithuania's people, business and shareholders.

The uniform good corporate governance practice of the EPSO-G Group is implemented in accordance with the Corporate Governance Policy, joined by the companies of the Group, and by the direct involvement of the representatives nominated by the holding company in the work of the boards of the subsidiaries.

The holding company EPSO-G carries out its supervisory and control functions with the help of these measures:

- By making decisions within the competence of the General Meeting of Shareholders in its subsidiaries, thus ensuring interconnection among policies, objectives, targets and measures;
- By nominating the employees of EPSO-G to the Boards of the companies of the Group, thus ensuring the targeted implementation of the goals set by the shareholder, coordinating the operating strategies of the subsidiaries of the Group with the directions of the Group's strategy;
- By organizing and carrying out the activities of the Audit Committee, thus ensuring the transparency, control and accountability of the decisions made in the Group;
- By organizing and carrying out the activities of the Remuneration and Appointment Committee, thus ensuring equal principles of appointment and remuneration in the Group;
- By setting up a centralized Group-wide internal audit that is accountable to the Audit Committee and the Board of the Company and is not subordinate to the administration of the companies;
- By adopting the Group's policies that regulate various areas of activity, thus implementing good sustainable development practices in the Group;
- By providing representative, standardised draft documents to the companies of the Group that equalize the activity of the companies;
- By implementing functional mentoring of activities in the Group;
- By providing consulting services to the companies of the Group.

Tasks and functions of the holding company EPSO-G and activities related to their implementation:

<table>
<tr><th>Tasks of EPSO-G</th><th>Projects / Functions</th><th>Activities</th></tr>
<tr><td rowspan="2">Management of strategic projects</td><td>Synchronization</td><td rowspan="2">▪ Control of strategic energy projects
▪ Representation of interests in Lithuania and international institutions
▪ Adjustment of actions towards result and ensuring integrity
▪ Ensuring transparency and efficiency of public procurement</td></tr>
<tr><td>GIPL</td></tr>
<tr><td rowspan="2">Corporate governance</td><td>Competent representation of shareholder interests in the governance bodies of the companies of the Group</td><td>▪ Group strategy and common objectives implementing shareholder expectations
▪ Integrated, uniform principles-based financial and business management practices (uniform Group policy)
▪ Implementation of good business practices</td></tr>
<tr><td>Goal setting and integration</td><td>▪ Coordination and approval of business plans of companies</td></tr>
</table>

		▪ Establishment of annual goals on boards, compatibility assurance
	Opportunities identification and development empowerment	▪ Setting of ambitious goals, development of new activities, acquisitions of new companies
	Ensuring efficiency	▪ Assessment of the efficiency and anticipation and implementation of optimization measures of the activities of the companies of the Group ▪ Budgetary tasks and control of operational management costs ▪ Unified, mature and market-comparable remuneration management
	Operational control	▪ Centralized audit function ▪ Supervision of the implementation of operational plans ▪ Evaluation of annual results on boards
	Compliance and risk management	▪ Setting of compliance management principles ▪ Control of the identification and management of risk management tools
Ensuring accountability	Accountability to the shareholder	▪ Accountability according to the requirements of the Letter of Expectations ▪ High-quality and immediate information on the status of the companies of the Group ▪ High-quality and immediate information on the status of the projects ▪ Formal and non-formal communication
	Management of relations with stakeholders	▪ Identification of interest groups ▪ Determination of the expectations of stakeholders ▪ Ensuring communication strategy and functional leadership in risk management ▪ Communication
	Procurement criteria, control	▪ Participation in procurement commissions ▪ Analysis, evaluation and approval of essential contract terms on boards
	Determination of business and behavioural models	▪ Common values, policies and procedures that are followed by all companies of the Group
	Transparency	▪ Ensuring accountability to stakeholders ▪ Ensuring corruption prevention
Ensuring synergies	Finance management	▪ General treasury management

ENDED 31 DECEMBER 2020 (thousand EUR, unless specified otherwise)

	Operational management	▪ Joint purchases ▪ Services for the companies of the Group ▪ Know-how ▪ Search and implementation of innovations

Clients

The client of EPSO-G - the shareholder of the Group and the companies of the Group. Highly qualified specialists and a good reputation of the holding company are essential for quality management decisions that are crucial to the operations of the companies they manage, for the effective supervision of operations and consulting.

Detailed information on the activities of the EPSO-G holding company in 2020 is provided in Section 7 (*Governance Report*) of this report.

1.3. LITGRID

Litgrid, the electricity transmission system operator which is part of EPSO-G Group, ensures a reliable transmission of electricity and electricity balance, manages and operates a high-voltage electricity transmission grid as well as DC connection LitPol and NordBalt. The company takes care of the development of the transmission network and electricity market, coordinates electricity flows and maintains a stable functioning of the domestic power network.

In line with the long-term goals identified in the National Energy Independence Strategy, the most important activity areas and responsibilities of Litgrid are the following: maintenance of the country's electricity infrastructure and its integration with the Western and Northern European electricity infrastructure; development of the electricity market and participation in the creation of a single electricity market of the Baltic and European countries; and integration of the electricity systems of Lithuania and continental Europe for synchronous operations. In implementing the programme on the synchronisation with the European continental networks, the company carries out 14 projects of strategic importance approved by the Government of the Republic of Lithuania.

The mission of the company: a reliable transmission of high quality electricity in the European market creating a value for the society.

As of 31 December 2020, Litgrid maintained 2,745.4 kilometers of high-voltage (400-330-110 kV) lines and 237 transformer substations and switchgears in Lithuania. In order to maintain a stable service life of overhead lines and to ensure the stable operation of installations, in 2020, repairs of installations were carried out in 27 transformer substations and switchgears with the voltage of 110-330 kV, 1,696.7 km of overhead lines with the voltage of 110kV and higher were repaired, 438 towers and 27.7 km of lightning conductor cable were replaced, and 1,466 thousand hectares of overhead line routes were cleaned.

Services provided by Litgrid:

- Electricity transmission over high voltage (110 and 330 kV) electrical installations. The transmission system operator (TSO) transmits electricity from producers to consumers that are connected to the transmission network, and to the operators of the distribution networks. Electricity transmission is an activity regulated by the state. The main activities of the TSO include the management of the high voltage electricity transmission network and securing reliable, effective, high-quality, transparent and safe transmission of electricity.
- System services to maintain reliable system functioning. Litgrid purchases from energy generating companies the services for the capacity reserve assurance at the electricity generation facilities, reactive power and voltage management, and emergency, disruption prevention and response services, and provides consumers with system services. The capacity reserve is needed when electricity production suddenly and unexpectedly falls or its consumption increases.
- Trade in imbalance and balancing electricity to ensure a balance between production and consumption. The TSO organises trade in imbalance electricity, buys and sells imbalance electricity that is necessary to ensure the country's electricity production and consumption balance. Balancing electricity is electricity that is bought and/or sold on instruction of the transmission system operator as electricity necessary for performing the function of balancing the country's electricity consumption and production. The TSO organises trading in balancing electricity by auction. Litgrid, together with Estonian and Latvian operators, organizes a common Baltic balancing energy market, in which the single Baltic balancing is managed, and balancing energy is traded on equal terms and conditions.
- Services under public service obligation (PSO) scheme. These are the services that ensure and enhance the national energy security and promote integration and use of electricity produced from renewable energy sources. The list of PSO services, their providers and procedures for the provision of PSO services are approved by the Government of the Republic of Lithuania, or an institution authorised by it, having regard to the public interests in the electricity sector. PSO funds are funds that are paid to the providers of PSO services. Litgrid provides the following PSO services: connection of power generation equipment that uses wind, biomass, solar energy, or hydropower to the transmission network as well as the transmission network's optimisation, development and/or reconstruction related to the acceptance and transmission of electricity generated by producers that use renewable energy sources; balancing of electricity produced from renewable energy sources connected to the transmission network for which the measure to promote the exemption from balancing responsibilities is intended.
- Technical maintenance, operation and management services for high voltage direct current connections.

Customers of the electricity transmission system operator:

Litgrid's direct customers are the electricity transmission network's users and parties responsible for balancing, balancing service providers, renewable energy producers and independent suppliers.

Users of the transmission network:

- Distribution system operator ESO AB and Dainavos Elektra UAB;
- Electricity consumers with electrical equipment connected to an electricity transmission network purchasing electricity for consumption;
- Electricity producers connected to the electricity transmission network.

Balancing and regulating electricity suppliers – electricity generating and supplying entities.

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Key financial indicators of Litgrid Group:

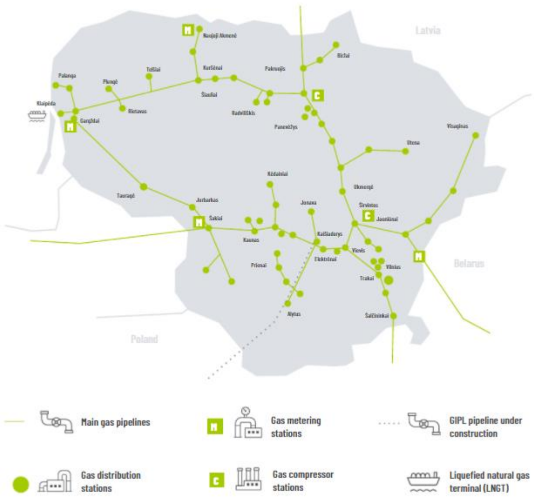
	2020	2019	Change	
			+/-	%
Revenue, thousand EUR	207,516	183,913	23,603	12.8%
EBITDA[1], thousand EUR	51,199	22,155	29,044	131.1%
Net profit, thousand EUR	26,603	2,959	23,644	799.1%
Asset, thousand EUR	414,353	376,198	38,155	10.1%
Number of employees	308	290	18	6.2%

1) EBITDA = profit (loss) before tax + finance costs – finance income + depreciation and amortization charges + impairment charges (including a negative revaluation of non-current tangible assets) + asset write-offs

1.4. AMBER GRID

Amber Grid, the natural gas transmission system operator, which is part of EPSO-G Group, is responsible for the natural gas transmission and operation of trunk gas pipelines, secure and reliable operation and development of gas transmission system. Amber Grid also administers the National Register of Guarantees of Origin for gas produced from renewable energy sources (RES).

The mission of the company is to efficiently and reliably carry out gas transmission, creating favourable conditions for competition in the gas market and development of renewable energy resources.



The transmission system managed by Amber Grid consists of trunk gas pipelines, gas compressor stations, gas distribution stations, gas accounting stations, anti-corrosion equipment for gas pipelines, data transmission and communication systems and other asset attributed to the transmission system.

The Lithuanian gas transmission system is connected to the Latvian, Belarusian natural gas transmission systems and those of Kaliningrad Region of the Russian Federation, Klaipėda LNG floating storage and regasification unit terminal, the distribution systems of Lithuanian distribution system operators and to the consumer systems directly connected to the transmission system.

As of 31 December 2020, the Company operated 67 (2019: 68) gas distribution stations (GDS) and gas metering stations (GMS), as well as 2 gas compressor stations (GCS).

The length of the pipelines operated is 2,115 km (in 2018: 2,115 km), diameter from 100 to 1,220 mm. The design pressure of most of the transmission system is 54 bar.

Services

Amber Grid provides system users, other operators and participants of the gas market with natural gas transmission services in the territory of Lithuania: it transmits gas to domestic consumers, as well as transports natural gas to Latvia and Kaliningrad District of the Russian Federation.

The company renders these services to the system users, other operators, the participants of the gas market:

- Gas transmission in the territory of Lithuania;
- Gas flow balancing in the transmission system;
- Administration of the funds intended for the installation of the LNG floating storage and regasification unit terminal, its infrastructure and connections, and for the constant operating costs, and for the compensation of the reasonable costs of supply of the necessary amount of liquefied natural gas of the appointed supplier.

- Administration of the register of guarantees of origin of gas produced from renewable energy sources (RES).

Customers

The customers of the company are the major Lithuanian companies of electricity, district heating generation as well as industrial companies, and the medium-sized Lithuanian business companies, including energy and natural gas supply companies of the Baltic states and the third countries to which the services of natural gas transmission are rendered. 108 system users used the services of Amber Grid as at 31 December 2020 (2019: 105 system users).

GET Baltic

Amber Grid holds 100% of shares of GET Baltic UAB. GET Baltic UAB is a licensed natural gas market operator that has the status of a Registered Reporting Mechanism (RRM) granted by the Agency for the Cooperation of Energy Regulators (ACER). The company administrates the electronic trading platform for trading short-term and long-term natural gas products in the market area in Lithuania, the single market area of Latvia and Estonia, and the market area in Finland. By developing the solutions suitable for trading natural gas, GET Baltic seeks to improve the liquidity, competitiveness, and transparency of the wholesale gas market in the Baltic countries and Finland.

2020 was a year of changes and rapid development for GET Baltic. Continuous improvement of the exchange operations and a streamlined launch in Finland had a very positive impact on the company's financial performance.

As from 1 January 2020, GET Baltic started its operations in Finland, where it became a single regional trading platform for the Baltic and Finish gas market participants and started offering implicit capacity allocation services to the Finnish transmission system operator Gasgrid Finland Oy.

Given the integration of natural gas markets in Latvia and Estonia, the market areas on GET Baltic gas exchange were combined as well into a single market area with effect from 2020.

In order to ensure more favourable conditions for secondary capacity trading in Finland, during the reporting period the company implemented the Project for development of secondary capacity trading platform based on European standards. As from 1 December 2020, the secondary capacity trading platform operated by GET Baltic has been launched in Finland.

By seeking to provide its customers with additional possibilities for efficient integration of the existing services into their IT systems and to enhance user experience in delivering speedy, convenient and accurate data exchange, GET Baltic got ready to provide Data Exchange Services based on REST API solution by the end of 2020.

Thereby, by implementing the goals set for the company, more favourable conditions were created for price convergence across the region and for streamlining cross-border trade between natural gas markets in Finland and Baltic countries.

The expansion of geographical presence of GET Baltic in 2020 ensured continuous trading on GET Baltic gas exchange on 24/7 basis.

GET Baltic Exchange performance in 2020:

- the total traded volume increased to 7.2 TWh. This was an all-time record since the start of operations of GET Baltic. Compared to 2019, the turnover increased as much as 2.5 times (2019: 2.9 TWh);
- it accounted for over 11% of total demand for gas in the Baltic countries and Finland (65 TWh);
- 51% of the total traded volume was purchased in Lithuania (3,687 GWh), 37% in Finland (2,296 GWh), and 11% in the common Latvian-Estonian market area (824 GWh);
- In total 20,576 transactions were concluded, i.e. 128% more compared to 9,045 transactions in 2019. This was a record number of transactions in the history of GET Baltic;
- The number of active exchange participants increased by 75% compared to the previous year. In total 56 exchange participants placed orders, whereof 55 participants concluded transactions. In 2019, 32 exchange participants were active and placed orders, whereof all of them concluded transactions;

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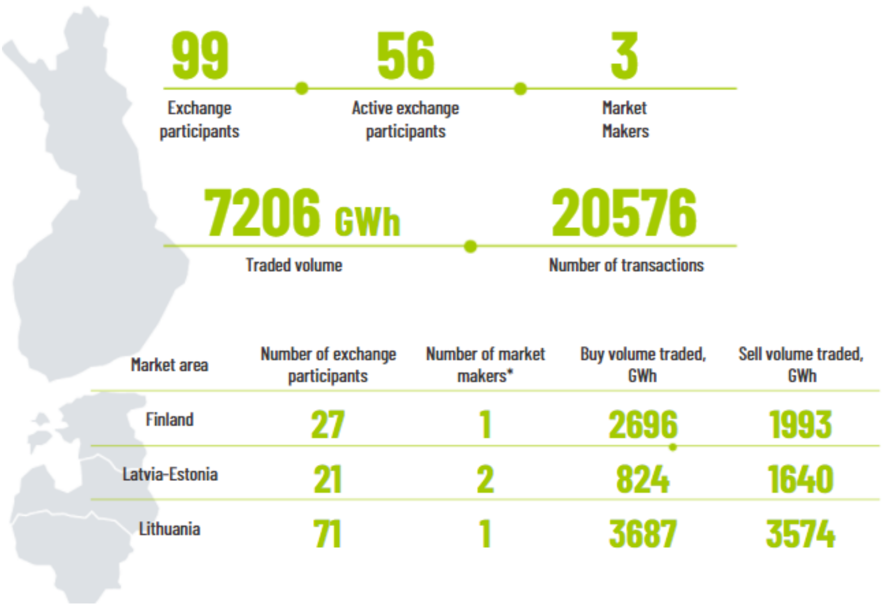
- transaction with the lowest price of 4 EUR/MWh was concluded in July, and transaction with the highest price of 23.1 EUR/MWh was concluded in January.



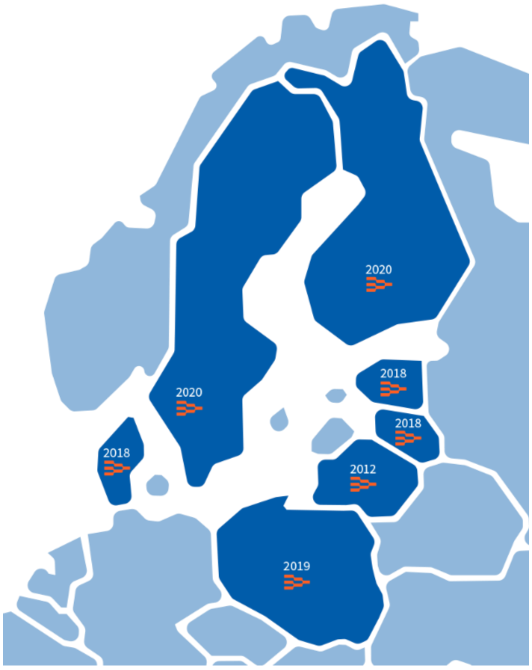
Market area	Number of exchange participants	Number of market makers*	Buy volume traded, GWh	Sell volume traded, GWh
Finland	27	1	2696	1993
Latvia-Estonia	21	2	824	1640
Lithuania	71	1	3687	3574

Key financial indicators of Amber Grid:

	2020	2019	Change	
			+/-	%
Revenue, thousand EUR	52,286	55,619	-3,333	-6.0%
EBITDA[1], thousand EUR	26,075	25,206	869	3.4%
Net profit, thousand EUR	18,170	12,572	5,598	44.5%
Asset, thousand EUR	304,793	237,520	67,273	28.3%
Number of employees	319	316	3	0.9%

1) EBITDA = profit (loss) before tax + finance costs – finance income + depreciation and amortization charges + impairment charges (including a negative revaluation of non-current tangible assets) + asset write-offs

1.5. BALTPOOL



Baltpool, the operator of the Exchange for the energy resources and trading timber, organises trade, i.e. creates a level playing field for all market players to acquire biomass and timber under competitive conditions and thus ensure the maximum benefit to the consumers and return to the state.

In addition, Baltpool organizes auctions of heat supplied to centralized networks and acts as an administrator of the electronic timber trading system.

The target set for the company is to create equal conditions for market participants to purchase biomass and timber under competitive conditions and thus create conditions for the formation of prices that reflect the relationship between supply and demand.

The Exchange trades in biomass in Lithuania, Latvia, Estonia, Poland, Denmark, Finland (Finbex) and in Sweden with the partner Svebio.

Baltpool customers by activities performed:

- The key customers in the activity of the biomass exchange are the biomass buyers (district heating companies, independent heat generating entities and other companies using in their activity the biomass products traded in the exchange) and biomass suppliers (manufacturers and suppliers of wood pellets and chips);
- Timber sellers, specifically the State Forestry Enterprise and its territorial subdivisions, are the key customers in the activity of timber auction organising. Timber buyers are the companies using timber products in their activity: from timber processing companies to biomass supply companies.
- The most important customers in the activity of heat auction organising are heat supply companies, which are obliged to buy the necessary quantity of heat from independent heat suppliers at heat auctions and independent heat suppliers connected to the heat supply systems and sell heat at the auction.
- The customers in the activity of administration of the PSO funds are the electricity consumers, which as per the valid legal regulation must pay the PSO funds for the electricity consumed by them. The PSO funds are collected from the electricity consumers connected to the distribution network through the distribution network operator. The consumers connected to the networks managed by the transmission system operator transfer the PSO funds directly to the administrator. The energy companies which in accordance with the legal acts render the services of public interest also are the customers of the company, i.e. the services such as generation of electricity from renewable energy sources, the services of electricity generation which is necessary for the ensuring security of electricity supply, and other services stipulated in the description of the procedure of rendering the services of public interest in the electricity sector.

Baltpool in biomass exchange in Lithuania in 2020:

- As of 31 December 2020, 325 participants were registered in the biomass exchange (239 sellers and 100 buyers);
- 17 new participants joined the exchange (11 sellers and 6 buyers);

- The number of concluded transactions totalled 5,530 (with the value of EUR 53,703,054).
- The weighted average price of concluded transactions was 9.99 EUR/MWh, while in 2019, the weighted average price equalled to 12.45 EUR/MWh.
- BWCS SPOT LT (BALTPOOL WOOD CHIPS SPOT LITHUANIA) index during 2020 ranged from 7.83 EUR/MWh to 10.33 EUR/MWh. At the end of 2020, the last fixed price was 9.79 EUR/MWh.

Baltpool in biomass exchange in Latvia, Estonia, Finland, Poland, Denmark and Sweden in 2020:

- As of 31 December 2020, 73 market participants from Latvia were registered in the system. During 2020, 5 new participants joined in. The number of concluded transactions amounted to 78. Their value was EUR 1,130,226 (in 2019 the number of transactions amounted to EUR 87. Their value was EUR 666,114);
- As of 31 December 2020, 16 market participants from Estonia were registered in the system. During 2020, 6 new participants joined in, including Estonia's largest energy supplier Enefit Energiatootimine, which has three power plants in Ida-Viru region. The number of concluded transactions amounted to 27. Their value was EUR 194,715. The trading in Estonia was launched in Q2 2020;
- As of 31 December 2020, 4 market participants from Poland were registered in the system. During 2020, 2 participants joined in;
- At biomass exchange Biomassxpool in the Kingdom of Denmark, which was developed using Baltpool trading platform system, 9 transactions were concluded with a total value of DKK 4,438,178 (EUR 596,635.65) during 2020. As of 31 December 2020, 70 market participants were registered in Biomassxpool, of which 8 were from Lithuania, 10 from Latvia and one exporter from Estonia. As from 1 January 2021, Baltpool launched its activities in the Kingdom of Denmark under its own brand, Baltpool;
- In Finland, Finbex trading on the Baltpool exchange was started in the fall of 2020. As of 31 December 2020, 6 participants (4 buyers, 2 sellers) joined the exchange;
- A partnership agreement was signed with Svebio, an association uniting biofuel buyers and sellers in Sweden. The beginning of registration and trading of Swedish market participants is scheduled for early 2021;

Baltpool in heat auction data management system in 2020:

- As of 31 December 2020, 60 participants were registered (13 buyers and 60 sellers);
- During 2020, the amount of heat offered for sale was 6,643,900 MWh;
- The amount of heat traded was 4,902,322 MWh at a weighted average price of 2.02 ct/kWh. In the same period last year, the trading volume was 4,683,419 MWh and the weighted price was 2.69 ct / kwh.

Baltpool in electronic timber sales system in 2020:

- 1,131 auctions took place, or by 239 more than in 2019;
- 4,920 concluded transactions, or by 1,079 more than in 2019;
- As of 31 December, the total number of registered participants was 1,017 (approved registrations), 1,730 (total registrations), of which 396 active members submitting orders;
- During 2020, 76 new participants joined the system;
- The volume of transactions, compared to 2019, increased from 2,139,972 to 2,804,614 st.

Special obligations:

Under the Resolution No 1338 of 7 November 2012 of the Government of the Republic of Lithuania on Appointment of PSO Funds Administrator in the Power Sector, Baltpool was appointed to implement the special obligation to perform the functions of a PSO funds administrator in the power sector. Detailed information and reports on the implementation of this function are publicly available on the Baltpool website: https://www.baltpool.eu/lt/viap-gautos-ismoketos-likutis/.

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Key financial indicators of Baltpool:

	2020	2019	Change	
			+/-	%
Revenue, thousand EUR	1,132	975	157	16.1%
EBITDA[1], thousand EUR	273	169	104	61.5%
Net profit, thousand EUR	182	92	90	97.8%
Asset, thousand EUR	45,953	67,637	-21,684	-32.1%
Number of employees	18	17	1	5.9%

1) EBITDA = profit (loss) before tax + finance costs – finance income + depreciation and amortization charges + impairment charges (including a negative revaluation of non-current tangible assets) + asset write-offs

1.6. TETAS

The main activity of Tetas UAB is construction and repair of engineering networks, i.e. electrical equipment up to 400 kV. The company also performs construction works: constructs and installs building structures, installs electricity supply and distribution equipment, builds electrical networks, performs the installation of electrical engineering systems for buildings:

- Construction and operation of electrical equipment up to 400 kV voltage: construction, reconstruction, maintenance and repair of power lines, switchgears and substations up to 400 kV, power transformers and other facilities.
- Construction of electrical networks: construction, maintenance and reconstruction of 0.4-110 kV new cable lines.
- Installation of renewable energy sources: installation of solar power plants, supply / assembly of equipment, maintenance and troubleshooting.
- Connection of electrical equipment of new electricity consumers to the networks, including installation of electricity networks owned by a consumer.
- Relay protection and automation (RPA) configuration and start-up and adjustment works are performed.
- Projects for the construction, reconstruction and repair of critical energy and communication buildings or their separate parts from the initial study of the object development to the project preparation are prepared. Project implementation supervision works are performed.
- Projects for connecting new electricity consumers' electrical equipment to the networks are prepared.

In addition, TETAS UAB carries out the installation of fiber-optic cable engineering infrastructure, and has started providing photovoltaic power plant design services and installation works.

The company has a division providing design services, ensuring the provision of high intellectual and value-added services. The Company also provides the market with unique testing and diagnostic services for electrical equipment.

Installation of renewable energy sources (RES) (e.g. installation of solar panels) and operation works and their development in foreign markets are currently the priority directions of the Company's activities. In 2019, the Company started providing services to the German market. During 2020, revenue from foreign markets accounted for 13%. In 2020, RES activities were launched.

Key financial indicators of Tetas:

	2020	2019	Change	
			+/-	%
Revenue, thousand EUR	26,110	14,746	11,364	77.1%
EBITDA[1], thousand EUR	2,218	949	1,269	133.7%
Net profit, thousand EUR	854	-205	1,059	-
Asset, thousand EUR	11,926	8,396	3,530	42.0%
Number of employees	395	338	57	16.9%

1) EBITDA = profit (loss) before tax + finance costs – finance income + depreciation and amortization charges + impairment charges (including a negative revaluation of non-current tangible assets) + asset write-offs

2. Mission, vision, values

In the course of the implementation of the objectives set by the Shareholder's Letter of Expectations for the holding company EPSO-G we create an advanced, transparent, effectively managed group of future energy companies providing long-term benefits to shareholders and ensuring secure and reliable energy supply, efficient operation of energy transmission systems and trading platforms, and enabling regional consumers to freely exchange energy and get it at a competitive price whenever it is needed.

The value created by EPSO-G Group - a secure, sustainable and competitive energy market.

Secure - energy is transmitted in a secure and reliable manner.

Sustainable - an opportunity to freely exchange energy and get it at a competitive price whenever it is needed.

Competitive - open to market players and allowing them to choose.

PERSPECTIVE

VISION - future energy group efficiently operating in international environment

PURPOSE

MISSION - to ensure and create a secure, sustainable and open energy market enhancing the competitiveness of the country's economy and the welfare of society

VALUES

PROFESSIONALISM
COOPERATION
PROGRESS

EPSO-G vision - a group of future energy efficiently operating in the international environment.

EPSO-G mission - to ensure and create a secure, sustainable and open energy market enhancing the competitiveness of the country's national economy and the welfare of Lithuania's people.

Implementation of the mission, pursuit of the vision and all activities of EPSO-G Group are based on the fundamental human and professional values: professionalism, cooperation, and progress.

EPSO-G values:

Professionalism - we strive for every employee in the group to be recognized and be able to grow as a professional in their field of activity. We understand what an important role professional knowledge, hands-on experience and continuous learning play in terms of the results of the Group and ensuring continuity of activity.

Cooperation - we emphasize sincere and constructive cooperation with each other which makes it possible to pursue the goals set in a concerted manner.

Progress - openness to new business practices and ideas promotes the creation, renewal, implementation of meaningful changes and leads us forward.

2.1. OPERATING AND REGULATORY ENVIRONMENT

In 2020, EPSO-G Group companies was most affected by significant air temperature deviations from the standard climatic norm in Q1 2020, lower demand for electricity transmission services due to the COVID 19 pandemic and increased gas transmission volumes due to extremely favourable gas prices.

In 2020, cheaper electricity from the Nordic countries in the wholesale market and lower demand in the Lithuanian market created the conditions for a fall in wholesale electricity prices. Although the price of electricity increased at the end of the year, in 2020, Lithuania had the lowest wholesale electricity price since 2012. This situation in the market was determined by the sharp increase in the amount of energy produced by wind farms, record-breaking level of water reservoirs in the Scandinavian countries, falling oil and gas prices and lower electricity demand due to the pandemic.

In Lithuania, the average wholesale electricity market price, compared to 2019, decreased by 26% to 34 EUR/MWh. According to the import / export (net) ratio, in 2020, 52% of Lithuania's electricity demand was imported: 42% from Scandinavia via NordBalt connection, 33% of electricity imports was from third countries, while 19% of electricity was imported across the border with Latvia and 5% via the LitPol Link interconnection with Poland.

In 2020, annual electricity consumption in Lithuania was by 2% lower compared to 2019. Despite the short-term decline in electricity consumption caused by the COVID-19 pandemic, Litgrid forecasts that electricity demand will grow by an average of 2% per year over the next decade and will reach 14.7 TWh in 2029 (12.16 TWh in 2019). Electricity consumption will be most affected by general economic trends, increasing efficiency of electricity consumption, the number of electric cars and heat pumps, and the amount of electricity consumed.

The impact of lower demand for electricity transmission services on EPSO-G Group's results was amortized by increased gas consumption in Lithuania and transit in the direction to Latvia due to the extremely favourable gas price in the LNG market, as well as exceeded expectations of operations of Gas Exchange GET Baltic in the Finnish market and gas pipeline between Estonia and Finland that became operational at the beginning of 2020.

According to Amber Grid data, 33 terawatt-hours (TWh) of natural gas was transported to consumers in Lithuania, Latvia, Estonia and Finland - by 12% more than in 2019, when 29.5 TWh of natural gas was transported for the needs of the Baltic region. In 2020, gas supply through the Lithuanian gas transmission infrastructure to the Baltic states and Finland increased to 8 TWh per year. This is the largest amount of gas transferred northwardly.

This was also positively influenced by operations of Gas Exchange GET Baltic launched in the Finnish market in early 2020. As a result, the trading turnover on the exchange increased more than 2.5 times compared to 2019, and the total amount of gas acquired on the exchange was 11% of the total gas consumed in the Baltic and Finnish markets. It is forecasted that Lithuania's role in the single regional gas market will become even more pronounced after the completion work of the construction of the gas pipeline connection with Poland at the end of 2021 and with the introduction of a new, alternative gas transmission channel at the beginning of 2022.

As a result of the competitiveness of liquefied natural gas in the market, gas transportation through the Klaipėda LNG terminal was high as well. In 2020, as in 2019, gas imports through the LNG terminal accounted for 65% of the total amount of gas supplied to the EU gas market through Lithuania (2018: 35%).

Gas consumption in Lithuania continued to grow in 2020. During the reporting period, the country consumed 25.1 TWh of gas or 7% more than in 2019, when 5% growth in gas consumption was recorded. Due to favourable prices on the global markets, the resumed usage of gas as fuel in the Lithuanian electricity sector, in 2020, the country had the highest gas consumption in the last five years.

According to Amber Grid, the developed infrastructure ensures the flows meeting the needs of gas system consumers, it is sufficiently permeable to transmit them and is resistant to adverse conditions. Specialists estimate that gas consumption in Lithuania, which has been declining for some time, will stabilize in the upcoming years and reach 21 TWh per year.

Consumer-friendly trends had persisted in the biomass market as well - in 2020, with the price of biomass falling by 19.4% on Baltpool exchange, in 2020-2021, the heating season has been the most favourable for district heating users over the past few years. It is particularly positive that district heating producers are increasingly focusing on price risk management, taking advantage of the opportunities offered by the biomass market.

Following the declaration of a national emergency in Lithuania in 2020 due to the threat of the spread of coronavirus (COVID-19), business continuity and preventive measures were applied in EPSO-G Group: appointed employees responsible for monitoring and reporting the situation to the management; identified business units and employees undertaking the critical functions and administrating the main systems; implemented additional organisational measures at the system operation centre; planned technical and succession measures in case of spread of the virus. The companies have reviewed its emergency management plan, prepared the following additional documentation and implementing measures: lists of critical functions, lists of measures necessary to ensure continuous implementation of the functions, resources and responsible individuals, as well as other documents and measures.

Given the impact of the Covid-19 pandemic, the International Energy Agency (IEA) forecasts that global energy demand will return to pre-crisis levels in 2023, in the case of the Stated Policies Scenario (STEPS) or in 2025, in the case of the Delayed Recovery Scenario (DRS).

According to the Ministry of Finance as of 29 January 2020 estimates, due to the impact of the COVID-19 virus, the Lithuanian economy shrank by 1.3% in 2020. 2.8-3.1% growth of the gross domestic product (GDP) is projected for 2021-2023.

The activities and strategic choices of EPSO-G Group are materially influenced by legislative initiatives and strategic planning documents at national and EU level:

- At national level, the most important strategic planning documents influencing EPSO-G Group's activities are: the updated National Energy Independence Strategy (NEIS) approved by the Seimas of the Republic of Lithuania in 2018 and the National Energy and Climate Plan (NECP) approved in 2020 and submitted to the European Commission. NEIS has set ambitious goals that will significantly contribute to the Energy Union, the United Nations 2030 Agenda for Sustainable Development, the goals set in the Paris Agreement and the implementation of objectives of 2030 EU climate and energy policies. They aim to increase the share of renewable energy sources (including biomethane and other RES-produced gases) in the country's total final energy consumption: by 2030 - 45%, and from 2050 - 80%.
- In the EU context, the umbrella of the European Green Deal covering a wide range of economic sectors is of a great importance for EPSO-G Group. The Green Deal sets the target that by 2050 climate neutrality will be achieved in Europe, while by 2030, CO_2 emissions will be reduced by 50-55% compared to 1990. In the scope of the Green Deal, the strategies for the Energy System Integration, Hydrogen and Offshore Wind presented in 2020 directly influence the plans of the companies of the Group (first of all, transmission system operators) and the long-term goals set for them, put focus on the importance of new technology integration and cross-sectoral initiatives. In 2021, the European Commission has plans to present a review package of legislative initiatives to achieve ambitious climate change targets, including a prospective review of the Renewable Energy Directive.

2.2. Regulatory environment

Electricity and natural gas transmission activities carried out by EPSO-G Group companies and the activities of the operators of energy resources and gas markets are licensed. The licenses grant exclusive rights to render the services of transmission and market operators in the territory of the Republic of Lithuania.

The operators of electricity and natural gas transmission systems, which are part of EPSO-G Group companies, are exclusive in Lithuania entitled to provide these services. They operate under the conditions of a natural monopoly and therefore prices of their activities are state regulated. The tariffs charged for the energy resources belonging to EPSO-G Group and set by gas market operators on trading exchanges are coordinated with the regulatory authority.
The regulatory function and the supervision of the performance of the licensed activity in Lithuania is carried out by the National Energy Regulatory Council (hereinafter - the Council or the NERC).

The financial performance of regulated EPSO-G Group companies, the allocation of necessary operating costs, investments to ensure the reliability of electricity and gas transmission systems, as well as the possibility of financing strategic projects with own or borrowed funds depend directly on the decisions taken by the regulatory authority.

The prices of the transmission of electricity and natural gas are regulated by establishing price and / or revenue caps. The permitted level of income consists of the reasonable required costs, including a return on investment that meets the criterion of reasonableness. The specific service prices that are within the established revenue caps are set by the service providers, while the Council after verification and establishment that they have been calculated in accordance with the pricing and / or tariff requirements set out in the methodologies for calculating prices and / or revenue caps and that they do not discriminate against consumers and are not erroneous, shall approve them.

The price and / or revenue caps of electricity and natural gas transmission are set for the regulatory period of five years (the period duration may be changed by a reasoned decision of the NERC), and they may be adjusted in the presence of significant changes of one or several factors, in accordance to which they were established, including the factors of the scope of services, inflation, taxes and other objective factors independent of the operators. The caps of the electricity transmission prices may be adjusted maximum twice a year, while the caps of natural gas prices - once a year.

As from 1 January 2020, electricity and natural gas transmission prices set by transmission system operators and approved by the Council were applicable for 2020.

Average price of transmission services applied by Amber Grid in 2020 to the needs of Lithuanian consumers (in terms of long-term and short-term services) decreased by more than 16% on average compared to the average price applied in 2019 - up to 1.22 EUR/ MWh. This decrease was mainly influenced by the fact that the amount of revenue allowed for Amber Grid for 2020 was reduced by the set amount of excess return on investment for previous periods.

The average approved price of Litgrid's electricity transmission service in 2020 was 0.814 ct/kWh, and compared to 2019, it was higher by almost 24%. This increase mainly resulted from the fact that the amount of Litgrid's allowable revenue for 2019 was reduced by the set amount of excess return on investment for previous periods.

In addition, in 2020, the average, non-differentiated price of Litgrid system services approved by the NERC was applied from 1 January 2020, which, compared to the one applied in 2019 (0.615 ct/kWh) increased by almost 28% - up to 0.785 ct/kWh. The main reasons for the change in this price were the costs required to ensure the isolated operation of the electricity system throughout the year, as well as the costs of maintenance and conservation of Unit 7 of Lithuania Power Plant actually incurred but not assessed by Litgrid in the previous period, as well as the maintenance of Units 7-8 of Lithuania Power Plant and conservation costs for the performance of the Baltic power system isolated operation test.

The tariff applied on Baltpool biomass exchange until 1 September 2020 compared to the previous applicable tariff was lower by 21.3% (0.48 EUR/TOE). This was mainly due to Baltpool's revenue earned in 2017-2018 from active trading on the biomass exchange, as a result this amount is reimbursed by reducing the price to the exchange participants. Under the decision of the NERC, as from 1 September 2020, the applicability of this tariff to biofuel suppliers in Lithuania has been extended. The tariff has been converted to other units – as from 1 September 2020, a tariff of 0.04127 EUR/MWh (VAT excl.) shall apply (converted by applying the coefficient 1 TOE = 11.63 MWh).

On 1 January 2021, the adjusted electricity and natural gas transmission prices set by the transmission system operators and approved by the Council, and the price of Litgrid system services took effect.

On 28 May 2020, the NERC with regard to the revenue cap of the natural gas transmission operations adjusted by the decision of the NERC approved the natural gas transmission prices set by the Board of Amber Grid effective from 1 January 2021.
It was approved that the average gas transmission price to meet the domestic consumer needs in Lithuania in 2021 will be 1.40 EUR/MWh, which is about 15% higher compared to the average gas transmission price in 2020 (1.22 EUR/MWh), and about 4% lower compared to the average gas transmission price in 2019 (1.46 MWh). Such change was mostly driven by one-off correction of return on investment for 2020 for the previous periods.

On 1 October 2020, the Council approved a maximum price cap of 0.721 ct/kWh for high-voltage electricity transmission service, which came into force on 1 January 2021, and compared to the one applied in 2020 (0.814 ct/kWh) is lower by about 11%. This change was mostly driven by Litgrid's received return on investment in 2018-2019 higher than the one set by the Council. Within this limit and taking into account the resolution of the Council of 16 October 2020 on the price of electricity system services, Litgrid set the prices of electricity transmission services and the procedure for their application, which, in accordance with the legislation, on 29 October 2021, was announced by the Council.

From 1 January 2021, the approved average price of the electricity transmission service decreased respectively by almost 11% up to 0.721 ct/kWh.

The average undifferentiated price of Litgrid system services approved by the Council from 1 January 2021 decreased by almost 3% up to 0.762 ct/kWh. The main reasons for the change in this price were the forecasted lower costs of capacity reserves for 2021 (especially the costs of the tertiary active power reserve service, which are about 34% lower than the estimated prices in 2020 due to the significantly lower purchase price of the tertiary active power reserve). Lower costs required to ensure the isolated operation of the power system and to manage reactive power are also forecasted.

On 3 December 2020, the Council approved the new standard contractual terms of balancing services and imbalance purchase-sale contracts prepared by Litgrid enabling the operation of the balancing capacity market and demand aggregation services from 2021. A new segment of the balancing market has been created - the balancing capacity market, where Litgrid will conduct daily hourly auctions, while balancing capacity will be ordered from market participants according to actual hourly need at the lowest offered capacity price. Until now, the balancing service - the so-called secondary reserve - has been purchased for the whole year ahead. In addition, from 2021, balancing services can be provided not only by electricity producers but also by independent demand aggregators, which will reduce consumption at a certain cost if necessary.

The auction of balancing capacity in Lithuania is the first step towards a regional balancing capacity market mechanism, which is planned to be implemented in the Baltic states before the synchronization of the Baltic power systems with the continental European network. In autumn 2020, the transmission system operators of the three Baltic states launched the concept of the Baltic frequency control unit and the common Baltic balancing market, as well as conducted a market consultation on this document forecasting how the system frequency will be controlled and the balancing market will be organized following the synchronization.

New market mechanisms and opportunities for independent demand aggregators to participate in the balancing market will allow managing the costs of balancing services in the most efficient way: the system service tariff and the imbalance costs of electricity market participants.

By changing standard contractual terms of balancing services and imbalance purchase-sale contracts, Litgrid implements the amendments to the Law on Electricity adopted in June 2010 and the Regulation (EU) 2019/943 of 2019 on the internal market for electricity. As at the end of 2020, Litgrid had concluded balancing agreements with five electricity generators and one demand aggregator.

For the transmission system to be easily accessible and flexible and for the promotion of regional gas market development, the gas transmission prices at the entry points have been harmonised since 2020 with those applicable in the adjacent tariff zone that covers Latvia, Estonia and Finland. In addition, for the purpose of ensuring the best possible conditions for the market participants to benefit from the Lithuanian LNG terminal and in order to increase the competitors' pressure on the prices in the gas market, a 75% discount has been applied since 2019 to the gas transmission price at the entry point in Klaipėda. The same pricing will be applicable in 2021 as well.

3. STRATEGIC OBJECTIVES

3.1. Strategic directions

In 2020, the strategic directions of EPSO-G Group have not changed - the implementation of the objectives of the renewed strategy of 2019, focusing on four directions of activities, was continued, i.e. development of regional activities and insuring the success of strategic projects, sustainable growth of the companies of the Group and long-term benefits for shareholders, effective activities and innovation, and creation of a developing and progressing organisation.

The objectives formulated in the Shareholder's (the Ministry of Energy) Letter of Expectations are posed for the implementation of EPSO-G strategies. The letter contains the indicators of the evaluation of the activities of the Group companies, accountability and tasks that are important for the shareholder. The Shareholder's Letter of Expectations is published on EPSO-G website, in the menu item *Objectives and Accountability*.

Implementation of strategic projects

EPSO-G Group implements strategic energy projects in the electricity and natural gas sectors, the success of which contributes to the energy and geopolitical perspective of Lithuania and the Baltic region, as well as to business competitiveness.

Strategic projects in the electricity and natural gas sectors to achieve the fundamental goal - integration into a common European energy system:

- Synchronization of the Baltic states with the networks of the continental Europe - the main goal is to adapt the legal framework of the European Union in the fields of electricity market, electricity system management and development, and to eliminate politicized and discriminatory system management practices by 2025. The synchronous work of the Baltic states with CEN is important in political and technical aspects: management of the system in accordance with non-discriminatory principles agreed with other TSOs, which meet the requirements of the EU's third energy package; equal opportunities for competition with third countries in the electricity market; conditions for trading and securing electricity reserves in the European single market; decentralized frequency regulation based on the technological capabilities of power plants, which will ensure greater independence of the Baltic electricity system.

- Construction of the gas pipeline between Poland and Lithuania (GIPL) is a natural gas infrastructure connecting the natural gas transmission systems of Poland and Lithuania, as well as the Baltic states and Finland, with the European Union (EU) system. The connection will enable the flow of natural gas in both directions. GIPL gas pipeline will run from Jauniūnai gas compressor station (GCS) in Širvintos district to the Hołowczyce GSC on the Polish side. It is estimated to complete the connection between Poland and Lithuania by the end of 2021.

Both projects have been recognized by the European Commission as Projects of Common Interest (PCI).

Detailed information on these projects and the progress of their implementation is provided in Section 3.4 *Summary of significant infrastructure projects*.

Development of markets

The common gas market of the Baltic states is a strategic interest of Lithuania. It is an important objective in reducing the risk related to a declining level of the infrastructure use that has been observed so far.

In 2020, negotiations on special conditions for Lithuania's participation in the common market according to the 3+1 formula took place. On 20 April 2020, the updated action plan for the development of the Baltic gas market was approved. It forecasts market integration actions in 2020-2022, including harmonized gas transportation pricing, waiving of cross-border tariffs and the principles of the Inter-TSO compensation (ITC) mechanism, regional gas transmission system capacity allocation system, data exchange principles, common information system. It is important to note that debates are still under way regarding Lithuania's accession to the neighbouring tariff zone, covering Latvia, Estonia and Finland (the FINESTLAT tariff zone), and regarding the applicable Baltic and Finnish gas market integration measures, in order to ensure that all interested parties may benefit from them.

In 2020, a study on the integration of the Lithuanian, Latvian, Estonian and Finnish natural gas markets (the "Integration Study") was initiated at the request of the transmission system operators of Lithuania, Latvia, Estonia and Finland, including the possibility for Lithuania to join the neighbouring FINESTLAT tariff zone active since 2020, which includes the establishment of the Inter-TSO compensation (ITC) mechanism. Following the completion of the first stage of the study in 2020 identifying the impact of the single zone after the elimination of cross-border tariffs between Lithuania and Latvia on average wholesale gas prices and redistribution of gas flows in the region, as well as general socio-economic well-being, it was decided to launch the second stage of the study, i.e., to develop ITSC mechanism, and then to continue negotiations on a common tariff zone. The decision to develop the common tariff zone on mutually beneficial terms is to be taken in 2021.

On 16 December 2020, the Council, taking into account that Gas Interconnection Poland-Lithuania (GIPL) will be launched from 2022, announced a public consultation (ongoing until 17 February 2021) of a document on the methodology for setting the service process of the Lithuanian natural gas transmission system operator Amber Grid AB and preliminary prices for the remaining regulatory period 2022-2023 of gas transmission prices. It also provides for pricing principles for the newly developed cross-border gas interconnection point between Poland and Lithuania, the so-called Santaka (GIPL) gas entry and exit point.

The public consultation is conducted in line with the requirements of the European Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonized transmission tariff structures for gas. The final decision on applicable prices from 2022 will be adopted by the Council by 31 May 2021 at the latest, taking into account the comments, suggestions received during the consultation, the recommendations of the Agency for the Cooperation of Energy Regulators (ACER) and the final allowable revenue set for the transmission system operator by the Council for 2022.

Following the necessary preparations, on 1 January 2020, GET Baltic, the regional gas exchange GET Baltic operating in the Lithuanian, Latvian and Estonian markets, started operations in Finland, thus becoming a single regional trading platform for the Baltic and Finnish gas market participants. Finnish gas market participants were given the opportunity of short-term and long-term trading, as well as to benefit from an implicit capacity allocation model acting as an integrated trading model. This contributed to price convergence in the region and facilitated cross-border trade between the Finnish and Baltic gas markets. The successful launch in the Finnish market has resulted in the increase of GET Baltic's gas trading turnover by 2.5 times to 7.2 TWh in 2020. This accounted for more than 11% of the total gas demand of the Baltic-Finnish countries and was a record gas trade turnover in the entire history of GET Baltic.

It should also be noted that the liberalization of the Finnish market and the launch of the gas interconnection with Estonia opened up opportunities for market participants to take advantage of extremely favourable gas prices on the international market by importing them via the Klaipėda liquefied gas terminal. Consequently, gas transit to Latvia via the Lithuanian gas transmission infrastructure for the needs of the Baltic states and Finland and for gas storage at the Insulins underground gas storage facility in Latvia increased by 33% up to 8 TWh per year and was a record quantity of gas transmitted by Amber Grid to Latvia.

Baltpool, that has become the Lithuanian biomass trading centre ensuring the stability of the biomass supply at a competitive price, incorporating small biomass suppliers to the supply chain as well, thus promoting a stable development of the biomass market, adapting the market platform to specific national needs and has already started operations in the regional market - having created the conditions for the use of the exchange platform services for Latvian, Danish, Estonian, Finnish and Polish market participants, proceeded with the geographical development to the Swedish market. The collaboration with the Swedish Bioenergy Association *Svebio* of buyers and sellers of biomass fuel launched in 2020, events presenting the biomass fuel exchange for the Swedish market participants were actively held. It is projected that at the beginning of 2021, the trading and registration of the Swedish participants will be launched, while ship trading and larger transaction volumes will increase activity and competitiveness on the exchange.

The progress is continued with heat auctions and roundwood trade, while index of prices of wood chips BALTPOOL WOOD CHIPS SPOT LITHUANIA (BWCS Lithuania) and TIMBER SPOT LITHUANIA index have already become important landmarks for the market participants to objectively assess the current situation in the market and to monitor price fluctuations and trends in biomass and wood markets.

Effective and high-quality services

Lithuanian energy consumers get the most benefit from the favourable conditions created by the energy transmission system operators for energy transmission to the market from various sources. The creation of the proper infrastructure opens up an opportunity for the consumers to exchange energy in a simple and comfortable manner.

In that context, the aim here is to create operating harmonized conditions for the use of natural gas transmission system in the Baltic states, to ensure availability of interconnections in the electricity sector (without the third-country influence) by ≥ 95 %. Moreover, when monitoring and aiming to ensure the adequacy of the Lithuanian electricity system, in co-operation with the responsible institutions, the aim is to create power market mechanisms that would promote balanced investments in the development of a reliably accessible local generation and (or) maintenance of the existing one.

In order to achieve regional market integration, Amber Grid has set the prices of natural gas transmission services, which create favourable conditions for market participants to use the LNG terminal - for 2020, 75% discount on the price of transmission services at Klaipėda entry point was applied. Furthermore, in order to increase the simplicity and flexibility of the transmission system and to promote the development of the regional gas market, transmission service prices at entry points have been harmonized with entry prices in the neighbouring tariff zone covering Latvia, Estonia and Finland. In addition, in 2020, at entry points and at the exit point with Latvia, lower multipliers for short-term service prices were applied compared to those applied in 2019.

In 2020, import and export flows of the interconnectors with Sweden and Poland NordBalt and LitPol Link increased by 11%. The overall market availability of these connections was 95.6% and 92.4%, respectively. In comparison, availability in 2019 was 97.6% and 97.9%, respectively. The main factor in NordBalt's reduced availability in 2020 was the failure on the Swedish side in June, and LitPol Link's planned repairs.

The electricity transmission system operator forecasts the adequacy of the Lithuanian electricity system. The adequacy study of the Lithuanian electricity system for 2020-2030 according to the Mid-term Adequacy Forecast (MAF 2019) of the European Network of Transmission System Operators ENTSO-E was renewed in 2020. Taking into account the results of this forecast, in Lithuania, the implementation of a project aimed at creating and applying a capacity mechanism that would ensure a transparent, technologically neutral and competition-based system that would help the state to promote the capacity of continuously accessible, flexible and rapidly activated electricity generation, storage and load regulation necessary to ensure a reliable electricity supply in the country after 2025, was continued.

In the scope of this project, on 4 June 2020, the amendment to the Law on Electricity was adopted by the Seimas of the Republic of Lithuania, instrumental for the implementation of the long-term capacity mechanism, the description of the procedure for the implementation of the capacity mechanism was approved by the Government of the Republic of Lithuania on 18 November, implementing legislation drafts were prepared, and coordination with the European Commission's Directorate General for Competition was continued. An agreed opinion with the European Commission on the feasibility of the proposed mechanism was not reached at the time of drafting the Annual Report.

Sustainable growth and long-term benefit

The direction of a sustainable growth of the Group companies and a long-term benefit for the shareholders stipulates a financial objective - an indicator of return on equity (ROE). It shows how effectively the capital invested by the shareholders is used in the activities of EPSO-G Group.

The financial objective of EPSO-G Group has been formed given that the Group's activities are directly dependent on the regulatory principles and the implementation of the strategic infrastructure projects ensuring the interests of the state.

It is aimed that EPSO-G's average return on equity would be higher than the target set by the Lithuanian Government in 2019-2021, i.e. 5.7%. in 2020, EPSO-G Group's return on equity was higher than the targeted one.

Efficient management of activities and processes

In order to achieve an operational and financial management that would be efficient and based on uniform principles at the Group level, EPSO-G Group companies have implemented uniform practices and financial management practices. In the implementation of good governance, the Group has applied a Corporate Governance Policy. It is one of the most important documents in the Group that consolidates common good governance practices based on cooperation and clarity and transparency of decision-making processes.

EPSO-G documents outlining the main principles of the integrated management of activity and finances in the Group companies, other documents or summaries thereof are published on EPSO-G website: www.epsog.lt, in the menu item *Operating Policies*.

In order to further increase the value created by the holding company for the Group companies and the shareholder, with priority functional areas identified, and curators of the functional areas of the Group and companies appointed it is planned to continue and improve the implementation of the functional mentoring model.

It is important to note that from 2019 the focus was on the Group's innovation activities contributing to increasing the efficiency of the Group's operations and managing challenges related to changes in the operating environment. The Innovation and Development Committee has been active in the Group companies - an advisory body to the EPSO-G Board at the Group level, which provides conclusions, opinions, recommendations and suggestions to the Board on promoting innovation, increasing development and the efficiency of the Group's activities. On 10 June 2020, the functional action plan for the innovation ecosystem was approved. Innovative solutions aim to contribute to the implementation of the strategy of the Group, companies, as well as the National Energy Independence Strategy.

The project *Raida 2050* aiming to analyse the scenarios of the development of the Lithuanian electricity system and the electricity market in 2020-2050 in accordance with the goals set in the National Energy Independence Strategy was implemented and completed in 2020, and the implementation possibilities were assessed, as well as the options analysis of applying Power to Gas (P2G) and hydrogen technologies in Lithuania was performed.

In order to fulfil the new objectives of increasing energy efficiency in Lithuania arising for the Group out of the Law on Energy Efficiency in efficient and sustainable manner, following the fulfilment of commitments under previously signed agreements, in 2020, the Ministry of Energy together with the largest energy groups EPSO-G and Ignitis Grupė signed new agreements committing the companies to save at least 1.6 TWh of final energy by 2030. EPSO-G's subsidiaries Amber Grid and Litgrid have committed to saving at least 4.19 GWh of final energy by 2030. The saving targets of the companies are set with regard to the specifics of each company, the activities carried out and nature thereof.

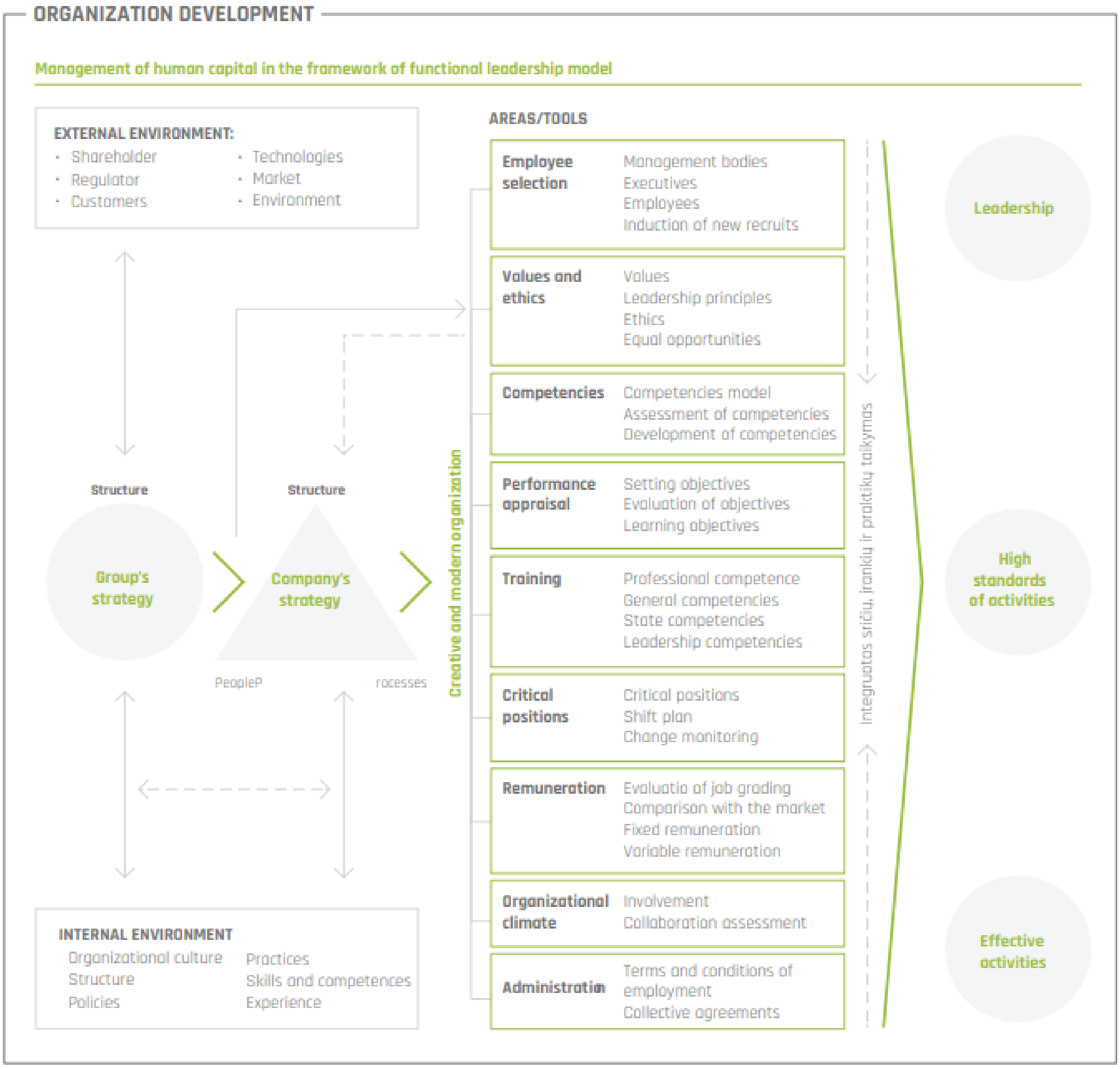
Efficient and safe management of technological asset and investments

The objective of EPSO-G Group is to manage technology asset and investments in an efficient and rational manner. The Group companies managing technological assets - Amber Grid and Litgrid - are subject to the Group's Technological Assets Development and Operation Policy, which establishes uniform principles of asset management. The aim is for the management of technological assets to be based on data and risk assessment, good asset management practices and to meet the requirements of the ISO 55000 standard, as a result, in 2020, a strategic plan for achieving the project guidelines was prepared.

The Group companies quickly responding to the changing environment and the centre of energy competence

Fast, high-quality decision making and responsiveness to the changing environment - these are the factors determining the success of the implementation of the strategic objectives pursued. EPSO-G Group companies employs highly qualified staff, the companies have gained the practical experience of implementing international projects.

In EPSO-G Group, the human resources management strategy during the reporting period focused on maintaining, developing and attracting new competences.



In 2020, competence models covering general and managerial competencies were developed in the Group companies, work processes were reorganized by adapting to the organization of remote working, and actions to boost employee engagement were planned and implemented based on the results of the engagement survey. In response to modern trends in employee motivation and taking care of the health of the Group's employees, in 2020, the purchase of voluntary employee health insurance services was completed.

The quarantine, as a result of the Covid-19 virus, imposed in the country had a significant impact on employee well-being and work organization, as the vast majority of the Group's employees mastered remote working (from home) in a short time by using technologies facilitating remote work and enhanced mutual collaboration in organizing team meetings remotely.

To increase the engagement of employees in the implementation of the goals set out in the operational strategy, EPSO-G Group carries out an annual employee engagement survey according to an internationally recognized methodology. During the survey, employees anonymously express their views on the clarity of objectives and direction, work organization, work processes, workload, remuneration, professional development opportunities, trust in managers, collaboration, and other aspects. According to the survey, in 2020, the engagement index of EPSO-G employees increased by eight points to 66 as a result of the engagement measures taken.

Transparent, reliable organisation observing the principles of sustainable development

Compliance with the highest standards of professional ethics, continuous raising of public awareness of the strategic projects being carried out, market trends, services rendered, financial results - these are the indicators showing that the organisation is a responsible, open and reliable.

For this purpose, a transparency and communication strategy of EPSO-G Group companies that emphasizes accountability to the stakeholders has been prepared. The Group's communication strategy provides for the shared responsibilities and the periodicity, content of communication as well as responsible individuals.

Targeting to gain confidence in the ongoing strategic projects and with a special focus on operational transparency and accountability, in 2020, EPSO-G Group was awarded for the best governance of its subsidiaries, and the overall quality of the governance received A+ rating. In the reporting year, for the first time the Governance Coordination Centre (GCC) awarded each of EPSO-G's direct subsidiaries A rate on the basis of uniform criteria.

EPSO-G, the group of energy companies, attaches great importance to society and the environment in which it operates, pollution prevention measures taken not only by rationally using the necessary material resources, but also by developing staff competencies and a responsible approach to work, protecting the environment and encouraging the sharing of experience among the Group companies. It is forecasted that from 2021, EPSO-G will annually assess the environmental impact of the Group companies and prepare plans of mitigation measures for environmental and social impacts by 2030.

3.3 Operational and financial goals

Based on the operational directions stated in the Shareholder's Letter of Expectations and approved in the strategy of EPSO-G, the Board set the following operational goals for the holding company for 2020.

ENDED 31 DECEMBER 2020 (thousand EUR, unless specified otherwise)

Company goals for 2020

ANNUAL GOAL	INDICATOR FORECAST TO BE ACHIEVED	WEIGHT OF THE GOAL	MEASURE-MENT UNITS	DETERMINED FORECAST OF THE INDICATOR
Development of the practice of the Energy Competence Centre	The Group's priority areas of competence (e.g.: efficient development of gas and electricity markets, integration of renewables, sustainable network development, energy system adequacy, innovations) have been refined and the competence centre action plan has been prepared and the actions envisaged in the 2020 action plan have been implemented.	20%	proc.	100%
Management of implementation of strategic projects of the Group companies	1. Timely implementation of interim guidelines for synchronisation with the CEN programme projects (delays do not exceed tolerance limits) - indicator weight is 20%; 2. Supported and timely updated synchronisation with the CEN financing model, indicator weight is 20%; 3. Timely implementation of the GIPL project interim guidelines (delays do not exceed tolerance limits), indicator weight is 20%; 4. The Group's Project Management Office (PMO) has been established, which acts as the Group's project management competence centre, indicator weight is 40%.	30%	proc.	100%
Development of the Group companies is being implemented 1. Increasing BALTPOOL trade volumes in foreign markets; 2. Development of TETAS activities in the field of RES installation and/or operation; 3. Development of new GET Baltic exchange products and services.	1. BALTPOOL revenue growth from abroad reaches at least 90% compared to 2019, indicator weight is 33%; 2. TETAS long-term activity plan in the field of RES was prepared and approved, indicator weight is 34%; 3. The analysis of products and services of the European exchanges for raw materials was performed and decisions were made on the development of identified new products and/or services on the GET Baltic exchange, indicator weight is 33%.	15%	proc.	100%
Initiation of the projects and activities directly related to the functional IT Activity Plan	Three digitisation projects/measures have been initiated and approved in the Group companies.	10%	proc.	100%
Increasing the value created by the holding company	1. The policies implemented in the Group companies are planned to be implemented during 2020, indicator weight is 30%. 2. The Group's strategy for 2030 has been prepared and long-term sustainability goals and indicators have been set at the group level, indicator weight is 70%.	15%	proc.	100%
Return on equity (ROE)	ROE in 2020 ≥12,5%	10%	proc.	100%
	TOTAL:	100%		

The Chief Executive Officer of EPSO-G is accountable to the Board for the achievement of the goals set. The Company's financial and non-financial goals are identical to those of the CEO of EPSO-G.

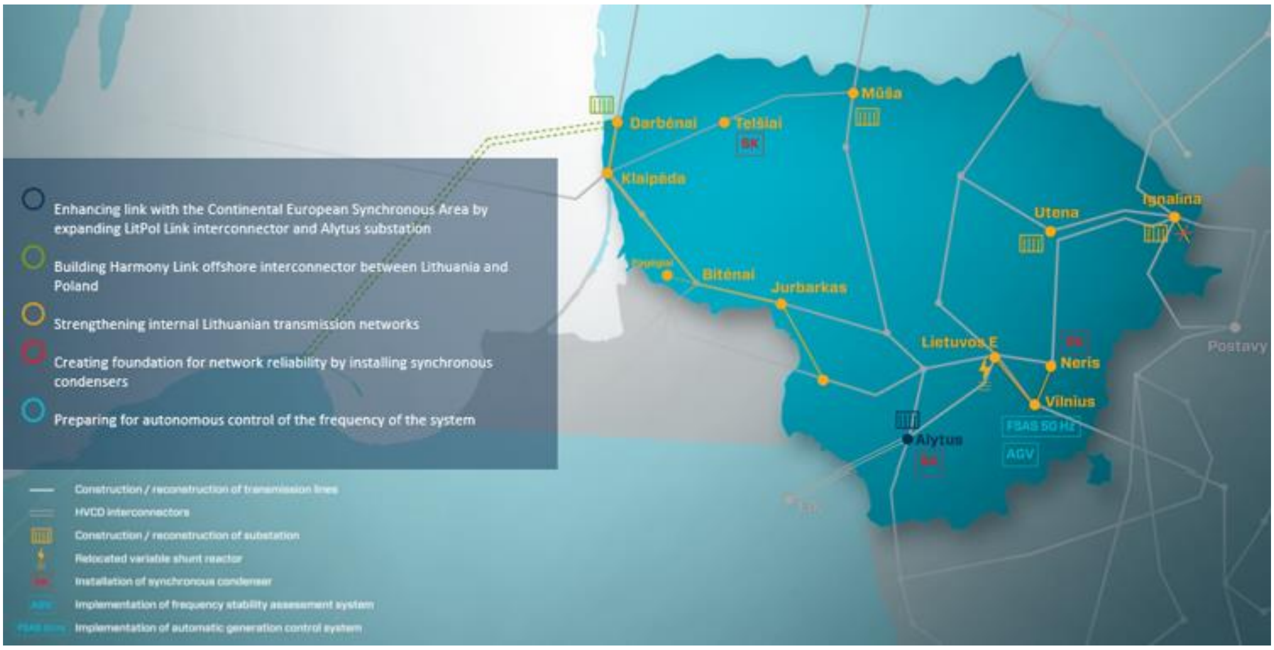
The Board annually evaluates the achievement of the goals set. The result determines the amount of the variable pay component of remuneration, which does not exceed the proportion established in the remuneration policy.

The goals set for the holding company EPSO-G, according to the Board, were met by 90.4% in 2020.

3.4 Summary of significant infrastructure projects

3.4.1. Preparation of the power grid for a synchronous operation with the continental European network

The main target of the synchronization of the Baltic states through continental European network is to adapt the legal framework of the European Union in the fields of electricity market, electricity system management and development, and to eliminate the politicized and discriminatory system management practices before 2025. The synchronous work of the Baltic States with the CEN is important in political and technical aspects: the management of the system in accordance with non-discriminatory principles agreed with other TSOs, which meet the requirements of the EU third energy package; equal opportunities for competition with third countries in the electricity market; conditions for trading and securing electricity reserves in the single European market; decentralized frequency regulation based on the technological capabilities of power plants, which will ensure greater independence of the Baltic power system.



Synchronous work with the continental European network will ensure:

- Reliable operation of energy systems and secure transmission of electricity;
- Combined actions for facility maintenance and network development planning;
- Common rules for the management of energy systems - network codes that will be applied equally in all European Union countries;
- Availability to electricity from Western European energy systems.

By emphasizing the importance of integration with the continental European network, on 14 April 2020, the Government of the Republic of Lithuania set up a special commission for the network synchronization project ensuring the coordination of works at the highest level. The Commission is chaired by the Prime Minister of Lithuania with a participation of the Ministers of Energy, the Environment, Finance, Foreign Affairs and Agriculture, as well as the executives of Litgrid and EPSO-G.

In 2020, the Seimas of the Republic of Lithuania adopted an amendment to the Law on Integration of the Lithuanian Power System into the European Power Network establishing special security requirements for project of synchronization with the continental European network. They are intended to effectively manage potential risks and to implement infrastructure projects for the integration of the power system with the continental European network in a streamlined way.

The law stipulates the obligation of the transmission system operator Litgrid to ensure the requirements of the stability, security, reliability, protection of confidential information, compliance of contractors with the interests of national security, the requirements of cyber security and equipment security.

Cooperation with transmission system operators of the Baltic states and Poland:

The streamlined implementation of the synchronization with the CEN programme is closely interrelated and depends on international cooperation and action coordination with regional partners, in particular with Latvia, Estonia and Poland.

In 2020, Litgrid took active part in continuing of this cooperation in three directions:

Coordination of the synchronisation programmes:

- On 1 April 2020, the Baltic electricity transmission system operators aiming at the synchronization reached an agreement regarding a regional cooperation model that will help the three Baltic states to work together and implement important synchronization projects with the Western European electricity networks faster, more efficiently and at lower cost. The signed document of the conditions of regional cooperation of synchronization programmes stipulates that the Baltic operators will jointly prepare, implement and test isolated operation plans, train the employees of the electricity transmission system operators of all three countries to work in partnership; prepare a plan for emergency connection of the Baltic electricity transmission systems to the CEN; carry out studies on determining the conditions for ensuring stable operation of electricity transmission systems in the Baltic states.

- On 28 April 2020, Lithuanian, Latvian and Estonian electricity transmission system operators signed a memorandum agreeing that after the countries connect to the Western European electricity networks in 2025, they will jointly control the frequency of the energy system in the Baltic power and frequency regulation unit. Thus, the memorandum embedded the intention of the parties to create a common market for power reserves.
- On 7 October 2020, the Baltic TSOs Litgrid, Augstsprieguma tīkls and Elering prepared the concept for the Baltic load frequency control block development and common balancing capacity markets. This document sets out how, following the synchronization with the continental European network in 2025, the system frequency will be controlled, and the balancing capacity market will be organized.
- On 15 October 2020, the Baltic TSOs prepared the new Baltic balancing market rules, which provide for operation on the single European balancing platform MARI. This platform joining, scheduled for 2023-2024, will increase the reliability of the system, the efficiency of operators and market participants, and create opportunities to integrate more electricity generation from renewable sources. The joining common European market platforms and participating in common system management and market mechanisms are a prerequisite for the synchronization of the Baltic states with the continental European network. The joint Manually Activated Reserves Initiative (MARI) of the European operators includes the standardization of balancing products and the harmonization of activation principles in all European countries. It is these characteristics and processes that are described in the new Baltic balancing market rules. Subject to a go-live scenario, the expected joining date is Q3 2023 to Q3 2024.

Implementation of joint projects:

The technical scenario for the synchronization of the Baltic states forecasts that the synchronization with CEN will take place using the existing connection between Lithuania and Poland (LitPol Link) by laying a new submarine cable between these countries. This scenario was approved on 14 September 2018 by the BEMIP high-level group. The network synchronization process is monitored by the Regional Group Continental Europe of the European Network of Transmission System Operators for Electricity (ENTSO-E), while the Harmony Link project will be implemented by PSE and Litgrid.

The planned capacity of Harmony Link interconnector is 700 MW, the length about 450 km.

In implementing this joint Harmony Link project with PSE:

- On 26 May 2020, Lithuanian and Polish electricity transmission system operators Litgrid and PSE S.A. signed the Implementation Phase Cooperation Agreement in the Harmony Link Interconnector Project. Under this agreement, the electricity transmission system operators of both countries undertake to contribute in equal shares to the installation of the submarine interconnection Harmony Link.
- On 2 June 2020, Litgrid and PSE, for the implementation of the Harmony Link project, called upon the Austrian capital international group ILF Consulting Engineers, which will develop technical specifications for tendering procedures for the most important elements of the project, the offshore cable and converter stations, under a contract worth EUR 1.367 million. The company will also help in the preparation of the remaining project documentation. The contract covers the works of the feasibility study, the obtaining of permits for laying the cable in the Swedish exclusive economic zone, the preparation of procurement documentation for the cable and converter stations, the procurement consulting, the risk assessment study associated with the cable bedding.

- On 9 July 2020, Litgrid issued a procurement notice concerning the provision of consulting services to call upon the expertise of specialists with experience in the installation of high voltage direct current power cables and converter stations to ensure a streamlined implementation of the project. The consultants will assess the prepared documents, such as technical specifications and requirements, provide targeted consultations in case of technical, commercial, regulatory issues in the course of the project implementation. It is estimated that until 2025 up to 2,250 hours will be available during the Litgrid project for the consultation on the project-related issues: planning and management, financing, procurement, technical connection parameters and specifications, dialogue with potential suppliers, interconnection to the transmission network etc.
- On 12 August 2020, the concepts of the development plan for the submarine interconnection Harmony Link and Darbėnai transformer substation together with the report on the *Strategic Environmental Impact Assessment (SEIA)* was prepared and submitted for a public consideration thus enabling the sustainable development of this infrastructure.
- On 25 November 2020, Litgrid and PSE signed an agreement with the consortium composed of MEWO S.A., Gdynia Maritime University and Garant Diving UAB for the seabed survey in the Baltic Sea along the route of the planned Harmony Link cable project, which will connect Poland and Lithuania. Under the agreement, the consortium will carry out geophysical and geotechnical surveys in the planned cable route between the coastlines of Lithuania and Poland. The resulting report will describe the seabed conditions and provide necessary information for cable laying and protection strategy. The survey will also enable detection of objects such as wreckage, UXO, or other hazardous debris deposited in the seabed.
- Together with the Latvian and Estonian operators Litgrid takes part in the procurement for the package of the synchronisation programme study from the consortium composed of the members of ENTSO-E Regional Group Continental Europe. The joint framework agreement on acquisitions was signed and the purchase of services is expected to be completed in Q1 2021.

Financing of the programme:

In May 2020, Litgrid, together with PSE (Poland), AST (Latvia) and Elering (Estonia), submitted the application for the financing of the implementation of stage II of the Baltic synchronisation project using funds of the Connecting Europe Facility (CEF). This is the first time for the four EU countries to apply.

On 2 October 2020, the coordination committee of the EU funding instrument Connecting Europe Facility allocated the maximum possible amount of support for the key projects of synchronisation of the Baltic countries with the continental European network. Support of EUR 719.7 million provided under the joint application of the Lithuanian, Latvian, Estonian and Polish TSOs is designated to secure effective implementation of the largest infrastructural projects and will enable the Baltic countries to operate their systems under the frequency of Poland and other countries of the continental Europe in 2025. The highest intensity support (75%) was allocated to the most significant and already started synchronisation projects. Support allocated to the construction of the submarine interconnection between Lithuania and Poland Harmony Link amounted to EUR 493 million, support for the installation of synchronous compensators in Lithuania, Latvia and Estonia totalled EUR 166.5 million and the remaining part of the support was designated for the modernisation and development of the networks necessary for the integration of the Harmony Link interconnection.

On 14 December 2020, Litgrid, AST, Elering and PSE signed the financing agreement with the Innovation and Networks Executive Agency (INEA) on the financing of the implementation of stage II of the Baltic synchronisation project. The Connecting Europe Facility (CEF) Coordination Committee has taken the decision to aid the key projects of stage II of the synchronisation at maximum possible 75% intensity.

Investments:

The total investment value of the synchronization with the CEN project for the three Baltic states is up to EUR 1,650 million. This project is included in the European Commission's list of Projects of Common Interest (PCI). The project will be implemented in separate funding phases.

- The total value of the investments in the first financing phase of the three Baltic states amounts to EUR 430.4 million, of which EUR 166.33 million - for the renewal and strengthening of the Lithuanian electricity system. In 2019, for the first investment phase, the EU allocated EUR 124.7 million to Lithuania or 75% of the necessary amount from the Connecting Europe Facility for infrastructure.
- The total value of the investments in the implementation of the second financing phase of the Baltic states and Poland amounts to EUR 956.6 million, out of which EUR 400.6 million is allocated to Lithuania. The value of investments in this phase is the largest due to the planned construction of the submarine interconnection Harmony Link and the planned construction of synchronous compensators in Lithuania, Latvia and Estonia. The amount allocated to Lithuania in the financing agreement signed in December 2020 is EUR 300.45 million. In addition, in 2019, an agreement was signed with the EC on the financing of the preparatory works for stage II of the Baltic synchronization project. The total investments of Poland and Lithuania under this agreement amount to EUR 20.58 million, including Lithuanian investments of EUR 8.12 million. The CEF will finance 50% of investment, which amounts to EUR 10.29 million for both countries, and EUR 4.06 million for Lithuania.

On 27 April 2020, the Lithuanian, Latvian, Estonian and Polish energy regulators signed a joint agreement of the national regulatory authorities of the Baltic countries and Poland regarding cross-border cost-sharing in the implementation of the second stage of the project of common interests *Integration of the Electricity System of the Baltic Countries in the European Networks and Synchronisation with Them*.

Considering that each country benefits from the project the regulators adopted a joint decision according to which investment costs incurred by each country will be covered by the respective TSO of the Baltic countries.

The agreement of the Lithuanian, Latvian, Estonian and Polish energy regulators is one of the requirements for the TSOs in submitting a joint application to the European Commission in order to finance a part of costs of the investment project.

Progress in the implementation of projects of national importance

For the purpose of the implementation of the synchronization with CEN, the Government of the Republic of Lithuania passed Resolution No 918 of 4 September 2019 whereby it approved the Plan for the Actions and Measures of the Electricity System Synchronisation Project (the "Plan for the Actions and Measures of the Synchronisation Project" or the "PAM") and obliged Litgrid AB, as the Lithuanian TSO, to implement this plan in close cooperation with the operators of the Baltic countries and Poland and under supervision of the Ministry of Energy of the Republic of Lithuania.

Progress towards the implementation of the synchronisation programme during 2020 has been presented to the Government of the Republic of Lithuania twice (in April and October) by discussing the results achieved, projected implementation deadlines and the main issues to be solved.

All actions and measures of the PAM with the implementation term expiring in 2020 have been implemented (14 actions), except for one (expansion of the LitPol Link interconnection),the completion deadline of which was updated by the Government of the Republic of Lithuania and set for Q2 2021. Additionally, one action was completed during 2020, the implementation term of which covers the year 2021.

During 2020, two projects important for the synchronization programme were implemented. At the end of the reporting period, 3 out of 14 projects foreseen in the programme were carried out.

Expansion of LitPol Link interconnection. The expansion of the LitPol Link interconnection is one of the key projects for the synchronisation programme and, in particular, for securing the possibility of emergency connection in a synchronised mode to the Polish electricity networks. A significant progress was achieved in 2020 when implementing the planned construction works:

- documents permitting the construction of the objects stipulated in the project were received;
- installation of electro-technical equipment at a 400 kV converter substation was completed (excluding three autotransformers);

- reconstruction and overhead cabling works of the 110 kV Alytus-Gilaki, Alytus-Prienai, Alytus-Šeštokai overhead lines were completed; the line was put into operation;
- expansion works of the 330 kV Alytus-Keitiklis overhead line were finalised;
- reconstruction works of a 330 kV transformer substation in Alytus were completed.

Due to the COVID-19 pandemic that affected the production of three 600 MVA autotransformers ordered in 2019, the supply of this equipment from the manufacturing facility was postponed to Q2 2021. The ongoing monitoring of the project is maintained with the producer and the contractor to ensure that this major equipment is delivered on time.

Construction of the 110 kV Pagėgiai-Bitėnai power transmission line. Litgrid completed the construction of the 110 kV Pagėgiai-Bitėnai overhead line in June. More than EUR 5 million were invested in the 17.1km-long line in western Lithuania. The new line has increased reliability of electricity transmission for electricity consumers in the Pagėgiai municipality and the entire western part of Lithuania. This was the second of fourteen synchronisation projects approved by the Government and already implemented.

The construction of the Pagėgiai-Bitėnai line is attributed to the first stage of the synchronisation projects during which the internal network is being improved and modernised. During the second and final stage, the construction of the Lithuanian-Polish high-voltage direct current cable Harmony Link and the construction of synchronous compensators are planned. Both phases are scheduled to end in 2025.

The Pagėgiai-Bitėnai line will increase the reliability of electricity transmission to all transformer substations connected to the 110 kV transit line Klaipėda-Pagėgiai-Jurbarkas (Šilutė, Juknaičiai, Usėnai, Pagėgiai, Taurai, Tauragė). The value of the project is EUR 5.069 million (VAT excl.), it is partially financed by EU funds. The length of the route is 17.1 km, of which 10.2 km is overhead line, 6.9 km is cable line.

Construction of the 330 kV Lietuvos E-Vilnius overhead line. The reconstruction of the overhead line with the length of 43 km connecting Elektrėnai and Vilnius was fully completed in 2020, during which the 330 kV Lietuvos Elektrinė-Vilnius electricity transmission line was transformed from a single-circuit to a double-circuit line. This change means that the transformer substation of the Lithuanian power plant in Elektrėnai and the transformer substation of Vilnius in Trakų Vokė are connected not only with the single line but rather with two lines which are erected on the same towers. Both lines were put into operation during November and at the end of the year the last document confirming the completion of construction works was received. The project was completed before the deadline of 30 June 2021 established in the Plan for the Synchronisation Actions and Measures approved by the Government. The reconstruction project of the line Lietuvos Elektrinė-Vilnius was started in summer of 2016 and construction works were started at the beginning of 2019. Investments totalled EUR 19.2 million.

Optimisation of the North-East Lithuanian electricity transmission network and preparation for synchronous work with the energy system of the continental Europe. A significant progress has been made in 2020 towards the implementation of the project on the optimisation of the North-East Lithuanian electricity transmission network and preparation for synchronous work with the energy system of the continental Europe which is expected to be completed in 2021:

- In June the controlled shunt reactor was transported from the transformer substation of the reconstructed Ignalina nuclear power plant to the transformer substation of the Lithuanian power plant. It was installed, tested and launched to operate at full capacity.
- After the reconstruction the 330 kV switchgears of the Ignalina nuclear power plant and Utena were put into operation in December. The autotransformers are planned to be launched, old equipment is to be demolished, 110 kV switchgears are to be reconstructed in 2021.

Implementation of synchronous compensators in the Lithuanian electricity system. Preparatory works for the acquisition of three synchronous compensators were continued in 2020. The consultation project for the preparation of technical specifications of the synchronous compensators carried out by the Italian company CESI was completed in May. Immediately after that, a market consultation was conducted based on the technical specification.

On 2 September 2020, the procurement for design, manufacturing and installation works for the synchronous compensators in the Alytus, Telšiai and Neris substations was announced. It is expected that the entire project will be completed in 2024.

At the same time, the reconstruction works of the substations necessary for the installation of the synchronous compensators were started. On 10 March, the agreements were signed with Tetas UAB that will carry out the reconstruction works of the Alytus and Telšiai substations.

Centralized control of project implementation

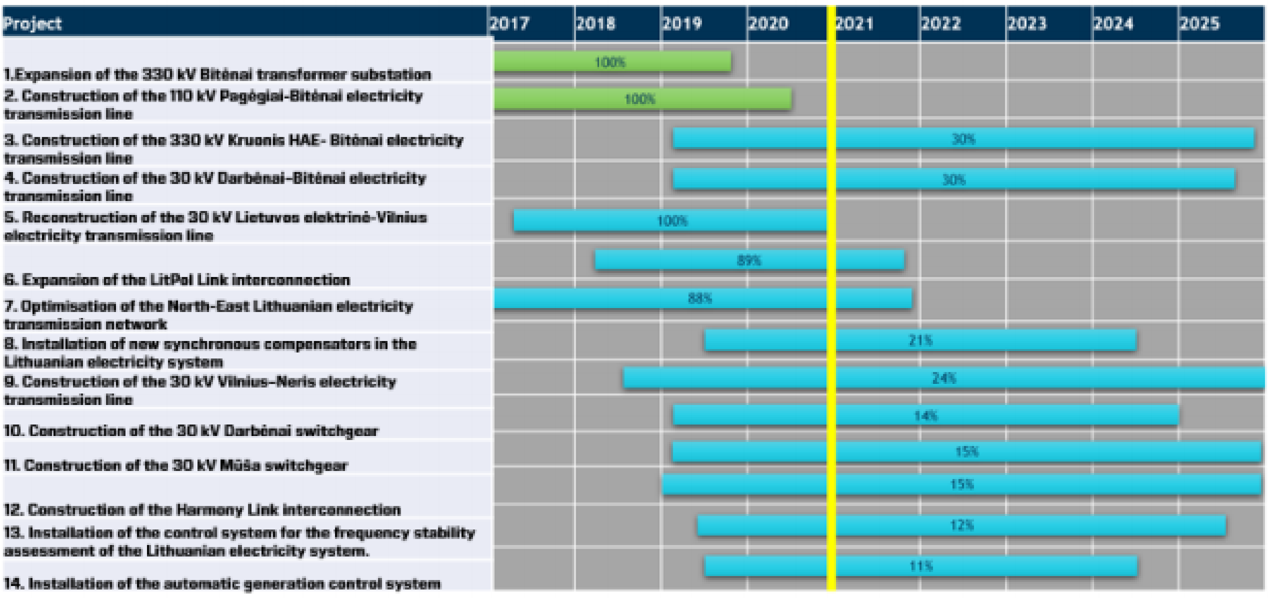
In EPSO-G Group, by centralizing the project control, in 2020, the position of the Head of Group Project Portfolio was introduced. By continuing the centralization of the project control, two ePMO (enterprise project management office) Project Manager positions have been introduced in EPSO-G.

This will further improve the uniform project management culture throughout all companies of the Group, provide methodological assistance to the companies' divisions and project managers on project implementation, risk or problem management and other issues related to these functions.

Functions of EPSO-G's ePMO Project Managers:

- Centralized control of project portfolios, programmes and project implementation and verification of compliance with processes in force;
- Collection of data on project implementation indicators, preparation of reports on projects and their portfolios and presentation to the management;
- Development of effective project management and control methods, procedures and tools, implementation of the most advanced project management practices in the Group;
- Consulting the Group's employees.

The status of the projects' implementation as at 31 December 2020.

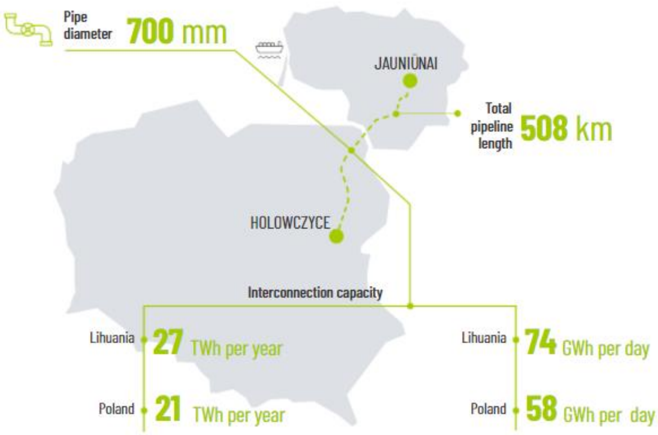


3.4.2. Gas Interconnection Poland-Lithuania

The project is intended for integration of the gas markets of the Baltic states into the common EU gas market, to diversify the gas supply sources and increase gas supply security. Amber Grid implements a part of the gas project in the territory of the Republic of Lithuania, and a part thereof in the territory of the Republic of Poland is implemented by the Polish gas transmission system operator GAZ-SYSTEM S.A.

Gas Interconnection Poland-Lithuania (GIPL) is a natural gas infrastructure connecting the transmission systems of Poland and Lithuania, as well as the Baltic states and Finland, with the European Union (EU) system.

The European Commission has identified the GIPL project as a critical infrastructure project for security of gas supply, making a significant contribution to the EU's energy security. Amber Grid is implementing the GIPL project together with the Polish gas transmission system operator GAZ-SYSTEM S.A.



GIPL project objectives:

- integrate the Baltic and Finnish gas markets into a single gas market of the EU;
- diversify gas supply sources;
- improve security of gas supply.

The total length of the planned pipeline is up to 508 km, of which 165 km inside Lithuania. The capacity created will allow transport to the Baltic countries up to 27 TWh per year; transmitted gas flow to Poland - up to 21 TWh per year, while the Baltic gas and Finnish markets will become a part of a single gas market in the EU.

Benefits of the GIPL project:

- Integration of the Baltic and Finish natural gas markets into a single gas market in the EU;
- Provision of access to alternative gas supply sources and improvement of competitiveness;
- Improvement of security and reliability of gas supply by providing both additional gas transmission capacity and possibility to apply the EU solidarity measures in case of emergency;
- Provision of conditions allowing more flexible and efficient use of the LNG terminals and transmission infrastructure in Poland and Lithuania;

- Improvement of liquidity of gas trade in the Polish and Baltic market areas and strengthening of their role across the region.

Significant events during the reporting period:

- In January 2020, Amber Grid together with the contractors started the GPL construction works: tracing of the route, search for explosives at the construction site, and archaeological investigations were started in the designated areas. In the middle of January, the first pipes necessary for the gas pipeline were delivered to Lithuania.
- In June 2020, complex horizontal direct drilling (HDD) was successfully accomplished underneath the Neris River.
- In June 2020, the Company and the European Investment Bank (EIB) signed a loan agreement for the amount of EUR 65 million, which is intended to finance the construction of the gas interconnection between Lithuania and Poland (GIPL).
- In August 2020, the laying of pipeline underneath the Nemunas River was accomplished.
- In October 2020, the part of the GIPL pipeline was connected to the currently operating gas transmission network.
- In December 2020, a 72km-long section of the newly laid pipeline was filled with gas.
- In December 2020, the steel pipes necessary for the entire Lithuanian part of the GIPL interconnection were delivered to Lithuania.
- 61% of all GIPL project work was completed during 2020.

Investments:

The GIPL project is funded from own and borrowed funds of Amber Grid and GAZ-SYSTEM S.A., using the EU financial assistance under the European Commission Trans-European Networks for Energy (TEN-E) Programme and the EU Connecting Europe Facility (CEF). In addition to the EU financial assistance, the construction operations of the GIPL project will be funded by Lithuania, Latvia and Estonia under the Cross-Border Cost Allocation, whereby they will cover part of the GIPL infrastructure costs in the territory of Poland. It is estimated that EUR 500 million investments in the GIPL project on the Lithuanian side will be lower by EUR 22 million due to high competition in the procurement tender compared to the initially planned EUR 136 million.

More information on the GIPL project, its progress and news can be found on the project website: (www.ambergrid.lt/lt/projektai/dujotiekiu-jungtis-tarp-lenkijos-ir-lietuvos-gipl).

3.4.3. Enhancement of Latvia-Lithuania interconnection (ELLI)

The purpose of the project is to enhance the capacity of Latvia-Lithuania interconnection, ensure safe and reliable gas supply and achieve a more effective use of the infrastructure and a better integration of the Baltic gas markets.

This will provide better conditions for the use of the Latvian Inčukalns underground gas storage facility. The project promoters are Amber Grid and the Latvian transmission system operator AS Conexus Baltic Grid.

Feasibility study and cost-benefit analysis of the Lithuanian-Latvian gas interconnection capacity enhancement assessing the regional market gas demand and flow modelling showed that after the construction of the gas interconnections between Finland and Estonia (Balticconnector) and between Poland and Lithuania (GIPL), and between Lithuania and Latvia, greater capacity will be needed to ensure the regional gas market demand and security of gas supply - up to 130.47 GWh per day in the direction of Latvia and up to 119.5 GWh per day in the direction of Lithuania.

As a result of implementation of the project, the enhanced gas transmission capacity between Lithuania and Latvia will also be beneficial due to the already existing gas interconnection between Poland and Lithuania (GIPL).

To increase the interconnection capacity in the territory of Lithuania, it will be necessary to boost the capacity of Kiemėnai gas metering station and to restructure the gas pipeline at Panevėžys compressor station, and in the territory of Latvia - to reconstruct a part of the main gas pipelines in the southern, central and western parts of the country to increase the maximum design pressure in the pipelines up to 50 bar and to install a new compressor station near the Inčukalns underground gas storage. The completion of the project is scheduled for the end of the year 2023.

Investments:

The planned investment amount of the project is EUR 10.2 million, of which EUR 4.7 million - in the territory of Lithuania.

Significant events during the reporting period:

- On 13 July 2020, Amber Grid signed an agreement on the ELLI designing work to be carried out during 2021. The construction work under the project is expected to start in the beginning of 2020 and continue till the end of 2023.

3.5. Transmission network development

Whilst respecting the right of stakeholders to assess in advance the impact of projects developed in the near environment on their economic and social interests, the companies of EPSO-G Group, which are the transmission system operators, annually update and publish ten-year network development plans.

3.5.1. Electricity transmission network development plan

According to the Law on Electricity of the Republic of Lithuania, the electricity transmission system operator (TSO) is responsible for a stable and reliable operation of the electricity system, performance of the national balancing function and provision of system services in the territory of the Republic of Lithuania, operation, maintenance, management and development of the transmission network of the electricity system and the interconnectors with the electricity systems of other countries by reducing capacity restrictions in the transmission networks and taking into consideration the needs of the electricity system and users of the electricity networks.

The Plan for the Development of 400-110 kV Networks of the Lithuanian Electricity System for 2020-2029 was updated by Litgrid in 2020. The plan presents forecasts of electric power and energy consumption needs, capacities of power plants (generation facilities), assessment of the electricity system adequacy, forecast of electric power and energy balances of the electricity market and system, as well as information on the electricity transmission network, its development and restoration, innovations and planned investments.

The Ten-Year Transmission Network Development Plan provides the following:

- Investments required for the development of the electricity transmission network may total to around EUR 1.3 billion for 2020-2029. Slightly more than a half of the planned investments will be designated for the implementation of strategic projects of national significance. The remaining half (around 45%) of the planned investments is intended to be allocated for an effective development and systemic renewal of the network, physical and information security, development of the information systems as well as research and innovations.
- During the preparation for connection to Europe the construction of the submarine electricity link with Poland Harmony Link will be completed, the optimisation of the North-East Lithuanian transmission network will be finalised, three autotransformers in the transformer substation in Alytus will be installed. Electricity transmission lines with the length of around 520 km will be built and reconstructed, two new 110 kV switchgear will be installed. In addition to the network's development to ensure connection to Europe, Litgrid plans to construct 72 km of new lines in order to secure reliability of the electricity network, it also plans to reconstruct around 87 transformer substations.
- Irrespective of short-term decline in electricity consumption caused by the COVID-19 pandemic, it is projected that electricity demand will increase by 2% annually on average over the upcoming ten years and will reach 14.7 TWh in 2029 (12.16 Twh in 2020). Electricity consumption will be mainly affected by general economic tendencies, increasing efficiency of electricity consumption, higher number of electric cars and thermal pumps and larger quantity of electricity consumed.
- The number of electric cars may total to around 106 thousand in 2029 in the country and they will consume around 179 Gwh of electricity per year. There were 1,357 electric cars in Lithuania at the end of 2019. Litgrid estimates that no difficulties will arise with regard to the transmission system even if the number of electric cars would be twice as large as it is projected in the country - the transmission system will be prepared for this.
- Particular attention is paid to the assessment of the network's ability to adapt for the integration of renewable energy sources and introduction of energy storage technologies. First, a trial energy storage system with the power capacity of 1 MW and batteries with the storage capacity of 1 MWh will be installed in the transformer substation in Vilnius in 2021. It will allow testing possibilities for the use of the battery storage systems under actual conditions of the Lithuanian electricity system. Results and knowledge obtained will help Litgrid develop competences and install energy storage means in the future and define additional services that could be provided by the batteries.
- For the development of renewable energy resources, it is planned that the objective set in the NEIS will be achieved in 2030 - locally generated electricity will meet around 70% of the electricity demand.

Litgrid's Ten-Year Electricity Transmission Network Development Plan is available at:
https://www.litgrid.eu/index.php/tinklo-pletra/lietuvos-elektros-perdavimo-tinklu-10-metu-pletros-planas-/3850

3.5.2 Gas Transmission Network Development Plan

On 1 October 2020, the National Energy Regulatory Council approved the Ten-Year Gas Transmission Network Development Plan for 2020-2029 presented by Amber Grid. Following the amendments in the Law on Natural Gas in 2019, the Ten-Year Amber Grid Gas Transmission Network Development Plan is updated every two years.

The Ten-Year Amber Grid Gas Transmission Network Development Plan has been prepared taking into account the provisions of the state strategic documents, the needs of gas market participants, ensuring security of supply and efficient operation of the transmission system, the Company's strategy, the Company's environmental policy and legal requirements.

The updated Ten-Year Amber Grid Plan for 2020-2029 forecasts investments in the development of the gas transmission system aimed at achieving the strategic goals of the European Union and Lithuania in the gas sector: ensuring security and reliability of gas supply, promoting competitiveness, and integrating the Baltic gas markets into the common European gas market and to develop a common Baltic regional gas market.

In addition, the Network Development Plan sets out the main directions for the development of the transmission system, including a focus on innovation, network digitization and the development of green energy.

The Ten-Year Gas Transmission Network Development Plan for 2020-2029 provides for the implementation of the following strategic gas infrastructure projects:

By the end of 2021, together with the Polish gas transmission system operator, it is planned to build a gas pipeline connection between Poland and Lithuania. The objectives of the project are to integrate the Baltic and the Finnish gas markets into the common EU market for gas, diversify gas supply sources and increase the security of gas supply;

In cooperation with the Latvian gas transmission system operator, it is planned to implement a project to increase the capacity of the gas pipeline connection between Lithuania and Latvia. The aim of the project is to ensure the security and reliability of natural gas supply, more efficient use of infrastructure and better integration of the Baltic gas markets and the functioning of the common market. The project is scheduled to be completed at the end of 2023.

In addition to strategic infrastructure projects, the Network Development Plan also foresees investments in the development, renovation and modernization of the transmission system, which will enable to improve the security and reliability of natural gas supply, sufficiency of the existing transmission system capacities, and digitalization of the system elements. A significant share of these investments is financed using the funds provided by the European Structural Funds

The investments into gas transmission network over the next five years are expected to reach about EUR 229 million, half of which will be dedicated for the implementation of the GIPL project.

According to Amber Grid, the developed infrastructure ensures flows meeting the needs of gas system users, it is sufficiently permeable to transmit them and is resistant to adverse conditions. Specialists estimate that gas consumption in Lithuania, which has been declining for some time, will stabilize in the upcoming years and reach 21 TWh per year.

With strong competition in the LNG market, it is forecasted that further higher volumes of gas will reach Lithuania and the Baltic states via the Klaipėda LNG terminal compared to the gas flow supplied from Belarus. In 2020, about 65% of gas will be injected via the Klaipėda LNG terminal, the remaining part of 31% across the border point with Belarus and 4% via the Latvian point. Last year, due to extremely favourable LNG prices, the historical record amount of natural gas was transmitted to Latvia.

In line with the directions of sustainable development set out in the European Commission's strategy The European Green Deal, the growing demand for green gas in Europe is expected. By contributing to the promotion of the green energy development in Lithuania, already in 2021, interconnections of biomethane producers' systems to the common gas transmission network are planned. In addition, the possible introduction of hydrogen transportation technologies through natural gas pipelines has been under assessment. Hydrogen or synthetic methane produced by Power to Gas (P2G) can be fed into gas transmission infrastructure and blended with conventional natural gas.

Amber Grid's Ten-Year Gas Transmission Network Development Plan is available at:
https://www.ambergrid.lt/uploads/structure/docs/217_387a0845d9adcaec767a5758e26bd76f.pdf

4. PERFORMANCE REVIEW

4.1. Significant events during the reporting period

January

The natural gas transmission tariffs approved by the National Energy Regulatory Council (the NERC) became effective from 1 January 2020. Detailed information on the changes in service prices that have taken effect are provided in Section 2.1 of this Annual Report Operating and regulatory environment.

As from 1 January 2020, GET Baltic started its operations in Finland as a single regional trading platform for the gas markets of the Baltic countries and Finland. Trade in short-term and long-term natural gas products was launched on the virtual trade point of Finland by applying the implicit capacity allocation model.

Amber Grid started the construction of gas interconnection with Poland (GIPL) on 2 January 2020, when the construction contract signed at the end of 2019 came into effect.

On 27 January 2020, Amber Grid notified about its intention to become a solar energy generating consumer, and to generate almost half of electricity for its own needs from renewable energy sources. There are plans to install solar power facilities with the total capacity of around 1,400 kW by autumn 2021. It will account for about 40% of the Company's total need for electricity.

On 28 January 2020, aiming to ensure transparent and reasonable development of the electricity sector meeting the needs of market participants, the National Energy Regulatory Council (the NERC) coordinated the 400-110 kV Network Development Plan of the Lithuanian electricity system for 2019-2028 prepared by Litgrid.

February

On 7 February 2020, the Board of EPSO-G updated the Group's Dividend Policy. These changes are related to changes in the corporate governance structure, i.e. the liquidation of the Supervisory Board, as well as changes in the legislation governing the payment of dividends. Other key policy provisions remained unchanged. Information on the above is provided in Section *Shareholders and dividends* of this Annual Report.

On 28 February 2020, Vilnius District Court passed a ruling in a legal action brought by MT Group UAB against Amber Grid regarding the decisions passed by the Commission for Procurement of Gas Interconnection between Poland and Lithuania (GIPL). The results of the tender for procurement of construction works were left unchanged by the Court.

On 17 February 2020, Litgrid signed a contract with the Italian consulting and engineering company CESI for the provision of procurement documents of synchronous compensators. Their installation is planned under the requirements for interconnection with the continental European network issued ENTSO-E (the European Network of Transmission System Operators for Electricity). The value of the contract with the company developing the technical specification is EUR 273 thousand, out of which EUR 205 thousand are funded by the EU Connecting Europe Facility.

March

On 4 March 2020, the new Litgrid electricity system management and data security center was officially opened in Vilnius, which will ensure a stable and secure operation of the national energy system and management of energy transmission flows, as well as a higher level of physical and cyber security.

On 10 March 2020, Litgrid announced that on 9 March 2020 it received the opinion of the Audit Committee of the parent company EPSO-G on the prospective purchase and sale of the IT system for Litgrid and Baltpool's capacity mechanism auctions.

April

On 1 April 2020, the Baltic electricity transmission system operators, the Lithuanian Litgrid, the Estonian Elering and the Latvian AST, agreed on a regional co-operation model that would help the three Baltic states to work together and to jointly implement important synchronization projects with Western European electricity networks faster, more efficiently and at lower cost.

On 1 April 2020, the Government of the Republic of Lithuania at its meeting adopted a resolution on the refinancing of EPSO-G's liabilities to Ignitis Grupė UAB, agreeing that it was favourable for EPSO-G to refinance all debt prior to the maturity date by using the options provided by credit institutions thus allocating the repayment of the remaining debt of EPSO-G according to the real possibilities of the Company to fulfil the obligations in the long term and instructed the Ministry of Energy, inter alia, to ensure the long-term financial sustainability of EPSO-G and its Group companies, which is essential for the implementation of projects of special national importance and projects acknowledged as economic projects of national importance.

On 6 April 2020, Litgrid signed a contract with the contractor Tetas, that would make Alytus and Telšiai substations ready for the installation of synchronous compensators. The investments in these works amount to EUR 2.96 million. The investments into the reconstruction of Telšiai transformer substation amount to EUR 1.456 million (VAT excl.), and to Alytus - EUR 1.496 million (VAT excl.). These works are partly financed by European Union funds. The construction works are to be completed in September 2022.

On 7 April 2020, the Company's Board elected Mr. Nemunas Biknius as the CEO of Amber Grid. Until that date (since 28 October 2019), Mr. Biknius (Director for Strategy and Development) used to hold the position of an acting CEO.

On 15 April 2020, with Lithuania aiming to reduce the energy sector's dependence on fossil fuels and to promote production from renewable energy sources, Litgrid signed the contract with the Norwegian division of the international consulting services company DNV GL on the preparation of long-term scenarios for the development of the country's electricity. The contract with the value of EUR 120 thousand was signed with DNV GL, which won a public tender announced in December 2019.

On 16 April 2020, Litgrid completed the reconstruction of Parovėja switchgear and it has been put into operation at full capacity. During the implementation of the project *Reconstruction of 110 kV switchgear of 110-35-10 kV Parovėja Transformer Substation*, the contractor that was awarded the contract under the public procurement procedure performed design works and upgraded the switchgear equipment. The reconstruction ensures the power transmission reliability in the region and reduces the operating costs. The works under the public procurement contract signed in 2017 were performed by Energetikos Tinklų Institutas AB. The project value amounted to approximately EUR 1.313 million (VAT excl.) and was partly financed by the EU.

On 17 April 2020, the EPSO-G Board approved the Compliance Management Policy applicable at the Group level, the objective of which when managing non-compliance risks, reducing their impact or likelihood of occurrence, is to protect the Group companies from financial or reputational damage that may result from behaviour that does not meet internal and external requirements and encourage the Group's employees to work in accordance with the set requirements and to justify their application on the Group's values.

On 20 April 2020, at the Annual General Meetings, the shareholders elected the Boards of Litgrid, Amber Grid and Baltpool for a new four-year term.

Two independent members have been elected to the five-member Litgrid Board: Mr. Domas Sidaravičius, CFO of GALIO GROUP UAB, Mr. Artūras Vilimas, the electrical engineering and applied electronics specialist, and three representatives of the holding parent company EPSO-G: Mrs. Jūratė Marcinkonienė, Acting Director for Strategy and Development, Mr. Algirdas Juozaponis, CFO, and Mr. Rimvydas Štilinis, Director for Infrastructure, who was elected as the Chairman of the Board during the first session of the new office term.

Two independent members have been elected to the five-member Amber Grid Board: Mr. Ignas Degutis, CFO of RB Rail SA (Rail Baltic), and Mr. Sigitas Žutautas, Director of Būsto Paskolų Draudimas UAB; and three representatives from the Board of the parent company EPSO-G: Mrs. Renata Damanskytė-Rekašienė, Director for Legal and Corporate Governance, Mr. Rimvydas Štilinis, Director for Infrastructure, and Mr. Algirdas Juozaponis, CFO, who was elected as the Chairman of the Board during the first session of the new office term.

Two independent members have been elected to the five-member Baltpool Board: Mr. Gediminas Mikaliūnas, Head of Automation and Transformation of IT Operations at Barclays bank PLC, the US, and Mr. Vytautas Vorobjovas, B2B Marketing Executive of IT360 UAB. Mr. Rytis Valūnas, CAO and General Counsel of Klaipėdos nafta AB and two representatives of the parent company EPSO-G: Mrs. Ieva Kuodė, Head of Development, and Mr. Tomas Urmanavičius, Finance Control Director, have been elected to the Board as well.

On 20 April 2020, the General Meeting of Shareholders approved to modernize the 330 kilovolt (kV) electricity transmission network in south-eastern Lithuania, from the power plant in Elektrėnai to Alytus. EUR 14.85 million (VAT excl.) will be invested in the network upgrade. During the reconstruction, 207 overhead line supports and cables will be replaced, and a lightning protection and fiber optic cable will be installed. The works will be performed in three stages, and their completion is scheduled for September 2023. The reconstruction works will be carried out by a group of economic operators that have won the tender: Kauno Tiltai AB and Litenergoservis UAB. These works will be partly financed by European Union funds.

On 22 April 2020, the European Commission, Ministries of Energy, regulators and transmission system operators from Lithuania, Latvia, Estonia and Finland approved the Regional Gas Market Development Action Plan for the Baltic region. The Regional Gas Market Development Action Plan contains market integration measures for 2020-2022 aimed at developing a four-country wide gas transportation pricing mechanism, eliminating the cross-border tariffs, developing the related inter-TSO compensation mechanism, regional gas transmission system capacity allocation mechanism, data exchange principles, as well as common information systems intended to service the regional gas market model.

On 28 April 2020, the Lithuanian, Latvian and Estonian electricity transmission system operators: Litgrid, Augstsprieguma Tīkls AS and Elering AS, signed a memorandum and agreed that in 2025, when the countries interconnect with the Western European electricity networks, they will jointly control the energy system frequency through the Baltic Power and Frequency Control Unit. The memorandum also formalized the parties' intention to create a common market for power reserves.

On 30 April 2020, at the Annual General Meeting, the sole shareholder of the holding company EPSO-G, the Ministry of Energy, approved the audited company's financial statements and consolidated financial statements for the year ended 2019, reviewed the annual report and approved the distribution of profits.

May

On 19 May 2020, the gas transmission system operators from Lithuania and Latvia - Amber Grid and GAZ-SYSTEM - signed an agreement with an international consulting and engineering company AFRY (former Poyry) to conduct an independent expert study that will provide the potential solutions for commercially optimal utilisation of the GIPL interconnection to be operated by both companies. The contract in the amount of EUR 121 thousand was signed after AFRY won the tender. The consulting services will be financed in equal parts by the operators of both countries.

On 22 May 2020, Amber Grid signed an agreement with the Lithuanian Business Support Agency, based on which the EU support will be provided for the reconstruction of 18 km-long sections of the main pipeline Vilnius-Kaunas. The value of the reconstruction project amounts to EUR 17.1 million, a half of the amount, EUR 8.6 million, will be financed from the EU Structural Funds.

On 26 May 2020, Lithuanian and Polish electricity transmission network operators Litgrid and PSE S.A. signed the Implementation Phase Cooperation Agreement in the Harmony Link Interconnector Project. Under this agreement, the electricity transmission system operators of both countries undertake to contribute in equal parts to the installation of the submarine interconnection Harmony Link.

On 26 May 2020, the transmission system operators in Lithuania, Latvia, Estonia and Poland submitted a joint application for funding the project of synchronization of the Baltic states electricity networks with the European electricity networks in the amount of EUR 1.2 billion. This will be the first time an application has been submitted by all four countries.

On 28 May 2020, the NERC approved the natural gas transmission prices established by the Board of Amber Grid effective from 1 January 2021. Details of the changes in service prices that have taken effect are provided in Section 2.1 of this Annual Report *Operating and regulatory environment.*

June

On 2 June 2020, Litgrid and PSE, for the implementation of the Harmony Link project, called upon the Austrian capital international group ILF Consulting Engineers, which will develop technical specifications for tendering procedures for the most important elements of the project, the offshore cable and converter stations, under a contract worth EUR 1.367 million. The company will also help in the preparation of the remaining project documentation. The contract covers the works of the feasibility study, the obtaining of permits for laying the cable in the Swedish exclusive economic zone, the preparation of procurement documentation for the cable and converter stations, the procurement consulting, the risk assessment study associated with the cable bedding.

On 9 June 2020, Litgrid launched a feasibility study of acoustic attenuation measures for the equipment of LitPol Link converter station and the transformer substation in Alytus district. The study is developed by DGE Baltic Soil and Environment UAB. This study will help answer questions on additional measures that will most effectively solve the issue of noise emitted by the strategic Lithuanian facility operating in Alytus, the LitPol Link interconnection converter station and the transformer substation.

On 19 June 2020, the Lithuanian, Latvian and Estonian electricity transmission system operators Litgrid, Augstsprieguma tīkls and Elering signed the cooperation agreement with TEPCO Power Grid, a company that is part of the Japanese energy group of companies. The agreement is aimed at developing the economically justified model and identifying the technical measures contributing to the implementation of the target set in the National Energy Independence Strategy stating that by 2050, 100% of electricity consumed in Lithuania needs to be produced from renewable energy sources.

On 29 June 2020, an arrangement was signed between EPSO-G and Amber Grid regarding an amendment to cash pool agreement, based on which the maximum borrowing and lending limit amounting to EUR 35 million was increased up to EUR 40 million.

The Extraordinary General Meeting of Shareholders of Amber Grid held on 29 June 2020 approved the decision made by Amber Grid's Board on 4 June 2020 regarding a loan agreement to be signed with the European Investment Bank (EIB), based on which a loan of EUR 65 million is to be granted to finance the construction of the Lithuanian part of the gas interconnection between Lithuania and Poland (GIPL) for the maximum term of 18 years.

On 30 June 2020, Amber Grid and the European Investment Bank (EIB) signed a loan agreement for the amount of EUR 65 million, which is intended to finance the construction of the Lithuanian part of the gas interconnection between Lithuania and Poland.

On 30 June 2020, during the Extraordinary General Meeting, the shareholders of Litgrid approved the sale of one-fifth of the Company's shares in Data Logistics Center (DLC) to the infrastructure investment fund managed by Quaero Capital of Switzerland. Under the share purchase agreement signed in June, Litgrid intends to sell 20.36% shares, and the remaining 79.64% shares are sold by Ignitis Grupė. The total value of the transaction is EUR 10.1 million EUR. DLC shares are sold in order for Ignitis Grupė and Litgrid to concentrate on the core business of the companies. Ownership of the DLC shares was transferred following the end of the reporting period after the Commission for Coordination of Protection of Objects of Importance to Ensuring National Security gave a positive opinion on the compliance of the transaction with the national security.

On 30 June 2020, Amber Grid submitted the Ten-Year Gas Transmission Network Development Plan for consideration by the NERC. During 2020-2029, there are plans to implement investment projects of the transmission system development that are aimed at diversifying gas supply sources across Lithuania and the entire region, and at ensuring safe and reliable gas transmission system.

On 30 June 2020, Litgrid updated and submitted the Ten-Year 400-110 kW Electricity Transmission Network Development Plan for 2020-2029 for consideration by the NERC.

July

On 2 July 2020, Litgrid completed the construction of the 110 kV Pagėgiai-Bitėnai overhead line in June. More than EUR 5 million were invested in the 17.1km-long line in western Lithuania. The new line has increased the reliability of electricity transmission for electricity consumers in the Pagėgiai municipality and the entire western part of Lithuania. This was the second of fourteen synchronisation projects approved by the Government and already implemented.

On 2 July 2020, the complex horizontal directional drilling underneath the Neris River was successfully completed as a part of the GIPL project. For the purpose of mitigating the environmental impact, the section of the gas pipeline 20m below the river bottom was constructed and connected to the existing pipeline.

On 3 July 2020, Litgrid initiated the tender procedure for the designing and construction of 330kV electricity transmission lines Klaipėda-Grobinė and Jurbarkas-Bitėnai. The lines need to be reconstructed in order to form new 330kV double-circuit lines Darbėnai-Bitėnai and Kruonis HAE-Bitėnai.

On 9 July 2020, Litgrid initiated the procurement procedure for the consulting services, as Lithuania and Poland were getting ready for the construction of the submarine power cable Harmony Link in the Baltic Sea. It is expected to involve experts to rely on their experience in laying high voltage direct current power cables and converter stations necessary to ensure a streamlined implementation of the project.

August

On 2 August 2020, Litgrid completed a partial testing of the isolated work in Lithuania - the test was run in the part of the Lithuanian power network that was disconnected from the UPS/IPS system and that covered all the largest Lithuanian power plants. Litgrid dispatchers controlled the frequency independently. The testing involved the largest domestic electricity generators and NordBal interconnection. The testing also involved the interconnection with Poland (*LitPol Link*) to check how its technological functionality could help control the frequency in the event of frequency fluctuations.

On 7 August 2020, Litgrid started construction of solar power plants at the reconstructed transformer sub-stations. Electricity generated at the solar power plants will be used by the transformer sub-stations themselves. By 2023, it is planned to build solar power plants at 21 reconstructed transformer sub-stations.

On 11 August 2020, Litgrid in co-operation with the electricity distribution operator ESO completed transformer sub-station reconstruction and network modernisation works in Juodkrantė for the total value of EUR 717 thousand. As a result of modernisation of the electricity transmission and distribution system in the Curonian Spit, the transformer sub-station in Juodkrantė was reconstructed in full, all old equipment was replaced with new one, and a new second auto-transformer of 16 MVA capacity was installed, and the former scheme was replaced with a ring scheme. Those improvements are expected to increase the capacity of the electricity transmission network and ensure uninterrupted supply of electricity at neither of the branches in case of a breakdown.

On 12 August 2020, the concept document for development plan of submarine interconnection *Harmony Link* and the switchgear in Darbėnai, and the Strategic Environmental Assessment Report were drafted and submitted for public consideration, thereby seeking to ensure conditions necessary for sustainable development of this infrastructure.

On 17 August 2020, Mr. Rimvydas Štilinis, the Director of Infrastructure of EPSO-G submitted his request for resignation from the Board of Litgrid with effect from 31 August 2020.

On 18 August 2020, as a part of the implementation of the GIPL project, the first 750m-long gas pipeline underneath the Nemunas River, the widest river of Lithuania, in Alytus district was laid.

During the extraordinary Board meeting held on 18 August 2020, a decision was made to elect the Board member Mr. Algirdas Juozaponis (the CFO of EPSO-G) as the Chairman of the Board. He replaced Mr. Rimvydas Šilinis, who resigned from the position of the Board member of Litgrid and Amber Grid with effect from 31 August 2020.

On 18 August 2020, the Lithuanian and Polish transmission system operators Litgrid and PSE signed a contract, based on which the capacity providers in Lithuania are now able to participate in the capacity mechanism auctions in Poland.

On 25 August 2020, Litgrid signed a contract with Elektromontuotojas UAB, a contractor engaged to reconstruct the transformer sub-station Plastmasė in Vilnius, which submitted the most cost-effective proposal during the public procurement procedure initiated in spring. During the implementation of the project *Reconstruction of a 110-6 kV switchgear at the transformer sub-station Plastmasė,* the contractor that awarded the contract will have to prepare a reconstruction project, replace the old equipment with new one, and replace the former scheme of the transformer sub-station. It is expected that the reconstruction of the switchgear will increase reliability of the electricity transmission in the eastern part of Lithuania and will reduce the maintenance costs in the future. The project value is EUR 1.199 million (VAT excl.), whereof EUR 665.9 thousand is financed from the EU funds. The reconstruction of the switchgear is expected to be finalised in 2023.

September

On 3 September 2020, Litgrid initiated the tender procedure for the procurement of synchronous compensators. These devices ensure inertia of the network and are one of key components required to ensure successful operation of the Baltic power systems after the synchronisation in 2025. The procurement covers the designing, production, installation services, warranty repairs and service, and spare parts necessary to ensure accessibility and reliability of the synchronous compensators. It is expected to sign a contract with the selected provider in Q2 2021.

On 3 September 2020, Litgrid, together with its partners in Sweden, run the testing of the submarine interconnection NordBalt. It involved testing the ability to restart the system after a total blackout with the help of power interconnection with Sweden.

On 7 September 2020, the information on the gas transmission system operated by Amber Grid relevant to designers, land surveyors and investors, as well as residents, was published on the map the regional geoinformational environment map REGIA of the Centre of Registers.

On 8 September 2020, Litgrid started the preparatory work in relation to the offshore infrastructure for wind power generation. Over the next three years, it is expected to perform studies and surveys, and to plan the installations that are required to integrate the future wind power capacity generated in the Baltic Sea into the Lithuanian electricity system. The legal acts stipulating that, similarly as in other EU Member States, the transmission system operator will be responsible for preparing the infrastructure required to integrate the offshore wind power generation into the Lithuanian electricity system, were submitted by the Lithuanian Government for consideration by the Seimas. There are plans to perform a feasibility study for integration of the offshore wind power and to decide on the planning of territories in 2021; to perform a study of electricity transmission line route in 2022; and to perform a seabed survey and prepare technical specifications for procurement of construction works and territory planning documents in 2023.

On 8 September 2020, Litgrid completed a strategic environmental impact assessment and conceptual phase of engineering infrastructure development plans for two projects: the electricity transmission line Kruonis HA-Bitėnai and the switchgear in Mūša. Those are two out of 14 strategic national projects that are vital for synchronisation of the Lithuanian electricity system with the electricity system of the continental Europe.

On 9 September 2020, Litgrid signed a contract with the Lithuanian-Estonian electricity demand response platform FuseBox. As a result of testing of the balancing services in the Lithuanian transmission system, a new market participant will be able to join the Baltic balancing service market and to trade balancing energy with the transmission operators.

On 14 September 2020, in order to strengthen reliable supply of electricity in the eastern part of Lithuania, Litgrid started reconstruction of the switchgear of a 110 kV transformer sub-station in Ąžuolynė, Vilnius district. The reconstruction will involve replacements at the transformer sub-station, which will enable Energijos Skirstymo Operatorius AB (ESO) to connect an additional power transformer. This in turn will create conditions for increasing the installed power for large-scale consumers. Investments into this project amount to EUR 999,987.44 (VAT excl.). The reconstruction works under the public procurement contract have been awarded to the contractor Tetas UAB. The project is expected to be completed in 2021.

At the General Meeting of Shareholders of Litgrid held on 18 September 2020, the decision was made to select PricewaterhouseCoopers UAB as the audit firm to conduct audit of the set of consolidated and company's financial statements of Amber Grid for 2020-2021 prepared according to International Financial Reporting Standards, as adopted by the EU, presented together with the annual report. In addition, the decision was made to set an audit fee for the maximum amount of EUR 197,472 (excl. VAT) for the aforementioned audit services (not in excess of EUR 98,736 (excl. VAT) per audit of each year's financial statements).

Based on the decision of the Company's General Meeting of Shareholders held on 18 September 2020, the audit firm was selected, and the audit fee payment terms were agreed for the period 2020-2021. The decision was made to select PricewaterhouseCoopers UAB as the audit firm to conduct audit of the set of consolidated and company's financial statements of Amber Grid for 2020-2021 prepared according to International Financial Reporting Standards, as adopted by the EU, presented together with the annual report. In addition, the decision was made to set an audit fee for the maximum amount of EUR 161,568 (excl. VAT) for the aforementioned audit services (not in excess of EUR 80,784 (excl. VAT) per audit of each year's financial statements).

On 22 September 2020, Litgrid signed an agreement with the European network operators on participation in a project *One Network of Europe (OneNet)*, which is financed from the European Union funds and which will involve testing of the flexible network solutions contributing to the implementation of a joint network vision. The project will last for 3 years, and it will be financed under the European Commission's Research and Innovation Programme *Horizon 2020*. The total project budget is EUR 27.9 million, and amount financed by Litgrid is EUR 106.8 thousand.

On 22 September 2020, Amber Grid signed an agreement with the Lithuanian Business Support Agency regarding the three-year modernisation of the gas distribution stations in Grigiškės, Vievis and Kėdainiai. The project for the total value of over EUR 6 million will be implemented by 2023, half of which will be financed from the EU support funds – slightly more than EUR 3 million.

October

On 1 October 2020, the NERC approved the Ten-Year Gas Transmission Network Development Plan for 2020-2029 that was presented by the gas transmission system operator Amber Grid. The plan is available on Amber Grid's official website at: https://www.ambergrid.lt/lt/perdavimo-sistema/perdavimo-sistemos-pletra/perdavimo-sistemos-pletros-planas.

On 1 October 2020, the NERC set a price cap of 0.721 ct/kWh for Litgrid for electricity transmission services via a high voltage network for the year 2021, i.e. 11.4% lower compared to 0.814 ct/kWh set for the year 2020. The new tariff will be effective from 1 January 2021. A lower tariff was set due to Litgrid's decision to refund EUR 10 million arising from actual return on investment higher than that set by the regulator in 2018-2019, one year earlier than required under the regulation.

On 2 October 2020, the coordination committee of the EU funding instrument Connecting Europe Facility allocated the maximum possible amount of support for the key projects of synchronisation of the Baltic countries with the continental European network. Details are provided in Section 3.4 *Summary of significant infrastructure projects* of this Annual Report.

On 7 October 2020, the Baltic TSOs Litgrid, Augstsprieguma tīkls and Elering prepared the concept for the Baltic load frequency control block development and common balancing capacity markets. This document sets out how, following the synchronization with the continental European network in 2025, the system frequency will be controlled, and the balancing capacity market will be organized.

On 9 October 2020, Amber Grid tested the quality of the constructed pipeline section of the GIPL project. Hydraulic tests were conducted to check whether the pipeline can sustain the maximum designed pressure. The working pressure of the GIPL pipeline will be 54 bar. The durability of 38km-long section of the gas pipeline crossing in the districts of Širvintos, Vilnius and Elektrėnai was tested. Following the hydraulic tests, a smart pipeline inspection device was launched to check the pipeline geometry and the quality of the pipeline mounting works.

On 12 October 2020, the Board of Litgrid adopted a resolution to remove Mr. Davis Virbickas from office as the Company's CEO with effect from 16 October, which will be the last day of office as the Company's CEO. Mr. Vidmantas

Grušas, the Director of Transmission Network Department, was appointed as an acting CEO of the Company for as long as a new CEO is elected to hold the position permanently.

On 15 October 2020, the Baltic electricity transmission system operators drafted new Baltic balancing energy market rules, which provide for operations in a common European balancing platform MARI. The platform joining is expected to occur in 2023-2024, thereby increasing the system's reliability, efficiency of operators and market participants, and providing possibilities to integrate a larger share of electricity generated from renewable energy sources. Joining of common European market platforms and participation in common system control and market mechanisms is a prerequisite for the Baltic states to implement synchronisation with the continental European network.

On 16 October 2020, having analysed the data provided by Litgrid on the acquisition costs and quantity of services that are vital for a stable work of system, the NERC set a 0.762 ct/kWh price for power system services, i.e. 2.9% lower compared to 0.785 ct/kWh price effective in 2020. The price for power system services was lower due to lower projected costs of tertiary active power reserve and demand for reactive power and voltage control services in the year 2021.

On 21 October 2020, at the Extraordinary Meeting of Shareholders, the shareholders of Litgrid approved a EUR 17 million (VAT excl.) value contract with the Swedish company NKT HV Cables, which would provide repair services, on as-needed basis, of the marine interconnection NordBalt. Based on the contract, an annual fee to the contractor will amount to EUR 300,000 (VAT excl.), and a one-off contribution will amount to EUR 250,000 (VAT excl.). Payment for the works ordered will be made in accordance with the terms stipulated in section *Prices for Services* of the contract.

On 22 October 2020, the Ministry of Energy together with the largest groups of energy companies Ignitis Grupė and EPSO-G signed arrangements, based on which the companies committed themselves to save at least 1.6 TWh in final energy consumption by 2030. Based on the arrangements concluded by the Ministry of Energy, Amber Grid and Litgrid, the subsidiaries of EPSO-G, committed themselves to save at least 4.19 GWh in final energy consumption by 2030.

On 22 October 2020, with regard to the recommendation of the Remuneration and Nomination Committee, under the decision of the sole shareholder of the holding company EPSO-G, the Ministry of Energy of the Republic of Lithuania, of 22 October, the EPSO-G Audit Committee started its second term of office. It will serve until the end of the current term of office of the EPSO-G Board.

On 26 October 2020, it was announced that Amber Grid signed an agreement with Eternia Solar on the installation of solar parks in the territory of the gas transmission operator. By the end of 2021, it is planned to install the solar panels for EUR 980 thousand with the total capacity of 1,400 kW in Vilnius, Jauniūnai gas compressor station and Panevėžys.

On 29 October 2020, the NERC gave its approval to the electricity transmission prices for 2021 approved by resolution of the Board of Litgrid. Details of the changes in service prices that have taken effect are provided in Section 2.1 of this Annual Report *Operating and regulatory environment.*

On 29 October 2020, Plungė District Municipality granted a construction permit for implementation of Litgrid's project for reconstruction of the switchgear at the transformer sub-station *Oda* in the territory of Plungė District Municipality. The project for the reconstruction of 110 kV switchgear at the transformer sub-station *Oda* will involve modernisation of the switchgear's machinery, the operation of which started back in 1970. The reconstruction of the switchgear will ensure reliability and will help reduce the maintenance costs in the future. The designing and reconstruction work under a public procurement contract are carried out by the contractor Tetas UAB. The project is expected to be completed in 2021. The project value is around EUR 900 thousand.

November

On 3 November 2020, Litgrid, while implementing the Law on Necessary Measures to Protect Against Unsafe Threats of Nuclear Power Plants in Third Countries, has set zero capacity for commercial electricity flow from Belarus. The operator informed the participants of the Nord Pool power exchange on these changes.

It was announced on 4 November 2020 that the gas transmission system operators Amber Grid and GAZ-SYSTEM SA initiated a market survey to assess the progress achieved in the development of new transmission capacity in the gas interconnection between Poland and Lithuania (GIPL). Considering the value that the GIPL might bring to the gas markets in the region, both gas transmission system operators see the necessity to analyse the possibilities that might improve the GIPL's commercial viability and maximise the economic impact. The survey was aimed at gaining a better understanding of the key drivers that help ensure optimal access to the GIPL interconnection entry/exit points in both directions and create an added value for the consumers.

On 25 November 2020, Litgrid announced the completion of the land-use planning phase in two synchronization projects: the lines Darbėnai-Bitėnai and Kruonis HAE-Bitėnai. For both of them, engineering infrastructure development plans and environmental impact assessment reports of the planned economic activity have been prepared.

It was decided on 18 November 2020 that in 2021 the head office of Amer Grid will be moved to *Business Garden Vilnius* office complex of office premises developed on the outskirts of Vilnius. Based on the contract, office premises with the total area of around 1,100 sq.m. and for total number of up to 76 employees will be leased out starting from autumn 2021. The movement of the head office of Amber Gird to the new premises was planned due to the approaching expiry of the current lease contract for office premises located at Savanorių avenue in Vilnius.

On 26 November 2020, Lithuanian and Polish TSOs Litgrid and PSE signed an agreement with the consortium composed of MEWO S.A., Gdynia Maritime University and Garant Diving UAB for the seabed survey in the Baltic Sea along the route of the planned Harmony Link cable project, which will connect Poland and Lithuania.

On 30 November 2020, EPSO-G and the subsidiary Amber Grid have joined the Lithuanian Hydrogen Platform established by the Ministry of Energy together with 19 Lithuanian organizations. Seeing its role in creating the conditions for the decarbonisation of the Lithuanian energy sector and adapting the transmission system to the transportation of green gas, Amber Grid actively participates in hydrogen research and development activities in Lithuania and abroad.

December

On 2 December 2020, Litgrid completed the reconstruction of the 330 kV Lietuvos Elektrinė-Vilnius electricity transmission line. This is the third implemented strategic project necessary for the synchronization of the Lithuanian electricity system with the continental European network. The reconstructed line will significantly reinforce the electricity network of Vilnius region, ensure reliable supply to residents and businesses. During the reconstruction, 330 kV power transmission overhead line Lietuvos Elektrinė-Vilnius was transformed from a single-circuit to a double-circuit line. This change means that the transformer substation of the Lithuanian power plant in Elektrėnai and the transformer substation of Vilnius in Trakų Vokė are connected not only with the single line but rather with two lines which are erected on the same towers.

On 3 December 2020, the NERC approved the new standard contractual terms of balancing services and imbalance purchase-sale contracts prepared by Litgrid enabling the operation of the balancing capacity market and demand aggregation services from 2021.

On 10 December 2020, the Baltic electricity transmission system operators have signed an agreement with the IT company Navitasoft on the development of a common data transparency platform. For Lithuanian, Latvian and Estonian operators Litgrid, AST and Elering the common platform will help to better meet the needs of the regional balancing energy market. The operators with the project contractor Navitasoft plan to create and launch the platform within 5 months.

On 14 December 2020, the Baltic and Polish TSOs Litgrid, AST, Elering and PSE signed the financing agreement with the Innovation and Networks Executive Agency (INEA) on the financing of the implementation of stage II of the Baltic synchronisation project. Detailed information on these projects and the progress of their implementation is provided in Section 3.4 *Summary of significant infrastructure projects*.

On 17 December 2020, the study RAIDA 2050 of the scenarios for the development of the Lithuanian electricity system was publicly announced and commissioned by Litgrid.

On 17 December 2020, the Polish GSA platform operator and Amber Grid signed an agreement, based on which the capacity at the interconnection point in Santaka will be allocated via the GSA platform. The capacity will be made available upon implementation of the GIPL project and construction of a physical Poland-Lithuania gas interconnection point. The commissioning of the new cross-border gas interconnection between Lithuania and Poland (GIPL) is planned to occur in 2022.

On 23 December 2020, AIB, an association uniting European bodies issuing guarantees of origin, gave Litgrid the right to administer exported guarantees of origin. AIB has over 20 member countries performing transactions of guarantees of origin through the AIB Hub system regulated by the EECS (European Energy Certificate System).

On 29 December 2020, 60% of the construction of the international gas transmission connection to Poland, GIPL, was completed at the end of December. The achieved goal was embedded by the 72km-long section of the new gas pipeline filled with gas in the last days of this year. Natural gas was injected into the pipeline section from the starting point of the GIPL connection in Širvintos district to Alytus, where the pipeline start-up adjustment works are being carried out.

As from 30 December 2020, to accelerate the use of hydrogen in the energy sector Amber Grid became a member of the Lithuanian Hydrogen Energy Association. The association uniting the country's scientists and business organizations promotes the development of hydrogen technologies in the country and seeks transparent and efficient regulation of hydrogen energy.

Performance indicators

In 2020, the benefits of a target-oriented development of the energy transmission infrastructure and regional integration became particularly evident, i.e. the positive dynamics of the EPSO-G performance was largely driven by a significant growth of the volume of gas transmission services towards the direction of Latvia as a result of favourable prices of gas and launch of the interconnection between Estonia and Finland, as well as by a higher gas consumption in the domestic energy sector. This has offset lower revenue at the beginning of the year due to warmer weather conditions and a slightly lower volume of electricity transmission services due to a slower economic growth of the country.

The quantity of electricity transmitted via high voltage transmission networks to households and businesses was equal to 10,088 GWh in 2020, which is nearly 2% less compared to 2019. Such decline was caused by warmer than usual weather conditions in the first quarter of the year and a slower economic growth of the country due to the impact of COVID-19.

25,144 GWh of natural gas was transmitted to the gas consumers in Lithuania in 2020. Compared to gas transmitted in 2019, gas transmission quantity increased by nearly 7%. The largest positive impact was driven by a higher demand in the electricity generation sector.

7,960 GWh of natural gas was transmitted to the Republic of Latvia through the gas metering station in Kiemėnai in 2020 (2019: 5,990 GWh). 24,902 GWh of natural gas was transported to Kaliningrad Region of the Russian Federation during the reporting period (2019: 26,002 Gwh).

The electricity transmission network operated reliably – electricity not supplied to consumers amounted to 5.25 MWh or 6.2 times less in 2020 compared to 2019 due to interruptions in the high voltage electricity network for the reasons falling within the responsibility of the operator.

Key performance indicators of EPSO-G Group:

	2020	2019	Change +/-	Change %	2018
Electricity					
Quantity of electricity transmitted, GWh	10,088	10,277	-189	-1.8%	10,491
ENS (Electricity Not Supplied due to interruptions), MWh **	5.25	32.33			0.95
AIT (Average Interruption Time), min. *	0.18	1.13			0.04
Availability of NordBalt, %	96%	98%			97%
Availability of LitPol Link, %	92%	98%			98%
Natural gas					
Quantity of gas transported to the domestic exit point, GWh	25,144	23,530	1,614	6.9%	22,320
Quantity of gas transported to adjacent transmission systems, GWh**	32,861	31,991	870	2.7%	30,140
Turnover of the natural gas exchange, GWh	7,201	2,858	4,343	151.9%	1084
Biofuel					
Quantity of biofuel traded at the energy exchange, thousand tonnes of oil equivalent	470	432	38	8.8%	430

*Only for the reasons falling within the responsibility of the operator and for unidentified reasons.

**Transmission systems of Latvia and the Kaliningrad Region of the Russian Federation.

In 2020, the total traded volume of natural gas exchange GET Baltic in Lithuania, Latvia, Estonia and Finland reached 7,201 Gwh. Compared to 2019, the total traded volume increased more than 2.5 times. Higher traded volumes mainly resulted from a successful launch of the natural gas exchange activities in Finland since the beginning of the year.

In 2020, 470 thousand tonnes of oil equivalent of biofuel or nearly 9% more compared to 2019 was acquired at the energy exchange Baltpool by the district heating companies, independent heat producers and industrial companies.

4.3 Financial indicators

Financial indicators, EUR '000	2020	2019	Change +/-	Change %	2018
Revenue	270,520	250,985	19,535	7.8%	245,833
Operating expenses	230,058	235,210	-5,152	-2.2%	318,171
EBITDA[1]	74,549	47,790	26,759	56.0%	55,306
Net profit (loss)	40,085	11,403	28,682	251.5%	-47,720
Normalised net profit (loss)[2]	40,085	11,403	28,682	251.5%	14,365
Assets	787,532	719,546	67,986	9.4%	684,663
Non-current assets	635,287	565,052	70,235	12.4%	540,535
Current assets	152,245	154,494	-2,249	-1.4%	144,128
Equity	233,064	193,961	39,103	20.2%	183,873
Liabilities	554,468	525,585	28,883	5.5%	500,790
Net debt[3]	366,880	316,654	50,245	15.9%	353,649
Dividends*	not allocated	773	-	-	750

ENDED 31 DECEMBER 2020 (thousand EUR, unless specified otherwise)

Financial ratios				
EBITDA margin[4]	27.6%	18.9%		22.5%
Return on equity (ROE)[5]	18.8%	6.0%		-22.5%
Normalised return on equity (ROE)[6]	18.8%	6.0%		6.8%
Total assets turnover ratio[7]	34.4%	34.9%		35.9%
Net debt to equity ratio	157.4%	158.6%		186.5%
Equity to assets ratio	29.5%	27.0%		26.9%
Current ratio[8]	0.8	0.8		0.8

*Dividends for the reporting year are paid in the next year.

1) EBITDA = profit/(loss) before tax + finance costs – finance income + depreciation and amortisation expenses + impairment expenses of assets (including a negative revaluation of property, plant and equipment) + write-offs of assets.
2) Normalised net profit (loss) = net profit (loss) – result of revaluation of assets of Litgrid and Amber Grid – change in deferred income tax on revaluation of assets of Litgrid and Amber Grid – change in the price premium of Litgrid.
3) Net debt = non-current borrowings + current borrowings + lease liabilities + liability to Ignitis UAB for the acquisition of shares of Litgrid AB – short-term investments – term deposits – cash and cash equivalents.
4) EBITDA margin = EBITDA / Revenue
5) Return on equity = net profit/(equity at the beginning of the period + equity at the end of the period)/2
6) Normalised return on equity = normalised net profit (loss)/(equity at the beginning of the period + equity at the end of the period)/2
7) Total assets turnover = revenue/assets
8) Current ratio = total current assets/total current liabilities

Revenue

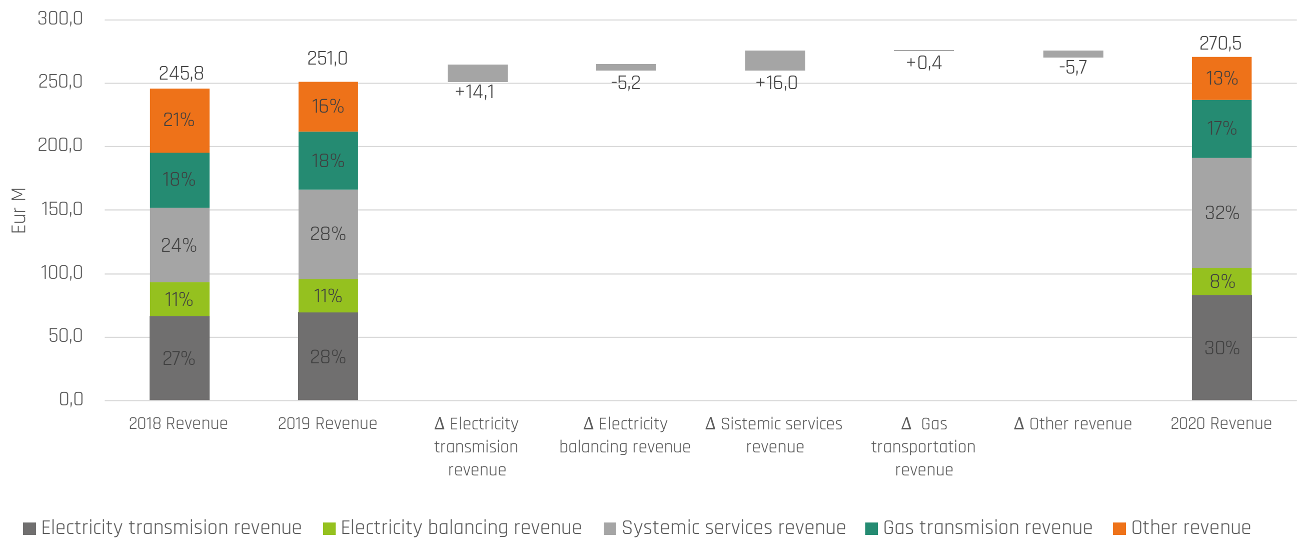
The consolidated revenue of EPSO-G Group increased by EUR 19.5 million or 7.8% in 2020 compared to 2019, i.e. from EUR 251.0 million to EUR 270.5 million.

Revenue from electricity transmission increased by 20% compared to 2019 and amounted to EUR 83.4 million representing 30% of the Group's total revenue. Revenue growth was caused by a higher average actual electricity transmission price.

Revenue from system services increased by 23% and amounted to EUR 86.7 million, whereas revenue from balancing electricity declined by 20% and amounted to EUR 21.2 million. The total revenue from electricity transmission and related services amounted to EUR 206.4 million or 76% of EPSO-G Group's total revenue.

Revenue generated by EPSO-G Group in 2020 from natural gas transportation and related services amounted to EUR 49.0 million. This represented 19% of EPSO-G Group's consolidated revenue. Revenue from natural gas transmission and other related services declined by around 5%, although the tariffs for the gas transmission services were even 16% lower since the beginning of the year.

The Group's other income decreased by EUR 1.3 million compared to 2019 and amounted to EUR 11.0 million.

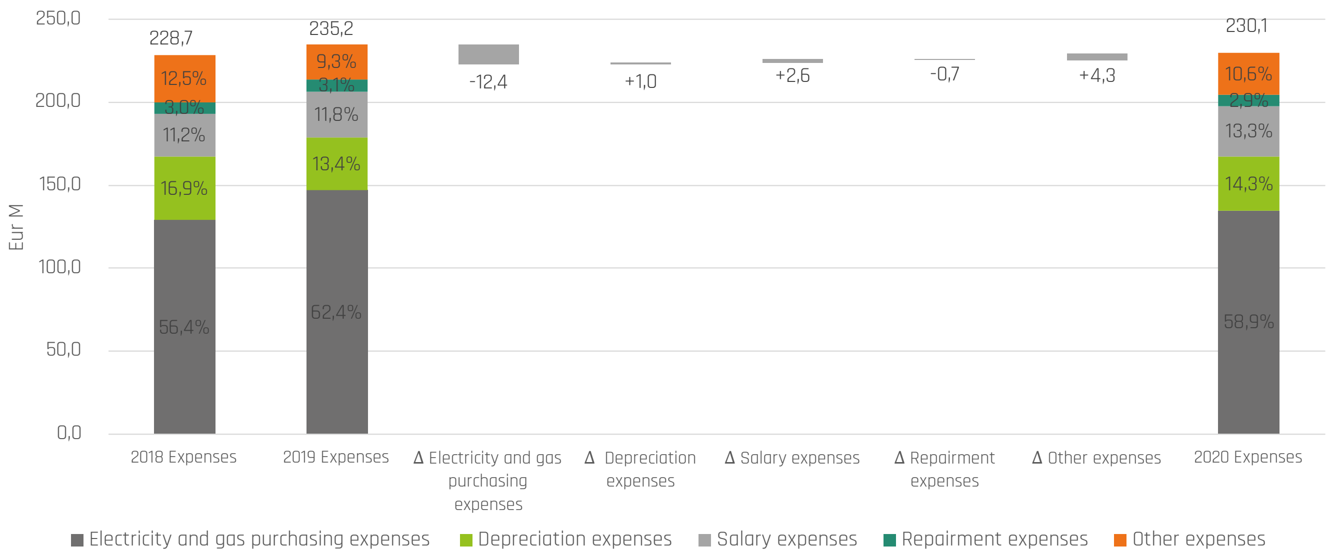


Operating expenses

The Group's operating expenses dropped by EUR 5.2 million compared to 2019 and totalled EUR 230.1 million in 2020.

The largest portion of operating expenses consisted of purchases of energy resources and related services amounting to EUR 134.7 million (purchase costs of electricity and related services amounted to EUR 128.4 million, acquisition costs of natural gas amounted to EUR 6.3 million) or 58.9% of the total expenses. Wages and salaries and related expenses amounted to EUR 30.4 million, repair and maintenance expenses reached EUR 6.9 million, telecommunications and ITT expenses amounted to EUR 3.5 million, and the remaining amount of expenses was equal to EUR 25.6 million.

Depreciation and amortisation expenses of non-current assets comprised a significant portion of expenses, i.e. EUR 32.7 million (14.3% of the total expenses) and slightly increased compared to 2019 due to increase in non-current assets.



Results of operations

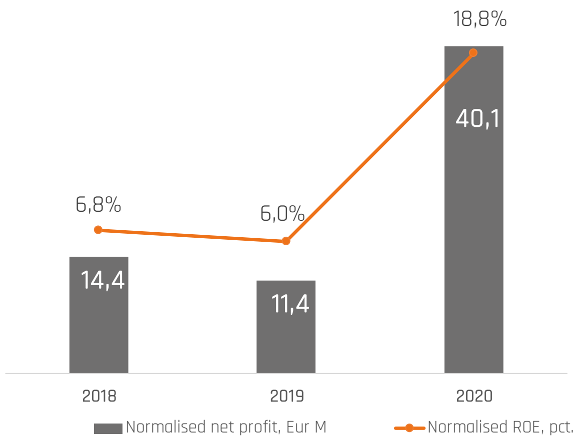
In 2020, the Group's earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to EUR 74.5 million and increased by 56.1% compared to 2019, while the EBITDA margin was 27.6% in 2020 (2019: 18.9%).

The main reasons for the increase in the Group's EBITDA for 2020 compared to 2019 are as follows:

- Due to significantly higher quantities of gas transportation services, the amount of revenue generated by Amber Grid in 2020 was almost the same as in 2019, although the tariffs for the services were even 16% lower.
- Revenue for electricity transmission, system and related services was EUR 23.1 million higher.
- The total costs incurred on acquisition of electricity, natural gas and related services were EUR 12.5 million lower.

- Due to the impact of COVID-19 certain planned operating expenses were not incurred.

Net profit of EPSO-G Group for 2020 amounted to EUR 40.1 million, which is 2.5 times more compared to 2019 when net profit amounted to EUR 11.4 million.



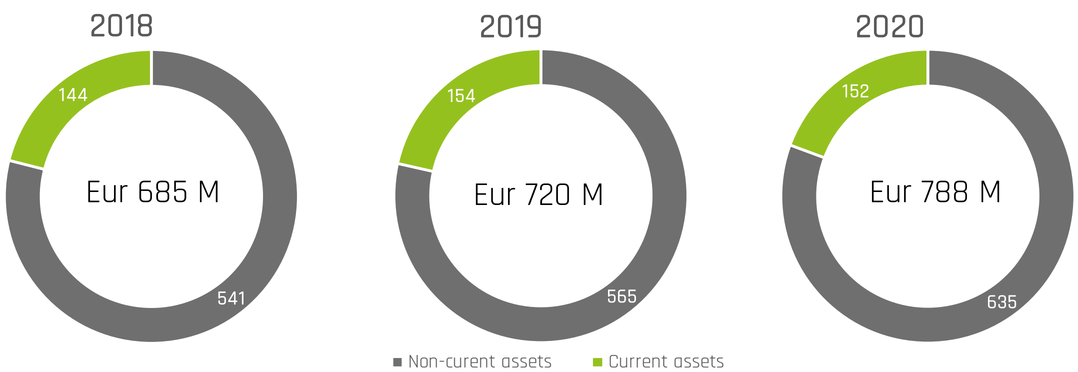
Return on equity of EPSO-G Group for 2020 was 18.8%, while the target of the average return on equity set by the Government of the Republic of Lithuania for EPSO-G Group for the period of 2019-2020 was 5.7%.

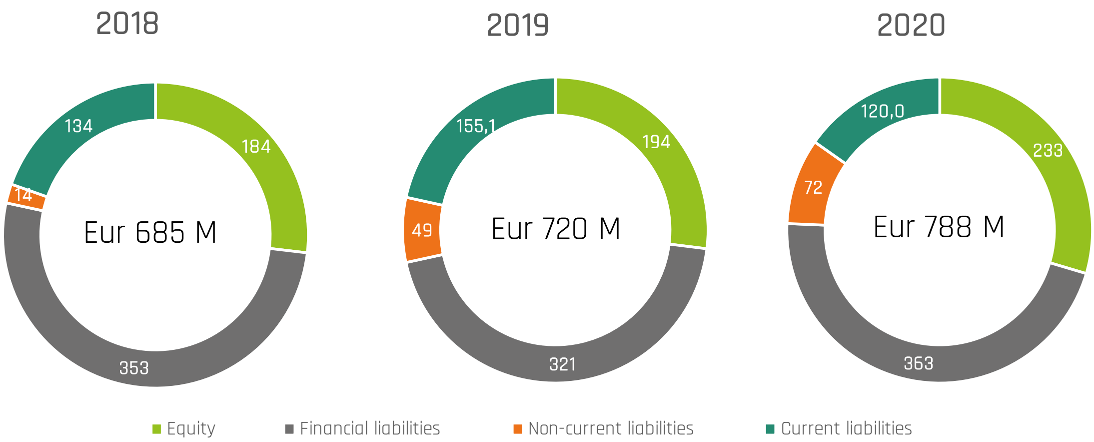
It should be noted that electricity and gas transmission activities are regulated, and therefore, the surplus earnings are refunded to the domestic consumers through repricing of the effective tariffs for the services in the upcoming regulatory periods.

Statement of financial position

As at 31 December 2020, the Group's assets totalled EUR 787.5 million, the Group's non-current assets amounted EUR 635.3 million and accounted for 80.7% of the Group's total assets. Non-current assets increased by 12.4% due to implementation of the strategic investment projects of national significance. The Group's current assets amounted to EUR 152.2 million at the end of 2020 and remained nearly unchanged compared to 2019.

The Group's equity increased by 20.2% in 2020 and totalled EUR 233.1 million at the end of the reporting period. Equity represented 30% of the Groups total assets at the end of the reporting period.





At the end of 2020, the Group's financial liabilities to financial institutions and other creditors amounted to EUR 362.8 million (including liability of EUR 148.6 million to Ignitis Grupė AB for the acquisition of shares of Litgrid). The Group's borrowings increased by around 16% compared to the end of 2019, mainly as a result of the financing received for the implementation of the GIPL project by Amber Grid. Cash and cash equivalents at the end of the period amounted to EUR 5.1 million and net debt to equity ratio was 159.6%.

At the end of 2020, other liabilities (excluding borrowings) decreased by EUR 35 million, and other non-current liabilities increased mainly due to congestion revenue accumulated by Litgrid.

Investments

In 2020, Litgrid's investments (works performed, and assets acquired irrespective of the settlement terms) amounted to EUR 54.6 million and Amber Grid's investments totalled EUR 89.5 million. The total amount of the TSO's investments increased 1.2 times compared to 2019 and amounted to EUR 144.1 million. This growth was mainly driven by the implementation of the GIPL project by Amber Grid with investments reaching EUR 77 million.

4.4 Research and development activity

The goals of the National Energy Independence Strategy for the integration of renewable energy sources and the ongoing Baltic synchronization project with the continental European network, as well as regional gas market integration processes, invites EPSO-G Group companies to search for new innovative solutions for the reliable operation of the Lithuanian energy system at present and in the future. Research and studies, planning and implementation of innovation activities encourage the companies of the Group to increase the efficiency of their activities by applying new methods, tools and good practices.

In carrying out these activities, EPSO-G Group companies follows the Guidelines of Scientific Research, Experimental Development and Innovative Activities (hereinafter - GSREDIA) in order to ensure continuity, effectiveness, competitiveness of the activities of the Group companies, creation of competitive conditions, significant contribution into implementation of the National Energy Independence Strategy, and creation of added value to the society through research, innovations and new solutions.

GSREDIA determine common concepts of scientific research, experimental development, innovations and innovative activities applicable to the entire group EPSO-G, common performance directions and priorities, classification principles and recommendations for operators of transmission system regarding funds attributable to the GSREDIA activities not covered by the regulated activities.

During the implementation of innovation activities in 2020, 18 new projects of various scopes were initiated in the Group companies, 9 projects were completed. By involving employees in solving topical challenges, creative thinking workshops were organized for the Group's employees.

RAIDA 2050 and P2G analysis

The goal of the National Energy Independence Strategy is for Lithuania to become an energy-sustainable and independent state by 2050. In order to implement and enable this scenario, it is important for the holding company EPSO-G and the companies of the Group to understand possible scenarios for the development of the energy sector and what measures should be taken to reduce the energy sector's dependence on fossil fuels, to promote market integration, digitalisation, to take account of urbanization and rapid development of renewable energy production.

In response, EPSO-G Group carried out the study *Scenarios for the Development of the Lithuanian Electricity System for 2020-2050* (hereinafter - the Study RAIDA 2050), in which, taking into account the strategic goals set by NEIS, planned tasks and results, the development scenarios of the Lithuanian electricity sector (hereinafter - LES) were formed until 2050, the assessment of the adequacy of the electricity system (generating capacities, electricity market, electricity transmission network) was performed and technical, economic and legal measures for the efficient operation of the electricity system were presented.

One of the present technologies with the greatest potential to enable the accumulation or transmission to other sectors of energy generated by high-capacity RES is the production of hydrogen (by electrolysis) or synthetic methane (produced by combining hydrogen with carbon dioxide) gas (hereinafter - Power to Gas, P2G). Hydrogen or methane produced by P2G equipment can be fed into existing natural gas infrastructure blended with conventional natural gas.

In order to assess the relevance and applicability of hydrogen gas and P2G technologies in Lithuania, Amber Grid initiated a project to analyse these issues. As electricity generation and consumption forecasts are required to assess the relevance of the technology, it was decided to combine the performance of the Study RAIDA 2050 and the objectives of the Amber Grid P2G project into a joint innovation project for EPSO-G Group companies.

The study RAIDA 2050 completed and made public in December 2020 was prepared by a Norwegian consulting company DNV GL operating in the international market:
https://www.litgrid.eu/uploads/files/dir564/dir28/dir1/15_0.php

The project corresponds to EPSO-G's strategy *Efficient and innovative activities* and is included in the National Energy Independence Strategy's implementation plan.

Joint study of the Baltic TSOs and Japanese operator TEPCO Power Grid

The Lithuanian, Latvian and Estonian electricity transmission system operators Litgrid, Augstsprieguma tīkls and Elering signed the cooperation agreement with TEPCO Power Grid, a company that is part of the Japanese energy group of companies, which will provide recommendations on how the Baltic states could most effectively integrate renewable energy sources (RES) into the electricity transmission system.

The study is aimed at developing the economically justified model and identifying the technical measures contributing to the implementation of the target set in the National Energy Independence Strategy stating that by 2050, 100% of electricity consumed in Lithuania needs to be produced from renewable energy sources.

Under the agreement, TEPCO Power Grid will conduct the study until 31 March 2021 and will apply the electricity transmission system model of the Baltic countries, when 100% of electricity is produced using renewable energy sources, analyse possibilities of integration of renewable energy sources by conducting frequency calculations and propose technical solutions allowing 100% integration of renewable energy sources in the Baltic electricity system.

The obtained results of the study will be used by the Baltic countries for the development of infrastructure of necessary technical measures and planning of investments. The possibility of a further cooperation with TEPCO Power Grid in the implementation of the obtained results of the study is not excluded.

Pilot project *Installation of Battery Energy Storage System in Lithuanian Electricity System*

In 2020, Litgrid proceeded with the experimental pilot project *Installation of Battery Energy Storage System in Lithuanian Electricity System*.

Its purpose is to properly prepare for the project of synchronization of the Baltic states with the continental European network (CEN), to test the possibilities of battery storage systems in real conditions of operation of the Lithuanian electricity system, to identify areas of installation and use of high-capacity battery storage systems in Lithuania, identify requirements for batteries that would provide different types of services.

During the project, 1 MW lithium-ion battery energy storage system (BESS) will be connected to the 10 kV switchgear of Vilnius transformer substation, which will contribute to the reliable operation of the Baltic electricity systems after the synchronization with CEN. The scheduled completion date of the project is December 2021.

Pilot project *Drones for Fault Detection in Power Lines*

In 2020, Litgrid proceeded with the project *Drones for Fault Detection in Power Lines.*

In case of a single-phase or multi-phase short circuit to the ground (e.g. a fallen tree) occurs in 110/330/400 kV overhead lines (OL), after a lightning discharge or a bird striking an overhead line, an overhead line, depending on the size and duration of the damage, is switched off for a short period (in the case of a successful auto-restart) or is completely switched off by protective relay devices (RAA) until the fault location and fault are detected. An overhead line engineer gets to the point of potential malfunctioning following the readings of RAA devices. However, often a calculated distance to the exact location of the incident has an error of up to 5 km. The use of the drone will help to pinpoint the exact location of the fault at least twice as fast. If such a technical solution answers the purpose, the use of drones could be extended to other EPSO-G Group companies.

Pilot project *Intelligent NordBalt Cable Fault Location*

In 2020, Litgrid carried out the project *Intelligent NordBalt Cable Fault Location*, the scheduled completion date of which is early 2021. This is important, as the reliable operation of the connection with Sweden opens up the possibility of importing cheaper electricity from Scandinavia.

To ensure the reliability of the NorBalt link and to increase the accessibility of the cable, we will employ and test automated cable fault detection equipment that is currently not available in the link. The transient recorder HiRES Locator will help to locate a breakdown in real time. It locates the fault location of a cable up to 200 km by installing the equipment at only one end of the high-voltage direct current (HVDC) connector. The purpose of this experimental pilot project will be to test the operation of such equipment on the twice-longer (400 km) NordBalt connection cable.

REGATRACE

Amber Grid administers the National Register for Guarantee of Origin for gas produced from renewable energy sources (RES), i.e. it performs the functions of issue, transfer and cancel of guarantees of origin, supervises and controls the use of guarantees of origin and as well as provides the recognition of guarantees of origin in Lithuania issued in other countries. This system is beneficial for energy consumers seeking to use environmentally friendly fuel produced in Lithuania or other European Union state. In cooperation with the designated bodies of other countries and organizations of RES sector, the Company, as from 1 June 2019, has been participating in the project REGATRACE (Renewable GAs TRAde Center in Europe), funded by the European Union's Research and Innovation Programme *Horizon 2020*, to develop a European scheme for the operation of the registry for guarantees of origin for biomethane and other renewable gases and to promote the development of green gas production and market.

SecureGas

Amber Grid has been implementing SecureGas research and development project together with its international partners. The project aims at safeguarding security and resilience of the EU gas grid against cyber-attacks and physical threats. The project is financed under the EU Research and Innovation Programme *Horizon 2020*.

The purpose of the project is "to develop methodologies, measures and guidelines for ensuring security and resilience of the existing and future gas transmission infrastructure facilities against cyber-attacks and physical threats", by taking into account the requirements set forth in the European Energy Security Strategy, the European Programme for Critical Infrastructure Protection, and the EU Regulation 2017/1938 concerning measures to safeguard security of gas supply.

Balancing services from the hands of an electricity aggregator

The legal regulation in effect until 2020 did not provide incentives and conditions for consumers to participate in the management of electricity demand. In addition, there were no measures foreseen for consumer saved electricity to enter the electricity, balancing and reserve power markets. This meant that until now, only the electricity producers and aggregators jointly supplying electricity to consumers could participate in the balancing market.

The project initiated in 2020 aims to create conditions in the energy sector that will provide more opportunities to enable electricity consumers to participate in balancing in an efficient, flexible and expeditious manner. The aggregators could be used for this purpose - they would concentrate large customers into a single system, which, in the event of a demand for electricity, would be able to reduce consumption and "vacate" the power needed at that time to contribute to the management of the system's balance.

Study of determination of optimal technical parameters of energy storage system

In 2020, a study was launched aiming to select the optimal technical parameters for the battery energy storage system in Lithuania, which was carried out by researchers from Kaunas University of Technology. The study provides an overview of battery energy storage systems used in the global electricity systems, and gives comparison of different technologies.

With regard to the adequacy of the Lithuanian electricity system's capacity, the operation of the electricity market and the synchronization of the Baltic electricity system with the continental Europe and the resulting change in the management of the electricity system, the optimal parameters of battery energy accumulators were determined. A cost-benefit analysis of the size of the identified battery energy storage system (200 MW) was also performed when the facilities provide different services.

4.5. Competence and membership in organizations

In 2020, the holding company EPSO-G and the transmission system operators participated in the activities of the national and various international organisations and associations, such as the European Association of Transmission System Operators for Electricity (ENTSO-E) and the European Association of Transmission System Operators for Gas (ENTSO-G), the Central Europe Energy Partners Association (CEEP), TSOs and the Association of Other Electricity Companies *Best Grid*.

- Mr. Rolandas Zukas, the Chief Executive Officer of the holding company EPSO-G, is a member of the Board of Lithuania's National Energy Association.
- Mr. Rolandas Zukas, the Chief Executive Officer of EPSO-G, is a member of the management board of the CEEP Association.

Memberships of EPSO-G Group companies:

Organisation	Representing company	Link	Organisation description
Central Europe Energy Partners (CEEP)	EPSO-G	www.ceep.be	The association bringing together the companies of energy and energy-intensive sectors of the Central Europe
Lithuania's National Energy Association (Lith. LNEA)	EPSO-G Amber Grid Litgrid	www.nlea.lt	The association bringing together Lithuanian companies operating in the electricity and natural gas sectors, as well as scientific establishments
ENTSO-E	Litgrid	www.entsoe.eu	The organisation bringing together European electricity transmission system
ENTSO-G	Amber Grid	www.entsog.eu	The organisation bringing together European natural gas transmission system
International Gas Union (IGU)	Amber Grid	www.igu.org	A non-profit organization seeking to promote international trade in gas, the application of advanced technologies, and the establishment of transparent market practices
European Renewable Gas Registry	Amber Grid	www.ergar.org	An organization with the objective to develop trade in guarantees of origin for gas produced from renewable energy sources among countries

Polish-Lithuanian Chamber of Commerce	Amber Grid	www.plcc.lt	The association seeking to improve economic cooperation between Lithuania and Poland
Lithuanian Project Management Association	EPSO-G	www.ipma.lt	The association bringing together project management professionals
Lithuanian Hydrogen Platform	Amber Grid EPSO-G	https://enmin.lrv.lt/lt/veiklos-sritys-3/vandenilio-technologijos-1	It is a format of cooperation bringing together representatives of the country's scientific institutions, business and the public sector for the common goal - to seek for the development of hydrogen technologies in the country
European Green Hydrogen Alliance	Amber Grid	https://www.ech2a.eu/	An alliance for the development of hydrogen technology in Europe
Intelligent Energy Lab	EPSO-G	https://iel.lt/	Intelligent Energy Lab is an open platform operating in Vilnius with companies, universities, institutes and associations cooperating on innovation

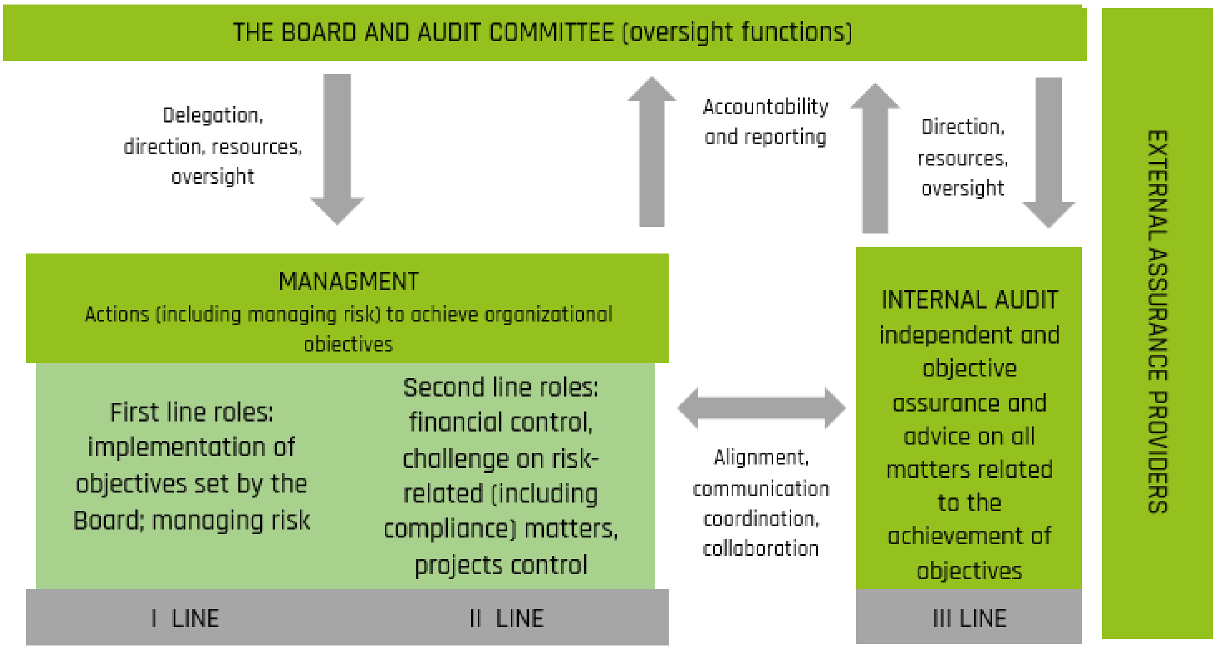
4.6 Transactions with related parties

In 2020, EPSO-G followed the Policy of Transactions with Related Parties. It establishes the supervision and disclosure procedures of the transactions carried out by EPSO-G Group companies with related parties that allow assessing properly the conflicts of interests related to such transactions and minimizing possible negative consequences of such transactions to the companies, minority shareholders and unrelated persons. This document is published on EPSO-G website, in the menu item *Operating Policies*.

Information on the transactions with related parties is disclosed in annual financial statements in Note 35.

5. COMPLIANCE AND RISK MANAGEMENT, AND AUDIT

In 2020, EPSO-G has further consistently held the view that in the course of the implementation of the operating strategy proper risk management is a prerequisite for increasing the efficiency of subsidiaries, quality of management, safe environment for the employees, and in creating the trust of the stakeholders in the Group companies.



1st line includes the executives and employees of EPSO-G identifying and managing operational risk in the daily activities.

2nd line secures the functions of EPSO-G with the responsibility of forecasting risk:

- The function of financial control includes the responsibility for the continuous control of the financial results of the Group.
- The function of risk management includes the responsibility for the creating and coordinating of the risk management system of the Group. This function summarizes the main risk areas of all companies of the Group and coordinates the implementation of their actions of management.
- The function of compliance management includes coordination and improvement of the Group's compliance management system. This function helps to ensure compliance in a coordinated manner in the priority areas where the non-compliance could have the greatest impact on the Group companies concerned.
- The data protection function includes the ongoing monitoring of the functioning of personal data protection measures.

3rd line includes the responsibility for the independent and objective assurance and consultations on the applicability and effectiveness of the organisation's management and risk management (including internal control), and supports the implementation of the organisation's strategy and promotes and contributes to continuous improvement. The Centralized Internal Audit Unit provides an assessment to the Board performing supervisory functions and the Audit Committee, whether the first two lines adequately perform their functions. In accordance with the laws, the annual financial statements of EPSO-G Group companies are audited by independent audit companies of external audit. The companies of external audit are elected by the General Meetings of Shareholders of the Group companies.

5.1 Risk management system

EPSO-G understands risk management as a structured approach to uncertainties management by methodologically evaluating risk effect and probability, and by applying the proper measures of management.

In 2020, EPSO-G Group followed the Group's Risk Management Policy and Risk Management Methodology. They imbedded a uniform risk management system that is based on common principles and meeting good practice according to COSO ERM (Committee of Sponsoring Organisations of the Treadway Commission Enterprise Risk Management) methodology and standards applicable in the international practice.

All the companies of the Group have joined the Risk Management Policy of EPSO-G and, by using the Risk Management Methodology of the Group, have identified the risks relevant to them as well as made plans for managing these risks.

In January 2020, the process of the monitoring of risk management was reviewed and its amendments approved in order to establish criteria (*"benchmarks"*) for assessing whether a particular risk should be included in the EPSO-G group-level risk list. The EPSO-G Board approved the following main criteria for including a risk in the EPSO-G group-level risk list:

- The risk is directly identified in the strategy of the Group companies,
- The risk has a material impact on the achievement of strategic goals;
- Risks assessed as top (extreme) and very high level.

The companies of the Group identified operational risks of 2020, performed their assessment, set risk monitoring indicators and provided risk management measures approved by the Boards of the companies of the Group.

EPSO-G Board has approved the group-level risk list after assessing the risks identified and managed in the companies of the Group and their level (impact on the Company's operations as well as on EPSO-G Group as a whole).

Each quarter of 2020, the Audit Committee of EPSO-G had assessed the changes in the key risk indicators of each company of the Group, the effectiveness of risk management and presented its conclusions and recommendations to the Boards of the companies.

The following key risks identified in the strategy of the Group's operations were included in the group-level risk lists:

- Risk of non-compliance with legal requirements and regulatory risk

  The prices of electricity and natural gas transmission and related services are regulated, the price caps are set by the NERC. The performance results of EPSO-G Group companies and the funds granted by the companies for the necessary operating costs, investment to maintain the reliability of the transmission network as well as the opportunities to finance strategic projects using own or borrowed funds directly depend on these decisions. When managing the risk of non-compliance with legal requirements, in March 2020, the EPSO-G Board approved the Compliance Management Policy, monitored the drafting and / or amendment of legislation by the NERC and other bodies governing regulated activities, and provided EPSO-G Group's position on draft legislation.

- Business transparency risk

EPSO-G Group implements the projects of the regional and national significance. These are major investment projects. Their success depends on the awareness, trust and support of the shareholders, partners, controlling and regulating institutions and the people of Lithuania. Accordingly, much attention is paid by EPSO-G in its activities to the supervision of procurement (including public procurement) procedures and the prevention of corruption.

As from 1 January 2020, the Law on the Adjustment of Public and Private Interests entered into force, under the provisions of which executives of all EPSO-G Group companies and members of collegial bodies are obliged to declare their interests publicly. The requirements of the law have been implemented to a greater extent than required by law, in accordance with the Policy of Management of Interests of Members of Collegial Bodies, Executives and Employees of EPSO-G Group.

During the reporting period, the companies of EPSO-G Group purposefully focused on the intolerance of corruption, protection of family members, relatives, friends, or any other forms of trading in influence, and consistent and systematic implementation of the prevention of conflicts of interest between the Company and private interests. The companies of the Group encourage the employees and other interest holders to report directly or anonymously possible violations, unethical or unfair behaviour by trust line at pranesk@epsog.lt without fear of any negative consequences or directly to the address of the Special Investigation Service of the Republic of Lithuania (SIS).

After conducting an analysis in the first half of 2020, SIS published good examples of creating an anti-corruption environment among state-owned enterprises. One of the four examples to follow is EPSO-G's Corruption Prevention Policy.

- Risk of lack of relevant qualification employees, employee turnover and motivation

EPSO-G Group companies are facing the emerging labour market challenges, the competition for highly qualified professionals, who can contribute to the implementation of projects of strategic importance to the Lithuanian state.

To manage the risk of lack of relevant qualification employees, employee turnover and motivation, EPSO-G Group companies applied a uniform Employee Remuneration Policy during the reporting period; an independent annual analysis of remuneration and market trends, and an analysis of the reasons for leaving employment identified by job leavers were performed; rotation plans for critical positions in the companies of the Group were drawn up and actions provided for therein were taken to minimize this risk.

- Risk of non-compliance with occupational safety requirements

Litgrid, Amber Grid and TETAS held by EPSO-G places great emphasis on occupational safety.

By managing this risk during the reporting period, Litgrid entered into agreements on the verification of workplace compliance and the development of the methodology and mapping of the voltage values of the lines in the induced voltage zones. Amber Grid has performed an occupational risk assessment of all employees, and continuous structured internal controls have been performed at all levels in accordance with the approved description of the internal control procedures in the areas of occupational safety and health and the environment. Assessment of employee compliance with occupational safety and health requirements has also been performed using control questionnaires, employee training and information of potential risks, timely health examination, development of occupational safety and health culture has been carried out as well. TETAS has prepared, approved and implemented the plan for the improvement of employee occupational safety and health, and IT solutions for performing collective and PPE and workplace inspections.

- Information security (cyber security) risk

EPSO-G and its subsidiaries Litgrid and Amber Grid are companies crucial for the national security. They manage facilities and assets important for national security as well. The information and data managed by the Group companies are of strategic importance for the national security of Lithuania, therefore, loss of such information and / or data, illegal change or disclosure, damage thereof, or termination of the data flow which is necessary for a secure operation of transmission systems may cause disturbances of the activities of EPSO-G Group companies, cause damage to other natural persons and legal entities.
When managing this risk during the reporting period, Litgrid carried out the installation of a critical infrastructure data network monitoring system and the procurement and installation of other equipment required to ensure cyber security. Equipment vulnerability assessments were also carried out, and employee training on information security and resilience to social engineering methods were organized as well. In Amber Grid, computer equipment was upgraded, technological management system upgrades were performed, procurement and implementation of required data collection, accumulation and analysis management systems were carried out, and continuous employee training was performed.

- Technological risk

One of the most important functions and responsibilities of EPSO-G Group companies is to ensure secure, reliable and efficient operation of natural gas and electricity transmission systems.

Therefore, Litgrid and Amber Grid have been introducing and improving specialized information systems, modern business management systems, updating on a continuous basis accident and technological disruption and emergency management, business continuity plans, and posing high requirements for the contractors.

During the reporting period, Litgrid implemented measures to manage the risk of possible cross-system congestion following the start of operation of the Astravets Nuclear Power Plant. Measures were also implemented to manage the disconnection risks of NordBalt and LitPol Link interconnectors - in accordance with the contract with the interconnectors' developer, construction defects were eliminated, preparations were made for the assurance / restoration of the operation of the interconnectors after the warranty period expires and in case of third party exposure, other actions were taken to ensure high-quality operation and availability of interconnectors.

In order to manage the risk of trunk pipeline defects that were not corrected, Amber Grid carried out pipeline diagnostics during the reporting period, which is planned to be continued in 2021 by eliminating identified critical defects in the trunk pipeline.

The group-level risk list also included risks identified by the Group's operations or an individual company's strategy that have a material impact on the achievement of the strategic objectives and specified results / indicators

- The risk of projects controlled by EPSO-G

By managing this group-level risk, EPSO-G monitors key risk indicators and implements risk management measures within the tolerance threshold set for the risks of delays in the implementation of controlled strategic projects, non-compliance with the budget and the dissemination of incorrect and negative information in the risks. To manage these risks, in the first half of 2020, EPSO-G's structure was revised to reinforce its project management role with additional resources, and periodic discussions were held with the Group companies on the status of projects and critical risks. Considering the deviation of individual stages of Litgrid's projects from the approved milestones recorded during the reporting period, from July 2020, project management controls have been strengthened in accordance with the action plan developed.

- The risk of non-implementation of Amber Grid's GIPL project within the set deadlines

By managing this risk, Amber Grid monitors the progress of construction work in accordance with the work schedule (milestones) agreed with the contractors and has planned measures to manage this risk. In 2020, the construction works of the pipeline were carried out according to the approved work schedule, horizontal directional drilling under the Neris and Nemunas was performed, all the planned objectives for 2020 were achieved.

- Risks that may affect synchronization projects

  By managing this group-level risk, Litgrid has identified and has been applying management measures related to spatial planning, integration of renewable energy sources, technical conditions for connection to CEN, human resources and other risks. In Q3 2020, the Company additionally identified the risks of delays in synchronization projects and applies intensive project production and supply control and other risk management measures to manage the implementation of synchronization projects within the set deadlines.

- Risk of non-compliance of Baltpool, TETAS, GET Baltic with sales plans

  By managing this group-level risk, Baltpool, TETAS and GET Baltic apply management tools such as diversification of customers, activities, markets, sales analysis and other measures to ensure the achievement of the objectives of the sales plans in the Lithuanian and foreign markets.

COVID-19 risk management and coordination within the Group

In 2020, in all Group companies new business continuity and prevention measures were reviewed and planned: employees responsible for monitoring the situation and providing information were appointed, the possibility of employees returning from risk countries to work remotely, be on leave or have incapacity for work was insured, in addition, units, employees and their substitutes administering critical functions and key systems in the companies were identified, means of organizing remote work were used, information to employees on preventive measures was disseminated.

Additional organizational measures were applied at Litgrid and Amber Grid in the system control centers, technical and replacement measures were planned in the system control centers in case of the virus spread. In addition, these companies reviewed their Emergency Management Plans, prepared the following additional documentation and implemented measures: lists of critical functions, lists of measures necessary to ensure uninterrupted implementation of these action, as well as resources and responsible individuals and other documents and means.

5.2. Information on the Compliance Management Process

In 2020, the EPSO-G Board approved the Compliance Management Policy and the compliance management methodology implementing it. The purpose of these documents is to establish and ensure a uniform compliance management system in the Group that would:

• enable to protect the Group companies from financial or reputational damage that may result from behaviour that does not meet internal and external requirements;

• enable to manage the risks of non-compliance and mitigate their impact and / or likelihood of occurrence;

• encourage the Group's employees to work in accordance with the set requirements and to justify their application on the Group's values.

As the Compliance Management Process is based on the application of the risk-based approach, the major focus and additional resources will be on the priority areas selected by the Group's Boards where the highest probability of non-compliance and / or non-compliance risks arises or may arise, and as a result, exclusively these areas will be subject to the Compliance Management Process.

In 2021, it is planned to perform a current situation gap analysis of the selected priority areas, to correct the essential shortcomings (if any), and in the future to ensure continuous monitoring and improvement of priority areas, organization of training for employees and dissemination of good practices among the Group companies.

5.3 Information on the internal audit

The internal audit mission of EPSO-G is to create added value for all the companies of the Group and to contribute to the achievement of their operational objectives by systematically and comprehensively assessing and helping to improve the effectiveness of management, risk management and control processes. These functions are implemented through an independent and objective assurance and advisory activity.

In order to ensure transparency and efficiency of operations, a centralized Internal Audit Unit operates in EPSO-G Group companies. The Unit carries out the functions assigned at the Group level and is directly accountable to the EPSO-G Board, the majority of which are independent members.

The auditors of the holding company EPSO-G are not subordinate to the administration of a company audited. This creates better preconditions for identifying possible deficiencies in order to eliminate them and to highlight the areas for increasing efficiency.

The staff members of the Unit carry out internal audits and monitor on a regular basis the way the recommendations are implemented, as well how the other deficiencies related to the internal control, which have been identified by the external auditors, regulatory authority and the public control institutions, are corrected.

The activities of the centralized Internal Audit Unit in 2020 covered the following areas that were selected based on the performed assessment of risks and by identifying the priority companies / processes to be inspected:

- Assessment of control of acquisitions (public procurements);
- Assessment of project management quality;
- Assessment of controls of operator activities of energy resources exchange;
- Assessment of staff management.

Much attention was also paid to monitoring the implementation of internal audit recommendations by companies and to assessing the impact of implemented actions.
Internal audit findings along with recommendations for areas subject to improvement are submitted to the management of the audited companies and the Boards of the companies of the Group, as well as to the Board and Audit Committee of EPSO-G.

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5.4 Information on the external audit

In 2020, EPSO-G carried out an open tendering procedure of joint public procurement of audit services for financial statements for the period of 2020-2021 for the Group companies. With regard to the results of the public procurement of external audit services, the offer of PricewaterhouseCoopers UAB was recognized as the winner.

The Audit Committee of EPSO-G, having assessed the results of the selection procedure for the audit firm, decided to recommend the Boards of the Group companies to propose to their General Meetings of Shareholders to select PricewaterhouseCoopers UAB as an audit firm to perform the audit of financial statements for the period 2020-2021 by paying the remuneration for the audit services specified in the offer of this audit firm.

At the General Meetings of Shareholders of the Group companies, decisions were made to select PricewaterhouseCoopers UAB as the audit firm to perform the audit of financial statements for the period of 2020-2021 and to set the annual remuneration for the audit services of financial and related statements specified in the offer of the audit firm.

Information on the external audit companies of EPSO-G Group companies and their remuneration for audit services:

Company	Firm that performed the audit of the financial statements 2020	Remuneration for the audit firm for the audit of the financial statements 2020, EUR (VAT excluded)*	Firm that performed the audit of the financial statements 2019	Remuneration for the audit firm for the audit of the financial statements 2019, EUR (VAT excluded)
EPSO-G	Pricewaterhouse Coopers UAB	20,570	DELOITTE LIETUVA UAB	14,170
LITGRID		61,710		39,240
Amber Grid		50,490		35,970
Baltpool		14,960		8,393
TETAS		26,180		7,630
Get Baltic		13,090		4,360

* In 2020, remuneration for audit services increased significantly due to the growth in audit volumes after the new International Financial Reporting Standards have come into force and the scope of a revision of regulated activity reports.

In 2020, PricewaterhouseCoopers UAB provided uninsured non-audit services, tax consultations, to EPSO-G Group companies for EUR 7,400. The services were procured in accordance with the provisions of EPSO-G Group's policy on acquisition of non-audit services from an audit firm or any network to which the audit firm belongs.

6. SHAREHOLDERS AND DIVIDENDS

6.1 Shareholders

The Republic of Lithuania is the sole shareholder of EPSO-G (100% of the shares). The property and non-property rights of the shareholder, in accordance with Clause 2.3 of the Resolution No 826 *On the Establishment of a Private Limited Liability Company and Investment of State-Owned Capital* of the Government of the Republic of Lithuania of 4 July 2012, are implemented by the Ministry of Energy of the Republic of Lithuania represented by the Minister of Energy of the Republic of Lithuania.

No changes occurred in the structure of the shareholders of EPSO-G in 2020. The share capital of the Company did not change.

On 31 December 2020, the share capital of EPSO-G amounted to EUR 22,482,695 and divided into 77,526,533 ordinary registered uncertificated shares of a nominal value of EUR 0.29 each. All shares are fully paid.

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Shareholder of the company	Number of shares	The nominal value per share, EUR	Share capital, EUR	Shareholding, %
The Republic of Lithuania represented by the Minister of Energy of the Republic of Lithuania	77,526,533	EUR 0.29	22,482,695	100

Restrictions on the transfer of securities other than those stipulated in the legal acts are not applied for the shares of EPSO-G.

Neither EPSO-G nor the companies of the Group have issued the Convertible Securities.

EPSO-G has not acquired own shares. EPSO-G has neither acquired nor transferred own shares during the reporting period. The subsidiaries of the Company have not acquired the shares of the Company either.

The shareholder of EPSO-G does not have special rights of control other than those stipulated by the legal acts of the Republic of Lithuania.

The shares of EPSO-G's patronised Litgrid and Amber Grid traded on the Nasdaq Vilnius Stock Exchange:

Company	ISIN code	Securities	Trading list	Securities manager
LITGRID AB	LT0000128415	LGD1L	BALTIC SECONDARY LIST	SEB bankas AB
Amber Grid AB	LT0000128696	AMG1L	BALTIC SECONDARY LIST	SEB bankas AB

The securities of the other companies held by EPSO-G are not traded on the stock exchange.

6.2 Dividends

On the basis of the decision of the Government of the Republic of Lithuania, until 2022, EPSO-G must pay the dividends amounting to 0.5% of the distributed profit directly to the state budget.

Such the decision has been made after having considered the necessity to allocate sufficient funds for the purpose of meeting the financial obligation of EUR 210 million to the state-owned enterprise Ignitis Grupė (former Lietuvos Energija) for the shares of the subsidiary Litgrid. In Q3 2020, EPSO-G reduced its financial liability for the shares of the subsidiary Litgrid to the state-owned enterprise Ignitis Grupė by EUR 8 million to EUR 148.6 million.

Based on the resolution of the Government of the Republic of Lithuania, in 2020, EPSO-G paid dividends amounting to EUR 773 thousand directly to the state budget for the year 2019 (2018: EUR 750 thousand) at the same time ensuring the sustainable financial position of the Group in preparation for important synchronization and integration of regional energy markets and meeting financial obligations to the state-owned enterprise Ignitis Grupė for Litgrid shares.

6.3 Dividend policy

On 7 February 2020, the EPSO-G Board renewed the Dividend Policy of the Group. The adjustments are related to the changes in the corporate governance structure, i.e. the elimination of the Supervisory Board, as well as changes in the legislation governing the payment of dividends. Other key policy provisions have not changed.

The Dividend Policy of EPSO-G that governs the procedure of determining the dividend amount, pay-out and publication on dividends for all companies forming the Group, establishes clear guidelines of expected return on equity and return on investment for the existing and potential shareholders while at the same time ensuring a sustainable long-lasting growth of corporate value, timely implementation of strategic projects that are of great importance for the country, thereby gradually strengthening confidence in the entire energy transmission and exchange Group companies.

The Dividend Policy of EPSO-G directly links the amount of payable dividends with the efficiency of use of the Company's equity - the bigger benefit is created by the Company for the shareholder, the bigger share of profit it may allocate for the further development and implementation of other important projects.

The Dividend Policy is published on EPSO-G website in the menu item *Operating Policies*: https://www.epsog.lt/lt/apie-mus/veiklos-politikos/dividendai.

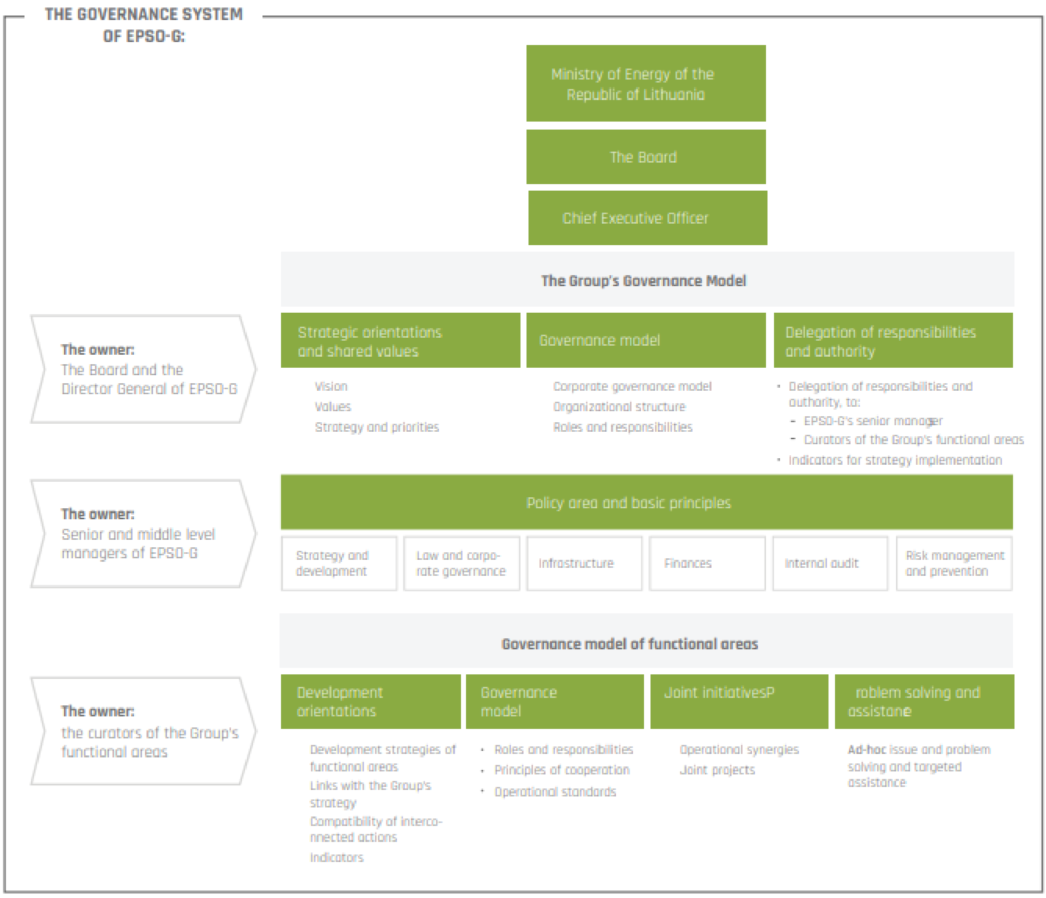
6.4 Ratings

The international credit rating agencies have not given credit ratings to EPSO-G Group companies.

7. GOVERNANCE REPORT

In 2020, corporate governance of the holding company EPSO-G was carried out in accordance with the Corporate Governance Guidelines of EPSO-G Group companies adopted by the decision of the sole shareholder of 24 April 2018. They establish the common corporate governance principles, which are applicable to the entire EPSO-G Group companies, the management organizing model, the structure of management, the systems of accountability and performance supervision and control.

The governance system of EPSO-G:



The holding company EPSO-G adhered to the following key corporate governance principles:

- Operational transparency;
- Separation of state ownership and regulatory functions;
- Certainty and sustainability of objectives;
- Proper realization of the shareholders' rights;
- Compliance with the legislative requirements and best practice standards;
- Operational efficiency, sustainability and competitiveness;
- Responsibility and accountability of the management and supervisory bodies to the shareholders.

EPSO-G observes good governance practices outlined in the recommendations of good governance published by the Organization for Economic Cooperation and Development (OECD), the recommendations of the United Nations and NASDAQ Baltic stock exchange, other internationally recognized standards and the recommendations of good governance, the main objective of which is to ensure that the state-owned enterprises are managed in efficient and transparent manner.

In an effort to purposefully build trust in ongoing strategic projects and extremely focus on transparency and accountability, EPSO-G Group companies was rated for the most progressive governance of the subsidiaries, and the joint governance quality has been rated A+. This was evidenced by the Good Governance Index of State-Owned Enterprises (SOE) 2019/2020 published by the Public Enterprise Governance Coordination Centre (GCC). GCC's Good Governance Index is the most comprehensive tool for evaluating the quality of management of all SOEs. The index consists of three main assessment dimensions: transparency, collegial bodies and strategic planning and implementation.

In terms of the transparency dimension, EPSO-G received the highest rating A+, by identifying areas for improvement in future sustainability practices.

The highest possible rating A+ was also awarded for the work of collegial bodies, the process of selection of their members, competence, and engagement and compliance of the functions of the collegial bodies with the principles of good governance.

EPSO-G's strategic planning and implementation received the highest rating A+. Financial sustainability was rated A resulting from the Group's level of indebtedness due to the financial obligation to pay Ignitis Grupė for Litgrid's shares.

In preparation of the action plan for 2021, the holding company EPSO-G will proceed with further implementation of measures and improvement of the governance quality in line with GCC recommendations.

7.1 The Articles of Association of EPSO-G

In 2020, the Articles of Association did not change - as of 31 December 2020, the updated version of the Articles of Association of the holding company EPSO-G registered on 1 August 2018 with the Register of Legal Entities was in force; it consolidated the enhanced responsibility of the Board by assigning a supervisory function to it. The current corporate governance model ensures the effectiveness of EPSO-G Group's organizational and management structure and compliance with the highest standards of governance.

The Articles of Association of EPSO-G are available at: www.epsog.lt, in the menu item *Corporate Governance*.

The Articles of Association of EPSO-G can be amended by the decision of the General Meeting of Shareholders adopted by at least 2/3 of all votes attached to the shares of the shareholders participating in the General Meeting of Shareholders save for statutory exceptions.

7.2 Supervisory and management structure of EPSO-G

The management, supervisory and organisational structure of EPSO-G ensures an optimal organization of activities, accountability, process efficiency and responsibility:

EPSO-G Group's corporate governance documentation system consists of the following:

Corporate Governance Guidelines of EPSO-G Group companies;

- Articles of Association of the holding company EPSO-G and its subsidiaries;
- Corporate Governance Policy;
- Rules of Procedures of the Board of EPSO-G;
- Regulations of the Audit Committee of EPSO-G;
- Regulations of the Remuneration and Nomination Committee;
- Regulations of the Innovation and Development Committee;
- Approved corporate governance documents of the Group companies;
- Documents of the Group companies approved on the basis of corporate governance documents.

All the above documents are available at the website of the holding company EPSO-G: www.epsog.lt.

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7.3. General Meeting of Shareholders of EPSO-G

The rights and obligations of the sole shareholder of the holding company EPSO-G are implemented by the Ministry of Energy of the Republic of Lithuania.

The sole shareholder of EPSO-G:

- Adopts decisions on strategic issues of operational activities;
- Approves key operational guidelines (guidelines for corporate governance, collegiate body remuneration, etc.).

In 2020, EPSO-G's sole shareholder took the following decisions:

Date	Key decisions
6 February 2020	Approved the new wording of the Articles of Association of TETAS UAB.
30 April 2020	Approved the set of EPSO-G's consolidated and company's financial statements 2019. Approved the decision on profit distribution. Approved the new wording of the Regulations of the Audit Committee of EPSO-G UAB.
10 September 2020	The audit firm PricewaterhouseCoopers UAB was selected to perform the audit of the set of EPSO-G's consolidated and company's financial statements 2020-2021, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and the consolidated annual report.
22 October 2020	Took the decision to elect the members of the Audit Committee of EPSO-G UAB: (i) Mr. Gediminas Šiušas - to the position of an independent member of the Company's Audit Committee; (ii) Mr. Robertas Vyšniauskas - to the position of an independent member of the Company's Audit Committee from the members of the Board who are considered independent; and (iii) Mr. Gediminas Karalius - to the position of a member of the Company's Audit Committee from the members of the Board nominated by the sole shareholder.

7.4. The Board of EPSO-G

According to the current version of the Articles of Association of EPSO-G, the Board consists of 5 (five) members appointed by the sole shareholder of EPSO-G for a term of 4 (four) years with regard to the recommendations of the Remuneration and Nomination Committee.

The continuous term of office of a member of the Board shall not exceed 2 (two) consecutive terms, i.e. no more than 8 (eight) consecutive years. Members of the Board are elected in accordance with *The Selection Description of a List of Candidates to the Board of the State or Municipal Enterprise and the Candidates to the Board of the State or Municipal Enterprise for the Selection of a Collegial Supervisory or Management Body Elected by the General Meeting of Shareholders*, approved by the Resolution No 631 of the Government of the Republic of Lithuania of 17 June 2015.

On 29 March 2019, the members of the EPSO-G Board elected Mr. Gediminas Almantas as a Chairman of the Board.

The Board of EPSO-G:

- Forms a common corporate governance policy of the Group companies;
- Is responsible for the organizational and systematic development and management of the Group within the scope of its competence;
- Carries out the monitoring of the implementation of the activities of the Group companies, their strategies, operational objectives and plans, the documents approved by the Board and other decisions in the Group companies;

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- Carries out the supervision and control of the management of the strategic projects carried out by the Group companies that are included in the national energy strategy, the projects of particular national interest, the economic projects of great state importance.
- Performs supervisory functions as provided for in the Law on Companies of the Republic of Lithuania.

During the reporting period, 22 (twenty-two) meetings of the Board were held, in 3 (three) of which decisions were adopted by a written vote. Ten decisions were taken by written vote. During the reporting year, seven strategic sessions and one cooperation session were arranged .

The composition of the Board of EPSO-G as of 31 December 2020:

Full name	Position held	Term of office	Other positions	Education
Gediminas Almantas	Independent member Chairman	From 20 March 2019	Member of the Board of SE Oro Navigacija, Chairman of the Audit Committee	Master's degrees in Law from Vilnius University and the University of Bern, Switzerland; Industrial PhD fellow, Business Negotiation Ethics at Copenhagen Business School.
Dainius Bražiūnas	Member	From 20 March 2019	Ministry of Energy of the Republic of Lithuania, Head of the Energy Security Group; the member of the Board of Klaipėdos nafta AB	Vilnius Gediminas Technical University, Bachelor of Energy Sciences.
Gediminas Karalius	Member	From 20 March 2019	Ministry of Energy of the Republic of Lithuania; Senior Advisor of Energy Security Group;	Mykolas Romeris University, Master of EU Law; ISM University of Management and Economics, Master of Science in Management and Business Administration.
Tomas Tumėnas	Independent member	From 11 November 2019	CFO of Limedika UAB and the member of the Boards of the National Pharmacy Group and Linas Agro Group AB	Vilnius University, Master of Science in Financial Management; Aalborg University, Economics of International Business; Manchester Business School, Master of Science in Financial Management.
Robertas Vyšniauskas	Independent member	From 20 March 2019	CEO and the member of the Board of Valstybės investicinis kapitalas UAB; the member of the Board of Vilniaus vystymo kompanija UAB	Mykolas Romeris University, Master of EU Law.

Attendance and key decisions of the Board meetings in 2020:

ENDED 31 DECEMBER 2020 (thousand EUR, unless specified otherwise)

● Present
○ Absent

No	Meeting date	Gediminas Almantas	Dainius Bražiūnas	Gediminas Karalius	Tomas Tumėnas	Robertas Vyšniauskas
1.	January 9	●	●	●	●	●
2.	February 7	●	●	●	●	●
3.	February 28	●	●	●	●	●
4.	March 19	●	●	●	●	●
5.	March 26	●	●	●	●	●
6.	March 27	●	●	●	●	●
7.	April 17	●	●	●	●	●
8.	May 22	●	○	●	●	●
9.	May 29	●	●	●	●	●
10.	June 4	●	●	●	●	●
11.	June 16	●	●	●	●	●
12.	June 26	●	●	○	●	●
13.	July 28	●	●	●	●	●
14.	August 28	●	●	●	●	●
15.	September 25	●	●	●	●	●
16.	October 21	●	●	●	●	●
17.	November 4	●	●	●	●	●
18.	November 20	●	●	●	●	●
19.	November 25	●	●	●	●	●
20.	November 30	●	●	●	●	●
21.	December 10	●	●	●	●	●
22.	December 21	●	●	●	●	●

Key decisions of the Board 2020:

January 2020	February 2020	March 2020	April 2020	May 2020	June 2020
January 9 The report on the implementation of operational objectives for 2019 approved by the CEO of EPSO-G; the descriptions of the requirements for the selection of independent Board members for the Boards of EPSO-G Group companies Amber Grid, LITGRID and BALTPOOL approved; EPSO-G Group's business strategy for	February 07 The new wording of EPSO-G Group's Dividend Policy approved; the objectives of the CEO of EPSO-G for 2020 approved; a new version of EPSO-G's risk management methodology approved. February 28 An updated list of posts and organizational structure of EPSO-G approved; the report on the achievement of objectives of 2019 by the EPSO-G	March 19 Decisions to supplement the agenda of Amber Grid, LITGRID ordinary general shareholders made. March 26 Candidates for Amber Grid, LITGRID and BALTPOOL Board members nominated. March 27 Current debt obligations discussed; the regulations and activity plan of Innovation and Development	April 17 An updated list of posts and organizational structure of EPSO-G approved; the report on the implementation of EPSO-G Group's business strategy for 2017-2025 approved; the voting at Ordinary Shareholders' Meetings of the subsidiaries resolved; the Company's and consolidated annual report and the Company's and consolidated annual financial statements, profit distribution	May 22 Voting at the Ordinary General Meeting of Shareholders of LITGRID resolved. May 29 The essential terms of the overdraft agreement approved; the new composition of EPSO-G's Innovation and Development Committee approved; the group-level risk list of EPSO-G for 2020 approved.	June 04 Current debt obligations discussed. June 16 Decisions on initiating the selection of TETAS Board members made and the description of the requirements for the selection of an independent Board member approved. June 26 Voting at Extraordinary General Meetings of the subsidiaries resolved; the regulations of the

ENDED 31 DECEMBER 2020 (thousand EUR, unless specified otherwise)

2017-2025 approved.	Internal Audit Head approved.	Committee of EPSO-G for 2020 approved; EPSO-G Group's Compliance Management Policy approved.	project approved, and the Ordinary General Meeting of Shareholders initiated.		Remuneration and Nomination Committee of EPSO-G approved; the member of the Board of TETAS elected to the position of a member of the Board in the field of information technology competence.
July 2020	August 2020	September 2020	October 2020	November 2020	**December 2020**
July 28 The selection of an independent member of the Audit Committee initiated.	August 28 The member of the Board of TETAS to the position of a member of the Board in the field of strategic management elected; essential terms for EPSO-G and TETAS lending and borrowing using the Group's pool account service agreed upon.	September 25 A new version of EPSO-G Group's Transparency and Communication Policy approved; an Extraordinary General Meeting of Shareholders was initiated to elect the members of the Audit Committee.	October 21 Voting at the Extraordinary General Meeting of Shareholders of LITGRID resolved.	November 04 A new version of Integrated Planning and Monitoring Policy of the Group approved. November 20 EPSO-G Group's strategy project for 2030 approved. November 25 The participation in the activities of the Lithuanian Hydrogen Platform resolved. November 30 A new version of EPSO-G's Compliance Management Policy and Compliance Management Methodology approved; the activity plans of the Audit and Remuneration and Nomination Committees approved.	December 10 EPSO-G's operating budget for 2021 approved. December 21 The list of posts and organizational structure of EPSO-G, and senior and middle management post levels updated and approved; the list of EPSO-G's priority areas that will be subject to the compliance management process approved; the activity plans of the EPSO-G Board and the Innovation and Development Committee approved.

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7.5. Remuneration and Nomination Committee of EPSO-G (RNC)

Under the current Articles of Association of EPSO-G, the Remuneration and Nomination Committee shall be composed of at least 3 (three) members appointed by the Board for a period of up to 4 (four) years by a reasoned decision. The nomination of members of the Remuneration and Nomination Committee ensures that this Committee has at least 1 (one) independent member. The continuous term of office of a member of the Remuneration and Nomination Committee shall not exceed two consecutive terms of office.

In 2020, Mr. Gediminas Almantas, Mr. Dainius Bražiūnas and the Chair Mrs. Jolita Lauciuvienė served on the Remuneration and Nomination Committee.

The Remuneration and Nomination Committee of EPSO-G:

- Assists in carrying out the selections of candidates to the members of the bodies in all companies of the Group;
- Provides the companies of the Group with recommendations regarding the nomination of the members of the management bodies, entry into contracts with them and setting remuneration;
- Provides recommendations regarding the documents of the corporate governance of the Group of remuneration of the employees of the collegiate bodies, the companies of the Group, assessment of their activities;
- Provides recommendations on the Group's collegial bodies, management, executives and planning system of substitutions of critical positions.

16 (sixteen) meetings of the Remuneration and Nomination Committees were held in 2020.

The composition of the Remuneration and Nomination Committee of EPSO-G as of 31 December 2020:

Full name	Position held	Term of office	Other positions	Education
Jolita Lauciuvienė	Independent member, Chair	From 20 May 2019	Personalo vertė verslui UAB, Director	Vilnius University, Master of Economics; Lithuanian University of Educational Sciences, Bachelor of Psychological Sciences.
Dainius Bražiūnas	Member	From 29 March 2019	Ministry of Energy of the Republic of Lithuania, Head of the Energy Security Group; the member of the Board of Klaipėdos nafta AB	Vilnius Gediminas Technical University, Bachelor of Energy Sciences.
Gediminas Almantas	Independent member	From 29 March 2019	Member of the Board of SE Oro Navigacija; Chairman of the Audit Committee	Master's degrees in Law from Vilnius University and the University of Bern, Switzerland; Industrial PhD fellow, Business Negotiation Ethics at Copenhagen Business School.

Attendance and key decisions of the Remuneration and Nomination Committee in 2020:

ENDED 31 DECEMBER 2020 (thousand EUR, unless specified otherwise)

● - Present

○ - Absent

No	Meeting date	Jolita Lauciuvienė	Gediminas Almantas	Dainius Bražiūnas
1.	January 21	●	●	●
2.	February 12	●	●	●
3.	March 9	●	●	●
4.	March 16	●	●	●
5.	April 1	●	●	●
6.	June 10	●	●	●
7.	June 22	●	●	○
8.	July 24	●	●	○
9.	August 14	●	●	●
10.	September 9	●	●	●
11.	September 22	●	●	●
12.	October 7	●	●	●
13.	October 26	●	●	●
14.	December 2	●	●	●
15.	December 14	●	●	●
16.	December 16	●	●	●

Key decisions of the Remuneration and Nomination Committee 2020:

January 2020	February 2020	March 2020	April 2020	June 2020
January 21 The description of the selection requirements for the CEO of Amber Grid approved.	February 12 RNC report for 2019 approved.	March 09 Selection for the position of the CEO of Amber Grid performed; the draft remuneration policy for the CEO and members of the Board of LITGRID and Amber Grid approved. March 16 Recommendations on the composition of the Boards of LITGRID, Amber Grid and BALTPOOL given; EPSO-G common areas for business improvement in 2020 approved.	April 01 Recommendations on the composition of the Board of GET Baltic given; an amended standard form of employment contract for Amber Grid employees approved.	June 10 The new version of the regulations of EPSO-G's Remuneration and Nomination Committee and the approval of the periodic information to EPSO-G's Remuneration and Nomination Committee approved; the updated activity plan of EPSO-G's Remuneration and Nomination Committee for 2020 approved. June 22 Selection to the position of a member of the Board of TETAS information technology competence field performed.

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July 2020	August 2020	September 2020	October 2020	December 2020
July 24 Ongoing selection for the position of a member of the Board of TETAS in strategic management field.	August 14 Recommendation to the LITGRID's Board on suitable candidate (s) for the post of acting CEO of LITGRID provided.	September 09 The new version of EPSO-G Group's Transparency and Communication Policy approved; recommendations on policies attributed to the Remuneration and Nomination Committee and on the substitution plans of the Group companies given.	October 07 Recommendations on remuneration ranges given; the activity plan of the Remuneration and Nomination Committee for 2021 discussed. October 26 Selection to the CEO of LITGRID performed.	December 02 Recommendations on the organizational structure and post levels of senior management given; the new version of the guidelines for the annual self-assessment of the collegial bodies of EPSO-G Group companies approved. December 14 - December 18 Selection to the CEO of LITGRID performed.

7.6. Audit Committee of EPSO-G (AC)

According to the current version of the Articles of Association of EPSO-G, the Audit Committee shall be composed of at least 3 (three) members appointed by the sole shareholder of EPSO-G for a maximum period of 4 (four) years, subject to the recommendations of the Remuneration and Nomination Committee (if any). The continuous term of office of a member of the Audit Committee shall not exceed 2 (two) consecutive terms. Only an independent member may be elected to chair the Audit Committee.

During the reporting period (i.e. 19 September 2020) a four-year term of office of the Audit Committee ended. Following the selection, with reference to the recommendation of the Remuneration and Nomination Committee, as from 22 October 2020 the sole shareholder formed the Audit Committee of the same composition. During the reporting period, the Audit Committee had two independent members, Mr. Gediminas Šiušas and Mr. Robertas Vyšniauskas, as well as Mr. Gediminas Karalius, a member of the EPSO-G Board nominated by the Ministry of Energy.

The Audit Committee periodically (at least once every two years) reviews the Regulations of the Audit Committee and may initiate their updating. During the reporting period, the Audit Committee initiated amendments to the Regulations approved by the Meeting on 30 April 2020.

The Audit Committee of EPSO-G:

- Carries out the monitoring of the preparation and auditing of the financial statements of the Group companies;
- Is responsible for the ensuring of the observance of the independence and objectivity principles by the auditors of the Group companies and of audit companies;
- Is responsible for the monitoring of effectiveness of the internal control of the Group companies, risk management and internal audit systems, activity processes;
- Is responsible for the control of provision of non-audit services by the auditor of the Group companies and / or audit firm; evaluates the transactions concluded by the Group companies, the shares of which are admitted to trading on a regulated market, with the parties concerned.

20 meetings of the Audit Committees took place during the reporting period.

The composition of the Audit Committee of EPSO-G and its changes as of 31 December 2020:

ENDED 31 DECEMBER 2020 (thousand EUR, unless specified otherwise)

Full name	Position held	Term of office	Other positions	Education
Gediminas Šiušas	Independent member Chairman	From 12 September 2016 to 12 September 2020 and from 22 October 2020	Western Union Processing Lithuania UAB	Stockholm School of Economics in Riga, Bachelor of Economics and Business Administration; Vilnius University, Bachelor of Management and Business Administration; Vilnius University, Master of Economics.
Gediminas Karalius	Member	From 21 September 2018 to 12 September 2020 and from 20 March 2019	Ministry of Energy of the Republic of Lithuania; Senior Advisor of Energy Security Group	Mykolas Romeris University, Master of EU Law; ISM University of Management and Economics, Master of Science in Management and Business Administration.
Robertas Vyšniauskas	Independent member	From 15 April 2019 to 12 September 2020 and from 22 October 2020	CEO and the member of the Board of Valstybės investicinis kapitalas UAB; the member of the Board of Vilniaus vystymo kompanija UAB	Mykolas Romeris University, Master of EU Law.

Attendance and key decisions of the Audit Committee in 2020:

● - Present

○ - Absent

No	Meeting date	Gediminas Šiušas	Gediminas Karalius	Robertas Vyšniauskas
1.	January 27	●	●	●
2.	February 24	●	●	●
3.	March 6	●	●	●
4.	March 10	●	○	●
5.	March 23	●	●	●
6.	March 30	●	●	●
7.	April 6	●	●	●
8.	April 16	●	●	●
9.	April 20	●	●	●
10.	May 4	●	●	●
11.	May 18	●	●	●
12.	May 25	●	●	●
13.	June 22	●	●	●
14.	July 27	●	●	●
15.	August 24	●	●	●
16.	October 26	●	●	●
17.	October 29	●	●	●
18.	November 9	●	●	●
19.	November 23	●	●	●
20.	December 7	●	●	●

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Key decisions of the Audit Committee 2020:

January 2020	February 2020	March 2020	April 2020	May 2020	June 2020
January 27 The risk management plans of EPSO-G and BALTPOOL for 2020 approved; the new wording of the Group's internal audit plan for 2018 - 2020 approved.	February 24 The risk management plans of Amber Grid, TETAS ir GET Baltic for 2020 approved; the report on the achievement of objectives for 2019 and for 2020 by the Internal Audit Head approved.	March 06 The AC opinion on LITGRID's transaction with the related party Baltpool approved. March 10 Opinion on separate and consolidated financial statements of BALTPOOL and GET Baltic for 2019 approved. March 23 Opinion on separate and consolidated financial statements of LITGRID and Amber Grid for 2019 approved. March 30 Opinion on financial statements of TETAS for 2019 approved.	April 06 LITGRID's risk management plan for 2020 approved. April 16 Opinion on separate and consolidated financial statements of EPSO-G for 2019 approved. April 20 An external auditor was allowed to participate in a public procurement performed by one of the Group companies (for non-audit services).	May 04 4 opinions of the AC on LITGRID's transactions with related parties approved; the technical specification for the procurement of financial statement audit services and the minimum qualification requirements for suppliers approved. May 18 An external auditor was allowed to participate in a public procurement performed by one of the Group companies (for non-audit services). May 25 Opinions on LITGRID's transaction with a related party approved; the group-level risk list approved.	June 22 2 opinions of the AC on transactions with related parties approved.

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July 2020	August 2020	October 2020	November 2020	December 2020
July 27 After assessing the results of the risk management indicators of Q2 2020 the Audit Committee made recommendations to one of the Group companies regarding the addition of the risk list the plan of management measures.	August 24 The report on the conclusions of the selection procedures of the Group's external auditor was approved and for the Boards of the Group companies it was recommended to propose to the General Meetings of Shareholders to elect an audit firm PricewaterhouseCoopers UAB to audit the financial statements for 2020-2021.	October 26 The Audit Committee of the new term elected Mr. Gediminas Šiušas the Chairman; when implementing the previous recommendations of the Audit Committee, the proposals submitted by one of the Group companies to supplement the risk list and the plan of management measures were approved. October 29 Allowed PricewaterhouseCoopers UAB to provide tax consulting services to the Group companies (specified in the request).	November 09 After assessing the results of the risk management indicators of Q3 2020 the Audit Committee made recommendations to one of the Group companies; the Audit Committee with the representatives of PricewaterhouseCoopers UAB discussed the plans of audits for 2020. November 23 Amendments to the Group's Compliance Management Policy and the draft Group's Compliance Management Methodology approved; the risk lists and plans of management measures of Amber Grid and GET Baltic for 2021 approved.	December 07 The priority areas presented by EPSO-G, LITGRID and Amber Grid subject to the compliance management process approved; the risk lists and plans of management measures of LITGRID, EPSO-G, TETAS and Baltpool 2021 approved; 2 opinions of the AC on LITGRID's intention to enter into transactions with a related party approved.

7.7. Innovation and Development Committee (IDC)

In line with the Articles of Association of EPSO-G, the EPSO-G Board has the right to set up temporal (*ad hoc*) or permanent specialized committees tasked with examining and making proposals and recommendations on areas and issues falling within the competence of such committees to the EPSO-G Board or other bodies of the Group or Group companies in order to ensure an effective internal control system and operational risk management at the Group level.

The Innovation and Development Committee is an advisory body to the EPSO-G Board on innovation, development and efficiency. It acts in the same way as the Audit Committee and the Remuneration and Nomination Committee - at the Group level, i.e. may submit conclusions, opinions, recommendations and proposals to the Board of the competent Group company on issues related to the functions and responsibilities of the Innovation and Development Committee.

The Board approves and amends the regulations and the action plan of the Innovation and Development Committee, and forms tasks for the Committee.

The purpose of forming the Innovation and Development Committee: (i) increasing focus on innovations, search for new activities of the Group, operational efficiency; (ii) synergies of innovative ideas at the Group level and coordination of innovation directions; (iii) greater engagement of independent members of the Board in the activities of the Group, use of their knowledge and experience; (iv) the members of the Innovation and Development Committee shall act as ambassadors for innovation, development and efficiency in the Group companies.

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The composition of Innovation and Development Committee and its changes as of 31 December 2020:

Full name	Position held	Term of office	Other positions	Education
Sigitas Žutautas	Independent member, Chairperson*	From 29 November 2019	Independent member of the Board of Amber Grid Ab, the Director of Būsto paskolų draudimas UAB	Vilnius University, Bachelor of Economics and Banking, Master of Accounting and Auditing. Baltic Institute of Corporate Governance, studies of a professional board member.
Tomas Tumėnas	Independent member	From 29 November 2019	Independent member of the Board of EPSO-G; CFO of Limedika UAB; the member of the Board of Linas Agro Group AB	Vilnius University, Master of Science in Financial Management; Aalborg University, Economics of International Business; Manchester Business School, Master of Science in Financial Management.
Šarūnas Nedzinskas	Independent member	From 29 November 2019 to 20 April 2020	Independent member of the Board of LITGRID AB	ISM University of Management and Economics, Doctor of Social Sciences, Strategic Management; Vilnius University, Master of Economics.
Tomas Urmanavičius	Member	From 29 November 2019 to 31 May 2020	Finance Control Director of EPSO-G UAB and the member of the Board of BALTPOOL UAB	Vilnius University, Bachelor of Economics; Vrije University of Amsterdam, Master of Financial Management.
Artūras Vilimas	Independent member	From 1 June 2020	Independent member of the Board of LITGRID AB	Kaunas University of Technology (KTU), Engineering Degree
Gediminas Mikaliūnas	Independent member	From 1 June 2020	Independent member of the Board of BALTPOOL UAB, Head of Automation and Transformation of IT Operations at Barclays IT	Baltic Management Institute, Executive MBA programme; Vilnius University, Master of Information Technology

* The Chairman of the Innovation and Development Committee as from 6 January 2020, re-elected on 17 June 2020.

No	Meeting date	Sigitas Žutautas	Tomas Tumėnas	Šarūnas Nedzinskas	Tomas Urmanavičius	Artūras Vilimas	Gediminas Mikaliūnas
1.	January 6	●	●	●	●	–	–
2.	February 5	●	○	●	●	–	–
3.	March 12	●	○	●	●	–	–
4.	June 17	●	●	–	–	●	●
5.	September 9	●	●	-	-	●	○
6.	October 29	●	●	-	-	●	●
7.	December 15	●	●	-	-	●	●

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Key decisions of the Innovation and Development Committee 2020:

January 2020	February 2020	March 2020	June 2020
January 6 The first IDC meeting, during which Mr. Sigitas Žutautas was elected the Chairman, the current situation in the functional area of the Group's innovations discussed.	February 05 Joint meeting attended by the Group's innovation curators. The current situation in the field of innovation in the Group companies was discussed.	March 12 The issue of solar power plants in LITGRID transmission network objects was discussed. The Committee's activity plan and regulations were approved. The status report of the innovation project portfolio was revised.	June 17 The first formal meeting of the newly approved IDC. Mr. Sigitas Žutautas was re-elected Chairman of the Committee. During the meeting, the status of LEAN implementation in the Group companies was discussed, as well as the regulatory environment for energy innovation was reviewed.

September 2020	October 2020	December 2020
September 09 The project *Installation of Energy Storage Facilities (200 MW)* was discussed and the opinion of the IDC on the grounding and need of the project and related risks was formed; the system of innovation promotion in the Group companies was discussed.	October 29 The course of the project *Installation of Energy Storage Facilities (200 MW)* was discussed; the current situation of asset management efficiency of transmission system operators was discussed; the status report of the innovation project portfolio was revised.	December 15 The development of the Group companies was reviewed and new opportunities for implementing the new EPSO-G strategy were discussed.

7.8. Chief Executive Officer

The Chief Executive Officer of EPSO-G is appointed by the Board of the Company taking into account the recommendations of the Remuneration and Nomination Committee. The Chief Executive Officer is accountable to the Board.

The current Chief Executive Officer of EPSO-G, Mr. Rolandas Zukas, has held the post since 17 February 2015. In accordance with the Article 37[1] of the Law of the Republic of Lithuania on Companies, the first five-year term of office of the CEO commenced on 1 January 2018.

The Chief Executive Officer of EPSO-G:

- Organizes and controls the implementation of the Group's activities strategy;
- Controls the activities of the subsidiaries, makes suggestions and conclusions to the EPSO-G Board regarding the organization of the Group's activities and development thereof;
- Organizes and ensures the monitoring of the implementation of the strategy, long-term (strategic), short-term (tactical) objectives of the subsidiaries, the activities assessment, makes suggestions to the EPSO-G Board regarding the activities improvement;
- Ensures that the Group's corporate governance documents are submitted to the Group companies, and the reports of the implementation of the Group's corporate governance documents are submitted in a timely manner to the Board of EPSO-G.

7.9 Additional information on the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer and the Head of the Internal Audit:

Mr. Gediminas Almantas (Chairman of the Board) - Mr. Almantas has been the Chairman of the EPSO-G Board since 30 March 2019. Mr. Almantas is a professional with an extensive experience in business strategy and corporate governance. He is an independent member of the Board of SE Oro Navigacija, the Chairman of the Audit Committee, and the Chairman of the Lithuanian Red Cross Society and the Board of the Open Lithuania Foundation. In 2014-2018, he was the CEO of the Lithuanian Airports, and was engaged in the fields of aviation and law. Mr. Almantas has been on the EPSO-G Board since 2016.

Mr. Almantas holds a Master's degree in Law from Vilnius University and the University of Bern, and Industrial PhD fellow of Business Negotiation Ethics at Copenhagen Business School.

Mr. Rolandas Zukas (Chief Executive Officer) - Mr. Rolandas Zukas has been holding the office of the Chief Executive Officer of EPSO-G since 17 February 2015. He worked before as the Department Director of the LNGT terminal of Klaipėdos nafta AB, was the member of the Board and the CEO of Energijos Tiekimas UAB. Mr. Zukas is the member of the Board of the Lithuania's National Energy Association (Lith. NLEA).

Mr. Zukas holds a university degree in the fields of Transport Engineering Economics (Vilnius University, the Bachelor's degree) and Management (ISM, the Master's degree).

Mr. Žydrūnas Augutis (Chief Financial Officer) - with more than 20 years of experience in financial accounting and taxation, Mr. Augutis has been the Chief Financial Officer of EPSO-G since 29 April 2019. Prior to joining EPSO-G, he held the position of the Chief Financial Officer of the subsidiary Litgrid, managed the accounting department of Lietuvos Dujos AB (following the separation of the transmission activities from it, Amber Grid was established). In 2017-2019, Mr. Augutis was a member of the Board of EPSO-G's subsidiary TETAS.

Mr. Augutis holds a Master's degree in Accounting and Auditing from Vilnius University.

Mrs. Rasa Juodelytė (Head of Internal Audit) has been the Head of EPSO-G centralized Internal Audit Department since 2 January 2017. Prior to joining this position, for four years she was responsible for the Internal Audit Department's activities at the subsidiary Litgrid; she held the same position while working for the international company of wholesale and retail trade of petroleum products. Mrs. Juodelytė is a member of the Audit and Risk Committee of Ignalina Nuclear Power Plant.

Mrs. Juodelytė holds a Master's degree in Accounting and Audit from Vilnius University.

The CVs of the members of the Board of the Company and its Committees as well as the Chief Executive Officer are published on the website of EPSO-G: www.epsog.lt.

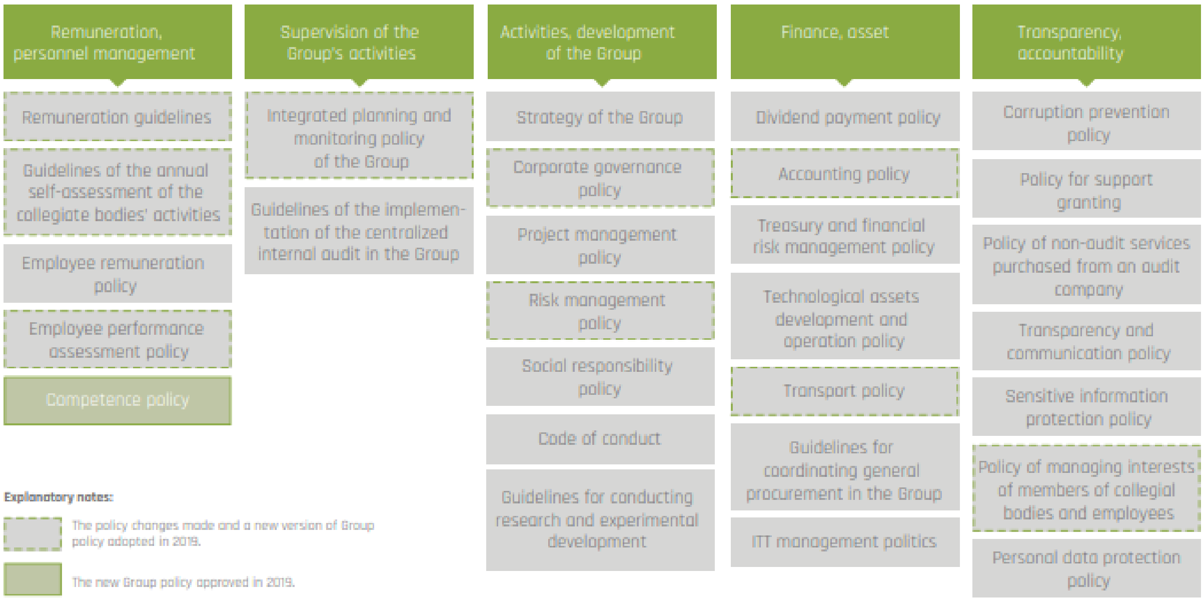
7.10 Operating policies

Good governance practices in EPSO-G Group were implemented during the reporting period through the application and continuous targeted improvement of the operating policies approved by the Board, applicable to all the Group companies.

The operating policies of EPSO-G Group are intended to implement a consistent and effective organizational management system helping the employees in successful implementation of important strategic projects and transparent and effective benefit creation for both the people of the country and the business.

To ensure the efficiency of the operating policies, all companies of the Group annually reports on the progress of implementation of the operating policies to the Board of the holding company EPSO-G.

By implementing the goals set out in the Shareholder's Letter of Expectations, the holding company EPSO-G has established the main principles and, in some cases, the specific rules in these fields at the Group level:



During the reporting period, one new Compliance Management Policy of the Group was added and three policies were updated:

- Integrated Planning and Monitoring Policy;
- Dividend Payment Policy;
- Transparency and Communication Policy.

The policies or summaries thereof are published on EPSO-G website www.epsog.lt in the menu item *Operating Policies*.

Functional area governance model

The holding company EPSO-G employs a functional leadership model that, based on international practice, creates the greatest value for the Group companies.

Using the functional leadership model, the holding company EPSO-G:

- Mostly focuses on operational efficiency, shared resources and centralized services;
- Allocates resources and enhances competence for key, long-term value creation activities - strategy development, investment management and innovation;
- Defines the policies of the Group companies, standardizes the core processes of the Group;
- Promotes the sharing of good practices among the patronized companies and supports initiatives to improve performance.

Effectiveness of the governance model

The effectiveness of the governance model is measured by EPSO-G through an employee engagement survey. Based on the survey results, areas for improvement are identified and the further action plan for the development of the organization is adjusted accordingly.

7.15 Self-assessment and results of the activities of the collegial supervisory and management bodies

With respect to the guidelines prepared by the Remuneration and Appointment Committee, at the beginning of 2021, the governing bodies of the holding company EPSO-G and its subsidiaries carried out the self-assessment of their activities of 2020.

The summarized assessments of the members of each collegial body were discussed during the meeting of each collegial body. The fields of activity to be improved were identified and the directions for improvement of the operational processes were established by drawing up a coherent plan of actions and tasks for the year 2021.

The evaluation of its performance carried out by collegial bodies was coordinated and summarised by the Remuneration and Appointment Committee of EPSO-G.

The Remuneration and Appointment Committee identified the following key areas for improvement for 2021:

- more focus on solving strategic issues in order to optimize the work organization of collegial bodies;
- increased cooperation with the EPSO-G's Board and Committees to respond more effectively to the expectations and needs of a particular collegial body;

7.16 **Information on compliance with the Code of Conduct**

The holding company EPSO-G complies with the provisions of the Corporate Governance Code of the Companies listed on NASDAQ OMX Vilnius (available at: www.nasdaqbaltic.com). The Code applies to the extent that the Articles of Association of the Company do not provide otherwise. The Company discloses its compliance with the provisions of the Corporate Governance Code in Annex II to this Annual Report.

7.17 . Information on Compliance with Transparency Guidelines

EPSO-G Group companies follows the Resolution No 1052 *On the Approval of the Description of the Guidelines for Ensuring Transparency of Activities of State-Owned Enterprises* of the Government of the Republic of Lithuania of 14 July 2010 (the "Transparency Guidelines").

The Transparency Guidelines are binding on the holding company EPSO-G, as it is a state-owned enterprise, classified as a large enterprise in accordance with the Law on Corporate Financial Reporting of the Republic of Lithuania.

In order to comply with the Transparency Guidelines within EPSO-G Group companies, the Group applies the Transparency and Communication Policy that addresses in detail the requirements of the Transparency Guidelines and determines their scope of application for the companies of the Group.

The implementation of the Transparency Guidelines is essentially ensured through the information disclosed in the Annual Report and the disclosure of information on the websites in order to provide information to stakeholders in an accessible and understandable form.

Structured information on compliance with the Transparency Guidelines is provided in Annex I to this Annual Report.

8. REPORT ON THE IMPLEMENTATION OF THE REMUNERATION POLICY

We create an open, progressive organization guided by the objectives of sustainable development, where the professional partnership between an employer and employees prevails, where everyone has opportunities for self-realization, grows together with the organization and is able to take responsibility for their decisions and actions.

In our activities we are guided by these values: professionalism, cooperation and progress.

When implementing the strategic and business goals set by the shareholder: to create an energy transmission and exchange platform interconnected with the European Union countries and enabling sustainable and efficient energy exchange for regional consumers, and thus increasing the competitiveness of the country's business and the well-being of Lithuanian people, we seek to attract and retain competent, responsible professionals following the provisions of the Group's Code of Conduct and reaching their targeted goals.

We constantly foster employee improvement and upgrade of their skills. We develop employees' professional (functional) and general (values-based) competencies. We pay much attention to the development of managerial competencies.

We set goals related to the strategy for employees and evaluate their achievement. We encourage all employees to propose and implement innovations in their activities: from innovative work methods and tools that facilitate everyday processes to breakthrough innovations that lead to new activities.

We operate efficiently, ensure optimal operating costs and investments based on the best possible cost-benefit ratio, and we are responsible in managing the remuneration budget. We pay employees a performance-based salary, offer incentives for achieving goals that require additional efforts.

8.1 Formation and monitoring of the Remuneration and Nomination Policy

The Board of the Company is responsible for the implementation and supervision of the Remuneration Policy of EPSO-G.

In order to ensure the proper formulation, monitoring and management of the remuneration fund, EPSO-G Group has a three-member Remuneration and Nomination Committee, the majority of which are independent members.

When performing this function, the Remuneration and Nomination Committee of EPSO-G:

- Provides recommendations regarding the terms and conditions of the contracts entered into with the members of the Board and / or heads, including the maximum amount of the remuneration for these persons, the maximum annual operating budget for their remuneration;
- Prepares the main criteria of the assessment of the activities of the heads of the companies of EPSO-G Group and the remuneration guidelines applicable when establishing the remuneration for the activities in the Board, the Remuneration and Nomination Committee, the Audit Committee, other specialized committees, if any are formed, of the subsidiaries of the Company and the Group. The committee reviews their implementation at least once a year;
- Makes suggestions to the management bodies regarding the individual salaries for the management personnel and the members of bodies in order they would meet the remuneration guidelines and the assessment of the activities of these persons;
- When performing this function, the Remuneration and Nomination Committee is informed about the total remuneration received by the management personnel and the members of the bodies from the other related companies;
- Ensures that the individual salaries paid to the management personnel and/or to the members of the governing body would be in proportion with the salary of other management personnel of the Company and/or of the Group companies or of the members of the bodies and of other employees of the subsidiaries of the Company and/or the Group companies;
- Provides recommendations regarding the policy established by the Board of payment for the work of the heads, deputy heads and other management personnel of the subsidiaries and sub-subsidiaries of the Company, also regarding the review of the policy and its implementation at least once a year;
- Monitors and provides conclusions on how the Company and the companies of EPSO-G Group comply with the valid provisions concerning the publication of information related to salaries;
- Provides the management personnel of the companies and/or the members of the bodies the general recommendations regarding an amount and structure of the salaries of these employees and/or members

of bodies, also the recommendations to monitor an amount and structure of their salaries based on the information provided by the Company and the subsidiaries of the Group companies;

- Collects and systematises all information collected and received in the spheres of its competence, and on the basis of such information provides recommendations to the relevant body of the Group companies and, when necessary, directly to the Supervisory Board;
- Once a year the Remuneration and Nomination Committee reports in writing to the Board about its activities covering one calendar year;
- The Board and other bodies of the Company and / or of the subsidiaries of the Group companies shall have the right to apply to the Remuneration and Nomination Committee and to provide conclusions on the specific issues raised by them if such the issues fall within the Competence of the Remuneration and Nomination Committee.

8.2 Remuneration Policy

The uniform remuneration policy based on the principles of responsibility and accountability has been introduced in the companies of EPSO-G Group. The aim of the policy: effective management of the salary costs of the Group and creation of motivational incentives in order an amount of salary would depend directly on the implementation of the objectives pursued by the Company and each employee.

This means that the performance of the employee is considered when determining the remuneration. Therefore, the remuneration of the employees of EPSO-G consists of two components, i.e. fixed and variable. The component depends on the responsibility level related to the position held, which is determined according to the methodology applied in the international practice. The variable pay component of remuneration is paid when the individual objectives established during the annual assessment are achieved and the companies report to the shareholder and the Board for the achievement of the annual objectives of the company.

Based on international good governance practice, the Remuneration Policy of EPSO-G is approved or changed by the Board only after the Remuneration and Nomination Committee, which includes independent members, provides its recommendations.

All companies of the Group are subject to the same principles of the Remuneration Policy:

- The identical principles of the Remuneration Policy are applied for both the executives and employees.
- The remuneration fund is approved by the Boards of the companies. The Remuneration and Nomination Committee monitors whether there is a balanced control of salary costs with motivation of the employees who are properly performing their duties.
- The remuneration of the executives and employees of EPSO-G consists of two components: fixed and variable.
- The fixed component depends on the level of responsibility of the position. It is determined according to a methodology recognized and widely used in international practice.
- The variable pay component is paid when individual goals set during the annual performance assessment are attained, and the company reports to the Board for the achievement of annual goals.
- Annual goals for executives and employees are set in accordance with the Employee Performance Assessment Policy of EPSO-G Group companies.
- The variable pay component of remuneration is not paid if performance results do not meet the expectations according to the established evaluation criteria and the financial results are assessed as unsatisfactory.
- The variable pay component of remuneration is not a bonus. It cannot exceed 20-30 percent of the fixed component of remuneration.
- The amount of variable pay component of remuneration is estimated in the company's budget and recorded in the financial result, which is audited and made public.
- The variable pay component of remuneration of the company's CEO depends on the implementation of the goals set out in the company's strategy, which are announced publicly on the company's website.

- The variable pay component of remuneration is not paid to members of the collegial bodies.
- Severance pays are paid to employees in accordance with the procedure laid down in the Labour Code of the Republic of Lithuania and in employment contracts.
- Severance pays do not exceed amounts other than that established by the legal acts of the Republic of Lithuania, other than exceptional cases, when for objective reasons higher amounts are agreed upon. The relevant board of the Group company must be informed about the payment of such amounts and the grounds for their payment at its subsequent meeting.
- The amount of work, remuneration, as well as severance pay of the top management of companies is determined by the board of the company.
- It is provided that performance of particular importance not foreseen for in the employee's annual targets may, in exceptional cases, be subject to an incentive payment not exceeding the amount specified in the policy. The relevant board of the Group company must be informed on the above at its next meeting.
- Prior agreements on severance pays, except for company directors whose terms of employment are determined by the Board, are not concluded.
- The Remuneration Policy does not provide for any remuneration by granting a CEO, a member of the collegial body or an employee the right to the shares, stock options or the right to receive remuneration based on changes in share prices other financial instruments.
- The companies of EPSO-G Group reward their employees in emotional non-financial form in order to promote their engagement and loyalty. Indirect reward includes events for the employees, recognition and appreciation for very good performance.

In order to ensure the effectiveness of the Remuneration Policy, the fixed and variable pay components of remuneration are made public by groups of posts. This creates assumptions for the companies of EPSO-G Group companies to adequately remunerate the employees, who reach the objectives and exceed expectations, on the basis of the average market value.

The assessment of the competitiveness of companies and employees' remuneration is based on market research data. In the preparation of the Remuneration Policy of EPSO-G, the services of external consultants were not used.

8.3 Employee performance assessment

Employee performance assessment is one of the most important conditions of management and effective leadership that helps achieving the objectives of EPSO-G Group companies and creating a positive relationship between the leaders and their subordinates, allows planning employee careers, increasing their motivation and engagement.

An annual performance review is a performance assessment tool ensuring that personal objectives of EPSO-G employees are tailored to the objectives of the Company. The performance review is intended to discuss and set measurable, time-defined and motivating objectives for the employees.

The annual and interim performance reviews are intended to assess the achievement of objectives set for an employee of EPSO-G and to set the new ones, forms a feedback culture between a leader and a subordinate. The need for the employee's competence development and further professional growth, and career opportunities are discussed during the review as well.

In the companies of EPSO-G Group, individual objectives are discussed with each employee and set annually. Their implementation has a direct impact on the variable pay component, which also depends on the overall achievement of the Company's objectives.

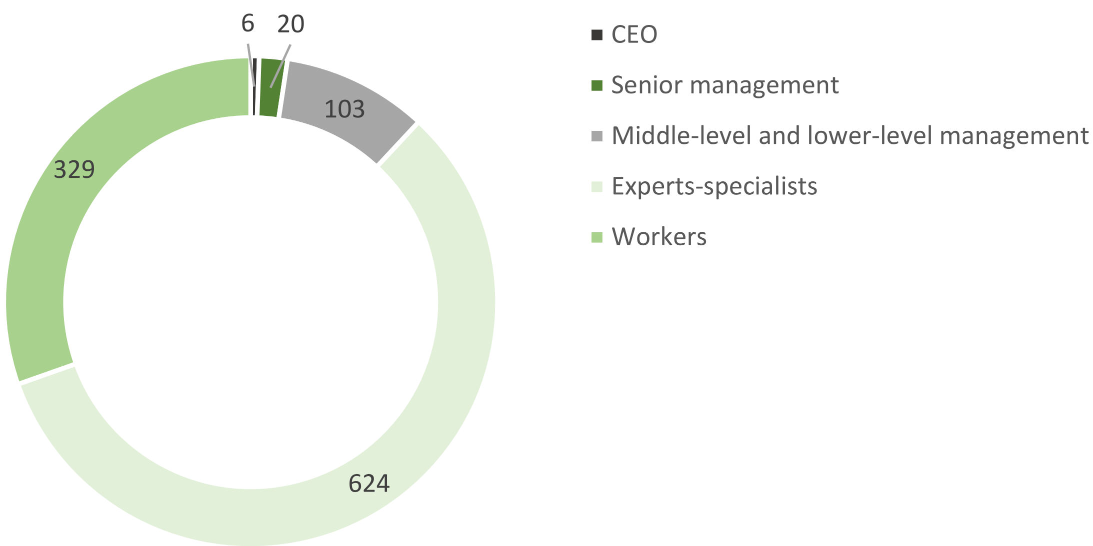
ENDED 31 DECEMBER 2020 (thousand EUR, unless specified otherwise)

8.4 Employees

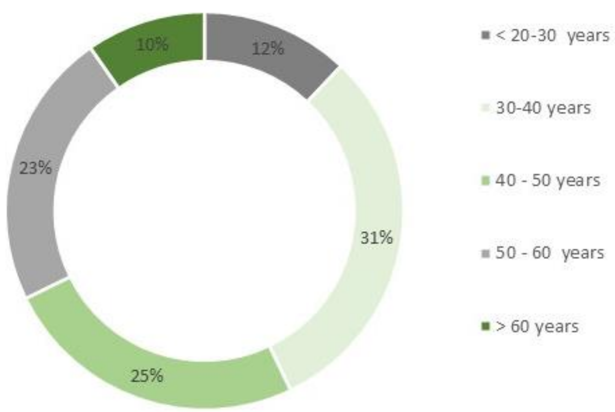
Number of employees in EPSO-G Group companies and separate companies

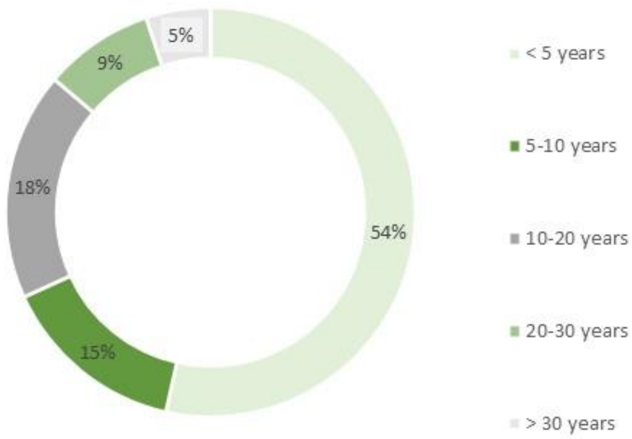
	As at 31 December 2020	As at 31 December 2018
EPSO-G Group companies	1,081	993
EPSO-G	32	25
Amber Grid	319	316
Litgrid	308	290
Tetas	395	338
Baltpool	18	17
Get Baltic	9	7

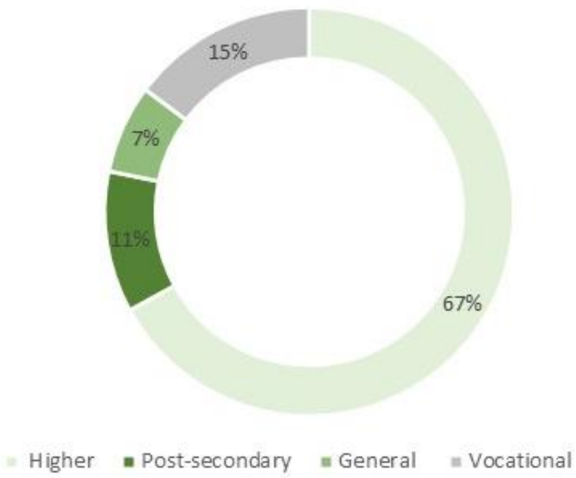
Distribution of employees by position groups as of 31 December 2020 (people)

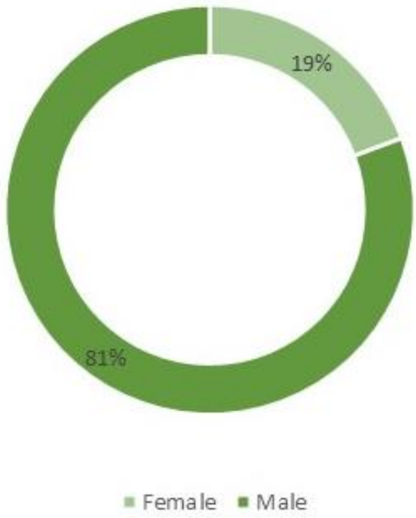


Distribution of employees by service record, age group, educational background, gender as of 31 December 2020 (%)









8.5 Information on remuneration

As at 31 December 2020, EPSO-G Group had 1,081 employees (as at 31 December 2019: 993 employees).

Wage Guarantee Fund of EPSO-G Group for 2020 was EUR 29,885 thousand (2019: EUR 26,577 thousand).

Information on average monthly pay

Average monthly pay by category of employees	Group			
	Number of employees (at the end of the period)		Average monthly pay (including the variable pay component)	
	2020	2019	2020	2019
CEO	6	6	9,094	9,328
Senior management	20	16	7,650	7,279
Middle-level management	103	93	4,326	4,162
Specialists	623	585	2,385	2,212
Workers	329	293	1,257	1,175
Total	1,081	993	2,339	2,184
Wage Fund, EUR '000			29,885	26,577

Information on the holding company EPSO-G's fixed and variable pay components

Average monthly pay by category of employees	Company					
	Number of employees (at the end of the period)		2020		2019	
	2020	2019	Average monthly pay, EUR	Variable pay component for results achieved in 2019, EUR	Average monthly pay, EUR	Variable pay component for results achieved in 2018, EUR
General Manager	1	1	8,040	2,179	7,956	2,084
Senior management	4	4	6,838	1,971	6,111	1,445
Middle-level management	12	9	4,594	924	4,323	1,003
Specialists	15	8	2,769	400	2,972	564
Total	32	25	4,280	904	4,286	980
Wage Guarantee Fund, EUR '000				1,609		1,403

8.6 Information on renumeration of collegial members

The members of EPSO-G's supervisory and management bodies are appointed for the term of office of four years. Civil contracts detailing their responsibilities, duties, rights and functions are concluded with them.

In 2019, the sole shareholder of the holding company, the Ministry of Energy, approved the updated EPSO-G's Remuneration Guidelines. They came into force as from 1 December 2019 and were applied in 2020.

In 2020, the following amounts of remuneration were set for independent members of the Board (before taxes):

- EUR 2,150 (two thousand one hundred and fifty euros), taking into account the additional administrative functions of the chairman of the collegial body, for the Chairman of the Board also holding the position of at least one member of the Board's Committee formed in the Group; and for the Chairman of the Committee also serving as an independent Board member in the Group;
- EUR 1,800 (one thousand eight hundred euros), considering the additional administrative functions of the chairman of the collegial body, for the Chairman of the Board, who does not hold any of the positions of a member of the Board's Committee formed in the Group;
- EUR 1,750 (one thousand seven hundred and fifty euros) for independent members of the Board also holding the position of at least one member of the Board's Committee formed in the Group;
- EUR 1,400 (one thousand four hundred euros) for independent members of the Board, who do not hold any of the positions of a member of the Board's Committee formed in the Group;
- EUR 850 (eight hundred and fifty euros) for independent members of the Board's Committee who are not independent members of the Boards. These members acting as the Chairman of the Board's Committee are remunerated EUR 1,100 (one thousand one hundred euros);

Given that the above amounts have been calculated in accordance with the applicable tax legislation, i.e. including taxes payable in the event of a change in the tax regime, until new decisions on remuneration are made, the remuneration paid to members of collegial bodies after tax shall not change compared to the estimated amount based on the above amounts.

It was established that in case an independent member of the Board is elected a member of the Board's Committee formed in the Group and / or the Chairman of the Board, or an independent member of the Board is revoked / resigns from the position of a member of the Board formed in the Group and / or the chairman of the Board, the remuneration of such independent member of the Board shall be changed based on the above-mentioned amounts of remuneration of the independent members of the Board of the Company. Accordingly, the General Manager of the Company shall be authorized and obliged to sign on behalf of the Company the amendments to agreements with independent members of the Board of the Company, establishing such changes in the remuneration of the respective independent members of the Board.

The variable pay component is not paid to members of the collegial bodies.

The members of the Board of EPSO-G, appointed by the only shareholder, the Ministry of Energy, are not remunerated under a civil contract of a member of the Board.

The remuneration for the execution of the rights and obligations of the shareholder in the subsidiaries in accordance with the civil contract of a member of the Board is not paid also to members of the Board who are appointed by the holding company EPSO-G as the largest shareholder. This principle is applicable for the subsidiaries appointing members to their subsidiaries.

The contracts entered into with the members of supervisory and management bodies do not grant any rights to the shares of the companies of EPSO-G Group, other forms of remuneration or additional benefits.

The contracts do not provide for any severance pays and notice periods.

Information on activities and payouts for collegial members of the holding company EPSO-G's supervisory and management bodies:

	As of 31 December 2020	As of 31 December 2019
Number of meetings of collegial supervisory and management bodies	65	56
Number of members of collegial bodies remunerated (persons)*	5	9
Payouts related to members of management bodies (thousand EUR)	92	58

* As of 31 December 2019, the remuneration was paid to 5 members of collegial bodies.

Information on individual payouts for collegial members of supervisory and management bodies

Full name of the member	As of 31 December 2020	As of 31 December 2019
Gediminas Almantas*	25,800	18,285
Robertas Vyšniauskas*	20,542	12,400
Tomas Tumėnas*	21,000	1,400
Gediminas Šiušas**	11,760	9,430
Jolita Lauciuvienė**	13,200	5,706

* total remuneration for activities as an independent member of the Board and a member of a corresponding EPSO-G Group's Board Committee;

** remuneration for activities as a member of EPSO-G Group's Board Committee.

8.7 LEGAL DISPUTES AND UNCERTAINTIES

Information on legal disputes and uncertainties is disclosed in Note 38 to the financial statements of this Annual Report.

8.8 INFORMATION ON SPECIFIC OBLIGATIONS

The company Baltpool, which is part of EPSO-G Group, under the Resolution No 1338 *On the Appointment of the Administrator of Funds of Public Service Obligations in the Power Sector* of the Government of the Republic of Lithuania of 7 November 2012 was appointed to implement the special obligation to perform the functions of the administrator of funds of public service obligations (PSO) in the power sector.

In performing this function, Baltpool collects, pays and administers PSO funds in accordance with the procedure established by legislation. The costs of PSO funds administration in accordance with the procedure established by legislation are reimbursed from the PSO funds budget not from the state budget.

As from 1 April 2019, PSO price differentiation system was introduced, which will be applied until 31 December 2028. Entities using large amounts of electricity, having concluded contracts with Baltpool, which performs the functions of the PSO funds administrator, and meeting the requirements established by legal acts, will be able to recover 85% of the PSO price paid during the previous calendar year intended to promote electricity production from renewable energy sources. Electricity consumers will be able to use the recovered PSO funds for the implementation of energy efficiency measures.

A total of 45 entities operating in power-intensive industries were connected to the PSO differentiation system until 31 December 2020: 39 of them have been participating in the PSO differentiation scheme since 2019 and 16 - since 2020.

In 2020, Baltpool reimbursed a total of EUR 11,511,415.45 (VAT excl.) of the part of the PSO price paid in 2019 to the thirty (30) electricity consumers that have been participating in the PSO differentiation scheme from 2019.

Until 1 July 2021, all forty-five (45) entities operating in the power-intensive industry that have concluded agreements with Baltpool on the reimbursement of a part of the PSO price will be eligible to submit applications for reimbursement of a part of the PSO price for 2020 to the PSO administrator. After examining these applications in the prescribed manner, Baltpool will decide on the reimbursement of the part of the PSO price paid in 2020.

In 2020, Baltpool has automated the administration of PSO funds accounting, thus making the processes of publicly available PSO funds administration reports more streamlined. The system helps to automatically process information from reports sent by customers, thus saving time and reducing the risk of error.

Detailed information and PSO reports are publicly available on Baltpool's website: https://www.baltpool.eu/lt/viap-gautos-ismoketos-likutis/

Significant events after the end of the reporting period

January

On 11 January 2021, the Extraordinary General Meeting of Litgrid's Shareholders established that the total annual budget for 2021 for the remuneration of the members of the Board of the Company and additional expenses for the Company to ensure the activities of the Board amounted to EUR 41,580. The agreement No 1 on design of *Reconstruction of 330 kV voltage overhead power line Lithuania Power Plant - Alytus (LN 330)* of 30 April 2020 and the amendment of contract works procurement contract No 20VP-SUT47 was approved.

On 12 January 2021, Litgrid completed an important stage in the project *Optimisation of the North-East Lithuanian electricity transmission network and preparation for synchronous work with the energy system of continental Europe*. After the reconstruction, 330 kV switchgears of Utena and Ignalina NPP transformer substations were put into action. 330 kV autotransformer in Utena was also switched on. An analogous system was switched on at Ignalina NPP substation, thus completing all project works in the 330 kV network. Further, the project will include the demolition of old facilities and the reconstruction of 110 kV switchgears. The project is scheduled to be completed by the end of 2021. end. The value of the entire project *Optimisation of the North-East Lithuanian electricity transmission network* is EUR 23.92 million. The project has strategic and economic benefits: the optimizing of the operation of the transmission system will not only increase the reliability of electricity supply in the region, but also reduce network maintenance costs.

On 12 January 2021, it was announced that Amber Grid will digitize the management of the gas compressor station in Jauniūnai, the district of Širvintos, and will install a new element ensuring the security of the gas transmission system in the gas pipeline in the district of Marijampolė. This is provided for in the agreement signed with the Lithuanian Business Support Agency (LVPA), according to which gas system renewal projects will receive the European Union support. The projects worth nearly EUR 2 million will be implemented by the spring of 2023. The EU structural funds will finance half of the amount, i.e. about EUR 1 million.

On 21 January 2021, the sole shareholder of EPSO-G, the Ministry of Energy, approved the decision of the Company's Board to establish a subsidiary of a special purpose , Energy Cells UAB. According to the approved concept of the project ensuring national security interests, the function of the newly established company is to install energy storage facilities in Lithuania with a total power and capacity of at least 200 megawatts. Energy Cells UAB was registered in the Register of Legal Entities on 26 January 2020.

On 25 January 2021, with plans to install 200 megawatt (MW) energy storage capacitors in Lithuania, EPSO-G announced a tender for the design, production, installation and maintenance of a battery system. In Lithuania, it is planned to install four facilities of 50 MW power and 50MWh capacity in four 110-330 kV transformer substations: Vilnius, Alytus, Šiauliai and Utena sites within 14 months.

On 2 February 2021, during the implementation of the international GIPL connection, the contractors constructing the pipeline in Lithuania and Poland performed the planned works on the border of these countries. During the coordinated works, a pre-welded section of the GIPL pipeline was laid between Lithuania and Poland, which will later be connected to the parts of the new pipeline built in both countries. These works were carried out during the winter in accordance with environmental requirements to protect the spring-hatching bird population from extraneous disturbance.

On 3 February 2021, the seabed survey in the Baltic Sea was started on the new submarine power interconnection project being carried out by Lithuanian and Polish electricity transmission system operators Litgrid and PSE. During the study, a 290 km long and 300 m wide route in the Baltic Sea will be explored, soil samples will be examined, and objects identified on the seabed, including dangerous wreckage or explosives, will be analysed. The data from the study report will be used to develop a cable construction and protection strategy.

On 9 February 2021, the Board of Litgrid after evaluation of the results of the public procurement process and the competence and experience of the candidate, appointed Rokas Masiulis as the Chief Executive Officer of Litgrid effective from 22 February 2021.

On 18 February 2021, Litgrid introduced the public to the development plans of two synchronization projects: Darbėnai-Bitėnai and Kruonis HPP-Bitėnai lines. During the public hearings, the residents were acquainted with the solutions of the prepared development plans, and conditions were created for submitting proposals for the solutions of the territorial planning document.

On 24 February 2021, during the construction of the GIPL gas pipeline connecting Lithuania and Poland, 102 kilometers of the already installed new gas connection were tested. The total length of the pipeline is 165 km. Hydraulic tests have confirmed that the pipeline can sustain maximum operating pressure. The GIPL pipeline pressure on this section will reach 54 bar.

9. EPSO-G PROGRESS REPORT ON SOCIAL RESPONSIBILITY

"The companies of EPSO-G Group consistently follow the principle that the ways by which the results are achieved play an important role. Therefore, based on good experience gained by the domestic and international companies, the companies of the Group seek to improve the business practice, implement a modern management of human resources and apply technologies that save natural resource, materials and processes that are not harmful to human health," says Rolandas Zukas, the CEO of EPSO-G.

9.1 About the report

When preparing the Progress Report on Social Responsibility (the Progress Report or Report), EPSO-G follows the principles of the Global Compact initiated by the United Nations and the recommendations of the Global Reporting

Initiative (GRI) that help assess the performance according to economic, environmental, personnel, human rights, market and public relations indicators.

The Progress Report on Social Responsibility of the Company for the year 2020 was prepared as an integrated part of the annual financial statements that can also be published as a separate document.

This Progress Report presents works and achievements of EPSO-G Group companies in 2020 in the social responsibility area related to behaviour in the market, environmental protection, relations with employees and society. The social responsibility directions and actions of the Company are described in the Report.

Questions and comments as well as remarks regarding improvement of the Social Responsibility Report are invited to be submitted by e-mail andrius.vilkancas@epsog.lt.

This Progress Report is available publicly on the Company's website: https://www.epsog.lt/lt/tikslai-ir-atskaitomybe/socialine-atsakomybe-1

9.2 General provisions

In 2020, the companies of EPSO-G Group consistently followed the principle that the ways by which the results are achieved play an important role. Therefore, based on good experience gained by the domestic and international companies, the companies of the Group sought to improve the business practice, implemented a modern management of human resources and applied technologies that save natural resources, materials and processes that were not harmful to human health.

When planning its activities, EPSO-G Group companies considered the economic and social expectations of stakeholders, ensured transparent management, developed ethical relations in the market, introduced measures to prevent corruption and contributed to creating a good business climate in the country.

The Social Responsibility Policy is based on the vision, mission, values of EPSO-G Group companies and the activity directions and goals approved in the operational strategy, specifically, the development of regional activities and ensuring the success of the strategic projects, efficient activities, creating and modern organisation.

In order to achieve the objectives established in the sole Shareholder's Letter of Expectations, the specific objectives have been formed for each direction of the EPSO-G strategy that are being achieved during the period of the implementation of the strategy. The measurement indicators have been formed for the strategic objectives. The operational efficiency is assessed in the short and long term based on these indicators.

The vision, mission, values, strategy and the activity directions of EPSO-G as well as information about the implementation of objectives are presented in detail in clauses 1-4 of this Annual Report.

9.3 Balanced and sustainable development

The companies of EPSO-G Group understand social responsibility as an integral and inseparable part of the sustainable business.

The companies of EPSO-G Group perceive the balanced development of sustainable business as a whole of targeted economic, social and environmental actions by increasing the general welfare of the society in the professional activities and by reducing the permissible environmental exposure limits.

In 2020, the principles of social responsibility were implemented on the basis of the related policies of EPSO-G Group companies and other valid internal documents.

EPSO-G Group applies the following policies:

- Corporate Governance Policy. The policy is intended to ensure a good governance practice in EPSO-G Group companies by establishing in the Group companies the uniform principles of corporate governance and reciprocity of the parent company and the other companies of the Group.

- Social Responsibility Policy. The policy is intended to improve the business practice based on good experience gained by the domestic and international companies, implement a modern management of human resources, apply natural resource-saving technologies, materials and processes that are not harmful to human health.
- Transparency and Communication Policy. The policy is intended to help communicate more effectively with each other and with the external stakeholders, i.e. society, shareholder, market regulators, etc.
- Corruption Prevention Policy. The policy is intended to establish in EPSO-G Group companies the basic principles and requirements of prevention of corruption and guidelines for ensuring compliance with them, the implementation of which creates preconditions and conditions for the implementation of the highest standards of a transparent business conduct.
- Remuneration Policy. The policy is intended to properly manage remuneration costs and create motivational incentives in order the remuneration amount would directly depend on the implementation of the objectives that are set for the company and for each employee.
- Accounting Policy. The policy is intended to ensure that the stakeholders are able to assess the activity and perspective of the companies of the Group and to make respective economic decisions.
- Dividend Policy. The policy is intended to establish clear guidelines for expected equity and return on investments for the existing and potential shareholders while at the same time ensuring a sustainable long-term corporate value growth, timely implementation of strategic projects of national importance thereby gradually strengthening confidence in the entire energy transmission and exchange Group companies.
- Interest Management Policy. The policy is intended to create in EPSO-G Group companies a uniform interest management system consistent with good practice that would allow ensuring that decisions in the companies of the Group are made in an objective and impartial manner and would also form an environment that is unfavourable to corruption and would increase confidence in the activities of the companies of the Group.
- Policy for the Protection of Sensitive Information. The policy is intended to create a uniform system for the identification, use and protection of confidential information and information constituting commercial (production) secret, and to help members of the management bodies and employees of the companies of EPSO-G Group protect the confidential information they were entrusted with against inappropriate and harmful disclosure.
- Policy for the Development and Exploitation of Technology Assets. The policy is intended to consistently implement the principles of management and development of electricity and natural gas infrastructure based on the cost and benefit analysis, introduce advanced technologies, manage and develop the energy transmission infrastructure in a socially responsible manner taking into account the occupational safety and environmental requirements.
- Support Policy. The policy is intended to ensure that the support is provided publicly and does not cast doubt in the society regarding its expediency and transparency of the process of support granting.
- Code of Conduct. Its purpose is to set uniform general behaviour guidelines for communication and cooperation with internal and external stakeholders: customers, contractors, business partners, shareholders, state and municipal authorities, society, etc. The Code's provisions are based not only on the employer's duty, but also on the personal understanding of each employee that their proper behaviour improves business reputation and value of the Company and the entire Group and reduces probability of risk to reputation. The Code's provisions are derived directly from the corporate values, leadership principles of EPSO-G Group and they supplement the associated operating policies.

Internal policies and procedures of the companies include as follows:

- collective agreement;
- procedure or policy of ethical employment and working conditions;
- policy and procedure of environmental protection and occupational safety and health;
- equal opportunities policy.

Implementation and objectives of the policies

During the reporting period, a further particular attention was given on ensuring the implementation of the policies in the Group companies. A uniform system for the assessment of the implementation of the policies at the Group level has been put in place, policy implementation coordinators were appointed.

At the end of the reporting period, EPSO-G had in fact all good governance policies in place along with the Compliance Management Policy and the compliance management methodology implementing it approved in 2020.

In conformity with the provisions of these documents, in 2021, a uniform compliance management system in the Group will be further established and ensured that would:

• enable to protect the Group companies from financial or reputational damage that may result from behaviour that does not meet internal and external requirements;

• enable to manage the risks of non-compliance and mitigate their impact and / or likelihood of occurrence;

• encourage the Group's employees to work in accordance with the set requirements and to justify their application on the Group's values.

As the Compliance Management Process is based on the application of the risk-based approach, the major focus and additional resources will be on the priority areas selected by the Group's Boards where the highest likelihood of non-compliance and / or non-compliance risks arises or may arise, and as a result, exclusively these areas will be subject to the Compliance Management Process.

In 2021, it is planned to perform a current situation gap analysis of the selected priority areas, to correct the essential shortcomings (if any), and in the future to ensure continuous monitoring and improvement of priority areas, organization of training for employees and dissemination of good practices among the Group companies.

As a result, in 2020, in all companies of the Group, the progress of the implementation of the provisions provided for in the policies was assessed.

In 2021, it is planned to integrate Remuneration, Performance Assessment, Competence and Training policies in order to create clear-cut links between these processes.

The aim of EPSO-G Group is to raise the approach of sustainable development to the strategic level of choices and measurable objectives.

Therefore, in 2021, it is planned to improve the applied sustainability practices, in particular, to clearly identify the observable objectives and measurable indicators of the achievement of the set objectives. It is planned to incorporate the sustainable development goals into the EPSO-G operational strategy before 2030.

Information on the implementation of the EPSO-G operating policies is presented in clause 7.12 of the Corporate Governance Report of this Annual Report.

9.4 Stakeholders

When implementing the objectives provided for in the operational strategy the boards of the companies of EPSO-G Group assess and seek to take into account the socials and economic interests and expectations of the stakeholders.

Each direction of strategic activities is related to one or several stakeholders. Official, partnership or consultative relationship is maintained with the groups or individuals who express their interest in the activities carried out by EPSO-G. The stakeholders are provided with a comprehensive information related to the activities carried out by the company, except for the cases regulated in the EPSO-G Policy of Sensitive Information.

Stakeholders having influence on the sustainable development of the activities of the EPSO-G Group include as follows:

Stakeholders	We undertake	Why this Group is important	How we cooperate
Customers	• To create professional and reliable partnerships for mutual benefit.	• The companies of the Group operate in B2B (business-to-business) field.	• Given the complexity of the services provided and economic expectations, the companies of the Group initiate and organise timely information events for the customers. • Develops services and / or solutions meeting customer needs.
Employees	• To act purposefully in order a uniform business culture of the companies of the Group and the remuneration policy would encourage the employee engagement and motivation when implementing the objectives set in the strategy; • To ensure that the employees of the Group have sufficient and timely information about the values, objectives, activity and changes of the Group.	• Experienced, competent and value-driven professional employees represent an essential prerequisite for implementing objectives and vision.	• We conduct the employee engagement surveys and adjust our action plans accordingly; • We follow the uniform provisions of remuneration and social responsibility in respect of the employees; • We organise at least once a year the executives and staff meetings. • We improve the content and forms of the internal communication.
Shareholders	• To ensure a sustainable management of the Group, its growth and a long-term benefit; • To provide relevant, accurate and timely information that allows the shareholders to assess the Group's activities, their perspectives and to take appropriate decisions; • To ensure efficient feedback.	• The success of the strategic projects implemented directly depends on the trust of the shareholders and on fast and timely decisions.	• We organize regular meetings to discuss relevant issues; • We submit at least once in a quarter the reports of financial and non-financial activities regarding the implementation objectives stipulated in the Shareholder's Letter of Expectations. • We ensure the communication of the most important news of the companies of the Group at the Group level in the Daily News section

			published every working day.
Companies of the Group	• To create value through meaningful management solutions; • By responding to a rapidly changing environment to consolidate the strengths of the companies of the Group in order to achieve the efficiency of the objectives implementation.	• The results of the Group's activities depend on the targeted and synchronized work of the companies of the Group in pursuit of strategic objectives.	• We are the members of the management bodies of the companies of the Group; • We apply a functional leadership business model; • We organise and implement at the Group level the uniform operating policies enabling coordination of actions when introducing a good governance practice.
Foreign partners – the operators of energy transmission and biomass exchange	• The ensure in the implementation of strategic objectives the harmonisation of the mutually beneficial agreements and actions.	Synchronisation of the electricity transmission systems of the Baltic states with the European energy system, the creation of a regional gas market and the development of biomass trading market directly depend on the involvement of foreign partners.	• We strive to establish and maintain on a regular basis a constructive business relationship based on mutual trust; • We initiate and participate in professional meetings and/ or conferences to achieve the objectives provided for in the strategy.
Government representatives	• To provide in an understandable and accessible form a relevant information that would form a reliable basis for assessing in accordance with competence the activities of the companies of the Group, the results achieved and the benefits to the public.	• Cooperation with the government representatives is necessary in order to ensure the formation of a coherent and long-term vision of the energy sector and smooth implementation of the projects of national and regional significance.	• We initiate meetings according to the need to discuss relevant issues; • We comment in the area of our competence the relevant issues in the committees of the Seimas of the Republic of Lithuania, in the meetings of the Government of the Republic of Lithuania; • We participate in the activities of the inter-institutional working groups.
National Regulatory Authority	• To ensure consistent compliance with the	• The main activities of the Group are regulated. Therefore, it is necessary to	• We provide in a timely manner the information

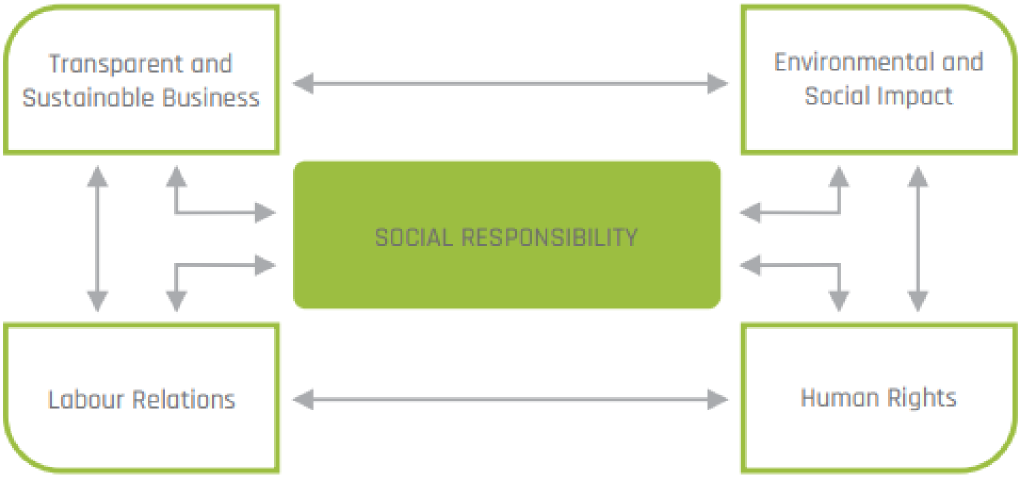
	requirements of the legal acts in the Group; • To implement a culture of an open and transparent dialogue with the regulator.	ensure effective business relationships based on transparency, openness and responsibility.	necessary to ensure the functions of the regulatory authority; • We cooperate during the process of introducing new market mechanisms; • We initiate the meetings to discuss the relevant issues.
Contractors	• To work with professional contractors who adhere to the standards of professional ethics.	• The companies of the Group implement extremely complex and complicated projects. Therefore, it is important to raise a high standard of quality, transparency and occupational safety for the contractors.	• We organize annual information events for potential contractors; • We publicly announce in advance the procurement plans and consultations in order to ensure an increased competition among the market players.
Service and product suppliers	• To acquire under competitive conditions high-quality services from reputable suppliers.	• The suppliers supplying high-quality value-generating goods and rendering high-quality value-generating services in a timely manner contribute to the continuity and effectiveness of the Group's activities.	• We consult with the market players and carry out market research; • We publish plans of the planned procurements.
Non-governmental organisations (NGOs)	Communication and collaboration with environmental organisations and those promoting operational transparency help identify the needs of society and the ways of addressing them.	The companies of the Group carry out a continuous environmental impact monitoring. The companies of the Group introduce a good governance practice in the fields of accountability and prevention of corruption.	Together with Lithuanian Ornithological Society we implement the measures to reduce the environmental impact. We cooperate with Lithuanian Fund for Nature in the construction of the GIPL gas pipeline seeking to minimize the impact on the environment in the construction zones. We actively cooperate with the archaeological community in the archaeological research in the GIPL gas pipeline route.

Trade unions	• To ensure a constructive and positive social dialogue between the employer and the representatives of the employees.	• The employees determine the success of the Group companies. It is important that the employment relationships and the solutions that govern them would ensure a fair and uniform treatment of all employees and would ensure their legitimate interests.	• By creating conditions for the activities of trade unions and/or work councils. • By entering into a collective contract with trade unions and/or work councils. • By discussing the implementation of collective contract during periodic meetings with the employees and/or their representatives. • By informing and consulting with the representatives of trade unions and/or work councils when making decisions on employment relationships.
General public and media	• To create added value for the society, business and the competitiveness of the country's economy; • To act in a socially responsible manner; • To provide information that is relevant and provided in an understandable form in accordance with the principles of importance, reliability, comparability and accessibility of information.	The mission of EPSO-G Group: to ensure the implementation of the strategic energy objectives of Lithuania assigned to the Group, safe operation of energy transmission systems, to enable benefiting from the possibilities of the effectively operating infrastructure and energy exchanges, and to contribute to the welfare of the society.	• We operate in accordance with the Transparency and Communication Policy of the Group's activity; • We observe the provisions of the Social Responsibility Policy; • We maintain an impersonal relationship with the media representatives who work in the field of energy when • providing sufficient information to evaluate the Group's financial and non-financial performance and the ongoing projects.
Local communities	• To increase through coordination of interests the trust of the local communities in the ongoing projects and approval thereof; • To contribute to the growth and the creation of	• Support from the local communities created by fostering mutual trust, understanding, cooperation, responsibility, is a very important element of the	• The companies of the Group share experience on spatial planning; • The information events for the local communities are organized.

	the possibilities of a full-fledged life.	success of the projects.	• In response to the reasonable remarks received during the meetings, the project implementation works are adjusted.

9.5 Directions and priorities of social responsibility

Directions of the EPSO-G social accountability include business ethics of companies in the market and prevention of corruption, environmental sustainability, awareness-raising of employees, human rights, equality and diversity, occupational safety and health and mutual trust building relationships with stakeholders.



Social responsibility in the market: it is an efficient and transparent business, open and fair cooperation with stakeholders helping to implement socially responsible business regulations, safe and reliable transmission of electricity and natural gas to system users, fight against corruption and bribery, ensuring competitiveness, fair tax paying;

Social responsibility in the field environmental protection: it is an efficient use of natural resources in the activities, participation in ecological preventive programs preserving landscape and biodiversity, promotion of environmentally friendly attitude among employees, contractors, suppliers and society;

Social responsibility in relations with employees: it is responsibility towards employees, caring for employees' health, safety and equal rights, applying advanced performance management and remuneration systems, creating conditions for the personal and professional development of employees, developing general competences;

Social responsibility in relations with the society: development of various social initiatives, volunteering and other projects for local communities and nationally, cooperation with scientific institutions.

9.6 SOCIAL RESPONSIBILITY IN THE MARKET: EFFECTIVE AND TRANSPARENT BUSINESS

The strategic objective of EPSO-G Group is to ensure uninterrupted power supply through effective operation and to enable the market players to freely exchange it. In order to achieve the objectives, the companies of the Group promote open and honest cooperation with stakeholders who help implement the provisions of a socially responsible business.

Accountability

In 2020, the companies of the Group kept accounts in a correct way, regularly prepared and announced the reports on financial and non-financial activities that were sufficient for the stakeholders to assess the behaviour of the companies of the Group in the market, relationship with employees and the society. The companies of the Group aim to achieve the standards of ethics, honesty and transparency that are higher than the minimum standards established by the legal acts.

In an effort to extremely focus on operational transparency and accountability, in 2020, the governance quality of EPSO-G has been rated A+. For the first time, each of EPSO-G's subsidiaries was awarded an A grade on the basis of uniform criteria. This was evidenced by the Good Governance Index of State-Owned Enterprises (SOE) 2019/2020 estimated by the Public Enterprise Governance Coordination Centre (GCC).

GCC's Good Governance Index is the most comprehensive tool for evaluating the quality of management of all SOEs. The index consists of three main assessment dimensions: transparency, collegial bodies and strategic planning and implementation. Each of the three key dimensions is assessed according to separate 240 criteria.

In terms of the transparency dimension, EPSO-G received the highest rating A+. The highest possible rating A+ was also awarded for the work of collegial bodies, the process of selection of their members, competence, and engagement. Strategic planning and implementation received the highest rating A+.

In order to ensure that the stakeholders are able to assess the performance and perspective of the companies of the Group and make appropriate economic decisions, the financial statements were drawn up in accordance with the Accounting Policy of EPSO-G that establishes the uniform principles, methods and requirements for record-keeping by the companies of the Group and for drawing up of financial statements and submission thereof to the stakeholders.

In the preparation of the Annual Report for 2020, EPSO-G complied with the following accounting policies:

- Information must be objective, comparable and useful for the internal and external stakeholders;
- Information is reliable, meaningful, timely and understandable;
- Records are kept in accordance with the Law of the Republic of Lithuania on Accounting, the Law of the Republic of Lithuania on Financial Reporting by Undertakings and the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings, other regulatory acts regulating the accounting procedure;
- Records are kept and financial statements are prepared and submitted according to the effective International Financial Reporting Standards and interpretations approved by the International Financial Reporting Interpretations Committee approved by the European Union.

In accordance with the provisions of the Accounting Policy and the Transparency and Communication Policy of EPSO-G, in 2020 the companies of the Group prepared and according to the approved and publicly announced schedule regularly publicly published interim and annual activity reports and financial statements as well as information about the shareholder's expectations, operational objectives, declarations of interests and remuneration.

Detailed information on the accounting policies of EPSO-G Group companies is presented in the published financial statements.

Compliance management

Compliance with internal and external requirements is a precondition for the implementation of the EPSO-G Group's strategy, objectives and ensuring the impeccable business reputation of the Group companies.

For that purpose, in 2020, the Compliance Management Policy, the methodology of its implementation was prepared in EPSO-G Group, and priority areas were identified.

The objective we are setting is to establish and ensure a uniform compliance management system in the Group that would enable to protect the Group companies from financial or reputational damage that may result from behaviour that does not meet internal and external requirements; enable to manage the risks of non-compliance and mitigate their impact and / or likelihood of occurrence.

EPSO-G's compliance management principles:

- Principle of Three Lines - the compliance management process is based on Three Lines Model, in which 1st Line participants (area curators) perform compliance ensuring functions, including non-compliance risk management, 2nd Line participants (compliance coordinators) perform performance coordination functions, including non-compliance risk assessment, and 3rd Line participants (Internal Audit Unit) ensure independent audit of the activities of the first two lines.
- Principle of compliance with requirements - the performed activities must comply with the requirements not only in the form, but also in the content corresponding to the values of the Group.
- Principle of integrity - the compliance management process must become an inseparable and integral part of daily operations of all the Group companies, operating systematically together with the policies, processes and other internal documents applicable in the Group companies.
- Principle of information relevance and reliability - compliance management is based on relevant data, monitoring, experience and expert assessment.
- Principle of applying risk-based approach - the compliance management process is organized in such a way that resources are allocated primarily to the areas posing the greatest risk of non-compliance.
- Principle of transparency - the participants of the compliance management process according to their functions have a barrier-free access to information related to the compliance management process and information on the risks of non-compliance, and the reasons for their occurrence.
- Principle of applying good practice - the compliance management process is based on examples of good practice identified and formed during the Group's compliance management process.
- Principle of operational documentation and traceability - the compliance management process ensures that all significant decisions and actions are properly recorded, creating the preconditions for traceability and control of the completed actions, and the improvement of the compliance management process.

Information on compliance with the transparency guidelines

EPSO-G Group companies complies with Resolution No 1052 *On the Approval of the Description of the Guidelines for Ensuring the Transparency of State-owned Enterprises* of the Government of the Republic of Lithuania of 14 July 2010 (the "Transparency Guidelines").

The application of the Transparency Guidelines is mandatory to the holding company EPSO-G because it is a state-owned enterprise classified as a large enterprise in accordance with the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

In order to ensure implementation of compliance with the Transparency Guidelines in EPSO-G Group companies, the Group applies the Policy of Operational Transparency and Communication that addresses in detail the requirements of the Transparency Guidelines and determines the scope of their application in the companies of the Group.

The implementation of the Transparency Guidelines is largely ensured through information disclosed in the annual report and disclosure of information on the websites in order to provide information to stakeholders in an accessible and understandable form.

Structured information on the compliance with the Transparency Guidelines is provided in Annex I to this Annual Report.

The holding company EPSO-G also complies with the provisions of the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius AB. The Code is applied to the extent not provided otherwise by the Company's Articles of

Association. The Company discloses its compliance with the requirements of the provisions of the Governance Code in Annex II to this Annual Report.

9.7. Respect for social and economic interests

In respect of the right of stakeholders to assess in advance the impact of projects being developed in their surrounding environment on their economic and social interest, the companies of EPSO-G Group that are the transmission system operators regularly update and announce ten-year network development plans.

Electricity transmission network development plan

According to the Law on Electricity of the Republic of Lithuania, the electricity transmission system operator (TSO) is responsible for a stable and reliable operation of the electricity system, performance of the national balancing function and provision of system services in the territory of the Republic of Lithuania, operation, maintenance, management and development of the transmission network of the electricity system and the interconnectors with the electricity systems of other countries by reducing capacity restrictions in the transmission networks and taking into consideration the needs of the electricity system and users of the electricity networks.

The Plan for the Development of 400-110 kV Networks of the Lithuanian Electricity System for 2020-2029 was updated by Litgrid in 2020. It presents forecasts of electric power and energy consumption needs, capacities of power plants (generation facilities), assessment of the electricity system adequacy, forecast of electric power and energy balances of the electricity market and system, as well as information on the electricity transmission network, its development and restoration, innovations and planned investments.

Detailed information on Litgrid's Ten-Year Electricity Transmission Network Development Plan is available in clause 3.5.1 of this Annual Report.

Gas Transmission Network Development Plan

On 1 October 2020, the National Energy Regulatory Council approved the Ten-Year Gas Transmission Network Development Plan for 2020-2029 presented by Amber Grid. Following the amendments in the Law on Natural Gas in 2019, the Ten-Year Amber Grid Gas Transmission Network Development Plan is updated every two years.

The Ten-Year Amber Grid Gas Transmission Network Development Plan has been prepared taking into account the provisions of the state strategic documents, the needs of gas market participants, ensuring security of supply and efficient operation of the transmission system, the Company's strategy, the Company's environmental policy and legal requirements.

The updated Ten-Year Amber Grid Plan for 2020-2029 forecasts investments in the development of the gas transmission system aimed at achieving the strategic goals of the European Union and Lithuania in the gas sector: ensuring security and reliability of gas supply, promoting competitiveness, and integrating the Baltic gas markets into the common European gas market and to develop the common Baltic regional gas market. In addition, the Network Development Plan sets out the main directions for the development of the transmission system, including a focus on innovation, network digitization and the development of green energy.

Detailed information on The Ten-Year Amber Grid Gas Transmission Network Development Plan is available in clause 3.5.2 of this Annual Report.

REGIA map supplemented with information about the gas transmission network

In 2020, the regional geoinformation environment map REGIA created and developed by the Center of Registers was supplemented with information relevant to stakeholders on the main gas pipeline network operated by the natural gas transmission system operator Amber Grid.

The publication of this data is an important information tool for potential Amber Grid customers considering the possibility of connecting to the gas transmission network, investors planning new activities or business development, and private owners considering the acquisition of land plots or construction of real estate objects. The REGIA map is also used as a working tool by representatives of state and municipal institutions.

Amber Grid has become the third engineering network company to publish its information on REGIA map, thus adding value to it with information relevant to users. Prior to that, users could see the electricity transmission network operated by Litgrid and the gas and energy distribution networks operated by the company Energijos Skirstymo Operatorius (ESO) on REGIA map. REGIA is an easy-to-use tool designed specifically for municipalities: their residents, staff and the businesses operating in them. The aim of REGIA is to create convenient conditions for decision-making based on geographical location and to facilitate the exchange of information.

Publicly announced Study RAIDA 2050

The goal of the National Energy Independence Strategy is for Lithuania to become an energy-sustainable and independent state by 2050. In order to implement and enable this scenario, it is important for the holding company EPSO-G and the companies of the Group to understand possible scenarios for the development of the energy sector and what measures should be taken to reduce the energy sector's dependence on fossil fuels, to promote market integration, digitalisation, to take account of urbanization and rapid development of renewable energy production.

In response, EPSO-G Group carried out the study *Scenarios for the Development of the Lithuanian Electricity System for 2020-2050* (hereinafter - the Study RAIDA 2050), in which, taking into account the strategic goals set by NEIS, planned tasks and results, the development scenarios of the Lithuanian electricity sector (hereinafter - LES) were formed until 2050, the assessment of the adequacy of the electricity system (generating capacities, electricity market, electricity transmission network) was performed and technical, economic and legal measures for the efficient operation of the electricity system were presented.

In compliance with the provisions of socially responsible activity, data and conclusions of the Study worth EUR 120 thousand were made public in December 2020 to enable stakeholders to assess them in advance of changes in the energy sector.

9.8. Public procurements and relations with contractors

The companies of EPSO-G Group implement projects of regional and national significance. These are major investment projects. Their success depends on the awareness, trust and support of the shareholders, partners, controlling and regulating institutions and the people of Lithuania. Accordingly, much attention is paid by the companies of EPSO-G in their activities to the supervision of public procurement procedures and prevention of corruption.

Uniform procurement policy

EPSO-G Group companies apply effective measures to ensure that procurement is conducted transparently, in accordance with the principles of equality, non-discrimination, mutual recognition and proportionality, and does not recognise fraud, bribery or other unlawful anti-competitive practices.

This is regulated by the approved Procurement Policy which aims to follow good procurement practices of international organisations, the institutions of the European Union and other contracting authorities and contracting entities and ensure an efficient, dynamic and transparent procurement process, creating added value for the achievement of goals of EPSO-G Group companies.

The execution of procurements by EPSO-G is primarily based on transparency, ethical conduct, equality, promotion and proportionality of competition, enhancement of transparency in procurement processes and strengthening of anti-corruption measures within the Group.

In 2020, EPSO-G's Procurement Policy was implemented in all companies of the Group. In 2021, it is planned to supplement the Policy with green and socially responsible procurement. Market consultations are also conducted with suppliers having international experience to help EPSO-G develop a long-term procurement strategy and functional plan.

The Group develops a uniform format for the report on procurement function indicators (KPIs) aiming to manage the procurement process as efficiently as possible and to continuously improve it.

In 2020, the large companies in EPSO-G Group (EPSO-G, Amber Grid, Litgrid) carried out more than 500 procurements with a total value of more than EUR 46 million.

The Group companies consolidated their needs and in 2020 completed 10 centralized procurements. Such procurements allow the Group companies to achieve greater economic benefits both by obtaining better prices from suppliers and ensuring uniform quality standards for goods / services, as well as to save administrative resources for the organization and execution of procurements.

In 2020, EPSO-G Group companies paid special attention to the preparation for procurement: were active in conducting market consultations, prepared presentations to suppliers on the applicable procurement procedures, paid attention to foreign suppliers to explain the principles of participation in Lithuanian public procurement.

In 2020, an action plan for the procurement function for 2021 was prepared, which provides for actions to help the Group companies share experience in procurement, standardize procurement processes and documents, and develop and implement a training plan for procurement specialists.

The action plan pays special attention to measures aimed at facilitating the participation of suppliers in the Group's procurements - a joint "Suppliers' Day" of the Group companies is planned, procurement documents are improved to make them clearer and more understandable to suppliers, forms are prepared to inform suppliers about ongoing procurements, etc.

In 2021, the Group companies plan to pay close attention to standardizing and streamlining the contract execution process.

Relations with contractors

In order to ensure fair competition, in 2020 Litgrid presented to the contractors projects and works planned for 2021 and subsequent years for which tenders are planned to be announced.

The Group's companies organise "Contractors' Day" in order to promote the interest and participation of partners in open and transparent tenders by increasing the awareness of projects, while market participants get aware of the forecasted works from a direct source. In addition, it is one of the ways of promoting fair and non-discriminatory market behaviour and effective dialogue with its participants. Such meetings will also be held in 2021 as well.

Information on the annual procurement plans, their implementation and responsible persons are made public on the websites of the companies of EPSO-G Group.

In order to ensure transparency, all employees of the holding company EPSO-G and its subsidiaries involved in public procurement declared their private interests publicly during the reporting period.

9.9. Transparency (corruption) risk management

In 2020, in accordance with the provisions of the Law on Prevention of Corruption of the Republic of Lithuania, the likelihood of corruption was determined and assessed. EPSO-G's areas of activity identified in 2017 were analysed to determine the likelihood of corruption. Following an evaluation of the activities' compliance with the established criteria, EPSO-G's procurement area was selected in 2020, considering the findings of previous years' determinations of the likelihood of corruption.

In 2020, EPSO-G Group companies identified risks of corruption in procurement.

The holding company EPSO-G identified the risk of preparation of incorrect technical specifications for public procurement (R1), the risk of irregular performance of procurement contracts (R2), and the risk of corruption in public procurement (R3). In accordance with EPSO-G's risk management methodology, the likelihood and impact of these risks were assessed and the level of corruption in public procurement was determined. To manage these risks, in 2020, management measures such as market research, consultation with experts in the Group companies or the market were planned and applied by the Board, the riskiest procurements were controlled according to the "four-eye" principle; communication with the Public Procurement Office is held after receiving information about possible violation of public procurement rules. In order to manage the risk of corruption in procurement, the declarations of private interests of the members of the Procurement Commission, the procuring entities and the experts and EPSO-G procuring personnel are analysed, and recommendations are made on withdrawals and proper management of conflicts of interest. Indicators for risk monitoring include the number of withdrawals during procurement, the number of substantiated claims received, the number of requests from the Public Procurement Office for information on ongoing procurements, the number of restricted competition (when less than three suppliers participate in the procurement). Tolerance limits have been set for key risk indicators, beyond which additional corruption risk management measures must be taken.

Litgrid has identified and managed the risks of errors in public procurement (R6) and unsecured competition among suppliers in public procurement (R5). To manage these risks, in 2020, measures such as training of procurement specialists, procurement planning, improvement of the procurement process according to the identified needs were applied. In addition, the Company has a prepared list of experts to ensure impartiality and objectivity so that different people are involved in the different stages of procurement procedures and claims are examined by experts other than those who set the terms and conditions. Additional measures to increase procurement control were applied: all cases where one supplier is contacted directly or where only one tenderer submits a tender were analysed. A review of the procurement process was also carried out to ensure that project managers were not involved in all stages of procurement initiation, execution and tender evaluation. In addition, in 2020, procurement conditions and draft contracts were standardized. Litgrid, like all EPSO-G companies, also applies measures to prevent conflicts of interest for those involved in procurement.

Amber Grid has identified and managed the risk of lack of competition among suppliers (R7), the risk of non-compliance with procurement procedures (R8), the risk of detecting a breach of the procurement procedure (R9), the risk of improper performance of contracts (R10). To manage these risks, in 2020, measures such as not only the information on the Central Public Procurement Information System but also the information on planned procurement published on Amber Grid website and additional information on ongoing procurement were sent to potential suppliers. In addition, control over the value of contracts is applied. An asset management information system has been implemented, with the help of which the control of contract quantities and terms is performed. Moreover, in 2020, standard procurement conditions were prepared and put into use, while standard procurement contracts were updated.

In 2020, Baltpool identified and managed the risk of improper execution of procurement procedures (R11). To manage this risk, in 2020, it applied management tools such as "four-eye" principle applied for the control of the procurement process. The Company ensured the declaration of interests, compliance with and control of the provisions of the Policy of Management of Interest and the Procurement Policy, and the means of the document management system were used to initiate and execute low value procurements, which help to ensure the control of ongoing procurements.

In 2020, Tetas identified and managed the risk of non-compliance with the provided procurement procedures and / or practices (R12) and the risk of non-compliance with the essential terms of contracts (R13). In order to manage these risks, the heads of the departments are obliged to analyse the procurement reports on a quarterly basis, to find out the reasons for non-conformities, and to reduce the number of non-conformities.

In 2020, GET Baltic identified and managed the risk of conducting procurement procedures (R15). To manage this risk, the procurement process is controlled in accordance with the "four-eye" principle, procurement rules were approved.

Other risks of corruption include the risk of abuse of office.

EPSO-G identified and managed the risk of abuse of office by the misuse of EPSO-G's assets and funds (R4). In managing this risk, it was established that EPSO-G's decisions related to the use of financial resources are based on established control mechanisms, such as approvals, internal audit, etc. Indicators such as investigations into erroneous decisions and complaints, reports of employee misconduct are constantly recorded and analysed. There were no initiated investigations or complaints about the misconduct of EPSO-G personnel.

Tetas identified and managed the risk of abuse of office by the misuse of the Company's assets and funds (R14). In managing this risk, it was established that decisions related to the use of financial resources, reserves and other assets are made using established control mechanisms, such as approvals, internal audit, etc.; the declarations of interest were submitted, and the process of disciplinary procedures was approved as well.

Transparency (corruption) risk assessment for EPSO-G Group companies in 2020

Impact					
Very high		R9			
High	R4, R5	R3	R14	R7	
Medium	R15	R13	R2	R5	R8
Low	R11		R1		
Very low				R6	
Likelihood	Highly unlikely	Unlikely	Possible	Likely	Very likely

Anti-corruption

During the reporting period, the companies of EPSO-G Group focused on the compliance with the principle of zero tolerance of corruption, protectionism of family members, relatives, friends or any other forms of trade in influence, a consistent and systemic implementation of prevention of conflicts of corporate and private interests. Anti-corruption measures have to work in such a way that EPSO-G Group's executives and staff would recognize indicators of corruption and take effective and timely measures to ensure that companies do not commit any offenses involving corruption.

The companies of the Group encourage employees and other stakeholders to report directly or anonymously without fear for negative consequences about possible infringements, unethical or unfair behaviour via the Trust Line pranesk@epsog.lt, or directly to the address of the Special Investigation Service of the Republic of Lithuania. The Trust Lines have also been introduced by the subsidiaries.

The corruption prevention activities of the companies are based on national legislation and voluntary commitments going beyond what is legally required:

- All CEOs of the companies of the Group are directly responsible for the implementation of anti-corruption measures and they set an example for their employees.
- Proportional, risk-based anti-corruption procedures are applied.
- Regular assessment of corruption-related risks is carried out, as well as planning and adaptation of anti-corruption measures, monitoring of anti-corruption performance and, if necessary, implementation of more effective measures.
- Compliance with legal and business ethics standards is mandatory for the Group companies and their employees.

An employee who is in breach of these obligations shall be subject to disciplinary sanctions, including dismissal, under the internal procedures and grounds of the companies.

In December 2020, *Survey on perceptions of corruption by the personnel of EPSO-G Group companies* was carried out.

The survey involved 298 employees (2019: 348). According to the survey, 94% of respondents have a negative view of corruption (2019: 91%), 98% of respondents negatively see those who give bribes (2019: 95%); 98% of respondents have not encountered any manifestations of corruption in their activities in the last 3 years (2019: 88%); 91% of respondents are aware of where to turn when faced with corruption (2019: 85%.). The results of the survey show that the perceptions of corruption by the personnel in EPSO-G companies are growing and remain very high.

Interest management

During the reporting period, EPSO-G Group companies followed the new version of EPSO-G Group's Policy of Management of Interests of Members of Collegial and Supervisory Bodies and Employees approved on 13 December 2019. Its aim is to apply a uniform system of interest management that is consistent with good practice, which would ensure that decisions in the Group companies are made objectively and impartially, as well as create an environment unfavourable to corruption and increase trust in the activities of the Group companies.

This policy sets out the following in EPSO-G Group companies:

- Principles of interest management and resolution of potential conflicts of interest;
- Requirements for the system of the declaration of interests;
- Independence criteria applied to members of collegial and supervisory bodies.

Please get acquainted with the policy of managing interests and applied independence criteria of EPSO-G at www.epsog.lt, in the column Operating Policies.

At the end of the reporting period:

- Members of collegial management bodies and administration have not acquired shares in EPSO-G Group companies except for Mr. Nemunas Biknius, the CEO of Amber Grid, who as of 30 June 2020 had 0.001055% of shares of the subsidiary Amber Grid. The number of shares held by him did not change during the reporting period.
- The declarations of interests of the members of the collegial management bodies and of the CEO are presented and published on the website www.vtek.lt of the Chief Official Ethics Commission and www.epsog.lt. All executives of EPSO-G Group have submitted declarations of interests to the holding company EPSO-G in scope and order laid down in the policy of managing interests that are published on the following website www.epsog.lt in the column Operating Policies.
- Members of collegial bodies and the executives of the companies had no conflicts of interests between their duties within EPSO-G Group and private interests and/or other responsibilities.

- Members of collegial bodies and administrative personnel had no family ties.
- Members of the collegial bodies and the executives of the companies have not been convicted of having committed a criminal offense, no regulatory body has filed charges or imposed sanctions on them during the last five years, the court has not prohibited them from holding the office of a member of the Company's administrative, management or supervisory bodies, or to act as a head or to manage any affairs of any issuer.
- EPSO-G has not entered into any transactions with the above-mentioned persons, which are not typical of the Company's core business or which are not notified to EPSO-G collegial bodies in accordance with the relevant procedures with their authorizations to enter into such transactions.

In accordance with the requirements of the Law on the Adjustment of Private and Public Interests, all EPSO-G employees of the holding company EPSO-G have declared their interests publicly.

9.10. SOCIAL RESPONSIBILITY IN THE FIELD OF ENVIRONMENTAL PROTECTION

Considering that the activities of the Group companies may have impact on the environment in which those activities are carried out, the adopted decisions must have a minimal, mitigating and / or restoring impact on the environmental, focus on rational use of natural resources and promotion of energy efficiency.

Environmental impact assessment standards

The companies of the Group, the activities of which may have impact on the environment introduced advanced technologies in 2020 that help reduce the environmental impact of activities or restore a good environmental condition, have further applied measures and processes in accordance with the generally accepted environmental standards. The contractors and sub-contractors participating in the procurements were required to behave according to a similar standard.

During the development of its activities, Litgrid carries out the procedures for the assessment of the environmental impact of the electricity transmission lines that are planned to be built and selection thereof, the conclusions of which are assessed during the preparation of technical projects. When preparing the design tasks, the environmental requirements are set for all newly built or reconstructed transformer substations and switchgears. In all cases, efforts are being made to select less environmentally harmful devices. For example, during the reconstruction of electrical substations the oil equipment that was in service so far is replaced with modern gas installations. This helps reduce the risk of environmental pollution in the event of an accident. Furthermore, this helps reducing the operating costs of the equipment.

At 330 kV transformer substations, Litgrid switches to remote control without permanent on-call staff. Therefore, potentially contaminated rainwater treatment systems with automatic shut-off of the oil-contaminated flow and transmission of information to the System Control Center are installed.

Litgrid contractors are obliged and encouraged to organize works in a sustainable way, i.e., in such a way as to avoid possible environmental impact or to minimize the environmental impact, to handle the waste generated during the construction, to account for and declare the imported taxable packaging and to submit the supporting documents.

When services are procured, Litgrid requires contractors to implement the environmental management systems in accordance with LST EN ISO 14001 standard. It shall be checked at the time of acceptance of the works performed whether the contractors have fulfilled the requirements, whether they have properly managed waste, and whether they have the supporting documents.

As from 2014, Amber Grid has implemented the environmental management and occupational safety and health managements systems that comply with the requirements of international standards ISO 14001 and OHSAS 18001.

In 2019, the Company's management system has been re-certified according to the ISO 14001 standard and certified according to the new occupational health and safety management system standard ISO 45001.

The environmental management and occupational safety and health managements systems have been integrated into Amber Grid's operational planning, organisational and governance processes. Management of environmental protection and occupational safety and health established by the standards helps ensure continuous reduction of impact of the activities on the environment, mitigation of professional risk on safety and health of employees and implementation of the requirements applicable to the activities that are established by international and the Lithuanian legal acts, regulations and other regulatory documents.

For process management, Amber Grid has established responsibilities for coordinating the management process and its implementation parts. The implementation of management measures is ensured by integrating them into the annual objectives of the Company and responsible employees.

Having regard to the changing economic, social and natural environment situation as well as the changing internal and external factors influencing the activities of the Company, the management of Amber Grid is committed to ensuring a continuous improvement of the processes of environmental and occupational safety and health management, increasing environmental efficiency and efficiency of occupational safety and health, and to lead the Company according to the standards acceptable for the management process.

In 2020, as the Company was seeking to contribute to mitigation of climate change, it took initiative to identify all potential greenhouse gas emission sources, and formed an internal work group to elaborate and start implementing the plan for measures aimed at reducing greenhouse gas emissions.

In 2020, by using the mobile compressor Amber Grid saved more than twice the emissions compared to 2019.

In 2020, 2.03 million m3 was pumped, saved ~ 1.99 million m3, compared to 2019, when 0.82 million m3 was pumped accordingly and saved 0.73 million m3 of gas.

The increased savings were due the risen number of repairs in 2020. The experience by using this tool is only growing and this will allow planning future works even more efficiently.

Environmentally friendly business solutions

In 2020, EPSO-G companies Litgrid and Amber Grid have taken steps to become consumers of energy from renewable sources.

In 2020, Amber Grid signed an agreement with Eternia Solar on the installation of solar panels in the areas of the gas transmission system operator. Until the end of 2021, it is planned to install the solar panels of 1,400 kW worth EUR 980 thousand in Vilnius, Jauniūnai natural gas compressor station and Panevėžys. Equipped with solar parks, that will amount to 40% of the power demand of the whole company.

In 2020, Litgrid also started installing solar power plants in reconstructed transformer substations. The energy they generate will be used in the transformer substations. Until 2023, it is planned to install solar power plants in 21 reconstructed transformer substations. Depending on the solar radiation, the energy produced by the installed solar power plants will be fully or partially sufficient for the needs of the transformer substations, as well as the reliability of energy supply will increase.

It is planned that the installed capacity of solar power plants in each of the transformer substations will reach up to 15 kW. Litgrid operates over 200 transformer substations throughout Lithuania, which on average consume over 3,600 MWh of external electricity per year. It is estimated that solar power plants in 21 substations will generate about 100 MhW of electricity per year, thus reducing the external electricity demand of the transformer substations by 2.%.

On 22 October 2020, the Ministry of Energy, together with the largest energy groups Ignitis grupė and EPSO-G, signed the agreements under which the companies undertake to save at least 1.6 TWh of final energy by 2030. According to the agreements concluded by the Ministry of Energy, EPSO-G's subsidiaries Amber Grid and Litgrid have committed to saving at least 4.19 GWh of final energy by 2030.

In 2020, Amber Grid joined the Lithuanian Hydrogen Platform established by the Ministry of Energy together with 19 Lithuanian organizations. Understanding its role in creating the conditions for the decarbonisation of the Lithuanian energy sector and adapting the transmission system to the transportation of green gas, Amber Grid is actively involved in hydrogen research and development activities in Lithuania and abroad.

Guarantees of origin

By promoting green gas production in Lithuania, Amber Grid started providing to businesses guarantees of origin for gas produced from renewable energy sources.

The system of guarantees of origin makes it possible to identify, register and monitor the origin of green gas produced, and consumers of this energy can be assured that the gas they consume is produced using renewable energy sources. This system is beneficial for companies willing to use fuel produced in Lithuania or another EU country that reduces environmental pollution.

Amber Grid, which administers the National Register of Guarantees of Origin for Green Gas, provides guarantees of origin for producers of gas from renewable energy sources and administers their transfer to suppliers or end-users using green gas in their operations.

By creating conditions for the development of green gas in Lithuania, in 2019 Amber Grid joined a European association developing the European system for cross-border exchange of renewable gas guarantees of origin – ERGaR (European Renewable Gas Registry). The association, together with the registers of guarantees of origin of other countries, transmission or distribution system operators and participants in the renewable gas market, foresees the creation of a single European system ensuring clear and common rules for the exchange of guarantees of origin for green gas among the EU countries.

From August 2020, Amber Grid has been participating in the activities of the regional Green Gas Coordination Group. This group is composed of the transmission system operators from Finland, Estonia, Latvia and Lithuania from 2021 aiming to create conditions for facilitating the free exchange of guarantees of origin for green gas among the countries, and to cooperate in solving the issues of green hydrogen development.

Environmentally friendly technologies used

In 2020, during the implementation of the GIPL interconnection project with Poland, the construction of the pipeline under the Neris and Nemunas rivers was completed in a streamlined way.

To reduce the environmental impact, the pipeline was laid under the riverbed, at a depth of 20 meters. A team of highly qualified specialists from the German company LMR Drilling employing HDD technology was invited to help with these works.

HDD technology is used in the construction of pipelines in difficult to access or urbanized areas. The construction of the pipeline under the Neris and later under the Nemunas rivers using a closed technique helped to preserve forest waterside areas without losing aquatic flora and fauna, and conserving the natural environment without causing damage to it.

In addition, a pre-welded section of the GIPL pipeline was laid between Lithuania and Poland, which will later be connected to the parts of the new pipeline constructed in both countries. These works were carried out during the winter in compliance with environmental requirements to protect the spring hatching bird population from external disturbances.

Noise abatement measures in living environment

In 2020, Litgrid was active in solving the problem of reducing noise from electrical equipment. According to the previous design, in the Klaipėda transformer substation the walls suppressing the noise from the equipment (autotransformers and shunt reactors) to the environment, improving the conditions of the residents living near the substation, were mounted.

In addition, Litgrid addressed the reports of residents of Alytus district regarding the noise caused by the facilities. After signing a memorandum with Alytus district municipality on noise level emitted into the environment by Alytus high voltage DC converter station and Alytus transformer substation equipment, noise level measurements were performed and the project Installation of noise abatement measures at Alytus high voltage DC converter station was initiated.

In 2020, the first stage of this complex and integrated project was performed: modelling of the noise emitted by the equipment and selection of noise abatement measures. In 2021, the design of the measures provided in the study will be performed.

Bird protection

In 2020, Litgrid continued applying bird protection measures in the infrastructure objects it manages, thus aiming to reduce the number of deaths of migrating birds, improve their breeding conditions by monitoring bird death cases in the high-voltage electricity transmission network, and to respond accordingly.

The 110 kV overhead power line supports were equipped with special bird guards - devices preventing birds from landing over isolators - fork type devices, as well as the upper garland insulators were replaced to a larger diameter. These measures reduce the chances of short-circuiting large birds (white storks) and thus reduce their perishing.

In the reconstructed and newly built 110 kV and 330 kV power transmission lines, the visibility of wires by installing special bird-diverting devices in places where bird migration is most intensive is increased. Such measures (265 units) were installed in 2020: on the 330 kV overhead line the Lithuanian power plant-Vilnius at the Elektrėnai Lagoon, Pastrėvys and Bartžuvė fishery ponds.

During bird hatching, Litgrid takes measures to minimize the disturbance during the cleaning of the trails. On the recommendation of ornithologists, due to disturbance of birds during their hatching period from 1 May to 31 July, the execution of works is restricted - this is responsibly assessed even before the project execution schedules are drawn up.

In 2020, the monitoring of the environmental impact of the newly constructed power transmission line Kruonis PSHP-Alytus started in 2019 was further continued. In the spring and autumn of 2020, the recording of birds that may have perished as a result of the collision with overhead wires was performed, insect and vegetation monitoring was carried out in the areas identified in the monitoring program. The monitoring report was submitted to the state authorities concerned: the Environmental Protection Agency, the State Service for Protected Areas. The environmental impact monitoring program of the 330 kV overhead line Lithuanian power plant-Vilnius for 2021-2023 has been prepared.

Waste management and sorting, economical use of resources

In accordance with the principles of climate change, sustainable development and pollution prevention, the Group companies implement energy consumption and greenhouse gas mitigation activities, pay close attention to waste amount monitoring, sorting, hazardous waste management, promote rational management and use of water, paper, energy and other resources.

There are special containers for sorting glass, plastic and paper in the companies of the Group.

The requirements for air, surface water, groundwater, soil contamination monitoring and protective measures referred to in the Permits of Integrated Pollution Prevention and Control are also implemented by Amber Grid. Industrial wastewater is treated in its treatment facilities, oil product trace alarms are installed. Contracts are concluded with specialized companies for the safe management and utilization of waste generated in production activities. In 2020, Amber Grid transferred about 19.6 tons of hazardous waste (2019: 19.1 tons), about 45.7 tons of non-hazardous waste (2019: 1,629.6 tons), 2.5 tons of paper, plastic and glass (2019: 1 ton) to waste managers.

Paper saving

In order to reduce the amount of paper used, streamline document management processes and costs, EPSO-G companies have implemented electronic document management systems, in which activity documents are managed and archived electronically. This measure enables a significant reduction of paper consumption.

In 2020, the companies continued to transfer documents to the electronic space by maximally giving away paper documents, actively signing with an electronic signature and encouraging their customers, suppliers and partners to do the same.

9.11. SOCIAL RESPONSIBILITY IN RELATIONS WITH EMPLOYEES

Human rights

The companies of the Group create a value-based organisational culture and are in favour of equal rights and equal opportunities of the employees in the workplace regardless of their gender, ethnic origin, race, nationality, social status, age, disability, membership in a political party or association, religious beliefs or sexual orientation.

Any form of harassment, psychological violence, bullying or taking advantage of the position held is intolerable as well.

The employees who may have been the subject of unlawful acts can submit a complaint to the responsible person appointed by the company. If the employee is dissatisfied with the result of the examined complaint, such the employee can defend their right infringed in accordance with the legal acts.

The employee who witnessed and/or has any suspicion about and/or who is a witness of the case of discrimination, harassment or sexual harassment shall notify thereof his/her direct manager or the responsible person appointed by the Company. The Company ensures confidentiality when examining complaints. Accordingly, all employees and the Company shall treat any information obtained during the investigation of an infringement as confidential. Breach of this provision is considered to be a gross violation of work discipline.

No reports of discrimination or other incidents related to human rights violations at work were received in EPSO-G Group in 2020.

Equal rights

The companies of the Group ensure that the working conditions are in line with the legislation, international standards and recommendations applicable in the Republic of Lithuania, and seek to create working conditions that respect dignity related to working hours, weekly rest, holidays, occupational safety and health, protection of maternity and adequate work-family relations balance.

For this reason, the companies of EPSO-G systematically analyse the working environment and constantly improve it. To achieve the objectives pursued that are set for the company and improvement, the employee opinion assessments are carried out during the employee satisfaction surveys that are held at least once every two years. The results of the surveys are used for adjusting the activity plans.

Decisions related to recruitment, competence development, remuneration or other pay-outs, promotions are taken in the companies of the Group taking into account objective criteria and factors without discrimination.

No reports of breaches of equal rights at work were received in EPSO-G Group in 2020.

Workforce of the Group is composed mainly of men. This is strongly influenced by the specifics of the activity: women are less likely to choose works of technical engineering profile and those performed outdoors, and specialties directly related to them. In this regard, the Social Responsibility Policy introduces the provision that a proportional gender representation will be sought in the companies of the Group by identifying the measures and actions that help implement this provision. No reports of gender discrimination were received in EPSO-G Group companies in 2020.

The employees of the companies of the Group are paid equal salary for the same or equivalent work. The amount of salary for a potential or actual employee is determined according to the objective criteria related to the abilities, competence, qualification, experience and knowledge of the employee. According to the Employees' Remuneration Policy of the Group, the companies are encouraged to adequately reward their employees having achieved objectives and exceeding expectations.

Information about the employees, Remuneration Policy and the staff evaluation system is provided in clause 8 of this annual report in the Report on the Implementation of Remuneration Policy.

Measures to manage the effects of COVID 19

Following the declaration of a national emergency in Lithuania in 2020 due to the threat of the spread of coronavirus (COVID-19), business continuity and preventive measures were applied in EPSO-G Group: appointed employees responsible for monitoring and reporting the situation to the Company's management; identified business units and employees undertaking the critical functions and administrating the main systems; implemented additional organisational measures at the system operation centre; planned technical and substitution measures in case of spread of the virus.

The Group companies have reviewed its emergency management plan, prepared the following additional documentation and implementing measures: lists of critical functions, lists of measures necessary to ensure continuous implementation of the functions, resources and responsible individuals, as well as other documents and measures.

In order to ensure the health and safety of workers, as from February 2020, business trips and events were cancelled, excursions to the Company's offices were no longer organized and guest delegations were not accepted, while remote working was introduced. Due to the specifics of the work, employees who could not work from home were provided with protective equipment and a maximally safe working environment.

Voluntary health insurance

By encouraging employees to take care of their health, in 2020, we insured them with voluntary health insurance. At the end of 2020, around 70% of all EPSO-G Group employees were covered by this insurance. In 2021, it is planned to expand the number of employees covered by the voluntary health insurance. Under the terms of the insurance, employees are reimbursed for health care services such as outpatient treatment and diagnostics, day surgery services, preventive health examinations and vaccinations, prescription drugs and medical aids, dental services.

Personnel field initiatives

In 2020, at EPSO-G Group companies, we focused on employee and executive training. We encourage employees not only to improve their professional qualifications, which is mandatory when working in the field of energy, but also to develop general and managerial competencies. We use the 70-20-10 principle for education and training, when 70% of education, development and learning activities take place through employee work experience and self-training, 20% from communication and cooperation with colleagues and managers possessing diverse experience and competencies, 10% from structured training sessions. As in 2019, in 2020, the proportion between the training of the professional qualification profile and the development of general, leadership and managerial competencies was similar - around 65/35%. Due to the pandemic conditions, in 2020, around 80% of the trainings took place remotely.

Following the completion of the formation of competence models of the companies in 2020, we performed an assessment of the competencies of executives and some specialists and developed training plans based on the results of the assessment. We received 100% participation from EPSO-G's team leaders who took part in the competency assessment using the 360˚ feedback method that took place in January 2020 and 2021.

In order to ensure the continuity of the companies' activities, we promote the internal career of employees in the same company or the Group companies. In 2019, 78 employees were promoted from specialists to senior specialists or to managerial positions, while in 2020 - 79 employees throughout EPSO-G Group.

At EPSO-G Group, we carry out an annual employee engagement survey using an internationally recognized methodology. During the survey, employees anonymously express their views on clarity of goals and direction, work organization, work processes, workload, remuneration, opportunities for improvement, trust in managers, collaboration, and other aspects. In 2019, EPSO-G Group's employee engagement rate was 58. After receiving their opinion, the companies develop and implement action plans to increase employee engagement in a targeted way. The engagement rate of 2020 rose to 66.

By reinforcing employee cooperation and team spirit, we foster traditions of the entire EPSO-G Group and individual companies, encompassing various sports activities, team events, themed summer and winter holidays, and the election of the most valuable employees. In 2020, due to the pandemic, most team activities were organized remotely, such as Litgrid's Endomondo tournament, where participants individually tracked their walking, running or cycling kilometres; Amber Grid's walking competitions, seminars on health and wellness, personal efficiency, employee safety, remote work, and environmental issues.

Collective agreement and trade unions

EPSO-G recognise the right of employees to join trade unions or associations on a voluntary basis and to negotiate with the employer, and maintain a constructive social dialogue.

Trade union

As at 31 December 2020, the trade union formed at Amber Grid had 186 members (2019: 213) with 8 members representing the employees on the Board. The purpose of the trade union is to represent and defend professional, labour, economic and social rights and legitimate interests of its members. Meetings of the representatives of the trade union and the management of the Company are periodically organised to discuss issues relevant to the trade union.

The Trade Union of Employees of the Electricity Transmission Network incorporates employees of Litgrid and represents their interests. In order to achieve closer cooperation and partnership, in 2020, it was agreed on periodic meetings between the trade union's representatives and the Company's management to discuss issues of mutual interest. There were 98 members in the Trade Union of Employees of Electricity Transmission Network at the end of 2019 (96 members in 2018), which is more than one third of the Company's employees.

EPSO-G, Baltpool, and Get Baltic do not have a trade union or employee representatives, neither a collective agreement. In order to ensure equal treatment of employees in the company and provision of social benefits, as in the case of the majority of the Company's employees, the basics and amounts of the main benefits established by the Labour Code were agreed with employees directly and later on with the Remuneration and Nomination Committee.

Collective agreement

The objective of the collective agreement is to represent the rights and legitimate interests of all employees. The agreement establishes work, remuneration, social, economic and professional conditions as well as guarantees that are not regulated by laws, other regulations.

Employees of the companies of the Group are provided with additional financial guarantees (benefits in respect of accidents, sickness, death of a family member, childbirth benefit, benefit for an employee having three or more children or a disabled child), additional leave days (after childbirth, in case of death of a family member and other cases) and other guarantees.

The Company supports the cultural, sporting and tourist activities of the employees, various festive events and other social activities in which all employees of the Company are entitled to participate without discrimination and restrictions.

9.12. SOCIAL RESPONSIBILITY IN THE RELATIONS WITH THE SOCIETY

The companies of EPSO-G Group create and maintain open and business-like relationship with stakeholders and are accountable to the shareholders and the society for the activities carried out by them. At least once a year, the companies of the Group publicly present financial and non-financial activity reports to their shareholders and /or social partners.

Dialogue culture with the communities

The Group companies inform local communities in advance about ongoing projects in their neighbourhood. During the implementation of the projects, the working time is agreed with residents. The aim is to minimize inconveniences for residents arising from works being carried out over the course of the implementation of the entire project.

As Lithuania is implementing the gas interconnector project (GIPL) which has the status of an EU Project of Common Interest (PCI) and which will connect Lithuania with Western Europe through Poland, in 2020, Amber Grid continued long-term round of meetings with communities of the municipalities in the territories of which GIPL trunk gas pipeline is being constructed.

Through the Dialogue Culture and Cooperation project, Amber Grid seeks to inform residents about the importance, course and progress of the GIPL project in their neighbourhood, to form an image of a credible, transparent, socially responsible company, foster a culture of responsibility, rational creativity and dialogue, and to build long-term relationships with communities. In compliance with the safety requirements of COVID 19, Amber Grid has held 35, including remote, meetings with local communities. Such meetings are important for the company, as they allow to hear the opinion of the residents and, if necessary, adjust the project work or its progress accordingly.

In 2020, Litgrid, the company implementing important projects for synchronization with CEN, has also continued the cycle of meetings with local communities.

Seeking to inform the local communities in advance about the projects in their neighbourhood, in 2020, 6 meetings were initiated with the communities, in the environment of which the implementation or the reconstruction of new infrastructure projects will be soon launched. The Company strives to minimize the inconvenience caused to the residents during the implementation of the infrastructure projects, and new routes are planned very carefully to minimize the impact on the living environment and nature. During the meetings, the future routes were presented, and the expectations and wishes of the residents were heard.

In addition, in 2020, Litgrid continued the cycle of meetings with the communities. Due to the quarantine requirements, the events were held remotely - a total of 20 events, during which well-known public figures - Giedrius Savickas, Haroldas Mackevičius, Rafailas Karpis, Antanas Joniškis, Jazzu, Alfredas Bumblauskas - met with the communities near the places of residence of which the synchronization projects are and will be carried out until 2025. Litgrid employees introduced the synchronization to the residents, as well as provided an opportunity to spend their free time in a purposeful way. In total, over 15,000 people from various Lithuanian cities and towns watched these events remotely.

Charity and donations

The Donation Policy is confirmed in EPSO-G Group companies, which is based on the objectives and values of the operational strategy and the attitude thereof that the support granted must be public and must not create doubts for the society regarding its expediency and transparency of the granting process.

EPSO-G is a state-owned company. Therefore, one of the most important obligations of the Company is to pay dividends to the shareholder allocating them through the country's budget to meet the essential needs of the society. For this reason, in order to implement the objectives provided for in the strategy of EPSO-G, the companies of the Group will grant the support for the predefined areas.

No financial donations were granted by the companies of EPSO-G Group in 2017-2020.

Directions of support

EPSO-G is seeking to develop cooperation with the communities in the immediate vicinity of which the companies of the Group carry out their activities or implement projects. Education is another direction of support, i.e. support for the individuals studying under the programmes of universities and other higher education institutions that are closely linked to the professional activities of the companies.

The policy which is common for all companies of the Group provides that support may be granted for education, culture, sport, social services or other community welfare areas based on four principles, i.e. compliance with the operational objectives, transparency and impartiality, equality and alignment of confidentiality and publicity.

The companies of EPSO-G Group will grant donations neither for political parties or political campaigns nor for the activities that promote or are associated with gambling or similar activities, alcoholic beverages, tobacco products or other intoxicants nor for other activities that have or may have a negative impact on the society.

A profit share allocated for donations in the companies of EPSO-G Group is determined annually at the Ordinary General Meeting of Shareholders by forming a reserve for this amount taking into account the profit achieved of the reporting year and the ongoing projects. A profit share allocated for support shall not be more than 1% of the net profit of the reporting financial year, not exceeding in any case EUR 50 thousand.

In 2020, EPSO-G Group companies budgeted no funds for donation purposes.

Volunteering

By contributing to the implementation of the objectives of public interest or those that are important for the local community, the companies of EPSO-G Group encourage a voluntary unremunerated engagement of their employees in charitable activities. Employee volunteering is promoted - under to the collective agreement , 1 day per year is dedicated for this purpose. A part of the personnel dedicated this day for volunteering to organize activities for the kids at a children day care center, for assisting an animal welfare organization, and for helping Maisto bankas (Food Bank).

100 computers for learning for children from low-income families

In 2020, following the introduction of distance learning for children due to the COVID 19 pandemic and the fact that many families still lacked technical equipment for that, Amber Grid, together with the Lithuanian Information and Communication Technology Association Infobalt, joined the support for children in need and handed over more than 100 computers for children's learning to the organization taking care of them Gelbėkit vaikus (Save the Children Lithuania).

After a planned refurbishment of the Company's computers, Amber Grid decided to donate desktop computers and laptops running efficiently and in good condition to schoolchildren, while the Association Infobalt took care of checking them and installing and updating the necessary software.

The computers went to the children from low-income families under the care of Gelbėkit vaikus living in Alytus, Širvintos, Kaišiadorys, Elektrėnai, Marijampolė, Kaunas district, Plungė, Šakiai, Šilutė, Tauragė, Anykščiai, Pasvalys, Akmenė municipalities. The computers were intended for these families primarily to ensure distance learning during the quarantine and to strengthen and develop the learning capacities of the children from these families at home even after the end of the pandemic.

The handed-over computers can be used not only by children for their schoolwork, but also by their family members. This will further increase the computer literacy of low-income families, enable them to do household tasks in digital space.

Promoting safe conduct

The current running through Litgrid's maintained power lines have a voltage approximately 500 times higher than the one at households. Electrical discharge can occur if a safe distance is breached, when one is too close - high voltage electricity can also hit at a distance as well.

For this reason, Litgrid is constantly reminding the contractors performing the works in the electricity network of the need to comply with the safety requirements of the workers; the control is also carried out - the Company's representatives visit the locations where the contractors perform the work and inspect the compliance with the work safety requirements and in case of identification of shortcomings, the works are discontinued.

In 2020, prior to timber harvesting, in the regional and local press - over 40 newspapers and internet portals - articles on safe conduct near high-voltage overhead power lines were initiated by Litgrid.

ENDED 31 DECEMBER 2020 (thousand EUR, unless specified otherwise)

INDICATOR INDEX ACCORDING TO GRI

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GRI 102-16	The values, principles, standards and norms of the organization related to behavioural and ethical codes	pages 31-32; 93-95; 105-106
Company management		
GRI 102-18	Company management structure	page 80
GRI 102-19	Delegated powers	pages 102
GRI 102-20	Attribution of the leading representatives of the Company and representation in the field of finances, environmental protection and social responsibility	pages 104
GRI 102-21	Responsibility in providing information/advice to the shareholders on the issues of finance, environmental protection and social responsibility	pages 104-106

ENDED 31 DECEMBER 2020 (thousand EUR, unless specified otherwise)

Stakeholders		
G4-24	Stakeholder list	pages 107
Report parameters		
G4-28	Report period	page 18
G4-29	Date of the previous report	page 18
G4-30	Reporting frequency	page 18
G4-31	Contact person to answer the questions related to social responsibility	page 104
G4-33	Policy and practices of the organization regarding the external audit of report	page 75-76
Management		
G4-34	The management structure of the Company, including the top-level committees	pages 78-95

List of impacts and specific indicators of the company			
Impact	Description, disclosed mode of management and indicator	External check	Page/Source
Economy			
Economic efficiency	Direct economic benefits received and distributed	Accomplished	Annual report, 62-66; 77-78
Market	Comparison of a standard salary of employees with a minimum wage	Not accomplished	-
Indirect economic impacts	Development and impact of investment in infrastructure and services	Accomplished	Annual report 42-53; The Progress Report on Social Responsibility, page 119-122
Environmental protection			
Products and services	Environmental impact mitigation measures for products and services of the Company (G4-EN27)	Partially	The Progress Report on Social Responsibility, pages 171-174
Social area			
Education and training	Programs for improving employee skills and lifelong learning, ensuring continuity of worker capacity and helping to	Partially	The Progress Report on Social Responsibility page 123

	manage their careers (G4-LA10)		
Non-discrimination	The number of discrimination incidents and the actions taken to deal with the incidents related to human rights violations (G4-HR3)	Accomplished	The Progress Report on Social Responsibility, pages 125-126
Local communities	Subdivisions involving the local communities by assessing the impact or development programs (G4-S01)	Accomplished	The Progress Report on Social Responsibility, pages 177-178

Annex 1

INFORMATION ON COMPLIANCE WITH TRANSPARENCY GUIDELINES

EPSO-G (hereinafter – EPSO-G or the Company) and its subsidiaries comply[1] with the Resolution No 1052 of the Government of the Republic of Lithuania as of 14 July 2010 on the Approval of the Description of the Guidelines for Ensuring the Transparency of State-Owned Enterprise Activities (hereinafter – the Transparency Guidelines). The Transparency Guidelines are subject to mandatory application by EPSO-G UAB, as EPSO-G UAB is a state-owned enterprise (hereinafter – SOE). To implement the compliance with the Transparency Guidelines in EPSO-G UAB group of companies, the policy of transparency and communication of the activities of EPSO-G UAB group of companies was adopted at the Group's level with a detailed regard to requirements set out in the Transparency Guidelines and their established application for the companies of EPSO-G UAB group of companies.

The implementation of the Transparency Guidelines by EPSO-G UAB is materially ensured through information disclosure in the annual report and ant the disclosure of the information on EPSO-G UAB website aiming to submit the information for stakeholders in an accessible and understandable format.

Article 3 of the Transparency Guidelines states that SOE shall comply with the provision of the Corporate Governance Code[2] for companies listed in Nasdaq Vilnius AB related to public disclosure of information. Information on EPSO-G compliance with the provisions of this Code is set out in Annex II to EPSO-G Annual Report, entitled "EPSO-G UAB Report on Compliance with the Corporate Governance Code for Listed Companies on Nasdaq Vilnius AB".

Structured information on the implementation of the Transparency Guidelines is presented below:

Information / other requirements subject to publication on EPSO-G website (www.epsog.lt):	
Name and code of the Company and register where data about the Company is stored and kept, address	Executed
Legal status subject to reorganization (the method of reorganization shall be indicated), liquidation or bankruptcy of EPSO-G	Not applicable
Information about the state representing institution, i.e. the Ministry of Energy and a link to its website	Executed
Operational goals, vision and mission	Executed
Structure	Executed
Data of Director General*	Executed
Data of Chairman and members of the Board*	Executed
Data of Chairman and members of the Supervisory Board *	Not applicable
Names of committees, details of their chairmen and members *	Executed
* *The following data is published: name, surname, date of commencement of current positions, other current management positions in other legal entities, education, qualification, professional experience; it shall be indicated whether a member of the collegial body has been elected or appointed as an independent member.*	
Amount (in euro to the nearest cent) and percentage of the nominal value of the state-owned shares in EPSO-G share capital	Executed
Special obligations are fulfilled, which are determined in accordance with the recommendations approved by the Minister of Economy and Innovation of the Republic of Lithuania: the objective of special obligations, the state budget appropriations allocated to them in the current calendar year and legal acts assigning SOEs with the performance of a special obligation are indicated, the conditions for the performance of the special obligation and / or regulated pricing are set.	Executed

[1] *In accordance with Article 17.11 of the Transparency Guidelines, in the event of non-compliance with the Transparency Guidelines, explanations shall be provided.*

[2] *"The Corporate Governance Code for the Companies Listed on NASDAQ Vilnius" approved on 15 January 2019 by Board meeting of Nasdaq Vilnius AB, protocol No. 19-63*

Information on social responsibility initiatives and measures, important ongoing or planned investment projects	Executed
If EPSO-G is a participant in other legal entities (does not apply to subsidiaries and downstream subsidiaries), the name, code and register of such legal entities in which the Company's data are collected and stored, registered office (address), website addresses	Not applicable
EPSO-G set of annual financial statements, EPSO-G annual report, and auditor's report on the annual financial statements of EPSO-G shall be published on EPSO-G website within 10 working days of the approval of the annual financial statements	Executed
EPSO-G set of interim financial statements, EPSO-G interim annual reports shall be published on the website not later the 2 months after reporting period	Executed
Considering that EPSO-G is patronizing company additional information shall be published on the EPSO-G website (www.epsog.lt):	
Structure of EPSO-G group companies	Executed
EPSO-G subsidiaries and downstream subsidiaries:	
Name and code of the Company and register where data about the Company is stored and kept, registered office (address)	Executed
Website addresses	Executed
Percentage of EPSO-G shares in the companies' share capital	Executed
Consolidated financial statements and consolidated annual reports	Executed
The documents / other requirements subject to publication on EPSO-G website (www.epsog.lt):	
EPSO-G articles of association	Executed
Letter from the Ministry of Energy on the setting of state objectives and expectations for EPSO-G	Executed
Operational strategy or a summary in cases when it contains confidential information or information treated as a commercial (industrial) secret	Executed
Remuneration policy including the remuneration of EPSO-G management and the remuneration of members of collegiate bodies and committees set up by EPSO-G	Executed
EPSO-G annual and interim reports	Executed
The sets of annual and interim financial statements reports and auditor's reports on the annual financial statements for the period not less than j years	Executed
The documents listed above are published in PDF format and technical possibilities for printing	Executed
Other requirements subject to publication / implementation in the annual report and the set of financial statements:	
The accounting of EPSO-G shall be administered according to the International Financial Reporting Standards.	Executed
EPSO-G is preparing a set of interim financial statements for six months	Executed
Additionally to annual report EPSO-G is preparing interim report for six months	Executed
In addition to the requirements set by the Law on Financial Reporting of the Republic of Lithuania the EPSO-G annual report shall contain[3]:	
Short description of EPSO-G business model	Executed
Information on major events during and after the financial year (prior to the preparation of the annual report) which had substantial impact on the activity of EPSO-G	Executed
Results of the implementation of the goals set in operational strategy	Executed
Ratios of profitability, liquidity, asset turnover and debt	Executed

[3] *If the information is treated as SOE's commercial (industrial) secret or confidential information, SOE shall not disclose such information, therefore it should be indicated in SOE's annual report including reason for non-disclosure..*

Fulfilment of special obligations	Executed
Implementation of investments policy, investment projects in progress and planned and investments during the reporting period	Executed
Implementation of risk management policy applied by EPSO-G	Executed
Implementation of dividends policy	Executed
Implementation of the remuneration policy	Executed
General annual wage fund, average monthly salary according to position and (or) departments	Executed
For SOEs that are not required to prepare report of social responsibility it is recommended to provide information related to environmental, social and personnel, human rights, anti-corruption and bribery accordingly in annual report or annual activity report	Executed
Consolidated annual report contains structure of the group of companies, name and code of each subsidiary and the register where company data is stored and kept, registered office (address), part (percentage) of shares held in the authorized capital of the subsidiary, financial and non-financial results of the financial year	Executed
EPSO-G interim annual report contains short description of EPSO-G business model, analysis of financial operating results of the reporting period, information on major events of the reporting period, and also ratios of profitability, liquidity, asset turnover and debt including its changes in comparing to previous year period	Executed

Annex 2

EPSO-G UAB Notice of Compliance with the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius AB

In line with the Description of the Guidelines for Ensuring the Transparency of State-owned Enterprises approved by Resolution No 1052 of the Government of the Republic of Lithuania dated 14 July 2010 and the Transparency and Communication Policy of the EPSO-G Group of Companies, EPSO-G UAB (the Company or EPSO-G) discloses in this annual report its compliance with the provisions of the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius AB. In case of non-compliance with this Code or some of its provisions, the specific provisions that are not complied with must be indicated and the reasons of such non-compliance must be specified.

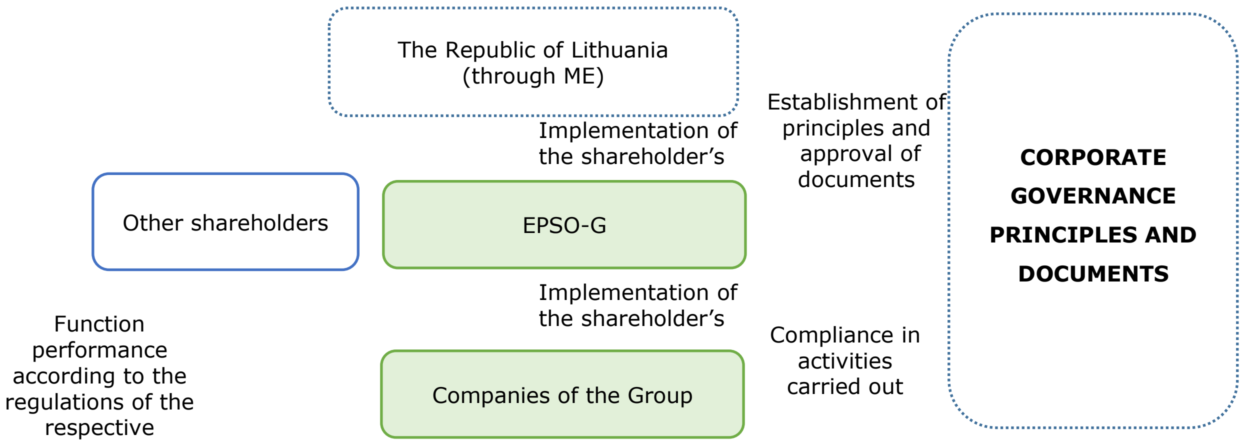
The implementation of the recommendations of the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius AB is, in principle, ensured through information disclosed in the annual report and information extensively published on the EPSO-G's website aiming to provide information to stakeholders in an accessible and comprehensible format.

1. Free-form summary of the Company's corporate governance report

A state-owned company EPSO-G is the parent company of the EPSO-G group of companies (the Group).

Rights and obligations of the shareholder of the holding company EPSO-G are implemented by the Ministry of Energy of the Republic of Lithuania (the Ministry of Energy, ME). The Company's corporate governance structure and the governance model are established by the Company's Articles of Association, the Corporate Governance Guidelines of the EPSO-G Group of Companies approved by the sole shareholder Ministry of Energy on 24 April 2018 and the Corporate Governance Policy of the EPSO-G Group of Companies. All the above-mentioned documents are published on the Company's website.

Chart 1. Main scheme of the implementation of corporate governance of EPSO-G.



The corporate governance structure:

- The General Meeting of Shareholders;
- The Board (five members, three of whom are independent members, the other two members are nominated by the sole shareholder Ministry of Energy);
- The committees operating at the Group level:
    - The Remuneration and Nomination Committee (mainly composed of independent members);
    - The Audit Committee (mainly composed of independent members);
    - The Innovation and Development Committee (mainly composed of independent members).

- The Chief Executive Officer.

The Group has a centralised internal audit function. In order to ensure the independence of the internal audit, it is established that the head of the internal audit function is appointed and dismissed by the Board of the holding company EPSO-G, which is mainly composed of independent members. The internal audit shall also be accountable to the Audit Committee of EPSO-G, which is also mainly composed of independent members. The internal audit recommendations are analysed by the Board of the Company, which also approves the plan of measures for the implementation of recommendations.

On the basis of the Risk Management Policy of the EPSO-G Group of Companies, the uniform risk management system of the Group is implemented according to the COSO ERM standards applicable in the international practice setting out risk identification, assessment and management principles and responsibilities. Risk management coordination is performed at the Group level.

Good governance practice is implemented at the EPSO-G Group by the approved operating policies. The aim of these policies is to introduce a consistent and effective organisational management system helping employees successfully implement important strategic projects and create value to residents and businesses of the country in a transparent and effective manner. To ensure the efficiency of the operating policies, the Company annually reports on the progress of implementation of the operating policies.

The operating policies that are currently effective at the Company are presented in the chart below.

Remuneration, personnel management	**Supervision of the Group's**	**Activities, development of the**	**Finance, assets**	**Transparency, accountabilit**
Remuneration Guidelines	Integrated Planning and Monitoring Policy of the	Strategy of the Group	Dividend Payment	Corruption Prevention Policy
Guidelines of Annual Performance Self-	Guidelines of Implementation of Centralised Internal Audit in the Group	Corporate Governance Policy	Accounting Policy	Support Provision Policy
Employee Remuneration Policy		Project Management Policy	Treasury and Financial Risk	Policy of Acquisition of Non-Audit Services from
Employee Performance Assessment Policy		Risk Management Policy	Technological Assets Development and Operation	Operational Transparency and Communicatio
Selection Policy		Social Responsibility Policy	Transport Policy	Policy of Protection of Sensitive
		Code of Conduct	Recommendations for Coordination of Joint Procurements	Policy of Management of Interests of Members of Collegial Bodies and
		Procurement Policy	ITT Management Policy	Personal Data Protection
		Policy of Transactions with Related Parties		
		Compliance Management Policy		

Explanations:

The policy changes made and a new version of the Group policy adopted in 2020.

The new Group policy approved in 2020.

EPSO-G relies on the good governance practices outlined in the recommendations of good governance published by the Organisation for Economic Cooperation and Development (OECD), the recommendations of the United Nations and Nasdaq Vilnius, other internationally recognised standards and the recommendations of good governance, the main objective of which is to ensure that the state-owned companies are managed in an efficient and transparent manner.

As a result of targeted actions taken to build trust in ongoing strategic projects and large attention devoted to operational transparency and accountability, the EPSO-G group of companies has been recognised for the most advanced governance of the subsidiaries, and the overall governance quality has been rated A+.
This was evidenced by the 2019/2020 Good Governance Index of State-owned Enterprises (SOE) published by the public institution Governance Coordination Centre (GCS). The Good Governance Index of this Centre is the most comprehensive tool for evaluating the quality of management of all SOEs. The index consists of three main assessment dimensions: transparency, collegial bodies and strategic planning and implementation.
In terms of the transparency dimension, EPSO-G received the highest A+ rating with the areas for improvement identified when applying the sustainability practice in the future.

The highest possible rating A+ was also awarded for the work of the collegial bodies, the process of selection of their members, competence and involvement, and for the compliance of the functions of the collegial bodies with the good governance principles.

EPSO-G's strategic planning and implementation were rated with the A+ score. Financial sustainability received the rating A due to the Group's debt level that resulted from the financial obligation to pay to the company of the Ignitis group for the acquired shares of Litgrid.

In the preparation of the 2021 operational plan, the holding company EPSO-G continues to improve governance by taking into consideration recommendations presented by the GCS.

2. Structured table:

PRINCIPLES/RECOMMENDATIONS	YES / NO / IRRELEVANT	COMMENTS
Principle 1: General meeting of shareholders, equitable treatment of shareholders, and shareholders' rights. The corporate governance framework should ensure the equitable treatment of all shareholders. The corporate governance framework should protect the rights of shareholders.		
1.1. All shareholders should be equally provided with access to the information and/or documents established in the legal acts on equal terms to participate in the decision-making process where significant corporate matters are discussed.	YES	The Company has the sole shareholder.
1.2. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to their holders.	YES	All shares of the Company are ordinary registered shares of EUR 0.29 per value.
1.3. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	IRRELEVANT	The Company has the sole shareholder. The company is not listed on the exchange.

1.4. Exclusive transactions that are particularly important to the company, such as transfer of all or almost all assets of the company which in principle would mean the transfer of the company, should be subject to approval of the general meeting of shareholders.	YES	Article 43 of the Articles of Association of the Company specifies the cases when the approvals of the sole shareholder are required - these cases are established with regard to the fact that the underlying assets of the Company are the shares of the subsidiaries.
1.5. Procedures for convening and conducting a general meeting of shareholders should provide shareholders with equal opportunities to participate in the general meeting of shareholders and should not prejudice the rights and interests of shareholders. The chosen venue, date and time of the general meeting of shareholders should not prevent active participation of shareholders at the general meeting. In the notice of the general meeting of shareholders being convened, the company should specify the last day on which the proposed draft decisions should be submitted at the latest.	IRRELEVANT	The Company has the sole shareholder and it is not listed on the exchange.
1.6. With a view to ensure the right of shareholders living abroad to access the information, it is recommended, where possible, that documents prepared for the general meeting of shareholders in advance should be announced publicly not only in Lithuanian language but also in English and/or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders after the signing thereof and/or adopted decisions should be made available publicly not only in Lithuanian language but also in English and/or other foreign languages. It is recommended that this information should be placed on the website of the company. Such documents may be published to the extent that their public disclosure is not detrimental to the company or the company's commercial secrets are not revealed.	IRRELEVANT	The Company has the sole shareholder and it is not listed on the exchange.
1.7. Shareholders who are entitled to vote should be furnished with the opportunity to vote at the general meeting of shareholders both in person and *in abs*entia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	YES	The shareholder has an option of voting in writing.
1.8. With a view to increasing the shareholders' opportunities to participate effectively at general meetings of shareholders, it is recommended that companies should apply modern technologies on a wider scale and thus provide shareholders with the conditions to participate and vote in general meetings of shareholders via electronic means of communication. In such cases, the security of transmitted information must be ensured and it must be possible to identify the participating and voting person.	IRRELEVANT	The Company has the sole shareholder and it is not listed on the exchange.

1.9. It is recommended that the notice on the draft decisions of the general meeting of shareholders being convened should specify new candidatures of members of the collegial body, their proposed remuneration and the proposed audit company if these issues are included into the agenda of the general meeting of shareholders. Where it is proposed to elect a new member of the collegial body, it is recommended that the information about his/her educational background, work experience and other managerial positions held (or proposed) should be provided.	IRRELEVANT	The Company has the sole shareholder and it is not listed on the exchange.
1.10. Members of the company's collegial management body, heads of the administration[4] or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders should take part in the general meeting of shareholders. Proposed candidates to member of the collegial body should also participate in the general meeting of shareholders in case the election of new members is included into the agenda of the general meeting of shareholders.	IRRELEVANT	The Company has the sole shareholder and it is not listed on the exchange.
Principle 2: Supervisory board 2.1. Functions and liability of the supervisory board The supervisory board of the company should ensure representation of the interests of the company and its shareholders, accountability of this body to the shareholders and objective monitoring of the company's operations and its management bodies as well as constantly provide recommendations to the management bodies of the company. The supervisory board should ensure the integrity and transparency of the company's financial accounting and control system.		
2.1.1. Members of the supervisory board should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders and represent their interests, having regard to the interests of employees and public welfare.	IRRELEVANT	The Supervisory Board is not formed in the Company.
2.1.2. Where decisions of the supervisory board may have a different effect on the interests of the company's shareholders, the supervisory board should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed about the company's strategy, risk management and control, and resolution of conflicts of interest.	IRRELEVANT	The Supervisory Board is not formed in the Company.

[4] For the purposes of this Code, heads of the administration are the employees of the company who hold top level management positions.

2.1.3. The supervisory board should be impartial in passing decisions that are significant for the company's operations and strategy. Members of the supervisory board should act and pass decisions without an external influence from the persons who elected them.	IRRELEVANT	The Supervisory Board is not formed in the Company.
2.1.4. Members of the supervisory board should clearly voice their objections in case they believe that a decision of the supervisory board is against the interests of the company. Independent[5] members of the supervisory board should: a) maintain independence of their analysis and decision-making; b) not seek or accept any unjustified privileges that might compromise their independence.	IRRELEVANT	The Supervisory Board is not formed in the Company.
2.1.5. The supervisory board should oversee that the company's tax planning strategies are designed and implemented in accordance with the legal acts in order to avoid faulty practice that is not related to the long-term interests of the company and its shareholders, which may give rise to reputational, legal or other risks.	IRRELEVANT	The Supervisory Board is not formed in the Company.
2.1.6. The company should ensure that the supervisory board is provided with sufficient resources (including financial ones) to discharge their duties, including the right to obtain all the necessary information or to seek independent professional advice from external legal, accounting or other experts on matters pertaining to the competence of the supervisory board and its committees.	IRRELEVANT	The Supervisory Board is not formed in the Company.
2.2. Formation of the supervisory board The procedure of the formation of the supervisory board should ensure proper resolution of conflicts of interest and effective and fair corporate governance.		
2.2.1. The members of the supervisory board elected by the general meeting of shareholders should collectively ensure the diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance between the qualifications of the members of the supervisory board, it should be ensured that members of the supervisory board, as a whole, should have diverse knowledge, opinions and experience to duly perform their tasks.	IRRELEVANT	The Supervisory Board is not formed in the Company.
2.2.2. Members of the supervisory board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience.	IRRELEVANT	The Supervisory Board is not formed in the Company.

[5] For the purposes of this Code, the criteria of independence of members of the supervisory board are interpreted as the criteria of unrelated parties defined in Article 31(7) and (8) of the Law on Companies of the Republic of Lithuania.

2.2.3. Chair of the supervisory board should be a person, whose current or past positions constituted no obstacle to carry out impartial activities. A former manager or management board member of the company should not be immediately appointed as chair of the supervisory board either. Where the company decides to depart from these recommendations, it should provide information on the measures taken to ensure impartiality of the supervision.	IRRELEVANT	The Supervisory Board is not formed in the Company.
2.2.4. Each member should devote sufficient time and attention to perform his duties as a member of the supervisory board. Each member of the supervisory board should undertake to limit his other professional obligations (particularly the managing positions in other companies) so that they would not interfere with the proper performance of the duties of a member of the supervisory board. Should a member of the supervisory board attend less than a half of the meetings of the supervisory board throughout the financial year of the company, the shareholders of the company should be notified thereof.	IRRELEVANT	The Supervisory Board is not formed in the Company.
2.2.5. When it is proposed to appoint a member of the supervisory board, it should be announced which members of the supervisory board are deemed to be independent. The supervisory board may decide that, despite the fact that a particular member meets all the criteria of independence, he/she cannot be considered independent due to special personal or company-related circumstances.	IRRELEVANT	The Supervisory Board is not formed in the Company.
2.2.6. The amount of remuneration to members of the supervisory board for their activity and participation in meetings of the supervisory board should be approved by the general meeting of shareholders.	IRRELEVANT	The Supervisory Board is not formed in the Company.
2.2.7. Every year the supervisory board should carry out an assessment of its activities. It should include evaluation of the structure of the supervisory board, its work organisation and ability to act as a group, evaluation of the competence and work efficiency of each member of the supervisory board, and evaluation whether the supervisory board has achieved its objectives. The supervisory board should, at least once a year, make public respective information about its internal structure and operational procedures.	IRRELEVANT	The Supervisory Board is not formed in the Company.
Principle 3: Management board 3.1. Functions and liability of the management board The management board should ensure the implementation of the company's strategy and good corporate governance with due regard to the interests of its shareholders, employees and other interest groups.		

3.1.1. The management board should ensure the implementation of the company's strategy approved by the supervisory board if the latter has been formed at the company. In such cases where the supervisory board is not formed, the management board is also responsible for the approval of the company's strategy.	YES	Article 39 of the Articles of Association of the Company defines that the Board approves the Company's strategy, which also comprises a formulated joint mission and vision of the group of companies. In addition, the Board regularly reviews reports on the implementation of the strategy carrying out its supervisory function.
3.1.2. As a collegial management body of the company, the management board performs the functions assigned to it by the Law and in the articles of association of the company, and in such cases where the supervisory board is not formed in the company, it performs inter alia the supervisory functions established in the Law. By performing the functions assigned to it, the management board should take into account the needs of the company's shareholders, employees and other interest groups by respectively striving to achieve sustainable business development.	YES	Article 44 of the Articles of Association of the Company provides that the Board of the Company performs supervisory functions.
3.1.3. The management board should ensure compliance with the laws and the internal policy of the company applicable to the company or a group of companies to which this company belongs. It should also establish the respective risk management and control measures aimed at ensuring regular and direct liability of managers.	YES	Articles 39 and 41 of the Articles of Association of the Company define that the Board approves the documents of the group of companies (e.g. guidelines, policies, procedures, etc.), forms the joint corporate governance policy of the group of companies and sets the basic principles of such corporate governance, guidelines, codes of conduct and other regulations of indicative nature applied for the companies of the group of companies. In addition, by separate decisions, the Board appoints the CEO to provide regular reports on the indicators followed by the Board (e.g. the Company's strategy, activity plan, budget etc.).
3.1.4. Moreover, the management board should ensure that the measures included into the OECD Good Practice Guidance[6] on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards.	YES	The Company has a variety of documents to ensure the highest level of internal control, ethics and compliance management tools, such as: - internal audit is accountable to the Board which is formed from external members (3 members are independent); - the Audit Committee is composed of the majority of independent members, to whom internal audit is also accountable;

[6] Reference to OECD Good Practice Guidance on internal control, ethics and compliance: https://www.oecd.org/daf/anti-bribery/44884389.pdf

		- the Company applies the Code of Conduct and the Corruption Prevention Policy of EPSO-G UAB group of companies, the Sponsorship and Charity Policy of EPSO-G UAB group of companies, the policy for managing the conflict of interests of the members, executives and employees of collegiate management and supervision bodies of EPSO-G UAB group of companies, the Risk Management Policy of EPSO-G UAB group of companies, the Transparency and Communication Policy of EPSO-G UAB group of companies, etc.
3.1.5. When appointing the manager of the company, the management board should take into account the appropriate balance between the candidate's qualifications, experience and competence.	YES	The Articles of Association of the Company defines that the Company's CEO is appointed by the Board taking into account the recommendations of the Remuneration and Appointment Committee. Article 81 of the Articles of Association of the Company defines that, in assessment of suitability of the candidate for the position of the CEO, the Board shall consider his/her compliance with requirements specified by these Articles of Association and regulations, and therefore may require that the candidate submitted documents supporting this compliance and/or contact competent authorities for obtaining necessary information about the candidate.
3.2. Formation of the management board		
3.2.1. The members of the management board elected by the supervisory board or, if the supervisory board is not formed, by the general meeting of shareholders should collectively ensure the required diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance in terms of the current qualifications possessed by the members of the management board, it should be ensured that the members of the management board would have, as a whole, diverse knowledge, opinions and experience to duly perform their tasks.	YES	The election of the members of the Board of the Company is carried out in compliance with the procedures set by the Government of the Republic of Lithuania. In the process of election it is ensured that the Board consists of at least 3 (three) independent members; their independence is established in accordance with the selection description of a list of candidates to the board of the state enterprise or municipal company and the candidates to the board of the state or municipal company for the selection of a collegial supervisory or management body elected by the General Meeting of Shareholders, approved by Resolution No 631 dated 17 June 2015 of the Government of the Republic of Lithuania and the Policy of Management of Interests of Members of Collegial Bodies, Executives and Employees of the EPSO-G group of companies as well as the requirements set forth by other applicable legal acts, also seeking for the Board members to have competences taking into account the areas of responsibility and functions of the Board; when possible, the employees of the Company shall not be appointed to the Board.

		The Board members have a yearly assessment of their performance. In addition, the Remuneration and Appointment Committee evaluates the performance of the Board on an annual basis with recommendations on performance improvement.
3.2.2. Names and surnames of the candidates to become members of the management board, information on their educational background, qualifications, professional experience, current positions, other important professional obligations and potential conflicts of interest should be disclosed without violating the requirements of the legal acts regulating the handling of personal data at the meeting of the supervisory board in which the management board or individual members of the management board are elected. In the event that the supervisory board is not formed, the information specified in this paragraph should be submitted to the general meeting of shareholders. The management board should, on yearly basis, collect data provided in this paragraph on its members and disclose it in the company's annual report.	YES	Article 33 of the Company's Articles of Association stipulates that the meeting, when assessing the suitability of a candidate for the position of a member of the Board, assesses his / her compliance with the requirements established in the Articles of Association and applicable legal acts. According to Article 34 of the Company's Articles of Association, each candidate for the position of a member of the Board must submit the candidate's declaration of interests to the general meeting of shareholders. Information on the appointed members of the Board is published and updated on the Company's website This information is not repeated additionally in the Annual Report, however the Annual Report contains the information on the chairman of the Board, CEO and the chief accountant and the head of the Internal Audit
3.2.3. All new members of the management board should be familiarised with their duties and the structure and operations of the company.	YES	The members of the Board are introduced to the structure and activities of the Company by sharing key corporate documents of the Company.
3.2.4. Members of the management board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience and sufficiently frequent reconfirmation of their status.	YES	Board members are elected for a term of 4 years. A member of the Board may continuously serve maximum 2 subsequent full terms of office, i.e. no longer than 8 years in a row.
3.2.5. Chair of the management board should be a person, whose current or past positions constitute no obstacle to carry out impartial activity. Where the supervisory board is not formed, the former manager of the company should not be immediately appointed as chair of the management board. When a company decides to depart from these recommendations, it should furnish information on the measures it has taken to ensure the impartiality of supervision.	YES	The Articles of Association of the Company provides the criteria for which a person cannot be elected as a member of the Board. According to Article 52 of the Company's Articles of Association, the Chairman of the Board must be an independent member of the Board.

3.2.6. Each member should devote sufficient time and attention to perform his duties as a member of the management board. Should a member of the management board attend less than a half of the meetings of the management board throughout the financial year of the company, the supervisory board of the company or, if the supervisory board is not formed at the company, the general meeting of shareholders should be notified thereof.	YES	The Company's taken minutes record the attendance of the Board members and voting in decision-making process. The Board's participation in the meetings is set out in the Annual Report. Each year, the Board members perform an assessment of his/her activities, the results of which are submitted to the shareholders and the Remuneration and Appointment Committee.
3.2.7. In the event that the management board is elected in the cases established by the Law where the supervisory board is not formed at the company, and some of its members will be independent[7], it should be announced which members of the management board are deemed as independent. The management board may decide that, despite the fact that a particular member meets all the criteria of independence established by the Law, he/she cannot be considered independent due to special personal or company related circumstances.	YES	The Company's website and Annual Report contain information about the members of the Board of the Company, specifying the independent members.
3.2.8. The general meeting of shareholders of the company should approve the amount of remuneration to the members of the management board for their activity and participation in the meetings of the management board.	YES	The Articles of Association of the Company provide that the general meeting of shareholders shall make decisions on the remuneration guidelines applicable to the determination of remuneration for activities in the boards of the Company and the group of companies.
3.2.9. The members of the management board should act in good faith, with care and responsibility for the benefit and the interests of the company and its shareholders with due regard to other stakeholders. When adopting decisions, they should not act in their personal interest; they should be subject to non-compete agreements and they should not use the business information or opportunities related to the company's operations in violation of the company's interests.	YES	Taking into account the objective to monitor the absence of conflicts of interest of the members of the Board of the Company, each year the members of the Board renew their declarations of interests. The Company has the approved policy for managing the conflict of interests of the members, executives and employees of collegiate management and supervision bodies of EPSO-G UAB group of companies. In addition, the Articles of Association of the Company stipulates that the members of the Board may have another job or occupy another position compatible with their activities in the Board, including without limitation the managing positions occupied in other legal entities, a job in a state or statutory service, position in the Company and in other legal entities (within the limits set by the Articles of Association) only with prior notice to the Board.

[7] Within the meaning of this Code, the criteria for the independence of the members of the Board are understood as the criteria for unrelated persons defined in Paragraph 7 of Article 33 of the Law on Companies of the Republic of Lithuania.

		The Board members have signed commitments to protect confidential information. There are no non-compete agreements concluded with the members of the Board – the need for such agreements was not established.
3.2.10. Every year the management board should carry out an assessment of its activities. It should include evaluation of the structure of the management board, its work organisation and ability to act as a group, evaluation of the competence and work efficiency of each member of the management board, and evaluation whether the management board has achieved its objectives. The management board should, at least once a year, make public respective information about its internal structure and working procedures in observance of the legal acts regulating the processing of personal data.	YES	The Board carries out an assessment of its activities every year and prepares a performance improvement plan on its basis. The results of the assessment of the Board's performance are presented in the Company's Annual Report.
Principle 4: Rules of procedure of the supervisory board and the management board of the company The rules of procedure of the supervisory board, if it is formed at the company, and of the management board should ensure efficient operation and decision-making of these bodies and promote active cooperation between the company's management bodies.		
4.1. The management board and the supervisory board, if the latter is formed at the company, should act in close cooperation in order to attain benefit for the company and its shareholders. Good corporate governance requires an open discussion between the management board and the supervisory board. The management board should regularly and, where necessary, immediately inform the supervisory board about any matters significant for the company that are related to planning, business development, risk management and control, and compliance with the obligations at the company. The management board should inform the supervisory board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this.	IRRELEVANT	The Supervisory Board is not formed in the Company.

4.2. It is recommended that meetings of the company's collegial bodies should be held at the respective intervals, according to the pre-approved schedule. Each company is free to decide how often meetings of the collegial bodies should be convened but it is recommended that these meetings should be convened at such intervals that uninterruptable resolution of essential corporate governance issues would be ensured. Meetings of the company's collegial bodies should be convened at least once per quarter.	YES	The Articles of Association of the Company stipulate that the Board takes its decisions in the Board meetings that are usually convened as necessary for the Board to be able to properly perform its functions and take decisions attributed to its competence. At the beginning of each year, the Board of the Company approves the schedule and activity plan of the current year (preliminary questions for the respective Board meeting).
4.3. Members of a collegial body should be notified of the meeting being convened in advance so that they would have sufficient time for proper preparation for the issues to be considered at the meeting and a fruitful discussion could be held and appropriate decisions could be adopted. Along with the notice of the meeting being convened all materials relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body present at the meeting agree with such change or supplement to the agenda, or certain issues that are important to the company require immediate resolution.	YES	According to the rules of procedures of the Board, the material shall be submitted to the Board 5 working days prior to the ordinary meeting.
4.4. In order to coordinate the activities of the company's collegial bodies and ensure effective decision-making process, the chairs of the company's collegial supervision and management bodies should mutually agree on the dates and agendas of the meetings and close cooperate in resolving other matters related to corporate governance. Meetings of the company's supervisory board should be open to members of the management board, particularly in such cases where issues concerning the removal of the management board members, their responsibility or remuneration are discussed.	IRRELEVANT	The Supervisory Board is not formed in the Company.
Principle 5: Appointment, remuneration and audit committees 5.1. Purpose and formation of committees The committees formed at the company should increase the work efficiency of the supervisory board or, where the supervisory board is not formed, of the management board which performs the supervisory functions by ensuring that decisions are based on due consideration and help organise its work in such a way that the decisions it takes would be free of material conflicts of interest. Committees should exercise independent judgment and integrity when performing their functions and provide the collegial body with recommendations concerning the decisions of the collegial body. However, the final decision should be adopted by the collegial body.		

5.1.1. Taking due account of the company-related circumstances and the chosen corporate governance structure, the supervisory board of the company or, in cases where the supervisory board is not formed, the management board which performs the supervisory functions, establishes committees. It is recommended that the collegial body should form the appointment, remuneration and audit committees[8].	YES	The Company has the Remuneration and Appointment Committee and Innovation and Development Committees (the first meeting was held on 6 January 2020; more detailed information is available in the annual report) formed by the Board of EPSO-G UAB, which operate in accordance with the rules of procedures approved by the body that forms it, and the Audit Committee formed by the sole shareholder EPSO-G UAB operating at the Group level and acting in compliance with the rules of procedures approved by the body that forms it. Given that the issues of remuneration and appointment are closely related and experts with the same qualifications are required to deal with these issues, it was decided to form a single Remuneration and Appointment Committee.
5.1.2. Companies may decide to set up less than three committees. In such case, companies should explain in detail why they have chosen the alternative approach, and how the chosen approach corresponds with the objectives set for the three different committees.	YES	
5.1.3. In the cases established by the legal acts the functions assigned to the committees formed at companies may be performed by the collegial body itself. In such case, the provisions of this Code pertaining to the committees (particularly those related to their role, operation and transparency) should apply, where relevant, to the collegial body as a whole.	IRRELEVANT	Please refer to Comment under Item 5.1.1.
5.1.4. Committees established by the collegial body should normally be composed of at least three members. Subject to the requirements of the legal acts, committees could be comprised only of two members as well. Members of each committee should be selected on the basis of their competences by giving priority to independent members of the collegial body. The chair of the management board should not serve as the chair of committees.	YES	Chapters 7.8 and 7.9 of the Articles of Association of the Company regulate the formation and competence of committees within the group. The aforementioned Articles of Association stipulate that the Remuneration and Appointment Committee and the Audit Committee shall consist of not less than 3 members. The Remuneration and Appointment Committee ensures that there is at least 1 independent member and at least 2 independent members in the Audit Committee in the group of 3 members. The Chairpersons of the Remuneration and Appointment and Audit Committees shall be independent members of the Committees, none of whom shall serve as Chairperson of the Board.

[8] The legal acts may provide for the obligation to form a respective committee. For example, the Law on the Audit of Financial Statements of the Republic of Lithuania provides that public-interest entities (including but not limited to public limited liability companies whose securities are traded on a regulated market of the Republic of Lithuania and/or of any other Member State) are under the obligation to set up an audit committee (the legal acts provide for the exemptions where the functions of the audit committee may be carried out by the collegial body performing the supervisory functions).

		Not all members of the Remuneration and Appointment Committee and the Audit Committee are appointed from the Board of EPSO-G. One member to each of the Committees is appointed on the basis of competence when performing the external selection of an independent member of the Committee.
5.1.5. The authority of each committee formed should be determined by the collegial body itself. Committees should perform their duties according to the authority delegated to them and regularly inform the collegial body about their activities and performance on a regular basis. The authority of each committee defining its role and specifying its rights and duties should be made public at least once a year (as part of the information disclosed by the company on its governance structure and practice on an annual basis). In compliance with the legal acts regulating the processing of personal data, companies should also include in their annual reports the statements of the existing committees on their composition, the number of meetings and attendance over the year as well as the main directions of their activities and performance.	YES /NO	Committees are formed in the Articles of Association of EPSO-G and under the decision of the body forming the Committee – the Rules of Procedures of the Remuneration and Appointment Committee are approved by the decision of the Board of EPSO-G, while the Rules of Procedures of the Audit Committee are approved by the decision of the sole shareholder EPSO-G, as it is consented by the Requirements for Members of the Audit Committee approved by the Bank of Lithuania (Article 5). The Rules of Procedures of the Committees are published on the EPSO-G website. Information about the structure of committees, activities, etc. is presented in the Consolidated Group's Annual Report.
5.1.6. With a view to ensure the independence and impartiality of the committees, the members of the collegial body who are not members of the committees should normally have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or request that certain employees of the company or experts would participate in the meeting. Chair of each committee should have the possibility to maintain direct communication with the shareholders. Cases where such practice is to be applied should be specified in the rules regulating the activities of the committee.	YES	The Rules of Procedures of the Committees provide for the right of the members of the Committees to invite, at their discretion, to their meetings the members of the bodies, employees, representatives, candidates for certain positions of EPSO-G group of companies, or other persons, and to obtain from them the necessary explanations within their competence as well as require for that purpose that necessary actions would be carried out needed for the performance of the functions of the Committees.
5.2. Appointment committee.		
5.2.1. The key functions of the appointment committee should be the following: 1) to select candidates to fill vacancies in the membership of supervisory and management bodies and the administration and recommend the collegial body to approve them. The appointment committee should evaluate the balance of skills, knowledge and experience in the management body, prepare a description of the functions and capabilities required to assume a particular position and assess the time commitment expected;	YES	The Remuneration and Appointment Committee of EPSO-G serves as the advisory body to the Board acting on the Group level, the main functions of which are the following: - assists in the selection of candidates for members of the collegial bodies in all undertakings of the group of companies; - provides recommendations for the undertakings of the group of companies on the appointment of members of the collegial bodies, conclusion of contracts with them and determination of remuneration for them;

2) assess, on a regular basis, the structure, size and composition of the supervisory and management bodies as well as the skills, knowledge and activity of its members, and provide the collegial body with recommendations on how the required changes should be sought; 3) devote the attention necessary to ensure succession planning.		- provides recommendations on the policies of the group of companies that govern the remuneration policy and employee performance assessment; - provides recommendations on the planning system of shifts of critical positions.
5.2.2. When dealing with issues related to members of the collegial body who have employment relationships with the company and the heads of the administration, the manager of the company should be consulted by granting him/her the right to submit proposals to the Appointment Committee.	YES	It is defined in the Rules of Procedures that that the right of initiative to convene the Remuneration and Appointment Committee is exercised by the Boards or managers of the group of companies, as well as to propose the agenda of the meeting by submitting issue related material and draft resolutions. Currently, this provision is not practically relevant, as there are no employees of the Company in the Board.
5.3. Remuneration committee.		
The main functions of the remuneration committee should be as follows: 1) submit to the collegial body proposals on the remuneration policy applied to members of the supervisory and management bodies and the heads of the administration for approval. Such policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as conditions which would allow the company to recover the amounts or suspend the payments by specifying the circumstances under which it would be expedient to do so; 2) submit to the collegial body proposals regarding individual remuneration for members of the collegial bodies and the heads of the administration in order to ensure that they would be consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned; 3) review, on a regular basis, the remuneration policy and its implementation.	YES	Please refer to Comment under Item 5.2.1.
5.4. Audit committee.	YES	

5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee[9]. 5.4.2. All members of the committee should be provided with detailed information on specific issues of the company's accounting system, finances and operations. The heads of the company's administration should inform the audit committee about the methods of accounting for significant and unusual transactions where the accounting may be subject to different approaches.		The Audit Committee of EPSO-G serves as an advisory body of the Company's Board on the Group level, the main functions of which are the following: - supervises the audit and financial reporting of the group of companies; - takes responsibility for ensuring compliance with the principles of independence and objectivity of the auditors of the Group's companies and audit firms; - takes responsibility for monitoring the internal control, risk management and internal audit systems, effectiveness of operational processes of the Group's companies; - takes responsibility for monitoring the provision of non-audit services by the auditor of the Group's companies and/or audit firm; - ensures the functioning of complaints system and complaints handling; - evaluates transactions with related parties.
5.4.3.The audit committee should decide whether the participation of the chair of the management board, the manager of the company, the chief finance officer (or senior employees responsible for finance and accounting), the internal and external auditors in its meetings is required (and, if required, when). The committee should be entitled, when needed, to meet the relevant persons without members of the management bodies present.	YES	The Rules of Procedures of the Audit Committee stipulate that the members of the Committee, at their own discretion, may invite to their meetings the members of the bodies, employees, representatives, candidates for certain positions of the group of companies, or other persons, and obtain from them the necessary explanations within their competence, as well as require for that purpose that necessary actions would be taken for the performance of the functions of the Committee.
5.4.4.The audit committee should be informed about the internal auditor's work programme and should be furnished with internal audit reports or periodic summaries. The audit committee should also be informed about the work programme of external auditors and should receive from the audit firm a report describing all relationships between the independent audit firm and the company and its group.	YES	The Audit Committee is periodically, at least quarterly, introduced to the internal audit reports and at least once every six months with the internal audit plan; it may make recommendations to the Boards of the group of companies. The Audit Committee organizes meetings with the external auditors to discuss the auditors' work program and the uncertainties arising during the audit, and following the external audit, their conclusions and recommendations are discussed with the external auditors. The audit firm before the start of annual audits submits its declaration of independence to the Audit Committee and to the companies at the beginning of each year.

[9]Issues related to the activities of audit committees are regulated by Regulation No. 537/2014 of the European Parliament and the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, the Law on the Audit of Financial Statements of the Republic of Lithuania, and the Rules Regulating the Activities of Audit Committees approved by the Bank of Lithuania.

5.4.5.The audit committee should examine whether the company complies with the applicable provisions regulating the possibility of lodging a complaint or reporting anonymously his/her suspicions of potential violations committed at the company and should also ensure that there is a procedure in place for proportionate and independent investigation of such issues and appropriate follow-up actions.	YES	The Rules of Procedures of the Audit Committee provide that the Audit Committee ensures the effective functioning of the complaints system and the proportionate and independent investigation of submitted complaints. In performing this function, the Chairman of the Audit Committee is immediately informed about significant complaints received, as well as periodically reports to the Audit Committee on all complaints received by the Group companies, their investigation and decisions based on the findings of investigations.
5.4.6.The audit committee should submit to the supervisory board or, where the supervisory board is not formed, to the management board its activity report at least once in every six months, at the time that annual and half-yearly reports are approved.	YES	The Rules of Procedures of the Audit Committee stipulate that the Audit Committee shall submit quarterly activity report to the Board of EPSO-G. In addition, it shall submit an annual activity report to the Ordinary General Meeting and to the Board of EPSO-G.
Principle 6: Prevention and disclosure of conflicts of interest The corporate governance framework should encourage members of the company's supervisory and management bodies to avoid conflicts of interest and ensure a transparent and effective mechanism of disclosure of conflicts of interest related to members of the supervisory and management bodies. The corporate governance framework should recognise the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle, the concept *"stakeholders"* includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.		
Any member of the company's supervisory and management body should avoid a situation where his/her personal interests are or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory or management body should, within a reasonable period of time, notify other members of the same body or the body of the company which elected him/her or the company's shareholders of such situation of a conflict of interest, indicate the nature of interests and, where possible, their value.	YES	Such an obligation is set out in the rules of procedures of the Board, an agreement signed with a Board member and the policy of managing the interests of members of the collegial bodies, managers and employees of EPSO-G UAB group of companies. Article 34 of the Company's Articles of Association stipulates that each candidate for a member of the Board must immediately inform the Board of any new circumstances that may give rise to a conflict of interest.
Principle 7: Remuneration policy of the company The remuneration policy and the procedure for review and disclosure of such policy established at the company should prevent potential conflicts of interest and abuse in determining remuneration of members of the collegial bodies and heads of the administration, in addition it should ensure the publicity and transparency of the company's remuneration policy and its long-term strategy.		

7.1. The company should approve and post the remuneration policy on the website of the company; such policy should be reviewed on a regular basis and be consistent with the company's long-term strategy.	YES	The Company applies the Guidelines on the establishment of remuneration for the activity at EPSO-G UAB and corporate bodies of EPSO-G UAB group of companies approved by the sole shareholder of EPSO-G UAB, which are publicly available. The Company applies the Remuneration Policy of EPSO-G UAB group of companies and Employee Performance Assessment Policy of EPSO-G UAB group of companies in full that are both publicly available.
7.2. The remuneration policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as the conditions specifying the cases where the company can recover the disbursed amounts or suspend the payments.	YES	All the possible forms of remuneration of the collegial bodies and the personnel are established in the Guidelines on the establishment of remuneration for the activity at EPSO-G UAB and corporate bodies of EPSO-G UAB group of companies and the Remuneration Policy of EPSO-G UAB group of companies, which are both publicly available.
7.3. With a view to avoid potential conflicts of interest, the remuneration policy should provide that members of the collegial bodies which perform the supervisory functions should not receive remuneration based on the company's performance.	YES	The Company applies the guidelines for determining remuneration for activities in the bodies of UAB EPSO-G and EPSO-G UAB group of companies regulating a fixed monthly remuneration for members of collegial bodies. The members of the Board are not remunerated depending on the results of the Company.
7.4. The remuneration policy should provide sufficient information on the policy regarding termination payments. Termination payments should not exceed a fixed amount or a fixed number of annual wages and in general should not be higher than the non-variable component of remuneration for two years or the equivalent thereof. Termination payments should not be paid if the contract is terminated due to inadequate performance.	YES / NO	The Remuneration Policy of EPSO-G UAB group of companies stipulates that the Group's companies do not conclude advance agreements on termination benefits (except for the CEOs whose terms of employment are determined by the Board). The amounts of benefits related to the termination of employment relationships are determined by taking into account the mandatory minimum amounts of such benefits under labour law, excluding exceptional cases where there are objective reasons for the agreement on higher benefits. The relevant Board of the Group's company shall be informed of the disbursement of such benefits and the grounds for their payment at its forthcoming meeting.

7.5. In the event that the financial incentive scheme is applied at the company, the remuneration policy should contain sufficient information about the retention of shares after the award thereof. Where remuneration is based on the award of shares, shares should not be vested at least for three years after the award thereof. After vesting, members of the collegial bodies and heads of the administration should retain a certain number of shares until the end of their term in office, subject to the need to compensate for any costs related to the acquisition of shares.	IRRELEVANT	The financial incentive scheme is not applied in the Company.
7.6. The company should publish information about the implementation of the remuneration policy on its website, with a key focus on the remuneration policy in respect of the collegial bodies and managers in the next and, where relevant, subsequent financial years. It should also contain a review of how the remuneration policy was implemented during the previous financial year. The information of such nature should not include any details having a commercial value. Particular attention should be paid on the major changes in the company's remuneration policy, compared to the previous financial year.	YES	Information on the implementation of the Company's Remuneration Policy and average salary levels of individual employee groups is publicly disclosed in the Company's Annual Report, on the Company's website. Public information on the remuneration of employees is provided on a quarterly basis on the Company's website.
7.7. It is recommended that the remuneration policy or any major change of the policy should be included on the agenda of the general meeting of shareholders. The schemes under which members and employees of a collegial body receive remuneration in shares or share options should be approved by the general meeting of shareholders.	YES	The remuneration of the members of the Board of the Company is determined by the General Meeting of Shareholders of the Company. Remuneration is subject to the Guidelines on the establishment of remuneration for the activity at EPSO-G UAB and corporate bodies of EPSO-G UAB group of companies, which are approved by the sole shareholder of EPSO-G UAB. Such schemes are not applied in the Company.
Principle 8: Role of stakeholders in corporate governance The corporate governance framework should recognise the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle, the concept *"stakeholders"* includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.		
8.1. The corporate governance framework should ensure that the rights and lawful interests of stakeholders are protected.	YES	The Company applies the Transparency and Communication Policy of EPSO-G UAB group of companies, which establishes goals to increase awareness and understanding of stakeholders about the activities of EPSO-G UAB group of companies and individual group companies; to ensure employee engagement; to create and maintain sustainable relationship with stakeholders based on the mutual respect.

8.2.The corporate governance framework should create conditions for stakeholders to participate in corporate governance in the manner prescribed by law. Examples of participation by stakeholders in corporate governance include the participation of employees or their representatives in the adoption of decisions that are important for the company, consultations with employees or their representatives on corporate governance and other important matters, participation of employees in the company's authorised capital, involvement of creditors in corporate governance in the cases of the company's insolvency, etc.	YES	The Company, together with the representatives of the Company's employees, conducts consultations, negotiations and briefings on the optimisation processes implemented in the Company. Stakeholders can take part in the corporate governance to the extent permitted by law.
8.3.Where stakeholders participate in the corporate governance process, they should have access to relevant information.	YES	Please refer to Comment under Items 8.1. and 8.2.
8.4. Stakeholders should be provided with the possibility of reporting confidentially any illegal or unethical practices to the collegial body performing the supervisory function.	NE	The Corruption Prevention section of the Company's website contains the Trust Line contacts. In the prepared notification form, you are invited to report on the breaches of legislation and conduct, violations of ongoing economic transactions and accounting; bribery, bribery, corrupt practices, affectation of trade, abuse; conflicts of interest, nepotism and cronyism; breaches of transparency, equality, non-discrimination, proportionality and impartiality in procurement conducted by the executives and the employees of EPSO-G UAB and directly or indirectly controlled companies (LITGRID AB, Amber Grid AB, BALTPOOL UAB, TETAS UAB, Power Link Service UAB, GET Baltic UAB), The information is sent to this address only to an EPSO-G corruption prevention officer, who ensures the confidentiality of its sender. The Audit Committee acting EPSO-G UAB group of companies-wide ensures the functioning of the system of lodging complaints and their handling. It is expected that a system will be established in the near future to provide information to a group-wide Audit Committee.
Principle 9: Disclosure of information The corporate governance framework should ensure the timely and accurate disclosure of all material corporate issues, including the financial situation, operations and governance of the company.		

9.1. In accordance with the company's procedure on confidential information and commercial secrets and the legal acts regulating the processing of personal data, the information publicly disclosed by the company should include but not be limited to the following:	YES	The Transparency and Communication Policy is established at EPSO-G UAB. This information is disclosed in the Company's Annual Report and on the Company's website.
operating and financial results of the company;	YES	-
objectives and non-financial information of the company;	YES	-
persons holding a stake in the company or controlling it directly and/or indirectly and/or together with related persons as well as the structure of the group of companies and their relationships by specifying the final beneficiary;	YES	-
members of the company's supervisory and management bodies who are deemed independent, the manager of the company, the shares or votes held by them at the company, participation in corporate governance of other companies, their competence and remuneration;	YES	-
reports of the existing committees on their composition, number of meetings and attendance of members during the last year as well as the main directions and results of their activities;	YES	-
potential key risk factors, the company's risk management and supervision policy;	YES	-
the company's transactions with related parties;	YES	-
main issues related to employees and other stakeholders (for instance, human resource policy, participation of employees in corporate governance, award of the company's shares or share options as incentives, relationships with creditors, suppliers, local community, etc.);	YES	-
structure and strategy of corporate governance;	YES	-
initiatives and measures of social responsibility policy and anti-corruption fight, significant current or planned investment projects. This list is deemed minimum and companies are encouraged not to restrict themselves to the disclosure of information included into this list. This principle of the Code does not exempt companies from their obligation to disclose information as provided for in the applicable legal acts.	YES	-
9.2.When disclosing the information specified in Item 9.1.1 of recommendation 9.1, it is recommended that the company which is a parent company in respect of other companies should disclose information about the consolidated results of the whole group of companies.	YES	EPSO-G UAB, as a parent company, discloses information on the financial results of the Group and the operations of the companies of the Group.

9.3.When disclosing the information specified in Item 9.1.4 of recommendation 9.1, it is recommended that the information on the professional experience and qualifications of members of the company's supervisory and management bodies and the manager of the company as well as potential conflicts of interest which could affect their decisions should be provided. It is further recommended that the remuneration or other income of members of the company's supervisory and management bodies and the manager of the company should be disclosed, as provided for in greater detail in Principle 7.	YES	This information is disclosed in the Company's Annual Report and on the Company's website.
9.4.Information should be disclosed in such manner that no shareholders or investors are discriminated in terms of the method of receipt and scope of information. Information should be disclosed to all parties concerned at the same time.	IRRELEVANT	The Company has the sole shareholder and it is not listed on the exchange.
Principle 10: Selection of the company's audit firm The company's audit firm selection mechanism should ensure the independence of the report and opinion of the audit firm.		
10.1. With a view to obtain an objective opinion on the company's financial condition and financial results, the company's annual financial statements and the financial information provided in its annual report should be audited by an independent audit firm.	YES	An independent audit firm is appointed by the General Meeting of Shareholders.
10.2. It is recommended that the audit firm would be proposed to the general meeting of shareholders by the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company.	YES	The Audit Committee operating at the Group level is actively involved in the selection process of an auditor. The Audit Committee provides a recommendation to the Board on the auditor's nomination. The final decision shall be made by the General Meeting of Shareholders, convened by the Board, which also proposes draft decisions.
10.3. In the event that the audit firm has received remuneration from the company for the non-audit services provided, the company should disclose this publicly. This information should also be available to the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company when considering which audit firm should be proposed to the general meeting of shareholders.	YES	The audit firm provides non-audit services in accordance with the policy approved by the Audit Committee of EPSO-G UAB on the procurement of non-audit services of EPSO-G UAB group of companies from an audit firm or other firm that is a part of the network of the audit firm. Remuneration received by the audit firm for non-audit services provided to the group of companies during the reporting period is published in the annual report.

		The provision of non-audit services is supervised by the Audit Committee operating at the Group level, which, as mentioned in Item 10.2, is actively involved in the selection process of an auditor. Thus, the Audit Committee, when submitting a recommendation to the Board on the auditor, has all the necessary information on auditors.

ANNEX II (ARTICLES OF ASSOCIATION)

UAB „EPSO-G“
ĮSTATAI

I. BENDROJI DALIS

1. UAB „EPSO-G“ (toliau – Bendrovė) yra ribotos civilinės atsakomybės privatusis juridinis asmuo, kurio įstatinis kapitalas padalytas į akcijas.
2. Bendrovė atsako pagal savo prievoles jai nuosavybės teise priklausančiu turtu. Bendrovė neatsako pagal akcininkų prievoles, o akcininkai neatsako pagal Bendrovės prievoles. Akcininkai neturi kitų turtinių įsipareigojimų Bendrovei, išskyrus įsipareigojimą nustatyta tvarka apmokėti visas pasirašytas akcijas emisijos kaina.
3. Bendrovės teisinė forma yra uždaroji akcinė bendrovė.
4. Bendrovės pavadinimas yra UAB „EPSO-G“.
5. Bendrovės veiklos laikotarpis neribotas.
6. Bendrovės finansiniai metai yra kalendoriniai metai.
7. Bendrovė, kartu su jos tiesiogiai ir netiesiogiai valdomais juridiniais asmenimis, sudaro Bendrovės įmonių grupę (toliau – Įmonių grupė). Bendrovė yra Įmonių grupės patronuojančioji bendrovė, kuri tiesiogiai valdo bendroves (toliau – Dukterinės bendrovės), o Dukterinės bendrovės tiesiogiai ir (ar) netiesiogiai valdo paskesnio lygio bendroves (toliau – Paskesnio lygio dukterinės bendrovės) (Dukterinės bendrovės bei Paskesnio lygio dukterinės bendrovės toliau kartu – Įmonių grupės bendrovės). Bendrovė neatsako už Įmonių grupės bendrovių prievoles, o Įmonių grupės bendrovės – už Bendrovės prievoles.
8. Bendrovė savo veikloje vadovaujasi įstatymais, kitais Lietuvos Respublikoje (toliau – LR) taikomais teisės aktais, UAB „EPSO-G“ įmonių grupės korporatyvinio valdymo gairėmis su visais vėlesniais pakeitimais ir papildymais, LR energetikos ministerijos, kaip Bendrovės kontroliuojančiam akcininkui atstovaujančios institucijos, pateikiamu raštu dėl valstybės lūkesčių, LR Vyriausybės nutarimais, skirtais valstybės valdomų įmonių valdymui, NASDAQ Vilnius listinguojamų bendrovių valdymo kodeksu, ta apimtimi, kiek šie įstatai nenumato kitaip, šiais įstatais (toliau – Įstatai), Įmonių grupės ir Bendrovės vidiniais dokumentais.

II. BENDROVĖS VEIKLOS TIKSLAI IR OBJEKTAS

9. Bendrovės veiklos pagrindinis ilgalaikis (strateginis) tikslas yra skaidrus ir efektyvus patronuojančiosios bendrovės funkcijų vykdymas Įmonių grupei priklausančių bendrovių valdyme realizuojant valstybės nuosavybės ir reguliavimo funkcijų atskyrimo principą.
10. Kiti Bendrovės ilgalaikiai (strateginiai) tikslai – Nacionalinėje energetinės nepriklausomybės strategijoje bei ją pakeičiančiuose ir įgyvendinančiuose norminiuose teisės aktuose, kituose taikytinuose teisės aktuose, Bendrovės visuotinio akcininkų susirinkimo patvirtintuose dokumentuose nustatytų ar su Įmonių grupės veikla tiesiogiai susijusių tikslų bei uždavinių aktyvus siekimas; tvarios ir ilgalaikės Įmonių grupės strategijos suformavimas; darni visos Įmonių grupės veiklų plėtra bei integracija; Įmonių grupės bendrovėms pavestų bei jų vykdomų ypatingos valstybinės svarbos ar valstybei svarbių projektų tinkamo bei efektyvaus įgyvendinimo užtikrinimas, vykdant tokių projektų įgyvendinimo priežiūrą ir kontrolę Bendrovės valdymo (įskaitant valdymo su priežiūros funkcija) organų lygyje.
11. Bendrovės veiklos trumpalaikiai (taktiniai) tikslai yra Įmonių grupės finansų konsolidavimas, mokesčių ir finansinės informacijos valdymas, taip pat nuoseklaus korporatyvinio valdymo ir korporatyvinės kontrolės užtikrinimas Įmonių grupės lygiu; bendrų veiklos politikų, gairių, kitų rekomendacinio pobūdžio elgesio taisyklių diegimas Įmonių grupėje, koordinuotas resursų ir išteklių valdymas.
12. Bendrovės veiklos objektas yra:
    (i) akcininko teisių ir pareigų įgyvendinimas;
    (ii) Įmonių grupės veiklos strategijos, veiklos gairių, rekomendacinio pobūdžio elgesio taisyklių, taip pat konkrečių sričių politikų formavimas ir nustatymas;
    (iii) regioninis ir tarptautinis bendradarbiavimas integruojant energetikos infrastruktūrą ir rinkas;
    (iv) Įmonių grupės bendrovių veiklų, jų plėtros ir vystymo koordinavimas bei kontrolė;
    (v) Įmonių grupės finansų ir iždo valdymas;
    (vi) paslaugų teikimas (Įmonių grupės bendrovėms ar kitoms, Įmonių grupei nepriklausančioms bendrovėms);

(vii) Įmonių grupės atstovavimas.

13. Bendrovė, vykdydama savo veiklą, veikia socialiai atsakingai, siekdama Įmonių grupės ilgalaikės vertės didinimo, vykdomų veiklų tęstinumo ir projektų įgyvendinimo, tvarios naudos Lietuvos valstybei, Įmonių grupės akcininkams, Įmonių grupės bendrovėms, jų paslaugų naudotojams, visuomenei, užtikrinimo, tinkamos akcininkų kapitalo grąžos garantavimo.

14. Bendrovė gali vykdyti ir kitą veiklą, nedraudžiamą LR įstatymų ir neprieštaraujančią Bendrovės veiklos tikslams. Licencijuojamą veiklą ar veiklą, kuriai reikia gauti leidimus, Bendrovė gali vykdyti tik gavusi įstatymų nustatyta tvarka išduotas atitinkamas licencijas ar leidimus.

III. ĮSTATINIS KAPITALAS. AKCIJŲ SKAIČIUS PAGAL KLASES, JŲ NOMINALI VERTĖ BEI SUTEIKIAMOS TEISĖS

15. Bendrovės įstatinis kapitalas yra lygus 189 631 000,00 EUR (vienam šimtui aštuoniasdešimt devyniems milijonams šešiems šimtams trisdešimt vienam tūkstančiui eurų).

16. Bendrovės įstatinis kapitalas yra padalintas į 653 900 000 (šešis šimtus penkiasdešimt tris milijonus devynis šimtus tūkstančių) paprastųjų vardinių akcijų (toliau viena paprastoji vardinė Bendrovės akcija – Akcija).

17. Vienos Akcijos nominali vertė yra lygi 0,29 EUR (dvidešimt devyniems euro centams).

18. Visos Akcijos yra nematerialios ir fiksuojamos įrašais akcininkų asmeninėse vertybinių popierių sąskaitose, kurias tvarko Bendrovė arba vertybinių popierių sąskaitų tvarkytojai, jeigu su jais yra sudaroma sutartis dėl Akcijų apskaitos tvarkymo.

IV. AKCININKAI IR AKCININKŲ TEISĖS

19. Bendrovės akcininkai turi įstatymuose, kituose teisės aktuose ir šiuose Įstatuose nustatytas teises ir pareigas.

20. Visi Bendrovės organai privalo veikti taip, kad užtikrintų tinkamas sąlygas Bendrovės akcininkams, o atsižvelgiant į patronavimo funkcijos vykdymą – ir kitų Įmonių grupės bendrovių akcininkams, realizuoti savo teises.

V. BENDROVĖS ORGANAI IR VALDYMAS

21. Bendrovės organai yra šie:

    (i) visuotinis akcininkų susirinkimas (toliau – Susirinkimas);

    (ii) valdyba (toliau – Valdyba);

    (iii) Bendrovės vadovas – Bendrovės generalinis direktorius (toliau – Generalinis direktorius).

22. Bendrovės organai sprendimus priima savarankiškai ir pagal kompetenciją, kuri jiems priskiriama LR galiojančiais teisės aktais bei šiais Įstatais. Bendrovės organai visiškai atsako už priimtus sprendimus. Priimdami sprendimus Bendrovės organai privalo veikti Bendrovės ir Bendrovės akcininkų naudai.

23. Bendrovės organai, laikydamiesi LR galiojančių teisės aktų reikalavimų ir atsižvelgdami į kitų šių Įstatų 8 straipsnyje nurodytų dokumentų nuostatas, privalo siekti Bendrovės bei Įmonių grupės veiklos tikslų, be kita ko, atsižvelgdami ir į tarptautiniuose standartuose įtvirtintus pagrindinius aplinkosaugos, socialinius, finansinius bei etinius principus.

24. Bendrovės organai savo veikloje taip pat privalo vadovautis pagrindiniais Įmonių grupės korporatyvinio valdymo principais – Įmonių grupės veiklos skaidrumo, valstybės nuosavybės ir reguliavimo funkcijų atskyrimo, Įmonių grupės tikslų apibrėžtumo bei jų tvarumo, akcininkų teisių tinkamo realizavimo.

25. Bendrovės valdymo organai, priimdami sprendimus ir veikdami jiems teisės aktais bei šiais Įstatais suteiktos kompetencijos ribose, atsižvelgia ir į kitus Įmonių grupės korporatyvinio valdymo principus – atitikties teisės aktų reikalavimams ir geriausios praktikos standartams, veiklos efektyvumo, Įmonių grupės tvarumo, veiklų konkurencingumo, Įmonių grupės valdymo organų atsakomybės bei tinkamos atskaitomybės akcininkams.

26. Tuo atveju, kai Bendrovės organams priimant sprendimus reikalinga gauti specialius pritarimus pagal teisės aktus (įskaitant LR nacionaliniam saugumui užtikrinti svarbių objektų apsaugos įstatymą), tokie sprendimai gali būti priimami tik, kai gauti reikalingi pritarimai, arba priimant sprendimus turi būti numatoma, kad tokie sprendimai įsigalioja ir gali būti vykdomi tik gavus atitinkamą pritarimą.

27. Tais atvejais, jeigu dėl nepakankamo narių skaičiaus ar dėl kitų priežasčių, kuris nors Bendrovės valdymo organas neturėjo galimybės priimti jo kompetencijai priskirtų sprendimų, toks valdymo organas nedelsiant, bet ne vėliau kaip per 1 (vieną) mėnesį, išnykus atitinkamoms aplinkybėms, dėl kurių valdymo organas negalėjo priimti sprendimų, privalo apsvarstyti ir priimti reikiamus sprendimus jo kompetencijai priskirtais klausimais.

VI. SUSIRINKIMAS

28. Susirinkimo šaukimo, sprendimų priėmimo tvarka bei kompetencija nesiskiria nuo visuotinio akcininkų susirinkimo šaukimo, sprendimų priėmimo tvarkos bei kompetencijos, nurodytos LR akcinių bendrovių įstatyme (toliau – ABĮ), išskyrus papildomą Susirinkimo kompetenciją, kuri yra numatyta šių Įstatų 29 straipsnyje.

29. Susirinkimas taip pat priima sprendimus dėl (papildoma Susirinkimo kompetencija):

(i) bendrų Įmonių grupės korporatyvinio valdymo ir (ar) veiklos gairių patvirtinimo;

(ii) atlygio gairių, taikomų nustatant atlygį už veiklą Bendrovės ir Įmonių grupės valdyboje, atlygio ir skyrimo komitete (toliau – Atlygio ir skyrimo komitetas arba ASK), audito komitete (toliau – Audito komitetas arba AK), kituose specializuotuose komitetuose, jei tokie sudaromi, nustatymo (toliau – Atlygio gairės), patvirtinimo;

(iii) Valdybos narių skyrimo ir atšaukimo, Valdybos narių atlygio ir biudžeto su funkcijų Valdyboje atlikimu susijusioms išlaidoms nustatymo, jeigu planuojamas metinis biudžetas yra didesnis negu minimalus biudžetas, kaip numatyta Atlygio gairėse, sutarčių su Valdybos nariais sudarymo ir jų standartinių sąlygų nustatymo;

(iv) narių į AK išrinkimo ir atšaukimo, AK narių atlygio ir su funkcijų AK atlikimu susijusioms išlaidoms nustatymo, jeigu planuojamas metinis biudžetas yra didesnis negu minimalus biudžetas, kaip numatyta Atlygio gairėse, AK narių standartinių sutarčių sąlygų nustatymo, taip pat AK veiklos nuostatų tvirtinimo;

(v) pritarimo ar nepritarimo Valdybos sprendimams, numatytiems 43 straipsnio (xiii)-(xvii) punktuose, bei Įstatų 46 straipsnyje;

(vi) Valdybos narių nušalinimo arba nenušalinimo, kada yra priimami sprendimai, esant Valdybos narių interesų konfliktui, Įstatų 54 straipsnyje numatytais atvejais;

(vii) pritarimo ar nepritarimo Generalinio direktoriaus sprendimams, numatytiems Įstatų 49 straipsnio (iv)-(vii) punktuose.

VII. VALDYBA

7.1. Valdybos sudarymas

30. Valdyba yra kolegialus Bendrovės valdymo organas, kurį sudaro 5 (penki) nariai. Valdybos narius 4 (ketverių) metų kadencijai, atsižvelgdamas į rekomendacijas, kurias pagal jiems priskirtą kompetenciją teikia ASK ir Atrankos komisija[1], renka Susirinkimas, kuriam Valdyba yra atskaitinga. Valdybos nario nepertraukiamas kadencijos laikas yra ne ilgesnis kaip 2 (dvi) kadencijos iš eilės, t. y. ne daugiau kaip 8 (aštuoneri) metai iš eilės.

31. Valdybos narius Susirinkimas renka, be kita ko, užtikrinant, kad Valdybos sudėtis atitiktų valstybės valdomoms įmonėms taikomuose teisės aktuose nustatytus kriterijus. Renkant Valdybos narius užtikrinama, kad Valdybos sudėtyje būtų ne mažiau kaip 3 (trys) nepriklausomi nariai, jų nepriklausomumą nustatant atsižvelgiant į Įmonių grupės kolegialių organų narių, vadovų ir darbuotojų interesų valdymo politikoje (toliau – Interesų valdymo politika) ir taikytinuose teisės aktuose įtvirtintus kriterijus, taip pat siekiama, jog Valdybos nariai turėtų kompetencijas, atsižvelgiant į Valdybos atsakomybės sritis ir funkcijas.

32. Valdybos nariu negali būti:

(i) asmuo, kuris pagal ABĮ ir kitus teisės aktų nustatytus reikalavimus neturi teisės eiti šių pareigų;

(ii) Įmonių grupės bendrovių kolegialių organų nariai, taip pat Įmonių grupės bendrovių darbuotojai;

(iii) reguliuojančių energetikos paslaugų teikimo srityje veikiančių subjektų veiklą ir atliekančių valstybinę energetikos priežiūrą institucijų darbuotojai;

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[1] Sąvoka *„Atrankos komisija"* yra suprantama taip, kaip ji LR Vyriausybės 2015 m. birželio 17 d. nutarimu Nr. 631 patvirtintame Kandidatų į valstybės įmonės ar savivaldybės įmonės valdybą ir kandidatų į valstybės ar savivaldybės valdomos bendrovės visuotinio akcininkų susirinkimo renkamą kolegialų priežiūros ar valdymo organą atrankos apraše.

(iv) asmuo, einantis priežiūros organo, valdymo organo ar administracijos nario pareigas energetikos įmonėje, vykdančioje elektros energijos gamybos ir (ar) tiekimo veiklą arba gamtinių dujų gavybos ir (ar) tiekimo veiklą, arba kitu būdu dalyvaujantis šių įmonių valdyme ar priežiūroje.

33. Susirinkimas, vertindamas kandidato į Valdybos narius tinkamumą eiti šias pareigas, įvertina jo atitiktį šiuose Įstatuose ir taikytinuose teisės aktuose nustatytiems reikalavimams ir tuo tikslu gali pareikalauti iš kandidato pateikti šią atitiktį pagrindžiančius dokumentus ir (ar) kreiptis į kompetentingas valstybės institucijas dėl reikalingos informacijos apie kandidatą suteikimo.

34. Kiekvienas kandidatas į Valdybos narius privalo pateikti Susirinkimui rašytinį sutikimą kandidatuoti į Valdybos narius ir kandidato interesų deklaraciją, joje nurodydamas visas aplinkybes, dėl kurių galėtų kilti kandidato interesų konfliktas, t. y. situacija, kai tokio asmens asmeniniai interesai būtų susiję (tiesiogiai arba netiesiogiai) su sprendimais, kuriuos priimінėtų toks asmuo eidamas Valdybos nario pareigas. Atsiradus naujoms aplinkybėms, dėl kurių galėtų kilti Valdybos nario interesų konfliktas, Valdybos narys apie tokias naujas aplinkybes privalo nedelsiant informuoti Valdybą bei atskirą pranešimą pateikti Bendrovei Interesų valdymo politikoje nustatyta tvarka.

35. Valdybos nariai gali dirbti kitą darbą ar užimti kitas pareigas, kurios būtų suderinamos su jų veikla Valdyboje, įskaitant, bet neapsiribojant vadovaujančių pareigų kituose juridiniuose asmenyse ėjimą, darbą valstybės ar statutinėje tarnyboje, pareigas Bendrovėje bei kituose juridiniuose asmenyse (laikantis šių Įstatų 32 straipsnyje nustatytų ribojimų) tik iš anksto apie tai informavę Valdybą.

36. Susirinkimo sprendimu su Valdybos nariais prieš jiems pradedant eiti pareigas Valdyboje gali būti sudaromos sutartys dėl veiklos Valdyboje, kuriose numatomos jų teisės, pareigos ir atsakomybė. Visi išrinkti Valdybos nariai nedelsiant pasirašo įsipareigojimus neatskleisti Bendrovės komercinių (gamybinių) paslapčių ir konfidencialios informacijos, kuris gali būti įtvirtintas ir sutartyje dėl veiklos Valdyboje arba pasirašomas atskirai.

7.2. Valdybos atsakomybių sritys

37. Valdyba yra atsakinga už organizacinį ir sisteminį Įmonių grupės vystymą bei valdymą jai priskirtos kompetencijos srityse ir apimtyje.

38. Valdybos kompetencija nesiskiria nuo ABĮ nustatytos valdybos kompetencijos, išskyrus papildomą kompetenciją, nustatytą šių Įstatų 39 – 48, 50 straipsniuose.

7.3. Valdybos papildoma kompetencija, susijusi su Įmonių grupe

39. Valdyba svarsto ir tvirtina:

(i) Įmonių grupės veiklos strategiją (įskaitant ilgalaikius ir trumpalaikius, finansinius ir nefinansinius tikslus);

(ii) Įmonių grupės mastu taikomas politikas, svarbiausių Įmonių grupės veiklų gaires, o taip pat kitus Įmonių grupės lygio dokumentus, kuriuos pagal kompetenciją turi teisę tvirtinti Valdyba.

40. Valdyba analizuoja ir vertina Bendrovės pateiktą medžiagą apie:

(i) Įmonių grupės veiklos strategijos įgyvendinimą;

(ii) Įmonių grupės veiklos organizavimą;

(iii) Įmonių grupės finansinę būklę ir ūkinės veiklos rezultatus;

(iv) Valdybos patvirtintų dokumentų ir kitų sprendimų įgyvendinimą Įmonių grupės bendrovėse.

41. Valdyba taip pat:

(i) nustato valdymo mokesčio ir (ar) teikiamų konsultacinių paslaugų modelį, valdymo mokesčio taikymo principus, konsultacinių paslaugų minimalius įkainius;

(ii) tvirtindama šių Įstatų 39 straipsnyje numatytus dokumentus, Valdyba gali nustatyti ir jų įgyvendinimo priemones;

(iii) vykdo nuolatinę Įmonių grupės bendrovėms pavestų ir (ar) jų vykdomų strateginių projektų, įtrauktų į nacionalinę energetikos strategiją, ir (ar) ypatingos valstybinės svarbos projektų, ir (ar) valstybei svarbių projektų, kaip juos apibrėžia galiojantys teisės aktai, taip pat projektų, numatytų LR energetikos ministerijos, kaip Bendrovės kontroliuojančiam akcininkui atstovaujančios institucijos, pateikiamame rašte dėl valstybės lūkesčių, valdymo priežiūrą bei kontrolę;

(iv) formuoja bendrą Įmonių grupės korporatyvinio valdymo politiką ir nustato Įmonių grupės bendrovėms taikomus tokio korporatyvinio valdymo pagrindinius principus, gaires, elgesio kodeksus, kitas rekomendacinio pobūdžio taisykles;

(v) vykdo Įmonių grupės strategijos (įskaitant ilgalaikius ir trumpalaikius finansinius bei nefinansinius tikslus) ir Įmonių grupės strategijos įgyvendinimo veiklos plano stebėseną.

7.4. Valdybos papildoma kompetencija, susijusi su Bendrove

42. Vadyba svarsto ir tvirtina, įskaitant, bet neapsiribojant:

(i) Įmonių grupės konsoliduotą ir Bendrovės metinį pranešimą, tarpinį pranešimą (jei siekiama priimti sprendimą dėl dividendų už trumpesnį laikotarpį nei finansiniai metai laikotarpį skyrimo);

(ii) Bendrovės biudžetą;

(iii) Bendrovės veiklos strategiją, kaip sudėtinę Įmonių grupės veiklos strategijos dalį;

(iv) informacijos, kuri laikoma Bendrovės komercine (gamybine) paslaptimi ir konfidencialia informacija, sąrašą bei tokios konfidencialios informacijos naudojimo ir saugojimo tvarką Bendrovėje;

(v) Bendrovės kaip nacionaliniam saugumui užtikrinti svarbios įmonės saugumo plano projektą;

(vi) sandorių esminių sąlygų sąrašą (pagal sandorių tipus) ir sandorių, dėl kurių sudarymo sprendimą priima Valdyba, įskaitant Valdybos sprendimus dėl sandorių, kuriems pagal šiuos Įstatus reikalingas Susirinkimo pritarimas, sudarymo tvarką.

43. Valdyba priima sprendimus:

(i) dėl Bendrovės vadovo skyrimo, atlygio, kitų pagrindinių sutarties su Bendrovės vadovu sąlygų nustatymo, vadovaudamasi Susirinkimo patvirtintomis Atlygio gairėmis;

(ii) dėl Bendrovės vadovo siūlomos Bendrovės darbuotojams skirti metinių priedų (premijų) bendros sumos patvirtinimo. Bendrovės vadovo siūlymas dėl siūlomos Bendrovės darbuotojams skirti metinių priedų (premijų) bendros sumos turi būti pagrįstas atsižvelgiant į Bendrovės atitinkamais kalendoriniais metais vykdytą veiklą ir pasiektus rezultatus;

(iii) dėl Susirinkimo nustatyto Valdybos veiklos biudžeto lėšų paskirstymo konkretiems Valdybos veiklos tikslams jo neviršijant;

(iv) dėl Bendrovės turto, kurio balansinė vertė[2] didesnė kaip 3 000 000 (trys milijonai) eurų, investavimo, perleidimo, nuomos (skaičiuojama atskirai kiekvienai sandorio rūšiai);

(v) dėl Bendrovės turto, kurio balansinė vertė didesnė kaip 3 000 000 (trys milijonai) eurų, įkeitimo ar hipotekos (skaičiuojama bendra sandorių suma);

(vi) dėl kitų asmenų prievolių, kurių suma didesnė kaip 3 000 000 (trys milijonai) eurų, įvykdymo laidavimo ar garantavimo;

(vii) dėl Bendrovės turto įsigijimo už kainą, didesnę kaip 3 000 000 (trys milijonai) eurų;

(viii) dėl Bendrovės piniginių lėšų, kurių suma didesnė kaip 3 000 000 (trys milijonai) eurų, investavimo, perleidimo, įkeitimo ar hipotekos, (skaičiuojama atskirai kiekvienai sandorio rūšiai), išskyrus jeigu tokie sandoriai yra vykdomi pagal Valdybos patvirtintą Įmonių grupės iždo ir finansinių rizikų valdymo politiką;

(ix) dėl Bendrovės paskolų ar kredito sutarčių, kurių suma didesnė kaip 3 000 000 (trys milijonai) eurų sudarymo;

(x) dėl bet kokių sandorių, kurių netinkamas vykdymas gali reikšti, jog Bendrovė gali patirti sankcijų, viršijančių 3 000 000 (tris milijonus) eurų;

(xi) dėl dalyvavimo ir (ar) taikos sutarčių sudarymo teisminiuose (arbitražo) ginčuose, kuriuose Bendrovei reiškiamas arba Bendrovė reiškia reikalavimą, didesnį kaip 3 000 000 (trys milijonai) eurų;

(xii) dėl Bendrovės, kaip kitų juridinių asmenų dalyvio arba akcininko, teisių (įskaitant ir balsavimo teisę dalyvių arba visuotiniame akcininkų susirinkime) realizavimo, jeigu atitinkamas juridinis asmuo gali būti laikomas kontroliuojamu Bendrovės, šių Įstatų 46 straipsnyje nustatyta tvarka;

(xiii) dėl Bendrovės naujos veiklos pradėjimo ar konkrečios vykdomos veiklos nutraukimo (reikalingas Susirinkimo pritarimas);

[2] Visos šiuose Įstatuose nurodytos vertės ir (ar) sumos yra vertinamos be pridėtinės vertės mokesčio (PVM), jeigu toks būtų taikomas.

(xiv) dėl bet kokių Bendrovės turimų akcijų (dalių, pajų) ar jų suteikiamų teisių ar kitokių juridinio asmens dalyvio teisių perleidimo, įkeitimo ar kitokio suvaržymo (reikalingas Susirinkimo pritarimas);

(xv) dėl Bendrovei priklausančios įmonės kaip turtinio komplekso ar esminės jos dalies perleidimo (reikalingas Susirinkimo pritarimas);

(xvi) dėl Bendrovės tapimo kitų juridinių asmenų steigėja, dalyve, o taip pat sprendimus dėl Bendrovės turimų akcijų (pajų, dalių) skaičiaus didinimo bei mažinimo ar kitokio šių akcijų (pajų, dalių) suteikiamų teisių pasikeitimo, tvirtina akcijų pasirašymo sutarčių pagrindines sąlygas (reikalingas Susirinkimo pritarimas);

(xvii) dėl Bendrovės filialų ir atstovybių steigimo bei jų veiklos nutraukimo, filialų bei atstovybių nuostatų tvirtinimo (reikalingas Susirinkimo pritarimas);

(xviii) išleisti Bendrovės obligacijas (išskyrus konvertuojamąsias obligacijas);

(xix) dėl Bendrovės dalyvavimo asociacijų ar bet kokios formos juridinių asmenų susivienijimų veikloje;

(xx) dėl Bendrovės dalyvavimo jungtinėje veikloje su kitais subjektais, jei Bendrovė dalyvaudama jungtinėje veikloje prisiima ilgalaikius finansinius įsipareigojimus;

(xxi) vadovaudamasi AK rekomendacijomis, sprendžia dėl vidaus audito vadovo paskyrimo bei atleidimo, dėl vidaus audito vadovo pareiginių nuostatų tvirtinimo, vidaus audito biudžeto bei resursų, reikalingų veiklos vykdymui, vidaus audito vadovo atlygio nustatymo, vidaus audito veiklos plano tvirtinimo;

(xxii) atsižvelgdamas į centralizuotai Įmonių grupės mastu veikiančio vidaus audito metu nustatytus trūkumus ir pateiktas rekomendacijas, tvirtina veiksmų planą, skirtą trūkumams pašalinti ir rekomendacijoms įgyvendinti, svarsto šio veiksmų plano įgyvendinimo ataskaitas;

(xxiii) vykdo kitas ABĮ bei šiuose Įstatuose Valdybos kompetencijai priskirtas funkcijas.

44. Valdyba atlieka šias priežiūros funkcijas:

(i) prižiūri Generalinio direktoriaus veiklą, pateikia Susirinkimui atsiliepimus ir pasiūlymus dėl Generalinio direktoriaus veiklos;

(ii) svarsto, ar Generalinis direktorius tinka eiti pareigas, jeigu Bendrovė dirba nuostolingai;

(iii) teikia siūlymus Generaliniam direktoriui atšaukti jo sprendimus, kurie prieštarauja įstatymams ir kitiems teisės aktams, Įstatams, Susirinkimo ar Valdybos sprendimams;

(iv) sprendžia kitus Įstatuose, taip pat Susirinkimo sprendimuose Valdybos kompetencijai priskirtus Bendrovės ir Generalinio direktoriaus veiklos priežiūros klausimus.

45. Valdyba, priimdama Įstatų 43 straipsnio (iv) – (x), (xiii) – (xvii) punktuose nurodytus sprendimus, tvirtina esmines šių sandorių sąlygas.

46. Valdyba priima sprendimus, susijusius su Bendrovės kaip akcininkės teisių įgyvendinimu kontroliuojamų Dukterinių bendrovių visuotiniuose akcininkų susirinkimuose. Balsuojant dėl Dukterinių bendrovių įstatų pakeitimo, taip pat yra reikalingas ir Susirinkimo pritarimas. Nei Valdybos, nei Susirinkimo sprendimas nėra reikalingas ir sprendimus dėl balsavimo turi teisę priimti Generalinis direktorius, kai svarstomi šie klausimai:

(i) dėl Dukterinių bendrovių buveinės keitimo;

(ii) dėl Dukterinių bendrovių auditoriaus (toliau – Auditorius) ar audito įmonės metinių atitinkamos Dukterinės bendrovės finansinių ataskaitų rinkinio auditui atlikti, rinkimo ir atšaukimo taip pat audito paslaugų apmokėjimo sąlygų nustatymo, kaip šios kompetencijos yra apibrėžtos ABĮ.

47. Valdyba turi teisę priimti ir kitus Valdybos kompetencijai priskirtus sprendimus, numatytus teisės aktuose, Įstatuose, Susirinkimo ir Valdybos sprendimais patvirtintuose Bendrovės vidaus dokumentuose, jeigu šie dokumentai buvo patvirtinti laikantis jas patvirtinusio organo kompetencijos, taip pat dėl kitų svarbių Įmonių grupei klausimų ir sandorių sudarymo, dėl kurių į Valdybą kreipiasi Generalinis direktorius.

48. Valdyba, prieš priimdama šių Įstatų 43 straipsnio (xiii) – (xvii) punktuose ir 46 straipsnyje nurodytus sprendimus, turi gauti Susirinkimo pritarimą arba atidėti tokio sprendimo įsigaliojimą iki to momento, kai bus gautas reikalingas Susirinkimo pritarimas. Susirinkimo pritarimas nepanaikina Valdybos atsakomybės už priimtus sprendimus.

7.5. Veiklos nepertraukiamumo užtikrinimas nesant Valdybos

49. Tais atvejais, kada yra (t. y. yra išrinkti ir savo pareigas eina) ne daugiau kaip pusė šiuose Įstatuose nurodyto Valdybos narių skaičiaus arba Valdyba iš viso nėra išrinkta, siekiant užtikrinti Bendrovės veiklos

nepertraukiamumą ir savalaikį būtinų sprendimų priėmimą, Generalinis direktorius priima Valdybos kompetencijai priskirtus sprendimus dėl:

(i) Bendrovės biudžeto tvirtinimo;

(ii) Įmonių grupės konsoliduotų ir Bendrovės metinio, tarpinio pranešimo (jei siekiama priimti sprendimą dėl dividendų už trumpesnį laikotarpį nei finansiniai metai laikotarpį skyrimo), taip pat dėl Įmonių grupės konsoliduotų ir Bendrovės metinių finansinių ataskaitų rinkinio, tvirtinimo;

(iii) Bendrovės valdymo struktūros ir darbuotojų pareigybių tvirtinimo;

(iv) Bendrovės paskolų ar kredito sutarčių, kurių suma didesnė kaip 3 000 000 (trys milijonai) eurų Bendrovės įstatinio kapitalo sudarymo (esant Susirinkimo pritarimui);

(v) Bendrovės piniginių lėšų, kurių suma didesnė kaip 3 000 000 (trys milijonai) eurų, investavimo, perleidimo, įkeitimo ar hipotekos, (skaičiuojama atskirai kiekvienai sandorio rūšiai), išskyrus jeigu tokie sandoriai yra vykdomi pagal Valdybos patvirtintą Įmonių grupės Investavimo politiką arba Bendrovės Investavimo tvarką (esant Susirinkimo pritarimui);

(vi) Bendrovės kaip akcininkės teisių įgyvendinimo kontroliuojamų Dukterinių bendrovių visuotiniuose akcininkų susirinkimuose (esant Susirinkimo pritarimui);

(vii) Dukterinių bendrovių įstatų pakeitimo (esant Susirinkimo pritarimui);

(viii) Įmonių grupės bendrovėms taikomo valdymo mokesčio ir (ar) teikiamų konsultacinių paslaugų modelio, valdymo mokesčio taikymo principų ir tokių konsultacinių paslaugų minimalių įkainių patvirtinimo;

(ix) informacijos, kuri laikoma Bendrovės komercine (gamybine) paslaptimi ir konfidencialia informacija, sąrašo bei tokios konfidencialios informacijos naudojimo ir saugojimo tvarkos Bendrovėje patvirtinimo.

50. Kai Valdybos kompetencijai priskirtus klausimus, vadovaujantis šių įstatų 49 straipsnyje, priima Generalinis direktorius, nedelsiant po to, kai yra išrenkama Valdyba, galinti priimti sprendimus, Valdyba posėdyje privalo apsvarstyti visus tokius per atitinkamą laikotarpį priimtus sprendimus ir priimti sprendimus dėl tokių priimtų sprendimų patvirtinimo arba pakeitimo, išskyrus 49 straipsnio (ii) ir (vi) punktuose nurodytus sprendimus, informacija apie kuriuos pateikiama Valdybos žiniai.

7.6. Posėdžiai ir kiti Valdybos procedūriniai veiklos klausimai

51. Valdyba savo sprendimus priima Valdybos posėdžiuose, kurių rengiama tiek, kiek reikalinga, kad Valdyba galėtų tinkamai vykdyti savo funkcijas ir priimti jos kompetencijai priskirtus sprendimus. Valdybos posėdžių sušaukimo ir balsavimo juose tvarka, kiti procedūrinio pobūdžio klausimai yra reglamentuoti taip, kaip numato ABĮ bei susiję teisės aktai ir detalizuojami Valdybos darbo reglamente, kurį tvirtina Valdyba.

52. Valdyba iš savo narių renka Valdybos pirmininką, Valdybos pirmininko kandidatūrą teikiant iš nepriklausomų Valdybos narių. Valdybos pirmininko nepertraukiamos kadencijos laikas yra ne ilgesnis kaip 4 (ketveri) metai iš eilės.

53. Valdybos nariai, negalintys tiesiogiai dalyvauti Valdybos posėdyje, turi dėti pastangas iš anksto balsuoti raštu arba balsuoti elektroninių ryšių ir (arba) telekonferencinio ryšio priemonėmis, jeigu užtikrinamas perduodamos informacijos saugumas ir galima nustatyti balsavusio asmens tapatybę, ir tokie Valdybos nariai laikomi dalyvavusiais posėdyje.

54. Valdybos narys neturi teisės atsisakyti balsuoti ar susilaikyti balsuojant, išskyrus įstatymuose ir šiuose Įstatuose numatytus atvejus. Jei Valdybos narys dalyvauja (balsuoja, dalyvauja diskusijose ar pan.) priimant sprendimą, kuris yra susijęs (tiesiogiai arba netiesiogiai) ir su atitinkamo Valdybos nario asmeniniais interesais, atitinkamas Valdybos narys privalo nedelsiant susilaikyti nuo bet kokių veiksmų vykdant savo funkcijas ir informuoti apie esamą interesų konfliktą Valdybą. Valdyba sprendžia dėl Valdybos nario nušalinamo nuo balsavimo priimant sprendimą konkrečiu klausimu. Nušalinus Valdybos narį nuo balsavimo priimant sprendimą konkrečiu klausimu, atitinkamas sprendimas yra priimamas likusių Valdybos narių, kurie nebuvo nušalinami nuo balsavimo konkrečiu klausimu, balsų dauguma. Jeigu Valdyba negali priimti sprendimo, kuris yra susijęs (tiesiogiai arba netiesiogiai) ir su atitinkamo Valdybos nario asmeniniais interesais, nes nei vienas Valdybos narys dėl interesų konflikto negali balsuoti atitinkamu klausimu, atitinkamą sprendimą priima Susirinkimas.

55. Bendrovė privalo užtikrinti tinkamas Valdybos ir Valdybos narių darbo Valdyboje sąlygas, suteikti darbui būtinas technines ir organizacines priemones bei išteklius. Bendrovės valdyba privalo paskirti Valdybos teisininką, vykdantį Valdybos darbo reglamente ir Įmonių grupės korporatyvinio valdymo politikoje nurodytas funkcijas.

56. Valdyba ne rečiau kaip kartą per metus atlieka savo veiklos vertinimą ir poreikių analizę, kad nustatytų, kokios kompetencijos narių reikia siekiant Bendrovės ir Įmonių grupės tikslų, ir apie savo veiklos vertinimo ir poreikių analizės rezultatus Valdyba praneša Susirinkimui ir ASK.

57. Valdybos narys turi teisę susipažinti su visa Bendrovės, Įmonių grupės bendrovių informacija ir dokumentais ta apimtimi, kuria disponuoja ar pagal galiojančius teisės aktus turi teisę disponuoti Bendrovė.

58. Kiti su Valdybos sudarymu ir Valdybos sprendimų priėmimu susiję klausimai nesiskiria nuo ABĮ reglamentavimo.

7.7. Valdybos komitetai

59. Siekdama užtikrinti veiksmingą vidaus kontrolės sistemą bei veiklos rizikų valdymą Įmonių grupės mastu, Valdyba savo sprendimu turi teisę sudaryti laikino (*ad hoc*) arba nuolatinio pobūdžio specializuotus komitetus (toliau – Specializuoti komitetai), kuriems pavedama nagrinėti ir teikti Valdybai ir (ar) kitiems Bendrovės bei Įmonių grupės bendrovių organams pasiūlymus bei rekomendacijas dėl tokių komitetų kompetencijai priskirtų sričių bei klausimų. Specializuoti komitetai veikia kaip Valdybos patariamieji organai ir už visus savo kompetencijos ribose, atsižvelgus į Specializuotų komitetų pasiūlymus, priimtus sprendimus išlieka atsakinga Valdyba ar kiti organai, priėmę atitinkamus sprendimus.

60. Bendrovėje sudaromi šie nuolatiniai Valdybos komitetai – Audito komitetas bei Atlygio ir skyrimo komitetas. Bendrovėje taip pat veikia specializuotas Inovacijų ir plėtros komitetas, kurio pagrindinės funkcijos apima (i) inovacijų ekosistemos Įmonių grupės mastu tinkamo veikimo skatinimą; (ii) Įmonių grupės turimo veiklos efektyvumo potencialo tinkamą panaudojimą bei (iii) Įmonių grupės plėtros naujų galimybių vertinimą.

61. Visi Bendrovėje sudaryti Specializuoti komitetai, vykdydami savo kasdienę veiklą, gali teikti metodinę pagalbą kitiems Įmonių grupės bendrovių organams, teikdami jiems informaciją, išvadas, siūlymus ir (ar) rekomendacijas dėl atitinkamų, jų kompetencijai priskirtų sričių ir klausimų.

62. Valdyba gali nuspręsti, kad su komitetų nariais sudaromos sutartys dėl jų veiklos atitinkamuose komitetuose, ir nustatyti, kad komitetų nariams mokamas atlygis už jų veiklą komitete, tokio atlygio dydį bei jo mokėjimo tvarką (išskyrus Audito komitetą, dėl kurio atlygio sprendžia Susirinkimas), kuri, be kita ko, turėtų užtikrinti atitinkamų komitetų narių nepriklausomumą.

7.8. Audito komitetas (AK)

63. AK sudaromas iš ne mažiau kaip 3 (trijų) narių, kuriuos ne ilgesniam kaip 4 (ketverių) metų laikotarpiui skiria Susirinkimas, atsižvelgiant į ASK rekomendacijas (jei buvo pateiktos). AK nario nepertraukiamos kadencijos laikas yra ne ilgesnis kaip (dvi) kadencijos iš eilės.

64. Skiriant AK narius užtikrinama, kad AK sudėtyje būtų ne mažiau kaip 2 (du) nepriklausomi nariai, AK narių nepriklausomumas nustatomas atsižvelgiant į teisės aktų nustatytus reikalavimus vertybinių popierių biržoje listinguojamų įmonių audito komitetų narių nepriklausomumui bei nepriklausomumo kriterijus, nustatytus Interesų valdymo politikoje bei kituose taikytinuose teisės aktuose. Susirinkimo sprendimu gali būti keliamas reikalavimas, jog bent vienas iš nepriklausomų narių turėtų teisės aktų tvarka išduotą auditoriaus pažymėjimą arba vidaus auditoriaus kvalifikaciją patvirtinantį dokumentą (diplomą, sertifikatą), ir / ar keliami kiti specifiniai kvalifikacijos reikalavimai.

65. AK iš savo narių renka AK pirmininką, pirmininko kandidatūrą teikiant iš nepriklausomų AK narių.

66. Nepaisant teisės aktuose nustatytų funkcijų, priskirtų tiesioginei AK atsakomybei, vykdymo, AK veikia kaip Valdybos patariamasis komitetas vidaus kontrolės ir rizikų valdymo srityse. Pagrindinės AK funkcijos yra:

   (i) visos Įmonių grupės finansinių ataskaitų rengimo ir auditų atlikimo procesų priežiūra;

   (ii) Įmonių grupės auditorių ir audito įmonių nepriklausomumo bei objektyvumo principų laikymosi užtikrinimas;

   (iii) nuomonės dėl sandorių su susijusiais asmenimis pateikimas listinguojamų Dukterinių bendrovių įstatuose numatytais atvejais;

   (iv) rekomendacijų, susijusių su išorės audito įmonės parinkimu, skyrimu, pakartotiniu skyrimu ir atšaukimu bei su sutarties su išorės audito įmone sąlygomis, teikimas;

   (v) Įmonių grupės vidaus kontrolės, rizikos ir atitikties valdymo ir vidaus audito funkcijos, taip pat veiklos procesų veiksmingumo priežiūra.

67. Kadangi Įmonių grupės bendrovių finansinės ataskaitos yra konsoliduojamos teisės aktų nustatyta tvarka, AK veikia kaip visos Įmonių grupės AK, atlikdamas Įmonių grupės bendrovių AK funkcijas.

68. AK surenka, susistemina visą jo kompetencijos srityse surinktą bei gautą informaciją ir jos pagrindu teikia rekomendacijas Generaliniams direktoriui, Susirinkimui, Valdybai ir (ar) atitinkamam Įmonių grupės bendrovių organui.

69. Konkrečios AK funkcijos ir uždaviniai, taip pat šio komiteto sudarymo bei jo veiklos organizavimo tvarka detaliai reglamentuojama AK veiklos nuostatuose, kuriuos tvirtina Susirinkimas.

7.9. Atlygio ir skyrimo komitetas (ASK)

70. ASK sudaromas iš ne mažiau kaip 3 (trijų) narių, kuriuos ne ilgesniam kaip 4 (ketverių) metų laikotarpiui motyvuotu sprendimu skiria Valdyba iš jos atrinktų kandidatų. Skiriant ASK narius užtikrinama, kad šio komiteto sudėtyje būtų ne mažiau kaip 1 (vienas) nepriklausomas narys. ASK nario nepertraukiamos kadencijos laikas yra ne ilgesnis kaip dvi kadencijos iš eilės.

71. ASK iš savo narių renka komiteto pirmininką, pirmininko kandidatūrą teikiant iš nepriklausomų ASK narių.

72. ASK veikia kaip patariamasis Valdybos organas, teikiant rekomendacijas dėl Įmonių grupėje taikytinos atlygio, darbuotojų vertinimo politikos, siūlo Bendrovės, Įmonių grupės bendrovių vadovų veiklos vertinimo kriterijus, padeda Valdybai prižiūrėti, kaip laikomasi galiojančių nuostatų dėl informacijos, susijusios su atlyginimais, skelbimo. ASK taip pat teikia rekomendacijas dėl Atlygio gairių.

73. ASK padeda atlikti kandidatų atranką:

(i) Susirinkimui – į Valdybos narius;

(ii) Valdybai – į Generalinio direktoriaus poziciją;

(iii) Dukterinės bendrovės visuotiniam akcininkų susirinkimui – į Dukterinės bendrovės valdybos narius;

(iv) Dukterinės bendrovės valdybai – į Dukterinės bendrovės vadovo poziciją;

(v) pagal poreikį ir į kitas svarbias pozicijas Įmonių grupės bendrovėse pagal skiriančio organo kreipimąsi.

74. Įstatų 73 straipsnyje numatytais atvejais, Bendrovės ar Įmonių grupės bendrovių organų prašymu, ASK teikia rekomendacijas dėl valdybų narių ir (ar) vadovų, ir (ar) kitų asmenų skyrimo bei sutarčių su jais sąlygų.

75. ASK aiškina Interesų valdymo politikos nuostatas dėl kolegialių organų narių nepriklausomumo kriterijų bei teikia atitinkamas rekomendacijas.

76. ASK analizuoja Bendrovės, Įmonių grupės bendrovių kolegialių organų, įskaitant jų komitetus, veiklos įsivertinimo rezultatus, juos apibendrina bei paminėtiems organams teikia pasiūlymus dėl veiklos tobulinimo. Apibendrintus įsivertinimo rezultatus ASK taip pat teikia Valdybai bei Generaliniam direktoriui, kuris apibendrintus rezultatus pateikia akcininko teises įgyvendinančiai Energetikos ministerijai. Informacija apie kolegialių organų įsivertinimą atskleidžiama Bendrovės metiniame pranešime.

77. ASK surenka, susistemina visą jo kompetencijos srityse surinktą bei gautą informaciją ir jos pagrindu teikia rekomendacijas Valdybai ar atitinkamam kitam Įmonių grupės organui.

78. Konkrečios ASK funkcijos ir uždaviniai, taip pat šio komiteto sudarymo ir veiklos organizavimo tvarka detaliai reglamentuojama ASK veiklos nuostatuose, kuriuos tvirtina Valdyba.

VIII. GENERALINIS DIREKTORIUS

8.1. Generalinio direktoriaus paskyrimas

79. Generalinis direktorius yra vienasmenis Bendrovės valdymo organas, kurį skiria Valdyba, atsižvelgdama į ASK rekomendacijas. Generalinis direktorius yra atskaitingas Valdybai.

80. Generaliniu direktoriumi turi būti fizinis asmuo. Generaliniu direktoriumi negali būti:

(i) Valdybos narys;

(ii) asmuo, einantis valdymo organo ar administracijos nario pareigas energetikos įmonėje, vykdančioje elektros energijos gamybos ir (ar) tiekimo veiklą arba gamtinių dujų gavybos ir (ar) tiekimo veiklą;

(iii) asmuo, kuris kitais teisės aktuose nustatytais pagrindais neturi teisės eiti tokių pareigų.

81. Valdyba, vertindama kandidato į Generalinius direktorius tinkamumą eiti šias pareigas, įvertina jo atitiktį šiuose Įstatuose ir taikytinuose teisės aktuose nustatytiems reikalavimams ir tuo tikslu gali pareikalauti iš kandidato pateikti šią atitiktį pagrindžiančius dokumentus ir (ar) kreiptis į kompetentingas valstybės institucijas dėl reikalingos informacijos apie kandidatą suteikimo.

82. Kandidatas į Generalinio direktoriaus pareigas privalo pateikti Valdybai rašytinį sutikimą kandidatuoti į Generalinio direktoriaus pareigas ir kandidato interesų deklaraciją, joje nurodydamas visas aplinkybes, dėl kurių galėtų kilti kandidato interesų konfliktas, t. y. situacija, kai tokio asmens asmeniniai interesai būtų susiję (tiesiogiai arba netiesiogiai) su sprendimais, kuriuos priimінėtų toks asmuo, arba pavedimais, kuriuos vykdytų toks asmuo, eidamas Generalinio direktoriaus pareigas. Atsiradus naujoms aplinkybėms, dėl kurių galėtų kilti Generalinio direktoriaus interesų konfliktas, Generalinis direktorius apie tokias naujas aplinkybes privalo nedelsiant informuoti Valdybą.

83. Eiti kitas pareigas ar dirbti kitą darbą, įskaitant pareigas Bendrovėje, ir kituose juridiniuose asmenyse, kurių dalyviu yra Bendrovė, Generalinis direktorius gali tik gavęs išankstinį Valdybos sutikimą, išskyrus pedagoginę, kūrybinę bei autorinę veiklą, dalyvavimą profesinėse energetikų bei energetikos įmones ar elektros, dujų perdavimo operatorius vienijančiose asociacijose, visuomeninėse organizacijose, kurios yra susijusios su išimtinai asmeninių arba (ir) šeimos poreikių tenkinimu, – kurių atžvilgiu minėto Valdybos sutikimo nereikia, tačiau apie tokias pareigas privalu informuoti Valdybą.

84. Generalinis direktorius prieš pradėdamas dirbti pasirašo įsipareigojimą neatskleisti Bendrovės komercinių (gamybinių) paslapčių ir konfidencialios informacijos, kuris gali būti įtvirtintas darbo sutartyje arba pasirašomas atskirai.

85. Kitas Generalinio direktoriaus rinkimo, atšaukimo, kadencijos nustatymo taisykles reglamentuoja ABĮ ir kiti taikytini teisės aktai.

8.2. Generalinio direktoriaus kompetencija

86. Generalinio direktoriaus kompetencija nesiskiria nuo ABĮ nustatytos bendrovės vadovo kompetencijos, išskyrus šių Įstatų 49 ir 87-88 straipsniuose nurodytą papildomą Generalinio direktoriaus kompetenciją.

8.3. Papildoma Generalinio direktoriaus kompetencija, susijusi su Įmonių grupe

87. Generalinio direktoriaus:

(i) organizuoja ir kontroliuoja Įmonių grupės strategijos įgyvendinimą, tvirtina Įmonių grupės strategijos įgyvendinimo veiklos planą, teisės aktų nustatytose ribose užtikrina Įmonių grupės strategijos įgyvendinimą;

(ii) kontroliuoja Dukterinių bendrovių veiklą, teikia savo siūlymus bei išvadas Valdybai dėl Įmonių grupės veiklos organizavimo ir jos plėtros;

(iii) organizuoja bei užtikrina Dukterinių bendrovių strategijos, ilgalaikių (strateginių), trumpalaikių (taktinių) tikslų įgyvendinimo stebėseną ir jų veiklos vertinimą, teikia siūlymus Valdybai dėl jų tobulinimo;

(iv) koordinuoja bei prižiūri strateginių valstybės projektų, įtrauktų į nacionalinę energetikos strategiją, ir (ar) ypatingos valstybinės svarbos projektų ir (ar) valstybei svarbių projektų, kaip jie apibrėžti galiojančiuose teisės aktuose, eigą bei jų įgyvendinimą;

(v) pateikia Susirinkimui medžiagą apie Įmonių grupės strategijos įgyvendinimą;

(vi) įgyvendina Valdybos patvirtintas su Įmonių grupės veikla ir funkcionavimu susijusias rekomendacijas, tvarkas, politikas, kodeksus ir kitus dokumentus Bendrovėje, taip pat pagal suteiktą kompetenciją imasi priemonių užtikrinti jų įgyvendinimą Įmonių grupės bendrovėse;

(vii) atlieka kitas vidaus dokumentuose nustatytas funkcijas;

(viii) vadovaudamasis Valdybos priimtais sprendimais, balsuoja Dukterinių bendrovių visuotiniuose akcininkų susirinkimuose kaip numatyta šių Įstatų 46 straipsnyje;

(ix) tvirtina Įmonių grupės mastu taikomas tvarkas, taisykles, aprašus, o taip pat kitus Įmonių grupės lygio dokumentus, kuriuos pagal kompetenciją turi teisę tvirtinti Generalinis direktorius;

(x) teikia Įmonių grupės bendrovėms rekomendacijas dėl Įmonių grupės korporatyvinių dokumentų įgyvendinimo, pavyzdines vidaus tvarkas, kitus unifikuotus Įmonių grupėje taikytinus dokumentus.

8.4. Papildoma Generalinio direktoriaus kompetencija, susijusi su Bendrove

88. Generalinis direktorius:

(i) organizuoja ir kontroliuoja kasdieninę Bendrovės veiklą, priima sprendimus dėl Bendrovės veiklos;

(ii) užtikrina Bendrovės strategijos, kuri yra Įmonių grupės strategijos dalis, įgyvendinimą, Susirinkimo ir Valdybos sprendimų įgyvendinimą Bendrovėje;

(iii) sudaro sandorius Bendrovės vardu vadovaudamasis Valdybos nustatyta tvarka. Sandorius, dėl kurių sprendimą turi priimti Valdyba ar Valdyba ir Susirinkimas pagal šiuos Įstatus, Generalinis direktorius gali sudaryti tik esant išankstiniam atitinkamo organo sprendimui arba atidedant sandorio įsigaliojimą iki to momento, kai bus gauti reikalingi sprendimai;

(iv) teikia Valdybai Bendrovės strategijos, kuri yra Įmonių grupės strategijos dalis, projektą, metinio biudžeto ir veiklos tikslų projektą ir kitus Valdybos svarstymui ir tvirtinimui teikiamus Bendrovės dokumentų projektus;

(v) teikia pasiūlymus Valdybai dėl Bendrovės veiklos biudžeto koregavimo biudžetinių metų eigoje (jei reikalinga);

(vi) užtikrina resursų ir išteklių, reikalingų Bendrovės organų vykdomai veiklai, skyrimą;

(vii) teisės aktų nustatyta tvarka išduoda prokūras;

(viii) užtikrina, kad Bendrovės auditoriui būtų pateikti visi sutartyje su auditoriumi ar audito įmone nurodytam patikrinimui reikalingi Įmonių grupės dokumentai;

(ix) teisės aktų nustatyta tvarka užtikrina Bendrovės turto bei teisių ir teisėtų interesų apsaugą ir saugias bei tinkamas darbo sąlygas, saugo Bendrovės komercines paslaptis ir konfidencialią informaciją. Generalinis direktorius priima sprendimus dėl komercinių (gamybinių) paslapčių ir konfidencialios informacijos klasifikacijos, žymėjimo, termino, naudojimo ir apsaugos taisyklių nustatymo Bendrovėje;

(x) Valdybos nustatytais terminais teikia Valdybai ketvirtines Bendrovės veiklos bei finansines ataskaitas ir ekonominės padėties prognozes, Valdybos posėdžiams būtinus dokumentus;

(xi) atlieka kitas ABĮ bei šiuose Įstatuose vadovo kompetencijai priskirtas funkcijas.

8.5. Generalinio direktoriaus atsistatydinimas bei atšaukimas

89. Generalinis direktorius turi teisę atsistatydinti pateikdamas rašytinį atsistatydinimo pranešimą Valdybai. Valdyba įstatymų nustatyta tvarka turi priimti sprendimą atšaukti Generalinį direktorių. Jeigu Valdyba nepriima sprendimo atšaukti Generalinį direktorių, su Generaliniu direktoriumi sudaryta sutartis pasibaigia įstatymų nustatyta tvarka ir terminais.

90. Generalinį direktorių atšaukus ar šiam atsistatydinus iš pareigų ABĮ nustatyta tvarka, Generalinis direktorius privalo perdavimo-priėmimo aktu naujai paskirtam Generaliniam direktoriui arba, jeigu toks nėra paskirtas, Valdybos pirmininkui perduoti materialines vertybes bei pagrindinius Bendrovės dokumentus.

IX. VIDAUS AUDITAS

91. Įmonių grupės mastu veikia centralizuota vidaus audito funkcija. Įmonių grupės mastu vidaus audito funkcijas atliekantis Bendrovėje suformuotas vidaus audito funkcinis padalinys yra atskaitingas Valdybai. Valdyba nustato konkrečias centralizuoto vidaus funkcinio padalinio funkcijas bei keliamus uždavinius, o taip pat sprendžia dėl kitų vidaus audito veiklos klausimų, kaip numatyta šiuose Įstatuose.

92. Vidaus audito funkciniam padaliniui turi būti pateikiama visa tinkamam vidaus audito atlikimui reikalinga Įmonių grupės bendrovių informacija ir dokumentai. Tam, kad vidaus audito funkcinis padalinys galėtų tinkamai vykdyti jam pavestas funkcijas Įmonių grupės mastu.

X. BENDROVĖS PRANEŠIMŲ SKELBIMO TVARKA

93. Bendrovės pranešimai, kurie pagal LR įstatymus ir (ar) šiuos Įstatus turi būti paskelbti viešai, skelbiami Juridinių asmenų registro tvarkytojo leidžiamame elektroniniame leidinyje viešiems pranešimams skelbti. Tais atvejais, kai dėl techninių kliūčių pranešimų tokiame leidinyje paskelbti neįmanoma, pranešimai skelbiami dienraštyje „Verslo žinios“. Jeigu LR įstatymuose ir (ar) šiuose Įstatuose nenustatyta kitaip, kiti pranešimai gali būti pateikiami asmeniškai, paštu arba perduoti elektroninių ryšių priemonėmis. Už pranešimų išsiuntimą ar jų įteikimą laiku atsako Generalinis direktorius.

XI. BENDROVĖS DOKUMENTŲ IR KITOS INFORMACIJOS PATEIKIMO AKCININKAMS TVARKA

94. Akcininkui raštu pareikalavus, Bendrovė ne vėliau kaip per 7 (septynias) kalendorines dienas nuo reikalavimo gavimo dienos privalo sudaryti akcininkui galimybę susipažinti ir (ar) pateikti kopijas šių dokumentų: Įstatų, metinių ir tarpinių finansinių ataskaitų rinkinių, Bendrovės metinių ir tarpinių pranešimų, auditoriaus (audito įmonės) išvadų bei audito ataskaitų, Susirinkimų protokolų ar kitų dokumentų, kuriais įforminti Susirinkimo sprendimai, akcininkų sąrašų, Valdybos narių sąrašų, kitų Bendrovės dokumentų, kurie turi būti vieši pagal įstatymus, jei šie dokumentai nėra susiję su Bendrovės komercine (gamybine) paslaptimi ar konfidencialia informacija.

95. Bendrovė sudaro akcininkui galimybę susipažinti su kita Bendrovės informacija ir pateikia dokumentų kopijas, jeigu tokia informacija ir dokumentai akcininkui būtini vykdant kituose teisės aktuose numatytus reikalavimus ir akcininkas užtikrina tokios informacijos ir dokumentų konfidencialumą. Bendrovė gali neteikti akcininkui informacijos ir dokumentų, būtinų vykdant teisės aktuose numatytus reikalavimus, jeigu yra galimybė Bendrovei šią informaciją ir (ar) dokumentus pateikti tiesiogiai asmenims (institucijoms ir įstaigoms), kurioms ši informacija ir (ar) dokumentai turi būti teikiami, vykdant teisės aktuose numatytus reikalavimus.

96. Atsižvelgiant į tai, kad Bendrovė yra nacionaliniam saugumui užtikrinti svarbi įmonė, kaip tai apibrėžta LR nacionaliniam saugumui užtikrinti svarbių objektų apsaugos įstatyme, LR kaip Bendrovę kontroliuojantis akcininkas (LR kaip Bendrovės kontroliuojantį akcininką atstovaujanti institucija), užtikrindamas gaunamos informacijos konfidencialumą, turi teisę susipažinti su visais Bendrovės ir jos Dukterinių bendrovių dokumentais bei visa Bendrovės ir jos Dukterinių bendrovių informacija (įskaitant ir informaciją apie Bendrovės valdymo organo sprendimų, kurie dar nėra priimti projektus ir informaciją apie planuojamus sudaryti sandorius bei investicijas), kuri informaciją gaunančio asmens prašymu turi būti susisteminta pagal tokio asmens nurodytus pagrįstus kriterijus, jeigu yra užtikrinamas tokios informacijos ir dokumentų konfidencialumas. Bendrovė vadovaudamasi šiuo straipsniu pateikia tik tuos Dukterinių bendrovių dokumentus ir tą Dukterinių bendrovių informaciją, kurią Bendrovė turi. Jeigu Bendrovė neturi šiame pagal šį straipsnį prašomų Dukterinių bendrovių dokumentų ar informacijos, Generalinis direktorius privalo nedelsdamas imtis veiksmų, kad Bendrovė gautų tokius dokumentus bei informaciją, kiek jos galima gauti pasinaudojant Bendrovės turimų Dukterinių bendrovių akcijų suteikiamomis teisėmis. Informacija ir dokumentai, teikiami pagal šį Įstatų straipsnį, turi būti pateikiami nedelsiant, tačiau ne vėliau kaip per 5 (penkias) darbo dienas nuo atitinkamo reikalavimo gavimo dienos. Šiame Įstatų straipsnyje nurodyti subjektai turi teisę reikalauti, o Bendrovė turi pareigą užtikrinti, kad tam tikra konkreti informacija ir dokumentai būtų teikiami periodiškai be atskiro atitinkamo subjekto prašymo.

97. Visa informacija ir dokumentai, nurodyti šių Įstatų 94 ir 95 straipsniuose, akcininkams pateikiami neatlygintinai.

XII. <u>BAIGIAMOSIOS NUOSTATOS</u>

98. Esant neatitikimams tarp šių Įstatų ir imperatyvių teisės aktų, reglamentuojančių uždarųjų akcinių bendrovių teisinį statusą ir (ar) veiklą, bus vadovaujamasi imperatyviomis teisės aktų nuostatomis.

99. Įstatų keitimo tvarka nesiskiria nuo įstatų keitimo tvarkos, nustatytos ABĮ. Įstatai įsigalioja nuo jų įregistravimo LR juridinių asmenų registre dienos.

Šie Įstatai pasirašyti 2022 m. gegužės 19 d.

Bendrovės vienintelio akcininko įgaliotas asmuo:

L.e.p. generalinis direktorius
Algirdas Juozaponis

Dokumentą elektroniniu
parašu pasirašė
ALGIRDAS,JUOZAPONIS
Data: 2022-05-19 13:39:54

[Translation from Lithuanian language]

EPSO-G, UAB
ARTICLES OF ASSOCIATION

I. GENERAL PART

1. EPSO-G, UAB (hereinafter referred to as the Company) is a private legal entity with limited civil liability whose registered capital is divided into shares.

2. The Company is liable for its obligations on the basis of the assets it owns. The Company shall not be liable for the obligations of the shareholders and the shareholders shall not be liable for the obligations of the Company. The shareholders shall have no other pecuniary obligations to the Company than the obligation to pay for all the subscribed shares at the issue price in the prescribed manner.

3. The legal form of the company is a private limited liability company.

4. The name of the Company is EPSO-G, UAB.

5. The Company‘s period of operation is unlimited.

6. The financial year of the Company is a calendar year.

7. The Company, together with the legal entities directly and indirectly controlled by it, constitutes the Company‘s group of companies (hereinafter referred to as the Group of Companies). The Company is the parent company of the Group of Companies, which directly owns companies (hereinafter referred to as Subsidiaries), and the Subsidiaries directly and/or indirectly own downstream companies (hereinafter referred to as the Downstream Subsidiaries) (the Subsidiaries and the Downstream Subsidiaries are collectively referred to as the companies within the Group of Companies). The Company shall not be liable for the obligations of the companies within the Group of Companies and the companies within the Group of Companies shall not be liable for the obligations of the Company.

8. The Company‘s activities shall be guided by the laws and regulations applicable in the Republic of Lithuania (hereinafter referred to as the LR), the Guidelines for Corporate Governance of EPSO-G, UAB, as amended and supplemented from time to time, the Letter of Representation on the State‘s Expectation from the LR Ministry of Energy as the representative authority of the Company‘s controlling shareholder, the LR Governmental Resolutions on the Governance of the State-Owned Companies, the Code of Corporate Governance of the Companies listed on the NASDAQ Vilnius Stock Exchange to the extent that these Articles of Association do not provide otherwise, these Articles of Association, and internal documents of the Company and the Group of Companies.

II. OBJECTIVES AND OBJECT OF THE COMPANY'S ACTIVITIES

9. The main long-term (strategic) objective of the Company's activities is transparent and efficient performance of parent company’s functions in management of companies within the Group of Companies, implementing the principle of separating state ownership and regulatory functions.

10. Other long-term (strategic) objectives of the Company: active pursuit of goals and targets set out in the National Energy Independence Strategy and normative legal acts replacing and implementing it, other applicable legal acts and documents approved by the Company's General Meeting of Shareholders or directly related to the activities of the Group of Companies; formulation of a sustainable and long-term strategy of the Group of Companies; sustainable development and integration of activities of the Group of Companies as a whole; ensuring the proper and effective implementation of projects of special national importance or of national importance entrusted to the companies of the Group of Companies and carried out by them exercising supervision and control over the implementation of such projects at the level of the Company's management bodies, including those with a supervisory function.

11. The short-term (tactical) objectives of the Company's activities: consolidating the Group's of Companies finances, managing of tax and financial information and ensuring consistent corporate governance and corporate control at the Group’s of Companies level; the implementation of common operational policies, guidelines and other rules of conduct of a recommendatory nature within the Group of Companies and the co-ordinated management of resources and assets.

12. The object of Company's activities:

    (i) exercising shareholder rights and duties;

    (ii) formulating and defining the Group's of Companies business strategy, operational guidelines, rules of conduct and specific policies;

(iii) regional and international cooperation to integrate energy infrastructure and markets;

(iv) coordinating and controlling the activities, development and evolution of the companies within the Group of Companies;

(v) the Group's of Companies finance and treasury management;

(vi) provision of services (to the companies within or outside of the Group of Companies);

(vii) representing the Group of Companies.

13. The Company acts in a socially responsible manner in the course of its activities, aiming at increasing the long-term value of the Group of Companies, continuity of its operation and implementation of its projects, ensuring sustainable benefits for the State of Lithuania, the shareholders of the Group of Companies, the companies of the Group of Companies, the users of their services and the society, as well as guaranteeing an adequate return on the capital of shareholders.

14. The Company may carry out other activities not prohibited by the LT legislation and not contradicting to the Company's business objectives. The Company may carry out licensable or permit-required activities only after obtaining the relevant licences or permits issued in accordance with the procedures established in the legislation.

III. AUTHORISED CAPITAL. NUMBER OF SHARES BY CLASS, THEIR NOMINAL VALUE AND ENTITLEMENTS

15. The authorised capital of the Company is equal to EUR 189,631,000.00 (one hundred and eighty-nine million six hundred and thirty-one thousand euro and zero euro cents).

16. The authorised capital of the Company is divided into 653,900,000 (six hundred and fifty-three million nine hundred thousand) ordinary registered shares (hereinafter one ordinary registered share is referred to as the Share).

17. The nominal value of each Share is EUR 0.29 (twenty-nine euro cents).

18. All Shares are book-entry Shares and shall be recorded in Shareholders' personal securities accounts maintained by the Company or by securities account managers, if such are contracted to maintain records of Shares.

IV. SHAREHOLDERS AND SHAREHOLDERS RIGHTS

19. The shareholders of the Company shall have the rights and obligations set out in the legislation, regulations and these Articles of Association.

20. All bodies of the Company must act in such a way that to ensure that the Company's shareholders and, in the case of the patronage function, the shareholders of other companies within the Group of Companies are able to exercise their rights.

V. COMPANY BODIES AND MANAGEMENT

21. The bodies of the Company are the following:

(i) the General Meeting of Shareholders (hereinafter referred to as the Meeting);

(ii) the Board (hereinafter referred to as the Board);

(iii) the General Manager – Chief Executive Officer (hereinafter referred to as CEO).

22. Company's bodies shall make decisions independently and in accordance with the competence assigned to them by the legislation in force in the LR and these Articles of Association. The bodies of the Company shall be fully responsible for the decisions made by them. In making decisions, the Company's bodies shall act in the best interests of the Company and the shareholders of the Company.

23. Company's bodies, in accordance with the requirements of the legislation in force in the LR and taking into account other provisions of these Articles of Association Article **Error! Reference source not found.**, shall pursue the objectives of the Company and the Group of Companies, taking into account, among other things, the basic environmental, social, financial and ethical principles set out in international standards.

24. The Company's bodies must also act in accordance with the Group's of Companies basic principles of corporate governance - transparency of the Group's of Companies activities, separation of state ownership

and regulatory functions, definition and sustainability of the Group's of Companies objectives, and the proper exercise of shareholders' rights.

25. The management bodies of the Company, when making decisions and acting within the scope of their competence granted to them by the legislation and these Articles of Association, shall also take into account other principles of corporate governance of the Group of Companies, such as compliance with the requirements of the legislation and best practice standards, operational efficiency, sustainability of the Group of Companies, competitiveness of the activities, responsibility of the management bodies of the Group of Companies, and proper accountability to the shareholders.

26. In the event when the Company's bodies are required to obtain special approvals in accordance with legislation (including the LR Law on Protection of Objects of National Security Importance) for making their decisions, such decisions may only be made once the necessary approvals have been obtained or the decision-making process must provide that such decisions shall only become effective and may only be implemented after the receipt of the relevant approval.

27. In the event when, due to insufficient number of members or for other reasons, any management body of the Company has not been able to take decisions within its competence, such management body shall, without delay, but not later than within 1 (one) month after the relevant circumstances, which prevented the management body from making decisions, have ceased to exist consider and make the necessary decisions on the matters falling within its competence.

VI. THE MEETING

28. The procedure for convening the Meeting, making decisions and the competence of the Meeting shall not differ from the procedure for convening the Meeting, making decisions and the competence of the General Meeting of Shareholders as set out in the LR Law on Companies (hereinafter referred to as the LC), with the exception of the additional competence of the Meeting as provided for in these Articles of Association Article 29.

29. The Meeting shall also decide on (additional competence of the Meeting)

    (i) the approval of the Group's of Companies common corporate management and/or operational guidelines;

    (ii) approval of the establishment of remuneration guidelines applicable to the determination of remuneration for the Board of the Company and the Group of Companies, the Remuneration and Nomination Committee (hereinafter referred to as RNC), the Audit Committee (hereinafter referred to as the AC) and any other specialised committees, if any;

    (iii) appointing and removal the Board members, setting the remuneration of the Board members and the budget in relation to expenses for the performance of the Board's functions, if the planned budget exceeds the minimum, as it is set in the remuneration guidelines, concluding contracts with the Board members and setting standard terms thereof;

    (iv) election and removal of the AC members, setting the remuneration for the AC members, the budget in relation to expenses for the performance of functions of the AC, if the planned budget exceeds the minimum, as it is set in the remuneration guidelines, and standard terms of contracts with the AC members, as well as the approval of rules of Procedures of the AC;

    (v) approval or disapproval of the Board decisions as provided for in the Articles of Association Article 39 Clause (xiii)-(xvii) and the Articles of Association Article 46;

    (vi) suspension or non-suspension of the Board members when decisions are made in the event of the conflict of interest of the Board members, in the cases provided for in the Articles of Association Article 54;

    (vii) approval or disapproval of CEO decisions as provided for in the Articles of Association Article 49 Clause (iv)-(vii).

VII. THE BOARD

7.1. Formation of the Board

30. The Board shall be a collegial management body of the Company, consisting of 5 (five) members. The members to the Board shall be elected by the Meeting, to which the Board shall be accountable, for the term of office of 4 (four) years, taking into account the recommendations of the RNC and the Selection Committee[1]

[1] The term *Selection Committee* is understood as it is defined in the Description of the Selection of Candidates for the Board of the State Enterprise or Municipal Enterprise and Candidates for the Collegial Supervisory or Management Body Elected by the General Meeting of Shareholders of the State- or Municipal-Own Enterprise approved by the Resolution of the Government of the LR No 631 dated June 7, 2015.

in accordance with the competence assigned to them. The continuous term of office of the Board member shall be no more than 2 (two) consecutive terms, i.e. no more than 8 (eight) consecutive years.

31. The Meeting shall elect the Board members *inter alia* ensuring that the constitution of the Board meets the criteria set out in the legislation applicable to the state-owned enterprises. In electing the Board members, it shall be ensured that the Board is constituted of at least three (3) independent members, their independence being determined by taking into account the criteria set out in the Policy for the Management of Interests of Collegial Bodies' Members, Managers and Employees of the Group of Companies (hereinafter referred to as the Policy on the Management of Interests) and applicable legislation, and that the Board members have competencies in relation to the Board's responsibility areas and functions.

32. The Board cannot have the following as its members:

    (i) any person who is not entitled to perform these duties in accordance with the requirements laid down in the LC and other legislation;

    (ii) members of collegial bodies and employees of companies within the Group of Companies;

    (iii) employees of the institutions regulating activities of entities operating in the field of energy services and the authorities exercising state energy supervision;

    (iv) a person who is the member of the supervisory body, the management body or the administrative body of any energy undertaking carrying out electricity production and/or supply activities or natural gas production and/or supply activities, or who is otherwise involved in the management or supervision of such undertakings;

33. In assessing the suitability of a candidate for the election to the Board, the Meeting shall assess his/her compliance with the requirements laid down in these Articles of Association and applicable legislation and may, for that purpose, request the candidate to submit documents substantiating such compliance and/or contact the competent state institutions with the purpose of obtaining the necessary information on the candidate.

34. Each candidate for the election to the Board shall be required to submit to the Meeting a written consent to stand for the election to the Board and a declaration of interests of the candidate, indicating any circumstances which may give rise to a conflict of interest on the part of the candidate, i.e. a situation in which his/her personal interests would be related, directly or indirectly, with any decision which the person would make in the course of his/her duties as the Board member. In the event of new circumstances which could give rise to the conflict of interest for the Board member, he/she must immediately inform the Board of such new circumstances and submit a separate notification to the Company in accordance with the procedures set out in the Policy on the Management of Interests.

35. The Board members may be engaged in such other employment or hold such other positions that may be compatible with their activities on the Board, including, but not limited to, the managerial duties in other legal entities, employment in public or statutory service, positions within the Company and other legal entities (in accordance with the restrictions set in these Articles of Association Article 32) only after prior notification to the Board.

36. By the decision of the Meeting, the Board members may enter into contracts for their office on the Board, setting out their rights, duties and responsibilities before taking up their duties on the Board. All elected members of the Board shall immediately sign an undertaking not to disclose the Company's commercial/production secrets and confidential information, which may be included in the contract for their activities on the Board or signed separately.

7.2 Responsibility areas of the Board

37. The Board is responsible for the organisational and systemic development and management of the Group of Companies in the areas and within the scope of its competence.

38. The competence of the Board shall not differ from the competence of the Board as set out in the LC, except for the additional competence set out in these Articles of Association Articles 39-48 and 50.

7.3. Additional competence of the Board relating to the Group of Companies

39. The Board considers and approves:

    (i) the Group's of Companies business strategy (including long-term and short-term, financial and non-financial objectives);

(ii) the Group’s of Company policies, Group’s of Company guidelines for key activities and other Group’s of Company level documents whose approval is under the competence of the Board.

40. The Board analyses and evaluates material provided by the Company on:

(i) implementation of the Group's of Company business strategy;

(ii) organisation of the activities of the Group’s of Companies;

(iii) Group’s of Companies financial state and economic activity indicators;

(iv) implementation of documents and other decisions approved by the Board in the Group of Companies.

41. In addition the Board:

(i) determines the model for the management fee and/or advisory services provided, the principles for the application of the management fee and the minimum rates for advisory services;

(ii) whilst approving the documents provided for in these Articles of Association Article 39, the Board may also lay down measures for their implementation;

(iii) exercises permanent supervision and control over the management of strategic projects entrusted to and/or carried out by the companies within the Group of Companies and included in the national energy strategy, and/or projects of special national importance, and/or projects of national importance as defined by the applicable legislation, as well as projects provided for in the Letter of Representation on the State‘s Expectation from the LR Ministry of Energy as the representative authority of the Company‘s controlling shareholder.

(iv) formulates the Group's of Companies overall corporate management policy and establishes the basic principles, guidelines, codes of conduct and other rules of a recommendatory nature applicable to the companies of the Group's Companies;

(v) monitors the Group’s of Companies strategy (including long-term and short-term financial and non-financial objectives) and the action plan for the Group’s of Companies strategy implementation.

7.4. Additional competence of the Board relating to the Company

42. The Board considers and approves, including but not limited to:

(i) the Group’s of Companies consolidated annual report and the Company's annual report and the interim report (if the decision is to be made on the granting of dividends for a period shorter than the financial year);

(ii) the Company's budget;

(iii) the Company's business strategy as an integral part of the Group's of Companies business strategy;

(iv) the list of information which shall be deemed as the Company's commercial (production) secret and confidential information, and the procedure for the use and storage of such confidential information within the Company;

(v) the draft security plan for the Company as the enterprise of national security importance;

(vi) the list of the material terms of transactions (by type of transaction) and the procedure for transactions to be decided by the Board, including decisions by the Board on transactions requiring the approval of the Meeting under these Articles of Association.

43. The Board makes decisions on:

(i) the appointment of the CEO, the remuneration and other key terms of the contract with the Company's CEO in accordance with the Remuneration Guidelines approved by the Meeting;

(ii) the approval of the total amount of annual increments (bonuses) proposed by the CEO to be granted to the Company's employees. The proposal of the CEO for the total amount of the annual increments/bonuses proposed to be granted to the Company’s employees shall be justified in the light of the Company's operation and results for the calendar year concerned;

(iii) the allocation of the Board's operating budget, as determined by the Meeting, to the specific objectives of the Board within the scope of the budget;

(iv) investment, transfer and lease of the Company's assets with a carrying value[2] exceeding EUR 3,000,000 (three million euros) (calculated separately for each type of transaction);

(v) pledge or mortgage of the Company's assets with a carrying value exceeding EUR 3,000,000 (three million euros) (calculated as the total amount of transactions);

(vi) guaranteeing the fulfilment of other persons' obligations in the amount exceeding EUR 3,000,000 (three million euros);

(vii) the acquisition of the Company's assets for the price exceeding EUR 3,000,000 (three million euros);

(viii) investment, transfer, pledge or mortgage of the Company's cash in the amount exceeding EUR 3,000,000 (three million euros) (calculated separately for each type of transaction), unless such transactions are carried out in accordance with the Group's of Companies treasury and financial risk management policy approved by the Board;

(ix) entering into loan or credit agreements in the amount exceeding EUR 3,000,000 (three million euros);

(x) any transactions, the improper performance of which may expose the Company to penalties in the amount exceeding EUR 3,000,000 (three million euros);

(xi) participation and/or conclusion of settlement agreements in judicial (arbitration) disputes in which the Company, or the Company asserts, is subject to a claim exceeding EUR 3,000,000 (three million euros);

(xii) exercise of the Company's, as a participant or shareholder in other legal entities, rights (including the right to vote at the meeting of participants or at the general meeting of shareholders), if the relevant legal entity may be deemed as controlled by the Company in accordance with the procedure set out in these Articles of Association Article 46;

(xiii) commencement of new activities of the Company or the discontinuation of a specific ongoing activity (subject to the approval of the Meeting);

(xiv) transfer, pledge or other encumbrance of any shares (stakes, stocks) held by the Company or the rights conferred by them or other rights of a participant in a legal entity (subject to the approval of the Meeting);

(xv) transfer of the Company's business as the complex of assets or a substantial part thereof (subject to the approval of the Meeting);

(xvi) the Company's becoming a founder of or participant in other legal entities as well as decisions on increasing and decreasing the number of shares (stakes, stocks) held by the Company or any other change in the rights attached to such shares (stakes, stocks); it confirms the material terms and conditions of share subscription agreements (subject to the Meeting's approval);

(xvii) establishment and termination of the Company's branches and representative offices and the approval of the regulations for the branches and representative offices (subject to the approval of the Meeting);

(xviii) emission of Company bonds (except for convertible bonds);

(xix) the Company's participation in the activities of associations or legal entities' confederations of any form;

(xx) the Company's participation in a joint venture with other entities, if the Company's participation in the joint venture involves long-term financial commitments;

(xxi) decides on the appointment and dismissal of the head of internal audit, the approval of the terms of reference for the head of internal audit, budget and resources for the internal audit needed to carry out the activities, the remuneration for the head of internal audit and the approval of the internal audit activity plan on the basis of the recommendations of the AC;

(xxii) approves an action plan to address the limitations and recommendations and considers reports on the implementation of the action plan taking into account the limitations identified and recommendations provided by the Group's of Companies central internal audit;

(xxiii) performs other functions assigned to the competence of the Board under the LC and these Articles of Association.

44. The Board performs the following supervisory functions:

[2] All values and/or amounts set out in the Articles of Associations are exclusive of value added tax (VAT), if such tax is applicable.

(i) supervises the CEO performance and provides feedback and proposals on the CEO performance to the Meeting;

(ii) considers whether the CEO is fit for office if the Company is making a loss;

(iii) proposes the CEO to revoke his/her decisions which are contrary to laws and regulations, these Articles of Association and decisions of the Meeting or the Board;

(iv) decides on other matters within the competence of the Board to supervise the activities of the Company and the CEO as provided for in these Articles of Association as well as in the decisions of the Meeting.

45. Making the decisions referred to in the Articles of Association Article 43 Clause (iv)-(x) and (xiii)-(xvii) the Board shall approve the material terms of these transactions.

46. The Board makes decisions related to exercising the Company's as shareholder's rights at the General Meetings of Shareholders in controlled Subsidiaries. Voting on the amendments to the Articles of Association of the Subsidiaries also requires the approval of the Meeting. Neither a decision of the Board nor a decision of the Meeting is required and voting decisions are left to the discretion of the CEO where such matters are considered:

(i) on the change of the registered office of Subsidiaries;

(ii) on the election and removal of the auditor of subsidiaries (hereinafter referred to as the Auditor) or the audit company for the purpose of the annual audit of the set of financial statements of the relevant Subsidiary and on the determination of the terms of remuneration for the auditing services, as these competences are defined in the LC.

47. The Board shall have the right to make other decisions within the competence assigned to it as provided for by the legislation, these Articles of Association, and the internal documents of the Company approved by decisions of the Meeting and the Board, provided that such documents have been approved in accordance with the competence of the body which approved them, as well as on other matters of importance to the Group of Companies and on the conclusion of any transactions referred to the Board by the CEO.

48. Before making decisions provided for in these Articles of Association Article 43 Clause (xiii)-(xvii) and Article 46, the Board shall be subject to the approval of the Meeting or to the postponement of the entry into force of such a decision until such time when necessary approval of the Meeting has been obtained. The approval of the Meeting shall not remove the responsibility of the Board for the decisions made.

7.5 Ensuring continuity of operation in the absence of the Board

49. In cases where not more than half of the Board members specified in these Articles of Association are present (i.e. elected and in office) or the Board is not elected at all, in order to ensure the continuity of the Company's operation and timely adoption of necessary decisions, the CEO shall make decisions within the competence of the Board on:

(i) the approval of the Company's budget;

(ii) the approval of the Group's of Companies consolidated and the Company's annual report, the interim report (if a decision is to be taken on the granting of dividends for a period shorter than the financial year), and the Group's of Companies consolidated and the Company's annual set of financial statements;

(iii) the approval of the Company's management structure and staff positions;

(iv) entering into loan or credit agreements of the Company in the amount exceeding EUR 3,000,000 (three million euros) (subject to the approval of the Meeting);

(v) the investment, transfer, pledge or mortgage of the Company's cash in the amount exceeding EUR 3,000,000 (three million euros) (calculated separately for each type of transaction), unless such transactions are carried out in accordance with the Investment Policy of the Group of Companies or the Company's Investment Procedures approved by the Board (subject to the approval by the Meeting);

(vi) exercise of the Company's as shareholder's rights at the General Meetings of controlled Subsidiaries (subject to the approval of the Meeting);

(vii) amendment of the Articles of Association of the Subsidiaries (subject to the approval of the Meeting);

(viii) approval of the model for the management fee and/or advisory services to be applied to the companies within the Group of Companies, the principles for the application of the management fee and the minimum fees for such advisory services;

(ix) approval of the list of information which shall be considered as the Company's commercial (production) secret and confidential information and the procedure for the use and storage of such confidential information within the Company.

50. Where matters within the competence of the Board are decided by the CEO, in accordance with these Articles of Association Article 49, the Board shall be required to re-consider all such decisions taken during the relevant period and make decisions on the approval or modification of such decisions immediately after the election of the Board capable of making decisions, except for the decisions provided for in Article 49 Clause (ii) and (vi), the details of which shall be made known to the Board.

7.6 Meetings and other procedural matters of the Board

51. The Board shall take its decisions at meetings of the Board, which shall be held as often as necessary to enable the Board to carry out its functions properly and to make decisions falling within its competence. The procedure for convening of and voting at meetings of the Board and other matters of a procedural nature shall be regulated in accordance with the provisions of the LC and relevant legislation and shall be detailed in the Rules of Procedure of the Board, which shall be approved by the Board.

52. The Board shall elect the Chairperson of the Board from among its members, the Chairperson of the Board being nominated from among the independent members of the Board. The Chairperson of the Board shall be in office a maximum of four (4) consecutive years.

53. The Board members who are unable to be present in person at a meeting of the Board shall endeavour to vote in advance by written ballot or by electronic communication and/or teleconference, provided that the security of the information transmitted is ensured and that the identity of the person casting the ballot is identifiable, and such members shall be deemed to be present at the meeting.

54. The Board members shall not have the right to refuse to vote or to refrain from voting, except as provided for in the legislation and these Articles of Association. If a member of the Board participates (votes, participates in discussions, etc.) in decision making which is related (directly or indirectly) to the personal interests of the Board member concerned, the Board member concerned shall immediately refrain from any action in exercising his/her functions and shall inform the Board about the existence of the conflict of interests. The Board shall decide on the exclusion of such member of the Board from voting on a particular issue. Where the Board member is excluded from voting on particular issue, the relevant decision shall be made by a majority of the remaining Board members who have not been excluded from voting on a particular matter. If the Board is unable to make a decision which relates (directly or indirectly) to the personal interests of the Board member concerned, because none Board member is able to vote on the matter in question due to a conflict of interest, the relevant decision shall be made by the Meeting.

55. The Company must ensure due work conditions for the Board and the Board members as well as provide necessary technical and organisational facilities and resources. The Company's Board must appoint the Board’s lawyer to perform functions set in work regulation and corporate governance policy of the Group of Companies.

56. At least once a year, the Board shall perform a self-assessment and needs analysis to determine the competencies required to achieve the objectives of the Company and the Group of Companies and report the results of its self-assessment and needs analysis to the Meeting and the RNC.

57. The Board members shall have the right to have access to all information and documents of the Company and of the Group of Companies to the extent that the Company has at its disposal or is entitled to have at its disposal in accordance with the applicable legislation.

58. Other matters relating to the constitution of the Board and the Board's decision-making do not differ from the provisions of the LC.

7.7. Board Committees

59. In order to ensure an effective internal control system and management of operational risks at the Group of Companies level, the Board, by its decision, shall have the right to set up specialised committees (hereinafter referred to as Specialised Committees) of a temporary (*ad hoc*) or a permanent nature who will be commissioned the examination of and submission to the Board and/or other Group’s of Company bodies proposals and recommendations on the areas and matters within the competence of such committees. The Specialised Committees shall act as advisory bodies to the Board, and the Board or the other bodies which have made the relevant decisions shall remain responsible for all decisions made within their competence taking into account the proposals of the Specialised Committees.

60. The Company has the following standing committees of the Board: the Audit Committee and the Remuneration and Nomination Committee. In addition, the Company has a specialised Innovation and Development Committee, whose main functions are (i) promoting the proper functioning of the innovation ecosystem at the Group of Companies level; (ii) appropriate use of the efficiency potential of the Group of Companies and (iii) assessment of new opportunities for the development of the Group of Companies.

61. All Specialised Committees of the Company, in the course of their day-to-day activities, may provide methodological assistance to the other Group's of Companies bodies by submitting to them information, conclusions, proposals and/or recommendations on the relevant areas and matters falling within their competence.

62. The Board may decide that committee members shall be contracted to work in their respective committees and determine that the committee members shall be remunerated for their committee activities as well as set the amount of such remuneration and the procedure for its payment (with the exception of the Audit Committee whose remuneration shall be decided by the Meeting), which should, *inter alia*, ensure the independence of the members of the respective committees.

7.8. Audit Committee (AC)

63. The AC shall constitute of at least three (3) members appointed by the Meeting for a period of not more than four (4) years, taking into account the recommendations of the RNC (if any). The continuous term of office of the AC members shall not exceed (two) consecutive terms.

64. Where appointing the AC members, it shall be ensured that the AC includes at least 2 (two) independent members; the independence of the AC members shall be determined taking into account the requirements for the independence of the AC members of listed companies set out in the legislation and the criteria for the independence set out in the Policy on the Management of Conflicts of Interests and other applicable legislation. By the decision of the Meeting, it may be required that at least one of the independent members would hold an auditor's certificate or a document certifying the qualification of the internal auditor (diploma, certificate) issued in accordance with the legislation, and/or other specific qualification requirements may be imposed.

65. The AC elects the Chairperson of the AC from among its members, with the Chairperson being nominated from among the independent members of the AC.

66. Notwithstanding the performance of functions assigned to the direct responsibility of the AC by the legislation, the AC acts as an advisory committee to the Board in the areas of internal control and operational risk management. The main functions of the AC are:

    (i) supervising the Group's of Companies financial reporting and auditing processes;

    (ii) ensuring adherence to the principles of the independence and objectivity by the Group's of Company auditors and audit companies;

    (iii) providing its opinion on transactions with related persons in cases provided for in the Articles of Association of listed Subsidiaries;

    (iv) making recommendations on the selection, appointment, reappointment and removal of the external audit company and on the terms of engagement with the external audit company;

    (v) supervising the effectiveness of the Group's of Company internal control, risk and conformity management and internal audit functions and operational processes.

67. Since the Group's of Companies financial statements are consolidated in accordance with the procedure set out in the legislation, the AC acts as the AC of the Group of Companies as a whole, performing the functions of the AC of companies within the Group of Companies.

68. The AC shall collect and organise all information gathered and received within its areas of competence and make recommendations to the CEO, the Meeting, the Board and/or the relevant Group's of Companies body on the basis of such information.

69. The specific functions and tasks of the AC, as well as the procedures for the establishment and organisation of its activities, shall be regulated in detail in the AC's operating regulations, which shall be approved by the Meeting.

7.9. Remuneration and Nomination Committee (RNC)

70. The RNC shall constitute of at least three (3) members appointed for a period of not more than four (4) years by a reasoned decision of the Board from among the candidates selected by it. Where appointing the RNC

members it shall be ensured that the committee includes at least one (1) independent member. The RNC member hold his/her office for a maximum of two consecutive terms.

71. The RNC shall elect the Chairperson of the Committee from among its members, with the Chairperson being nominated from among the independent members of the RNC.

72. The RNC acts as an advisory body to the Board, providing recommendations on the remuneration and employee evaluation policy to be applied within the Group of Companies, proposing criteria for the performance evaluation the Company's and companies' within the Group of Companies managers and assisting the Board in monitoring the compliance with the existing provisions on disclosing remuneration-related information. In addition the RNC makes recommendations on the Remuneration Guidelines.

73. The RNC assists in the selection of candidates:

(i) for the Meeting - to the Board members;

(ii) for the Board – to the position of the CEO;

(iii) to the General Meeting of Shareholders of the Subsidiary - to the Board members of the Subsidiary;

(iv) to the Board of the Subsidiary - to the position of the general manager of the Subsidiary;

(v) other key positions in companies within the Group of Companies as required upon the request of the appointing authority.

74. In cases provided for in these Articles of Association Article 73 upon the request of bodies of the Company or companies within the Group of Companies, the RNC shall make recommendations on the appointment of the Boards members and/or managers and/or other persons and the terms and conditions of their contracts.

75. The RNC interprets the provisions of the Policy on the Management of Interests in regard to the independence criteria for members of collegial bodies and makes recommendations accordingly.

76. The RNC analyses the performance self-evaluation results of the collegial bodies of the Company and companies within the Group of Companies, including their committees, summarises them and makes proposals to the said bodies for improving their performance. The summarised performance self-evaluation results shall be submitted by the RNC to the Board and to the CEO, who shall submit the summarised results to the Ministry of Energy, which exercises shareholder rights. The information on the self-evaluation of the collegial bodies is disclosed in the Company's annual report.

77. The RNC shall collect and organise all information gathered and received within its areas of competence and make recommendations to the Board or other relevant Group's body on the basis of that information.

78. The specific functions and tasks of the RNC as well as the procedures for the establishment and organisation of this committee shall be regulated in detail in the Rules of Procedures of the RNC, which shall be approved by the Board.

VIII. The CEO

8.1. Appointment of the CEO

79. The CEO is a sole management body of the Company appointed by the Board taking into account the recommendations of the RNC. The CEO shall be accountable to the Board.

80. The CEO must be a natural person. The following may not be appointed as the CEO:

(i) member of the Board;

(ii) a person who holds his/her position as the member of the management body or administration of an energy undertaking engaged in the production and/or supply of electricity or the production and/or supply of natural gas;

(iii) a person who is not entitled to hold such position on any other grounds laid down in the legislation.

81. Where assessing the suitability of a candidate for the position of the CEO the Board shall assess his/her compliance with the requirements laid down in these Articles of Association and applicable legislation, and for may, for that purpose, request the candidate to submit documents substantiating such compliance and/or contact the competent state institutions with the purpose of obtaining the necessary information on the candidate.

82. A candidate to the position of the CEO shall be required to submit to the Board a written consent to stand as a candidate to the position of the CEO and a candidate's declaration of interests indicating any circumstances which may give rise to a conflict of interest on the part of the candidate, i.e. a situation in which the person's

personal interests would be related (directly or indirectly) to any decision which such a person would make or instructions which such a person would give in exercising functions of the CEO. In the event of new circumstances which could give rise to a conflict of interest for the CEO, the CEO must immediately inform the Board of such new circumstances.

83. The CEO may hold any other position or perform any other work, including positions in the Company and in other legal entities in which the Company is a participant, only with the prior consent of the Board, except for teaching, creative and author's activities, participation in professional associations of energy, energy engineers and energy companies or electricity and gas transmission operators, and public organisations, which are related to the satisfaction of personal and/or family needs, which do not require the aforementioned consent of the Board, but the Board must be informed about such of the position or work.

84. Before taking up his/her appointment, the CEO shall sign an undertaking not to disclose the Company's commercial (production) secrets and confidential information; such undertaking can be provided for in the employment contract or signed separately.

85. Other rules on the election, removal and term of office of the CEO are governed by the LC and other applicable legislation.

8.2. Competence of the CEO

86. The competence of the CEO shall not be different from that of the general manager of a company under the LC except for the additional competence of the CEO set out in these Articles of Association Article 49 and 87-**Error! Reference source not found.**.

8.3 Additional competence of the CEO in relation to the Group of Companies

87. The CEO:

(i) organises and controls the implementation of the Group's of Companies strategy, approves the action plan for the implementation of the Group's of Companies strategy, and ensures the implementation of the Group's of Companies strategy within the scope set out in the legislation;

(ii) monitors the activities of the Subsidiaries and submits his/her proposals and conclusions to the Board on the organisation and development of the Group's of Companies activities;

(iii) organises and ensures the monitoring and evaluation of the implementation of Subsidiaries' strategy, long-term (strategic) and short-term (tactical) objectives and makes proposals to the Board for their improvement;

(iv) coordinates and supervises the progress and implementation of strategic state projects included in the National Energy Strategy and/or projects of special national importance and/or projects of national importance as defined in the applicable legislation;

(v) submits to the Meeting material on the implementation of the Group's of Companies strategy;

(vi) implements the recommendations, procedures, policies, codes and other documents approved by the Board in relation to the activities and functioning of the Group of Companies in the Company, and, within the scope of his/her competence, takes measures to ensure their implementation in the companies of the Group of Companies;

(vii) performs other functions as defined in internal documents;

(viii) votes at the General Meetings of Shareholders of Subsidiaries in accordance with the decisions made by the Board, as provided for in these Articles of Association Article 46;

(ix) approves the procedures, rules and descriptions applicable at the level of the Group of Companies as well as other documents at the level of the Group of Companies, which the CEO has the right to approve in accordance with his/her competence;

(x) provides guidance to companies of the Group of Companies on the implementation of the Group's of Companies corporate documents, exemplary internal procedures, and other unified documents to be applied within the Group of Companies.

8.4 Additional competence of the CEO in relation to the Company

88. The CEO:

(i) organises and controls the day-to-day activities of the Company, and makes decisions on the activity of the Company;

(ii) ensures the implementation of the Company's strategy, which is part of the Group's of Companies strategy, and the implementation of decisions made by the Meeting and the Board in the Company;

(iii) enters into transactions on behalf of the Company in accordance with the procedures established by the Board. Transactions to be decided by the Board or by the Board and the Meeting in accordance with these Articles of Association may be entered into by the CEO only with prior decision of the relevant body or by postponing the entry into force of the transaction until such time when the necessary decisions have been obtained;

(iv) submits to the Board the draft Company's strategy, which constitutes the part of the Group's of Companies strategy, the draft annual budget and performance targets, and other draft documents of the Company that are subject to the Board's consideration and approval;

(v) makes proposals to the Board for adjustments to the Company's operating budget during the course of the financial year (if necessary);

(vi) ensures the allocation of resources and assets necessary for the operation of the Company's bodies;

(vii) issue proxies in accordance with the procedure laid down in the legislation;

(viii) ensures that the Company's auditor is provided with all the documents of the Group of Companies required for the audit specified in the contract with the auditor or audit company;

(ix) ensures the protection of the Company's property, rights and legitimate interests as well as safe and proper working conditions, protects the Company's commercial secrets and confidential information, in accordance with the procedures established in the legislation. The CEO shall make decisions on the establishment of rules for the classification, marking, timing, use and protection of commercial secrets and confidential information within the Company;

(x) submits to the Board quarterly reports on the Company's operation, financial statements and forecasts of the economic situation, as well as documents necessary for the Board meetings, within the time limits set by the Board;

(xi) performs other functions assigned to the competence of the CEO under the LC and these Articles of Association.

8.5. Resignation and removal of the CEO

89. The CEO shall have the right to resign by giving written notice of resignation to the Board. The Board shall have to make a decision to remove the CEO in accordance with the procedure laid down in the legislation. If the Board does not make a decision to remove the CEO, the contract concluded with the CEO shall terminate in accordance with the procedure and within the time limits laid down in the legislation.

90. In the event of the removal or resignation of the CEO in accordance with the procedure laid down in the LC, the CEO shall be obliged to hand over the material assets and the main documents of the Company to the newly appointed CEO or, if no such person has been appointed, to the Chairperson of the Board by a deed of transfer and acceptance.

IX. INTERNAL AUDIT

91. A central internal audit function is in place within the Group of Companies. The internal audit functional unit, which is formed within the Company and performs internal audit functions within the Group of Companies, reports to the Board. The Board shall determine the specific functions and objectives of the central internal audit functional unit and shall decide on other internal audit matters as provided for in these Articles of Association.

92. The internal audit functional unit shall be provided with all information and documentation necessary for the proper conduction of internal audit of companies within the Group of companies so that the internal audit functional unit will be able to properly perform the functions assigned to it at the level of the Group of Companies.

X. PROCEDURES FOR PUBLISHING COMPANY ANNOUNCEMENTS

93. The Company's announcements which are required to be made public in accordance with the LR legislation and/or these Articles of Association shall be published in an electronic publication for public announcements issued by the Registrar of Legal Entities. In cases where, due to technical difficulties, it is not possible to publish announcements in such publication, the announcements shall be published in the daily newspaper *Verslo žinios*. Unless otherwise provided for by the LR legislation and/or these Articles of Association, other announcements may be given in person, by post or by means of electronic communications. The CEO shall be responsible for the dispatch or timely delivery of announcements.

XI. PROCEDURES FOR THE PROVISION OF COMPANY DOCUMENTS AND OTHER INFORMATION TO SHAREHOLDERS

94. Upon written request of the shareholder, the Company shall, not later than within 7 (seven) calendar days from the date of receipt of the request, provide the shareholder with the opportunity to inspect and/or provide copies of these documents: Articles of Association, sets of annual and interim financial statements, annual and interim Company reports, auditor's (audit company's) conclusions and audit reports, minutes of the Meetings or other documents formalizing the decisions of the Meeting, lists of shareholders, lists of the Board members, and other documents of the Company which are required by law to be made public, provided that such documents do not relate to the Company's commercial (production) secrets or confidential information.

95. The Company shall provide the shareholder with the access to other information of the Company and provide copies of documents if such information and documents are necessary for the shareholder to fulfil the requirements provided for in other legal acts and the shareholder ensures the confidentiality of such information and documents. The Company may not provide the shareholder with the information and documents necessary for the fulfilment of the requirements provided for in the legislation, if it is possible for the Company to provide such information and/or documents directly to persons (institutions and bodies) to whom such information and/or documents are to be provided for the fulfilment of the requirements provided for in the legislation.

96. Given that the Company is the enterprise of national security importance as defined in the Law on Protection of Objects of National Security Importance of the Republic of Lithuania, the LR, as the controlling shareholder of the Company (LR as the authority representing the controlling shareholder of the Company), ensuring the confidentiality of the information received, shall have the right to access all documents of the Company and its Subsidiaries and to all information of the Company and its Subsidiaries (including information on draft decisions of the Company's management body which have not yet been approved and information on planned transactions and investments), which shall be organised upon the request of the person receiving the information in accordance with reasonable criteria specified by such person, provided that the confidentiality of such information and documents is guaranteed. Upon this Article the Company shall provide only those documents and information of its Subsidiaries which is in the Company's possession. If the Company does not have the documents or information of the Subsidiaries requested in accordance with this Article, the CEO shall promptly take steps to obtain such documents and information for the Company to the extent that such documents and information may be obtained on the basis of the rights attached to the Subsidiaries' shares held by the Company. Information and documents provided pursuant to this Article of the Articles of Association shall be provided promptly, but not later than 5 (five) business days from the date of receipt of the relevant request. The entities referred to in this Article of the Articles of Association shall have the right to request, and the Company shall have the obligation to ensure that certain specific information and documents are provided periodically without a separate request from the relevant entity.

97. All information and documents referred to in these Articles of Association Article 94 and 95 shall be made available to shareholders free of charge.

XII. FINAL PROVISIONS

98. In the event of any inconsistency between these Articles of Association and the mandatory provisions of the legislation governing the legal status and/or operation of private limited liability companies, the mandatory provisions of the legislation shall prevail.

99. The procedure for amending the Articles of Association is no different from the procedure for amending the articles of association laid down in the LC. The Articles of Association shall enter into force on the date of their registration in the LR Register of Legal Entities.

These Articles of Association are signed on this 19 day of May, year 2022.

Person authorised by the sole shareholder of the Company:

/signature/

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Algirdas Juozaponis
the Acting Chief Executive Officer

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