EPSOG
ENERGETIKOS EVOLIUCIJA

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

	PAGE
INDEPENDENT AUDITOR'S REPORT	3
CONSOLIDATED AND THE COMPANY'S FINANCIAL STATEMENTS:	
CONSOLIDATED AND THE COMPANY'S STATEMENT OF FINANCIAL POSITION	6
CONSOLIDATED AND THE COMPANY'S STATEMENT OF COMPREHENSIVE INCOME	7
CONSOLIDATED AND THE COMPANY'S STATEMENTS OF CHANGES IN EQUITY	8
CONSOLIDATED AND THE COMPANY'S STATEMENT OF CASH FLOWS	9
NOTES TO THE CONSOLIDATED AND THE COMPANY'S FINANCIAL STATEMENTS	10
CONSOLIDATED ANNUAL REPORT	66
ANNEXES:	
INFORMATION ON COMPLIANCE WITH THE TRANSPARENCY GUIDELINES	159
NOTICE OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE FOR THE COMPANIES LISTED ON NASDAQ VILNIUS AB	162

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 2021	GROUP 2020	COMPANY 2021	COMPANY 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.

<u>Revenue from the biofuel exchange, thermal energy auctions, PSO funds administration</u>

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.

<u>Revenue from public service obligations</u>

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.

<u>LNG terminal administration income</u>

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	Financ e costs	Amount s payable	Amounts receivable	Loans granted/(received)	Purchase s	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 receivabl e	Loans granted	Purchase s	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.

<u>Natural gas transmission activity</u>

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.

<u>Electricity transmission activity</u>

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.

<u>Activities of the exchange operators</u>

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.

*****

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

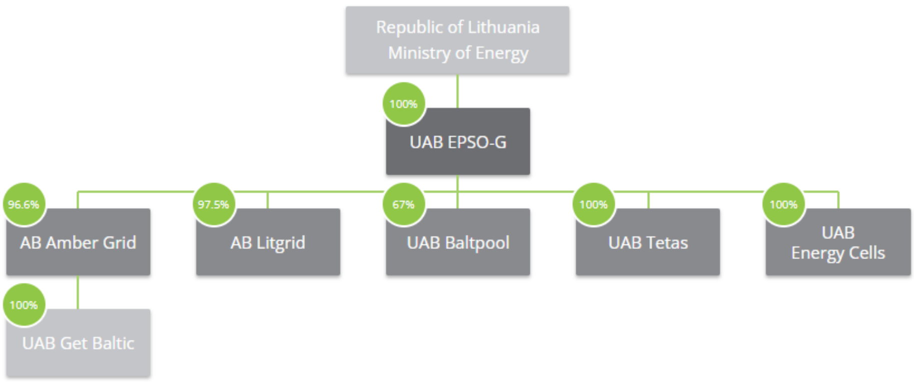
EPSO-G is a 100 % state-owned Group of energy transmission and exchange companies. The rights and obligations of EPSO-G holding shareholder are implemented by the Ministry of Energy of the Republic of Lithuania.

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	▪ 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
	GIPL	
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.

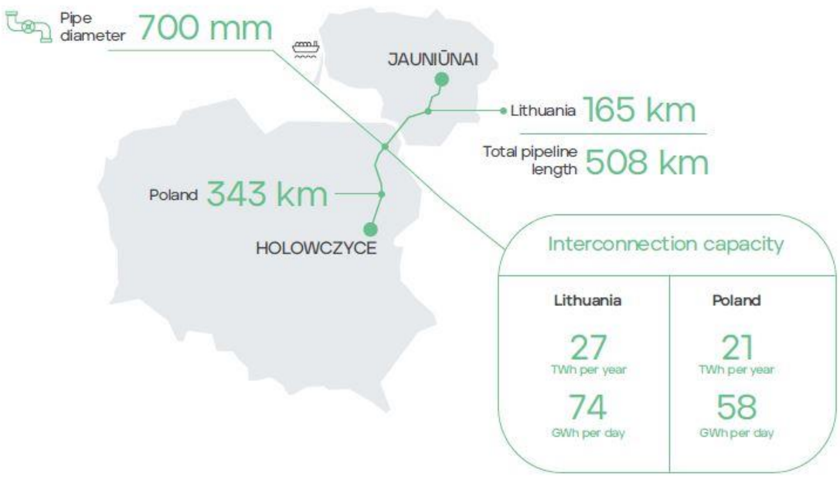
3.4.2. Gas Interconnection Poland-Lithuania

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).

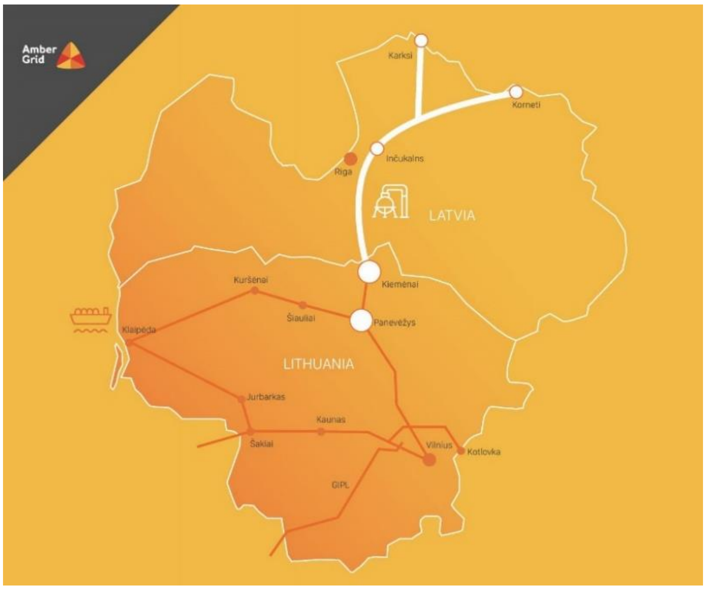
3.4.3. Enhancement of Latvia-Lithuania interconnection (ELLI)

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		
			+/-	%	
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		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

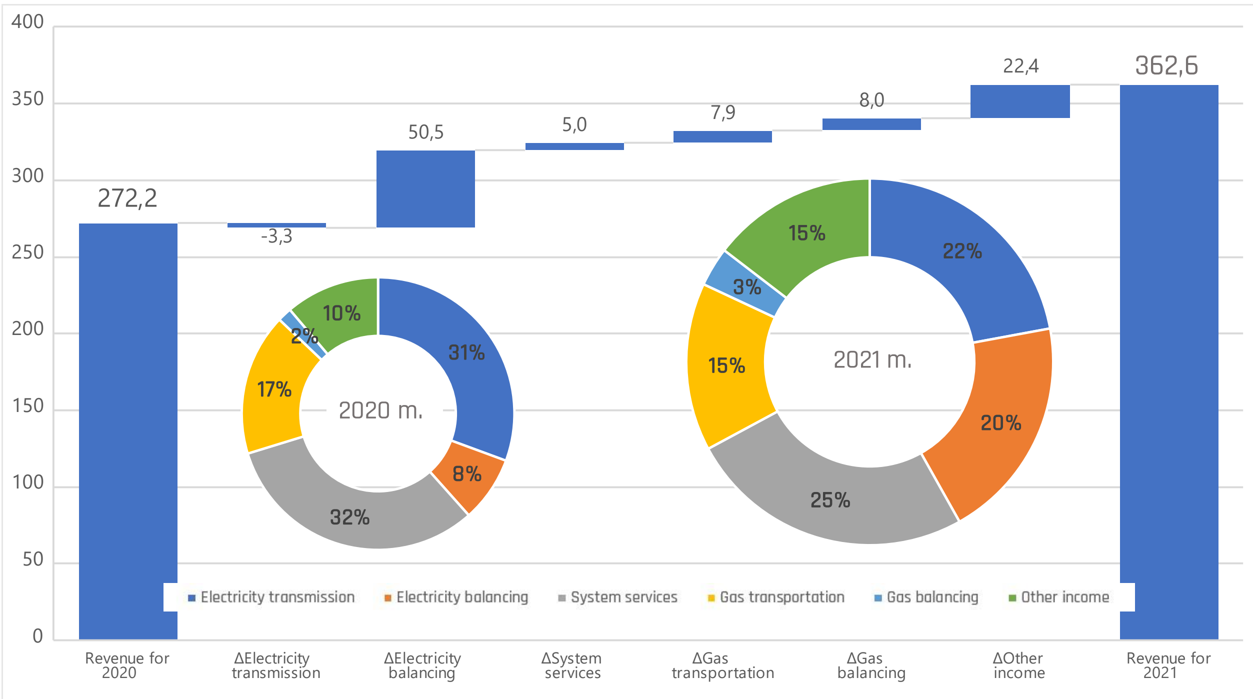
Revenue

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.

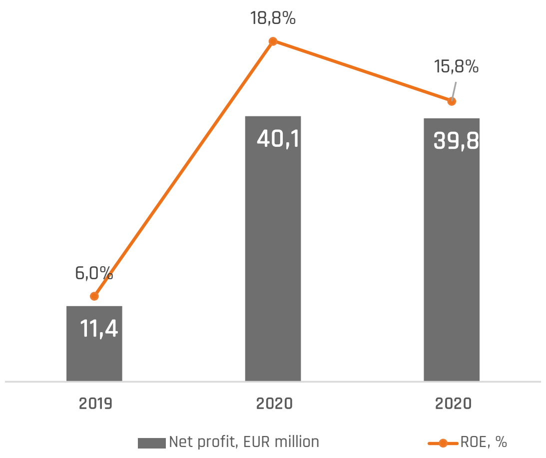
Revenue generated in 2021 from gas transmission and related services, and natural gas trade organisation amounted to EUR 68.6 million or 31% more than in 2020. Higher revenue level was influenced by cold weather in winter of 2021 and cool weather in spring as well as changes in the structure of transmission 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).

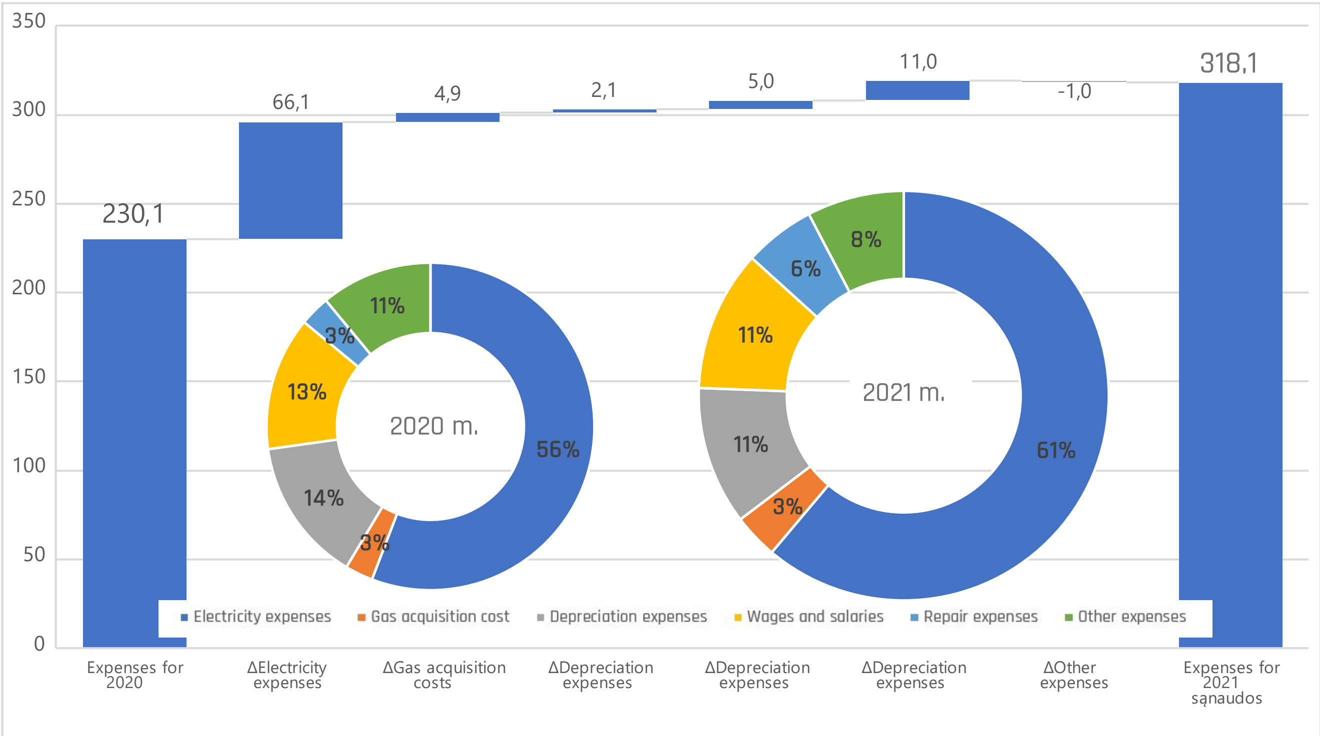


Operating expenses

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.

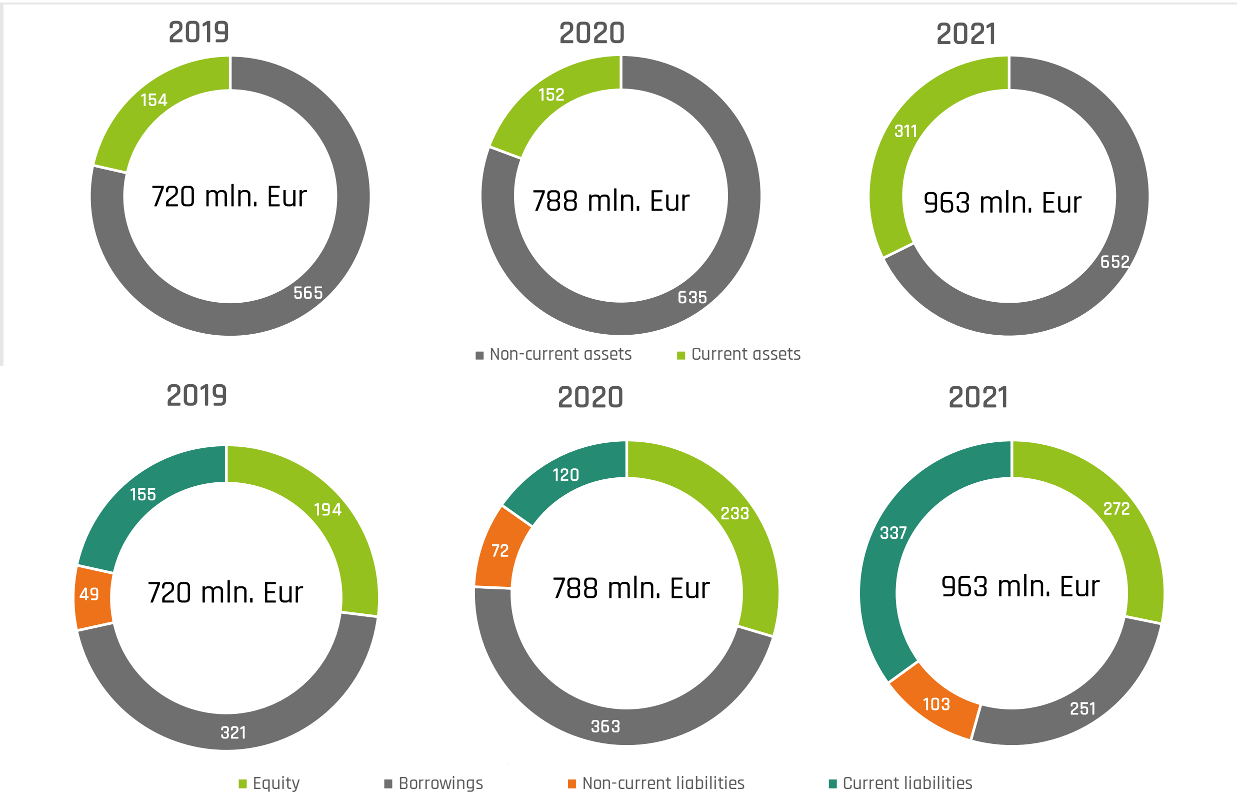
Net profit of the EPSO-G Group for 2021 amounted to EUR 39.8 million, which is 0.7% lower compared to 2020 when net profit amounted to EUR 40.1 million.

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

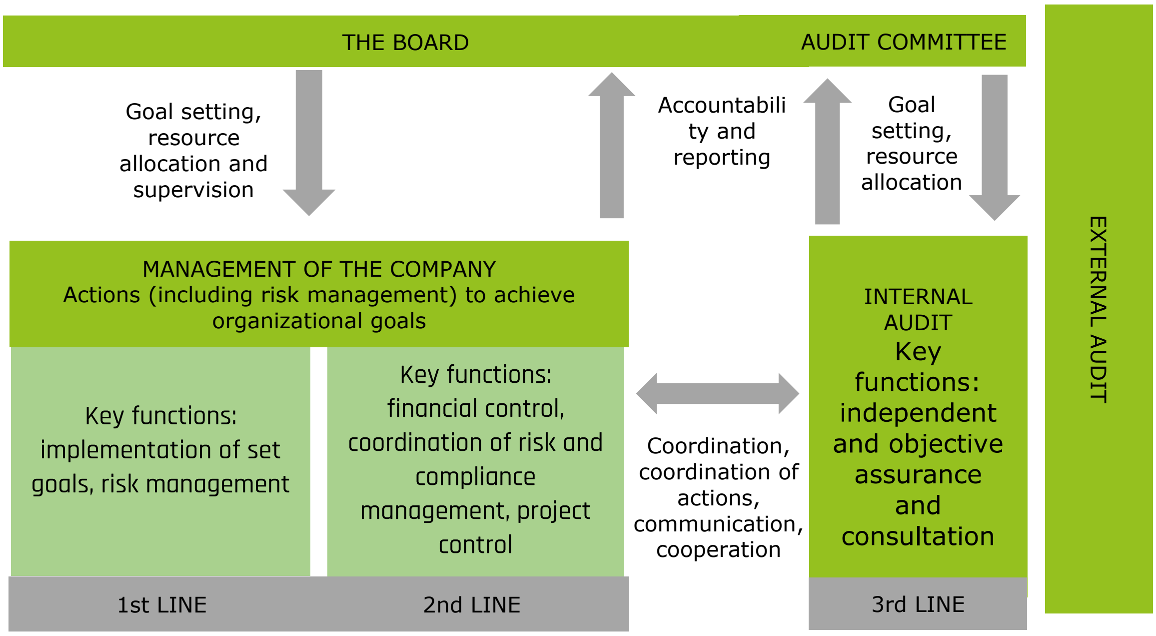
4.6 Transactions with related parties

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.

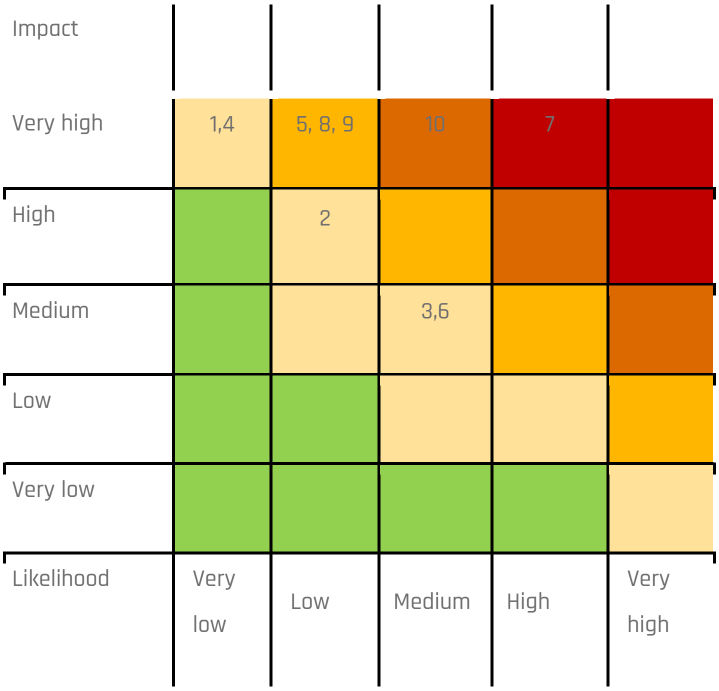
The Group companies identified operational risks for 2021, assessed them, set risk monitoring indicators and provided risk management measures.

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



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	PricewaterhouseCoopers UAB	20,570	PricewaterhouseCoopers 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

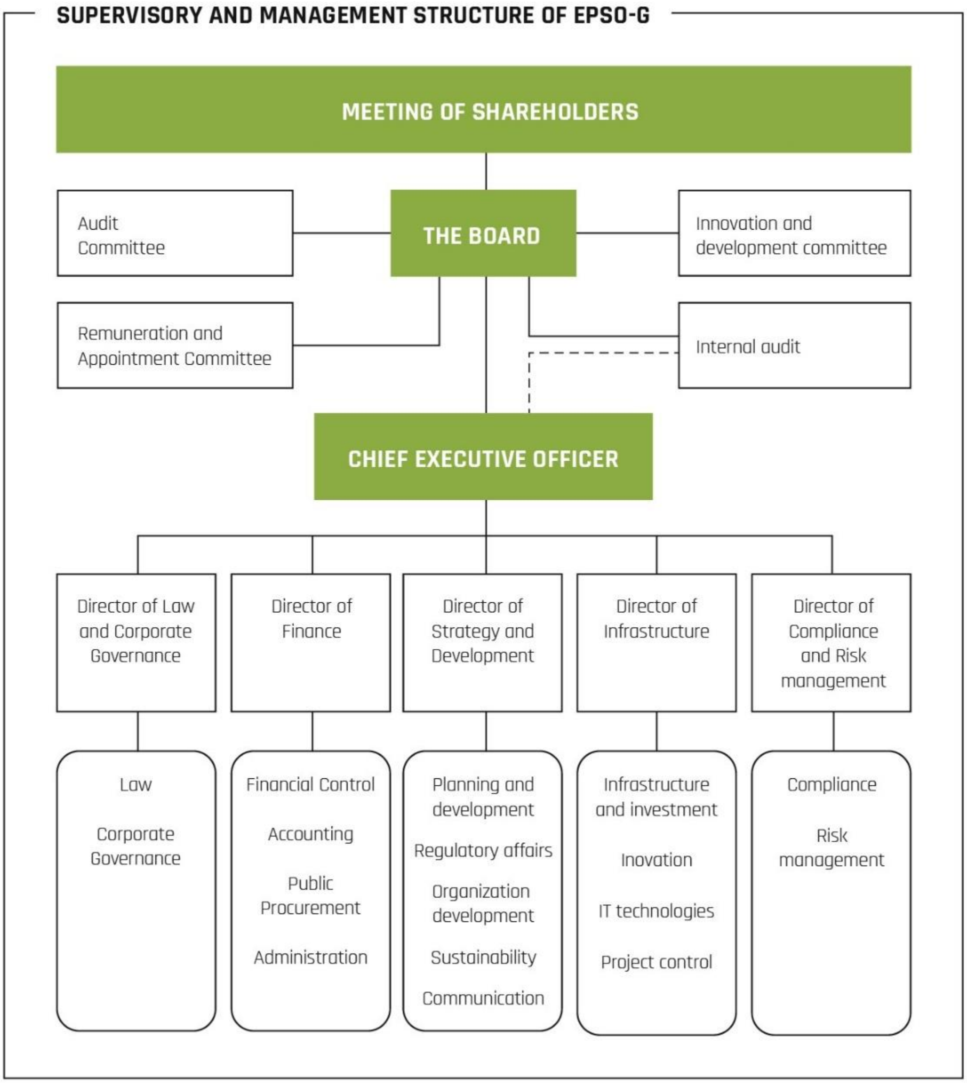
The updated version of the Articles of Association of the holding company EPSO-G was registered on 22 February 2021 with the Register of Legal Entities. Substantial amendments to the Articles of Association are the following: The approval of EPSO-G's 3-year business plan shall fall within the competence 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

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.

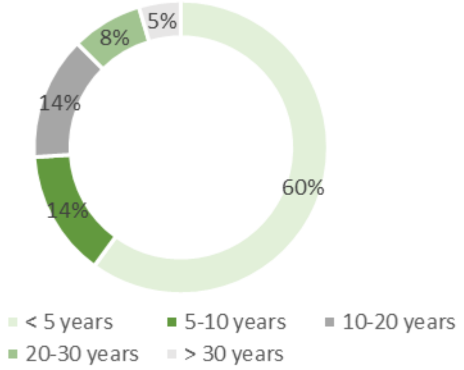
8.4 Employees

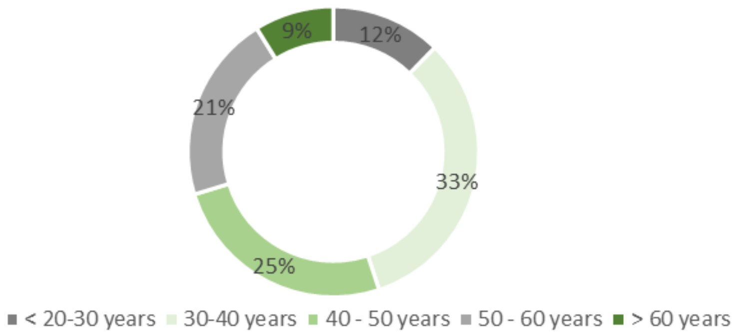
Number of employees in EPSO-G Group companies and separate companies

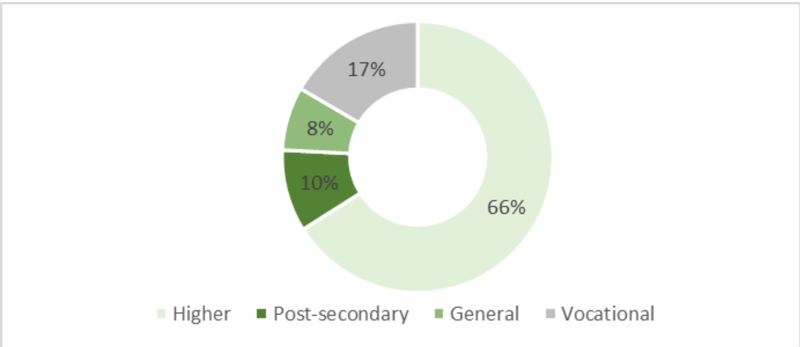
	As at 31 December 2021	As at 31 December 2020
EPSO-G Group companies	1,278	1,081
EPSO-G	74	32
Amber Grid	324	319
Litgrid	335	308
Tetas	498	395
Baltpool	19	18
Get Baltic	8	9
Energy Cells	20	-

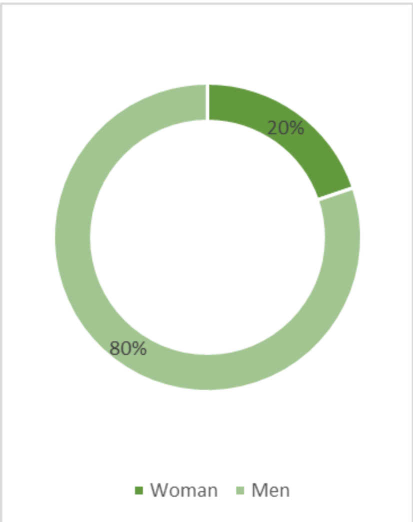
Distribution of employees by position groups as of 31 December 2021 (people)

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
	• 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
Social sphere – create a progressive and sustainable organization	• 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
	• 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.
Governance - transparent and efficient management and development of the energy exchange platform	• 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.

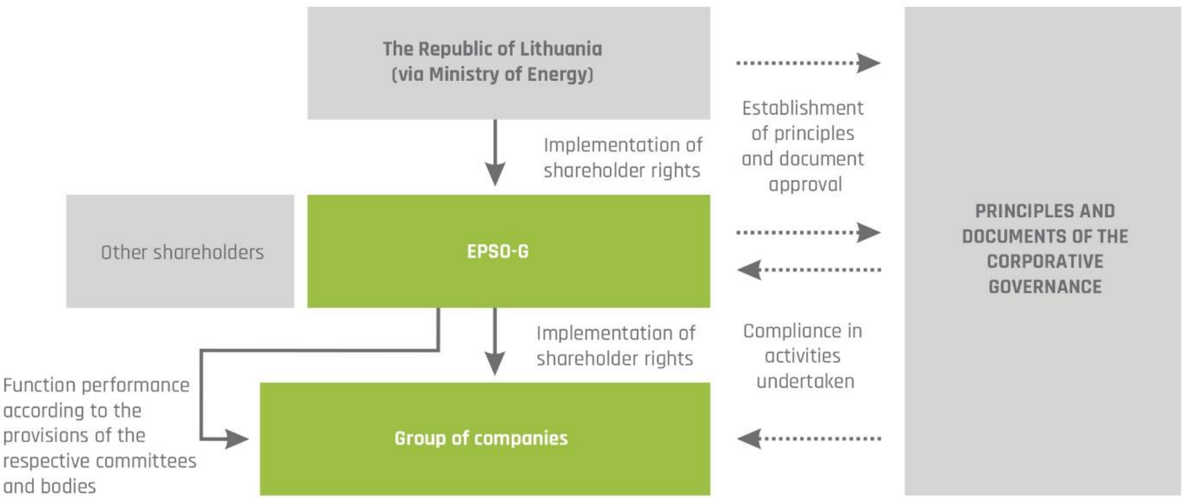
The implementation of the recommendations of the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius AB is, in principle, ensured through information disclosed in the annual report and information extensively published on the EPSO-G's website aiming to provide information to stakeholders 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

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 [7].	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	

[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].		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.
5.4.2. 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.		
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.