**CONFIRMATION OF RESPONSIBLE PERSONS**

March 12, 2014 Vilnius

Referring to the provisions of the Article 21 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, the undersigned Daivis Virbickas, Chief Executive Officer, Rimantas Busila, Director of Finance Department and Svetlana Sokolskytė, Chief Financier-Accounting Division Manager of LITGRID AB, hereby confirm that, to the best of our knowledge, the attached Audited consolidated and LITGRID AB financial statements for the financial year 2013 are prepared in accordance with the International Financial Reporting Standards adopted by the European Union, give a true and fair view of the LITGRID AB and consolidated group assets, liabilities, financial position, profit or loss and cash flows, the Consolidated Annual Report includes a fair review of the development and performance of the business and the position of the LITGRID AB and consolidated position of group of companies, together with a description of the principal risks and uncertainties that it faces.

Daivis Virbickas — Chief Executive Officer

Rimantas Busila — Director of Finance Department

Svetlana Sokolskytė — Chief Financier


| | |
|---|---|
| Company code | 302564383 |
| VAT number | LT 100005748413 |
| Address | A. Juozapavičiaus str. 13, LT-09311, Vilnius, Lithuania |
| Phone | +370 5 278 2777 |
| Fax | +370 5 272 3986 |
| E-mail | info@litgrid.eu |
| Site | www.litgrid.eu |
| Register of legal entities administered by the state enterprise | Registrų Centras |

# LITGRID AB

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED ANNUAL REPORT

LITGRID AB
Company code 302564383 A. Juozapavičiaus g. 13, LT-09311 Vilnius

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The financial statements were approved on 12 March 2014.

| | | |
|---|---|---|
| Daivis Virbickas<br>Chief Executive Officer | Rimantas Būsila<br>Director of the Finance Department | Svetlana Sokolskytė<br>Chief Financier |

Building a better working world

UAB „Ernst & Young Baltic"
Subačiaus g. 7
LT-01302 Vilnius
Lietuva
Tel.: (8 5) 274 2200
Faks.: (8 5) 274 2333
Vilnius@lt.ey.com
www.ey.com

Juridinio asmens kodas 110878442
PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

Ernst & Young Baltic UAB
Subačiaus St. 7
LT-01302 Vilnius
Lithuania
Tel.: +370 5 274 2200
Fax: +370 5 274 2333
Vilnius@lt.ey.com
www.ey.com

Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

# Independent auditor's report to the shareholders of AB Litgrid

## Report on the Financial Statements

We have audited the accompanying financial statements of AB Litgrid, a public limited liability company registered in the Republic of Lithuania (hereinafter "the Company"), and the consolidated financial statements of AB Litgrid and its subsidiaries (hereinafter "the Group"), which comprise the statements of financial position as at 31 December 2013, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory information).

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Basis for Qualified Opinion*

According to the Company's and the Group's accounting policy, property, plant and equipment should be carried at revaluated amounts (being their fair values as of the date of revaluation less subsequent accumulated depreciation and impairment losses) and are subject to an impairment test when impairment indications exist. As explained in Notes 3.27 and 5 to the stand alone and consolidated financial statements, the amendments to the legislation may have had a significant adverse impact on the fair value and recoverable amount of the Company's and the Group's assets. Since further significant changes are expected in regulatory environment in the nearest future, the Company's and the Group's management decided not to reassess fair values of the property, plant and equipment with the carrying amounts of LTL 1 972 million and LTL 1 974 million in the separate and in the consolidated statement of financial position, respectively as of 31 December 2013 (LTL 1 975 million and LTL 1 977 million, respectively, as of 31 December 2012) and not to carry out an impairment test. Consequently we are unable to determine if any adjustments are required to the carrying value of the property, plant and equipment reported in the stand alone and consolidated financial statements.

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*Qualified Opinion*

Based on our audit, except for the possible effect of the matter discussed in section Basis for Qualified Opinion, the financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2013, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the accompanying consolidated Management Annual Report for the year ended 31 December 2013 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2013.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335



Inga Gudinaitė
Auditor's licence
No. 000366

The audit was completed on 12 March 2014.

LITGRID AB
Company code 302564383 A. Juozapavičiaus g. 13, LT-09311 Vilnius

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013
(All amounts in LTL thousand unless otherwise stated)

| | Notes | Group as at 31 December 2013 | Company as at 31 December 2013 | Group as at 31 December 2012 | Company as at 31 December 2012 |
|---|---|---|---|---|---|
| **Non-current assets:** | | | | | |
| Intangible assets | 4 | 2,365 | 2,176 | 1,749 | 1,432 |
| Property, plant and equipment | 5 | 1,975,211 | 1,972,208 | 1,978,378 | 1,974,781 |
| Prepayments for property, plant, equipment | | 184,443 | 184,438 | 110,510 | 110,510 |
| Investments in subsidiaries | 6 | - | 15,494 | - | 8,608 |
| Investments in associates and jointly controlled entities | 6 | 15,922 | 15,320 | 16,052 | 16,601 |
| Deferred income tax assets | | 324 | - | 218 | - |
| Available-for-sale financial assets | 7 | 7,723 | 7,723 | 7,722 | 7,722 |
| **Total non-current assets** | | **2,185,988** | **2,197,359** | **2,114,629** | **2,119,654** |
| **Current assets:** | | | | | |
| Inventories | 8 | 8,844 | 3,522 | 14,003 | 2,438 |
| Prepayments | | 591 | 455 | 351 | 106 |
| Trade receivables | 9 | 65,447 | 53,296 | 72,156 | 51,646 |
| Other accounts receivable | 10 | 114,155 | 36,607 | 97,034 | 95,844 |
| Other financial assets | 11 | 21,262 | 4,835 | 63,490 | 62,312 |
| Held-to-maturity investments | 12 | 70,000 | 70,000 | - | - |
| Cash and cash equivalents | 13 | 81,562 | 80,751 | 127,387 | 126,097 |
| **Total current assets** | | **361,861** | **249,466** | **374,421** | **338,443** |
| Non-current assets held for sale | 6 | - | - | 5,620 | 4,731 |
| **TOTAL ASSETS** | | **2,547,849** | **2,446,825** | **2,494,670** | **2,462,828** |
| **EQUITY AND LIABILITIES** | | | | | |
| **Capital and reserves:** | | | | | |
| Share capital | 14 | 504,331 | 504,331 | 504,331 | 504,331 |
| Share premium | 14 | 29,621 | 29,621 | 29,621 | 29,621 |
| Revaluation reserve | 15 | 226,173 | 225,811 | 246,582 | 246,339 |
| Legal reserve | 16 | 50,467 | 50,433 | 50,464 | 50,433 |
| Other reserves | 16 | 654,654 | 654,654 | 654,738 | 654,654 |
| Retained earnings | | 43,034 | 50,755 | 44,742 | 47,160 |
| **Equity attributable to the shareholders of the parent company** | | **1,508,280** | **1,515,605** | **1,530,478** | **1,532,538** |
| **Non-controlling interest** | | **259** | **-** | **4,390** | **-** |
| **Total equity** | | **1,508,539** | **1,515,605** | **1,534,868** | **1,532,538** |
| **Non-current liabilities:** | | | | | |
| Grants | 18 | 423,955 | 423,955 | 304,971 | 304,971 |
| Non-current borrowings | 19 | 165,044 | 165,044 | 138,112 | 138,112 |
| Deferred income | 20 | 13,274 | 13,274 | 13,990 | 13,990 |
| Other non-current accounts payable and liabilities | 21 | 717 | 602 | 6,291 | 6,100 |
| Deferred income tax liabilities | 22 | 150,828 | 150,828 | 166,775 | 166,775 |
| **Total non-current liabilities** | | **753,818** | **753,703** | **630,139** | **629,948** |
| **Current liabilities:** | | | | | |
| Current portion of non-current borrowings and other current borrowings | 19 | 56,479 | 49,030 | 45,956 | 41,434 |
| Trade payables | 23 | 78,616 | 75,422 | 102,618 | 83,931 |
| Advances received | 24 | 4,889 | 4,116 | 3,397 | 2,571 |
| Income tax payable | 22 | 8,368 | 8,368 | 10,430 | 10,430 |
| Other accounts payable | 25 | 137,140 | 40,581 | 167,262 | 161,976 |
| **Total current liabilities** | | **285,492** | **177,517** | **329,663** | **300,342** |
| **Total liabilities** | | **1,039,310** | **931,220** | **959,802** | **930,290** |
| **TOTAL EQUITY AND LIABILITIES** | | **2,547,849** | **2,446,825** | **2,494,670** | **2,462,828** |

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

LITGRID AB
Company code 302564383, address: A. Juozapavičiaus g. 13, LT-09311 Vilnius

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013
(All amounts in LTL thousand unless otherwise stated)

| | Notes | Group 2013 | Company 2013 | Group 2012 | Company 2012 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Sales of electricity and related services | 26 | 541,298 | 540,777 | 430,527 | 430,114 |
| Other revenue | 28 | 72,604 | 7,200 | 77,840 | 8,188 |
| **Total revenue** | | **613,902** | **547,977** | **508,367** | **438,302** |
| **Operating expenses** | | | | | |
| Purchase of electricity and related services | | (291,791) | (291,849) | (215,728) | (217,271) |
| Depreciation and amortization | 4,5,18 | (130,527) | (129,118) | (126,283) | (124,960) |
| Wages and salaries and related expenses | | (39,765) | (20,347) | (36,910) | (17,724) |
| Repair and maintenance expenses | | (14,435) | (22,701) | (14,482) | (24,067) |
| Telecommunications and IT systems expenses | | (13,545) | (12,886) | (14,167) | (13,144) |
| Write-off of property, plant and equipment | | (5,353) | (5,345) | (1,409) | (1,409) |
| Other expenses | | (92,219) | (36,523) | (71,061) | (11,278) |
| **Total operating expenses** | | **(587,635)** | **(518,769)** | **(480,040)** | **(409,853)** |
| **OPERATING PROFIT (LOSS)** | 27 | **26,267** | **29,208** | **28,327** | **28,449** |
| Gain from sale of an associate | 6 | 2,403 | 3,293 | - | - |
| Finance income | | 1,338 | 1,331 | 1,956 | 1,817 |
| Finance costs | | (1,340) | (1,216) | (116) | (90) |
| **Finance income, net** | | **2,401** | **3,408** | **1,840** | **1,727** |
| Share of profit/(loss) of associates and jointly controlled entities | 6 | 1,151 | - | 636 | - |
| Gain on change in ownership interest in associate | 6 | - | - | 232 | - |
| | | 1,151 | - | 868 | - |
| **PROFIT (LOSS) BEFORE INCOME TAX** | | **29,819** | **32,616** | **31,035** | **30,176** |
| Current year income tax (expense) | 22 | (20,518) | (20,497) | (16,666) | (16,544) |
| Deferred tax income (expense) | 22 | 16,056 | 15,948 | 11,745 | 11,813 |
| | | (4,462) | (4,549) | (4,921) | (4,731) |
| **NET PROFIT (LOSS) FOR THE YEAR** | | **25,357** | **28,067** | **26,114** | **25,445** |
| **Other comprehensive income** | | | | | |
| Gain on revaluation of property, plant and equipment, net of deferred income tax | | - | - | 70 | - |
| **Other comprehensive income, net of deferred income tax** | | **-** | **-** | **70** | **-** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **25,357** | **28,067** | **26,184** | **25,445** |
| **NET PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO:** | | | | | |
| Owners of the Company | | 25,669 | 28,067 | 26,005 | 25,445 |
| Non-controlling interest | | (312) | - | 109 | - |
| | | **25,357** | **28,067** | **26,114** | **25,445** |
| **TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR ATTRIBUTABLE TO:** | | | | | |
| Owners of the Company | | 25,669 | 28,067 | 26,047 | 25,445 |
| Non-controlling interest | | (312) | - | 137 | - |
| | | **25,357** | **28,067** | **26,184** | **25,445** |
| **Basic and diluted earnings (deficit) per share (in LTL)** | 30 | **0.05** | **-** | **0.05** | **-** |

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

LITGRID AB
Company code 302564383, address: A. Juozapavičiaus g. 13, LT-09311 Vilnius

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013
(All amounts in LTL thousand unless otherwise stated)

| | | Equity attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group** | **Notes** | **Share capital** | **Share premium** | **Revaluation reserve** | **Legal reserve** | **Other reserves** | **Retained earnings** | **Total** | **Non-controlling interest** | **Total equity** |
| **Balance at 1 January 2012** | | **504,331** | **29,621** | **267,179** | **50,477** | **979,738** | **63,942** | **1,895,288** | **4,253** | **1,899,541** |
| **Comprehensive income** | | | | | | | | | | |
| Net profit (loss) | | - | - | - | - | - | 26,005 | 26,005 | 109 | 26,114 |
| Revaluation of property, plant and equipment | 15 | - | - | 42 | - | - | - | 42 | 28 | 70 |
| Depreciation of revaluation reserve and amounts written off | 15 | - | - | (20,639) | - | - | 20,639 | - | - | - |
| **Total comprehensive income (loss) for the year** | | - | - | **(20,597)** | - | - | **46,644** | **26,047** | **137** | **26,184** |
| Transfers to retained earnings | 16 | - | - | - | (45) | (325,000) | 325,045 | - | - | - |
| Transfers to reserves | | - | - | - | 32 | - | (32) | - | - | - |
| Dividends | 17 | - | - | - | - | - | (390,857) | (390,857) | - | (390,857) |
| **Balance at 31 December 2012** | | **504,331** | **29,621** | **246,582** | **50,464** | **654,738** | **44,742** | **1,530,478** | **4,390** | **1,534,868** |
| **Balance at 1 January 2013** | | **504,331** | **29,621** | **246,582** | **50,464** | **654,738** | **44,742** | **1,530,478** | **4,390** | **1,534,868** |
| **Comprehensive income** | | | | | | | | | | |
| Net profit (loss) | | - | - | - | - | - | 25,669 | 25,669 | (312) | 25,357 |
| Depreciation of revaluation reserve and amounts written off | 15 | - | - | (20,563) | - | - | 20,563 | - | - | - |
| **Total comprehensive income (loss) for the year** | | - | - | **(20,563)** | - | - | **46,232** | **25,669** | **(312)** | **25,357** |
| Change in ownership interest in subsidiary | 6 | - | - | 154 | - | - | (3,021) | (2,867) | (3,819) | (6,686) |
| Transfers to retained earnings | | - | - | - | (126) | 126 | - | - | - | - |
| Transfers to reserves | | - | - | - | 3 | 42 | (45) | - | - | - |
| Dividends | 17 | - | - | - | - | - | (45,000) | (45,000) | - | (45,000) |
| **Balance at 31 December 2013** | | **504,331** | **29,621** | **226,173** | **50,467** | **654,654** | **43,034** | **1,508,280** | **259** | **1,508,539** |

| **Company** | **Notes** | **Share capital** | **Share premium** | **Revaluation reserve** | **Legal reserve** | **Other reserves** | **Retained earnings** | **Total** |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2012** | | **504,331** | **29,621** | **266,960** | **50,433** | **979,654** | **66,951** | **1,897,950** |
| **Comprehensive income** | | | | | | | | |
| Net profit (loss) | | - | - | - | - | - | 25,445 | 25,445 |
| Depreciation of revaluation reserve and amounts written off | 15 | - | - | (20,621) | - | - | 14,901 | - |
| **Total comprehensive income (loss) for the year** | | - | - | **(20,621)** | - | - | **40,346** | **25,445** |
| Transfers to reserves | 16 | - | - | - | - | (325,000) | 325,000 | - |
| Dividends | 17 | - | - | - | - | - | (390,857) | (390,857) |
| Total transactions with owners | | - | - | - | - | (325,000) | (65,857) | (390,857) |
| **Balance at 31 December 2012** | | **504,331** | **29,621** | **246,339** | **50,433** | **654,654** | **47,160** | **1,532,538** |
| **Balance at 1 January 2013** | | **504,331** | **29,621** | **246,339** | **50,433** | **654,654** | **47,160** | **1,532,538** |
| **Comprehensive income** | | | | | | | | |
| Net profit (loss) | | - | - | - | - | - | 28,067 | 28,067 |
| Depreciation of revaluation reserve and amounts written off | 15 | - | - | (20,528) | | | 20,528 | - |
| **Total comprehensive income (loss) for the year** | | - | - | (20,528) | - | - | 48,595 | 28,067 |
| Dividends | 17 | - | - | - | - | - | (45,000) | (45,000) |
| **Balance at 31 December 2013** | | **504,331** | **29,621** | **225,811** | **50,433** | **654,654** | **50,755** | **1,515,605** |

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

LITGRID AB
Company code 302564383, address: A. Juozapavičiaus g. 13, LT-09311 Vilnius

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013
(All amounts in LTL thousands unless otherwise stated)

| | Notes | Group 2013 | Company 2013 | Group 2012 | Company 2012 |
|---|---|---|---|---|---|
| **Cash flows from (to) operating activity** | | | | | |
| Net profit (loss) | | 25,357 | 28,067 | 26,114 | 25,445 |
| **Reversal of non-monetary expenses (income) and other adjustments** | | | | | |
| Depreciation and amortization expenses | 4,5 | 132,646 | 131,237 | 127,991 | 126,670 |
| Gain on revaluation of property, plant and equipment | | - | - | (83) | - |
| Impairment of trade receivables and investments | 6,9 | 22,445 | 22,445 | 24 | 24 |
| Share of profit/(loss) of associates and jointly controlled entities | 6 | (1,151) | - | (636) | - |
| Gain on change in ownership interest in associate | 6 | - | - | (232) | - |
| (Gain) on disposal of associate | 6 | (2,405) | (3,294) | - | - |
| Income tax expense/(income) | 22 | 4,462 | 4,549 | 4,921 | 4,731 |
| Loss on write-off of property, plant and equipment | 5 | 5,345 | 5,345 | 1,730 | 1,689 |
| (Amortization) of grants | 18 | (2,119) | (2,119) | (1,711) | (1,711) |
| Interest income | | (1,288) | (1,284) | (2,650) | (2,559) |
| Finance costs | | 1,290 | 1,170 | 1,304 | 1,326 |
| ***Changes in working capital*** | | | | | |
| (Increase) decrease in trade receivables and other amounts receivable | | (32,881)) | 35,032 | (38,553) | (34,111) |
| (Increase) decrease in inventories and prepayments | | 5,504 | (848) | (9,916) | 2,110 |
| Increase (decrease) in accounts payable and advances received | | (54,305) | (130,156) | 30,085 | 23,815 |
| Change in other financial assets | | 42,228 | 57,477 | (2,394) | (1,216) |
| **Cash flows from operations** | | **145,128** | **147,621** | **135,994** | **146,213** |
| Income tax paid | | (21,243) | (21,138) | (10,996) | (10,522) |
| **Net cash generated from operating activity** | | **123,885** | **126,483** | **124,998** | **135,691** |
| **Cash flows from (to) investing activity** | | | | | |
| Purchase of property, plant and equipment and intangible assets | | (213,976) | (213,084) | (114,874) | (114,098) |
| Grants received | 18 | 121,103 | 121,103 | 124,323 | 124,323 |
| Interest received | | 1,259 | 1,255 | 3,605 | 3,514 |
| Investments in time deposits | | (1) | (1) | 108,441 | 108,441 |
| (Purchase)/Disposal of held-to-maturity investments | 12 | (70,000) | (70,000) | 21,539 | 21,539 |
| Disposal (purchase) of subsidiary (associate) | 6 | 1,273 | 1,139 | - | - |
| Dividends received | | 110 | 110 | 237 | 237 |
| Other | | (59) | (47) | 61 | 14 |
| **Net cash generated from/(used in) investing activity** | | **(160,290)** | **(159,525)** | **143,332** | **143,970** |
| **Cash flows from (to) financing activity** | | | | | |
| Received loans | | 75,962 | 75,962 | 200,262 | 200,262 |
| (Repayment) of loans | | (41,434) | (41,434) | (20,716) | (20,716) |
| Overdraft | | 2,927 | - | 4,522 | - |
| Interest paid | | (2,005) | (1,896) | (871) | (846) |
| Dividends paid | | (44,870) | (44,936) | (389,325) | (389,395) |
| **Net cash (used in)/generated from financing** | | **(9,420)** | **(12,304)** | **(206,128)** | **(210,695)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(45, 825)** | **(45,346)** | **62,202** | **68,966** |
| **Cash and cash equivalents at the beginning of the period** | | **127,387** | **126,097** | **65,185** | **57,131** |
| **Cash and cash equivalents at the end of the period** | | **81,562** | **80,751** | **127,387** | **126,097** |

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

## 1. General information

LITGRID AB is a public limited liability company registered in the Republic of Lithuania. The address of its registered office is: A. Juozapavičiaus g. 13, LT-09311, Vilnius, Lithuania. LITGRID AB (hereinafter LITGRID or "the Company") is a limited liability profit-making entity established as a result of spin-off of Lietuvos Energija AB operations based the decision of the Extraordinary General Meeting of Shareholders of Lietuvos Energija AB dated 28 October 2010 which was passed to approve the spin-off of Lietuvos Energija AB. The Company was registered with the Register of Legal Entities on 16 November 2010. The Company's code is 302564383; VAT payer's code is LT100005748413.

LITGRID is an operator of electricity transmission system operating electricity transmissions in the territory of Lithuania and ensuring the stability of operation of the whole electric power system. In addition, the Company is responsible for the integration and development of the Lithuanian electricity market, as well as for the maintenance and development of electricity transmission network – the strategic projects for electricity interconnections with Sweden and Poland that will ensure the country's energetic independence.

The principal objectives of the Company's activities include ensuring the stability and reliability of electric power system in the territory of Lithuania within its areas of competence, creation of objective and non-discriminatory conditions for the use of the transmission networks, management, use and disposal of electricity transmission system assets and its appurtenances, management of companies owing electricity interconnections with other countries or those that develop, manage, use or dispose them.

On 24 February 2011, the Company was granted a license of the electricity transmission system operator by the National Control Commission for Prices and Energy (the Commission), the validity of which commenced 1 March 2011. With its resolution No O3-325 of 27 August 2013 the Commission stated that unbundling of the Company's transmission operations from electricity generation and supply companies is in compliance with the provisions of the Law on Electricity of the republic of Lithuania and the Company may be appointed as transmission system operator. Consequently, a transmission system operator license of unlimited duration was granted to the Company.

From 18 June 2012 to 2 June 2013 LITGRID organized an additional trade session for electricity market participants as stipulated in the Electricity Trading Rules approved by the Order of the Lithuanian Minister of Energy.

The Company was responsible for carrying out the function of the administrator of public service obligation (hereinafter "PSO") services in the electricity sector till 31 December 2012. Under Resolution No. 1338 of 7 November 2012 of the Lithuanian Government the Company's subsidiary BALTPOOL UAB was assigned with the responsibility to carry out the function of the administrator of PSO services in the electricity sector. Following the provisions of the mentioned resolution, the Company ceases its activities as an PSO services administrator with effect from 1 January 2013, however, the Company collects the PSO funds from entities connected to the power transmission grid and transfers them to BALTPOOL UAB - the administrator of PSO funds according to Resolution of the Government of the Republic of Lithuania No 1157 of 19 September 2012 "Procedure for the Administration of the Public Interest Service Funds in the Power Sector".

As at 31 December 2013 and 31 December 2012, the Company's authorized share capital totaled LTL 504,331,380 and was divided into 504,331,380 ordinary registered shares with par value of LTL 1 per share. All shares are fully paid.

As at 31 December 2013 and 31 December 2012, the Company's shareholders structure was as follows:

| | Ownership interest (in LTL) | Number of shares held (%) |
|---|---|---|
| UAB EPSO-G | 491,736,153 | 97.5 % |
| Other shareholders | 12,595,227 | 2.5 % |
| **Total:** | **504,331,380** | **100 %** |

The ultimate controlling shareholder of UAB EPSO-G is the Ministry of Energy of the Republic of Lithuania.

The shares of the Company are listed on the NASDAQ OMX Vilnius Stock Exchange.

As of the date of these financial statements the Group included LITGRID and its directly controlled subsidiaries listed below:

| Subsidiary | Address of the subsidiary's registered office | The Group's shareholding at 31 December 2013 | The Group's shareholding at 31 December 2012 | Profile of activities |
|---|---|---|---|---|
| BALTPOOL UAB | A. Juozapavičiaus g. 13, Vilnius, Lithuania | 67% | 67% | Electricity market operator and natural gas, supporting instruments as well as biofuel market operator, PSO funds administrator |
| UAB TETAS | Senamiesčio g. 102B, Panevėžys, Lithuania | 100% | 61% | Transformer substation and distribution station design, construction, repair and maintenance services |

## 1. General information (continued)

The structure of the Group's investments in the associates and the jointly controlled entity as at 31 December 2013 and 31 December 2012 was as follows:

| Company | Address of the company's registered office | The Group's shareholding at 31 December 2013 | The Group's shareholding at 31 December 2012 | Profile of activities |
|---|---|---|---|---|
| Duomenų Logistikos Centras UAB (former name until 25 October 2013: Technologijų ir Inovacijų Centras UAB) | Žvejų g. 14, Vilnius, Lithuania | 20% | 20% | IT services |
| Elektros Tinklo Paslaugos UAB | Motorų g. 2, Vilnius, Lithuania | - | 25% | Power network and related equipment repair, maintenance and construction services |
| LitPol Link Sp.z.o.o | Wojciecha Gorskiego 900-033 Warsaw, Poland | 50% | 50% | Designing of electricity transmission interconnection facilities |

As at 31 December 2013, the Group had 670 employees (31 December 2012: 701 employees), whereas, the Company had 222 employees (31 December 2012: 203 employees).

## 2. Basis of preparation

The Company's separate and the Group's consolidated financial statements for the year ended 31 December 2013 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 loss, and available-for-sale financial assets which are carried at fair value.

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

## 3. Accounting policies

The accounting policies applied in the preparation of these financial statements, except for the ones described in the section *New standards, amendments and interpretations* bellow, are consistent with those of the annual financial statements for the prior year.

### 3.1 New standards, amendments and interpretations

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

During this reporting period the Group and the Company have adopted the following IFRS amendments:

- IAS 1 *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (OCI)*. This amendment changes the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's and the Company's financial position or performance. The Group and the Company have no significant OCI items.

- Amendment to IAS 19 *Employee Benefits*. There are numerous amendments to IAS 19; they range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. These amendments had no effect on the Group's and the Company's financial statements, as the Group and the Company have no significant payment plans set.

- Amendmet to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities
  The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. This amendment had no effect on the Group's and the Company's financial statements, as the Group and the Company have no offsetting agreements.

**3. Accounting policies (Continued)**

**3.1 New standards, amendments and interpretations (continued)**

- IFRS 13 *Fair Value Measurement*. The main reason of issuance of IFRS 13 is to reduce complexity and improve consistency in application when measuring fair value. It does not change when an entity is required to use fair value but, rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS. This amendment had no significant effect on the figures presented in the Group's and the Company's financial statements, but, based on its requirements, additional information was disclosed (see Note 3.28).

- IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*. This interpretation only applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). This IFRIC will not have an impact on the consolidated and the Group's and the Company's financial statements as the Group and the Company are not engaged in mining activities.

***Standards issued but not yet effective***

The Group and the Company have not applied the following IFRS and IFRIC interpretations that have been issued as at the date of signing of these financial statements but are not yet effective:

**IAS 19 *Employee benefits*** (effective for annual periods beginning on or after 1 July 2014, once endorsed by the EU)

These amendments indicate how employee contributions to the set payment plans should be accounted for. As the Group's and the Company's employees do not make such contributions, application of this amendment will have no effect on the Group's and the Company's financial statements.

**Amendment to IAS 27 *Separate Financial Statements*** (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 Separate Financial Statements requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. Application of this amendment will have no effect on the Company's financial statements.

**Amendment to IAS 28 *Investments in Associates and Joint Ventures*** (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. Application of this amendment will have no effect on the Group's and the Company's financial statements.

**Amendment to IAS 32 *Financial Instruments: Presentation* - Offsetting Financial Assets and Financial Liabilities** (effective for financial years beginning on or after 1 January 2014)

This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group and the Company have not yet evaluated the impact of the implementation of this amendment.

**Amendment to IAS 36 *Impairment of Assets*** (effective for financial years beginning on or after 1 January 2014, once endorsed by the EU)

This amendment adds a few additional disclosure requirements about the fair value measurement when the recoverable amount is based on fair value less costs of disposal and removes an unintended consequence of IFRS 13 to IAS 36 disclosures. The amendment will not have any impact on the financial position or performance of the Group and the Company, however may result in additional disclosures.

**Amendment to IAS *39 Financial Instruments: Recognition and Measurement*** (effective for financial years beginning on or after 1 January 2014, once endorsed by the EU)

The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendment will not have any impact on the financial position or performance of the Group and the Company, since the Group and the Company do not apply hedge accounting.

**IFRS 9 *Financial Instruments*** (currently no effective date, the standard is not yet endorsed by the EU)

IFRS 9 will eventually replace IAS 39. The IASB has issued the first two parts of the standard, establishing a new classification and measurement framework for financial assets and requirements on the accounting for financial liabilities. The Group and the Company have not yet evaluated the impact of the implementation of this standard.

## 3. Accounting policies (Continued)

### 3.1 New standards, amendments and interpretations (continued)

**IFRS 10 *Consolidated Financial Statements*** (effective for financial years beginning on or after 1 January 2014)

IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. Examples of areas of significant judgment include evaluating de facto control, potential voting rights or whether a decision maker is acting as a principal or agent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities. The Group has not yet evaluated the impact of the implementation of this amendment.

**IFRS 11 *Joint Arrangements*** (effective for financial years beginning on or after 1 January 2014)

IFRS 11 eliminates proportionate consolidation of jointly controlled entities. Under IFRS 11, jointly controlled entities, if classified as joint ventures (a newly defined term), must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under IFRS 11, and the accounting for those arrangements will generally be consistent with today's accounting. That is, the entity will continue to recognize its relative share of assets, liabilities, revenues and expenses. The Group and the Company have not yet evaluated the impact of the implementation of this standard.

**IFRS 12 *Disclosures of Interests in Other Entities*** (effective for financial years beginning on or after 1 January 2014)

IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures also will be required such as disclosing the judgments made to determine control over another entity. The Group and the Company have not yet evaluated the impact of the implementation of these changes.

**IFRS 14 *Regulatory Deferral Accounts*** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

This is an interim standard that permits an entity which is a first-time adopter of IFRS to continue to account, with some limited changes, for 'regulatory deferral account balances' until IASB completes a comprehensive accounting project for such assets and liabilities. Application of this standard will have no effect on the Group and the Company.

**Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities** (effective for financial years beginning on or after 1 January 2014)

The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The implementation of this amendment will have no impact on the financial statements of the Group.

**Improvements to IFRSs** (effective for financial years beginning on or after 1 July 2014, once endorsed by the EU)

In December 2013 IASB issued a joint document for the amendments to following standards that are required but not urgent:

- IFRS 1 *First-time Adoption of IFRS*;
- IFRS 2 *Share-based Payment*;
- IFRS 3 *Business Combinations;*
- IFRS 8 *Operating Segments;*
- IFRS 13 *Fair Value Measurement*;
- IAS 16 *Property, Plant and Equipment*;
- IAS 24 *Related party Disclosures*;
- IAS 38 *Intangible Assets;*
- IAS 40 *Investment Property.*

Due to these amendments, there may be changes in the Group's and the Company's accounting policies, but they will not have any effect on the Group's and the Company's financial position or performance.

## 3. Accounting policies (Continued)

### 3.1 New standards, amendments and interpretations (continued)

**Interpretation of IFRIC 21 *Levies* (**effective for financial years beginning on or after 1 January 2014, once endorsed by the EU)

This interpretation provides guidance on the accounting for a levy imposed by a government. A liability to pay a levy is accounted for in the financial statements when the company is engaged in operations subject to levies. The Group and the Company have not yet assessed the impact of the application of this interpretation.

The Group and the Company plan to start application of the above standards and their interpretations as of their effective date, once endorsed by the European Union.

### 3.2 Principles of consolidation

Subsidiary is an entity directly or indirectly controlled by the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated financial statements of the Group include LITGRID AB and its subsidiaries. The financial statements of the subsidiaries have been prepared for the same reporting periods, using uniform accounting policies.

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

### 3.3 Business combinations between entities under common control and mergers involving entities under common control

Business combinations between entities under common control
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 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 acquiree's financial statements. Business combinations between entities under common control are accounted for prospectively from the date on which the business combination occurred.

Mergers involving entities under common control
Mergers are accounted for using the pooling of interest method of accounting. The merged assets and liabilities are not restated to their fair value; instead assets and liabilities are combined at their carrying amounts. The amounts of assets, liabilities, income and expenses of entities merged are combined retrospectively, i.e. for all the periods presented in the financial statements.

### 3.4 Investments in subsidiaries in the Company's separate financial statements

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

### 3.5 Investments in associates and jointly controlled entities

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 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 jointly controlled entities are accounted for using the equity method of accounting. Under the equity method, investments in associates or jointly controlled entities are initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition.

The Group's share of post-acquisition profit or loss is recognized in profit (loss), and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of investment.

The Group's investment in associate and jointly controlled entity includes goodwill determined as at the date of acquisition.

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

**3. Accounting policies (Continued)**

**3.5 Investments in associates and jointly controlled entities (continued)**

Unrealized gain on transactions between the Group and associates and jointly controlled entities is eliminated to the extent of the Group's interest in the associate or jointly controlled entity. Unrealized loss is also eliminated, unless it provides evidence of an impairment of assets transferred.

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

Gain or loss on decrease in the Group's ownership interest in an associate is recognized as profit or loss.

In the parent company's statement of financial position investments in associates and jointly controlled entities 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.

**3.6 Property, plant and equipment and intangible assets**

Assets with the useful life over one year are classified as property, plant and equipment.

All property, plant and equipment is shown at revalued amounts, based on periodic (at least every 5 years) valuations performed by independent valuers, less subsequent accumulated depreciation and subsequent accumulated impairment losses. Any accumulated depreciation and impairment losses at the date of revaluation are eliminated against gross carrying amount of the asset and net amount is restated to the revalued amount of the assets.

Increases in the carrying amount arising on the first revaluation of property, plant and equipment are credited to revaluation reserve directly in equity and decreases are recognized in the profit and loss account. Decreases in the carrying amount arising on the subsequent revaluation of property, plant and equipment are offset previous increases of the same asset, are charged against revaluation reserve directly in equity; all other decreases are charged to the profit and loss account. Revaluation increases in property, plant and equipment value that offset previous decreases are taken to the profit and loss account. All other increases in the carrying amount arising on subsequent revaluations of property, plant and equipment are credited to revaluation reserve. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings taking into account the effect of deferred income tax.

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

Intangible assets
Intangible assets are initially recognized at cost. Intangible assets are recognized 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.

Subsequently, intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any (the Group/Company does not have intangible assets with indefinite useful lives).

Depreciation and amortization
Depreciation (amortization) of property, plant and equipment and intangible assets, except land and construction in progress, is calculated using the straight-line method over estimated useful lives of the asset. The estimated useful lives, residual values and depreciation/amortization 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 |
| Plant and machinery, whereof: | |
| - Constructions of transformer substations | 30 |
| - Structures, machinery and equipment, whereof: | |
| - 330, 110, 35 kV electricity transmission lines | 40 - 55 |
| - 330, 110, 35, 6-10 kV electricity distribution equipment | 30 - 35 |
| - 330, 110, 35, 6-10 kV capacity transformers | 35 |
| - electricity and communication devices | 20 - 25 |
| - electricity equipment, whereof: | 15 - 35 |
| - Relay security and automation equipment | 15 - 35 |
| - Technological and dispatch control equipment | 8 |
| - Other equipment | 5 - 20 |
| Motor vehicles | 4 - 10 |
| Other property, plant and equipment, whereof: | |
| - computer hardware and communication equipment | 3 - 10 |
| - inventory, tools | 4 - 10 |
| Intangible assets | 3 - 4 |

**3. Accounting policies (Continued)**

**3.6 Property, plant and equipment and intangible assets (continued)**

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 recognized in the profit or loss.

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 derecognized. All other repair and maintenance costs are recognized as expenses in the profit or loss during the financial period in which they are incurred.

**3.7 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 amount 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 amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a decrease of revaluation reserve.

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

**3.8 Financial assets**

Financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans granted and receivables, and available-for-sale financial assets. The classification of financial assets is determined at initial recognition.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Group or the Company commits to purchase or sell the asset. Financial assets are initially recognized at fair value, plus, in the case of investments not carried at fair value through profit or loss, directly attributable transaction costs.

The Company's/Group's financial assets include cash and cash equivalents, short-term bank deposits, trade and other accounts receivable, and investments in securities.

The subsequent accounting for financial assets depends on their classification as follows.

Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any other categories. Such assets are recognized as non-current assets, except where the term of investment expires or management have an intention to sell it within 12 months after the date of preparation of the financial statements.

Available-for-sale financial assets are initially recognized at fair value plus transaction costs, and subsequently measured at fair value. Changes in the fair value are recognized in other comprehensive income.

When available-for-sale financial assets are disposed or impaired, the related accumulated fair value revaluation previously recognized directly in equity is recognized in the statement of comprehensive income as profit or loss.

After initial recognition available-for-sale financial assets are measured at fair value based on available market prices or quotes of brokers closest to the financial statements date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same and discounted cash flow analysis. The result of revaluation of available-for-sale securities is recognized in revaluation reserve of financial assets, reported under equity.

**3. Accounting policies (Continued)**

**3.8 Financial assets (continued)**

Held-to-maturity financial assets.
Financial assets with fixed or determinable payments and fixed maturity, quoted in an active market, are classified as held-to-maturity when an entity has a positive intention and ability to hold to maturity. Held-to-maturity financial assets are measured at amortized cost using the effective interest method.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, such financial assets are carried at amortized cost using the effective interest method (except for current receivables when the recognition of interest income would be immaterial), less any recognized impairment, which reflects irrecoverable accounts. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized, impaired or amortized.

Cash and cash equivalents
Cash and cash equivalents include cash on hand and cash at banks, demand deposits and other short-term highly liquid investments (up to 3 months original maturity) that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

For the purpose of the cash flow statement, cash and cash equivalents comprise cash balances in bank accounts, deposits in current accounts and other short-term highly liquid investments with original maturities of 3 months or less.

Effective interest rate method
Effective interest rate method is used to calculate mortised cost of financial assets and financial liabilities and allocate interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Impairment of financial assets
At each reporting date the Group and the Company assess whether there is an indication that financial assets may be impaired. A financial asset is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial assets. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. For financial assets carried at amortized cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, estimated using the original effective interest rate.

The carrying amount of the financial asset is directly reduced by the amount of estimated impairment loss, except for trade receivables, for which impairment is recorded through allowance account. Impaired accounts receivable are written-off when they are assessed as uncollectible.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the statement of profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date that would have been determined had no impairment loss been recognized for the asset in prior years.

Derecognition of financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:
- the rights to receive cash flows from the asset have expired;
- the Group/Company has transferred the rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

**3. Accounting policies (Continued)**

**3.9 Inventories**

Inventories are initially recorded at acquisition cost. Subsequent to initial recognition, inventories are stated at the lower of cost and net realizable value. Acquisition cost of inventories includes acquisition price and related taxes, and costs associated with bringing inventory into their current condition and location. Cost is determined on the first-in, first-out (FIFO) basis. Net realizable value is the estimated selling price, less the estimated costs of completion and selling expenses.

**3.10 Non-current assets held for sale**

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

**3.11 Trade payables and other financial liabilities, borrowings**

Financial liabilities, borrowings
Other financial liabilities, including borrowings, are recognized initially at fair value, less transaction costs.

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Interest expense is recognized using the effective interest rate method as disclosed in paragraph 3.8 of the notes to the financial statements.

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

Derecognition of financial liabilities
A financial liability is derecognized 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 recognized in the statement of the profit or loss.

Trade payables
Trade payables represent the 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 no longer than one year; otherwise they are included in non-current liabilities.

**3.12 Dividend distribution**

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

**3.13 Foreign currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). In the consolidated financial statements, results of operations and financial position of each entity of the Group are presented in the litas, which is the functional currency of the Company and the presentation currency of the consolidated Group's financial statements. All financial information presented in Litas has been rounded to the nearest thousands, except when otherwise indicated. Some of the amounts in the tables may not coincide due to rounding.

Foreign currency transactions are accounted for using the exchange rates prevailing at the dates of transactions as established by the Bank of Lithuania. Monetary assets and liabilities are translated into the litas using the exchange rate prevailing at the date of preparation of financial statements. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognized in the statement of the profit or loss of the reporting period.

With effect from 2 February 2002, Lithuanian litas has been pegged to the euro at the rate of 3.4528 litas to 1 euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

## 3. Accounting policies (Continued)

### 3.14 Grants

Asset-related grants
Government and the European Union 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. Grants are initially recorded as liability at fair value of the asset received and subsequently recognized as income, reducing the depreciation charge of related asset over the expected useful life of the asset.

Public service obligation (hereinafter "PSO") service fees allocated to the Company for the development and implementation of strategic plans are recognized as asset-related grants.

### 3.15 Provisions

Provisions are recognized when the Group/Company has a legal obligation or irrevocable 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 recognized as a finance costs.

### 3.16 Employee benefits

(a) Social security contributions

The Company and the Group pay social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution is a plan under which the Group pays 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 and prior period. Social security contributions are recognized as expenses on an accrual basis and included in payroll expenses.

(b) Bonus plans

The Company and the Group recognize a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(c) Payments to employees of retirement age

Each employee of retirement age who terminates his/her employment with the Group and the Company upon retirement is entitled to receive a payment equal to 2 monthly salaries as stipulated in the Lithuanian laws. A liability for such payments is recognized in the balance sheet and it reflects the present value of these payments at the date of the financial statements. The aforementioned non-current liability for payments to employees at the date of the financial statements is estimated with reference to actuary valuations using the projected relative unit method. The present value of the defined non-current liability for payments to employees 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.

### 3.17 Leases

Lease is recognized as financial lease, when all the risks and rewards of ownership of the leased item are transferred to the lessee. Operating lease is the lease that cannot be classified as finance lease.

The Group and the Company as a lessor
Operating lease income is recognized on a straight-line basis over the lease term.

The Group and the Company as a lessee
Operating lease payments are recognized as expenses in the statement of comprehensive income on a straight-line basis over the lease term.

### 3.18 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

## 3. Accounting policies (Continued)

### 3.19 Revenue and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with a transaction will flow to the Group/Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of value added tax and discounts. The following specific recognition criteria must also be met before revenue is recognized:

Revenue from electricity transmission, capacity reserve services and trade in balancing/regulating electricity
Revenue from electricity transmission, capacity reserve services and trade in balancing/regulating electricity is recognized after services have been rendered or electricity has been sold, i.e. all risks and rewards associated with the transaction have been transferred to the buyer.

The Group does not recognize revenue and expenses from electricity trading in power exchange, administered by the subsidiary BALTPOOL UAB until 18 June 2012, with respect to those transactions in which it acts as an agent.

*Tariffs regulation*
Tariffs for the electricity transmission services are regulated by the National Control Commission for Prices and Energy (hereinafter "the Commission") by establishing the upper limit of the tariff for the transmission service. Specific prices and tariffs for the transmission services are established by the supplier of the service within the limits approved by the Commission.

Tariffs of electricity sold by the producers and independent suppliers as well as tariffs for capacity reserves are not regulated except the cases when the producer or supplier holds more than 25 per cent of the market. In latter case, the tariff setting is supervised by the Commission.

The Group purchases a capacity reserve service from electricity suppliers in accordance with capacity reserve agreements and subsequently renders this service to the distribution system operators and electricity consumers using a tariff established by the Commission. The Group recognizes gross revenue as it acts as a principal in the provision of these services.

Connection of new consumers and producers to electricity transmission network
From 2010 (applicable to assets received from customers on or after 1 July 2009) to the date of spin-off, Lietuvos Energija AB, later on the Company, recognizes fees received for connection of new consumers and producers to the electricity network as income immediately upon the connection of a new consumer or producer, provided the price for electricity payable in future by the newly connected consumer or producer for the services rendered /purchased by the Company/Group does not differ from that payable by other consumers or producers who had not paid such connection fees.

Before 1 July 2009, fees received by Lietuvos Energija AB for connection of new consumers and producers to the network were initially recognized as deferred income and subsequently recognized as income on a proportionate basis over the same period during which the related costs of asset construction were recognized. The related costs comprising the acquisition cost of property, plant and equipment and other costs were capitalized and depreciated over the estimated useful life of the assets capitalized.

Repair service income
Income under individual contracts/projects with customers, for instance for repair services, is recognized using the stage of completion method estimated based on project costs actually incurred in proportion to total estimated project costs. The probable change in profitability is recognized in the statement of comprehensive income when such change is established. The projects are reviewed regularly and the provisions are established when it is determined that the project will result in a loss.

Other income
Interest income is recognized on accrual basis considering 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.
Gain from sale and lease of property, plant and equipment is recognized by the Group and the Company as other revenue.

Dividend income
Dividend income is recognized when the right to receive dividend payment is established.

Recognition of expense
Expenses are recognized in the statement of comprehensive income as incurred by the accrual method.

Recognition of income and expenses from PSO services
Under the PSO scheme approved by Order No. 1-283 of 8 October 2010 of the Minister of Energy of the Republic of Lithuania, the Company acts as an administrator of PSO service fees, i.e. only collects and disburses PSO service funds.

PSO service fund/ fees are the fees paid to the suppliers of electricity under the public service obligations scheme, with the list of such suppliers established by the Lithuanian Government or other institution authorized by it. The annual quantities of PSO service fees are established by the National Control Commission for Prices and Energy (the Commission). These fees are collected from electricity consumers, using the tariff for PSO services established by the Commission as a difference between PSO service fees collected and disbursed by the Company/Group during the previous calendar year.

## 3. Accounting policies (Continued)

### 3.19 Revenue and expense recognition (continued)

The Company/Group recognizes as revenue from PSO services the following:

- PSO service fees allocated by the Commission to the Company/Group for the connection of power generation facilities, using wind, biomass, solar energy or hydro energy in the process of power generation, to transmission networks, for optimization, development and/or reconstruction of transmission networks in relation to acceptance and transmission of electric power from producers using the renewable energy resources;
- PSO service fees allocated by the Commission for balancing electricity produced from the renewable energy resources;
- PSO service fees allocated by the Commission to the Company/Group to cover administration costs of PSO service fees.

All other PSO service fees collected by the Company/Group are not recognized as income.

### 3.20 Accounting policy for PSO services fees when the Company/Group acts as an administrator of PSO service fees

In performing PSO-related activities the Company/Group acts only as an agent on behalf of the Commission/Government and these activities do not generate revenue/profit for the Company/Group in the normal course of business. A resolution has been passed by the Lithuanian Government which stipulates that the Company/Group acts only as an administrator/agent and the Company/Group and the Commission have separate systems to tracks these transactions.

Seeking to improve the accuracy of presentation of the Company's/Group's financial position, financial result and cash flows and to reflect the actual substance of PSO administration activities the Company/Group recognizes as revenue only the items described in Note 3.19 and recognizes the difference between collected and disbursed PSO service fees being administered as receivables(payables).

Given that the Company/Group acts only as an agent on behalf of the Commission/Government, revenues from the collection of tariffs from customers are netted against the disbursements to the electricity generators in the statement of comprehensive income. Only the amount of PSO service fees as approved by the Government in advance that is received for PSO services rendered and for PSO administration services is recognized as income by the Company/Group. A difference between PSO service fees received and disbursed is recognized in other accounts receivable/other accounts payable as "difference between PSO service fees received and disbursed". Since 1 Januray 2013 the Company is no longer an administrator of PSO service fees (as described in note 1), receivables for PSO were reclassified from trade receivables to other accounts receivable, and payables for PSO were reclassified from trade payables to other accounts payable. Receivables for electricity sold in the power exchange, where the Group acted as an agent, were reclassified from trade receivables to other accounts receivable, whereas payables for electricity purchased in the power exchange, where the group acted as an agent, were reclassified from trade payables to other accounts payable.

### 3.21 Borrowing costs

Borrowing costs that are directly attributable to the production, getting ready for use or sale of an asset that necessarily takes a substantial period of time to produce, get ready for its intended use or sale, are capitalized as part of the cost of that asset until the asset is ready for use or sale in full. Interest income on the temporary investment of borrowed funds until they will be used for the acquisition of the asset is deducted from the cost of the asset.

Other borrowing costs are recognized as expenses in the statement of comprehensive income during the period when they are incurred.

### 3.22 Income tax

Income tax expense for the period comprises current tax and deferred tax.

Income tax
Current tax charges are calculated on current 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. Income tax rate of 15% was used in 2013 and 2012.

Deferred income tax
Deferred income tax is accounted for using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognized on all temporary differences that will increase the taxable profit in future, whereas deferred tax assets are recognized to the extent that is probable to reduce the taxable profit in 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 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 realize these assets, they are reduced to an amount which is likely to reduce the taxable profit in future. Deferred income tax assets and liabilities are estimated using the tax rate that has been applied when calculating income tax for the year when the related temporary differences are to be realized or settled.

## 3. Accounting policies (Continued)

### 3.22 Income tax (continued)

Starting from 1 January 2014 the tax loss carry forward that is deductible cannot exceed 70% of the current financial year taxable profit.

Deferred tax assets and liabilities are offset only where they relate to income tax 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 recognized as income or expenses and included in net profit or loss for the reporting period, except for the cases when tax arises from a transaction or event that is recognized directly in equity or in other comprehensive income, in which case taxes are also recorded in equity and other comprehensive income respectively.

### 3.23 Earnings per share

Earnings per share are calculated by dividing the net profit for the period attributed to shareholders by the weighted average number of ordinary shares in issue during the period. When the number of shares changes and such change does not result in change of economic resources, the weighted average number of ordinary shares in issue is adjusted in proportion to change in the number of shares as if that change had occurred in the beginning of the previous period.

The Company has no dilutive potential shares; therefore its basic earnings per share are the same as dilutive earnings per share.

### 3.24 Contingencies

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

### 3.25 Subsequent events

Subsequent events that provide additional information on the Group's and the Company's financial position at the date of the financial statements (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in notes to the financial statements, provided their effect is material.

### 3.26 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.

### 3.27 Critical accounting estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and costs and contingencies. The main areas where accounting estimates were used when preparing these financial statements are described below:

Tax audits
The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's and Group's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Impairment of property, plant and equipment
According to the IAS 36, the recoverable value of the asset is the higher from the fair value (less cost to sell) and the value-in-use. It is important to note, that there is no possibility to estimate the fair value for the vast majority of the Company's infrastructural asset units. According to the IAS 36, in such case, the recoverable value of the asset is estimated by calculating its value-in-use. The latter is calculated by discounting the future cash flows that would be generated by the asset. The price regulation mechanism for the Company's services that is legally determined by the Commission has a very huge influence for the assessment of the indicators of possible infrastructural assets impairment.

**3. Accounting policies (Continued)**

**3.27 Critical accounting estimates (continued)**

It is important to note that the reliable value-in-use may be calculated as long the regulation is stable and predictable. However, in recent years, the price cap calculation principles were changed frequently (until 2010, the price caps of transmission services were determined according to the value of the assets that is used in the service provider's operations and is set according to the service provider's financial statements; from 2010 the determination of the price caps for electricity transmission services is to include the value of assets used in licensed activities of the service provider, which is equal to the net book value (carrying amount) of property, plant and equipment as at 31 December 2002 as increased by the amount of capital expenditures implemented and agreed with the Commission and reduced by the depreciation amount calculated pursuant to the procedure stipulated in the Lithuanian Law on Corporate Income Tax. On 12 April 2012 the Commission initiated the development of LRAIC (Long Run Average Incremental Costs) method for the determination of the price caps of transmission services. This method shall be used for the determination of the price caps of transmission services from the beginning of the next regulatory period (2015).

It should be noted that determining the value-in-use of the assets is mostly influenced by the assumptions of transmission service tariffs in the future periods. In case the Company valued the assets assuming that the price cap determination process will remain the same, it is possible that estimated value-in-use of the assets might significantly differ from the carrying amount of the assets. The Company intends to perform value in use calculation and potential estimation of impairment of property, plant and equipment by the end of 2014, because currently too high uncertainties exist in respect of planned implementation of the new method (LRAIC).

Investment impairment
As the shares of the Company's subsidiaries, associates and jointly controlled entities are not publically traded, the management of the Company estimates the recoverable value of these investments considering the valuations prepared by the independent valuators, in case such valuations are prepared, discounted future cash flows based on the financial forecasts for several upcoming years and information on similar transactions indirectly available in the market.

The recoverable value of investment in Duomenų Logistikos Centras UAB amounting to LTL 15,581 thousand as of 31 December 2013 was estimated based on the independent valuator's report dated 27 February 2014. According to the management the fair value of the investment did not change significantly from 31 December 2013. The impairment of LTL 1,281 thousand was accounted for this investment as at 31 December 2013. 10.5 percent discount rate and 3.3 percent terminal growth rate assumptions were used.

To determine the recoverable value of investment in TETAS UAB the independent valuator's report dated 10 October 2012 was used and according to the management of the Company the fair value of this investment has not significantly changed and no impairment was recognized. Nevertheless, the valuation is sensitive to the assumptions used, and the most sensitive of which is forecasted EBITDA margin. The 10 percentage points change in EBITDA margin would result in LTL 3,000 thousand decrease in valuation results. The decrease of 10 percentage points in this assumption would result in impairment of LTL 1,000 thousand. The change in discount rate does not have significant influence for the valuation result.

The recoverable amounts of other investments were determined based on the information indirectly obtained in the market.

**3.28 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 accessible 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 Company 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 categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

**3. Accounting policies (Continued)**

**3.28 Fair value measurement (continued)**

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group/ Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (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 Company's management at each reporting date. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of asset or liability and the level of the fair value hierarchy as explained above.

As at 31 December 2013 and 2012 the Group/ Company did not have significant assets or liabilities measured at fair value on a recurring or not recurring basis in the financial statements, except for the available-for-sale financial assets (Notes 3.27 and 7) and property, plant and equipment (Notes 3.6 and 5). Assets and liabilities for which fair value is disclosed in the financial statements comprise cash and cash equivalents, trade receivables, trade and other payables and borrowings. The management assessed that the fair value of the borrowings as at 31 December 2013 and 2012 are approximating their carrying value as they are subject to variable interest rates and that fair value of other mentioned assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments as at 31 December 2013 and 2012.

## 4. Intangible assets

| Group | Patents and licenses | Computer software | Other intangible assets | Total |
|---|---|---|---|---|
| **As at 1 January 2012** | | | | |
| Opening net book amount | - | 1,726 | 33 | 1,759 |
| Additions | - | 926 | 26 | 952 |
| Write-offs | - | (41) | - | (41) |
| Transfer from PP&E to intangible assets | - | 24 | - | 24 |
| Transfer between groups | 60 | (60) | - | - |
| Amortization charge | - | (928) | (17) | (945) |
| **Net book amount at 31 December 2012** | **60** | **1,647** | **42** | **1,749** |
| Acquisition cost | 61 | 5,187 | 74 | 5,322 |
| Accumulated amortization | (1) | (3,540) | (32) | (3,573) |
| **Net book amount at 1 January 2013** | **60** | **1,647** | **42** | **1,749** |
| Additions | - | 1,111 | - | 1,111 |
| Write-offs | - | (7) | - | (7) |
| Transfer from PP&E to intangible assets | 28 | - | - | 28 |
| Amortization | (28) | (469) | (19) | (516) |
| **Net book amount at 31 December 2013** | **60** | **2,282** | **23** | **2,365** |
| Acquisition cost | 89 | 6,287 | 74 | 6,451 |
| Accumulated amortization | (29) | (3,931) | (51) | (4,011) |
| Accumulated impairment | - | (74) | - | (74) |
| **Net book amount at 31 December 2013** | **60** | **2,282** | **23** | **2,365** |

| Company | Patents and licenses | Computer software | Other intangible assets | Total |
|---|---|---|---|---|
| **As at 1 January 2012** | | | | |
| Opening net book amount | - | 1,401 | 33 | 1,434 |
| Additions | - | 850 | - | 850 |
| Write-offs | - | (41) | - | (41) |
| Amortization charge | - | (823) | (12) | (835) |
| Transfer from PP&E to intangible assets | - | 24 | - | 24 |
| Transfer between groups | 60 | (60) | - | - |
| **Net book amount at 31 December 2012** | **60** | **1,351** | **21** | **1,432** |
| Acquisition cost | 61 | 4,762 | 48 | 4,871 |
| Accumulated amortization | (1) | (3,411) | (27) | (3,439) |
| **Net book amount at 1 January 2013** | **60** | **1,351** | **21** | **1,432** |
| Opening net book amount | 60 | 1,351 | 21 | 1,432 |
| Additions | - | 1,085 | - | 1,085 |
| Transfer from PP&E to intangible assets | 28 | - | - | 28 |
| Amortization charge | (28) | (329) | (12) | (369) |
| **Net book amount at 31 December 2013** | **60** | **2,107** | **9** | **2,176** |
| Acquisition cost | 89 | 5,845 | 48 | 5,982 |
| Accumulated amortization | (29) | (3,738) | (39) | (3,806) |
| **Net book amount at 31 December 2013** | **60** | **2,107** | **9** | **2,176** |

## 5. Property, plant and equipment

The structure of the Group's property, plant and equipment is as follows:

| Group | Land | Buildings | Structures and machinery | Motor vehicles | Other PP&E | Construc-tion in progress | Total |
|---|---|---|---|---|---|---|---|
| **At 31 December 2011** | | | | | | | |
| Opening net book amount | 1,961 | 34,851 | 1,841,223 | 1,638 | 38,161 | 72,353 | 1,990,187 |
| Additions | - | - | 242 | 42 | 9,292 | 107,242 | 116,818 |
| Revaluation | - | 83 | - | - | - | - | 83 |
| Write-offs | - | (31) | (1,432) | - | (3) | (223) | (1,689) |
| Transfer to intangible assets | - | - | - | - | (24) | - | (24) |
| Transfer from inventories | - | - | 3 | - | 8 | 38 | 49 |
| Reclassification between categories | - | 2,013 | 49,658 | - | 3,080 | (54,751) | - |
| Depreciation charge | - | (2,190) | (116,093) | (498) | (8,271) | 6 | (127,046) |
| **Net book amount at 31 December 2012** | **1,961** | **34,726** | **1,773,601** | **1,182** | **42,243** | **124,665** | **1,978,378** |
| Acquisition or revalued value | 1,961 | 41,589 | 2,116,494 | 2,436 | 99,282 | 124,659 | 2,386,421 |
| Accumulated depreciation | - | (6,718) | 341,668 | 1,254 | (57,039) | 6 | (406,673) |
| Accumulated impairment | - | (145) | 1,225 | - | - | - | (1,370) |
| **Net book amount at 31 December 2012** | **1,961** | **34,726** | **1,773,601** | **1,182** | **42,243** | **124,665** | **1,978,378** |
| Additions | - | - | 3 | 21 | 784 | 134,404 | 135,212 |
| Write-offs | - | (39) | (5,883) | - | (8) | (370) | (6,300) |
| Transfer to intangible assets | - | - | - | - | - | (28) | (28) |
| Transfer from inventories | - | - | - | - | (5) | 84 | 79 |
| Reclassification between categories | - | 248 | 51,321 | - | 5,204 | (56,773) | - |
| Depreciation charge | - | (2,214) | (122,144) | (494) | (7,295) | 17 | (132,130) |
| **Net book amount at 31 December 2013** | **1,961** | **32,721** | **1,696,898** | **709** | **40,923** | **201,999** | **1,975,211** |
| Cost or revalued value | 1,961 | 41,776 | 2,151,180 | 2,455 | 104,443 | 201,976 | 2,503,791 |
| Accumulated depreciation | - | (8,910) | (453,057) | (1,746) | (63,520) | 23 | (527,210) |
| Accumulated impairment | - | (145) | (1,225) | - | - | - | (1,370) |
| **Net book amount at 31 December 2013** | **1,961** | **32,721** | **1,696,898** | **709** | **40,923** | **201,999** | **1,975,211** |

## 5. Property, plant and equipment (continued)

The structure of the Company's property, plant and equipment is as follows:

| Company | Land | Buildings | Structures and machinery | Motor vehicles | Other PP&E | Construc-tion in progress |
|---|---|---|---|---|---|---|
| **At 31 December 2011** | | | | | | |
| Opening net book amount | 1,961 | 33,613 | 1,840,627 | 36,573 | 72,763 | 1,985,537 |
| Additions | - | - | 201 | 8,775 | 107,767 | 116,743 |
| Write-offs | - | (31) | (1,432) | (3) | (223) | (1,689) |
| Transfer to intangible assets | - | - | - | (24) | - | (24) |
| Transfer from inventories | - | - | 3 | 8 | 38 | 49 |
| Reclassification between categories | - | 2,013 | 49,685 | 3,080 | (54,751) | - |
| Depreciation charge | - | (2,082) | (116,004) | (7,749) | - | (125,835) |
| **Net book amount at 31 December 2012** | **1,961** | **33,513** | **1,773,053** | **40,660** | **125,594** | **1,974,781** |
| Cost or revalued value | 1,961 | 39,986 | 2,115,671 | 96,001 | 125,594 | 2,379,213 |
| Accumulated depreciation | - | (6,328) | (341,393) | (55,341) | - | (403,062) |
| Accumulated impairment | - | (145) | (1,225) | - | - | (1,370) |
| **Net book amount at 31 December 2012** | **1,961** | **33,513** | **1,773,053** | **40,660** | **125,594** | **1,974,781** |
| Additions | - | - | - | 644 | 133,900 | 134,544 |
| Write-offs | - | (39) | (5,883) | (8) | (370) | (6,300) |
| Transfer to intangible assets | - | - | - | - | (28) | (28) |
| Transfer to inventories | - | - | - | - | - | - |
| Transfer from inventories | - | - | - | (5) | 84 | 79 |
| Reclassification between categories | - | 248 | 51,321 | 5,204 | (56,773) | - |
| Depreciation charge | - | (2,099) | (122,052) | (6,717) | - | (130,868) |
| **Net book amount at 31 December 2013** | **1,961** | **31,623** | **1,696,439** | **39,778** | **202,407** | **1,972,208** |
| Cost or revalued value | 1,961 | 40,173 | 2,150,354 | 101,034 | 202,407 | 2,495,929 |
| Accumulated depreciation | - | (8,405) | (452,690) | (61,256) | - | (522,351) |
| Accumulated impairment | - | (145) | (1,225) | - | - | (1,370) |
| **Net book amount at 31 December 2013** | **1,961** | **31,623** | **1,696,439** | **39,778** | **202,407** | **1,972,208** |

Write-offs mainly represent derecognition of replaced part of asset upon its reconstruction.

The Company's interest expense amount that matches the capitalization criteria for the year ended 31 December 2013 was LTL 848 thousand (LTL 1,340 thousand for the year ended 31 December 2012). This amount was reduced by the interest income amount that equaled LTL 185 thousand over the respective period (LTL 846 thousand over the period ended 31 December 2012). The total amount of capitalized interest was LTL 663 thousand (LTL 494 thousand over the period ended 31 December 2012). Interest rate applied for capitalization was 1.09% (1.01% in the period ended 31 December 2012).

During the unbundling process that took place in 2010, the Company took over property, plant and equipment from Lietuvos Energija AB. The fair value of property, plant and equipment, depending on the type of asset, of Lietuvos Energija AB as at 31 December 2008 was determined by independent valuers who used either method of comparative prices, or depreciated replacement value, or discounted cash flows methods to determine the fair value of the assets.

## 5. Property, plant and equipment (continued)

Lietuvos Energija AB revised the carrying amounts of property, plant and equipment when preparing 2009 financial statements. Having assessed the fall in construction cost indices during the 11 months of 2009 of the relevant categories of assets as published by the Lithuanian Statistics Department, Lietuvos Energija AB reduced the carrying amount of property, plant and equipment. Lietuvos Energija AB applied a 12.27 per cent statistical index in respect of the category of buildings and a 9.68 per cent index in respect of other categories of property, plant and equipment that at 31 December 2008 were revalued based on the depreciated replacement cost method.

According to the Company's accounting policy, periodical revaluation must be performed at least once in a 5-year period. The Company intends to perform the revaluation of property, plant and equipment by the end of 2014, when more information in the regulating environment is available (Note 3.27).

As of 31 December 2013 and 31 December 2012, the Group/Company had significant contractual commitments to purchase property, plant and equipment to be fulfilled in the upcoming periods.

| | As at 31 December 2013 | As at 31 December 2012 |
|---|---|---|
| Interconnection between the electricity transmission systems of Lithuania and Sweden (NordBalt) | 539,785 | 597,783 |
| Interconnection between the electricity transmission systems of Lithuania and Poland (LitPolLink) | 306,254 | 2,165 |
| Transformer substations | 98,023 | 73,386 |
| Construction of 330 kV overhead transmission line Klaipėda-Telšiai | 12,223 | 43,360 |
| Cabling of 110 kV overhead transmission line near Viršuliškės | - | 4,318 |
| Other | 4,157 | 4,512 |
| **Total** | **960,442** | **725,524** |

The table below includes the net book amounts of the Group's and the Company's property, plant and equipment that would have been recognized, had these assets been carried at historical cost as at 31 December 2013 and 2012:

| Group | Land | Buildings | Structures and machinery | Motor vehicles | Other PP&E | Construc-tion in progress | Total |
|---|---|---|---|---|---|---|---|
| **Net book amount** | | | | | | | |
| **At 31 December 2013** | **1,794** | **29,107** | **1,497,013** | **710** | **40,847** | **202,701** | **1,772,172** |
| **At 31 December 2012** | **1,794** | **30,784** | **1,554,544** | **1,183** | **41,730** | **125,888** | **1,755,923** |

| Company | Land | Buildings | Structures and machinery | Motor vehicles | Other PP&E | Construc-tion in progress | Total |
|---|---|---|---|---|---|---|---|
| **Net book amount** | | | | | | | |
| **At 31 December 2013** | **1,794** | **28,430** | **1,496,554** | **-** | **39,703** | **202,701** | **1,769,182** |
| **At 31 December 2012** | **1,794** | **30,034** | **1,553,996** | **-** | **40,148** | **125,888** | **1,751,860** |

## 6. Investments in subsidiaries (of the Company) and investments in associates and jointly controlled entities (of the Company and the Group)

Investments in subsidiaries in the Company's financial statements

As at 31 December 2013 and 2012, the Company had direct control over the following subsidiaries:

| Subsidiary At 31 December 2013 | Investment cost | Ownership interest (%) | Impairment | Carrying amount |
|---|---|---|---|---|
| UAB „TETAS" | 15,042 | 100 | - | 15,042 |
| BALTPOOL UAB | 452 | 67 | - | 452 |
| **Total** | **15,494** | | **-** | **15,494** |

| Subsidiary At 31 December 2012 | Investment cost | Ownership interest (%) | Impairment | Carrying amount |
|---|---|---|---|---|
| UAB „TETAS" | 8,290 | 61 | - | 8,290 |
| BALTPOOL UAB | 318 | 67 | - | 318 |
| **Total** | **8,608** | | **-** | **8,608** |

Under the implementation of power sector restructuring plan in accordance with the Board of LITGRID decision as of 17 October 2012, LITGRID and LESTO AB (hereinafter - LESTO) concluded a share exchange agreement. In accordance to this agreement, on 7 January 2013 LITGRID transferred its owned shares of Elektros tinklo paslaugos UAB for LTL 8,025 thousand which accounted for 25.03 percent share capital of this company to LESTO and LESTO transferred owned shares of UAB "TETAS", which in turn accounted for 38.87 percent of the share capital, for LTL 6,752 thousand. The difference between the values of exchanged shares equal to LTL 1,273 thousand LESTO paid to the Company.

In financial statements of the Company and the Group for the year ended 31 December 2012 the investment into shares of Elektros Tinklo Paslaugos UAB owned by LITGRID was classified as non-current assets held for sale and was equal to LTL 4,731 thousand and LTL 5,620 thousand respectively. The profit of LITGRID and the Group from the sales of these shares was respectively LTL 3,294 thousand and LTL 2,405 thousand.

Base on the decision of the shareholders of BALTPOOL UAB meeting on 2 December 2013 the share capital of BALTPOOL UAB was increased up to LTL 635 thousand by issuing 160,000 ordinary shares with a par value of LTL 5 each. According to the share issuance agreement signed on 9 December 2013 the Company made initial cash contribution for the signed shares on 16 December 2013 (25 percent equal to LTL 136 thousand) and the remaining amount for the shares issued Company will contribute in equal parts up to 2 December 2014.

Investments in associates and jointly controlled entities in the Company's and the Group's financial statements

Movement in the account of investments in associates and jointly controlled entities is given in the table below:

| | Group 2013 | Company 2013 | Group 2012 | Company 2012 |
|---|---|---|---|---|
| Opening balance | 16,052 | 16,601 | 20,804 | 21,332 |
| Gain on change in ownership interest in associate | - | - | 232 | - |
| Share of profit/(loss) of associates and jointly controlled entities | 1,151 | - | 636 | - |
| Impairment of investments | (1,281) | (1,281) | - | - |
| Transferred to assets held for sale | - | - | (5,620) | (4,731) |
| **Closing balance** | **15,922** | **15,320** | **16,052** | **16,601** |

In 2013 the impairment of LTL 1,281 thousand for investment in Duomenų logistikos centras UAB was recognised based on the fair value of investment determined by the independent valuators report dated 27 February 2014. The valuation was performed using discounted cash flows method.

## 6. Investments in subsidiaries (of the Company) and investments in associates and jointly controlled entities (of the Company and the Group) (continued)

On 6 January 2012, the Company's associate Elektros Tinklo Paslaugos UAB increased its share capital by non-monetary contributions of LESTO AB (member of Visagino Atomine Elektrine UAB Group). As a result, the Company's ownership interest in the associate decreased from 29 percent to 25 percent. Gain on transfer of ownership interest in associate was recognised in the Group's financial statements and was calculated as follows:

| | Group 2012 |
|---|---|
| Contributions of other shareholders to the share capital of associate | 1,013 |
| Share of net assets transferred | (781) |
| **Gain on change in ownership interest in associate** | **232** |

The financial positions and results of operations of associates and jointly controlled entities as at 31 December 2013 and for the year then ended (not audited):

| | Assets | Liabilities | Sales revenue | Net profit (loss) |
|---|---|---|---|---|
| Duomenų Logistikos Centras UAB | 74,647 | 12,379 | 65,662 | 5,373 |
| LitPol Link Sp.z.o.o | 1,335 | 461 | 2,592 | 143 |

The financial positions and results of operations of associates and jointly controlled entities as at 31 December 2012 and for the year then ended (not audited):

| | Assets | Liabilities | Sales revenue | Net profit (loss) |
|---|---|---|---|---|
| Duomenų Logistikos Centras UAB | 68,106 | 11,350 | 65,427 | 3,001 |
| LitPol Link Sp.z.o.o | 1,441 | 458 | 2,873 | 37 |

## 7. Financial assets held for sale

As at 31 December 2013 and 2012, the Group's and the Company's other financial assets classified as held for sale comprised the shares of the following entities:

| | Group at 31 December 2013 | Company at 31 December 2013 | Group at 31 December 2012 | Company at 31 December 2012 |
|---|---|---|---|---|
| Nord Pool Spot AS | 6,638 | 6,638 | 6,638 | 6,638 |
| NT Valdos UAB | 1,084 | 1,084 | 1,084 | 1,084 |
| Technologijų ir Inovacijų Centras UAB | 1 | 1 | - | - |
| **Total** | **7,723** | **7,723** | **7,722** | **7,722** |

On 1 August 2012, the Company acquired 2.04% of shares of Nord Pool Spot AS – the power exchange operator for Nordic and Baltic countries.

On 25 November 2013 the Company, Lietuvos Energija UAB, Lietuvos Energijos Gamyba AB and LESTO AB signed an establishment agreement of joint company Technologijų ir Inovacijų Centras UAB one of the main targets of which is the provision of information technologies and telecommunication and other services to shareholders.

Share capital of the private limited company established comprise LTL 10,000. Lietuvos Energija UAB, Lietuvos Energijos Gamyba AB, LESTO AB and the Company respectively have 50%, 20%, 20% and 10% of shares of the private limited company established. The entity was registered on 4 December 2013.

## 8. Inventories

The Group's and the Company's inventories comprised as follows:

| | Group at 31 December 2013 | Company at 31 December 2013 | Group at 31 December 2012 | Company at 31 December 2012 |
|---|---|---|---|---|
| Materials and consumables | 9,334 | 3,903 | 14,527 | 2,819 |
| Less: write-down to net realisable value | (490) | (381) | (524) | (381) |
| **Total** | **8,844** | **3,522** | **14,003** | **2,438** |

As of 31 December 2013 the carrying amount of inventories accounted at net realisable value amounted to LTL 885 thousand LTL (as of 31 December 2012 – LTL 1,560 thousand) in Group, the Company – LTL 768 thousand (as of 31 December 2012 – LTL 1,305 thousand). The Group's inventories recognized as expenses during the year ended 31 December 2013 amounted to LTL 29,943 thousand (31 December 2012: LTL 36,321 thousand), the Company's - LTL 386 thousand (31 December 2012: LTL 468 thousand).

Movements in impairment account of inventories during the year ended 31 December 2013 and 2012 are shown in the table below:

| | Group at 31 December 2013 | Company at 31 December 2013 | Group at 31 December 2012 | Company at 31 December 2012 |
|---|---|---|---|---|
| **Opening balance** | 524 | 381 | 672 | 381 |
| Write-down of inventories during the reporting period | (34) | - | (148) | - |
| **Closing balance** | **490** | **381** | **524** | **381** |

Impairment charges were included in other expenses in the statement of comprehensive income.

## 9. Trade receivables

As at 31 December 2013 and 2012, trade receivables of the Group and the Company were as follows:

| | Group at 31 December 2013 | Company at 31 December 2013 | Group at 31 December 2012 | Company at 31 December 2012 |
|---|---|---|---|---|
| Receivables from sales of electricity | 71,377 | 71,377 | 44,888 | 44,889 |
| Receivables for connection of new customers | 3,083 | 3,083 | 6,757 | 6,757 |
| Receivables for contractual works and other services | 12,150 | - | 20,509 | - |
| Receivables from long-term trades in power exchange | 1 | - | 2 | - |
| Impairment | (21,164) | (21,164) | - | - |
| **Total** | **65,447** | **53,296** | **72,156** | **51,646** |

The fair value of current trade receivables approximate their carrying amount.
The Company made a provision for doubtful debts of LTL 21,164 thousand related to the receivables for the supplied balancing energy (see Note 33) which was accounted in the other expenses in the statement of comprehensive income. As at 31 December 2012, the Group and the Company had no receivables that were impaired.

The ageing analysis of the Group's and the Company's trade receivables that were not overdue or overdue, but not impaired is given below:

| | Group at 31 December 2013 | Company at 31 December 2013 | Group at 31 December 2012 | Company at 31 December 2012 |
|---|---|---|---|---|
| Not overdue | 48,583 | 45,296 | 59,347 | 49,302 |
| Overdue up to 30 days | 5,664 | 1,274 | 9,109 | 1,141 |
| Overdue from 30 to 60 days | 2,980 | 2,190 | 2,315 | 998 |
| Overdue from 60 to 90 days | 5,075 | 1,391 | 380 | 59 |
| Overdue more than 90 days | 3,145 | 3,145 | 1,005 | 146 |
| **Total** | **65,447** | **53,296** | **72,156** | **51,646** |

## 10. Other accounts receivable

As at 31 December 2013 and 2012, other accounts receivable of the Group and the Company were as follows:

| | Group at 31 December 2013 | Company at 31 December 2013 | Group at 31 December 2012 | Company at 31 December 2012 |
|---|---|---|---|---|
| Administered PSO fees receivable | 115,428 | 42,057 | 88,148 | 88,148 |
| Receivables from participants of the power exchange | - | - | - | - |
| Accrued income for PSO services rendered | 2,694 | 2,282 | 6,711 | 6,711 |
| Accrued interest receivable | 355 | 355 | 326 | 326 |
| Receivables for lease of assets | 618 | 618 | 618 | 629 |
| Other receivables | 502 | 180 | 370 | 27 |
| VAT receivable from the state budget | 2,688 | | - | - |
| Other accrued receivables | 1,422 | 667 | 861 | 3 |
| Less: impairment | (9,552) | (9,552) | - | - |
| **Total** | **114,155** | **36,607** | **97,034** | **95,844** |

The fair value of current other accounts receivable (financial assets) approximates their carrying amount. The Group and the Company accounted impairment for receivables from LIFOSA AB, ORLEN AB and Achema AB for PSO funds (see Note 33), which totaled LTL 9,552 thousand 31 December 2013. As the Group/Company acts only as an agent (see Note 3.20) in carrying out the activities of PSO, no effect to the Groups/Companies profit (loss) were present.

The ageing analysis of the Group's and the Company's other accounts receivable that were not overdue or overdue, but not impaired is given below:

| | Group at 31 December 2013 | Company at 31 December 2013 | Group at 31 December 2012 | Company at 31 December 2012 |
|---|---|---|---|---|
| Not overdue | 101,064 | 23,516 | 89,277 | 88,087 |
| Overdue up to 30 days | 1,020 | 1,020 | 295 | 295 |
| Overdue from 30 to 60 days | 935 | 935 | 8 | 8 |
| Overdue from 60 to 90 days | 1,026 | 1,026 | - | - |
| Overdue more than 90 days | 10,110 | 10,110 | 7,454 | 7,454 |
| **Total** | **114,155** | **36,607** | **97,034** | **95,844** |

The Company's other accounts receivable balance as at the end of the reporting period decreased from LTL 59,237 thousand to LTL 36,607 thousand, as since 1 January 2013 LESTO AB transfers PSO fees not to the Company but to BALTPOOL UAB directly, PSO fee administrator (Note 1), which has caused a decrease of the Company's PSO receivable/administrated PSO fees amount from LTL 55,643 thousand to LTL 32,505 thousand.

The Group and the Company did not recognize allowance of receivables overdue more than 90 days as according to the Company's management these amounts mainly comprise of PSO receivables, which would not have a negative impact on the profit and loss of the Company or the Group as described (Note 3.20).

## 11. Other financial assets

As at 31 December 2013 and 2012, other financial assets of the Group and the Company were as follows:

| | Group at 31 December 2013 | Company at 31 December 2013 | Group at 31 December 2012 | Company at 31 December 2012 |
|---|---|---|---|---|
| Administered PSO fees | 15,879 | - | 59,847 | 59,847 |
| Funds deposited for guarantees and deposits | 5,380 | 4,835 | 2,465 | 2,465 |
| Monetary contributions of participants of the power exchange | 3 | - | 1,178 | - |
| **Total** | **21,262** | **4,835** | **63,490** | **62,312** |

According to procedure for the administration of PSO fees approved by the Commission, the balance of PSO fees should be reported separately from other cash and cash equivalents of the Company/Group and can only be used for the disbursement of PSO service fees. The balance of PSO fees administered by the Group decreased as during the reporting period of twelve months the amount of POS fees paid by POS administrator exceeded the amount of collected POS fees by POS administrator.

The fair value of other financial assets as of 31 December 2013 and 2012 approximated their carrying value.

## 12. Held-to-maturity investments

| | Group at 31 December 2013 | Company at 31 December 2013 | Group at 31 December 2012 | Company at 31 December 2012 |
|---|---|---|---|---|
| Swedbank AB bonds in LTL, maturity as of 7 March 2014 | 70,000 | 70,000 | - | - |
| **Total** | **70,000** | **70,000** | **-** | **-** |

As at 31 December 2012, the Group and the Company had no held-to-maturity investments. The annual interest rate of held-to maturity investments of the Group and the Company is 0.71%.

The carrying amount of held-to-maturity investments as at 31 December 2013 and 2012 approximated the fair value.

## 13. Cash and cash equivalents

| | Group at 31 December 2013 | Company at 31 December 2013 | Group at 31 December 2012 | Company at 31 December 2012 |
|---|---|---|---|---|
| Cash at bank and on hand | 81,562 | 80,751 | 127,387 | 126,097 |
| **Total** | **81,562** | **80,751** | **127,387** | **126,097** |

The carrying amount of cash and cash equivalents approximates the fair value. Restricted cash is accounted under other financial assets caption.

## 14. Share capital and share premium

As at 31 December 2013 and 2012, the Company's authorised share capital amounted to LTL 504,331,384 and it was divided into 504,331,384 ordinary registered shares with par value of LTL 1 each. All the shares were fully paid.

Share premium established as a result of spin-off amount to LTL 29,621 thousand. Prior to the spin-off, share premium resulted from increase in share capital of Lietuvos Energija AB and represented a difference between the nominal value of shares and consideration paid.

Capital management

Capital consists of equity recorded in the statement of financial position.

According to the requirements of the Lithuanian Law on Companies, the Company's equity must not be less than 1/2 of its authorised share capital. As at 31 December 2013 and 2012, the Company was in compliance with the above mentioned requirement. No other external capital requirements have been imposed on the Company.

The Company's main objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell a part of assets. No changes in capital managing objects were present comparing to prior year.

## 15. Revaluation reserve

Revaluation reserve arises from revaluation of property, plant and equipment due to the value increase. In accordance with the Lithuanian legislation the entity can use revaluation reserve to increase its share capital. However, this reserve cannot be used to cover losses.

## 15. Revaluation reserve (continued)

| Group | Revaluation reserve | Deferred income tax | Net of deferred income tax |
|---|---|---|---|
| **Opening balance** | **314,256** | **(47,077)** | **267,179** |
| Depreciation of revaluation reserve | (23,613) | 3,080 | (20,533) |
| Write-offs of property, plant and equipment | (122) | 16 | (106) |
| Increase on revaluation of property, plant and equipment | 49 | (7) | 42 |
| **Balance at 31 December 2012** | **290,570** | **(43,988)** | **246,582** |
| **Opening balance** | **290,024** | **(43,442)** | **246,582** |
| Depreciation of revaluation reserve | (23,265) | 3,490 | (19,775) |
| Write-offs of property, plant and equipment | (927) | 139 | (788) |
| Increase on revaluation of property, plant and equipment | 181 | (27) | 154 |
| **Balance at 31 December 2013** | **266,559** | **(40,386)** | **226,173** |

| Company | Revaluation reserve | Deferred income tax | Net of deferred income tax |
|---|---|---|---|
| **Opening balance** | **314,070** | **(47,110)** | **266,960** |
| Depreciation of revaluation reserve | (23,528) | 3,529 | (19,999) |
| Write-offs of property, plant and equipment | (732) | 110 | (622) |
| **Balance at 31 December 2012** | **289,810** | **(43,471)** | **246,339** |
| **Opening balance** | **289,810** | **(43,471)** | **246,339** |
| Depreciation of revaluation reserve | (23,224) | 3,484 | (19,740) |
| Write-offs of property, plant and equipment | (927) | 139 | (788) |
| **Balance at 31 December 2013** | **265,659** | **(39,848)** | **225,811** |

## 16. Legal reserve and other reserves

Legal reserve
The legal reserve is established in accordance with the Lithuanian laws. 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 be used only to cover future losses.

Other reserves
The Ordinary General Meeting of Shareholders of LITGRID AB held on 30 April 2012 approved the proposed profit appropriation and resolved to transfer LTL 325,000 thousand from other reserves to retained earnings.

## 17. Dividends

During the Ordinary General Meeting of Shareholders of LITGRID AB held on 24 April 2013, the decision was made in relation to the payment of dividends in amount of LTL 45,000 thousand. Dividends per share amounted to LTL 0.089.
During the Ordinary General Meeting of Shareholders of LITGRID AB held on 30 April 2012, the decision was made in relation to the payment of dividends in amount of LTL 390,857 thousand. Dividends per share amounted to LTL 0.775.

## 18. Grants

The balance of grants consists of grants related to the financing of assets acquisition. Movements in grants in 2013 and 2012 were as follows:

| | Group | Company |
|---|---|---|
| **Balance at 31 December 2011** | **182,359** | **182,359** |
| Grants received during the period | 124,323 | 124,323 |
| Recognised as income during the period | (1,711) | (1,711) |
| **Balance at 31 December 2012** | **304,971** | **304,971** |
| | | |
| **Balance at 31 December 2012** | **304,971** | **304,971** |
| Grants received during the period | 121,103 | 121,103 |
| Recognised as income during the period | (2,119) | (2,119) |
| **Balance at 31 December 2013** | **423,955** | **423,955** |

The grants received during 2013 comprised as follows:

- amounts received from the EU structural funds to finance the reconstruction of the Company's property, plant and equipment totalling LTL 34,411 thousand (2012: LTL 37,831 thousand);
- funds received from Ignalina International Decommissioning Support Fund for the implementation of the project for interconnection Lithuania-Poland (LitPolLink) totalling LTL 1,692 thousand (2012: LTL 1,492 thousand);
- PSO service fees received for the implementation of the project for interconnection Lithuania-Sweden (NordBalt) totalling LTL 85,000 thousand (2012: LTL 85,000 thousand).

In the statement of comprehensive income for the year 2013, depreciation and amortisation charges were reduced by income from grants for LTL 2,119 thousand (2012: LTL 1,711 thousand).

## 19. Borrowings

Loans of the Group/Company according to the repayment terms were as follows:

| | Group as of 31 December 2013 | Company as of 31 December 2013 | Group as of 31 December 2012 | Company as of 31 December 2012 |
|---|---|---|---|---|
| Amounts payable after five years up to ten years | 37,981 | 37,981 | - | - |
| Amounts payable from one to five years | 127,063 | 127,063 | 138,112 | 138,112 |
| Amounts payable in one year | 56,479 | 49,030 | 45,956 | 41,434 |
| **Total** | **221,523** | **214,074** | **184,068** | **179,546** |

On 16 July 2012, the Company's subsidiary Tetas UAB signed an overdraft agreement with SEB Bankas AB. Credit limit is LTL 5,200 thousand. On 5 June 2013, the amendment to this agreement (No. 4) was signed and the credit limit was increased to LTL 10,000 thousand. The agreement expires on 31 May 2014. The overdraft is subject to a variable interest rate which is established based on the overnight Vilnius Interbank Offered Rate (VILIBOR) plus 1.10% lender's borrowing risk margin and profit margin. As of 31 December 2013, the withdrawn amount of the overdraft amounted LTL 7,449 thousand (as of 31 December 2012: LTL 4,522).

On 5 October 2012, the Company signed a loan agreement with Pahjola Bank Plc. The loan amount is LTL 200,262 thousand (EUR 58,000 thousand). As of 31 December 2013, LTL 62,150 thousand (EUR 18,000 thousand) were repaid back. The loan is subject to the interest rate being 1-month EURIBOR + 0.94% margin.

On 12 September 2013, the Company signed a loan agreement with Nordic Investment Bank. The total amount of the loan is LTL 75,962 thousand (EUR 22,000 thousand). The loan is subject to the interest rate being 6-month EURIBOR + 1.15% margin.

As at 31 December 2013 the weighted average interest rate on borrowings of the Group was 1.11% (31 December 2012 – 1.04%).

As at 31 December 2013 unused factoring financing facility available to the Group amounted to LTL 2,104 thousand (31 December 2012 – LTL 1,086 thousand.

## 20. Deferred income

| | Group at 31 December 2013 | Company at 31 December 2013 | Group at 31 December 2012 | Company at 31 December 2012 |
|---|---|---|---|---|
| Deferred income from connections of new users | 13,274 | 13,274 | 13,990 | 13,990 |
| **Total** | **13,274** | **13,274** | **13,990** | **13,990** |

Deferred income from connections of new users relates to connections of new users before 1 July 2009 (see Note 3.19).

## 21. Other non-current accounts payable and liabilities

| | Group at 31 December 2013 | Company at 31 December 2013 | Group at 31 December 2012 | Company at 31 December 2012 |
|---|---|---|---|---|
| Advances received from new users | - | - | 5,537 | 5,537 |
| Provisions for payments to employees upon retirement | 717 | 602 | 726 | 563 |
| Guarantee provisions | - | - | 28 | - |
| **Total** | **717** | **602** | **6,291** | **6,100** |

Provisions for payments to employees upon retirement represent amounts calculated and to be paid according to the Lithuanian laws. Each employee of retirement age who terminates the employment upon retirement is entitled to payment of 2 monthly salaries.

Guarantee provisions represent obligations for the period of several years during which it is committed to provide guarantee repairs free of charge.

## 22. Current income tax and deferred income tax

As at 31 December 2013 and 2012, income tax expenses comprised as follows:

| | Group at 31 December 2013 | Company at 31 December 2013 | Group at 31 December 2012 | Company at 31 December 2012 |
|---|---|---|---|---|
| **Income tax expense components:** | | | | |
| Current income tax expenses | 20,518 | 20,497 | 16,666 | 16,544 |
| Deferred income tax (income) | (16,055) | (15,948) | (11,745) | (11,813) |
| **Income tax expense (income) for the reporting period** | **4,462** | **4,549** | **4,921** | **4,731** |

The movement in deferred tax assets and liabilities (prior to offsetting the balances with the same fiscal authority) was as follows:

| Group | PP&E revaluation (impairment) | Other | Accrued expenses/ income | Impairment of assets | Total |
|---|---|---|---|---|---|
| **Deferred income tax assets** | | | | | |
| **At 1 January 2012** | **2,024** | **277** | **407** | **10,791** | **13,499** |
| Recognised in profit or loss | (162) | (97) | (9) | (626) | (894) |
| **At 31 December 2012** | **1,862** | **180** | **398** | **10,165** | **12,605** |
| **At 1 January 2013** | **1,862** | **180** | **398** | **10,165** | **12,605** |
| Recognised in profit or loss | (151) | 134 | (5) | 2,708 | 2,686 |
| **At 31 December 2013** | **1,711** | **314** | **393** | **12,873** | **15,291** |

**22. Current income tax and deferred income tax (continued)**

| Group | PP&E revaluation (impairment) | Other | Accrued expenses/ income | Impairment of assets | Total |
|---|---|---|---|---|---|
| **Deferred income tax liabilities** | | | | | |
| **At 1 January 2012** | **(181,472)** | **(465)** | **(9,723)** | **-** | **(191,660)** |
| Recognised in profit or loss | 11,963 | 161 | 579 | (75) | 12.634 |
| Recognised in other comprehensive income | (6) | - | - | - | (6) |
| **At 31 December 2012** | **(169,571)** | **(373)** | **(9,143)** | **(75)** | **(179,162)** |
| **At 1 January 2013** | **(169,571)** | **(373)** | **(9,143)** | **(75)** | **(179,162)** |
| Recognised in profit or loss | 13,015 | (111) | 564 | (99) | 13,369 |
| **At 31 December 2013** | **(156,556)** | **(484)** | **(8,579)** | **(174)** | **(165,793)** |

| | |
|---|---|
| **Deferred income tax asset, net, at 31 December 2012** | **218** |
| **Deferred income tax asset, net, at 31 December 2013** | **324** |
| **Deferred income tax liability, net, at 31 December 2012** | **(166,775)** |
| **Deferred income tax liability, net, at 31 December 2013** | **(150,828)** |

| Company | PP&E revaluation (impairment) | Accrued expenses | Impairment of assets | Total |
|---|---|---|---|---|
| **Deferred income tax assets** | | | | |
| **At 1 January 2012** | **2,015** | **301** | **10,756** | **13,072** |
| Recognised in profit or loss | (162) | (45) | (608) | (815) |
| **At 31 December 2012** | **1,853** | **256** | **10,148** | **12,257** |
| **At 1 January 2013** | **1,853** | **256** | **10,148** | **12,257** |
| Recognised in profit or loss | (152) | 32 | 2,713 | 2,593 |
| **At 31 December 2013** | **1,701** | **288** | **12,860** | **14,850** |

| Company | PP&E revaluation (increase in value) | Differences in depreciation rates | Tax relief on acquisition of PP&E | Effect of interest capitalisation | Total |
|---|---|---|---|---|---|
| **Deferred income tax liabilities** | | | | | |
| **At 1 January 2012** | **(181,472)** | **(465)** | **(9,723)** | **-** | **(191,660)** |
| Recognised in profit or loss | 11,969 | 155 | 579 | (75) | 12,628 |
| **At 31 December 2012** | **(169,503)** | **(310)** | **(9,144)** | **(75)** | **(179,032)** |
| **At 1 January 2013** | **(169,503)** | **(310)** | **(9,144)** | **(75)** | **(179,032)** |
| Recognised in profit or loss | 13,008 | (120) | 565 | (98) | 13,355 |
| **At 31 December 2013** | **(156,495)** | **(430)** | **(8,579)** | **(173)** | **(165,677)** |

| | |
|---|---|
| **Deferred income tax liability, net, at 31 December 2012** | **(166,775)** |
| **Deferred income tax liability, net, at 31 December 2013** | **(150,828)** |

## 22. Current income tax and deferred income tax (continued)

Income tax expense reported in the statement of comprehensive income can be reconciled to income tax expense that would arise using a statutory income tax rate applicable to profit before income tax:

| | Group 2013 | Company 2013 | Group 2012 | Company 2012 |
|---|---|---|---|---|
| **Profit (loss) before income tax** | **29,819** | **32,616** | **31,035** | **30,176** |
| Income tax calculated at a rate of 15 percent | 4,473 | 4,892 | 4,655 | 4,526 |
| Investment relief | (543) | (543) | (137) | (128) |
| Tax effect of income not subject to tax and non-deductible expenses | 532 | 200 | 403 | 333 |
| **Income tax expense (income) for the reporting period** | **4,462** | **4,549** | **4,921** | **4,731** |

## 23. Trade payables

As at 31 December 2013 and 2012, trade payables of the Group and the Company were as follows:

| | Group at 31 December 2013 | Company at 31 December 2013 | Group at 31 December 2012 | Company at 31 December 2012 |
|---|---|---|---|---|
| Amounts payable for contractual works, other services | 51,564 | 52,862 | 59,534 | 56,057 |
| Amounts payable for electricity | 15,111 | 15,111 | 14,254 | 14,381 |
| Accrued liability for electricity | 6,592 | 6,592 | 13,310 | 13,310 |
| Amounts payable for property, plant and equipment and inventories | 4,508 | 16 | 15,520 | 183 |
| Amounts payable for electricity transit | 841 | 841 | - | - |
| **Total** | **78,616** | **75,422** | **102,618** | **83,931** |

The fair value of trade payables approximates their carrying amounts.

## 24. Advances received

At 31 December 2013 and 31 December 2012, the Group's and the Company's advances received consisted of the following:

| | Group at 31 December 2013 | Company at 31 December 2013 | Group at 31 December 2012 | Company at 31 December 2012 |
|---|---|---|---|---|
| Guarantee to secure fulfilment of obligations | 3,461 | 3,454 | 1,137 | 1,077 |
| Other advance amounts received | 1,428 | 662 | 2,260 | 1,494 |
| **Total** | **4,889** | **4,116** | **3,397** | **2,571** |

The Group's and Company's guarantees to secure fulfilment of obligations consist of received deposits, including for the trade in exchange.

## 25. Other accounts payable

As at 31 December 2013 and 31 December 2012, other accounts payable of the Group and the Company were as follows:

| | Group at 31 December 2013 | Company at 31 December 2013 | Group at 31 December 2012 | Company at 31 December 2012 |
|---|---|---|---|---|
| Payable administered PSO fees | 102,730 | 10,416 | 63,796 | 63,796 |
| Difference between PSO service fees received and disbursed | 12,706 | 12,706 | 73,413 | 73,413 |
| Advance amounts received from new users* | 6,238 | 6,238 | 13,893 | 13,893 |
| VAT payable to the state budget | 3,500 | 2,964 | 6,713 | 5,348 |
| Employment-related liabilities | 1,997 | 507 | 1,921 | 444 |
| Dividends payable | 1,526 | 1,526 | 1,462 | 1,462 |
| Accrued charges relating to vacation reserve | 2,523 | 1,320 | 2,215 | 1,142 |
| Other accrued charges | 3,844 | 2,842 | 2,027 | 1,803 |
| Real estate tax payable | 1,118 | 1,117 | 668 | 667 |
| Other payables and current liabilities | 958 | 945 | 1,154 | 8 |
| **Total** | **137,140** | **40,581** | **167,262** | **161,976** |

The fair value of current other accounts payable (financial liabilities) approximates their carrying amounts.

*Advance amounts received from new users represent prepayments received from new users for their connection to the electricity network. These advance amounts will be recognised as income upon the provision of connection services.

## 26. Sales of electricity and related services

| | Group 2013 | Company 2013 | Group 2012 | Company 2012 |
|---|---|---|---|---|
| Electricity transmission service | 227,200 | 227,200 | 219,535 | 219,535 |
| Trade in balancing/regulating electricity | 186,849 | 186,849 | 108,828 | 108,828 |
| Capacity reserve service | 93,813 | 93,813 | 64,597 | 64,597 |
| Other sales of electricity and related services | 16,193 | 16,193 | 21,200 | 21,042 |
| Services under PSO scheme | 11,257 | 10,757 | 15,081 | 15,081 |
| Income from connection of new users | 5,965 | 5,965 | 1,031 | 1,031 |
| Other income | 21 | - | 255 | - |
| **Total** | **541,298** | **540,777** | **430,527** | **430,114** |

## 27. Segment information

The Group has distinguished the following 6 segments:

- electricity transmission;
- trade in balancing/regulating electricity;
- provision of system (capacity reserve) services;
- provision of services under PSO (public service obligation) scheme;
- activities of the market operator;
- repair and maintenance activities.

The segments of the Company coincide with the electricity transmission, trade in balancing/regulating electricity, provision of system (capacity reserve) services and provision of services under PSO (public service obligation) scheme segments presented by the Group. Segments of the Group and the Company are not aggregated.

The electricity transmission segment is engaged in transmitting electricity over high voltage (330-110 kV) networks from producers to users or suppliers not in excess of the limit established in the contract. The main objective of these activities is to ensure a reliable, effective, high quality, transparent and safe electricity transmission to distributions networks, large network users from power stations and neighbouring energy systems.

Trade in balancing/regulating electricity is a service ensuring the balancing of electricity generation/import and demand/export levels.

## 27. Segment information (continued)

Provision of system (capacity reserve) services. In order to ensure a reliable work of the system, the Company purchases from electricity producers the service of ensuring capacity reserve for power generation facilities, reaction power and voltage control, breakdown and disorder prevention and its liquidation and provides capacity reserve services to users. The capacity reserve is required in case of unexpected fall in electricity generation volumes or increase in electricity consumption.

The Company's/Group's services provided under PSO scheme comprise as follows:

- development and implementation of strategic projects for the improvement of energy security, installing interconnections between the electricity transmission systems abroad and (or) connecting the electricity transmission systems in the Republic of Lithuania with the electricity transmission systems in foreign countries (interconnections Lithuania-Sweden and Lithuania-Poland, connection of the Lithuanian electric energy system to continental Europe networks);
- connection of power generation facilities that use the renewable energy resources to transmission networks; optimisation, development and/or reconstruction of transmission networks ensuring the development of power generation that uses the renewable energy resources;
- balancing of electricity generated using the renewable energy resources.

Since 2013, the Company's subsidiary BALTPOOL UAB carries out the activities of PSO fund administrator, natural gas, additional security against the fluctuations in electricity prices in power exchange market and biofuel market operator (until 2013, these activities were carried out by the Company). BALTPOOL UAB earns revenue mainly for PSO fund administration. Until 18 June 2012, BALTPOOL UAB used to act as power exchange operator.

Repair and maintenance services are carried out by the Company's subsidiary TETAS UAB. These services include reconstruction, repair and technical maintenance of medium voltage transformer substations and distribution stations.

The Group's information on segments for the twelve-month period ended 31 December 2013 is presented in the table below:

| 2013 | Operating segments | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Electricity trans-mission | Trade in balancing/ regulating electricity | Provision of system services | Provision of services under PSO scheme | Activities of market operator | Repair and mainte-nance activities | Other inter-segment elimina-tions | Total |
| Revenue | 256,462 | 186,849 | 93,813 | 10,757 | 675 | 73,633 | - | 622,189 |
| Inter-segment revenue | - | - | - | - | (58) | (8,733) | 504 | (8,287) |
| **Revenue after elimination of intercompany revenue within the Group** | **256,462** | **186,849** | **93,813** | **10,757** | **617** | **64,900** | **504** | **613,902** |
| ***Operating profit (loss)** | **(9,611)** | **9,205** | **29,576** | **-** | **(914)** | **(2,510)** | **521** | **26,267** |
| **Income (expenses) from financing activities, net** | **2,518** | **-** | **-** | **-** | **4** | **(121)** | **-** | **2,401** |
| Share of result of associates and jointly controlled entities | 1,151 | - | - | - | - | - | - | 1,151 |
| **Profit (loss) before income tax** | **(5,942)** | **9,205** | **29,576** | **-** | **(910)** | **(2,631)** | **521** | **29,819** |
| ****Income tax** | **(4,549)** | **-** | **-** | **-** | **2** | **85** | **-** | **(4,462)** |
| **Net profit (loss) for the year** | **(10,491)** | **9,205** | **29,576** | **-** | **(908)** | **(2,546)** | **521** | **25,357** |
| Depreciation and amortisation expenses | 129,118 | - | - | - | 115 | 1,311 | (17) | 130,527 |
| Write-offs of property, plant and equipment | 5,353 | - | - | - | - | - | - | 5,353 |
| Acquisitions of non-current assets | 213,747 | - | - | - | - | 892 | - | 214,639 |

* On 26 September 2013 the Commission has established the price cap for the transmission service via high voltage transmission networks for 2014. According to the decision of the Commission No. O3-139 of 25 September 2011 on Methodology for Setting the Price Cap of the Electricity Transmission Services (amended by the Commission's decision No. O3-255 of 21 September 2012), the calculation of Electricity transmission fee cap for the year 2014 included the consideration of amounts of extra profits earned for the years 2011-2012, including result from balancing/regulating electricity services activity. For the twelve-month period of the year 2013 balancing/regulating electricity services profit was LTL 9,205 thousand. Profit that was received in 2013 from balancing/regulating electricity services may reduce operating profit of the Group and the Company in year 2015.
According to the Methodology for Setting the Price of the Electricity System Services, approved by decision No. O3-200 of 27 July 2012, while setting prices for the coming year of electricity system services the Commission is taking into consideration the difference between the planned and the actual costs and income from provision of system services of the previous year. For the twelve months of 2013 this difference (profit) was equal to LTL 20,905 thousand. The profit received from the provision of system services in 2013 will decrease the operating profit of the Group and the Company in 2015.
**Income tax and financing-investment activities are not allocated between the Company's operating segments, i.e. electricity transmission, balancing/ regulating, provision of system services and PSO services, and are attributed to electricity transmission operations.

## 27. Segment information (continued)

The Group's information on segments for the twelve-month period ended 31 December 2012 is presented in the table below:

| 2012 | Operating segments | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Electri - city trans- mission | Trade in balancing/ regulating electricity | Provision of system services | Provisio n of services under PSO scheme | Activi- ties of market operator | Repair and mainte- nance activities | Other inter- segment elimina- tions | Total |
| Revenue | 249,675 | 108,828 | 64,597 | 15,081 | 2,078 | 80,165 | - | 520,424 |
| Inter-segment revenue | - | - | - | - | (1,565) | (9,967) | (525) | (12,057) |
| **Revenue after elimination of intercompany revenue within the Group** | **249,675** | **108,828** | **64,597** | **15,081** | **513** | **70,198** | **(525)** | **508,367** |
| **Operating profit (loss)** | **(3,157)** | **23,509** | **8,091** | **-** | **192** | **211** | **(519)** | **28,327** |
| **Income (expenses) from financing activities, net** | **1,727** | **-** | **-** | **-** | **104** | **9** | **-** | **1,840** |
| Share of result of associates and jointly controlled entities | 636 | - | - | - | - | - | - | 636 |
| **Gain on change in ownership interest in associate** | **232** | **-** | **-** | **-** | **-** | **-** | **-** | **232** |
| **Profit (loss) before income tax** | **(562)** | **23,509** | **8,091** | **-** | **296** | **220** | **(519)** | **31,035** |
| ***Income tax** | **(4,731)** | - | - | - | **(36)** | **(154)** | **-** | **(4,921)** |
| **Net profit (loss) for the year** | **(5,293)** | **23,509** | **8,091** | **-** | **260** | **66** | **(519)** | **26,114** |
| Depreciation and amortisation expenses | 124,960 | - | - | - | 93 | 1,236 | (6) | 126,283 |
| Write-offs of property, plant and equipment | 1,409 | - | - | - | - | - | - | 1,409 |
| Acquisitions of non-current assets | 114,098 | - | - | - | - | 776 | - | 114,874 |

* Income tax and financing-investment activities are not allocated between the Company's operating segments and are attributed to electricity transmission activity.

The Group operates in Lithuania and its revenue generated from customers in Lithuania accounts for 99% of total revenue.

The Company sells regulating electricity to transmission system operators in Latvia and Estonia and provides the electricity transit service to the Russian transmission system operator.

In 2013 and 2012, the Group's and the Company's revenue by geographical location of customers:

| Country | Group 2013 | Company 2013 | Group 2012 | Company 2012 |
|---|---|---|---|---|
| Lithuania | 603,460 | 537,535 | 503,893 | 433,828 |
| Russia | 2,088 | 2,088 | 2,010 | 2,010 |
| Estonia | 1,648 | 1,648 | 1,564 | 1,564 |
| Latvia | 6,679 | 6,679 | 882 | 882 |
| Great Britain | 27 | 27 | - | - |
| Bulgaria | - | - | 18 | 18 |
| **Total** | **613,902** | **547,977** | **508,367** | **438,302** |

All assets of the Group and the Company are located in Lithuania.

The Group income from largest clients, for which sales in Group's segments exceeded 10 %:

| Name of the Company | Transmission activity | Trade in balancing/regulating electricity | Provision of system (capacity reserve) services |
|---|---|---|---|
| INTER RAO Lietuva AB | 9,708 | 74,866 | - |
| LESTO AB | 213,115 | - | 79,568 |
| Lietuvos energijos gamyba AB | 655 | 58,588 | 260 |
| SKY ENERGY GRUOP UAB | 99 | 16,887 | - |

## 28. Other revenue

| | Group 2013 | Company 2013 | Group 2012 | Company 2012 |
|---|---|---|---|---|
| Repairs and other services | 64,149 | - | 66,566 | - |
| Lease of assets | 5,987 | 6,037 | 6,060 | 6,081 |
| Engineering works | 1,537 | - | 3,332 | - |
| Other income | 931 | 1,163 | 1,882 | 2,107 |
| **Total** | **72,604** | **7,200** | **77,840** | **8,188** |

## 29. Related-party transactions

The Company's/Group's related parties in 2013 and 2012 were as follows:

- EPSO-G (the parent of the Company) (with effect from 28 September 2012). 100% of EPSO-G share capital is owned by the Ministry of Energy of the Republic of Lithuania;
- Subsidiaries of the Company;
- Associates and jointly controlled entities of the Company;
- Lietuvos Energija UAB (former name until 29 August 2013: Visagino atominė elektrinė UAB) and its subsidiaries were considered as related party until 28 September 2012, because it was the ultimate shareholder of the Company up to this date.
- Management of the Company.

The Ministry of Energy of the Republic of Lithuania is the ultimate shareholder of the Company. The Group/Company does not treat state-owned companies as a single client as such companies do not pertain a considerable economic integration. The transactions with state-owned companies LESTO AB and Lietuvos Energija AB, which are in detailed in Note 27, are regulated by legal acts, except for the share exchange agreement disclosed in Note 6.

The Group's transactions and balances with related parties during the twelve-month period ended 31 December 2013 were as follows:

| Related parties | Trade and other payables and advances received | Trade and other receivables | Purchases | Sales |
|---|---|---|---|---|
| Associates | 2,533 | 616 | 15,141 | 6,140 |
| The Group's parent company (UAB EPSO-G) | 12 | - | 10 | - |
| **Total** | **2,545** | **616** | **15,151** | **6,140** |

The Company's transactions and balances with related parties during the twelve-month period ended 31 December 2013 were as follows:

| Related parties | Trade and other payables and advances received | Trade and other receivables | Purchases | Sales |
|---|---|---|---|---|
| Subsidiaries | 17,477 | 9,245 | 130,064 | 100,465 |
| Associates | 2,405 | 616 | 14,465 | 6,126 |
| The Group's parent company (UAB EPSO-G) | 12 | - | 10 | - |
| **Total** | **19,894** | **9,861** | **144,539*** | **106,59** |

*Whereof: LTL 97,533 thousand PSO service fees paid to related parties (PSO fund administrator). The Company acts as an agent for the Commission/State in these transactions. The Group does not recognise revenue and expenses from PSO funds that are collected from the electricity network users and transferred to the PSO fund administrator.
**Whereof: LTL 100,186 thousand PSO service fees received from related parties (PSO fund administrator). Out of which LTL 4,429 thousand received under the transaction where the Company acts as an agent for the Commission/State in these transactions. The Group does not recognise revenue and expenses from PSO funds that are collected from the electricity network users and transferred to the PSO fund administrator.

The Group's transactions and balances with related parties during the twelve-month period ended 31 December 2012 were as follows:

| Related parties | Trade and other accounts payable and advances received | Trade and other receivables | Purchases | Sales |
|---|---|---|---|---|
| Lietuvos energija UAB group companies | 47,237 | 122,225 | 692,308 | 1,280,502 |
| Associates of the Group | 3,718 | 625 | 23,591 | 6,388 |
| **Total** | **50,955** | **122,850** | **715,899*** | **1,286,890**** |

*Whereof: LTL 432,243 thousand PSO service fees paid to related parties and LTL 131,620 thousand purchases of electricity on the power exchange from related parties. The Group acts as an agent in these transactions. The Group does not recognise revenue and expenses from electricity trading in power exchange and administration of PSO service fees with respect to those transaction in which it acts as an agent on behalf of the Commission/Government.

## 29. Related-party transactions (continued)

**Whereof: LTL 623,532 thousand PSO service fees received from related parties and LTL 304,339 thousand sales of electricity on the power exchange to related parties. The Group does not recognise revenue and expenses from electricity trading in power exchange and administration of PSO service fees with respect to those transaction in which it acts as an agent on behalf of the Commission/Government.

The Company's transactions and balances with related parties during the twelve-month period ended 31 December 2012 were as follows:

| Related parties | Trade and other accounts payable and advances received | Trade and other receivables | Purchases | Sales |
|---|---|---|---|---|
| Lietuvos energija UAB group companies | 46,833 | 107,634 | 599,723 | 974,808 |
| Subsidiaries of the Company | 6,548 | 13 | 45,667 | 243 |
| Associates of the Company | 2,439 | 622 | 22,644 | 6,378 |
| **Total** | **55,820** | **108,269** | **668,034*** | **981,429**** |

*Whereof: LTL 432,243 thousand PSO service fees received from related parties and LTL 44,942 thousand sales of electricity on the power exchange to related parties. In performing PSO-related activities the Company acts only as an agent on behalf of the Commission/Government.

**Whereof: LTL 623,532 thousand PSO service fees received from related parties and LTL 44,942 thousand sales of electricity on the power exchange to related parties. In performing PSO-related activities the Company acts only as an agent on behalf of the Commission/Government.

***Payments to the key management personnel***

| | Group 2013 | Company 2013 | Group 2012 | Company 2012 |
|---|---|---|---|---|
| Employment-related payments | 2,684 | 1,772 | 2,710 | 1,647 |
| *Out of which - termination benefits* | *258* | *258* | *246* | *177* |
| Average number of the key management personnel | 16 | 8 | 16 | 8 |

Key management consists of heads of administration and their deputies/directors of departments and chief financiers.

## 30. Basic and diluted earnings per share

In 2013 and 2012, basic and diluted earnings per share were as follows:

| | 2013 | 2012 |
|---|---|---|
| Net profit (loss) attributable to the Company's shareholders (thousand LTL) | 25,669 | 26,005 |
| Weighted average number of shares (units) | 504,331,380 | 504,331,380 |
| **Basic and diluted earnings per share (in LTL)** | **0.05** | **0.05** |

## 31. Financial risk factors

The Group companies are exposed to financial risks in their operations. In managing these risks the Group companies seek to mitigate the impact of factors which could adversely affect the Group's and the Company's financial performance results. Financial risk management is conducted by the Company's Finance Planning and Analysis Department in accordance with the description of LITGRID group treasury management procedure approved by LITGRID Board.

**Financial instruments by category (as reported in the statement of financial position)**

| Financial assets | Group as at 31 December 2013 | Company as at 31 December 2013 | Group as at 31 December 2012 | Company as at 31 December 2012 |
|---|---|---|---|---|
| Trade receivables | 65,447 | 53,296 | 72,156 | 51,646 |
| Other receivables | 111,467 | 36,607 | 97,034 | 95,844 |
| Other financial assets | 21,262 | 4,835 | 63,490 | 62,312 |
| Time deposits | - | - | - | - |
| Cash and cash equivalents | 81,562 | 80,751 | 127,387 | 126,097 |
| **Loans and receivables** | **279,738** | **175,489** | **360,067** | **335,899** |
| **Other financial assets** | | | | |
| Held-to-maturity investments | 70,000 | 70,000 | - | - |
| Available-for-sale financial assets | 7,723 | 7,723 | 7,722 | 7,722 |
| **Total** | **357,461** | **253,212** | **367,789** | **343,621** |

**31. Financial risk factors (continued)**

| Financial liabilities | Group as at 31 December 2013 | Company as at 31 December 2013 | Group as at 31 December 2012 | Company as at 31 December 2012 |
|---|---|---|---|---|
| Borrowing | 221,523 | 214,074 | 184,068 | 179,546 |
| Trade payables | 78,616 | 75,422 | 102,618 | 83,931 |
| Other accounts payable and liabilities | 123,329 | 28,810 | 141,852 | 140,482 |
| **Total** | **423,468** | **318,306** | **428,538** | **403,959** |

**Credit risk**

As at 31 December 2013 and 2012, exposure to credit risk was related to the following items:

| | Group as at 31 December 2013 | Company as at 31 December 2013 | Group as at 31 December 2012 | Company as at 31 December 2012 |
|---|---|---|---|---|
| Financial assets, except for assets available for sale | 352,426 | 245,489 | 360,067 | 335,899 |

The Group and the Company have a significant credit risk concentration, because exposure to credit risk is shared among 10 main customers, which 31 December 2013 accounted for approximately 93 percent (2012 - 97 percent) of the Group's and 86 per cent (2012 -84 percent) the Company's total trade and other accounts receivable (financial assets). Amounts payable by the major customer, distribution network operator LESTO AB, accounted for 15 (2012 - 60 percent) and 29 percent (2012 - 69 percent) of the Group's and the Company's total receivables (financial assets), respectively.

When entering into contracts with customers (suppliers of balancing electricity) LITGRID requires to pay a cash deposit of the established amount or to provide a bank guarantee in accordance with the procedure and conditions stipulated in the Description of the Procedure for Ensuring Fulfilment of Obligations of Balancing Electricity Suppliers of LITGRID AB approved by the Company's general director. In other cases, since the main customers are trustworthy customers (LESTO AB, which is Visagino Atominė Elektrinė UAB group company, and large corporate customers), the Group/Company does not require any collateral from its customers.

The Group/Company invests its liquid funds only in low risk money market and debt instruments, i. e. time deposits bonds of trustworthy financial institutions, government securities. When making investments the priority objective is to ensure the security of funds and in pursue of this objective to maximise return on investments. Investments are made only in debt financial instruments of financial institutions or governments with not lower than AA- rating according to Fitch Rating agency (or equivalent rating of other rating agencies). In the table below are provided ratings of the banks where the Group/Company holds its cash and cash equivalents (Note 13) and other financial assets (Note 11):

| | |
|---|---|
| Nordea | AA- |
| Danske bank | A- |
| Swedbank | A+ |
| SEB | A+ |
| Pohjola Bank plc | A+ |
| DNB Bank | A+ |

Trade and other receivable are mainly from the state controlled entities and large manufacturers with no history of significant defaults.

For ageing analysis of the Group's/Company's trade and other receivables see Note 9 and Note 10.

**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 2013, therefore its exposure to liquidity risk is not significant. The Group's liquidity (total current assets / total current liabilities) and quick ((total current assets - inventories) / total current liabilities) ratios as at 31 December 2013 were 1.27 and 1.24, respectively (31 December 2012: 1.14 and 1.09, respectively). The Company's liquidity and quick ratios as at 31 December 2013 were 1.41 and 1.39, respectively (31 December 2012: 1.13 and 1.12, respectively).

### 31. Financial risk factors (continued)

The table below summarises the maturity profile of the Group's and the Company's financial liabilities based on contractual undiscounted payments. This table 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 with repayment terms up to 12 months are equal to their carrying amounts, because the impact of discounting is insignificant.

| Group | Up to 3 months | From 4 months up to one year | Within the second year | Within the third to the fifth year | After 5 years |
|---|---|---|---|---|---|
| **At 31 December 2013** | | | | | |
| Trade and other accounts payable | 201,945 | - | - | - | - |
| Borrowings | 8,253 | 51,186 | 43,399 | 87,880 | 39,968 |
| **At 31 December 2012** | | | | | |
| Trade and other accounts payable | 65,985 | - | - | - | - |
| Borrowings | 4,996 | 42,856 | 43,294 | 97,659 | - |

| Company | Up to 3 months | From 4 months up to one year | Within the second year | Within the third to the fifth year | After 5 years |
|---|---|---|---|---|---|
| **At 31 December 2013** | | | | | |
| Trade and other accounts payable | 104,232 | - | - | | - |
| Borrowings | 804 | 51,186 | 43,399 | 87,880 | - |
| **At 31 December 2012** | | | | | |
| Trade and other accounts payable | 224,413 | - | - | - | - |
| Borrowings | 474 | 42,856 | 43,294 | 97,659 | - |

**Market risk**

a) Interest rate risk

The Group's and the Company's income, expenses and cash flows from operating activities are substantially independent of changes in market interest rates. The Group has non-current and current borrowings and the overdraft subject to interest rate which is linked with VILIBOR and EURIBOR. If interest rate would be shifted +/- 0.1%, the impact of interest rate of the Group's borrowings on profit before tax would be LTL 181 thousand as at 31 December 2013.

b) Foreign exchange risk

In order to manage the foreign exchange risk, the Group and the Company enter into purchase/sale contracts only in euros or litas. With effect from 2 February 2002, the litas has been pegged to the euro at the fixed exchange rate, therefore, there is no foreign exchange risk in substance.

### 32. 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 receivables and other accounts receivable, time deposits, cash and cash equivalents, borrowings, trade payables and other accounts payable and held to maturity investments.

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 accounts receivable, held-to-maturity financial assets, time deposits, cash and cash equivalents, current borrowings, current trade and other accounts payable approximates their fair value.
- The fair value of non-current borrowings is based on the quoted market price for the same or similar issues or on the current rates available for borrowings with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts.
- The fair value of held to maturity investments is determined based on the estimated fair value of bonds in which the Company invested. The fair value determined is classified in the category of valuation models which are based on indirectly available in the market data (2 level).

## 33. Contingent liabilities

Litigations

Legal claim is filed by the Company against A. Blyskys, B. Černauskiene, A. Černauskas (hereinafter - the defendants) and SEB bankas AB, regarding the application of servitude in relation with construction and maintenance of 330 kV overhead transmission line Klaipėda-Telšiai. The defendants filed a counterclaim demanding the compensation for the application of servitude in the amount of LTL 700 thousand instead of the amount offered by the Company. The case was solved in the court of first instance in favour of the defendants, LTL 650,548 was awarded to the defendants from the Company. The Company has filed an appeal to the Court of Appeal of Lithuania which can continue for several years. It is quite possible that the Court of Appeal of Lithuania will uphold the decision of the court of first instance which orders the Company to pay the awarded amount. In 2013 Company has made a provision of LTL 650,548 for possible loss under other payable caption and increased the respectively the value of the construction in progress as of 31 December 2013.

The civil case initiated by the Company against Achema AB for the claim of debt and related interest amount. The Company has submitted a lawsuit against Achema AB for the collection of debt in the amount of LTL 2,271,108.65 and related interest in the amount of LTL 20,918.25 in accordance with Electricity transmission agreement (hereinafter - the Agreement) signed between the Company and Achema AB for the respective public service obligations (hereinafter - PSO) for the period from April to June 2011. The investigation of this case was suspended by the decision of 14 June 2012 of Kaunas County Court until the completion of investigation of the civil case initiated by the claim of Achema AB against LITGRID requesting the recognition of the transaction as null and void and payment of restitution compensation. The later civil case of Achema AB is also suspended until final resolution of the administrative case at the Supreme Administrative Court of Lithuania (SACL) initiated on the 2 March 2011 by the claim (request) of the group of the Lithuanian Parliament (Seimas) members regarding non-compliance of regulations of the Law on Electric Energy of the Republic of Lithuania. The latter case by the claim of the Lithuanian Parliament is also suspended since 30 January 2012 until the Constitutional Court of the Republic of Lithuania completes its investigation of the request submitted by 33 members of the Lithuanian Parliament on 14 June 2011 to investigate whether the Paragraph 41 of Article 2 of the Law on Electric Energy of the Republic of Lithuania is not in breach of the Constitution of the Republic of Lithuania. As at 31 December 2013, the outstanding overdue debt of Achema AB amounted to LTL 10,247 thousand. The outcome of the case will have no impact on the Company's or Group's net profit (loss) because the Company acts as an agent and PSO fees administered by it are recognised only under amounts receivable (payable) caption.

The administrative case was initiated on the basis of Achema AB claim for damages caused by illegitimate actions of the state institutions. Achema AB claims that state institutions acted illegitimately and beyond their competence when they adopted the Law on Electric Energy of the Republic of Lithuania, the provisions of which are in breach of the Constitution of the Republic of Lithuania and EU legal acts, and regulations that are in breach of legal acts bearing superior power. Achema AB claims that damages incurred by it as a result of allegedly illegitimate actions of state authorities amounted to LTL 3,127,402.11. on 7 December 2011 Vilnius County Administrative Court decided to suspend the investigation of this case until the Supreme Administrative Court of Lithuania completes the investigation of the aforementioned case, which is until the Constitutional Court of the Republic of Lithuania completes its investigation of the request submitted by the members of the Lithuanian Parliament. The resolution of this case will not have an impact on the net profit (loss) of the Company because the Company acts as an agent and PSO fees administered by it are recognised only as amounts receivable(payable).The management does not believe that these litigations will have any negative impact on the Group's/Company's net profit (loss).

Legal claim filed by the Company against Achema AB regarding the debt and interests for the January 2013 services and obligation to sign the PSO fee collecting agreement. The Company demands from AB Achema to pay outstanding PSO fees for January 2013 in amount of LTL 1,304,306.51 (interest included). Currently, the case is suspended until the judgment of Vilnius Regional Administrative Court in administrative case No I-2498-365/2013 concerning the resolution of the National Commission for Energy Control and Prices on the establishment of POS fees and prices for 2013, is made and takes effect. It should be noted that since 2013 the Company acts as a PSO fee collector only. According to the agreement with PSO fee administrator the company of the Group BALTPOOL UAB, in case the Company's customers do not pay PSO fees in 3 consecutive months, the Company has a right to reduce the funds transferrable to BALTPOOL UAB (which acts as an agent and PSO fees administrated by it are recognized only as amounts receivable (payable)) in the amount equal to the uncollected PSO fees.
Taking this into consideration, Court's either favourable or unfavourable decision with respect to the Company, will not have any negative impact on the Group's/Company's net profit (loss).

Legal claim filed by the Company against AB LIFOSA regarding the debt and interests for the January 2013 services and obligation to sign the PSO fee collecting agreement. The Company demands from AB LIFOSA to pay outstanding PSO fees for January 2013 in amount of LTL 362,517.60 (interest included). Currently, the claim is in the preparation for analysis stage using the documentary process. It is important noting that since 2013, the Company acts as a PSO fee collector only. According to the agreement with PSO fee administrator Group's company BALTPOOL UAB, in case the Company's customers do not pay PSO fees in 3 consecutive months, the Company has the right to reduce the funds transferrable to BALTPOOL UAB (which acts as an agent and PSO fees administrated by it are recognized only as amounts receivable(payable)) in the amount equal to the uncollected PSO fees. Taking this into consideration, Court's either favourable or unfavourable decision with respect to the Company, will not have any impact on the Group's/Company's net profit (loss).

Legal claim filed by the Company against AB ORLEN Lietuva regarding the debt and interests for the January 2013 services and obligation to sign the PSO fee collecting agreement. The Company demands from AB ORLEN Lietuva to pay outstanding PSO fees for January 2013 in amount of LTL 1,366,856.42 (interest included). Currently, the claim is in the preparation for analysis stage using the documentary process. It is important noting that since 2013, the Company acts as a PSO fee collector only. According to the agreement with PSO fee administrator Group's company BALTPOOL UAB, in case the Company's customers do not pay PSO fees in 3 consecutive months, the Company has the right to reduce the funds transferrable to BALTPOOL UAB (which acts as an agent and PSO fees administrated by it are recognized only as amounts receivable(payable)) in the amount equal to the uncollected PSO fees. Taking this into consideration, Court's either favourable or unfavourable decision with respect to the Company, will not have any negative impact on the Group's/Company's net profit (loss).

### 33. Contingent liabilities (continued)

Legal claim filed by A. Žilinskio ir Ko UAB against the Company demanding to declare the one-sided set-off invalid and also decide in favour of payment for construction works and related overdue interest fee. According to the contract signed on 2 July 2010, A. Žilinskio ir Ko UAB was obliged to complete the construction of the 110 kV transmission line Nemunas-Murava no later than 18 November 2011. However, the construction was ended only on 30 January 2013. LITGRID AB charged A. Žilinskio ir Ko UAB the forfeit in the amount of LTL 880,187.45 which the Company set-off with the amount payable to A. Žilinskio ir Ko UAB and recognised as overdue interest income in 2012 (as new circumstances became known this amount was decreased to LTL 861,738.84, amount of LTL 18,448.61 was returned to A. Žilinskio ir Ko UAB). A. Žilinskio ir Ko UAB was demanding to declare the set-off invalid, repay the set off amount and adjudge the overdue interest. On 16 October 2013 court took the decision to reject A. Žilinskio ir Ko UAB claim in full. On November 14, 2013 claimant appealed against court decision. The Company did not make any provision for possibly refundable amount of defaults and penalties as expected to win the case.

Civil cases involving the claims of LITGRID AB against the suppliers of balancing energy to recover debts for the supplied balancing energy:
- The 28 January 2014 decision of the Vilnius Regional Court regarding the opening of insolvency proceedings against ECO Energy Systems UAB; LITGRID AB intends to file a claim as a creditor against the insolvency administrator appointed by the court for the amount of LTL 1,738,520.97;
- On 10 December 2013 LITGRID AB filed a claim with the Vilnius Court of Commercial Arbitration to recover a debt of LTL 7,754,569.26 under the Balancing Energy Purchase and Sale Agreement between LITGRID AB and Elektra Visiems UAB;
- On 20 December 2013 LITGRID AB filed a claim with the Vilnius Court of Commercial Arbitration to recover a debt of LTL 14,348,302.54 under the Balancing Energy Purchase and Sale Agreement between LITGRID AB and Sky Energy Group UAB (currently Saurama UAB). At the request of LITGRID AB Vilnius District Court prescribed interim measures and imposed retention on Sky Energy Group UAB for the amount in the claim. In 2013 the Company has made a provision for doubtful debts of LTL 21,163,655.94 related to the receivables listed above.

A civil case involving a claim of Energijos Kodas UAB to be awarded LTL 5,621,835 for the loss and the claims of a group of other independent energy suppliers to cover the alleged loss that resulted from the agreement between LITGRID AB and Latvian and Estonian electricity transmission system operators, which supposedly triggered a rise in wholesale electricity prices on the market. Energijos Kodas UAB and a group of other independent energy suppliers claimed that they sustained losses due to an illegitimate agreement (violating the right of competition) with Latvian and Estonian electricity transmission system operators. In the opinion of independent energy suppliers, this agreement restricted competition on the wholesale energy market and subsequently sparked a price rise on the wholesale electricity market. Energijos Kodas UAB and other independent energy suppliers paid the market price for electricity and sold electricity to final consumers at a fixed lower price despite the fact that wholesale electricity prices increased. Energijos Kodas UAB claims that due to this difference in electricity prices it incurred a loss of LTL 5,621,835, for which it seeks compensation. LITGRID AB contests the claim and its statements. Currently the Company is drafting a response to the claim. The independent energy suppliers that submitted claims to LITGRID AB indicated that they will seek an award for sustained losses in court. In its response to these claims LITGRID AB declares that it does not agree with the claims and statements contained in them about the allegedly sustained losses by the independent energy suppliers. According to the management of the Company, after assessing the current situation and facts, these claims are not justified, the requirements are not based on solid evidence and arguments and the Company cannot reasonably estimate the total amount of claims that may arise from this uncertainty, therefore, no provision relating to this uncertainty were recorded in the financial statements.

Besides, on 6 March 2014 the Company received a detailed ABB AB claim regarding additional payment for the increased bypass reactor capacity in relation to the fulfilment of the agreement No SUT-40-13 of 15 February 2013 for the design and construction of Alytus high-voltage direct current insertion with 400kV switch-gear (the works are one of the Lit-Pol Link implementation stages). According to ABB AB, such increase in the bypass reactor capacity was not provided for in the agreement concluded; therefore, in accordance with the calculations of ABB AB, LITGRID AB should make an additional payment of LTL 3,005 thousand (EUR 870 thousand) for the works. In the opinion of LITGRID AB, the claim is groundless, the required capacity increase was within the scope of the agreement, and the contractor had to allow for that during the procurement procedures; thus, the Company will contest the claim of ABB AB; therefore, no provisions were accounted for in these financial statements in connection with this contingency.

### 34. Off-balance-sheet liabilities

Commitments to purchase property, plant and equipment are provided in Note 5.

### 35. Subsequent events

On 24 February 2014, following the decision of the Board of the Company of 14 February 2014, the Company established an entity Tinklo Priežiūros Centras UAB, the key focus of which is to prepare for installation, management and operation of the links between the power system of the Republic of Lithuania and the power systems of the Republic of Poland and the Kingdom of Sweden, as well as to compile competence and expertise related to management and operation of such international power links.

The authorised capital of the established private limited liability company amounts to LTL 600,000. 100 per cent of shares of Tinklo priežiūros centras UAB are owned by the Company.

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LitGRID

# CONSOLIDATED ANNUAL REPORT OF LITGRID AB AND ITS SUBSIDIARIES FOR 2013

## I. General information about the Group of companies

The consolidated annual report was prepared for the 2013 financial year.

**The Issuer and its contact details:**

| | |
|---|---|
| Name | LITGRID AB (hereinafter referred to as 'Litgrid' or the 'Company') |
| Legal form | AB (public company) |
| Registration date and location | 2010-11-16, Register of Legal Entities of the Republic of Lithuania |
| Company code | 302564383 |
| Headquarters address | A. Juozapavičiaus g. 13, LT-09311, Vilnius |
| Telephone | +370 5 278 2777 |
| Fax | +370 5 272 3986 |
| E-mail | info@litgrid.eu; www.litgrid.eu |

### Litgrid's operations

Litgrid, Lithuania's electricity transmission system operator (hereinafter referred to as the 'TSO'), maintains stable operation of the country's electricity system, manages electricity flows, and enables competition in the open electricity market. Litgrid is responsible for the integration of Lithuania's electricity system into Europe's electricity infrastructure and the common market for electricity. The Company is implementing the strategic NordBalt (Lithuania – Sweden) and LitPol Link (Lithuania – Poland) power link projects. In seeking to enhance the country's energy independence, we foster a culture of responsibility, rational creativeness, and dialogue.

Litgrid's mission is to ensure the reliable electricity transmission and enable competition in the open electricity market.

Litgrid's vision is the total integration of Lithuania's electricity system into Europe's electricity infrastructure and the common market for electricity.

Litgrid's values are cooperation, respect, responsibility, professionalism, and initiative.

### Litgrid's strategy is the responsibility to manage the country's electricity system

As the backbone of the Lithuanian electricity sector, Litgrid is not only responsible for the maintenance of the balance of the electricity consumed and produced in the system and the reliable transmission of electricity but also implements strategic Lithuanian electricity projects, with its vision and strategic operating guidelines based on the long-term goals identified in the National Energy Independence Strategy. The Lithuanian TSO's most important operational areas and responsibilities are the 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 common Baltic and European electricity market, and the integration of the Lithuanian and continental European electricity systems for synchronous operations.

### Litgrid's operating plans and forecasts

Litgrid works actively and responsibly in the following key directions:

Integration of the country's electricity system into Europe

Once Lithuania becomes a full-fledged participant of the European electricity system, European system management standards will be introduced in the electricity sector, and electricity flow management based on market principles and participation in maintaining the system's frequency will be ensured. The desired result is the Baltic countries' synchronous operation in continental European grids.

A common European market for electricity

The integration of the Lithuanian electricity market into the Baltic and Nordic electricity market and, later, the common European electricity market will ensure transparent wholesale electricity prices, competition, and freedom of choice for all market participants as well as equitable trade in electricity with neighbouring European states. Being a part of a large electricity market will allow for the most effective use of networks and generation infrastructure and for ensuring electricity transmission security.

Integration of the transmission grid into Europe's electricity infrastructure

Lithuania's electricity transmission grid is strong and well connected with the electricity transmission infrastructure of the neighbouring Eastern states; by the power links to be established with Sweden (NordBalt) and Poland (LitPol Link) by 2015, it will be connected to the electricity grids of Northern and Western Europe. The development of inter-system links will create opportunities to sell electricity between different energy systems, and optimal investment into the country's grid will ensure the integration of new electricity generators, the safe transmission of electricity, and the reliability of the system's operations.

**A modern organization that rationally takes advantage of technological and management innovations**

Litgrid is a pro-European project-oriented company whose operations are based on modern management principles and responsible operations. In implementing large-scale energy projects of strategic significance that are important to the entire country's economy, the company cultivates these essential competencies: system management and reliable electric transmission, maintaining the country's electricity balance, maintaining infrastructure, and project management. In planning the development of the transmission grid, electricity market, and energy system, Litgrid's people—specialists and managers of the highest competency—orient themselves toward innovations that further smart grid development, formulate technical transmission grid policies, cooperate with Lithuania's institutions of higher education, and participate in the activities of international organizations that are responsible for the planning of electricity infrastructure, markets, and the system.

In implementing strategic projects that help ensure the country's energy independence and working in a strict regulative environment, Litgrid makes every effort to rationally and effectively use existing financial resources and European Union support while contributing to increasing the country's economic competitiveness and improving consumer welfare. In 2007–2013, LTL 103 million of European Union funds were allocated to 18 electricity transmission grid investment projects carried out by Litgrid, the transmission system operator.

**The most important activities of 2013 in implementing strategic projects and other electricity sector projects**

*The LitPol Link inter-system power link project implementation activities*

In 2013, all the requisite construction contracts for the LitPol Link power link were signed.

In February 2013, a design and construction works contract was signed with ABB AB for the Alytus HVDC back-to-back converter with a 400 kV switchyard (the completion date is 31 December 2015).

In April 2013, building permits were obtained for the reconstruction of the Alytus transformer substation's 330 kV switchyard.

In May 2013, building permits were obtained for a 400 kV overhead line from the Alytus transformer substation to Lithuania's border with Poland.

In May 2013, a contract was signed with Poyry Swedpower AB for technical and contractual consultations on preparing and implementing technical designs for Alytus HVDC back-to-back converter with a 400 kV switchyard.

In September 2013, a construction contract was signed for the reconstruction of the Alytus transformer substation's 330 kV switchyard.

In November 2013, a construction contract was signed for the 400 kV overhead line from the Alytus transformer substation to Lithuania's border with Poland.

In November 2013, reconstruction of the Alytus transformer substation's 330 kV switchyard began.

In December 2013, building permits were obtained for the Alytus HVDC back-to-back converter with a 400 kV switchyard.

*The NordBalt inter-system power link project implementation activities*

In 2013, more than a third of the NordBalt submarine cable was manufactured.

In March 2013, the Government of the Republic of Lithuania approved the laying of the NordBalt cable in a stretch of Lithuanian coastline and the exclusive economic zone in the Baltic Sea.

In March 2013, detailed design work for the direct current converter substation began.

In May 2013, the final building permit was obtained for the NordBalt power link. In total, four building permits were obtained during the first half of 2013: for the back-to-back converter substation in the Klaipėda District Municipality, cable construction in the Klaipėda District Municipality, Klaipėda city municipality, and the coastal stretch (Curonian Spit) along with the Republic of Lithuania's territorial waters and the exclusive economic zone in the Baltic Sea.

In July–November 2013, preparatory work was conducted for the laying of the NordBalt power link cable in the territory of the municipality of Klaipėda and the Curonian Spit: temporary access roads were built, horizontal drilling work was performed, and cable tubes were put down.

In 2013, reconstruction of the Klaipėda transformer substation and the 330 kV Klaipėda–Telšiai electricity transmission line continued. During the year, more than two thirds of the electricity line was built.

*Lithuanian electricity market development work*

In January 2013, Litgrid began providing market participants with forecasts of the scope of electricity produced by wind turbines for trade on the electricity market. Based on this forecast, electricity sales offers are submitted in the Nord Pool Spot electricity exchange's Lithuanian trade zone.

On 10 December 2013, an additional mean of electricity trading began operating in the Lithuanian trade zone: the Elbas intraday market. Through it, trading electricity up to an hour before its delivery is possible. The intraday market allows market participants to more effectively manage risk in wholesale electricity trading and balance the trading of electricity produced from renewable resources.

The opening of the intraday market of the Nord Pool Spot exchange, which operates in all of the Baltic States, in Lithuania is a part of the Baltic Energy Market Interconnection Plan (BEMIP) initiated by the European Commission. Operating under identical principles, the common electricity market ensures transparent wholesale electricity prices and trading, the opportunity to buy cheaper electricity produced in other countries, and identical trading conditions for all market participants.

*Project implementation work for integrating the Lithuanian electricity system into continental European electricity grids*

In October 2013, a feasibility study was prepared on the integration of the Baltic States into the European Union's internal electricity market and the installation of possible connections. The study's authors examined technical, legal, and socioeconomic aspects of connecting energy systems. The conducted tests make it possible to determine the technical requirements for the development of the continental European synchronous zone and the connection of energy systems. In seeking to connect the Baltic States' electricity systems with continental Europe's electricity grids for synchronous mode operations, the expected synchronization project's implementation costs were calculated. The study concluded that connecting the electricity systems of the Baltic States and continental Europe for synchronous mode operations is a complex yet feasible—both in terms of technological and legal aspects—project.

*Other important developments*

In January 2013, Litgrid updated one of Vilnius' most important electrical junctions by renovating the 110 kV Viršuliškės transformer substation. The substation's renovation, which cost LTL 2.2 million, was completed in less than a year.

On 6 May 2013, Litgrid's updated website, www.litgrid.eu, was launched. It conveniently provides useful information about electric power, electricity transmission, electricity trading, and management of the entire electricity system. The web site publishes the main data and project work calendars for sites—new electricity lines and transformer substations—that are under construction. Various pages provide information about strategic projects such as the electricity links with Poland and Sweden, and a new section has been created for landowners about high voltage electricity transmission lines in Lithuania and their established safety zones. For the professional user of information about electricity, a special Lithuanian electricity system data monitoring platform has been created. Automatically updated system data graphics and tables provide information about how much electricity has been produced in Lithuania, how much has been consumed, how much electricity costs, how much is bought on the exchange, and price comparisons with earlier time periods.

In June 2013, Litgrid prepared the Lithuanian electricity system grid development plan through 2022 and submitted it to the National Commission for Energy Control and Prices. The plan, prepared annually, presents forecasts about electricity needs, power plant capacities, and the electricity market as well as information about the electricity transmission grid, its development plan, and planned investments.

In August 2013, the certification procedure for Litgrid, the Lithuanian electricity transmission system operator, was successfully completed. The National Commission for Energy Control and Prices stated that the separation of Litgrid's transmission operations from electricity production and delivery companies under the Electricity Law has been suitably implemented and the company was designated a transmission system operator. Litgrid was issued a transmission operations license for an indefinite period.

In October 2013, Litgrid and the Police Department signed a cooperation agreement for close and constructive work in ensuring the security of strategically important electricity sites. The agreement provides for comprehensive cooperation in organizing preventative measures, introducing safety systems, exchanging information about the criminological situation, and assessing possible threats to energy sites in the case of extreme events.

In December 2013, reorganization of the Litgrid system's management was completed, a single electricity system management centre encompassing all of Lithuania was established in Vilnius, and the main working tool of the dispatchers working in the system management system—the video wall—was renovated.

*Litgrid membership in international organizations*

In May 2013, Litgrid became a member of the Central European Energy Partners (CEEP). CEEP's main objective is to support the integration of the energy sector of new European Union member states (Central and Eastern Europe) in the common EU energy and energy security policy context.

Litgrid is a member of ENTSO-E (European Network of Transmission System Operators for Electricity). The organization, established in 2008, unifies electricity transmission system operators from 34 European states. Litgrid actively participates in the association's activities in planning and implementing Lithuanian electricity infrastructure development projects and electricity market interconnection and electricity transmission system integration plans.

**Litgrid subsidiaries and the nature of their operations**

As of 31 December 2013, the Litgrid group of companies consisted of Litgrid AB, BALTPOOL UAB (hereinafter referred to as Baltpool) and UAB Tetas.

| | |
|---|---|
| Name | BALTPOOL UAB |
| Legal form | UAB (private company) |
| Registration date and location | 2009-12-11, Register of Legal Entities of the Republic of Lithuania |
| Company code | 302464881 |
| Headquarters address | A. Juozapavičiaus g.13, LT-09311, Vilnius |
| Telephone | +370 5 278 2260 |
| Fax | +370 5 278 2707 |
| E-mail | info@baltpool.lt; www.baltpool.lt |
| Type of operations | Energy resource market operator |
| Shares controlled by Litgrid | 67 % |

| | |
|---|---|
| Name | UAB Tetas |
| Legal form | UAB (private company) |
| Registration date and location | 2005-12-08, Register of Legal Entities of the Republic of Lithuania |
| Company code | 300513148 |
| Headquarters address | Senamiesčio g. 102B, LT-35116, Panevėžys |
| Telephone | +370 45 504 618 |
| Fax | +370 45 504 684 |
| Type of operations | Specialised transformer substation and distribution point technical maintenance, repair, and installation services; testing and trial work; energy site design |
| Shares controlled by Litgrid | 100 % |

As of 31 December 2013, Litgrid Group also had shares in these companies:

| | |
|---|---|
| LitPol Link Sp.z.o.o (Poland) | 50 % of shares and voting rights |
| UAB Duomenų Logistikos Centras | 20.36 % of shares and voting rights |
| UAB Technologijų ir Inovacijų Centras | 10.00 % of shares and voting rights |
| NT Valdos, UAB | 0.35 % of shares and voting rights |
| Nord Pool Spot AS | 2.00 % of shares and voting rights and rotating board member |

**Services rendered by Litgrid Group of companies**

Litgrid, the electricity transmission system operator, renders the following services:

- Electricity transmission;
- System services (capacity reserve);
- Trading in balance and regulation electricity;
- Public service obligation services (hereinafter referred to as PSO);
- Maintenance and repairs of the electricity grid.

*Electricity transmission*

Electricity transmission services are the transmission of electricity over high voltage (330–110 kilovolts, kV) equipment. The transmission system operator sends electricity from producers to consumers who are connected to the transmission grid and to distribution network operators. Electricity transmission is regulated.
The main objective of TSO operations is to manage the high voltage electricity transmission grid and ensure reliable, effective, high-quality, transparent, and safe electricity transmission.

Electricity demand in Lithuania remained similar in 2013 to previous years; last year a total of 9.6 billion kilowatt-hours of electricity was consumed. Industrial and agricultural electricity demand grew slightly, while household consumers consumed almost two per cent less electricity than last year..

A total of 4.4 TWh of electricity were produced in Lithuania in 2013. As much as 15 % of the electricity used in Lithuania last year was produced from renewable resources. Wind energy production increased by a tenth, while electricity produced by hydroelectric power plants grew by about 13 %. The scope of generated solar energy grew more than 20 times. A new type of electricity producer using renewable resources also emerged; a power plant in the Klaipėda Free Economic Zone that burns waste supplied 76 million kilowatt-hours of electricity to the grid.

The production of Lithuanian power plants declined by 6 % in 2013, year-on-year. Some larger companies' power plants did not produce electricity for almost half a year. It is likely that the main reason for lower local generation is not only the warm end of the year but also high prices for imported fuel.

*2013 Lithuanian national electricity production and consumption balance data*

| TWh / 1 TWh (terawatt-hour) = 1 billion kWh (kilowatt-hours) | 2011 | 2012 | 2013 |
|---|---|---|---|
| **Electricity production (Net)** | 4.453 | 4.706 | 4.398 |
| Thermal power plants | 2.783 | 3.036 | 2.356 |
| Lithuanian Power Plant | 1.099 | 1.423 | 1.099 |
| Vilnius Power Plant | 0.535 | 0.434 | 0.427 |
| Kaunas Power Plant | 0.369 | 0.321 | 0.261 |
| Panevėžys Power Plant | 0.187 | 0.096 | 0.07 |
| Other thermal power plants | 0.593 | 0.762 | 0.5 |
| Hydroelectric power plants | 1.049 | 0.935 | 1.059 |
| Kaunas Hydroelectric Power Plant | 0.386 | 0.325 | 0.424 |
| Kruonis Hydro Pumped Storage Plant | 0.573 | 0.514 | 0.543 |
| Small hydroelectric power plant | 0.09 | 0.096 | 0.092 |
| Wind turbines | 0.473 | 0.538 | 0.6 |
| Wind turbines in the transmission grid | 0.382 | 0.437 | 0.494 |
| Wind turbines in the distribution grid | 0.091 | 0.101 | 0.106 |
| Other renewable energy resources | 0.148 | 0.197 | 0.383 |
| Biofuel-burning power plants | 0.148 | 0.195 | 0.263 |
| Solar power plants | | 0.002 | 0.045 |
| Waste-burning power plants | | | 0.076 |
| Commercial system balance (Import-export) | 6.739 | 6.619 | 6.946 |
| Import | 8.708 | 8.561 | 7.606 |
| Export | 1.969 | 1.942 | 0.66 |
| Total electricity demand in Lithuania | 11.192 | 11.325 | 11.344 |
| Kruonis Pumped Storage Plant activation | 0.796 | 0.718 | 0.77 |
| Total electricity consumption | 10.396 | 10.607 | 10.574 |
| Network technological costs | 0.937 | 0.947 | 0.929 |
| **Final electricity consumption** | **9.458** | **9.660** | **9.645** |
| Industry | 3.607 | 3.704 | 3.712 |
| Transport | 0.1 | 0.11 | 0.106 |
| Agriculture | 0.205 | 0.23 | 0.233 |
| Residents | 2.618 | 2.642 | 2.591 |
| Services and other consumers | 2.927 | 2.974 | 3.003 |

Final electricity consumption is electricity produced in Lithuania and imported into the country minus electricity exports, electricity needed to activate the Kruonis Pumped Storage Plant, and electricity necessary for electricity transmission and distribution grid technological needs.

*System (capacity reserve) services*

In order to maintain reliable system operations, Litgrid purchases electricity production equipment capacity reserve assurance, reactive capacity and voltage management, and accident and breakdown prevention and elimination services from energy producers and offers consumers system (capacity reserve) services. Capacity reserves are needed when electricity production suddenly and unexpectedly falls or its consumption increases.

*Trading in balance and regulation electricity*

Litgrid ensures the country's electricity production and consumption balance. Balance electricity is electricity that is consumed or produced outside of established electricity consumption and production schedules. Litgrid organizes trading in balance electricity and buys and sells balance electricity that is necessary to ensure the country's electricity production and consumption balance.

Regulation electricity is electricity bought and/or sold at the direction of the TSO that is necessary to perform the country's electricity consumption and production balancing function. Litgrid organizes trading in regulation electricity at auction. Those participating in the auction are regulation energy suppliers and other country's transmission system operators who have the technical means to quickly change electricity production and consumption modes and have signed corresponding contracts with Litgrid.

*Public service obligation services*

Public service obligations in the electricity sector are services that ensure and increase national energy security and the integration and usage of electricity produced from renewable resources. The list of public service obligations, their providers, and provisioning procedures are approved by the Government of the Republic of Lithuania or its authorized institution in accordance with public interests in the electricity sector. PSO funds are funds paid to PSO service providers.

Litgrid provides these PSO services:

- Preparation and implementation of strategic projects related to increasing energy security (the Lithuania–Sweden and Lithuania–Poland international electricity links and integration of the Lithuanian electricity system into continental European grids);
- Connection of electricity production equipment that use wind, biomass, or solar energy or hydroelectric power to the transmission grid and transmission grid optimization, development, and/or renovation related to the reception and transmission of electricity produced by producers who use renewable natural resources;
- Balancing of electricity produced using renewable energy resources.

By Resolution No. 1338 of the Government of the Republic of Lithuania of 7 November 2012, UAB Baltpool has been designated a PSO fund administrator effective 1 January 2013.

PSO provisioning procedures are established by the *Public Service Obligation Provisioning Procedure Description*, ratified by Resolution No. 916 of the Government of the Republic of Lithuania of 18 July 2012. PSO fund administration procedures are established by the *Public Service Obligation Fund Administration Procedure Description*, ratified by Resolution No. 1157 of the Government of the Republic of Lithuania of 19 September 2012. The PSO provisioning description provides that public service obligation funds are collected and transferred to the public service obligation fund administrator under procedures and conditions established by the *Public Service Obligation Fund Administration Procedure Description*. As the transmission system operator, Litgrid collects PSO funds from grid users whose electricity production and/or consumption equipment is connected to the electricity transmission grid and transfers them to the public service obligation fund administrator.

*Electricity grid technical maintenance and repair*

Litgrid's subsidiary, UAB Tetas, offers the following electricity grid equipment technical maintenance and repair services:

- Carries out electricity grid electrical equipment technical maintenance and repairs;
- Provides new energy site construction and existing energy site remodelling services;
- Provides electrical equipment design services.

UAB Tetas operations conform to ISO 9001:2008 and ISO 14001:2004 requirements. The quality management and environmental protection management system, introduced in 2007, is applied in operating electrical equipment up to 400 kilovolts and in performing design and construction work for extraordinary structures.

**Environmental protection**

For electricity transmission lines and transformer substations planned to be constructed, environmental impact assessment or selection procedures are carried out, the conclusions of which are evaluated when preparing technical designs. When designing new or remodelling existing electricity transmission infrastructure structures, environmental protection requirements are determined. In all cases, efforts are made to select equipment that is less harmful to the environment. When purchasing services, it is required that contractors have introduced environmental management

systems according to the LST EN ISO 14001 standard, and contractors are obligated to clean up waste that results during construction and submit documents confirming this.

In August–September 2013, when large flocks of birds were preparing to migrate, Litgrid shut down four electricity transmission lines for planned repairs. When planning new electricity transmission lines or repairing them, efforts are made to reduce possible inconveniences to residents' economic activities and to not harm nature or the environment.

In September 2013, overhead lines began to be marked with special reflectors in seeking to reduce incidents of passing birds crashing into electricity lines.

In cooperation with the National Public Health Surveillance Laboratory, Litgrid participated in preparing the Electricity Transmission Line Electromagnetic Field Emissions Evaluation and Management Model.

**Customers of the transmission system operator**

Litgrid's direct customers are electricity transmission grid users and balancing and regulation electricity suppliers.

Transmission grid users:

- Lesto, the distribution grid operator;
- Electricity consumers whose electrical equipment is connected to the electricity transmission grid and who purchase electricity for consumption;
- Electricity producers.

Balancing and regulation electricity suppliers are electricity producers and suppliers.

**Employees**

As of 31 December 2013, 670 employees worked for the Litgrid group: 222 Litgrid employees, 438 Tetas employees, and 10 Baltpool employees (of which three are Litgrid employees working part time for Baltpool). In 2013, Litgrid employee turnover was 9.85 %.

Wages for the financial year totalled LTL 29,365 thousand..

| | Number of employees on 31 December 2013 | Average monthly salary, LTL |
|---|---|---|
| Workers and specialists | 657 | 3,421 |
| Management | 13 | 12,650 |
| Total | 670 | 3,646 |

Employee education by group at the end of the period

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Number of employees | 670 | 701 |
| Employees with university educational attainment | 365 | 364 |
| Employees with college educational attainment | 138 | 195 |
| Employees with secondary or specialized secondary educational attainment | 167 | 142 |

During a reorganization of electricity sector companies in 2009-2010, based on the experiences of other countries' TSOs, decisions were made in seeking to return certain relay protection and automation, diagnostics, and technological network maintenance and control functions to the TSO as well as information technology and telecommunications functions that are necessary for the main TSO operations.

A collective bargaining agreement signed in 2013 between Litgrid and its labour union defines and ensures honest compensation policies and regulates social and economic relations between the employer and employees.

**Litgrid social responsibility activities**

Litgrid operations are based on principles of social responsibility, sustainable development, transparency, and advanced environmental protection. The company's operations are an inseparable condition of the successful functioning of the country's economy, while its long-term strategic goals and strategic electricity projects contribute to the goal of ensuring the country's energy independence.

The scope and importance of the projects it is implementing encourage the company, its employees, and its management to rely on the highest professional and ethical standards, accepting responsibility in nurturing and developing consciousness, responsibility, and the desire to actively participate in creating the country's well-being among society and its various groups. In our social responsibility policy, we devote the most attention to ensuring conscientious and motivating work conditions, cultivating responsibility and public spirit, and helping society in places where we operate develop and grow stronger in multidimensional ways.

In order to further cooperation between separate Litgrid units and encourage employees to get involved in horizontal processes taking place that encompass multiple units, various projects have been initiated whose goal is to get employees to not only perform tasks directly related to their work functions but also become involved in activities unrelated to work. Such activities foster organizational values, expand people's horizons, encourage professional and individual development, and foster the desire to contribute to seeking the organization's results, increasing the prestige of energy- and engineering-related professions, and taking pride in the company and the hugely significant projects it carries out.

In seeking to ensure that specialists with important duties are easily replaceable, Litgrid conducts the Young Specialists Program and works with institutions of higher education. In order to encourage the youth and schoolchildren in higher grades to study engineering, the company's specialists often visit schools and make presentations there.

We devote our energy and resources to help society in areas where we operate grow economically, support the communities with which we work, ensure motivating conditions that encourage self-improvement for the people who work with us, and protect nature, which provides us with resources. We implement strategic, high-value, and historically important projects, so we understand that great work carries great responsibility. Maintaining and encouraging high-quality dialogue with the society for whom and among whom we work is a cornerstone of Litgrid's daily operations.

In developing greater support and trust among society for the strategic electricity projects that Litgrid carries out, approximately 100 meetings with Lithuanian residents were organized in 2013, with almost 3,000 people participating from various communities in residential areas far removed from the biggest cities. During the meetings, community relations with the residents of regions where high-voltage electricity transmission lines are being laid were established, maintained, and strengthened. In 2013, Litgrid is laying or plans to lay high-voltage electricity transmission lines in Alytus, Lazdijai, Klaipėda, Kretinga, Plungė, Telšiai, Neringa, Prienai, and Kaišiadorys districts. During the meetings with Litgrid specialists or people recognized by society, it is sought to inform local residents about the projects being implemented in their surroundings as much as possible, and the creation of a culture of dialogue is encouraged. Meeting topics vary from discussions of public and private interests and political news to informal activities that help achieve significant results and advertise Lithuania in the world. Such activities encourage community members to understand the value of living and working in Lithuania, the significance of cultivating patriotism, and the use of maintaining Lithuania's all-around independence.

In order to encourage the younger generation to be interested in energy-related professions, in 2013 Litgrid organized 30 meetings with high school and university students and participated in the National Career Week organized by the Why That's Necessary initiative.

**About Litgrid Group's development and research activities**

Litgrid annually implements development and research programmes aimed at expanding the electricity system and enhancing the efficiency of the transmission grid. The reconstruction of energy facilities involves the replacement of old equipment with the new one and the implementation of modern systems of relay protection, systematic automation, management, data collection and transfer. Ten-year plans for the construction and reconstruction of facilities are based on scientific research and studies. They are updated annually.

The Baltic States, which seek to become part of the European energy system, together implement strategic energy projects to synchronise their electricity systems and cooperate in the field of scientific research and technological development.

**Main features of the internal control and risk management systems related to the preparation of consolidated financial statements**

The Litgrid group's consolidated financial statements are prepared according to the International Financial Reporting Standards as adopted by the EU. The Litgrid internal control process includes control of service rendering–related business processes, information technology system operations, and financial statement preparation.

Consolidated financial reporting preparation is regulated by the Litgrid Accounting Policies and Procedures Description, which ensure accounting practices in accordance with the International Financial Reporting Standards adopted by the EU and the laws of the Republic of Lithuania. The Litgrid procedure descriptions cover possible risks associated with accounting and financial reporting, methods and principles for managing them, and employees responsible for risk management.

**Information technology and telecommunications competence development in the company**

Effective IT solutions play an ever more important role in Litgrid's operations; information technology has become an inseparable part of the fields of electricity system planning and management, equipment control, and service. In implementing the EU's Third Energy Packet, which requires separating electricity production, transmission, and distribution operations, Litgrid evaluated the need to independently manage information technology and telecommunications operations. Until June 2013, all of Litgrid's IT services were rendered by UAB Technologijų ir Inovacijų Centras. In 2013, the company formed an IT division, which took over part of the main information technology and telecommunications systems: maintenance of dispatcher management, substation tele-information collection and transfer, repair, and operations management. The transparent procurement of information technology and telecommunications assistive services in the market was begun in 2013 and continues to be carried out, satisfying the needs of business units. That will ensure control of the operational continuity and security of Litgrid IT solutions and their operational transparency.

**Supervision and management of the projects implemented by Litgrid**

In improving the means of supervision of the projects being implemented by Litgrid, a project management and daily progress control IT system was introduced in 2013. The Project Control Division was established for project progress supervision and control, while the Project Management Committee was established for improving the selection of projects to be implemented.

## II. Financial information

The table shows the operating results of the group and the company.

| | 2013 | | 2012 | | 2011 | |
|---|---|---|---|---|---|---|
| | Group | Company | Group | Company | Group | Company |
| **Financial indicators (in thousands of LTL)** | | | | | | |
| Sales revenues related to electricity | 541,298 | 540,777 | 430,527 | 430,114 | 383,193 | 383,052 |
| Other operating income | 72,604 | 7,200 | 77,840 | 8,188 | 51,613 | 5,892 |
| EBITDA | 160,290 | 161,572 | 155,296 | 153,424 | 111,338 | 106,605 |
| Profit (loss) before taxes | 29,819 | 32,616 | 31,035 | 30,176 | (19,714) | (23,512) |
| Net profit (loss) | 25,357 | 28,067 | 26,114 | 25,445 | (16,779) | (20,324) |
| Cash flow from operating activities | 123,268 | 125,864 | 124,998 | 135,691 | 101,832 | 104,256 |
| **Ratios** | | | | | | |
| EBITDA margin (%) | 26.1 | 29.5 | 30.5 | 35.0 | 25.6 | 27.4 |
| Average return on equity (%) | 1.6 | 1.8 | 1.6 | 1.6 | (0.9) | (1.1) |
| Return on assets (%) | 1.0 | 1.2 | 1.0 | 1.0 | (0.7) | (0.9) |
| Shareholders' equity / assets (%) | 59.2 | 61.9 | 61.5 | 62.2 | 75.9 | 76.5 |
| Liabilities / equity (%) | 40.8 | 33.5 | 42.8 | 40.8 | 22.2 | 21.1 |
| Financial liabilities / equity (%) | 14.7 | 14.1 | 12.0 | 11.7 | 0.0 | 0.0 |
| Free cash flow (FCF) / revenue (%) | 5.5 | 6.7 | 27.2 | 34.1 | 19.5 | 22.4 |
| Price-to-earnings ratio (P/E) | 40.88 | - | 36.12 | - | - | - |
| **TSO performance indicators** | | | | | | |
| Transferred quantity of electricity, million kWh | | 9 300 | | 9 239 | | 9 279 |
| Transmission grid process costs (%) | | 2.11 | | 2.11 | | 2.17 |
| END (electricity not delivered due to disconnections), MWh * | | 6.70 | | 7.01 | | 7.55 |
| AIT (average interruption time), min. * | | 0.31 | | 0.32 | | 0.35 |

* Only due to reasons the operator is responsible for and due to undetermined reasons.

**Revenue**

In 2013 the Litgrid group's revenue was LTL 613.9 million, an increase of 20.8 % compared to 2012.

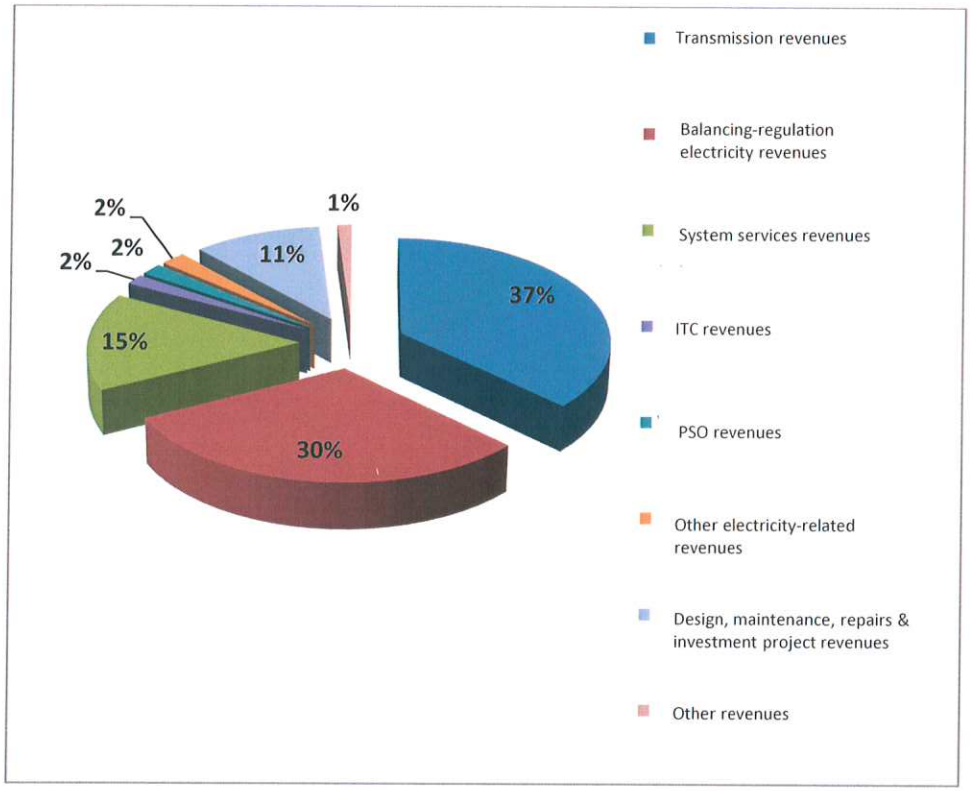
Revenue for electricity transmission increased 3.5 % compared to 2012 to LTL 227.2 million, which made up 37 % of the group's revenue. In 2013, Litgrid's high-voltage electricity transmission grid transmitted 9,300 million kilowatt-hours of electricity for the country's needs, or 0.7 % more than was transmitted in 2012.

8.261 billion kWh were delivered to Lesto, the distribution grid operator, or 1.1 % less than last year, while 1.039 billion kWh were delivered to other users, or 17.3 % more than in 2012. This resulted from greater electricity demand from the transmission grid among other users due to reduced private electricity production.

Sales revenue of balancing and regulation electricity increased 71.7 % to LTL 186.8 million. The increase resulted from balancing energy suppliers buying a 48 % greater quantity of balancing energy in 2013 than in 2012, i.e., the balancing energy provided by the TSO satisfied a greater share of its consumers' needs. Revenue from system (capacity reserve) services increased 45.2 % to LTL 93.8 million, with the increase resulting from higher prices for system services. The fee for electricity imported to or exported from countries not belonging to the EU (ITC revenue (ITC revenue, or revenue from participation in the European transmission system operator transit compensation mechanism) was LTL 9.7 million. PSO revenues were LTL 10.8 million. Other revenue related to electricity: reactive energy, transit, and new user connection revenue equalled LTL 13 million.

Design, maintenance, repair work, and investment project income fell 6.1 % to LTL 65.4 million, while other revenue fell 12 % to LTL 7.2 million.

**Revenue structure**



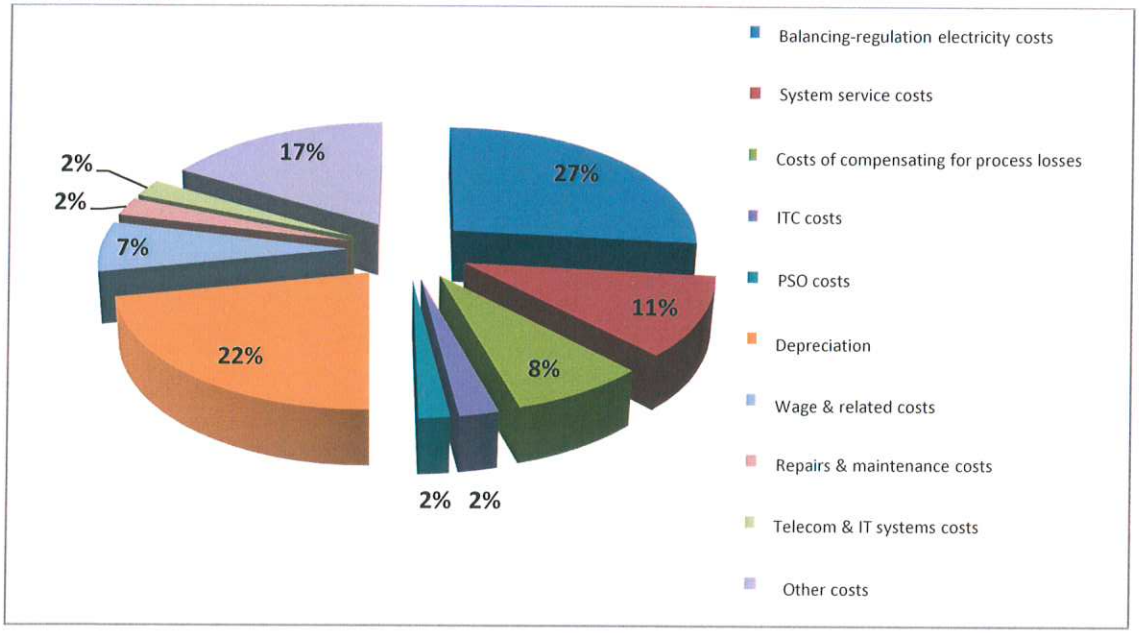

**Costs**

In 2013, costs of the Group amounted to LTL 587.6 million, a 22.4% increase compared with 2012 (LTL 480 million).

The costs of purchasing electricity and related services accounted for the largest part of the Group's costs, i.e. 49.7% or LTL 291.8 million (+35.6% compared with 2012) including a 83.4% increase in regulation electricity costs (up to LTL 156.5 million), 13.7% increase in system services (power reserving) costs (up to LTL 64.2 million), 14.5% increase in the electricity purchases for compensating process costs in the grid (up to LTL 46.8 million). Transit costs (participation in the Inter TSO compensation mechanism, ITC)) were LTL 13.5 million and PSO provision costs were LTL 10.8 million.

Depreciation and amortisation costs increased 3.4% up to LTL 130.5 million, wage costs and related costs increased 7.7% up to LTL 39.8 million, telecommunications and IT systems costs decreased 4.4% to LTL 13.5 million, other costs increased 34.6% up to LTL 97.6 million including a LTL 21.2 million impairment of (allowance for) accounts receivable from the balancing energy suppliers for the energy supplied.

**Cost structure**




**Profit**

The Group's pre-tax profit amounted to LTL 29.8 m in 2013 (2012: LTL 31 million).

The profit structure in 2013 was as follows: profit from system services segment LTL 29.6 million (2012: LTL 8.1 million), profit from balancing and regulation energy segment LTL 9.2 m (2012: LTL 23.5 million), loss on transmission operations segment LTL (9.6) million (2012: LTL (3.2)), profit from other operations including financial activity LTL 0.6 million (2012: LTL 2.6 million). A LTL 21.2 million impairment of accounts receivable from the balancing energy suppliers for the energy supplied was recorded in the balancing and regulation energy segment.

When setting the estimated Litgrid's revenues from transmission operations for 2015, the State Commission on Prices and Energy Control will take account of the profit earned from balancing-regulation operations in 2013, i. e. the revenue from transmission can be reduced by LTL 9.2 million. When setting the estimated Litgrid's revenues from system services for 2015, the Commission will take account of the difference between the planned and actual costs of / income from system services in 2013. This difference (profit) amounted to LTL 20.9 million in 2013, and the Company's revenues/profit from system services for 2015 will be reduced by this amount.

In 2013 the Group's EBITDA was LTL 160.3 million, a 3.2% increase compared with 2012 (LTL 155.3 m). Due to a 21% increase in revenues, with profit remaining almost unchanged, the profit margin decreased to 26.1% (2012: 30.5%).

**Balance sheet and cash flows**

As of 31 December 2013, assets of the Group amounted to LTL 2 548 million. Non-current assets accounted for 85.8% of total assets of the Group. Shareholders' equity accounted for 59.2% of total assets.

As of 31 December 2013, the Group's financial obligations to credit institutions amounted to LTL 221.5 million and the financial liabilities to equity ratio was 14.7%. The non-current portion of long-term debt (payable after one year) accounted for 74.5% of all financial debts. Cash and cash equivalents totalled LTL 81.6 million including LTL 57 million reserved for the NordBalt intersystem link project (PSO funds and EU grants received). In addition, the Company has invested LTL 70 million reserved for the NordBalt project in bonds held to maturity; the maturity of the bonds is March 2014.

In 2013, the Group's net cash flows from operations amounted to LTL 123.3 million (2012: LTL 125 million), payments for non-current tangible and intangible assets amounted to LTL 214.6 million (2012: LTL 114.9 million). LTL 44.9 million were paid as dividend in 2013.

In 2013, the Group's net cash flows excluding cash flows from financial activities and cash flows to term deposits and investments held to maturity totalled LTL 33.7 million (2012: LTL 138.3 million).

**PSO operating indicators**

Based on the requirements for electricity transmission reliability and service quality approved by the State Commission on Prices and Energy Control, the following indicators are used to determine the electricity transmission reliability level: END – electricity not delivered due to disconnections and AIT – average interruption time. The following minimum indicator values were set by the Commission for 2013: END – 5 MWh (actual 7.01 MWh), AIT – 0.26 min. (actual 0.31

min.). The Board evaluated indicators of other PSO in Europe and agreed on the indicators of electricity transmission reliability to be achieved to secure the reliability of the transmission network: END: 10.39 MWh.

**Investments in non-current assets**

The largest amount was invested in the implementation of strategic projects: LTL 152.5 million. This accounted for 74% of all investments. Investments in the reconstruction and development of transmission network amounted to LTL 53.7 million (26% of total investments).

**Risks**

**Political risks**

Power sector is a vitally important sector of the economy. It exerts considerable influence over political and economic interests. The structure and management of the power sector and the operation of the companies in the energy sector are governed by the Republic of Lithuania Law on Electricity and the relevant regulations. Any amendments to national or European Union energy legislation can have an impact on the results of Litgrid Group.

Prices for energy services are regulated, with the price ceilings set by the State Commission on Prices and Energy Control. Operating results of Litgrid are directly dependent on these decisions.

**Management of financial risks**

Companies in Litgrid Group encounter financial risk in their operations such as credit risk, liquidity risk and market risk (currency exchange risk, interest rate risk, securities' prices risk). In managing this risk, the Group's companies seek to minimise the effects of factors that can have an adverse impact on financial results of the Group. Risk management is conducted by the Company's Financial Planning and Analysis Division in accordance with the Procedure for Treasury Management at Litgrid Group approved by the Board of Litgrid.

Information about financial risk faced by the Group and its management is provided in Note 31 of the Consolidated and Company Financial Statements of Litgrid, AB for 2013.

**Technical risks**

Lithuania's energy system has a number of connecting lines with the neighbouring energy systems. The available power and energy balance control means are limited and the power and energy balance control process is complicated.

About 50% of equipment in the TSO transformer substations is older than 25 years. 35% of all 110 kV overhead lines and 24% of all 330 kV overhead lines are older than 45 years. Failures or faults in the main process equipment can have a negative impact on Litgrid's operations and financial results.

**Environmental risks**

Companies of the Group comply with the environmental regulations providing for appropriate labelling, use and storage of any hazardous materials used, ensuring that equipment operated by the companies meet the requirements set for them. At facilities that pose an increased risk to the environment due to pollutants or waste, work is organised according to the conditions set out in the Integrated Pollution Prevention and Control Permits issued by regional environmental protection departments.

**References and explanations about data provided in the Consolidated Financial Statements**

Detailed explanations of financial information are provided in the Explanatory Notes to the Financial Statements for 2013.

**Dividend policy**

The Government of the Republic of Lithuania, which controls 97.5% shares in Litgrid indirectly through EPSO-G UAB, has established the principles of allocation of dividend on the shares owned by the State by its resolution No 20 of 14 January 1997 (new version of the Resolution: No 359 of 4 April 2012). The general meeting of shareholders of Litgrid held on 24 April 2013 declared a dividend of LTL 0.089 per share totalling LTL 45 million.

## III. Information on Authorised Capital and Shareholders

Litgrid has not acquired its own shares so there were no acquisitions or disposals of own shares during the reporting period. Subsidiaries of the Company have not acquired shares of the Company either.

As of 16 November 2010, the authorised capital of LTL 504,331,380 was registered in the Register of Legal Persons. It has been divided into 504,331,380 ordinary registered shares of one Litas par value. All the shares are fully paid for

and all the shares grant equal rights to the shareholders. Since 22 December 2010, Litgrid's shares are listed on the Additional Trading List of NASDAQ OMX Vilnius, issue ISIN code LT0000128415.

As of 31 December 2013 the Company had about 5,700 (five thousand and seven hundred) shareholders. Under the provisions of the European Union's Third Energy Package, on 28 September 2012 Litgrid as a transmission system operator was separated from other companies in the electricity sector. The shares in Litgrid owned by that date by Visagino Atominė Elektrinė UAB were transferred to a state-controlled company EPSO-G which is wholly-owned by the Ministry of Energy. As of 31 December 2013, EPSO-G UAB (A. Juozapavičiaus g. 13, LT-09310 Vilnius, business ID 302826889) owned 491,736,153 ordinary registered shares of the Company, i. e. 97.5% of Litgrid's authorised capital.

On 25 October 2011, Litgrid concluded an agreement with AB SEB Bankas on accounting for the Company's securities and related services. The term of validity of the agreement was 1 February 2013.

On 28 December 2012, Litgrid concluded an agreement with Swedbank, AB on accounting for the Company's securities and related services for the period from 1 February 2013 until 31 January 2016.

Securities of subsidiaries of the Company are not traded on securities exchange.

Trading in Litgrid securities in regulated markets:

| Indicator | 2011m. | 2012m. | 2013m. |
|---|---|---|---|
| Opening price, LTL | 2.479 | 1.392 | 1.806 |
| Highest price, LTL | 2.483 | 2.365 | 2.099 |
| Lowest price, LTL | 1.139 | 1.329 | 1.795 |
| Closing price, LTL | 1.392 | 1.806 | 2.044 |
| Average price, LTL | 1.764 | 1.948 | 1.977 |
| Turnover, pc | 681 991 | 1 306 805 | 726 551 |
| Turnover, LTL m | 1.20 | 2.55 | 1.44 |
| Capitalisation, LTL m | 701.77 | 910.73 | 1 030.88 |

Turnover and price of Litgrid shares during the period from start of trading in Litgrid shares on 22 December 2010 until 31 December 2013:




Comparison of Litgrid (LGD1L) share price with OMX Baltic Benchmark GI (OMXBBGI) and OMX Vilnius (OMXV) indexes during the period from start of trading in Litgrid shares on 22 December 2010 until 31 December 2013:

**Baltic market indexes**




**Articles of Association**

Articles of Association of Litgrid may be amended according to the procedure established by the Republic of Lithuania Law on Companies. Decisions are adopted by at least 2/3 majority vote of the shares of the shareholders attending the general meeting of shareholders.

**The General Meeting of Shareholders**

The general meeting of shareholders is the supreme management body of the Company.

The scope of competence of the general meeting of shareholders and the procedure for its convention and adopting of decisions is established by the laws, other legal acts and the Articles of Association.

**The Supervisory Council**

The Supervisory Council is a standing collegiate body that exercises supervision of the Company's operations.

The Supervisory Council reports to the general meeting of shareholders.

The Supervisory Council is headed by the chairperson elected by the Supervisory Council itself from among its members.

The Supervisory Council has three members including the chairperson. Independent members can also be elected to the Supervisory Council[1]. The Supervisory Council is elected for a term of office of four years. The Supervisory Council or its members start their activities after the end of the general meeting of shareholders that has elected the supervisory council/its members.

The shareholder (or his representative) that puts up a candidate for the position of the member of the Supervisory Council must submit to the general meeting of shareholders a written statement about the candidate's qualifications, experience in managing positions, and fitness for the position of the member of the Supervisory Council including explanations concerning the meeting of the requirements set out in the Articles of Association of the Company, and providing conclusions by competent bodies and/or other documents proving compliance.

*Areas of activities of the Supervisory Council*

The Supervisory Council is authorised to monitor the implementation of the Company's strategy and the transmission grid development plan; submit to the general meeting of shareholders feedback and proposals on the implementation of the transmission grid development plan; submit to the Board and the general meeting of shareholders (if the relevant issue is considered by the general meeting of shareholders) feedback and proposals on the decisions adopted by the Board as stated in the Articles of Association); adopt decisions on agreements with Members and Chairperson of the Board concerning work in the Board, set standard terms and conditions of such agreements, and appoint a person authorised to sign such agreements on behalf of the Company; adopt decisions on the size of remuneration to Board Members (if it is decided to pay such remuneration); ensure the effectiveness of the internal control system in place at the Company.

[1] Independence of a member of the Supervisory Council (or its committee) is determined according to the procedure established by the laws, and if such procedures do not exist, the Supervisory Council of the Company decides on independence of the member of the Supervisory Council (or its committee).

## The Board

The Board consists of five members and is elected for the term of office of four years. The term of office of the Board starts after the end of the general meeting of shareholders at which the Board was elected and ends on the date of the general meeting of shareholders held in the last year of the Board's term of office.

In case if the Board or a Board Member is recalled, resigns or ceases to perform its/his duties for any other reason, the new Board/Board Member will be elected for the new term of the Board. The person that puts up a candidate for the position of the Member of the Board must submit to the Supervisory Council a written statement about qualifications of the candidate, his/her experience in managing positions, and fitness for the position of the Member of the Board including explanations concerning the meeting of the requirements set out in the Articles of Association of the Company, and providing conclusions by competent bodies and/or other documents proving compliance.

The Board elects the Chairperson from among its members.

The Board works in accordance with the laws and other legal acts, the Articles of Association, decisions of the general meeting of shareholders and Work Regulations of the Board.

The Board is a collegiate management body of the Company. The scope of competence of the Board and the procedure for adoption of decisions and electing and recalling of its members is established by the laws, other legal acts and the Articles of Association.

The Board reports to the Supervisory Council and the general meeting of shareholders.

*Areas of activities of the Board*

The Board is authorised to consider and approve a three-year action plan for the implementation of the Company's strategy, a ten-year plan for the development of the Company's transmission grid, the budget of the Company, the procedure for granting support and charity, and other documents governing strategic operations of the Company. The Board adopts decisions on the Company's undertaking of new lines of activities or ceasing to carry out certain activities to the extent to which this does not contradict the purpose of the Company's operations. It also adopts decisions on issue of bonds, restructuring of the Company, transfer of the Company's shares to other persons, decisions of financial transactions exceeding LTL 10 m in value. The Company also adopts decisions on other matters as stated in the Articles of Association.

*Areas of activities of the Chief Executive Officer*

The General Manager is the single-handed management body of the Company. The General Manager organises and directs the Company's activities, acts on behalf of the Company and concludes transactions on a single-handed basis.

The scope of competence of the General Manager as well as the procedure for his/her election and recalling is established in the laws, other legal acts and the Articles of Association.

**Members of the Supervisory Council, Members of the Board, General Manager and Chief Financier of Litgrid**

| Position | Name | Start date | End date | Number of shares of the Issuer |
|---|---|---|---|---|
| Supervisory Council | | | | |
| Chairperson | Aleksandras Spruogis | 2013-04-24 | | - |
| Member | Audrius Misevičius | 2013-04-24 | | - |
| Member | Violeta Greičiuvienė | 2013-04-24 | | - |
| Board | | | | |
| Chairperson | Daivis Virbickas | 2013-09-10 | | - |
| Member | Karolis Sankovski | 2013-09-10 | | - |
| Member | Vidmantas Grušas | 2013-09-10 | | - |
| Member | Rimantas Busila | 2013-09-10 | | 1 421 |
| Member | Rolandas Masilevičius | 2013-12-18 | | - |
| General Manager | Daivis Virbickas | 2013-09-10 | | - |
| Chief Financier | Svetlana Sokolskytė | 2012-07-02 | | - |

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**Members of Supervisory Council of Litgrid**

Mr Aleksandras Spruogis, Chairperson of the Supervisory Council
Born in 1963, 1980–1985 – Faculty of Construction of Vilnius Civil Engineering Institute, civil engineer's qualifications (Diploma cum Laude). 1991–1992 – Faculty of Environmental Engineering of Vilnius Gedimino Technical University, Master of Environmental Engineering. 1996 – Doctor of Technical Sciences in environmental engineering (at Vilnius Gedimino Technical University). Work record: 1990–1997 – Research Assistant at Environment and Working Conditions Research Laboratory and Assistant at the Environmental Protection Department of Vilnius Civil Engineering Institute (Vilnius Gedimino Technical University). 1997–2003 – Senior Adviser to the Environmental Protection Committee of the Seimas (Parliament), Chairperson of the Panel of Advisers at Seimas. 2003–2009 – Secretary of the Ministry of Environment. 2009–2009 – Senior Adviser to the Ministry of Environment. 2009–2012 – Vice-Minister of Environment.

Mr Audrius Misevičius, Member of the Supervisory Council
Born in 1959. 1982 – qualifications of economist awarded by Vilnius University and Doctor of Social Sciences at the Institute of Finances and Economics of St Petersburg. 1993 – Associated Professor at Vilnius University. Work record: 1982–2005 – advanced trainee, assistant, Assoc. Professor at Finance Department of Vilnius University, 1990–1992 – Deputy Minister of Social Security. 1992 – Minister of Finance. 1993 – Assistant/secretary to Member of Parliament A. Rudys. 1993–1995 – financier, UAB „Stern von Litauen AG". 1996 – Head of Tax Department of TŪB J. Kabašinskas ir Partneriai. 1996–2013 – Deputy Chairman of the Board, Member of the Board of the Bank of Lithuania. Since 2013 – Adviser to the Prime Minister of the Republic of Lithuania. 1998–2013 – Member of the Council, VĮ Indėlių ir Investicijų Draudimas; Curator, UAB Lietuvos Monetų Kalykla.

Ms Violeta Greičiuvienė, Member of the Supervisory Council
Born in 1972. 1990–1996 – Faculty of Business Management, Vilnius Gedimino Technical University. 1997–2004 – Chief Specialist, Nuclear Energy Division, Energy Development Department of Ministry of the Economy. 2004–2005 – Head of Ignalina NPP Coordination Division, Energy Development Department of Ministry of the Economy. 2005–2010 – Nuclear Energy Attaché of the Republic of Lithuania in the Permanent Mission of the Republic of Lithuania to International Organisations in Vienna, since 2010 – Head of Strategic Projects Division of the Ministry of Energy.

**Members of the Board of Litgrid**

Daivis Virbickas, Chairperson of the Board
Born in 1980. Responsible for strategic management and power system management. Has experience of many years in the development and management of the long-term power transmission system development strategies, analysis of electricity markets, and corporate governance. Until 2013 – Sales Director at Alpiq Energija Lietuva representing Alpiq AG, a Swiss holding company, in the Baltic States. Until 2011 – Technical Director at Litgrid, Lithuanian electricity transmission system operator.

Karolis Sankovski, Member of Member of the Board
Born in 1962. Responsible for the electricity transmission grid management. Has experience of many years in the operation of high-voltage electricity transmission grid equipment, development of grid facilities and operational control.

Rimantas Busila, Member of the Board
Born in 1958. Responsible for financial management. Experienced in financial, investment and securities management.

Rolandas Masilevičius, Member of the Board
Born in 1972. Responsible for ICT policies and administration. Experienced in administration and implementation of IT projects.

The Chief Executive Officer of the Company received no payments for his work in the Board of the Company. The independent Member of the Board received LTL 9,150 (gross) per year for work in the Board. No payments for work in the Board were made to other Board Members and no payments for work in the Supervisory Council were made to the Supervisory Council Members. Over the accounting period, the amount of pay (gross) to the CEO and Chief Financier of the Company amounted to LTL 388,415 and the average pay (gross) per person (i.e. the CEO / Chief Financier) was LTL 194,208.
Information on major related-party transactions, their amounts, type of related-party relationships and other information on the transactions which is necessary for the understanding of the Company's financial position is provided in Note 29 of the Explanatory Notes to the Financial Statements.

Information on compliance with the Code of Corporate Governance is provided in the Annex to this Report.

LitGRID

**Transparency**

The Company complies with all the main provisions of Sections IV-VIII of the Transparency Guidelines except that:

- the Company does not publish managers' and employees' salaries;
- the Company does not have the practice of specifying the average monthly pay by divisions in the Annual Report.

**Notices of material events published by Litgrid in 2013:**

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| 2014.02.28 | Interim financial results of Litgrid Group for 2013 published |
| 2014.02.24 | Audit Committee of Litgrid elected |
| 2014.02.14 | Litgrid AB will form a new company for the management of the new cross-border power links |
| 2014.02.07 | Concerning published information |
| 2014.01.13 | Concerning intention to borrow |
| 2013.12.20 | A new Member of the Board elected |
| 2013.12.19 | Concerning Decision of the Director of the Supervision Services of the Bank of Lithuania |
| 2013.11.28 | Operating results of Litgrid Group for nine months of 2013 published |
| 2013.11.26 | Concerning formation of a joint venture |
| 2013.10.24 | Electricity transmission prices published by the State Commission on Energy and Prices Control (SCEPC) |
| 2013.10.09 | Infrastructure projects by 2022 included in the plan on the development of transmission grid |
| 2013.10.01 | Contract for the construction works of LitPol Link power link approved |
| 2013.09.30 | Contract for the reconstruction of the Alytus switchyard for LitPol Link power link concluded |
| 2013.09.26 | Information on the ceiling price for the service of electricity transmission over high-voltage lines for 2014 |
| 2013.09.13 | Agreement with Nordic Investment Bank concluded |
| 2013.09.13 | Approval of the contract for the reconstruction of the Alytus switchyard |
| 2013.09.10 | Chairman of the Board of Litgrid elected |
| 2013.09.10 | Litgrid Board elected |
| 2013.09.06 | Litgrid decides to conclude an agreement with Nordic Investment Bank |
| 2013.08.27 | Litgrid meets the requirements of the EU Third Energy Package: an electricity transmission licence granted for an indefinite term |
| 2013.08.27 | Litgrid's profit for the first six months of 2013 has doubled |
| 2013.06.28 | Decisions taken by the extraordinary general meeting of shareholders of Litgrid held on 28 June 2013 |
| 2013.06.06 | An extraordinary general meeting of shareholders of Litgrid |
| 2013.05.30 | Concerning important court order concerning the LitPol Link project |
| 2013.05.30 | Concerning publication of the electricity transmission prices and tariff rates as well as amendments to the procedure of their application |
| 2013.05.29 | Litgrid's results for QI 2013 continue positive of the year |
| 2013.05.17 | Information on notice of resignation |
| 2013.05.16 | Procedure for payment of dividend by Litgrid AB for 2012 |

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| 2013.05.13 | Chairman of Litgrid AB Supervisory Council elected |
| 2013.05.07 | Amendments to the Articles of Association of Litgrid AB registered |
| 2013.05.06 | Litgrid AB Supervisory Council registered |
| 2013.04.26 | Decision on appointment of the transmission system operator taken |
| 2013.04.24 | Decisions taken by the general meeting of shareholders of Litgrid held on 24 April 2013 |
| 2013.04.24 | Annual information approved by the general meeting of shareholders of Litgrid |
| 2013.04.18 | Draft decisions proposed for the general meeting of shareholders of Litgrid |
| 2013.03.27 | Results achieved by Litgrid in 2012: best since establishment of the Company |
| 2013.03.27 | General meeting of shareholders of Litgrid is convened |
| 2013.02.28 | Litgrid AB announces interim operating results for 2012 |
| 2013.02.15 | Litgrid and ABB conclude a strategic contract for the construction of the main component of the LitPol Link power link |
| 2013.02.15 | Today Litgrid and ABB will conclude a contract for the construction of the back-to-back converter for LitPol Link power link |
| 2013.01.25 | Information on notice of resignation |
| 2013.01.23 | New Chief Executive Officer of LitPol Link appointed |
| 2013.01.08 | Litgrid becomes the Sole Shareholder of Tetas UAB |

For detailed information on the material events published in 2013 please visit the website of the Vilnius Securities Exchange www.nasdaqomxbaltic.com/market/?pg=news and the Company's website www.litgrid.eu.

**Litgrid AB Notice of Compliance with the Code of Corporate Governance for Companies Listed on AB NASDAQ OMX Vilnius**

According to provisions of Article 21(3) of the Republic of Lithuania Law on Securities and the Code of Corporate Governance for Companies Listed on AB NASDAQ OMX Vilnius approved by the Board of NASDAQ OMX Vilnius AB, this Notice issued by LITGRID AB discloses how the Company complies with the provisions of the Code of Corporate Governance approved by the AB NASDAQ OMX Vilnius for companies whose securities are traded in the regulated market. If the Code or any provision thereof is not complied with, the specific provisions and the reasons for non-compliance are explained.

| PRINCIPLES/RECOMMENDATIONS | YES/ NO | COMMENTS |
|---|---|---|
| **Principle I: Main Provisions**<br>**The main purpose of the company should be the satisfaction of the shareholders' interests, at the same time ensuring constant increase in the value of shareholders' equity** | | |
| 1.1. The company should formulate and publish the corporate development strategy and objectives, clearly stating how it plans to act in the interests of the shareholders and augment the shareholders' equity. | YES | The main development lines and strategies of the Company are published in the Company's website www.litgrid.eu and in the Annual Report and Interim Reports of the Company. |
| 1.2. Activities of all corporate management bodies should be focussed on the achievement of strategic goals taking account of the need to augment the shareholders' equity. | YES | The Board of the Company adopts key strategic decisions leading to an increase in the shareholders' equity (optimisation of operating functions and structure of the Company, other actions increasing the operating efficiency and cutting costs).<br>The CEO of the Company organises and implements the Company's business, commercial and financial activities. |

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| 1.3. Corporate supervision and management bodies should closely cooperate in order to maximise the benefits for the company and the shareholders. | YES | The Supervisory Council as a collegiate supervisory body is formed in the Company. The general meeting of shareholders held on 24 April 2013 formed the Supervisory Council consisting of 3 members.<br>The Company has the Board which represents interests of the shareholders. |
| 1.4. Corporate supervision and management bodies should ensure that rights and interests of other parties participating in or related to the Company's operations (employees, creditors, suppliers, customers and members of local community) are respected in addition to the rights and interests of the shareholders. | YES | 1. Since its formation the Company has been cooperating and developing social partnership with the Company's employee representatives (a collective agreement has been concluded).<br>2. The Company discharges its financial liabilities and other obligations to its creditors.<br>3. The Company implements social projects involving children, youth, local communities and other social groups. More detailed information on the Company's initiatives is published in its website. |
| **Principle II: Corporate governance system**<br>**The corporate governance system should ensure strategic management of the company, effective supervision over corporate management bodies, due balance and division of functions between corporate bodies, and safeguarding of shareholders' interests.** | | |
| 2.1. Apart from the bodies mandatory under the Republic of Lithuania Law on Companies – the general meeting of shareholders and the head of the company, it is recommended that both collegiate supervisory body and collegiate management body is formed by the company. Formation of the said bodies enable a clear division of management and supervision functions in a company and accountability and control of the head of the company, which leads to a more effective and transparent corporate governance process. | YES | The Supervisory Council as a collegiate supervisory body is formed in the Company.<br>The Company's management bodies include the Board and the Chief Executive Officer of the Company. |
| 2.2. The collegiate management body is responsible for the strategic management of the company and performance of other key corporate management functions.<br>The collegiate supervisory body is responsible for the effective supervision of the corporate management bodies. | YES<br><br>YES | Articles 64 through 75 of the Articles of Association<br><br>Article 25 of the Articles of Association<br>. |
| 2.3. Should the company decide to form only one collegiate body, it is recommended that this body is a supervisory one, i. e. the supervisory council. The supervisory council is responsible for the effective supervision over the functions performed by the head of the company. | YES/NO | The Company has two collegiate bodies: the Supervisory Council and the Board |
| 2.4. The collegiate supervisory body elected by the general meeting of shareholders should be formed and act according to the procedures laid down under Principles III and IV. Should the company decide to form a collegiate management body – the board – only, Principles III and IV should apply to the board to the extent to which this does not contradict the substance and purpose of this body. | YES | The Supervisory Council as a collegiate supervisory body is formed in the Company.<br>It should be noted that the Company carries out the electricity transmission activities, therefore, its operations are strictly regulated by legal acts and supervised by the relevant authorities (State Commission on Control of Prices and Energy etc.). This ensures that transparent and effective decisions are taken and the principles of non-discrimination of customers, reduction of costs etc. are implemented. |

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| 2.5. The numbers of members of the corporate management body (executive directors) and supervision body (consulting directors) should be such that an individual or a small group of individuals is/are not able to dominate the decision-adoption process. | YES | The Supervisory Council of the Company consists of 3 (three) members and the Board of the Company consists of 5 (five) members. A meeting of the Supervisory Council is considered to be valid if at least 2 (two) members of the Supervisory Council are present. A meeting of the Board is considered to be valid and the Board may pass resolutions if at least 4 (four) members of the Board are present. |
| 2.6. Consulting directors or members of the supervisory board should be appointed for a defined term, with the opportunity for individual re-election for a maximum term allowed by the Lithuanian legislation in order to ensure the growth in professional experience and sufficient re-approval of their status. In addition, dismissal should be provided for, however, this procedure should not be easier that the procedure for the dismissal of an executive director or a member of the board. | YES | The Supervisory Council is elected for the maximum term of office permitted by the Lithuanian law, i. e. 4 (four) years.<br>The Board is elected for the term of office of 4 (four) years. This term is the maximum term permitted under the Republic of Lithuania Law on Companies.<br>The general meeting of shareholders may recall the Supervisory Council and the Board in full or in part according to the procedure established by the law. |
| 2.7. The chairman of a collegiate body elected by the general meeting of shareholders must be a person whose current or previous position is not an obstacle to independent and unbiased supervision. Where only the board and not the supervisory council is formed in the company, it is recommended that the chairman of the board and the head of the company are different persons. Former head of the company should not be immediately appointed as a chairman of a collegiate body elected by the general meeting of shareholders. Where the company decides not to follow these recommendations, information about measures taken to ensure unbiased supervision should be provided. | NO | There are no independent members in the Supervisory Council of the Company but the Articles of Association provide for such a possibility. In order to ensure unbiased supervision, the Supervisory Council of the Board has the Audit Committee: two of the three members of the Audit Committee are independent members. |
| **Principle III: Procedure for the formation of a collegiate body elected by the general meeting of shareholders The procedure for the formation of a collegiate body elected by the general meeting of shareholders should ensure representation of interests of minority shareholders, accountability of the body to shareholders, and objective supervision over activities of the company and its management bodies** | | |
| 3.1. The mechanism of formation of a collegiate body (hereinafter for the purposes of this Principle – "collegiate body") elected by the general meeting of shareholders should ensure objective and unbiased supervision over corporate management bodies as well as proper representation of interests of minority shareholders. | YES | The Supervisory Council is elected by the general meeting of shareholders of the Company according to the provisions of the Republic of Lithuania Law on Companies. |
| 3.2. Names, education information, qualifications, professional experience, information on current position, other important professional obligations and potential conflicts of interests of candidates to members of collegiate management bodies should be disclosed to the company's shareholders prior to the general meeting so that the shareholders have enough time to decide on the voting on the candidates. In addition, any circumstances that may affect the candidate's independence (a model list is provided in Recommendation 3.7) should be disclosed. The collegiate body should be informed about any subsequent changes in the information disclosed under this p. 3.2. The collegiate body should collect the disclosed information on members and include them in its annual report. | YES/ NO | Information about candidates for Members of the Supervisory Council is presented to the shareholders according to the procedure established by the Republic of Lithuania Law on Companies prior to the start of the general meeting of shareholders the agenda of which contains an item of election of Members of the Supervisory Council, and such information is not published in advance. According to the Articles of Association of the Company, each candidate to the position of the Member of the Supervisory Council must submit to the general |

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| | | meeting of shareholders a declaration of the candidate's interests, stating therein any circumstances that could give rise to a conflict of interests between the candidate and the Company. In case if such circumstances arise, the Supervisory Council Member must immediately notify such new circumstances to the Supervisory Council in writing.<br>Information about positions held by the Supervisory Council Members or their participation in other companies is collected on a regular basis and published in the Annual Report and the website of the Company. |
| 3.3. Where a proposal is made for the election of a member of a collegiate management body, his competences necessary for the work in the body must be specified. In order that the shareholders and investors can assess whether the competences remain valid, in every annual report the collegiate body must include information on its composition and specific competences of its members related to their work in the body. | YES/ NO | Information about the candidates to the Members of the Supervisory Council is presented to the general meeting of shareholders according to the procedure established in the Republic of Lithuania Law on Companies (see Comment on Item 3.2). The information on candidates the Members of the Supervisory Council presented to the general meeting of shareholders includes work experience, positions held and other information on the candidate's competences.<br>Information about positions held by the Supervisory Council Members or their participation in other companies is collected on a regular basis and published in the Annual Report and the website of the Company. |
| 3.4. In order to maintain a proper balance of qualifications of members in a collegiate body, the composition of the body should be set in line with the structure and type of operations of the company and should be subjected to period review. The body should ensure that its members as a whole should possess comprehensive knowledge, views and experience for the proper performance of their tasks.<br>Members of an audit committee as a whole should have latest knowledge and relevant experience in finance and accounting and/or audit of the listed companies.<br>At least one of the members of payroll committee should have knowledge and experience in the wage setting policy. | NO<br><br>YES<br><br>NO | The Supervisory Council is elected and its members' qualifications is evaluated by the general meeting of shareholders. The Supervisory Council may not determine its own composition.<br><br>No Remuneration Committee is formed in the Company. |
| 3.5. An individual programme aimed at familiarisation with the duties and organisation and operations of the company should be offered to every new member of a collegiate body. The body should carry out annual checks to determine the areas in which its members should refresh their skills and knowledge. | YES/ NO | The newly elected Members of the Supervisory Council are granted an opportunity to meet with the Board Members and managers of the Company's structural divisions and to familiarise themselves with the Company's operations.<br>It should be noted that the Supervisory Council Members are informed about the Company's operations on a regular basis – at the meetings of the Supervisory Council and individually as requested by the member.<br>No annual checks of the Members of the Supervisory Council are made. |

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| 3.6. In order to ensure proper resolution of any conflicts of interests of members of a collegiate body, the body should contain sufficient number of independent members. | NO | There are no independent members in the Supervisory Council of the Company but the Articles of Association provide for such a possibility. |
| 3.7. A member of a collegiate body should be considered to be independent only if is not linked with the company, its controlling shareholder or administration of the company/shareholder by any business, kinship or other relations which give or could give rise to a conflict of interest and which could influence the member's views. As it is impossible to list all the cases when a member of a collegiate body may lose independence, in addition, relations and circumstances relate to the determination of independence may differ from company to company, and the best practice of resolution of the problem may form in time, an assessment of independence of the member should be based on the content and not the form of the relations and circumstances.<br>Main criteria on which determination of the member's independence should be based:<br>1) he may not be executive director or member of the board of the company or an associated company (if the collegiate body elected by the general meeting of shareholders is a supervisory council) and may not have occupied such position during the past five years);<br>2) he may not be employee of the company or an associated company and may not have occupied such position during the past three years except for cases when the member of the collegiate body is not part of top management and was elected to the body as a representative of employees;<br>3) he must not be receiving or received significant additional remuneration from the company or an associated company except for remuneration received as a member of a collegiate body. Such additional remuneration includes participation in share options or other remuneration systems based on the operating results; this does not include compensation benefits under a pension plan (including deferred compensations) for previous work in the company (on condition that such benefit is not related in any way to subsequent positions);<br>4) he may not be a controlling shareholder and may not represent such shareholder (control is determined according to Article 1(1) of Council Directive 83/349/EEC);<br>5) he may not have or have had in the previous years any significant business relations with the company or an associated company directly or as a partner, shareholder, director or senior manager of an entity having such relations. An entity is considered to be having business relations if it is an important supplier of goods or services (including financial, legal, advisory and consulting services), significant customer or organisations receiving significant payments from the company or the group to which the company belongs;<br>6) he may not be and may not have been in the past three years a partner or employee of the current or previous external auditor of the company or an associated company;<br>7) he may not be executive director or member of the board of another company in which the executive director or member of the company (in case of a supervisory council elected by the general meeting of shareholders) is a consulting director or member of a supervisory council, an may not have other significant relations with the company's executive directors that arise in the process of participation in the activities of other companies or bodies;<br>8) he may not have occupied the position of a member of a collegiate body longer than 12 years;<br>9) he may not be a member of the closest family of the executive director or a member of the board (in case of a supervisory council elected by the general meeting of shareholders) or of persons referred to in items 1 to 8 above. Close family includes spouses/partners, children and parents. | NO | There are no independent members in the Supervisory Council of the Company but the Articles of Association provide for such a possibility. |

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| 3.8. The content of the notion of independence is determined by the collegiate body itself. The body mat decide that a certain member cannot be considered independent due to particular personal or company-related circumstances, even though he meets all the independence criteria set in this Code. | NO | There are no independent members in the Supervisory Council of the Company. |
| 3.9. Information on the conclusions drawn by the collegiate body in determining whether a member can be considered independent should be disclosed. Where appointment of a member of a collegiate body is proposed, the company should announce whether the member is considered independent. Where a member of the body does not meet any independence criteria set in this code, the company should announce reasons why it still considers that member independent. In addition, the company should state in every annual report which members of the collegiate body are considered independent. | NO | There are no independent members in the Supervisory Council of the Company. |
| 3.10. Where one or more of the independence criteria set out in this Code have not meet throughout the year, the company should announce reasons why a member of the collegiate body is considered independent. In order to ensure accuracy of information about independence, the company should demand that independent members would confirm their independence on a regular basis. | NO | There are no independent members in the Supervisory Council of the Company. |
| 3.11. Independent members of a collegiate body may be remunerated for their work and attendance of meetings of the body out of the company's funds. The size of the remuneration should be approved by the general meeting of shareholders. | NO | There are no independent members in the Supervisory Council of the Company. |
| **Principle IV: Duties and responsibilities of a collegiate body elected by the general meeting of shareholders The corporate governance system should ensure that the collegiate body elected by the general meeting of shareholders functions properly and effectively and the rights granted to the body should endure effective supervision over the corporate management bodies and protection of the shareholders' interests** | | |
| 4.1. The collegiate body elected by the general meeting of shareholders ("the collegiate body") should ensure integrity and transparency if the financial accounting and control system of the company. The collegiate body should constantly make recommendations to the company's management bodies and supervise and control their activities in the area of management of the company. | YES | The Supervisory Council of the Company submits to the general meeting of shareholders its feedback and proposals for the Company's operating strategies, the annual financial statements, the profit allocation project, the Annual Report of the Company, and the work of the Company's CEO and makes proposals concerning a draft decision on declaring dividend for a period shorter than the financial year and the interim financial statements and the interim report prepared for this purpose. |
| 4.2. Members of the collegiate body should act for the benefit and in the interests of the company and shareholders in good faith, carefully and responsibly, taking account of the employees' interests and public welfare. Independent members of a collegiate body should: a) maintain independence of their analyses, decision adoption and actions under any circumstances; b) do not seek and do not accept unjustified preferences that might compromise their independence; c) clearly express their objections in cases when, in their opinion, decision by the collegiate body may be harmful to the company. Where the collegiate body has adopted decisions with respect to which an independent member has serious doubts, in such a case the member should draw conclusions accordingly. In case of resignation of an independent member he should explain the reasons therefor in a letter to the collegiate body or audit committee and, if necessary, to a relevant external institution. | NO | There are no independent members in the Supervisory Council of the Company. |

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| 4.3. Each member of a collegiate body should devote sufficient time and efforts to the performance of his duties in a collegiate body. Each member of a collegiate body should undertake to limit his other professional obligations (in particular the duties of a director of another company) so that they do not hinder the performance of his duties as a member of the collegiate body. If a member has attended less than one half of the meetings of the collegiate body during the company's financial year, the shareholders should be notified thereof. | YES | Members of the Supervisory Council take an active part in the meetings of the collegiate body and devote sufficient time for the performance of their functions as Members of the collegiate body. The participants in the meetings are recorded in the minutes. |
| 4.4. Where decisions by the collegiate body may have different effects on different shareholders, the collegiate body must treat all the shareholders in good faith and without bias. It should ensure that the shareholders are duly informed about the company's affairs, strategies, risk management and resolution of conflicts of interest. The company must have clearly defined the role of the members of the collegiate body in the relations with shareholders and in their obligations to the shareholders. | YES | The shareholders are informed about the Company's strategies, risk management and resolution of conflicts of interests according to the procedure established by the law.<br>The role of the Supervisory Council Members in the communication with and obligations to the shareholders is determined according to provisions of the Law on Companies and the Articles of Association. |
| 4.5. It is recommended that transactions (except low value transactions or transactions concluded in the normal course of business of the company) between the company and its shareholders or members of supervisory or managerial bodies or other natural or legal persons that may have influence over the company's management should be certified by a collegiate body. Decision on the approval of such transactions should be deemed to be adopted only if the majority of the independent members of the collegiate body vote for it. | YES/ NO | Management bodies of the Company conclude and approve transactions according to provisions of the legal acts and Articles of Association of the Company.<br><br>The general meeting of shareholders of the Company takes decisions on standard terms and conditions of agreements with the Supervisory Council Members and on payment of remuneration to the Supervisory Council Members.<br><br>The Supervisory Council of the Company takes decisions on standard terms and conditions of agreements with the Board Members and on payment of remuneration to the Board Members. The Supervisory Council of the Company has no independent members, therefore, the aforesaid decisions are passed by majority vote of the Supervisory Council Members.<br><br>Other transactions are approved by the Company's CEO irrespective of counterparties of the transactions. |
| 4.6. The collegiate body should be independent in adopting decisions that are significant for the company's activities and strategies. In addition, the collegiate body should be independent from management bodies of the company. Work and decisions by the collegiate body should not be influenced by the persons that elected it.<br>The company should ensure that the collegiate body and its committees are provided with sufficient resources (including financial) necessary for the performance of their duties including the right to obtain – in particular from the employees of the company – all the requisite information and the right to approach external law, accounting or other professionals for advice on the matters falling within the scope of competence of the collegiate body and its committees.<br>The remuneration committee, while using the consultants'/experts' | NO<br><br>YES | There are no independent members in the Supervisory Council of the Company.<br><br>The Company ensures proper working conditions for the Supervisory Council and its Members and furnishes them with organisational resources necessary for work. The CEO of the Company appoints a secretary for the Supervisory Council who services its meetings. |

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| services in order to get information about market standards on setting of remuneration rates, must ensure that the same consultant would not provide consulting on personnel division or executive director or members of management bodies of a related company at the same time. | NO | No Remuneration Committee has been formed by the Company. |
| 4.7. Work of the collegiate body should be organised in such a way that independent members of the collegiate body would have significant influence in the most important areas with a high potential of conflicts of interest. Such areas include issues related to the appointment of directors, setting of remuneration to directors, and audit control over the company.<br><br>Therefore, in the case where these issues fall within the scope of competence of a collegiate body, it is recommended that the collegiate body forms committees on appointment, remuneration and audit. The company should ensure that functions assigned to the appointments, remuneration and audit committees are performed, however, they may be combined and less than three committees may be formed. In such a case the company must provide a detailed explanation why an alternative approach was selected and how it complies with the objectives of the three individual committees. Where the collegiate body has a small number of members, the functions of the three committees may be performed by the collegiate body itself, provided that it meets the composition requirements set for the committees and the requisite information on this issue is disclosed. In such a case the provisions of this Code related to the said committees of the collegiate body (in particular, to their role, activities and transparency) should apply to the collegiate body as whole, where applicable. | NO<br><br>YES | Independence of the Supervisory Council Members is not assessed.<br><br>No Remuneration Committee or Appointment Committees have been formed.<br>In the opinion of the Company, the work of the Supervisory Council is effective and well organised, therefore, the Supervisory Council can properly perform all the functions of the Remuneration and Appointment Committees. |
| 4.8. The main purpose of the committees is to increase efficiency of work of the collegiate body to ensure that decisions are adopted upon proper consideration and to assist in the organisation of work so that conflicts of interest do not influence decisions adopted by the collegiate body. The committees should act in an independent manner and adhere to their principles and provide to the collegiate body recommendations on decision-adoption by the collegiate body, however, the final decision shall be adopted by the collegiate body itself.<br>The recommendation on the formation of committees is not aimed at narrowing the scope of competence of the collegiate body or delegate it to the committees. The collegiate body remains fully responsible for the decisions adopted within the scope of its competence. | NO | No Remuneration Committee or Appointment Committees have been formed. |
| 4.9. Committees formed by the collegiate body should normally consist of at least three members.<br><br>In companies whose collegiate body has a small number of members a committee may be formed of two persons by way of exception. The majority of the members of any committees should consist of independent members of the collegiate body. In case if no supervisory council is formed in the company, the salaries committee and the audit committee should be formed exclusively of consulting directors. In deciding on the chairman and members of a committee, account should be taken of the fact that membership of committees should be renewed and excessive trust should not be placed on any person. | YES | The Audit Committee consists of three members, two of whom are independent members. |
| 4.10. Authorisations of any committee should be established by the collegiate body. Committees should perform their duties within the scope of their authorisations and inform the collegiate body about its activities and results on a regular basis. Authorisations of each committee, with the roles, rights and responsibilities defined, should be published at least once in a year (as part of the information that the company publishes on its management structure and practices every year). The annual report of the company should also include notices of published by the committees stating information about their composition, number of meetings and attendance by members during the past year as well as about main lines of activities. The audit committee should certify | YES | Authorisations of the Audit Committee were set by the Supervisory Council of the Company by approving the Rules for the Formation and Operation of the Audit Committee, which set out the rights and responsibilities of the Audit Committee and its members. |

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| that is it satisfied with the independence of the audit process and briefly describe actions taken to arrive to this conclusion. | | |
| 4.11. In order to ensure independence and objectivity of committees, members of the collegiate body that are not members of the committees should normally have the right to attend the meetings of the committee only subject to invitation by the committees, The committee may invite or demand that certain employees or experts attend the meetings. Chairman of each committee should be enabled to maintain direct relations with the shareholders. Cases when this should be done should be stated in the committee's regulations. | YES | |
| 4.12. Appointments Committee.<br>4.12.1. The main functions of the Appointments Committee should be as follows:<br><br>1) select candidates to vacant positions of members of management bodies and recommend them to the collegiate body for consideration. The committee should assess the balance of skills, knowledge and experience in a management body, prepare a description of functions and abilities required for a specific position, and assess the time necessary for the discharge of obligations. The committee may also evaluate the candidates to members of the collegiate body proposed by the shareholders;<br>2) on a regular basis, evaluate the structure, size, composition and activities of supervisory and management bodies, make recommendations for changes to the collegiate body;<br>3) on a regular basis, evaluate skills, knowledge and experience of individual director and notify the collegiate body;<br>4) devote sufficient attention to the continuity planning;<br>5) review management bodies' policies on election and appointment of top management.<br><br>4.12.2. The appointments committee should consider proposals received from other persons including administration and shareholders. Where issues related to executive directors or members of the board (where the collegiate body elected by the general meeting of shareholders is the supervisory council) and top management, the committee should consult the CEO, entitling him to make proposals to the committee. | NO | No Appointments Committee has been formed in the Company.<br><br>. |
| 4.13. Remuneration Committee<br>4.13.1. The main functions of the Remuneration Committee should be as follows:<br><br>1) make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;<br>2) make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;<br>3) ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of | NO | No Remuneration Committee has been formed in the Company. |

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| management body and other staff members of the company;<br>4) review, on a periodic basis, the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation;<br>5) make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;<br>6) assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);<br>7) make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.<br>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:<br>1) consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;<br>2) examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;<br>3) make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.<br>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.<br>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose. | | |
| 4.14. Audit Committee<br>4.14.1. The main functions of the Audit Committee should be as follows:<br>1) monitor the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);<br>2) at least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;<br>3) ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;<br>4) make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit firm/auditor and make recommendations on required actions in such situations;<br>5) monitor the independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance | YES | The majority of the specified functions of the Audit Committee have been included in the Rules for the Formation and Operation of the Audit Committee approved by the Supervisory Council.<br>There was no Audit Committee in the Company in the period between 5 March 2013 and 24 February 2014. |

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| with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;<br>6) review the efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.<br>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centres and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.<br>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.<br>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.<br>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.<br>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.<br>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved. | | |
| 4.15. Every year the collegiate body should make a self-assessment, which should include an assessment of the structure, organisation of work, and ability to act as a team of/by the collegiate body, an assessment of competence and efficiency of each member and committee of the body, and an assessment whether the body has achieved its objectives. The collegiate body should publish, at least once in a year (as part of information published annually by the company on its management structures and practices), relevant information on its internal organisation and operating procedures, specifying any material changes resulting | NO | The Company does not perform assessments of the collegiate body and has no practice of publishing the relevant information. |

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| from the self-assessment. | | |
| **Principle V: Working procedures of collegiate bodies of the company**<br>**The working procedures of the collegiate supervisory and managerial bodies should ensure effective operation and decision-adoption by these bodies and encourage active cooperation between corporate bodies** | | |
| 5.1. Collegiate supervisory and managerial bodies of the company (for the purposes of this Principle, *collegiate bodies* include both supervisory and managerial bodies) are headed by chairmen. A chairman is responsible for the proper convening of meetings of a collegiate body. The chairman should ensure proper notification of all members of the body including the agenda of the meeting. He should also ensure proper chairing of the meetings, order at the meetings and working atmosphere during the meeting. | YES | |
| 5.2. It is recommended that meetings of collegiate bodies of the company are convened at relevant intervals under an approved schedule. A company decides itself on the periodicity of the meetings, however, it is recommended that the periodicity should ensure continues resolution of key issues of corporate management. Meetings of the supervisory council should be convened at least quarterly and meetings of the board – at least monthly. | YES | Meetings of the Supervisory Council are held at least once in a quarter as stated in Article 45(3) of the Articles of Association of the Company. The Supervisory Council draws up a schedule of the Supervisory Council's meetings at the beginning of the calendar year in accordance with the Regulations of the Supervisory Council.<br>According to Article 84(4) of the Articles of Association, meetings of the Board are held at least once in two weeks. The Board draws up a schedule of the Board's meetings at the beginning of the calendar year in accordance with the Regulations of the Board. |
| 5.3. Members of a collegiate body should be notified of a meeting in advance so that they have enough time to prepare for the consideration of issues at the meeting and the discussions are fruitful and followed by adoption of proper decisions. A notice of the meeting to the members of the collegiate body should be accompanied by any requisite materials related to the agenda. The agenda should not be amended or supplemented during the meeting except for cases when all the members of the body are present at the meeting or where issues material to the company must be urgently resolved. | YES | According to the Regulations of the Supervisory Council, the Members of the Supervisory Council and the invited persons are given a 6 (six) days' notice of the meeting, and are furnished with all the requisite information related to the agenda.<br><br>According to the Regulations of the Board, the Board Members and the invited persons are given a 5 (five) days' notice of the meeting, and are furnished with all the requisite information related to the agenda. |
| 5.4. In order to coordinate work of collegiate bodies of the company and ensure an effective decision-adoption process, chairman of the collegiate supervisory and managerial bodies should agree on dates of meetings and agendas and cooperate closely in resolving other issues related to the company's management. Meetings of the supervisory council should be open to members of the board, in particular where issues related to recalling or liability of the latter or setting of remuneration for the latter are resolved. | YES | |
| **Principle VI: Unbiased treatment of shareholders and shareholders' rights**<br>**The corporate governance system should ensure unbiased treatment of all shareholders including minority shareholders and foreign shareholders. The corporate management governance should protect the shareholders' rights** | | |
| 6.1. It is recommended that the company's capital consists only of those shares that grant equal right in terms of voting, ownership, dividend etc. to their holders. | YES | The authorised capital of the Company consists of ordinary registered shares of LTL 1 par |

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| | | value. The shares grant equal property and non-property rights to their holders. |
| 6.2. It is recommended that investors are afforded the opportunity of early (i. e. prior to purchase of shares) familiarisation with the rights attached to newly issued or existing shares. | YES | The rights attached to the shares are specified in the Articles of Association of the Company, which are published in the Company's website. |
| 6.3. Transactions that are material to the company and its shareholders such as transfer of the company's assets, investments, mortgage or other encumbrance should be approved by the general meeting of shareholders in advance. All shareholders should be afforded equal opportunities for familiarisation with and participation in the adoption of decisions important for the company including approval of the said transactions. | YES | Clauses 70(1) and 72 of the Articles of Association of the Company establish the criteria for material transactions requiring approval of the general meeting of shareholders. |
| 6.4. Procedures for the convening and holding of general meetings of shareholders should provide equal opportunities for the shareholders to take part in the meeting and should not infringe the shareholders' rights and interests. The selected place, date and time of the meeting should not prevent the shareholders from active participation in the meeting. | YES | The Company convenes general meetings of shareholders and implements other procedures related to such meetings according to the provisions of the Republic of Lithuania Law on Companies. |
| 6.5. In order to ensure the foreign shareholders' right to get conversant with the information, it is recommended that the documents prepared for the general meeting of shareholders, where possible, are published in advance in a publicly accessible website of the company in Lithuanian and English and/or other languages. The signed minutes of the meeting and/or decisions should also be published in a publicly accessible website of the company in Lithuanian and English and/or other languages. A document may be published on the company's website in a reduced scope if full publication could damage the company or trade secrets of the company would be disclosed. | YES | Pursuant to the Republic of Lithuania Law on Companies, the Company publishes draft decisions of the general meeting of shareholders in its website, in Lithuanian and English.<br><br>Decisions taken by the general meeting of shareholders are published in the Company's website in Lithuanian and English.<br><br>This information is also published, pursuant to the Articles of Association of the Company and other legal acts in the NASDAQ OMX Vilnius and the Centre of Registers' electronic newsletter. |
| 6.6. The shareholders should be provided the opportunity to vote at the general meeting by attending or not attending the meeting in person. There should be no obstacles for the shareholders to vote in advance by completing the general ballot. | YES | The shareholders of the Company may exercise the right of attending the general meeting of shareholders either in person or through a proxy, provided that the latter holds a properly executed power of attorney or has signed an agreement on the transfer of the voting right. The Company enables the shareholders to vote by completing a ballot as provided for by the Republic of Lithuania Law on Companies. |
| 6.7. In order to increase the shareholders' opportunities for participation in the general meetings, the companies should seek to more widely apply modern technologies and to enable the shareholders to attend and vote at the general meetings by means of electronic communications. In such cases security of the information transmission and the possibility of identification of the participants and voters must be ensured. Furthermore, companies should enable shareholders, in particular those residing abroad, to observe the general meetings by means of modern technologies. | NO | The Company has no practice of voting by means of electronic communications. |

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| **Principle VII: Avoiding and disclosing conflicts of interest**<br>**The corporate governance system should encourage members of the bodies to avoid conflicts of interests and ensure a transparent and effective mechanism of disclosing conflicts of interests of members of the bodies** | | |
| 7.1. A member of a managerial or supervisory body of the company should avoid a situation where his personal interests conflict or may conflict with the company's interests. If such situation arises, the member should notify, within a reasonable time limit, other members of the same body or the body of the company that has elected him or the shareholders of the situation of conflict of interests, specifying the nature and, where possible, value of the interests. | YES | |
| 7.2. A member of a managerial or supervisory body of the company may not mix the corporate assets the use of which has not been specifically considered with him with his personal assets or use the asset or the information that he receives as a member of a collegiate body for personal or third-party benefit unless the general meeting of shareholders or another body of the company authorised by the meeting gives its consent. | YES | |
| 7.3. A member of a managerial or supervisory body of the company may conclude a transaction with the company having formed the relevant body. The shareholder must immediately notify the transaction (except for low value transactions or transactions concluded in the normal course of business of the company and on standard terms and conditions) to other members of the same body or the body that has elected him or the shareholders; the notice may be in writing or oral, with an entry in the minutes of the meeting. Recommendation 4.5 also applies to the transactions referred to above. | YES | |
| 7.4. A member of a managerial or supervisory body of the company should refrain from voting when decisions on transactions or other matters with which he is connected by personal or business interests are being adopted. | YES | According to Article 45(9) of the Republic of Lithuania Law on Companies, a Member of the Supervisory Council is not entitled to vote if there is a conflict of interest between the Member of the Supervisory Council and the Company.<br>According to Article 35(6) of the Republic of Lithuania Law on Companies, a member of the Board is not entitled to vote if a matter related to his/her work in the Board or to his/her responsibility is being resolved.<br>In addition, according to legal acts, members of management bodies of the Company must avoid situations when their personal interests contradict or can contradict the interests of the Company. |
| **Principle VIII: Corporate remuneration policy**<br>**The remuneration policy and the procedure for approving, reviewing and publishing of remuneration for directors in place in the company should prevent potential conflicts of interest and abuse in setting remuneration for directors and should ensure publicity and transparency of the corporate remuneration policy and directors' remuneration** | | |
| 8.1. The company should publish a report on its remuneration policy ("the remuneration report") which should be clear and understandable. The remuneration report should be published in the company's website and not only as part of the annual report. | NO | The Company has no practice of preparing a report on the remuneration policy and the approval, revision and publishing of |

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| | | salaries paid to the Company's directors. No such requirement is contained in the legal acts. General information on the Company's remuneration policy and average rates of pay for employee groups are published in the Annual Report of the Company.<br>According to Article 25(5) of the Republic of Lithuania Law on Energy, the Company publishes the salaries set for Members of the Company's management as well as other payments to them related to their functions in the management bodies. |
| 8.2. The remuneration report should be focussed on the directors' remuneration policy in next year and where applicable in subsequent financial years. It should also contain an overview of the implementation of the remuneration policy in previous financial years. | NO | The Annual Report does not contain information on the policy of remuneration to the Company's directors for next year and subsequent years.<br>The Annual Report contains information on amounts calculated for the members of the Company's management bodies (salaries, other payments, tantiemes, other distributions from profit). |
| 8.3. The remuneration report should contain at least this information:<br>1) relationship between the variable and fixed components of the directors remuneration and explanation thereof;<br>2) sufficient information on criteria for the evaluation of performance results on which the entitlement to share options, to shares or to variable components of remuneration is based;<br>3) explanation of why the selected criteria are beneficial for long-term interests of the company;<br>4) explanation of the methods applied in determining whether the performance evaluation criteria are met;<br>5) sufficiently detailed information on periods of deferring the payment of the variable component of remuneration;<br>6) sufficient information on the link between remuneration and performance;<br>7) main criteria underlying the annual bonus system and other non-cash benefits;<br>8) sufficiently detailed information on the severance pay policy;<br>9) sufficiently detailed information on the period of granting of share-based payment as stated in item 8.15;<br>10) sufficiently detailed information on retaining shares upon granting of rights under item 8.15;<br>11) sufficiently detailed information on composition of similar groups of companies whose remuneration policies were analysed in order to formulate the remuneration policy for an associated company;<br>12) description of main features of an additional pension scheme or early retirement scheme intended for directors;<br>13) the remuneration report should not contain information that ought not to be published for commercial considerations. | NO | The Annual Report contains information on amounts calculated for the Members of the Company's management bodies (salaries, other payments, tantiemes, other distributions from profit), information on assets transferred and guarantees issued to the Members as well as other information related to the remuneration to the Members.<br>Please see Comment on Item 8.1. |
| 8.4. The remuneration report should also summarise and explain the company's policy for agreements concluded with executive directors and members of management bodies. This should include, inter alia, information on the terms of agreements with executive directors and members of management bodies and periods of notice of resignation as well as detailed information on severance pay and other benefits related to the early termination of agreements with executive directors and members of management | NO | The Company has no practice of publishing such information. |

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| 8.5. The full amounts of remuneration and other benefits received by individual directors in the relevant financial year should be detailed in the remuneration report. This document should contain at least information referred to in items 8.5.1–8.5.4 for each person that had occupied the position of a director in the company in any period of the financial year.<br>8.5.1. The following information related to remuneration and/or other service income should be provided:<br><br>1) total amount of remuneration paid or payable to the director for the services provided in the past financial year including, where applicable, participation fees set in the general meeting of shareholders;<br>2) remuneration and benefits received from any company of the same group;<br>3) remuneration paid as allocation from profit and/or bonuses and reasons for granting of such bonuses and/or allocations from profit;<br>4) if permitted by the laws, each type of material extra pay paid to directors for special services not included in normal functions of directors;<br>5) compensation payable or paid to each executive director or member of management bodies who has resigned in the previous financial year;<br>6) total value of the benefit which is treated as remuneration and which is given in a form other than cash, if such benefit is not covered by items 1 to 5.<br>8.5.2. The following information related to shares and/or rights to take part in share options and/or any other rights to take part in the share-based incentive systems should be provided:<br>1) number of share options offered or shares allocated previous financial year and the terms and conditions thereof;<br>2) number of share options exercised during previous financial year specifying the number and price of the shares in each option, or the value of participation in the share-based employee incentive system as of the end of previous year;<br>3) number of share options unrealised as of the end of financial year, their realisation price, realisation data and main terms of exercise of the rights;<br>4) any changes in the terms of share options in the next financial year.<br>8.5.3. The following information related to the additional pension schemes should be provided:<br>1) in case defined benefit schemes – changes in benefits accumulated for the directors in the relevant financial year;<br>2) in case of defined contribution schemes – detailed information on contributions paid or payable for the director by the company in the relevant financial year;<br>8.5.4. Amounts paid by the company or its subsidiary or any company included in the company's consolidated financial statements as a loan, prepayment or guarantee to any person who has occupied the position of a director in any period of the relevant financial year, including outstanding amounts and interest rates. | NO | The Company has no practice of publishing such information. |
| 8.6. Where the remuneration policy provides for variable components of remuneration, the company should set the limits of the variable components. The fixed component should be sufficient to allow the company not to pay the variable component in case if the performance criteria are not met. | NO | The Company has no practice of publishing such information. |
| 8.7. The payment of the variable component should depend on pre-set and measurable performance evaluation criteria. | NO | The Company has no practice of publishing such information. |
| 8.8. Where the variable component of the remuneration is paid, payment of the larger part of this component should be deferred for | NO | The Company does not publish such information. |

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| a reasonable period. The size of the deferred part of the variable component should be set based on the relative value of the variable part as compared with the fixed part of the remuneration. | | |
| 8.9. Agreements with executive directors or members of management bodies should include a provision enabling the company to recover the variable part that has been paid based on the data which later appeared to be untrue. | NO | The Company has no practice of publishing such information. |
| 8.10. Severance pay should not exceed a set amount or a set number of annual pay amounts and generally should not be higher than the sum of the fixed remuneration component for two years or an equivalent. | YES | |
| 8.11. Severance pay should not be paid if employment contract is terminated on the grounds of poor performance. | YES | |
| 8.12. Furthermore, information on the preparatory and decision-adoption processes whereby directors' remuneration policy is formulated should be disclosed. The information should include data, if applicable, on the powers and composition of the remuneration committee, names of external consultants whose services were used in the formulation of the remuneration policy, and the role of the annual general meeting of shareholders. | NO | The Company has no practice of publishing such information. |
| 8.13. In cases where remuneration is share-based, the right to shares should not be granted during at least three years after allocation thereof. | YES | N/A |
| 8.14. Share options or other rights to acquire shares or to receive remuneration based on share price fluctuations should not be exercised earlier than on expiry of three years after allocation. The granting of the right to the shares and the right to exercise share options or other rights to acquire shares or receive remuneration based on share price fluctuations should depend on pre-set and measurable performance evaluation criteria. | YES | N/A |
| 8.15. Upon allocation of the rights the directors should retain a certain number of shares until the end of the term of office depending on the need to cover any expenses related to the share acquisition. The number of shares to be acquired should be pre-set, e. g. the value of annual remuneration (variable plus fixed) multiplied by two. | YES | N/A |
| 8.16. Remuneration to consulting directors or members of the supervisory council should not include share options. | YES | |
| 8.17. Shareholders, in particular institutional shareholders, should be encouraged to take part in the annual meetings of shareholders and vote on the issue of setting remuneration for the directors. | YES | |
| 8.18. Without diminishing the role of bodies responsible for the setting of remuneration, remuneration policy and any material change therein should be included in the agenda of the annual meeting of shareholders. The remuneration report should be submitted to the general meeting of shareholders for voting. The voting results may have mandatory or advisory effect. | YES | |
| 8.19. Schemes under which remuneration to directors is paid in shares, share options or other rights to acquire shares or receive remuneration based on share price fluctuations should be approved in advance by a decision adopted by the general meeting of shareholders. The consent should be given to the scheme itself and shareholders should not decide on the benefit received by individual directors under that scheme. Any material amendments to the scheme proposed prior to the scheme introduction date | NO | Such schemes are not applied and the Company does not publish such information. |

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| should also be approved by the decision of a general meeting of shareholders. In such cases the shareholders should be informed in detail about the proposed amendments and the potential effects thereof. | | |
| 8.20. Consent of the general meeting of shareholders should be obtained for the following matters:<br>1) remuneration to directors under share-based schemes including share options;<br>2) setting of the maximum number of shares and main terms and conditions of share allocation;<br>3) term within which share options must be exercised;<br>4) terms and conditions of changing the price for the exercise of each further share option;<br>5) any other long-term incentive schemes for directors that are not offered to any other employees of the company on similar terms.<br>The general meeting of shareholders should also set the final time limit for the allocation of the above-said compensations to directors by the body responsible for director's' remuneration. | **NO** | Such schemes are not applied and the Company does not publish such information. |
| 8.21. If permitted by the national law or the Articles of Association of the company, the shareholders' approval should also be required for each model of option permitting subscription for the shares at a price lower than market price valid as of the price-setting day or at an average market price valid several days prior to the setting of the exercise price. | **NO** | Such schemes are not applied and the Company does not publish such information. |
| 8.22. Items 8.19 and 8.20 should not be applied to schemes which are offered, on similar terms and conditions, to employees of the company or of any subsidiary entitled to participate in the scheme and which were approved by the general meeting of shareholders. | **NO** | Such schemes are not applied and the Company does not publish such information. |
| 8.23. Prior to the date of the general meeting of shareholders at which the decision referred to in Item 8.19 is to be considered, the shareholders should be afforded the opportunity to familiarise themselves with the draft decision and the related notice (the documents should be published on the company's website). The notice should contain the full text describing the share-based scheme or a description of the main terms and conditions thereof as well as names of participants in the scheme. The notice should also specify the relationship between the schemes and the overall directors' remuneration policy. The draft decision should contain a clear reference to the scheme itself or a summary of the main terms and conditions. The shareholders should also be furnished with information on the way the company intends to secure the availability of the shares necessary for the discharge of obligations under the incentive scheme: it should be clearly indicated whether the company intends to buy the shares in the market, or keep them as a reserve, or issue new shares. In addition, an overview of the scheme costs to be incurred by the company due to the application of the scheme should be provided. The information under this item should be published in the company's website. | **NO** | Such schemes are not applied and the Company does not publish such information. |
| **Principle IX: Role of stakeholders in corporate governance**<br>**The corporate governance system should recognise the statutory rights of stakeholders and promote active collaboration between them and the company in creating the company's welfare, jobs and financial stability. For the purposes of this principle, *stakeholders i*nclude investors, employees, creditors, suppliers, customers, local community and other persons having interests in a specific company** | | |
| 9.1. The corporate governance system should ensure respect for the statutory rights of stakeholders. | YES | |
| 9.2. The corporate governance system should enable stakeholders to participate in the governance according to procedures established by the law. Examples of stakeholders' involvement: participation of employees in adopting decisions significant for the company, consulting with the employees on matters of the company's management and other important matters, employees' participation in the share capital, involvement of creditors in the | YES | The Company complies with this recommendation.<br>For example, consultations, negotiations etc. on the optimisation processes implemented in the Company are held with representatives of the |

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| company's management in case of insolvency of the company etc. | | Company's employees. Under the Collective Agreement concluded with the employee representatives, the Company informs the trade union representatives of projected changes, financial position of the Company etc.<br>Stakeholders can take part in the corporate governance to the extent permitted by the laws. |
| 9.3. Where stakeholders take part in the corporate governance process, they should be enabled to access requisite information. | YES | |
| **Principle X: Disclosure of information**<br>**The corporate governance system must ensure that information on all material issues relevant to the company, including financial position, operations and management, is disclosed timely and accurately** | | |
| 10.1. The company should disclose information on:<br>1) operations and financial results of the company;<br>2) objectives of the company;<br>3) persons owning or controlling a block of shares of the company;<br>4) members of supervisory and management bodies of the company and the head of the company as well as their remuneration;<br>5) predictable key risks;<br>6) the company's transactions with related parties as well as transactions concluded in other way than the usual course of business;<br>7) main issues related to employees and other stakeholders;<br>8) management structure and strategies of the company.<br>This list is a minimum list and companies are encouraged not to confine themselves to the disclosure of this information. | YES, except (4) and (7) | |
| 10.2. In disclosing the information referred to in (1) of Item 10.1, it is recommended that the controlling company discloses information on the consolidated results of the entire group of companies. | YES | |
| 10.3. In disclosing the information referred to in (4) of Item 10.1, it is recommended to provide information on professional experience and qualifications of members of the company's supervisory and managerial bodies and the head of the company as well as potential conflicts of interests that could influence their decisions. It is also recommended to disclose remuneration and other income received by the said persons as detailed under Principle VIII. | NO | The Company has no practice of publishing such information. |
| 10.4. In disclosing the information referred to in (7) of Item 10.1, it is recommended that information on relations between the company and its stakeholders such as employees, creditors, suppliers, local community etc. is disclosed including the company's human resources policy, programmes on employees' participation in share capital etc. | NO | The Company has no practice of publishing such information. |
| 10.5. The information should be disclosed in such a way that no shareholder or investor is discriminated against with respect to the method and scope of information received. The information should be disclosed to all at the same time. It is recommended that notices of material events are published prior to or after a trading session at NASDAQ OMX Vilnius so that all shareholders and investors of the company have equal opportunities to familiarise themselves with the information and to adopt relevant investment decisions. | YES | The Company publishes information through the information system of the Vilnius Securities Exchange in Lithuanian and English simultaneously. The Company publishes information prior to, during and after each trading session at Vilnius Securities Exchange and presents it simultaneously to all the markets in which the Company's securities are traded. The Company does not disclose information that may influence the price of its securities in any comments, interviews etc. before such information is published in the Vilnius Securities Exchange IS. |

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| 10.6. The methods of disclosing information should ensure unbiased, timely and inexpensive access to information to the information users including free access in cases established by the law. It is recommended that information technologies are used widely for the dissemination of information, e. g. publishing of information on the company's website. Information should be published on the company's website both in Lithuanian and English as well as in other languages if possible. | YES | Apart from the method of disclosure stated in p. 10.5, the Company uses various media (an electronic newsletter published by VĮ Registrų centras, news agencies, the Company's website which is publicly available) in order to ensure that the information reaches the largest circle of stakeholders possible.<br><br>Information in the Company's website is published in Lithuanian and English. |
| 10.7. It is recommended that the annual report, the financial statements and other period reports of the company are published on its website, together with the company's notices of material events and changes in the prices of the company's shares in securities exchange. | YES | |
| **Principle XI: Selection of the Company's auditor**<br>**The mechanism for the selection of an auditor for the company should ensure independence of the audit opinion** | | |
| 11.1. In order to obtain an objective opinion of the interim and annual financial statements and the annual report of the company, they should be audited by an independent auditor. | YES | |
| 11.2. It is recommended that the supervisory council proposes an auditor to the general meeting of shareholders, and if no supervisory council is formed, then the proposal should be made by the board. | YES | The auditor of the Company is selected through a public procurement procedure. |
| 11.3. If the audit firm receives payment from the company for services other than audit services, the company should disclose this to its shareholders. This information should also be disclosed to the supervisory council, and if no supervisory council is formed – to the board for the purposes of selecting the auditor that it intends to propose to the general meeting of shareholders. | YES | The Company purchases from audit firm's services other than audit services only in exceptional cases and usually these are low-value transactions, therefore, the Company has no practice of disclosing such information to its shareholders or management bodies. |