



Litgrid

LITGRID AB

The Company's financial statements, annual report and independent auditor's report for the year ended 31 December 2020

CONFIRMATION OF RESPONSIBLE PERSONS

15 March 2021, Vilnius

Following the Law on Securities of the Republic of Lithuania and the Rules on Information Disclosure approved by the Bank of Lithuania, we, Rokas Masiulis, Chief Executive Officer of LITGRID AB, Vytautas Tauras, Director of the Finance Department of LITGRID AB and Jurgita Kerpė, Head of the Accounting Division of LITGRID AB, hereby confirm that, to the best of our knowledge, the attached financial statements of LITGRID AB for the year 2020 prepared in accordance with the International Financial Reporting Standards adopted by the European Union give a true and fair view of the Company's assets, liabilities, financial position, profit and cash flows; the annual report for the year 2020 presents a fair overview of the business development and performance, the Company's financial position together with the description of its exposure to key risks and contingencies.

Rokas Masiulis
Chief Executive Officer

Vytautas Tauras
Director of the Finance Department

Jurgita Kerpė
Head of the Accounting Division



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Translation note:

This version of the accompanying documents is a translation from the original, which was prepared in Lithuanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the accompanying documents takes precedence over this translation.

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The financial statements were approved on 15 March 2021.

Rokas Masiulis
Chief Executive Officer

Vytautas Tauras
Director of the Finance Department

Jurgita Kerpė
Head of the Accounting Division



Independent auditor's report

To the shareholders of LITGRID AB

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of LITGRID AB (the "Company") as at 31 December 2020 and the Company's financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 15 March 2021.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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

The non-audit services that we have provided to the Company, in the period from 1 January 2020 to 31 December 2020, are disclosed in note 39 to the financial statements.

PricewaterhouseCoopers UAB, J. Jasinskio str. 16B, 03163 Vilnius, Lithuania
+370 (5) 239 2300, lt_vilnius@pwc.com, www.pwc.lt



Our audit approach

Overview

Materiality	<ul style="list-style-type: none">• Overall materiality: Euro 2,070 thousand
Key audit matters	<ul style="list-style-type: none">• Value of Property, plant and equipment

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

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

Materiality

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

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

Overall Company materiality	EUR 2,070 thousand
How we determined it	1% of total revenue

Rationale for the materiality benchmark applied	<p>We chose revenue as the benchmark for the Company because it is the measure against which the performance of the Company is assessed by the regulatory bodies as well as external creditors and other stakeholders. The Company's results depend on approved tariffs for regulated activities, therefore the Company's profit before tax fluctuate widely year over year, whereas its revenue is more stable and growth-oriented indicator which can be compared to other market participants.</p> <p>We chose 1%, which is within the range of acceptable quantitative materiality thresholds.</p>
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We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 145 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Value of Property, plant and equipment (refer note 2.4 and 6)</p> <p>The Company applies the revaluation model for subsequent recognition of property, plant and equipment ('PPE'). As at 31 December 2020 the carrying value of PPE amounted to EUR 331,709 thousand, being its fair value at the date of the revaluation less subsequent accumulated depreciation and less subsequent accumulated impairment losses.</p> <p>The management has assessed whether the carrying value of PPE does not materially differ from that which would be determined using fair value at the end of the reporting period. The Company used the income approach using the discounted cash flows technique and concluded that carrying amount of the PPE is the reasonable approximation of the fair value and therefore no valuation adjustments have been recognised as at 31 December 2020.</p> <p>We focused on this area due to significance of the PPE balance for the statement of financial position and because the management's assessment of values of PPE is an area of significant management judgements.</p>	<p>We understood and evaluated management's policies, processes and controls in determination of fair value of PPE.</p> <p>We have examined management's valuation methodology and their assessment of expected changes in tariff setting regulations.</p> <p>We obtained the cash flow models used by the management to assess the value of assets. We checked the models and tested that they are mathematically accurate and that the results are accurately compared to the carrying values of assets. We examined the management's assumptions which have material impacts on valuation results: rate of return on regulated assets and discount rate, expected capital expenditures, values of regulated assets and operating expenses. As appropriate, we traced them to Company's internal budgets and investment plans, or market information.</p> <p>We involved our internal valuation specialists to assist us in discount rate and terminal value assessment and in an overall assessment of model's methodology.</p> <p>Also, we assessed sensitivity of the cash flow model to changes in the rate of return, discount rate and accumulated regulatory over-profits.</p> <p>We considered whether the overall estimate is reasonable and whether the management judgement that no valuation adjustments are needed is appropriate to the circumstances.</p> <p>We have considered the adequacy of disclosures in Notes 2.4 and 6.</p>



Reporting on other information including the annual report

Management is responsible for the other information. The other information comprises the annual report, including the corporate governance report and the remuneration report and the social responsibility report (but does not include the financial statements and our auditor's report thereon).

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

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

With respect to the annual report, we considered whether the annual report includes the disclosures required by the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

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

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

The Company presented the social responsibility report as a part of the annual report.

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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



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

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

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

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

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



Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Company on 24 April 2015 and had an uninterrupted engagement appointment of 3 years. After a 2-year break our appointment was renewed on 18 September 2020, representing a total period of engagement appointment of 4 years.

The key audit partner on the audit resulting in this independent auditor's report is Rasa Radzevičienė.

On behalf of PricewaterhouseCoopers UAB

Rasa Radzevičienė
Partner
Auditor's Certificate No. 000377

Vilnius, Republic of Lithuania
15 March 2021

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



Litgrid

ANNUAL REPORT

(All amounts are in EUR thousands unless otherwise stated)

Statement of the Chairman of the Board

Dear all,

I am proud to introduce the 2020 annual report of the electricity transmission system operator LITGRID belonging to the EPSO-G group of companies.

2020 has become a year of significant achievements for LITGRID, despite significant changes in operating conditions due to the Covid-19 virus. Working hand in hand with our Baltic and Polish partners, we continued to work on synchronisation with the continental Europe, ensured reliable supply of electricity to the people of Lithuania and opened up better opportunities for businesses to connect to the transmission network faster or to become a balancing market participant.

The prompt and effective response of LITGRID's executives and responsible employees in taking care of employees and applying the effective business continuity and preventive measures following the introduction of quarantine in the country due to the Covid-19 pandemic deserves the utmost respect.

We earned more revenue and profit. This was mainly due to the prices of transmission and system services, as well as reduced technological losses due to lower electricity prices and efficient management of the grid. The company's activities are regulated, therefore we are returning a larger share of profit to the country's consumers already this year through the reduced tariff for services provided.

Electricity consumption in Lithuania slightly decreased and was in line with the country's economic development trends. This was affected by the pandemic, which changed the daily life, work and habits of the population and led to the changes in business. Household consumption increased throughout the year compared to 2019, while consumption in the industry, services and transport sectors declined, especially in the second and the third quarters of the year. All this led to the fact that the final electricity consumption in Lithuania was 1.5 percent lower last year.

We can also be proud of the significant progress in the implementation of the strategic projects in 2020. Two more projects important for synchronisation with the continental European networks were completed, a partial technological test of the isolated operation of Lithuania work was performed – LITGRID's controllers controlled the frequency independently in the part of the country's electricity grid separated from the IPS/UPS system, where all major Lithuanian power plants operated and were tested. A test of the NordBalt submarine link was carried out together with the partners in Sweden. It tested the possibility of restoring the system after its complete disconnection using the electricity connection with Sweden.

In 2020, the Baltic transmission system operators pursuing the synchronisation goals agreed on a regional co-operation model that will help the three Baltic States to work together and jointly implement important synchronisation projects for connecting to the Western European electricity grid faster, more efficiently and at lower cost. The concept of the frequency control and common balancing market capacity has been developed the way it will be managed after the synchronisation with the networks of the continental Europe in 2025.

The new LITGRID electrical system control and data security center has been officially opened in Vilnius. It will ensure the stable and secure operation of the country's energy system and the management of energy transmission flows, as well as a higher level of physical and cyber security.

In implementing the Law on Necessary Measures to Protect Against the Threats of Unsafe Nuclear Power Plants in Third Countries, LITGRID has set a zero capacity for commercial electricity flows from Belarus. Now, acting together, as well as with partners in the region, we must take all possible measures to ensure that electricity produced by the unsafe Belarusian nuclear power plant is not traded in the Lithuanian and European Union markets.

In order to ensure the continuity of these important works and give them new impetus, the LITGRID's Board announced the selection of the new CEO of LITGRID. The goal of the new head of the company is to ensure efficient and timely implementation of the projects necessary for synchronous operation with the European electricity transmission networks, thus achieving a definite establishment the country's energy security and independence by implementing all possible measures to prevent unsafe Belarusian electricity from entering the Lithuanian market.

It is no less important to prepare the Lithuanian transmission network's infrastructure for the integration of renewable energy sources based on new technologies, thus creating value for the company and the entire energy sector of the country. We must see that paradigm shifts are taking place in the energy sector today, from renewable energy to the search for measures to slow down climate change, to technological progress, to socially responsible activities, without which sustainable business development is difficult to imagine today and in the future.

We must make strategic choices now in order to properly prepare for the new phase of activities after the implementation of the strategic projects of national importance, thus making a meaningful contribution to the implementation of the goals set in the National Energy Independence Strategy.



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(All amounts are in EUR thousands unless otherwise stated)

The achieved results show the growing maturity – not only the desire, but also the ability to reconcile interests and manage processes. I am confident that by the end of 2021, we will once again be able to be proud of our performance – continued successful strategic projects, new activities, strengthening governance and growing trust in the eyes of the public, business and all other stakeholders.

Therefore, I would like to express my sincere gratitude to every LITGRID employee, shareholder and board member for their professionalism. For cooperation. For the ability to see the opportunities that open up. For the determination not only to pursue, but also to exceed the set goals in creating the country's energy future.

Yours faithfully,

Algirdas Juozaponis

Chairman of the Board of LITGRID



Statement of the Chief Executive Officer

Dear all,

I am presenting LITGRID report of 2020. The last twelve months have been a particularly dynamic year for our company. Due to the pandemic working remotely, we achieved ambitious goals last year - together with our regional partners, we secured a record EUR 720 million European Union funding for the second phase of synchronization, we agreed with the Polish transmission network operator on the most complex synchronization project - the construction of the Harmony Link subsea link - and signed the cooperation agreement and shared responsibilities. We also updated the 10-year development plan of Lithuanian electricity transmission grid, performed the isolated test in Lithuania, which helped to assess that our system is ready for possible challenges. At the end of the year, we were on duty and fulfilled our statutory duty to suspend the commercial electricity imports from Belarus within half an hour, when the Astravets Nuclear Power plant was producing electricity for the first time and supplying it to the transmission grid. We have also established a Baltic frequency control unit, which will lay the foundations for preparing countries' systems to operate on a single frequency. Throughout the year, we maintained high transmission network reliability results (the average interruption time was 0.21 minutes and the amount of energy not supplied was 6.21 MWh), and the financial activity was sustainable and profitable - the company's revenue grew by 12.8% up to 207.5 million, net profit increased from EUR 3 million in 2019 up to EUR 26.6 million in 2020. All that was achieved by LITGRID team.

Last year we paid a lot of attention to the safety and well-being of our employees. We started the year by establishing and opening the doors of the new modern Lithuanian electricity transmission system control centre, Viršuliškės, Vilnius, from where we will independently control the frequency after synchronizing with the Continental European networks.

At the beginning of the year, Covid-19 brought new challenges that we met well prepared - from January onwards, we monitored the actions of Western European transmission network operators, adopted the best practices and stopped travel and real life meetings, turning them into virtual ones, preparing to start remote work at any time. We started using the remote work model back in 2019, so the state of emergency and quarantine in the country did not affect the pace and nature of Litgrid work - the company's employees moved to remote work within half a day, and the company's three-year Lean efficiency system ensured a smooth transition. We also focused on the employee development and the development of high-quality remote work skills, as well as employee health. Increased focus on employee safety has helped protect against Covid-19 threats - there were no Covid-19 cases in the company until late fall.

Last year, all synchronization projects were started and two of them were completed earlier than planned - the construction of the 110 kV overhead line Pagėgiai-Bitėnai in Western Lithuania and the reconstruction of the 330 kV overhead line Lietuvos Elektrinė-Vilnius, which increases the reliability of electricity supply to the capital. The Harmony Link project also gained momentum by signing a cooperation agreement with the Polish partner PSE, securing funding and procuring consulting and the seabed research services.

In 2020, we started the preparatory works for the second most expensive synchronization project - we started the international procurement process and will soon sign a contract with a contractor for the design, production and contract works for the installation of 3 synchronous compensators in the Lithuanian electricity system.

We continued to optimize the network of North-Eastern Lithuania and prepare it for the synchronous operation with the networks of the Continental Europe. This project includes the arrangement of the Utena and Ignalina transmission network nodes and the relocation of the controlled shunt reactor from the Ignalina NPP to Elektrėnai. LITGRID has already completed most of the project - the renovated Utena and Ignalina transformer substations have been commissioned, the only controlled shunt reactor of this type in the country is successfully operating, which we moved from the Ignalina NPP substation to the substation near the Elektrėnai complex in pandemic conditions. The Litgrid team started the shunt reactor itself, because specialists with rare competencies could not come from abroad due to the closed borders, they did consultation remotely. Within the framework of this project, one of the electricity transmission lines connecting Lithuania and Belarus was also disconnected.

However, the impact of Covid-19 was not avoided in all projects. The implementation of the LitPol Link connection extension works has become a complex challenge - due to the pandemic, the supply of planned equipment manufactured abroad - autotransformers - was disrupted. Therefore, the company paid a lot of attention to the previous preparatory works of the project, which were planned to be performed with contractors working in Lithuania. At the end of 2020, all the main project works, which could be performed without autotransformers, were completed. Last year, the 400 kV and 330 kV switchyards were expanded, the substation was prepared for autotransformers, and the power lines in this unit were reconstructed. The LitPol Link project is of strategic importance for the country - the connection from Alytus to Elka with Poland is Lithuania's gateway to the West, through which the systems of the Baltic States and continental Europe will be synchronized. The completed LitPol Link extension project will allow the full implementation of the emergency preparedness plan for emergency synchronous operation with the Polish electricity transmission networks.



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(All amounts are in EUR thousands unless otherwise stated)

LITGRID also carried out preparatory work on land planning and public procurement to help lay the groundwork for projects that are about to begin, and public presentations of new overhead lines to interested communities in whose environment construction or reconstruction work is about to begin.

Last year, the LITGRID transmission network, which consists of more than 7,000 km of power lines and more than 200 substations, was efficiently managed, maintained and renewed and successfully withstood all the tests sent by nature. We performed two ambitious network renewal projects, during one Palanga city in May, and another, Neringa in July were disconnected from grid for a day. Both disconnections of Palanga city and Neringa city, during which airline repair works were carried out smoothly, without disruption and faster than initially scheduled.

We have paid a lot of attention to the protection of overhead lines and network equipment and carried on a public campaign about the safe work in the network protection zones. We managed to achieve an important goal: there have not been any accidents on the network that have affected people.

This year, LITGRID has new ambitious goals - smooth implementation of synchronization projects, submission of the financing application for the last stage of synchronization, prevention of electricity from unsafe Astravets nuclear power plant entering Lithuania, completion of pilot 1 MW battery project, laying foundations for offshore wind power plants integration into transmission network. This year, we will present the LITGRID strategy, which will focus more on innovation and power system transformation. I am proud of LITGRID team with which we will pursue these goals together.

Yours faithfully,

Rokas Masiulis

CEO Litgrid



Litgrid

ANNUAL REPORT

(All amounts are in EUR thousands unless otherwise stated)

I. GENERAL INFORMATION

The report has been prepared for the period ended 31 December 2020.

The Issuer and its contact details:

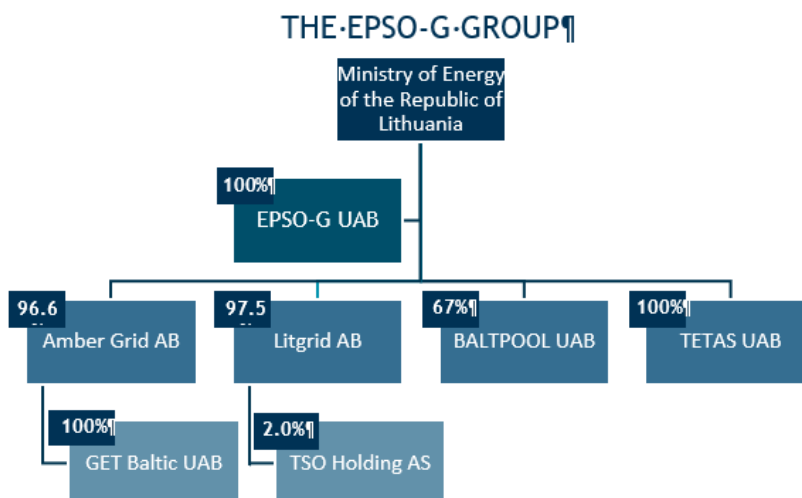
Name	LITGRID AB (“LITGRID” or the “Company”)
Legal form	Public limited liability company
Date and place of registration	16 November 2010, the Register of Legal Entities of the Republic of Lithuania
Company code	302564383
Registered office address	Viršuliškių skg. 99B, LT-05131, Vilnius
Address for correspondence	Viršuliškių skg. 99B, LT-05131, Vilnius
Telephone	+370 707 02171
Email	info@litgrid.eu ; www.litgrid.eu

Activities of LITGRID

LITGRID, the Lithuanian electricity transmission system operator (the “TSO”), secures stable operation of the national electricity system, controls electricity flows and creates conditions for competition in the open electricity market. LITGRID has implemented the strategic projects on electricity cross-border links NordBalt (Lithuania-Sweden) and LitPol Link (Lithuania-Poland).

LITGRID is responsible for maintaining the balance between electricity consumed and produced in the system and reliable transmission of electricity, implements strategic national electricity projects. Its vision and strategic operating guidelines are based on the long-term goals identified in the National Energy Independence Strategy (the NEIS). The most important activity areas and responsibilities of the Lithuanian TSO include maintenance of the country’s electricity infrastructure and its integration with the Western and Northern European electricity infrastructure; development of the electricity market and participation in the creation of a single electricity market of the Baltic and European countries; and integration of the electricity systems of Lithuania and continental Europe for synchronous operations. In implementing the programme on the synchronisation with the European continental networks, the Company carries out 14 projects of strategic importance approved by the Government of the Republic of Lithuania.

LITGRID is part of the EPSO-G group of companies:



EPSO-G is a state-owned group of energy transmission and exchange companies. The rights and obligations of the shareholder of the holding company EPSO-G UAB are implemented by the Ministry of Energy of the Republic of Lithuania. EPSO-G UAB owns 97.5 % of shares of LITGRID.



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(All amounts are in EUR thousands unless otherwise stated)

Shares of other companies owned by LITGRID AB and changes during 2020:








Name	LitPol Link Sp.z.o.o	Duomenų Logistikos Centras UAB	TSO Holding AS (former name Nord Pool Holding AS)
Country of incorporation	Republic of Poland	Republic of Lithuania	Kingdom of Norway
Registered office address	Warszawska 165, 05-520, Konstancin-Jeziorna, Poland	Žvejų g. 14, LT-09310 Vilnius	PO Box 121, NO-1325 Lysaker, Norway
Country of operations	Lithuania and Poland	Lithuania	Norway, Sweden, Finland, Denmark, Lithuania, Latvia, Estonia, United Kingdom, Poland, Germany, Netherlands
Shares owned by LITGRID	50% of shares and voting rights attached thereto.	20.36% of shares and voting rights attached thereto.	2% of shares and voting rights attached thereto.
Changes during 2020	The liquidation process is conducted.	Shares were sold on 7 July 2020.	

II. THE STRATEGY OF THE COMPANY

The Company consolidates its commitments in its mission which is to secure reliable transmission of high-quality electricity in the European market by creating value to the society. In view of this goal, LITGRID continues intensive development of the electricity market by deepening integration into the European market and applying European standards. Existing rules are being developed in order to open up new market opportunities and services to its participants, empower new users, ensure equal conditions and complete a full integration of the Lithuanian electricity market into the European electricity market.

Constant changes in the electricity system encourage the organisation to develop, increase its efficiency and meet the challenges of a rapidly changing environment. The Company aims to be an innovative and progressive entity having a long-term vision of becoming the smartest transmission system operator in Europe.

While working to fulfil its long-term development vision LITGRID has achieved the following actions steps:

-  It has gained independent control of electricity frequency after an eighty-year break.
-  It is one of the top 5 leading European transmission system operators in terms of solar and wind power integration.
-  It is listed among 10 European operators using the battery for electricity frequency management.
-  It maintains a competitive electricity transmission tariff in the region despite making relatively largest investments in the transmission network compared to other operators in Europe.
-  It retains a position among 5 most reliable European operators in the region in terms of electricity transmission.
-  It is ranked one of the most attractive employers in Lithuania.
-  It has introduced the zero-tolerance policy against disrespect for people and nature.

The Company’s mission and vision are implemented by focusing on four strategic priorities.



The Company’s priorities and strategic objectives implementing them are presented in the chart. See section [the Strategy of the Company](#) for more information on the importance and benefits of the strategic objectives.

The values observed in the Company’s activities include professionalism, cooperation, progress

The values are reflected in our behaviour:

Professionalism

I do my job better than it is expected from me; I say what I do, and I do what I say; I deliver my promises.

Cooperation

I communicate clearly and understandably; I show my position and respect others; I help others to achieve the result.

Progress

I take the initiative and learn from mistakes; I am looking for new ideas and implement them; I continuously improve my skills and share them.



Assessment of the operating environment

The Company carries out a regular monitoring and assessment of external factors. This allows predicting possible risks in a timely manner, avoiding threats and exploiting available strengths.

	Assists in implementing the vision	Impedes in implementing the vision
Internal environment (the organisation's features)	<ol style="list-style-type: none"> 1. Capacity of high-power cross-border interconnections. 2. Membership in the European TSO organisations and regional cooperation (including other TSOs). 3. Highly experienced and qualified employees of the Company focused on the achievement of the results. 4. The Company acknowledged as an undertaking of strategic importance for national security. 5. Accumulated competences in the field of management and implementation of complex strategic projects of national significance. 6. Optimal structure of the organisation ensuring operational flexibility. 7. Looped, smart and non-congested network 8. High voltage direct current (HVDC) know-how (technical competences). 9. Operational and financial stability. 10. Available infrastructure allowing a rapid implementation of synchronisation. 11. Transparency and openness to the society. 12. Introduction of information systems and automation of processes (dispatch control) reducing the number of human errors. 	<ol style="list-style-type: none"> 1. Insufficient capacity of the electricity interconnections for the reduction of a price difference. 2. Failure to complete a full reconstruction of the internal network to achieve synchronisation. 3. Capacities of the transmission network are not effectively used, i.e. historically the network has been developed for a larger electricity demand. 4. Failure to use the potential of innovations and operational efficiency. 5. Insufficient consistency between IT and operational needs.



<p>External environment (The surrounding environment's features)</p>	<ol style="list-style-type: none"> 1. Impact, participation and accumulation of experience through the international organisations, TSOs of other countries in solving important issues. 2. Development of the electricity market of the European countries. 3. Connection of energy generation sources. 4. Connection of large consumers (development of industries with a large demand for electricity). 5. Flexibility of the system management, i.e. possibility to use power reserves of Kruonis Pumped Storage Hydroelectric Plant. 6. Taxation of third parties for the use of the infrastructure. 7. Flagship initiatives of the implementation of projects of national and European significance and creation of the legal environment. 8. The EU support for the implementation of projects of national and European significance. 9. Increasing electricity demand. 10. Proactive and producing consumers and increasing demand for system services. 11. Development of the market of new flexible system services. 12. Development of the long-term power market. 13. Use of resources of the group of companies. 	<ol style="list-style-type: none"> 1. Large political and economic impact of other countries on the Lithuanian energy system. 2. Implementation of the National Energy Independence Strategy (the NEIS) depends on political decisions, positions and decisions of the neighbouring countries - a threat of political vulnerability and a threat of the network's reliability. 3. Unbalanced development of the energy system threatens the stability of the system. 4. Unbalanced regulatory environment. 5. Concentrated local market, low competition, dominance of the oligopoly. 6. Insufficient qualification, quality and competition of contractors. 7. Increasing threat of cyber and physical (including terrorist attacks) vulnerability. 8. Intense competition and not fully developed regulatory environment prevent the Company from retaining specialists of the highest qualification. 9. Public opposition to the implementation of new infrastructural projects. 10. Increased possibility of legal disputes relating to compensations for the established servitudes. 11. Unstable natural phenomena (<i>force majeure</i>).
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The summary of the results of the analysis of LITGRID's internal and external environment includes the assessment of its strengths that can be implemented using the possibilities provided by the external environment and controlling possible threats or mitigating their impact; the occurring possibilities can neutralise weaknesses.

The capacity of high-power cross-border interconnections creates conditions for the electricity systems of Lithuania, Latvia and Estonia to operate as a single Baltic system.

Membership in the European TSO organisations (ENTSO-E) creates conditions for the use of international know-how and resources for the implementation of strategic objectives, making impact on TSOs of other countries through the international organisations in solving issues important to the state and implementing projects of the electricity sector.

The electricity market is developed based on the best practice examples of Europe, i.e. well-developed electricity networks inside the country ensuring reliable and safe operation of the transmission systems and developed infrastructural links with the surrounding countries create favourable conditions for the increase of electricity and transmission flows, stable functioning of the market. All these activities are carried out taking into consideration experience of our partners from ENTSO-E.

Highly experienced and qualified employees of the Company, their knowledge and accumulated experience in managing and implementing the projects of national significance, international projects or projects financed using the EU funds create preconditions for a successful implementation of further projects and possibilities to use the EU financial instruments intended to finance infrastructural projects.

The Company's status as an undertaking of strategic importance for national security facilitates the conditions for the implementation of important strategic electricity projects.

Accumulated competences in the field of management and implementation of complex strategic projects of national significance enable to use our experience at the national level in the future by creating the good practice of the implementation of projects of European and national significance and the legal environment and to strengthen the centre of competences for the energy sector.



Measures for the implementation of the strategy

The Company’s strategy is reviewed and updated annually taking into consideration the NEIS, the Company’s activities and amendments to the legal acts regulating the electricity sector, the strategy of EPSO-G, a holding company of the group, significant events in the Lithuanian and foreign electricity systems and electricity markets, works performed during the year as well as by assessing new external circumstances beyond the Company’s control.

The strategy comprises a ten-year (long-term) implementation period based on the main and long-term objectives in the electricity sector laid down in the NEIS. Each year the Company updates and prepares a ten-year development plan of the transmission network which is an integral part of the strategy.

The long-term strategy serves as a basis for the preparation of the upcoming three-year (medium-term) operational plan of the Company and the detailed one-year (short-term) operational plan and the budget that are approved by the Company’s Board.

Starting from 2019 the three-year medium-term operational plan is prepared according to the well-known Lean business tool Hoshin Kanri, which is a method for the organisation of a strategic planning that transforms ordinary operational plans into a visually attractive and effective planning tool - the x-matrix.

10 years	<ul style="list-style-type: none"> • The strategy (long-term) • The ten-year transmission network development plan
3 years	<ul style="list-style-type: none"> • The medium-term operational plan
1 year	<p><i>Other planning documents (areas)</i></p> <ul style="list-style-type: none"> • The budget • The list of the projects portfolio • The plan of the Company’s operating indicators • The annual procurement plans • The personnel development plan • The plans for the annual and semi-annual assessment of performance of employees • The annual communication plan

The target-oriented Company also uses the following integrated planning documents and monitoring tools:

- **The long-term financial plan.** This document comprises forecasts of profit or loss, balance sheet, cash flows, investments and their funding plans for the period of the strategy implementation.
- **The list of identified and assessed risks and the plan for risk management measures.** These documents indicate the Company’s operational risks, sources of these risks, applied control measures, potential impact upon the occurrence of these risks. The preparation process of these documents is regulated by the Risk Management Policy and the Risk Management Methodology of the EPSO-G Group of Companies.

In order to regularly assess the efficiency and application of the measures selected by the Company, the Company’s operational plan is reviewed after the end of each quarter. The implementation of the strategic objectives and the operational plan, performance of the divisions and employees are monitored. The measures stipulated in the operational plan are included in the operating objectives of the divisions and personal performance objectives of employees, the achievement of which at the end of the year determines a variable part of remuneration.

The strategic planning and control mechanism at the Company is based on the Integrated Planning and Monitoring Policy of the EPSO-G Group of Companies which is applied in the activities of LITGRID to a full extent.

Long-term development plan of the electricity transmission networks

According to the Law on Electricity of the Republic of Lithuania, the electricity transmission system operator (TSO) is responsible for stable and reliable operation of the electricity system, performance of the national balancing function and provision of system services in the territory of the Republic of Lithuania, operation, maintenance, management and development of the transmission network of the electricity system and the interconnectors with the electricity systems of other countries by reducing capacity restrictions in the transmission networks and taking into consideration the needs of the electricity system and users of the electricity networks.

The Plan for the Development of 400-110 kV Networks of the Lithuanian Electricity System for 2020-2029 was updated by LITGRID in 2020. The plan presents forecasts of electric power and energy consumption needs, capacities of power plants (generation facilities), assessment of the electricity system adequacy, forecast of electric power and energy balances of the electricity market and system, as well as information on the electricity transmission network, its development and restoration, innovations and planned investments.

The ten-year network development plan stipulates that:

- Investments required for the development of the electricity transmission network may total to around EUR 1.25 billion. Slightly more than a half of the planned investments will be designated for the implementation of strategic projects of national significance. The remaining half (around 46%) of the planned investments is intended to be allocated for an effective development and systemic renewal of the network, physical and information security, development of the information systems as well as research and innovations.
- During the preparation for connection to Europe the construction of the submarine electricity link with Poland Harmony Link will be completed, the optimisation of the North-East Lithuanian transmission network will be finalised, three autotransformers in the transformer substation in Alytus will be installed. Electricity transmission lines with the length of around 520 km will be built and reconstructed, two new 110 kV switchgears will be installed. In addition to the network's development to ensure connection to Europe, LITGRID plans to construct 72 km of new lines in order to secure reliability of the electricity network, it also plans to reconstruct around 87 transformer substations.
- Irrespective of short-term decline in electricity consumption caused by the COVID-19 pandemic, it is projected that electricity demand will increase by 2% annually on average over the upcoming ten years and will reach 14.7 TWh in 2029 (11.97 TWh in 2020). Electricity consumption will be mainly affected by general economic tendencies, increasing efficiency of electricity consumption, higher number of electric cars and thermal pumps and larger quantity of electricity consumed.
- The number of electric cars may total to around 106 thousand in 2029 in the country and they will consume around 179 Gwh of electricity per year. There were 1,357 electric cars in Lithuania at the end of 2019. LITGRID estimates that no difficulties will arise with regard to the transmission system even if the number of electric cars would be twice as large as it is projected in the country - the transmission system will be prepared for this.
- Particular attention is paid to the assessment of the network's ability to adapt for the integration of renewable energy sources and introduction of energy storage technologies. First, a trial energy storage system with the power capacity of 1 MW and batteries with the storage capacity of 1 MWh will be installed in the transformer substation in Vilnius in 2021. It will allow testing possibilities for the use of the battery storage systems under actual conditions of the Lithuanian electricity system. Results and knowledge obtained will help LITGRID develop competences and install energy storage means later on and define additional services that could be provided by the batteries.
- For the expansion of renewable energy resources, it is planned that the objective set in the NEIS will be achieved in 2030 - locally generated electricity will meet around 70% of the electricity demand.

The ten-year plan for the development of the electricity transmission network of LITGRID is available at <https://www.litgrid.eu/index.php/tinklo-pletra/lietuvos-elektros-perdavimo-tinklu-10-metu-pletros-planas-/3850>

III. STRATEGIC ACTIVITIES AND PRIORITIES

Preparation of the electricity system for synchronous work with the European continental networks

One of the fundamental directions of the implementation of the National Energy Independence Strategy of the Republic of Lithuania adopted by the decision of the Parliament on 21 June 2018 establishes the connection of the electricity system of the Republic of Lithuania with the European continental networks for operation in a synchronised mode (the "Synchronisation"). The other Baltic countries also set the same objectives with the support from the EU institutional and regional partners of Poland and the Nordic countries. Following a full-fledged integration of Lithuania into the European electricity system in 2025, the European system management standards will be introduced in the electricity sector ensuring management of electricity flows based on market principles and participation in maintaining the system's frequency.



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A timely implementation of the synchronisation programme in the most economically efficient manner is one of the most important objectives of LITGRID.



For the purpose of the implementation of this objective the Government of the Republic of Lithuania passed Resolution No 918 of 4 September 2019 whereby it approved the Plan for the Actions and Measures of the Electricity System Synchronisation Project (the “Plan for the Actions and Measures of the Synchronisation Project” or the “PAM”) and obliged LITGRID AB, as the Lithuanian TSO, to implement this plan in close cooperation with the operators of the Baltic countries and Poland and under supervision of the Ministry of Energy of the Republic of Lithuania. LITGRID implements the actions and measures of the synchronisation project by applying the programme management.

All actions and measures of the PAM with the implementation term expiring in 2020 have been implemented (14 actions), except for one (expansion of the LitPol Link interconnection), the completion deadline of which was updated by the Government of the Republic of Lithuania and set for the second quarter of 2021. Additionally, one action was completed during 2020, the implementation term of which covers the year 2021.

Progress towards the implementation of the synchronisation programme during 2020 has been presented to the Government of the Republic of Lithuania twice (in April and October) by discussing the results achieved, projected implementation deadlines and the main issues to be solved.

During 2020, two projects were implemented, five procurements were carried out and investments in the network amounted to more than EUR 8 million.

European cooperation during the programme implementation

International cooperation with the regional partners (particularly with Latvia, Estonia and Poland) is absolutely essential to successful implementation of the synchronisation programme. In 2020, LITGRID actively continued this cooperation by focusing on three directions:

— **Coordination of the synchronisation programmes**

In February 2020, the TSOs of the Baltic countries signed cooperation terms for the synchronisation programmes that regulate coordination of joint activity systems in the fields of management and communication. The joint group for the management of the Baltic programmes has been set up under this agreement.

— **Implementation of joint projects**

As a result the implementation of the joint project with the electricity transmission system operator of the Republic of Poland PSE for the construction of the Harmony Link interconnection, the cooperation agreement for the implementation stage was

signed in May 2020 which established the responsibilities of the parties and the cooperation model over the course of the construction of the submarine interconnection between Poland and Lithuania.

Together with the Latvian and Estonian operators LITGRID takes part in the procurement for the package of the synchronisation programme study from the consortium composed of the members of ENTSO-E Regional Group Continental Europe. The joint framework agreement on acquisitions was signed and the purchase of services is expected to be completed in the first quarter of 2021.

→ **Joint financing of the programme**

In May 2020, LITGRID, together with the electricity transmission system operators of other countries PSE (Poland), AST (Latvia) and Elering (Estonia), submitted the application for the financing of the implementation of stage II of the Baltic synchronisation project using funds of the Connecting Europe Facility for the total amount of EUR 720 million which was approved in autumn. A part of this amount allocated to Lithuania is equal to EUR 300.5 million.

On 2 October 2020, the coordination committee of the EU funding instrument Connecting Europe Facility allocated the maximum possible amount of support for the key projects of synchronisation of the Baltic countries with the European continental networks. Support of EUR 719.7 million provided under the joint application of the Lithuanian, Latvian, Estonian and Polish TSOs is designated to secure effective implementation of the largest infrastructural projects and will enable the Baltic countries to operate their systems under the frequency of Poland and other countries of continental Europe in 2025. The highest intensity support (75%) was allocated to the most significant and already started synchronisation projects. Support allocated to the construction of the submarine interconnection between Lithuania and Poland Harmony Link amounted to EUR 493 million, support for the installation of synchronous compensators in Lithuania, Latvia and Estonia totalled EUR 166.5 million and the remaining part of the support was designated for the modernisation and development of the networks necessary for the integration of the Harmony Link interconnection.

On 14 December 2020, LITGRID, AST, Elering and PSE signed the financing agreement with the Innovation and Networks Executive Agency of the European Commission regarding the financing of the second stage of the synchronisation project of the Baltic countries.

The total value of investments in the project of synchronisation with the European continental networks for three Baltic countries reaches up to EUR 1,650 million. This project is included in the European Commission's List of Projects of Common Interests. The implementation of this project is executed in separate financing stages.

- The total value of investments of the first financing stage of the Baltic countries amounted to EUR 430.4 million, out of which EUR 167 million were provided for the renewal and enhancement of the Lithuanian electricity system. In 2019, support allocated by the EU for Lithuania for the first investment stage totalled EUR 125 million or 75% of the required amount from the Connecting Europe Facility.
- The total value of investments of the second financing stage of the Baltic countries amounted to EUR 957 million. This stage of works received the largest amount of investments due to the planned construction of the submarine interconnection Harmony Link and the planned construction of the synchronous compensators in Lithuania, Latvia and Estonia, three in each country.

On 27 April 2020, the Lithuanian, Latvian, Estonian and Polish energy regulators signed a joint agreement of the national regulatory authorities of the Baltic countries and Poland regarding cross-border cost-sharing in the implementation of the second stage of the project of common interests *Integration of the Electricity System of the Baltic Countries in the European Networks and Synchronisation with Them*.

Considering that each country benefits from the project the regulators adopted a joint decision according to which investment costs incurred by each country will be covered by the respective TSO of the Baltic countries.

The agreement of the Lithuanian, Latvian, Estonian and Polish energy regulators is one of the requirements for the TSOs in submitting a joint application to the European Commission in order to finance a part of costs of the investment project.



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Implementation of the synchronisation projects in Lithuania

Expansion of the LitPol Link interconnection



The expansion of the LitPol Link interconnection is one of the key projects for the synchronisation programme and for securing the possibility of emergency connection in a synchronised mode to the Polish electricity networks. A significant progress was achieved in 2020 when implementing the planned construction works:

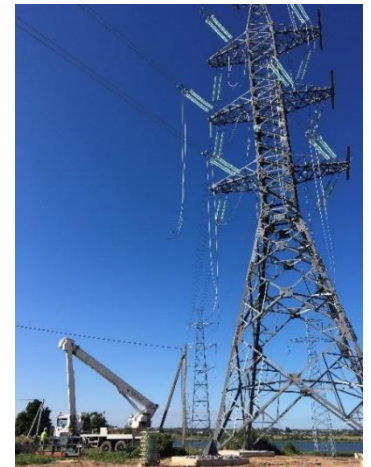
- documents permitting the construction of the objects stipulated in the project were received;
- installation of electro-technical equipment at a 400 kV converter substation was completed (excluding three autotransformers);
- reconstruction and underground cabling works of the 110 kV Alytus-Igliauka, Alytus-Prienai, Alytus-Šeštokai overhead lines were completed; the line was put into operation;
- expansion works of the 330 kV Alytus-Keitiklis overhead line were finalised;
- reconstruction works of a 330 kV transformer substation in Alytus were completed.

Due to the COVID-19 pandemic that affected the production of three 600 MVA autotransformers ordered in 2019, the supply of this equipment from the manufacturing facility was postponed to the second quarter of 2021. Ongoing control of the project is maintained with the producer and the contractor to ensure that this major equipment is delivered in time.

Construction of the 330 kV Lietuvos E-Vilnius overhead line

The reconstruction of the overhead line with the length of 43 km connecting Elektrėnai and Vilnius was fully completed in 2020, during which the 330 kV Lietuvos Elektrinė-Vilnius electricity transmission line was transformed from a single-circuit to a double-circuit line. This change means that the transformer substation of the Lithuanian power plant in Elektrėnai and the transformer substation of Vilnius in Trakų Vokė are connected not only with the single line but rather with two lines which are erected on the same towers. Both lines were put into operation during November and at the end of the year the last document confirming the completion of construction works was received.

The project was completed nearly seven months before the deadline of 30 June 2021 established in the Plan for the Synchronisation Actions and Measures approved by the Government. The reconstruction project of the line Lietuvos Elektrinė-Vilnius was started in summer of 2016 and construction works were started at the beginning of 2019. Investments totalled EUR 19.2 million.



Construction of the 110 kV Pagėgiai-Bitėnai overhead line

The Company completed the construction of the 110 kV Pagėgiai-Bitėnai overhead line in June. More than EUR 5 million were invested in the line of 17.1 km in Western Lithuania. The new line has increased reliability of electricity transmission for electricity consumers in the Pagėgiai municipality and the entire western part of Lithuania. This was the second of fourteen synchronisation projects approved by the Government and already implemented.

The construction of the Pagėgiai-Bitėnai line is attributed to the first stage of the synchronisation projects during which the internal network is being improved and modernised.



Optimisation of the North-East Lithuanian electricity transmission network and preparation for synchronous work with the energy system of continental Europe

A significant progress has been made in 2020 towards the implementation of the project on the optimisation of the North-East Lithuanian electricity transmission network and preparation for synchronous work with the energy system of continental Europe which is expected to be completed in 2021.

In June the controlled shunt reactor was transported from the transformer substation of the reconstructed Ignalina nuclear power plant to the transformer substation of the Lithuanian power plant. It was installed, tested and launched to operate at full capacity.



After the reconstruction the 330 kV switchgears of the Ignalina nuclear power plant and Utena were put into operation in December. The autotransformers are planned to be launched, old equipment is to be demolished, 110 kV switchgears are to be reconstructed in 2021.

Construction of the Harmony Link interconnection and construction of the 330 kV Darbėnai transformer substation

In cooperation with the Polish TSO preparatory stage works of the construction of the Harmony Link interconnection were continued in 2020.

The cable route study was finalised in January 2020 that provided alternative routes of the cable in the Baltic sea and proposals regarding the exit points to the shore. This study was referred to when signing the agreement in December with the provider of seabed research services, a consortium led by Polish company MeWo S.A., according to which detailed geophysical,

topographical and other investigations of the cable's route will be performed. Works are expected to be completed in September 2021.

Following the signing of the agreement with the group of suppliers led by company ILF Consulting Engineers Polska in June 2020, the preparation of technical specifications, implementation study and procurement documents for the project on the construction of the Harmony Link interconnection was started.

Works related to territory planning for a continental part of the cable and the converter station were continued. A transaction was concluded in December 2020 on the acquisition of the land plot with the area of 26 ha for the new 330 kV substation in Darbėnai.

Implementation of synchronous compensators in the Lithuanian electricity system

Preparatory works for the acquisition of three synchronous compensators were continued in 2020. The consultation project for the preparation of technical specifications of the synchronous compensators carried out by Italian company CESI was completed in May. Immediately after that a market consultation was conducted based on the technical specification prepared and on 2 September 2020 the procurement for design, manufacturing and installation works for the synchronous compensators in the Alytus, Telšiai and Neris substations was announced. It is expected that the entire project will be completed in 2024.

At the same time reconstruction works of the substations were started that are necessary for the installation of the synchronous compensators. On 10 March, the agreements were signed with Tetras UAB that will carry out reconstruction works of the Alytus and Telšiai substations. Technical projects relating to the projects are being reconciled.

Other synchronisation projects

In 2020, territory planning works were continued for another four synchronisation projects.

The publicity stage of the development plan for the project *Construction of the 330 kV Vilnius-Neris Overhead Line* was finalised and positive decisions were received from the authorities that issued the design terms. The Environmental Protection Agency under the Ministry of Environment of the Republic of Lithuania provided a positive conclusion.

The concepts of the development plan for the projects *Construction of the 330 kV Darbėnai-Bitėnai Overhead Line* and *Construction of the 330 kV KHAE-Bitėnai Overhead Line* were prepared and agreed and the publicity stage was started. Procurements for design and construction works for a planned reconstruction of the sections Klaipėda-Grobinė and Jurbarkas-Bitėnai were announced. The reports on the assessment of strategic environmental impact were prepared.

The concept of the development plan for the project *Construction of the 330 kV Mūša Transformer Substation* was prepared and agreed and the publicity stage was started. The Environmental Protection Agency confirmed that the environment impact assessment of the economic activity is not required for this project.

The initiation of the projects *Installation of the Frequency Stability Assessment System* and *Installation of the Automatic Generation Control System* was confirmed at the Company at the end of 2020 and therefore planning and required studies related to these projects were started that are expected to be completed in 2021-2022.

The chart below presents the implementation status of all synchronisation projects



Other projects, studies implemented by the Company

Implementation of the capacity mechanism in Lithuania

The implementation of the capacity mechanism is particularly important in implementing the objectives of the Lithuanian National Energy Independence Strategy related to the development of electricity generation from renewable energy sources, increasing local electricity generation within the country and smooth synchronisation of the Lithuanian electricity system with the continental European energy system.

The capacity mechanism will be implemented in Lithuania by organising technology-neutral capacity auctions, meaning that the auctions will be open not only to electricity generating units but also storage (such as batteries) facilities and independent electricity demand response aggregators.

LITGRID has prepared and submitted guidelines for capacity mechanisms to the National Regulating body. It is planned that decisions will be taken after the additional adequacy study will be conducted according to the EU agency for the Cooperation of Energy Regulators on October 2, 2020.

The auctions will be open not only to existing but also future electricity generation facilities to be installed by 2025. The capacity mechanism will also be open to other EU Member States, whose electricity system is connected to the Lithuanian electricity system, natural persons or legal entities, other organisations or their subdivisions operating existing capacity facilities in that Member State.



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The main principles of the project:

Establishment of the procedure for the organisation of auctions for the mechanism to ensure capacities of the electricity system;

A transmission system operator will conduct the capacity auctions of three types: advance, main and additional;

Establishment of technical requirements for existing and planned capacity facilities;

Description of the procedure and requirements for submitting proposals for an auction, as well as the procedure for the approval and announcement of the results of a capacity auction.

Implementation of the action plan to protect against the Astravets nuclear power plant

In accordance with paragraph 3 of Resolution No 739 of 13 September 2017 of the Government of the Republic of Lithuania Regarding the Approval of the Action Plan for the Implementation of Measures Necessary to Protect the Country from the Unsafe Nuclear Power Plant Being Built in the Republic of Belarus and Which Poses Threats to National Security, Environment and Public Health (the "Action Plan"), LITGRID participates in the implementation of the Action Plan. Ten out of eleven actions established in the Action Plan which involve the participation of LITGRID have been successfully implemented until the end of 2020. Action No 3.2 of the Action Plan, the objective of which is to ensure that the feasibility study and the testing of isolated operation of the energy system of the Baltic countries is performed until the fourth quarter of 2019, has been partially implemented, i.e. the above-mentioned study and the testing of isolated operation of the national energy system have already been performed, however the joint testing of isolated operation of the energy system of the Baltic countries has been postponed based on the regional agreement.

After the launch of the Astravets nuclear power plant on 3 November 2020, LITGRID immediately announced the urgent market message in the platform of the Norwegian exchange operator Nord Pool EMCO AS on the established zero commercial electricity flow capacity of the interconnectors with Belarus and requested to initiate suspension and annulment of trade in the Lithuanian-Belarusian import zone, including removal from the European trade algorithm. On 15 December 2020, the Lithuanian-Belarusian import zone was annulled and removed from the European trade algorithm. Trade in Belarusian electricity on the Nord Pool exchange has been terminated.

Research and development activities, studies carried out by LITGRID

On 10 April 2020, Litgrid signed the contract with the value of EUR 120 thousand with the Norwegian division of international consulting services company DNV GL on the preparation of the study the main objective of which is to determine the future direction of the Lithuanian energy sector aiming to implement objectives laid down in the National Energy Independence Strategy. The study was completed on 16 December 2020 and its full text is available on the website of Litgrid (<https://www.litgrid.eu/index.php/naujienos/naujienos/-litgrid-atveria-scenarijus-2050-iesiems-zalioji-kryptis-lems-lietuvos-energetikos-ateiti/31371>).

The study found that in 2050 the main electricity generation source will be offshore wind turbines which will comprise around 40% of electricity produced from renewable energy sources. Onshore wind and solar energy will meet around 30% of demand. Such a generation structure implies that it is also necessary to provide for additional energy storage facilities in order to always meet consumer needs, for example, in cold winter nights when there is no wind, sun and consumption increases. The authors of the study note that failure to take actions will cause considerable challenges for the system resulting in spikes of wholesale electricity prices. It is projected that the period of low electricity prices could comprise around one third of time during the entire year, however losses incurred by the electricity producers should be compensated by the state.

In such case, subsidies for the development of renewable energy sources and small storage facilities would amount up to EUR 180 million annually. It is recommended that Lithuania encourage and introduce not only different short-term storage facility and consumer flexibility measures, but also use technologies of hydrogen production from renewable energy sources. They would ensure production of green hydrogen gas for industry and transport sectors and contribute to decarbonisation of these sectors. The experts project that the hydrogen electrolysis technology will become highly perspective beyond 2030. However, it is advised to start considering and preparing for these decisions already before the time when this technology is fully developed in order to be prepared.

Assessment of adequacy of the Lithuanian electricity system

In view of the assumptions on the assessment of capacity adequacy of the electricity system updated at the beginning of 2020 and the need related to the preparation of the methodologies of the capacity mechanism (methodologies for the calculation of cut-off capacities, capacities available from the interconnections, distribution capacities), LITGRID has commissioned a



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study on the adequacy of the Lithuanian electricity system that was prepared by the scientists of Kaunas Technology University in 2020.

The study outlines that the results of the system's adequacy assessment are mainly affected by the maximum projected consumption and availability of the interconnections in case of critical situations in the entire region. Only reliably available generation sources, including renewable energy sources, were included in the development scenarios of generation sources. Kaunas Technology University draws attention to the fact that in order to ensure frequency stability in case of emergency events (N-1) and secure balancing of the variable production profile of renewable energy sources and in assessing their impact on the system's adequacy, it is necessary to ensure that the terms and conditions of the reserve replacement process are fulfilled. Therefore, the adequacy assessment included the scenario also ensuring a full availability of capacities of the restoration reserve inside the country.

The results of the study showed that energy storage means and new competitive, flexible and reliably available sources of traditional generation need to be installed in order to meet consumption needs in the system, needs of the restoration reserve and ensure provision of balancing services in the future.

Joint study of the Baltic TSOs and Japanese operator TEPCO Power Grid

On 25 May 2020, the Lithuanian, Latvian and Estonian electricity transmission system operators signed the cooperation agreement with TEPCO Power Grid, a company that is part of the Japanese energy group of companies. Under the agreement TEPCO Power Grid will conduct the study until 31 March 2021 during which it will apply the electricity transmission system model of the Baltic countries when 100% of electricity is produced from renewable energy sources (the National Energy Independence Strategy sets the target establishing that by 2050 100% of electricity consumed in Lithuania needs to be produced from renewable energy sources), analyse possibilities of integration of renewable energy sources by conducting frequency calculations and propose technical solutions allowing a 100% integration of renewable energy sources in the Baltic electricity system. The obtained results of the study will be used by the Baltic countries for the development of infrastructure of necessary technical measures and planning of investments.

European Energy Information Sharing and Analysis Centre

In 2020, LITGRID implemented the project *Installation of the Monitoring System for the Critical Infrastructure Data Network*. In order to share acquired knowledge not only inside the organisation but also with the international partners, the results obtained during the project will be made available in the formats of the European Energy Information Sharing and Analysis Centre. This will contribute to the implementation of the Company's strategic objective of becoming recognised professionals in Europe and support the development of the competences of the Company's specialists and cooperation with foreign partners.

Membership in organisations

European Network of Transmission System Operators for Electricity (ENTSO-E)

The Company actively participates in the activities of ENTSO-E which represents 42 electricity transmission system operators from 35 countries.

More than 40 representatives of the Company are involved in the activities of ENTSO-E's committees and work groups that at the expert level prepare and examine significant legal acts, methodologies and other documents regulating operation of the electricity system that establish uniform operation conditions and rules for the European TSOs. Participation in the activities of ENTSO-E strengthens cooperation with other European TSOs and is also very important for LITGRID in implementing one of the priority tasks of the Lithuanian energy sector - integration to the synchronous area of continental Europe.

In 2020, the Company identified ENTSO-E's representation vision - professional and recognised experts in the ENTSO-E community in Europe. New measures for a more effective sharing of acquired knowledge both with the Company's employees and the external related parties have been implemented whereby making an indirect contribution towards the implementation of the Company's strategic objective, i.e. the development of the practice of the centre of the energy sector competences.

Baltic energy market interconnection plan (BEMIP)

The objective of the Baltic energy market interconnection plan is to create operational and integrated electricity and gas markets, ensure necessary energy infrastructure aiming to create a competitive, sustainable, safe electricity market in the Baltic sea region.

Electricity-related commitments of Lithuania to BEMIP are implemented by LITGRID through the implementation of the projects ensuring integration to the synchronous area of Continental Europe and performance of preparatory works for offshore wind development in Lithuania.

In 2020, the Company together with other six transmission system operators of the Baltic sea region signed the cooperation memorandum on offshore wind energy development in the region. Within the scope of cooperation efforts are focused on the creation of the common principles for the Baltic sea network planning, inclusion of relevant regional projects in the ten-year duration network's planning documents of ENTSO-E and performance of the studies supporting the formation of a single vision



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of the offshore wind network development in the region. The signing of this document is particularly important step in order to ensure that the implementation of offshore wind projects which is planned in Lithuania is efficient, technologically advanced, consumer-targeted and it exploits regional potential.

Other associations in which the Company's interests are represented include as follows:

- The Central Europe Energy Partners (CEEP);
- The Polish-Lithuanian Chamber of Commerce;
- The International Council on Large Electric Systems (CIGRE);
- The Lithuanian Power Association.

By being a member of the above-mentioned associations LITGRID maintains a closer cooperation with the regional and national partners, ensures representation of the Company's interests, more effective implementation of the strategic projects and communication with the related parties on issues relevant to the Company.

Development of a modern organisation

The Lean practice has been applied at the Company for four years the objective of which is to improve daily activities, increase the speed and quality of solutions to problems, enhance communication, employee engagement and collaboration. All these aspects are necessary for the creation of greater value to the society and the state.

Lean's activities have been launched by involving all employees of the Company with a strong focus on staff development, as the application of the Lean methodology requires specific knowledge and expertise. Employees shall be able to modulate meetings, properly identify and register problems, solve them and understand the benefits of the performed actions to the Company, activities and processes.

In 2020, 723 mini Kaizens (small improvements) were implemented.

Larger performance improvements that teams decide on, collect historical data, analyse them, collect solution alternatives, and then implement selected ones are called PDCA Kaizens. In 2020, the Company implemented 29 PDCA Kaizens. Using PDCA method one of the Company goals was implemented buy a team of employees - the time to connect to the grid for producers was significantly shortened.

IV. OVERVIEW OF ACTIVITIES

Services provided by electricity transmission system operator LITGRID

 electricity transmission over high voltage (110-400 kV) electrical installations

 system services

 trade in imbalance and balancing electricity to ensure a balance between production and consumption

 services under public service obligation (PSO) scheme

 granting and removal of guarantees of origin

Transmission of electricity

The electricity transmission service is electricity transmission over high voltage (330 kV and 110 kV) electrical installations. The transmission system operator transmits electricity from producers to consumers that are connected to the transmission network, and to the operators of the distribution networks. Electricity transmission is an activity regulated by the state.

The main activities of the TSO include management of the high voltage electricity transmission network and securing reliable, effective, high-quality, transparent and safe transmission of electricity.

System services

In order to maintain reliable system operations, LITGRID purchases from energy generating companies the services for the capacity reserve assurance at the electricity generation facilities, reactive power and voltage management, and emergency, disruption prevention and response services, and provides consumers with system services. The capacity reserve is needed when electricity production suddenly and unexpectedly falls or its consumption increases.



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Trade in imbalance and balancing electricity

LITGRID ensures a balance between production and consumption of electricity in the country. Imbalance electricity is electricity that is consumed or produced outside of established electricity consumption or production schedules. LITGRID organises trade in imbalance electricity, buys and sells imbalance electricity that is necessary to ensure the country's electricity production and consumption balance.

Balancing electricity is electricity that is bought and/or sold on instruction of the transmission system operator as electricity necessary for performing the function of balancing the country's electricity consumption and production. LITGRID organises trading in balancing electricity by auction. The auction participants are the suppliers of balancing energy and the TSOs of other countries possessing technical facilities that enable them to quickly change the electricity generation and consumption conditions and having concluded a relevant agreement with LITGRID.

PSO services

Public service obligations (PSO) in the electricity sector are services that ensure and enhance the national energy security and promote integration and use of electricity produced from renewable energy sources. The list of PSO services, their providers and procedures for the provision of PSO services are approved by the Government of the Republic of Lithuania, or an institution authorised by it, having regard to the public interests in the electricity sector. PSO funds are funds that are paid to the providers of PSO services.

LITGRID provides the following PSO services:



Connection of power generation equipment that uses wind, biomass, solar energy, or hydropower to the transmission network as well as the transmission network's optimisation, development and/or reconstruction related to the acceptance and transmission of electricity generated by producers that use renewable energy sources;



Balancing of electricity produced from renewable energy sources.

Customers of the transmission system operator

LITGRID's direct customers are the electricity transmission network's users and suppliers of imbalance and balancing electricity.

Users of the transmission network include:



ESO and Dainavos Elektra UAB the distribution network operators;



Electricity consumers whose electrical installations are connected to the electricity transmission network and who purchase electricity for use;



Electricity producers connected to the electricity transmission network.

Suppliers of imbalance and balancing electricity include electricity producers and suppliers.



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Operating indicators of electricity transmission and the network's reliability

In accordance with the requirements approved by the National Energy Regulatory Council (the NERC) for reliability and quality of service of electricity transmission, the following indicators are used to determine the transmission reliability level: ENS (energy not supplied), i.e. the quantity of electricity not transmitted due to interruptions, and AIT (average interruption time), i.e. the average interruption duration in electricity transmission.

TSO's operating indicators	2020	2019	2018
Electricity transmission quantity, million kWh	10 089	10 277	10 491
Technological costs in the transmission network, %	2,88	2,98	2,94
ENS (Energy Not Supplied due to interruptions), Mwh **	6,21	32,30	0,95
AIT (Average Interruption Time), min. **	0,21	1,13	0,04

** Only due to the operator's fault or due to undetermined causes.

In 2020, ENS and AIT indicators attributable to the operator's responsibility were better than in the prior year.

In 2020 the transmitted energy for the needs of the country was 10.1TWh, by 2 percent smaller than in 2019, 10.3 TWh.

Electricity interconnections

Reliably functioning interconnections are an essential part of the system enabling to operate together with the energy systems of other western and northern European countries and develop a single European market.



LitPol Link

LitPol Link is a double-circuit transmission line from Alytus in Lithuania to Elk in Poland and the Alytus back-to-back converter. The LitPol Link interconnection was available to the market 92.4% of the time throughout 2020.



NordBalt

The **NordBalt** electricity interconnection is one of the longest submarine cables in the world, the operation of which significantly increases safety of energy supply to Lithuania and the Baltic countries. The NordBalt interconnection was available to the market 95.6% of the time throughout 2020.

Reconstruction of the electricity network

In Lithuania, LITGRID's employees maintain 7,246.4 km of high-voltage lines (6,987.1 km of overhead lines and 259.3 km of cables) and 237 transformer substations and switchyards.

In order to maintain a stable service life of overhead lines and ensure a stable operation of installations, repairs of installations were carried out in 27 transformer substations with the voltage of 110-330 kV, 1,696.7 km of overhead lines with the voltage of 110 kV and higher were repaired and 438 towers and 27.7 km of lightning conductor cable were replaced during the repair.

In order to protect overhead lines their routes covering an area of 1,466 thousand hectares were cleaned, 64,558 trees were removed (lines with the total length of 2,519.4 km had their routes cleaned and trees removed).

Regular repair and maintenance of the transmission network's objects have impact on reliability of operation of the electricity system and electricity transmission. Scheduled works within the transmission network are carried out at the intervals established by the legal acts of the Republic of Lithuania, however when assessing the quantity and scope of works the actual condition of installations as well as the need to secure reliable operation of the network and efficient use of funds are taken into consideration.



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In order to increase efficiency of the network’s maintenance and the related processes, the first stage of the aeroscan project of the 110-400 kV overhead lines was successfully completed in the last quarter of 2020: all 330-400 kV overhead lines (1.79 thousand km) were scanned by unmanned gliders and manned helicopters using Lidar and photo cameras. IPC specialists will use the collected information to assess actual and recalculated safe distances of overhead lines from wires of electricity transmission lines to the ground, roads, vegetation and water bodies. Information received on the geographical location of towers of lines, heights of towers, spacing between towers and edge wire to the axis of the line will update the GISS data base and characteristics of wire and towers in the Company’s asset management system. The obtained photos of towers and routes of overhead lines will enable the line engineers to identify defects of overhead lines by observing line installations from workplaces. The vegetation reports obtained will help identify dangerous trees along the routes of overhead lines and allow removing them immediately.

As the project is continued throughout 2021 all 110 kV overhead lines (4.745 thousand km) are planned to be scanned.

The mathematical calculation model for induced voltage in electricity transmission overhead lines was developed in 2020. The model was used to calculate the values of induced voltage of electricity transmission overhead lines under the following conditions:

- The disconnected line is not earthed at both ends of the line;
- The disconnected line is earthed at both ends of the line;
- The disconnected line is earthed at one end and is not earthed at the other end of the line.

This model is used as a basis for the preparation of the induced voltage map which will be made available on the Company’s website and accessible to all contractors. By sharing such data and maps we are contributing to the creation of a safer working environment in the electricity networks.

Innovations

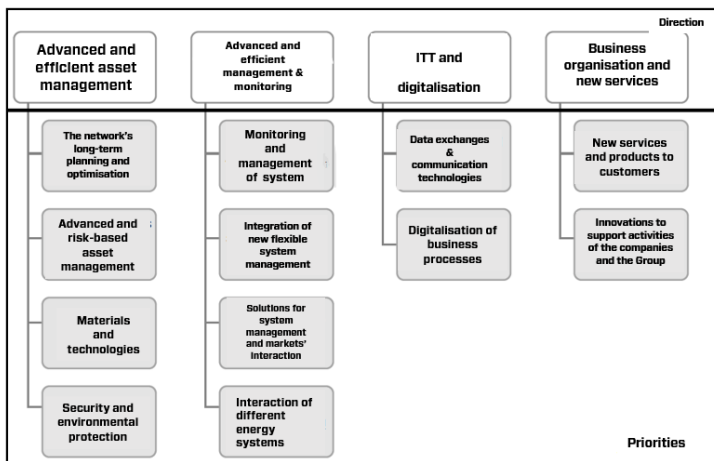
The Company’s actions in the field of innovations aim to contribute to the effective implementation of the strategy of LITGRID and the National Energy Independence Strategy. This objective is being achieved by developing an effective ecosystem of innovations where good ideas are noticed, necessary time resources are allocated for their analysis and testing, they are implemented and introduced to daily activities.

Starting from 20 March 2019, the Company’s activities in the field of innovations are conducted in accordance with the Guidelines for Scientific Research and Experimental Development and Innovative Activities of the EPSO-G UAB Group approved by the Board of EPSO-G UAB (the “SREDI Guidelines”).

The purpose of the SREDI Guidelines is to ensure continuity and efficiency, the competitiveness or facilitation of competition of the companies of the UAB EPSO-G group through research, innovation and new solutions, as well as to contribute to the implementation of the National Energy Independence Strategy and the creation of added value for society.

The SREDI Guidelines set out common concepts of scientific research and experimental development, and innovations and innovative activities across the Group, common directions and priorities of SREDI activities, classification principles and recommendations for transmission system operators regarding the allocation of funds for SREDI activities not included in regulated activities.

Priorities of the SREDI activities (as presented in the figure below) are in line with the research activity directions defined by ENTSO-E, therefore the Company focuses on effective solutions for the management of the electricity network assets, advanced electricity system monitoring, management and digitalisation solutions.





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Directions and priorities of SREDI activities

The System of Scientific Research and Experimental Development and Innovations (SREDI) of LITGRID was approved at the Company in 2019. The system establishes the key principles of environment favourable to creativity and introduction of innovations and presents innovation processes. Innovation activities are directed towards the implementation of objectives and tasks laid down in the Climate Change Strategy and the National Energy Independence Strategy as the reliable operation of the electricity system without innovations is hard to imagine or even impossible when moving away from the power plans using fossil fuels to renewable energy sources and creating a competitive economy of the country in the region of the Baltic, Scandinavian and Central and Eastern European countries.

The mega process of innovations comprises the processes of the idea identification, idea selection, consideration and implementation of the innovative project and assessment of the results of the innovative project.

In accordance with Article 5.1. of the Corporate Governance Policy for the EPSO-G UAB Group of Companies, which establishes the implementation of the Group's functional mentoring model, and the invitation issued by EPSO-G UAB on 16 June 2020 to make an input into the implementation of the Group's functional action plan for innovations, on 17 June 2020 LITGRID acceded to the implementation of the EPSO-G's functional action plan for innovations.

This plan lays down the elements of the innovations ecosystem, indicators of the system's efficiency, categories of innovations, balance of the portfolio of innovative projects, financing of innovations, responsibilities for the implementation of innovative measures as well as the development of competences, partnership and communication. The plan for the development of the ecosystem for the years 2020-2021 has been prepared.

In implementing the action plan for the improvement of the innovations ecosystem of the Lithuanian energy sector and being aware that the issue of innovations and technologies is becoming increasingly relevant, particularly in view of the energy sector transformation gaining momentum, we have initiated the first design thinking workshops. This means that we need to find new ways for solving challenges that arise in a changing environment.

The innovation projects initiated and implemented by the Company in 2020 according to the SREDI priorities included as follows:

Advanced and efficient asset management (five projects):

- Usage of drones for the identification of the location of breakdown in the transmission network's overhead line.
- Scanning of the electricity networks and creation of the digital data base of spatial data (LIDAR).
- The pilot project for the cooperation between ENTSO-E and ESA for the usage of satellite images for the maintenance of overhead lines.
- The study on the reconstruction of substations by using smart digital technologies and discontinuing the use of SF6 gas.
- The optimisation of the management activity related to technological assets.

Advanced and efficient management and monitoring of the systems (seven projects):

- Smart identification of the location of breakdown of the NORDBALT cable.
- Load management through the aggregation of consumers.
- The installation of the energy storage system containing 1 MW power batteries in the Lithuanian electricity system.
- The reduction of the impact of the introduction of high-power transformers to the electricity network.
- The management of the system with 100% operation of renewable energy sources (the joint study of the Baltic countries and Japanese TEPCO).
- The international project OneNet for the development of flexible services.
- The introduction of innovative smart electricity metering equipment in the Company's electricity metering systems.

ITT and digitalisation (four projects)

- The introduction of automated processes for the customers of LITGRID.
- The installation of the monitoring system for the critical infrastructure data network
- The introduction of cyber security measures for the workplaces of privileged consumers.
- The project of digitalisation of the relay security and automation equipment regulations.

V. Financial information

The Company's key financial indicators

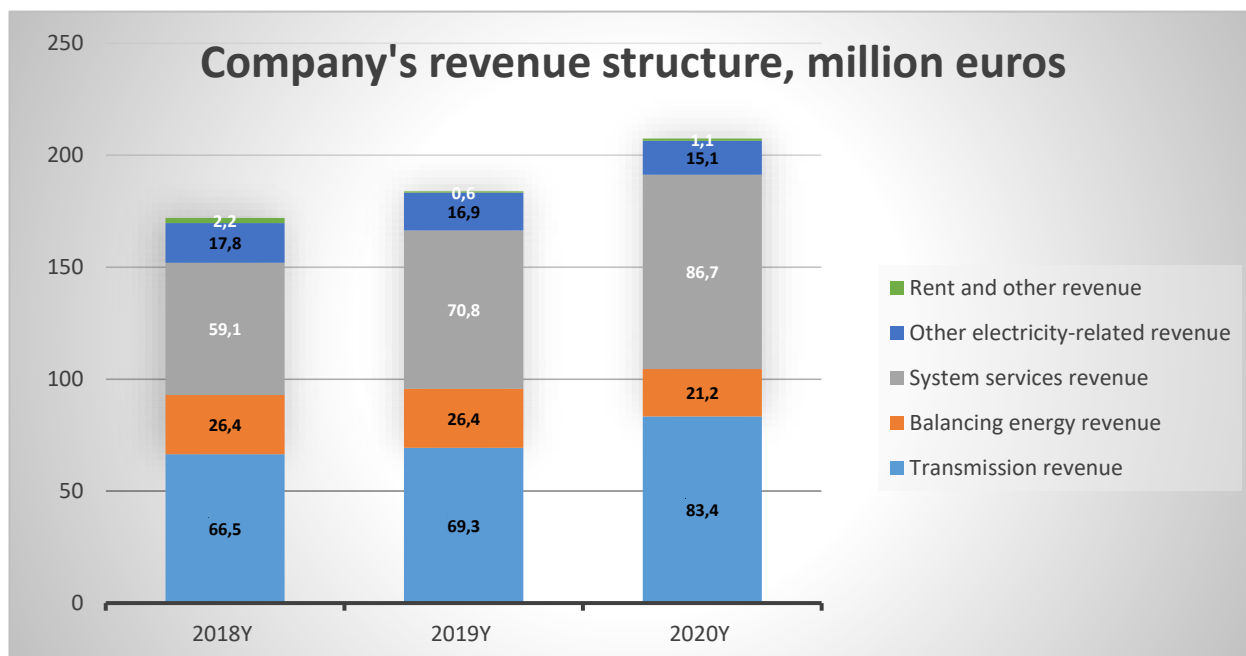
	2020	2019	2018
	Company	Company	Company
Financial indicators, EUR '000			
Revenue from electricity sales	206,399	183,297	169,758
Other operating income	1,117	616	2,191
EBITDA*	51,789	22,342	31,992
Profit/(loss) before income tax	30,881	3,146	(44,932)
Profit/(loss) for the period	26,603	2,959	(38,090)
Cash flows from operating activities	27,103	26,784	24,306
Ratios			
EBITDA margin, %	25.0	12.1	18.6
Operating profit margin, (%)	14.5	1.0	-25.5
Annual return on equity, %	12.9	1.5	-17.2
Annual return on assets, %	6.7	0.8	-9.6
Shareholder's equity / Assets, %	52.6	52.0	54.3
Financial liabilities / Equity, %	36.6	48.1	61.7
Liquidity ratio	0.59	0.46	0.45
Total assets turnover ratio**	0.52	0.50	0.43

* EBITDA = operating profit + depreciation and amortisation + impairment expenses of assets + write-off expenses of assets.

**Calculations are based on the average at the beginning and the end of the year.

Revenue

Revenue earned by LITGRID increased by 12.8% from 2019 and amounted to EUR 207.5 million in 2020.



Revenue from electricity transmission increased by 20.3% from 2019 and amounted to EUR 83.4 million representing 40.2% of the Company's total revenue. Revenue growth was driven by a 22.5% higher average actual electricity transmission price, while the quantity of transmitted electricity decreased by 1.8% due to a higher average temperature in winter compared to the multi-annual average and due to influence of the Covid-19 pandemic and was equal to 10,089 million kWh. The NERC established a 23.7% higher price cap. The main reason is that in determining the limit for 2019 permitted revenue was reduced by the Company's investment return (profit) for the previous years in excess of the amount permitted by the NERC in total by EUR 17.7 million (a balance of EUR 6.6 million for 2014-2015 and EUR 11.1 million for 2016-2017).

Revenue for 2020 was not adjusted for excess of the return on investments because under the NERC's methodology the results of the transmission service within revenue are assessed after the first two years of the regulatory period (the regulatory period started in 2016) and after the end of the regulatory period. Permitted revenue from the transmission service is determined as the sum of necessary expenses of the transmission service and the permitted return on investments. The permitted return on investments is calculated by multiplying the value of the regulated assets at the beginning of the year by the rate of return on investments determined by the NERC (5.01% was established for 2020).

Revenue from imbalance and balancing electricity decreased by 19.6% down to EUR 21.2 million due to decrease in sales volumes (-5%) and average sale price (-15.4%). Change in revenue does not affect the Company's profitability because according to the regulated imbalance pricing the current year revenue compensates expenses, including the Company's internal expenses, attributable to this activity according to the description of the regulation accounting.

Revenue from system services increased by 22.5% and amounted to EUR 86.7 million representing 41.8% of the Company's total revenue. Revenue growth resulted from a 27.7% higher price of the system services determined by the NERC from 1 January 2020 due to projected higher expenses, whereas revenue from the system services declined due to a 1.9% lower taxable quantity of electricity. According to the regulated pricing of the system services, revenue must compensate expenses, including the Company's internal expenses, attributable to this activity according to the description of the regulation accounting. Difference between revenue and expenses for the N-year is taken into consideration when determining the price of the system services for the n+2 year. Revenue for 2020, taking into consideration the compensation of the 2018 year difference included in revenue, exceeded expenses by EUR 5 million.

Other revenue related to the transmission activity include:

- fee for electricity imported from or exported to countries other than the EU and inter-EU transit compensation revenue from ITC fund (ITC income - income resulting from participation in the European Inter-Transmission Operator Compensation Mechanism) - EUR 3.2 million and reactive energy income - EUR 1.6 million. This revenue group is

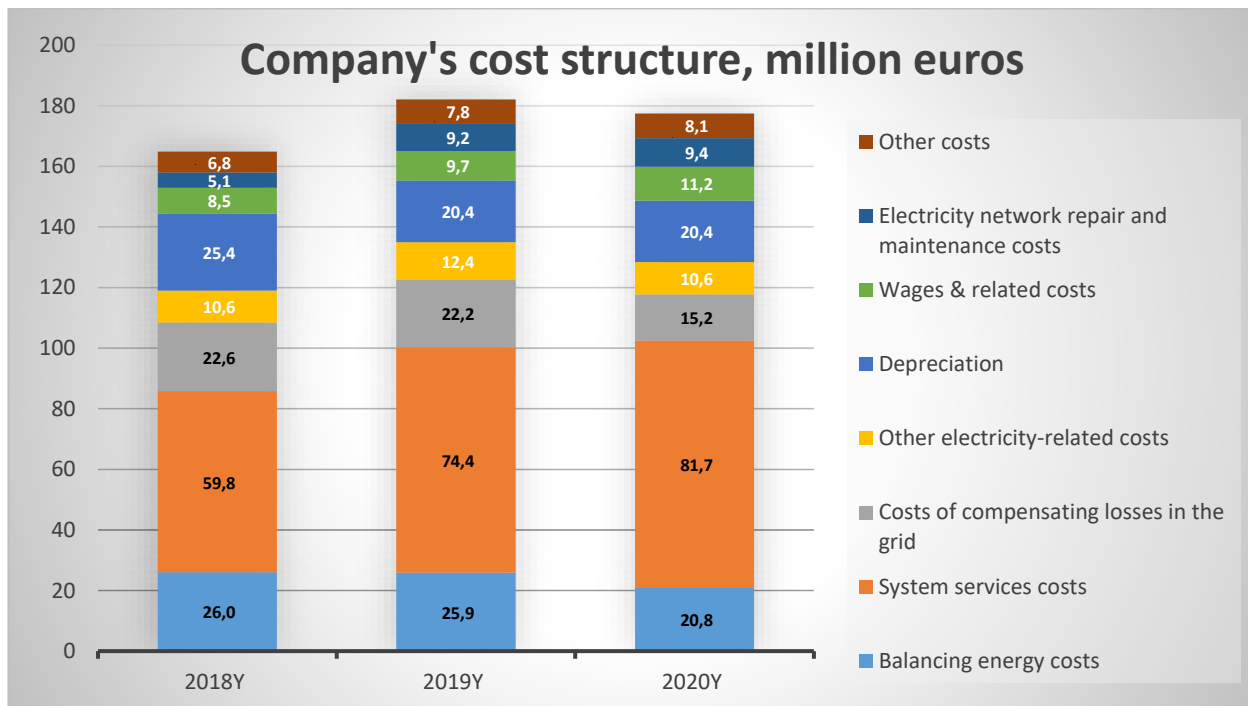
assessed by determining the price of the transmission service and calculating the actual return on investments in the transmission service.

- Revenue from PSO services amounted to EUR 9 million. Change in revenue does not affect the Company's profitability because the current year revenue compensates expenses, including the Company's internal expenses, attributable to this activity according to the description of the regulation accounting.
- Revenue from connection of new producers/consumers and replacement of electrical installations amounted to EUR 0.2 million. The value of assets (or a part thereof), the acquisition of which is financed using this revenue, is not included in the value of regulated assets on the basis of which the permitted return on investments is calculated.
- Revenue from congestion management services amounted to EUR 1 million. Change in revenue does not affect the Company's profitability because revenue compensates expenses incurred in ensuring the use of allocated capacity of the interconnections.
- Revenue from administration of guarantees of electricity origin amounted to EUR 0.1 million.

Other income increased by 81.3% to EUR 1.1 million due to a EUR 0.3 million increase in default charges calculated in respect of the contractors for delays in the performance of works and the EU grants amounting to 0.2 million accounted for as revenue.

Expenses

The Company's operating expenses totalled EUR 177.4 million in 2020, which is 2.5% less compared to 2019.

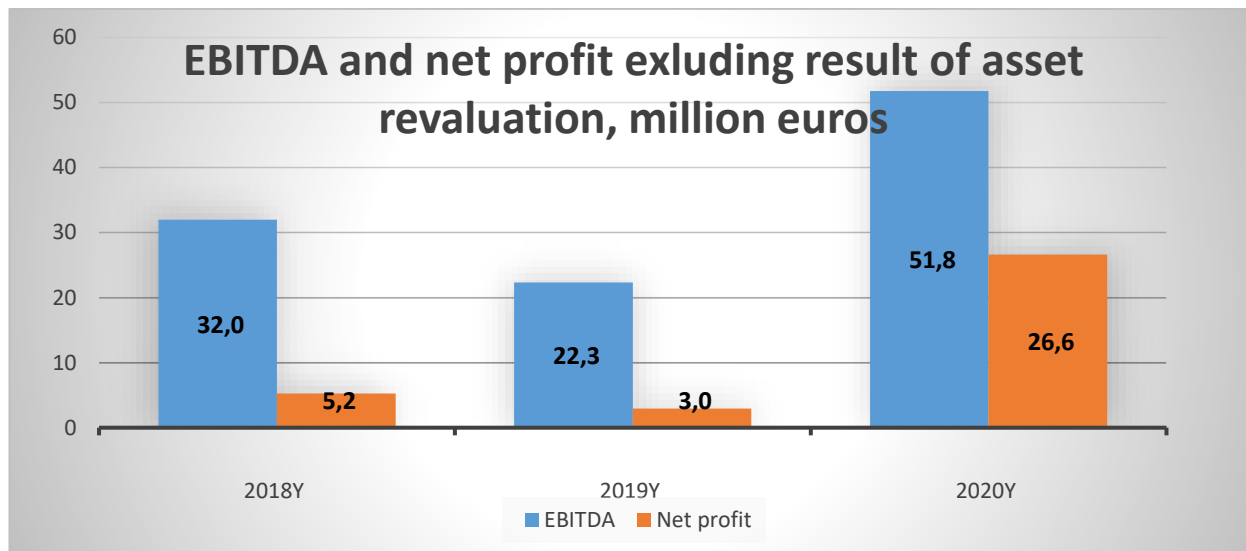


Expenses of purchase of electricity and related services accounted for a major portion of the Company's operating expenses: EUR 128.4 million (72.3% of the Company's total expenses). These expenses decreased by 4.9% compared to 2019. Expenses for system services increased by 9.9% to EUR 81.7 million mainly due to higher expenses related to ensuring the isolated operation of the Lithuanian energy system. Imbalance and balancing electricity expenses decreased by 19.6% and amounted to EUR 21 million due to decrease in sales volumes and average purchase price.

Expenses of compensating for electricity purchase technological losses in the transmission network decreased by 31.7% to EUR 15.2 million due to a 30.5% decrease in the average purchase price of electricity. Transit (ITC) expenses totalled EUR 0.8 million, expenses for provision of PSO services equalled EUR 8.9 million and expenses of ensuring the allocated capacity of the interconnections totalled EUR 1 million.

Depreciation and amortisation expenses remained nearly unchanged during the year and amounted to EUR 20.4 million. Repair and maintenance expenses of the electricity network increased by EUR 0.3 million due to a higher scope of annual scheduled repair and maintenance works performed. Increase in remuneration expenses by EUR 1.4 million compared to 2019 was largely affected by the increase in the number of employees due to the implementation of the synchronisation project. Other expenses increased by EUR 0.3 million.

Profit and return indicators

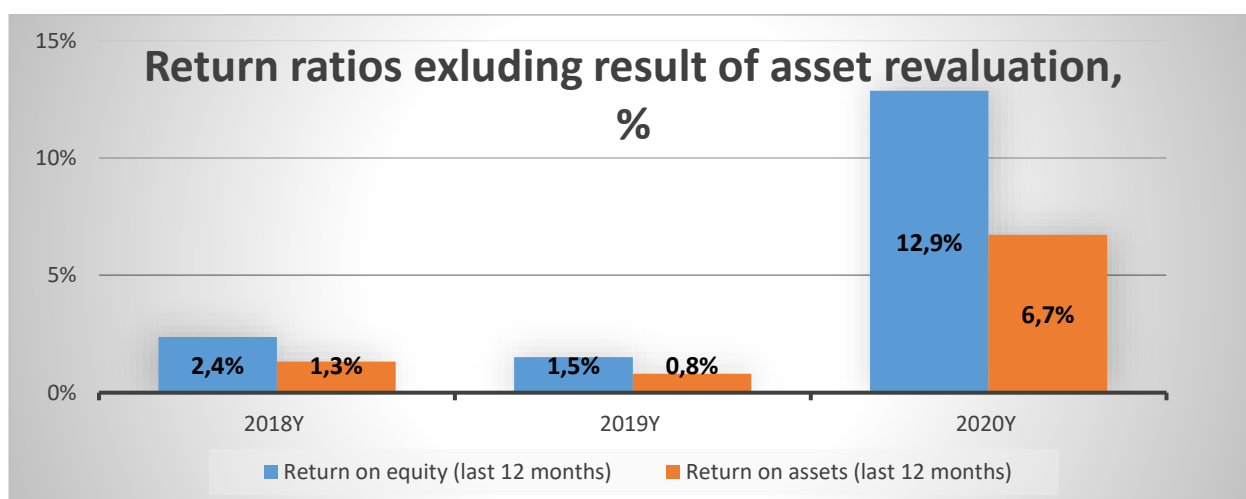


EBITDA for 2020 increased by EUR 29.4 million or 131.8% compared to 2019 and amounted to EUR 51.8 million. The EBITDA margin increased from 12.8% to 25%. The Company's net profit increased from EUR 3 million to EUR 26.6 million.

The main reasons for increase in the Company's EBITDA are as follows:

- Increase in transmission revenue by EUR 14.0 million;
- Decline in expenses of compensating technological losses by EUR 7.0 million;
- Improvement in the balance of revenue and expenses of system services by EUR 8.6 million (EUR +5 million in 2020, EUR -3.6 million in 2019);
- Increase in other income by EUR 0.5 million.

Decline in EBITDA EUR 0.7 million by higher operating expenses.



In 2020, the ROE and ROA ratios increased from 1.5% and 0.8% and to 12.9% and 6.7%, respectively, compared to 2019.

Balance sheet and cash flows

During the year the Company's assets increased by EUR 38.2 million (10.1%) and amounted to EUR 414.4 million as at 31 December 2020. Non-current assets representing 90.6% of the Company's total assets increased by EUR 24.7 million (7%). Due to investments in the transmission network property, plant and equipment and intangible assets increased by EUR 11.9 million; due to the accumulated funds balance of congestion revenue received, non-current portion increased by EUR 9.9 million and



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deferred income tax assets rose by EUR 5 million. Current assets increased by EUR 13.5 million (52.8%). Due to higher revenue in December, trade receivables increased by EUR 8.4 million, grants receivable from the EU structural funds rose by EUR 3.2 million and a current portion of accumulated funds balance of congestion revenue increased by EUR 2.4 million.

Shareholders' equity increased by 11.5% during the year and accounted for 52.6% of the total assets at the end of 2020.

As at 31 December 2020, the Company's financial liabilities to credit institutions amounted to EUR 79.9 million (a decline of EUR 14.2 million during the year). Financial liabilities to equity ratio was 36.6%. Borrowings repayable within one year accounted for 17.8% of the total borrowings.

Other non-current liabilities increased by EUR 18.8 million (41%), of which a non-current portion of accumulated funds balance of congestion revenue amounted to EUR 21 million and advance amounts received declined by EUR 3.8 million. Current liabilities increased by EUR 11.1 million (20.3%), including income tax payable of EUR 5.5 million, advance amounts received of EUR 3.1 million transferred from non-current liabilities, a current portion of accumulated congestion revenue balance of EUR 2.4 million.

Accumulated congestion revenue balance amounted to EUR 62 million as at 31 December 2020, of which EUR 37.1 million were linked to the EPSO-G Group account (temporarily used for the financing of LITGRID's activities); and cash and cash equivalents amounted to less than EUR 0.1 million.

The Company's net cash flows (excluding cash flows from financial activities and without paying the loan back) totalled EUR 18.5 million in 2020.

Investments in non-current assets

In 2020, investments of transmission system operator LITGRID (works performed and assets acquired irrespective of payment deadlines) amounted to EUR 53.5 million, of which 63% were earmarked for the implementation of strategic electricity projects of national significance, and 37% for the reconstruction and development of the electricity transmission network and ensuring the continuity of the Company's activities.



VI. THE COMPANY'S TARGETS AND THEIR IMPLEMENTATION

The implementation of the strategy is assessed in view of the implementation of the Company's three-year operational plan and the Company's annual objectives that prioritise measures referring to the priorities identified in the Company's strategy.

Irrespective of challenges faced in 2020 due to the global COVID-19 pandemic, the Company successfully implemented/or partly implemented most of its strategic objectives:

- Preparation for the synchronisation of the Lithuanian electricity system;
- Development of the energy competence centre;
- Development of the IPM auction service and execution of the first auction;
- Increase in the return on equity ratio and recognition of remuneration expenses;
- Retention of AIT and ENS indicators.

The implementation of Company's targets for 2020 was not confirmed at the time of preparation of this annual report.

Implementation of the operational plan

The Company prepares the three-year operational plan in accordance with the widely known Lean business tool Hoshin Kanri, which is a method for the organisation of a strategic planning that helps link the Company's objectives with the personal objectives of a specific employee.

The application of this strategic planning method allowed maintaining a high level of the implementation of the strategic objectives and measures, which is preliminary assessed to be more than 90%.

The key indicators (results) of the implementation of the measures set in the three-year operational plan:

- The execution of the synchronisation programme's projects (according to the list of the synchronisation projects approved by the Government of the Republic of Lithuania) within the established tolerance threshold - partially achieved;
- The application for the granting of the EU support funds has been submitted (implementation of stage II) - achieved;
- The process ensuring connection not later than within 22 months has been developed - achieved;
- Following the adoption of timely decisions by the state authorities, the first IPM auction has been held and winners have been announced - Although the Company fulfilled the tasks assigned to the Company under the national plan on the capacity mechanism, the IPM has not been conducted as Lithuania was not able to reconcile and as required by EU regulations receive the European Commission's notification for the implementation of the capacity mechanism.
- Possibilities for consumers to provide flexible balancing services have been created - achieved;
- The battery's technical project has been agreed - achieved;
- Proposals have been submitted to the Ministry of Energy on the amendments to the legal acts regarding the acquisition of the system services after 2025 - achieved;
- The ROE objective has been fulfilled - achieved;
- AIT (average interruption time in the electricity transmission system due to the fault of LITGRID AB and/or due to undetermined causes) ≤ 0.29 min.- achieved;
- Employee engagement index $\geq 65\%$ - achieved;
- 0 serious and fatal accidents in the objects of Litgrid in 2020 when operating, reconstructing and building the electricity transmission networks - achieved;
- 0 substantiated repetitive complaints regarding the activities of Litgrid or the contractors in 2020 when operating, reconstructing and building the electricity transmission networks - achieved;



VII. Report on the implementation of the Remuneration Policy

Formation and monitoring of the Remuneration Policy

In order to ensure proper formation, monitoring and management of the wage bill, the Remuneration and Nomination Committee has been established and operates at the EPSO-G group which is composed of three members the majority of whom are independent members.

When performing this function the Remuneration and Nomination Committee of EPSO-G:

- Provides recommendations regarding the terms and conditions of the contracts entered into with the members of the Board and/or executives, including the maximum amount of the remuneration for these persons, the maximum annual operating budget for their remuneration;
- Prepares the main criteria of the assessment of the performance of the executives of the companies of the group and the remuneration guidelines applicable when establishing the remuneration for the activities at the Board, the Remuneration and Nomination Committee, the Audit Committee, other specialised committees, if they are formed, of the Company and the subsidiaries of the group. The Committee reviews their implementation at least once a year.
- Submits proposals to the management bodies regarding the individual salaries for the management personnel and the members of the bodies in order they would meet the remuneration guidelines and the assessment of the performance of these persons;
- When performing this function the Remuneration and Nomination Committee is informed about the total remuneration received by the management personnel and the members of the bodies from the other related companies;
- Ensures that the individual salaries paid to the management personnel and/or to the members of the management body would be in proportion with the salary of other management personnel or members of the bodies of the Company and/or the group and of other employees of the Company and/or the subsidiaries of the group;
- Provides recommendations regarding the policy established by the Board of payment for the work of the executives, deputy executives and other management personnel of the Company's subsidiaries and lower-tier subsidiaries, also regarding the review of the policy and its implementation at least once a year;
- Monitors and provides conclusions on how the Company and the companies of the group comply with the valid provisions concerning the publication of information related to salaries;
- Provides the management personnel of the companies and/or the members of the bodies general recommendations regarding the amount and structure of the salaries of these employees and/or members of the bodies, also recommendations to monitor the amount and structure of their salaries based on the information provided by the Company and the subsidiaries of the group;
- Collects and systematises all information collected and received in the areas of its competence, and on the basis of such information provides recommendations to the relevant body of the group and, when necessary, directly to the Supervisory Board;
- Once a year the Remuneration and Nomination Committee reports in writing to the Board about its activities covering one calendar year.
- The Board and other bodies of the Company and/or of the subsidiaries of the group shall have the right to apply to the Remuneration and Nomination Committee and to provide conclusions on the specific issues raised by them if such issues fall within the competence of the Remuneration and Nomination Committee.

The Remuneration Policy and additional benefits

LITGRID has adopted the uniform Remuneration Policy of the EPSO-G Group and applies it to all employees of the Company. The Remuneration Policy is approved and amended by the decision of the Company's Board taking into consideration recommendations of the Remuneration and Nomination Committee of EPSO-G. The Remuneration and Nomination Committee of EPSO-G regularly reviews provisions of the Remuneration Policy, its effectiveness, implementation and application.

LITGRID has introduced the Remuneration Policy which is based on the principles of responsibility and accountability. The aim of the policy is to effectively manage remuneration expenses and create motivational incentives in order to directly link the amount of remuneration to the implementation of the objectives set to the Company and each employee.

This means that the performance of the employee is taken into account when determining the remuneration. Therefore, the remuneration of executives and employees of LITGRID consists of two components: fixed and variable. A fixed component depends on the responsibility level related to the position held, which is determined according to the methodology applied in the international practice. A variable component of remuneration is paid when the individual objectives established during the annual assessment are achieved and the Company reports to the shareholder and the Board on the achievement of the annual objectives of the Company.

The principles of the Remuneration Policy applied by LITGRID:

- The identical principles of the Remuneration Policy are applied for both executives and employees.

- The wage bill is approved by the Boards of the companies. The Remuneration and Nomination Committee monitors whether there is a balanced control of remuneration expenses with motivation of the employees who are properly performing their duties.
- The remuneration of executives and employees consists of two components: fixed and variable.
- A fixed component depends on the responsibility level related to the position held. It is determined according to a methodology recognised and widely used in international practice.
- A variable component of remuneration is paid when the individual objectives established during the annual assessment are achieved and the Company reports to the Board on the achievement of the annual objectives of the Company.
- Annual goals for executives and employees are set in accordance with the Employee Performance Assessment Policy.
- A variable component of remuneration is not paid to the employee if performance results do not meet the expectations according to the established evaluation criteria or the Company's operating and financial results are assessed as unsatisfactory.
- The variable component of remuneration is not a bonus. It cannot exceed 20-30 percent of the fixed component of remuneration.
- The amount of a variable remuneration is established in the Company's budget and recorded in the financial result, which is audited and announced publicly.
- A variable component of remuneration of the Company's Chief Executive Officer depends on the implementation of the goals set in the Company's strategy, which are announced publicly on the Company's website.
- A variable component of remuneration is not paid to the members of the collegial bodies.
- Termination benefits of executives and employees do not exceed the amount established by the legal acts of the Republic of Lithuania.
- It is established that an incentive benefit not exceeding the amount specified in the policy may, in exceptional cases, be paid for the achievement of particularly important results not included in the employee's annual objectives. The Company's Board must be informed on above-mentioned benefits at its nearest meeting.
- Advance agreements on termination benefits, except for the executives of the companies whose employment terms are determined by the Board, are not concluded.
- Termination benefits are paid to employees in accordance with the procedure laid down in the Labour Code of the Republic of Lithuania and in employment contracts.
- The Remuneration Policy does not provide for any remuneration by granting the Chief Executive Officer, a member of the collegial body or an employee the right to shares, share options or the right to receive remuneration based on changes in share prices other financial instruments.
- The Company provides an emotional non-financial form of consideration to employees to promote their engagement and loyalty. Indirect remuneration includes events for employees, recognition and appreciation for exceptional performance.

In order to ensure the effectiveness of the Remuneration Policy, in compliance with the Transparency Policy, fixed and variable components of remuneration by categories of positions are announced on the Company's website on a quarterly basis.

LITGRID offers to its employees the package of additional benefits focused on the following directions:

- Insurance of working conditions and welfare of employees;
- Attention given to personal events, family and social activities of employees;
- Investments in professional improvements of employees;
- Health insurance (valid from 15 July 2020).

LITGRID is proud of being able to provide emotional rewards to employees that consist of:

- Meaningful activities of the Company, the sense of stability and security;
- The team of professionals and working environment promoting operational efficiency;
- The value-based organisational culture;
- Interesting, challenging work, international projects and unique experiences;
- Recognition and growth.

Assessment of employee performance

The employee performance assessment is one of the most important conditions of management and effective leadership that helps achieve the Company's objectives and create professional relationships between executives and employees, allows planning the career of the employees, increasing their motivation and involvement.



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An annual conversation is a performance assessment tool that ensures that the personal objectives of employees are set in line with the Company's objectives. The conversation is intended to discuss and set the measurable, time-defined and motivating objectives for employees.

The annual and semi-annual conversations are intended to assess the achievement of the objectives that have been set for the employee and to set the new ones. They form a feedback culture between the leader and the team members. The need for the employee's training, development of competences and further professional development and career opportunities are also discussed during the conversation.

Individual goals are discussed with each employee and set annually. Their implementation has a direct impact on a variable component of remuneration, which also depends on the achievement of the Company's general objectives.

Management of the Covid-19 situation at LITGRID

LITGRID took steps to ensure the health and safety of workers already before the quarantine was announced in the country. Starting from February 2020, under the decision of the Emergency Operations Committee, all business trips and events were cancelled, visits to the Company's offices were suspended, delegations of guests were not admitted, remote work was introduced.

Employees unable to work remotely due to specific nature of their work were provided with personal protection means and the safest possible work environment was created. The Emergency Operations Committee has worked continually by making decisions regarding the organisation of the Company's activities and achievement of the strategic objectives in view of the dynamics of the pandemic, because safety and health of employees is a priority of the Company.

Professional development and upskilling of employees

An innovative organisation cannot be imagined without the highest-level professionals thanks to whom LITGRID can be called a centre of excellence. The Company seeks to create conditions for employees to learn and improve, expand their knowledge and horizons and participate in the implementation of LITGRID strategic objectives as effectively as possible. All employees are given the opportunity to acquire or update the knowledge and skills required to perform their direct functions. Both employees personally and the organisation takes care of the development of competencies that are important for the activities of the employee and the organisation, and the development system includes not only formal training, but also other forms of improvement and learning.

The pandemic that started in 2020 prevented from fully completing training programmes planned for the first half of the year. In the second half of the year a large part of the programmes was moved to remote learning platforms. Employees as usually were able to take part in conferences, seminars, courses, upgrade their qualification at mandatory, qualification and general competences training courses. Taking into account the fact that due to the pandemic the majority of employees worked remotely and that this was an unusual and emotionally difficult time, the cycle of courses *How to Lead Remote Teams* was additionally organised for executives and courses on personal efficiency, health and well-being issues were conducted for employees. In 2020, 78% of professional development upskilling initiatives were carried out remotely.

The proportion of investments in different competence areas has remained similar as in the previous year, i.e. 65% were directed towards professional qualification trainings and 35% were allocated for the enhancement of general, leadership and managerial competences.

Employee engagement survey

Every year LITGRID conducts the employee engagement survey. The results of the survey show the level of engagement (a part of employees who are dedicated to the organisation and are eager to make additional efforts in performing their functions) and empowerment (a part of employees who hold optimal positions and work in an encouraging environment enabling to achieve the highest level of productivity) of the Company's employees. Details results of the survey are discussed with employees and serve as a basis for targeted initiatives that increase engagement of employees.

The results of the 2020 engagement survey showed that 73 percent of employees are engaged. This is an extremely high result, growing from 68 percent engagement in 2019. This is an extremely high result achieved by multinational companies, which pay a lot of attention to increasing employee involvement.

Selection and introduction of employees

LITGRID has adopted the Selection Policy which is applied to selection processes of the Company.

LITGRID pays great attention to the professional selection of employees and smooth start of their work. The Company is continually looking for both experienced specific field professionals and early-stage specialists who want to improve and grow to joint its team. The most important thing is a right set of core values possessed by candidates, because for LITGRID it is very important not only what has been done, but also how it was done - professionally, collaboratively, progressively. Aiming to attract new members of the electricity team particular focus was placed on the improvement of cooperation with Kaunas University of Technology.



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Despite of challenges caused by the pandemic, recruiting was successfully carried out online. In 2020, 51 employees (56 in 2019) joined the Litgrid team.

Special attention was devoted to remote introduction of new employees. More attention was given to familiarisation with new colleagues through remote video communication to create informal, friendly and sustainable environment of the division, strengthen engagement of a new employee and his/her sense of belonging.

LITGRID also welcomes motivated trainees who want to gain knowledge and learn from professionals in their field. The Company had 8 such young specialists in 2020.

Equal opportunities

By implementing the requirements of the Labour Code of the Republic of Lithuania in the fields of equal opportunities and non-discrimination, LITGRID approved the Description of the Equal Opportunities Procedure and the Equal Opportunities Implementation Plan for 2020-2021 on 30 December 2019.

In its activities, LITGRID follows the principles of non-discrimination in all areas:

- Establishment of objective, non-stereotypical criteria during staff search, selection and dismissal procedures.
- Creation of a working environment and equal working conditions for all employees. The aim is to create an open, flexible and inclusive working environment hoping that this will help all LITGRID employees to successfully balance work and family responsibilities. Employee sports and volunteering initiatives are encouraged and contributed to. The ideas of each employee are heard, and their implementation is encouraged.
- The principles of integrity, gender equality and non-discrimination are followed in the development and implementation of the Remuneration Policy.
- After the approval of measures for the implementation of equal opportunities, LITGRID has committed to operatively and effectively respond to everyday manifestations of undesirable behaviour and to ensure uniform conditions for all employees and job applicants. The aim is for equal opportunities to exist not only in documents, but also for the LITGRID community to be modern, caring, tolerant and open.

Trade union

LITGRID closely cooperates with the Trade Union of Employees of the Electricity Transmission Network operating at the Company. Cooperation is based on the principles of respect and social partnership. The collective agreement of LITGRID was signed on 20 February 2018 and it is still in force. The benefits laid down in this agreement are applicable to all employees of the Company.

Information on remuneration

Successful fulfilment of the objectives set for the Company is achieved with the help of the team of the most competent professionals. It consists of 308 specialists, 95% of whom have acquired higher education.

The percentage of men and women employed at the Company is equal to 75% and 25%, respectively. The average age of the Company's employees is 42 years. Three quarters of the LITGRID's team members are experienced engineers on whose work smooth operation of the TSO is dependant. The average length of service of employees in the energy system is 10.6 years.

In 2020, the Company's employee turnover rate was 11.7% and remained unchanged from 2019. Contrary to the previous year, the voluntary turnover rate decreased from 11% to 9%.

LITGRID AB had 308 employees as at 31 December 2020.



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Average wages in EUR, in 2016-2020

	2020	2019	2018	2017	2016
Chief Executive Officer	13 729	12 980	12 291	12 149	10 010
Top-level managers	8 697	8 560	8 249	7 599	7 704
Medium-level managers	4 482	4 326	4 041	4 331	4 371
Experts-specialists	2 792	2 556	2 403	2 175	2 057
Total	3 167	2 972	2 818	2 564	2 434

	2020	2019	2018	2017	2016
Company's net profit/loss, EUR thousand	26 603	2959	(38 090)	7 724	16 828

Information on the Remuneration Policy, the Employee Performance Assessment Policy, salaries paid and the Company's targets are published on the Company's website.

Remuneration of the collegial management bodies

At the EPSO-G UAB group the remuneration principles applied in respect of the members of the management bodies are established according to the *Guidelines on the Establishment of Remuneration for Activities at the Bodies of the Companies of the Group* which are approved by the decision of the sole shareholder of EPSO-G UAB.

During the Extraordinary General Meeting of Shareholders of LITGRID held on 17 December 2019, decisions were adopted on the determination of the annual remuneration budget for the independent members of the Board, and the budget for expenditures relating to fulfilment of functions at the Board as well as on the standard terms and conditions of agreements concluded with the independent members of the Board on the fulfilment of functions at the Board of LITGRID.

Company's Remuneration policy approved on 20 April 2020:
(https://www.litgrid.eu/uploads/files/dir523/dir26/dir1/16_0.php)

No remuneration is paid to the members of the Board delegated by the shareholder.

Remuneration of the members of the Board of LITGRID AB, in EUR

	2020	2019	2018	2017	2016
Rimvydas Štilinis (2016.07-2020.08)	-	-	-	-	-
Nemunas Biknius (2016.07-2020.04)	-	-	-	-	-
Domas Sidaravičius (2016.07 - present)	16 800	8 820	9 025	8 375	3 800
Šarūnas Nedzinskas (2018.09-2020.04)	6 417	9 487	3 200	-	-
Algirdas Juozaponis (2018.09 - present)	-	-	-	-	-
Artūras Vilimas (2020.04 - present)	14 197	-	-	-	-
Jūratė Marcinkonienė (2020.04 - present)	-	-	-	-	-
Total	37 414	18 307	12 225	8 375	3 800

No other bonuses, tantiemes or other benefits were paid to the members of the Board.

The collegial bodies and identified the following areas / directions for improvement of the activities of the KO for 2021:

- more attention must be paid to solving strategic issues in order to optimize the work organization of collegial bodies;
- Cooperation with the EPSO-G Management Board and committees must be stepped up in order to respond more effectively to the expectations and needs of a particular collegial body.

During 2020, 22 Board meetings were held.



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Attendance of the meetings of the Board of LITGRID AB in 2020

No	Meeting date	Algirdas Juozaponis	Domas Sidaravičius	Jūratė Marcinkonienė	Artūras Vilimas	Rimvydas Štilinis	Nemunas Biknius	Šarūnas Nedzinskas
1	14/01/2020	+	+	-	-	+	+	+
2	24/01/2020	+	+	-	-	+	+	+
3	14/02/2020	+	+	-	-	+	+	+
4	24/02/2020	+	+	-	-	+	+	+
5	16/03/2020	+	+	-	-	+	Attended the meeting but was removed from the decision-making process due to the conflict of interests	+
6	27/03/2020	+	+	-	-	+	+	+
7	24/04/2020	+	+	+	+	+	-	-
8	04/05/2020	+	+	+	+	+	-	-
9	22/05/2020	+	+	+	+	+	-	-
10	06/06/2020	+	+	+	+	+	-	-
11	19/06/2020	+	+	+	+	+	-	-
12	24/07/2020	+	+	+	+	+	-	-
13	14/08/2020	+	+	+	+	+	-	-
14	18/08/2020	+	+	+	+	+	-	-
15	27/08/2020	+	+	+	+	+	-	-
16	24/09/2020	+	+	+	+	-	-	-
17	29/09/2020	+	+	+	+	-	-	-
18	12/10/2020	+	+	+	+	-	-	-
19	10/11/2020	+	+	+	+	-	-	-
20	20/11/2020	+	+	+	+	-	-	-
21	27/11/2020	+	+	+	+	-	-	-
22	18/12/2020	+	+	+	+	-	-	-

Material decisions adopted by the Board of LITGRID AB during 2020

Month	Meeting date	Decisions
January	14/01	The Company's strategy for 2019-2028 was approved.
	24/01	Results of the achievement of the objectives set for the CEO for 2019.
February	14/02	The issue of voting at the General Meeting of Shareholders of LitPol Link was addressed. Accession to the updated Policies of Selection, Employee Performance Assessment, Accounting, Management of Interests of Members of Collegial Bodies, Executives and Employees of the EPSO-G Group. The list of controlled projects was approved. To approve the accession to the agreement of the shareholders of TSO Holding AS.
	24/02	
March	16/03	The conclusion of the agreement with related party Baltpool, UAB was approved. The consolidated annual report, the set of the financial statements and the proposed profit appropriation were approved. The Ordinary General Meeting of Shareholders was convened. The major terms of the transaction regarding the reconstruction of the Lietuvos E- Alytus overhead line were approved. The commencement of the procurement for the seabed research in the Harmony Link project was confirmed and the major terms of the agreement were approved. Accession to the updated Dividend Policy of the EPSO-G UAB Group.
	27/03	
April	24/04	The plan of risk management measures for 2021 was approved. Accession to the risk management methodology. A variable component of remuneration for the results of 2019 was allocated.
May	04/05	The conclusion of the cooperation agreement of Harmony Link with PSE S.A. was approved and the General Meeting of Shareholders was convened.
	22/05	The issue of voting at the General Meeting of Shareholders of Duomenų Logistikos Centras UAB was addressed. The conclusion of the transaction with the related parties was approved.
June	06/06	The purchase and sale agreement of all shares of UAB Duomenų logistikos centras was approved and the general meeting of shareholders was convened. Decided on voting at the general meeting of shareholders of UAB Duomenų logistikos centras. The agreement with UAB EPSO-G was approved for 2019. tax loss transfer agreement
June	19/06	The Lithuanian electricity system 400-110 kV network development plan for 2020-2029 was approved. Adhered to compliance management policy. Updated for 2020 risk management plan.
July	24/07	The concept of the regional control centre and the strategy for the development of the IT system for the control of balance and system services were discussed.
		The implementation of the long-term capacity mechanism and the plans on succession of critical positions were discussed.
August	14/08	R. Štilinis was revoked from the position of the Chairman of the Board, A. Juozaponis was appointed as the new Chairman of the Board.
	18/08	
	27/08	The Extraordinary General Meeting of Shareholders was convened.
September	24/09	The issue of voting at the General Meeting of Shareholders of LitPol Link was addressed.
	29/09	The conclusion of the agreement on emergency repair services of the direct current cable of the NordBalt interconnection was approved. The General Meeting of Shareholders was convened. D. Virbickas was revoked from the position of the CEO. V. Grušas was appointed to the position of the acting CEO.
October	12/10	
	23/10	The requirements for candidates were established and the public selection of the CEO was initiated. The prices of the transmission services and the procedure of their application were determined. The draft strategy for 2020-2030 was approved. The structure of the levels of remuneration of top-level and medium-level managers was approved. The action plan for the implementation of the internal audit recommendations related to the project management was approved. The standard terms of the sale-purchase agreements of balancing and imbalance services were approved.
November	20/11	The Extraordinary General Meeting of Shareholders was convened. Accession to the updated Compliance Management Policy, the Compliance Management Methodology of the EPCO-G UAB Group. The plan of risk management measures for 2021, the budget, priorities and objectives of the operational plan were approved. The conclusion of the cooperation agreement on the reconstruction of the Klaipėda-Grobinė overhead line, tertiary active power reserve, transactions of the service of the system's isolated operation and implementation of stage II of the EITP Baltic synchronisation project was approved.
December	18/12	



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Information on employees

The fixed and variable remuneration components of the Company's CEO are established by the Company's Board, and those of the top-level managers are established by the Company's CEO in accordance with the Company's Remuneration Policy approved by the Company's Board. A variable remuneration component is paid to the CEO and management personnel once a year after the approval of the implementation of objectives set for the Company's CEO by the Company's Board.

Trust line

We encourage our employees, customers, business partners and other stakeholders report the breaches of legal acts. The Company has a trust line, where is the possibility to make round-the-clock calls by the indicated phone number. The phone number and e-mail address are published on the Company's website and the intranet.

The Ethics Committee

The Ethics Committee has been established in the Company, the Code of Ethics and Conduct (published on the Company's website, www.litgrid.eu) is upheld, the values of which are respected in a principled manner not only within the Company but also in cooperation with the third parties.

Corruption prevention

In its activities in the field of corruption prevention the Company follows the Corruption Prevention Policy of the EPSO-G UAB Group of Companies (which is published on the website www.litgrid.eu) and implements recommendations of the Anti-corruption Manual for Business¹.

Employees conduct their daily activities in compliance with the Code of Ethics and Conduct. Employees of LITGRID observe the requirements of this code in communication with each other as well as the suppliers, contractors, electricity producers, consumers, business partners, state and municipal institutions and the society.

The Company has implemented the principles of the Lithuanian Law on the Protection of Reporting Persons, i.e. internal reporting channels have been created, internal legal regulation has been updated and technical measures ensuring a full compliance with the requirements of the above-mentioned law have been introduced. The report on information received via internal reporting channels and actions performed is presented to parent company EPSO-G UAB.

The Company pays special attention to the management of conflicts of interests. In compliance with the Lithuanian Law on the Adjustment of Public and Private Interests and the Policy of Management of Interest of Members of Collegial Bodies, Executives and Employees of the EPSO-G Group of Companies, the Company applies the control measures of the prevention of conflicts of interests and declaration of private interests: the internal electronic system for the declaration of interests has been developed that, in accordance with the requirements of Law on the Adjustment of Interests, was used by all employees of the Company, who have the obligation under the law (140 employees), for a public declaration of interests; the content of the submitted declarations of interests (internal and those submitted to the Chief Official Ethics Commission) has been analysed and preliminary recommendations to the heads and employees of the divisions who declared potentially real or probable conflicts of interests have been prepared; preventive inspections have been carried out to assess the implementation of the provisions of the Law on the Adjustment of Interests (no violations were identified). Employee trainings are conducted and, when necessary, individual consultations are provided.

Likelihood of corruption risk in the field of the organisation of technical maintenance of the construction/reconstruction of the Company's buildings has been established and recommendations on the mitigation of the identified risk factors have been prepared.

In order to ensure that LITGRID employs only those who have impeccable reputation, employees are being motivated to act with integrity and report about the noticed cases of corruption, risks arising from nepotism and cronyism are controlled. No persons with family or marriage relationship under direct subordination or control are employed at the Company.

The anti-corruption training courses for employees were conducted throughout the year. The anti-corruption online courses were attended by all employees including those who have a long record of service and newly hired employees of the Company.

The survey on corruption awareness by employees of LITGRID AB was carried out in December 2020. 54% of employees were surveyed. The survey data shows that 95% of those surveyed negatively assess corruption (2019: 93%) and 99% negatively assess persons who give bribes (2019: 99%); 1% of the survey participants indicated that they have faced corruption in their activities over the three recent years (2019: 9%); and 94% of those surveyed stated that they would report the noticed cases of corruption (2019: 91%). The survey results demonstrate that the corruption awareness level increases and remains very high at the Company.

¹ <https://www.stt.lt/korupcijos-prevencija/mokomoji-ir-metodine-medziaga/7452>



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VIII. GOVERNANCE

Information on the share capital and the shareholders and their rights

Since 22 December 2010, LITGRID's shares are traded on the Secondary List on the NASDAQ OMX Vilnius exchange, ISIN code of securities: LT0000128415.

LITGRID has not acquired its own shares. During the reporting period LITGRID neither acquired nor disposed of its own shares.

The share capital of LITGRID amounts to EUR 146,256,100.2, and it is divided into 504,331,380 ordinary registered shares with the nominal value of EUR 0.29 each.

EPSO-G UAB (Gedimino pr. 20, LT-01103 Vilnius, company code 302826889), a company wholly owned by the Ministry of Energy of the Republic of Lithuania, controls 97.5% of LITGRID's shares. EPSO-G UAB possesses a decisive vote in making decisions at the general meeting of shareholders.

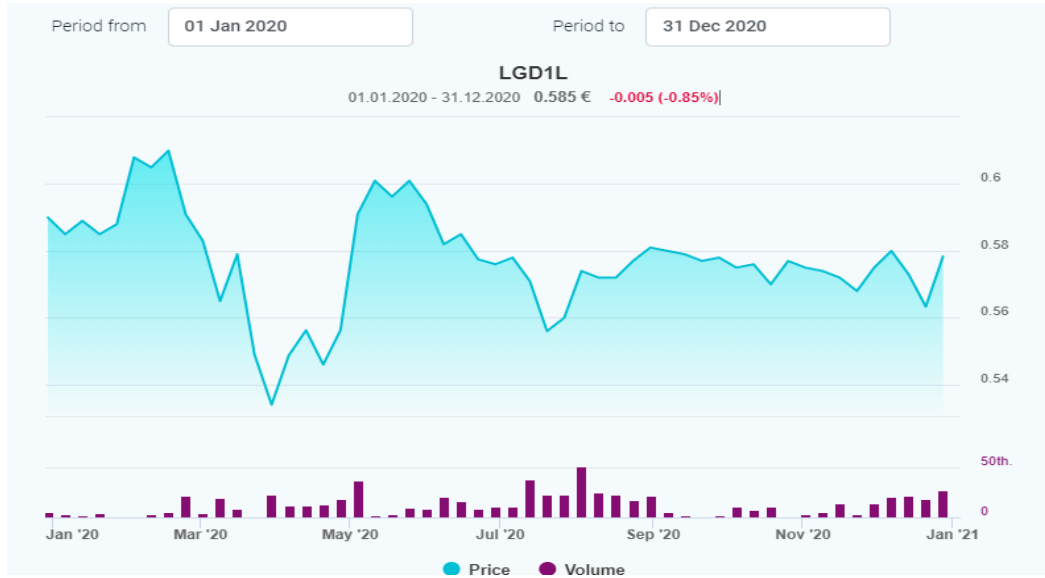
The Company has not received any information on mutual agreements between the shareholders due to which restrictions on transfer of securities and/or voting rights may be imposed. There are no restrictions regarding voting rights at the Company.

SEB Bankas AB was the provider of accounting and related services for LITGRID's securities for the period from 8 September 2017 until 7 September 2020.

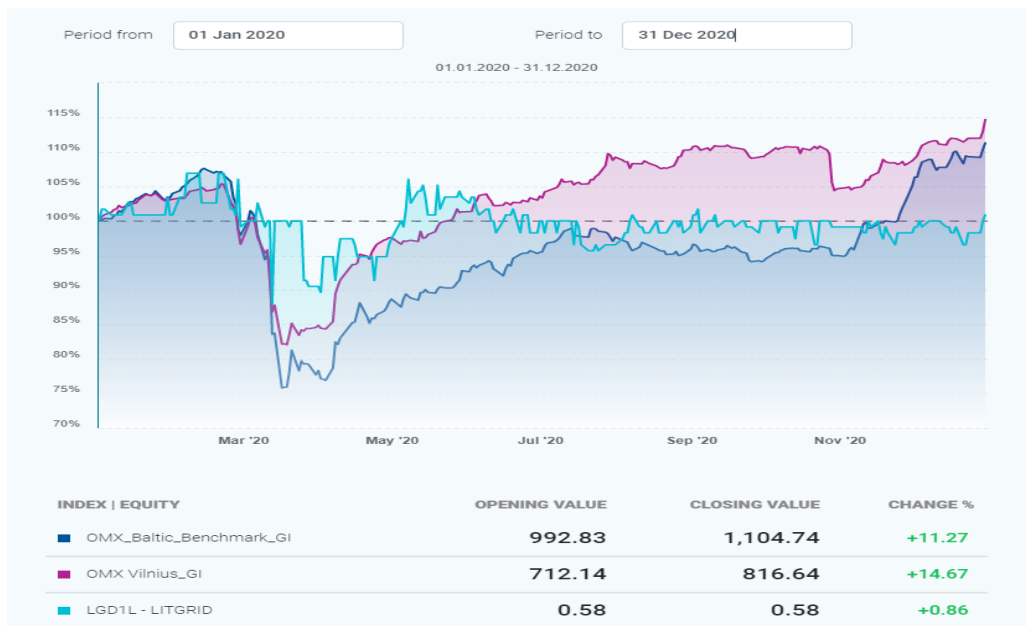
Data on trading in LITGRID's securities on the regulated markets:

Indicator	2018	2019	2020
Opening price, EUR	0,702	0,64	0,59
Highest price, EUR	0,71	0,705	0,63
Lowest price, EUR	0,625	0,575	0,49
Closing price, EUR	0,63	0,58	0,585
Turnover, units	383 524	187 620	680 371
Turnover, EUR million	0,26	0,12	0,39
Capitalisation, EUR million	317,73	292,51	295,03

Turnover and prices of LITGRID’s shares during the reporting period, in EUR:



The comparison of the price of LITGRID’s shares (LGD1L) with the OMX Baltic Benchmark GI (OMXBBGI) and OMX Vilnius (OMXV) indexes during the reporting period:





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Dividends

On 18 August 2017, the Board of LITGRID passed a decision regarding the application of the EPSO-G UAB Group Dividend Policy, which was approved by the Board of EPSO-G UAB on 14 July 2017, at LITGRID in its entirety.

Based on the EPSO-G UAB Dividend Policy the amount of dividends payable was directly linked with the effective use of the company's equity, i.e. the higher benefits created by the Company for the shareholders are, the larger portion of profit can be allocated by the Company for a further development or implementation of other significant projects.

On 20 April 2020, the Ordinary General Meeting of Shareholders of LITGRID was held, during which it was decided to pay out dividends amounting to EUR 0.0081 per share.

On 7 February 2020, the Board of EPSO-G renewed the Group's Dividend Policy. The changes are related to the changes in the corporate governance structure, namely, the cancellation of the Supervisory Board and taking into account the amendments to the legal acts regulating the payment of dividends. Other essential provisions of the policy remained unchanged.

The EPSO-G Dividend Policy, which establishes the procedure for the determination of the amount of dividends, the payment and announcement of dividends for all companies of the group, provides clear guidelines for expected return on equity and investments for existing and potential shareholders, while ensuring sustainable long-term growth of the value of the companies, timely implementation of strategic projects of national significance, and consistent increase of confidence in the entire energy transmission and exchange group of companies.

The Company's management bodies

The system of the Company's management bodies is defined in the Articles of Association and it consists of the following bodies: the General Meeting of Shareholders, the Board and the Chief Executive Officer (a single-person management body).

The Company's Articles of Association stipulate that since the Company is part of the group of companies and the Board of the parent company carries out the review of the functioning of the internal control system and risk management at the group level, the Company's General Meeting of Shareholders and the Board may take into consideration proposals and comments of the Board of the parent company that are presented on the issues relating to the competence of the respective management body of the Company. The Audit Committee is formed at the parent company operates as the Group committee, also performs functions of the Company Audit committee.

Governance principles

The main principles of the company's management are established by the Civil Code of the Republic of Lithuania, the Law on Companies and the Company's Articles of Association. The General Meeting of Shareholders of the Company resolves the amendment of the Articles of Association and the authorized capital of the Company, conversion of shares, elects the Board and the auditor, approves the annual financial statements and distributes the profit, makes decisions on the most important transactions and other issues. The Board of the Company determines the organizational structure of the Company, elects the General Director, approves the business strategy, budget, investments, makes decisions on concluding important transactions and other important management issues. The General Director is the sole management body of the Company, he organizes the activities of the Company and concludes the transactions of the Company. The competence of the Company's bodies is described in detail in the Company's Articles of Association.

The Company complies with the Corporate Governance Code for Listed Companies.

The articles of Association

The Articles of Association of LITGRID are amended in accordance with the procedure established by the Law on Companies of the Republic of Lithuania. The Articles of Association of the Company did not change during the reporting period.

General shareholders meeting

The General Meeting of Shareholders is the highest governing body of the Company. The competence of the General Meeting of Shareholders, the rights of the shareholders and their implementation are provided for in the Articles of Association of the ABĮ and the Company.

The competence, convening and decision-making procedure of the General Meeting of Shareholders shall be established by laws, other legal acts and the Articles of Association.

The Board of LITGRID AB

Information about the members of the Board, the Chief Executive Officer and the Chief Financial Officer of LITGRID as at 31 December 2020:

Position	Full name	Start date	End date	Number of the issuer's shares held
Chairman of the Board (from 18/08/2020)	Algirdas Juozaponis	07/09/2018		
Independent member of the Board	Domas Sidaravičius	29/07/2016		-
Independent member of the Board	Artūras Vilimas	20/04/2020		
Member of the Board	Jūratė Marcinkonienė	20/04/2020		
Chairman of the Board (until 18/08/2020)	Rimvydas Štilinis	16/07/2016	31/08/2020	
Independent member of the Board	Šarūnas Nedzinskas	07/09/2018	20/04/2020	
Member of the Board	Nemunas Biknius	16/07/2016	20/04/2020	
Acting Chief Executive Officer	Vidmantas Grušas	17/10/2020		
Chief Financial Officer	Vytautas Tauras	01/03/2019		76 shares

CVs of the members of the Board and the Company's Chief Executive Officer (information is also published on the website at www.litgrid.eu).



Jūratė Marcinkonienė
Member of the Board

The Acting Director of the Strategy and Development Department of EPSO-G UAB

Other positions:

The member of the Board of GET Baltic UAB (UAB GET Baltic (reg. code 302861178, Geležinio Vilko g. 18A, LT-1810, Vilnius).

Mrs Jūratė Marcinkonienė does not hold any shares of LITGRID.



Algirdas Juozaponis
Member of the Board from 2018- August 2020, Chairman of the Board from August 2020.

The Chief Financial Officer of EPSO-G UAB, the member of the Board (2016-2018). Algirdas started as the Chairman of the board from August 2020.

Other positions: Chairman of the board at Amber grid AB (reg. code 303090867, Savanorių pr. 28, Vilnius LT-03116)

Mr Algirdas Juozaponis does not hold any shares of LITGRID.



Domas Sidaravičius
Independent member of the Board

Other position: Tuvlita UAB Strategy and development director (reg. code 1105840917, Lentvario g. 7A, LT-02300, Vilnius).

Mr Domas Sidaravičius does not hold any shares of LITGRID.



Artūras Vilimas
Independent member of the Board

The member of the Board of LITGRID AB.

Mr Artūras Vilimas does not hold any shares of LITGRID.



Vidmantas Grušas

Was appointed as the temporary acting CEO of LITGRID from October 17th, 2020.

(Dainis Virbickas was a Chief Executive Officer until 16th October 2020).

The Board

The Board of the Company consisting of five members, is elected for a four-year term. The term of office of the Board begins at the end of the General Meeting of Shareholders that elected the Board and ends on the day of the Ordinary General Meeting of Shareholders to be held in the year of the end of the term of office of the Board.

If the Board or a member of the Board is revoked, resigns or for other reasons ceases to hold office before the end of the term of office, a new Board or a member of the Board shall be elected for the remaining term of office. According to the requirements of the amended new Articles of Association, the election of the members of the Board ensures that the Board consists of at least 2 (two) independent members, determining their independence taking into account the requirements of the applicable legislation; it is ensured that at least 3 (three) members of the Board are not related to the employment relationship with the Company, and if possible, the aim is not to appoint employees of the Company to the Board.

The Board elects the Chairman of the Board from its members.

In its activities, the Board follows the laws, other legal acts, the Articles of Association, the decisions of the General Meeting of Shareholders and the Rules of Procedure of the Board.

The Board is a collegial management body of the Company. The competence of the Board, the decision-making procedure and the procedure for election and removal of members shall be established by laws, other legal acts and the Articles of Association. The Board is accountable to the General Meeting of Shareholders.

The areas of activities of the Board

The Board of the Company considers and approves the Strategy, three-year action plan, 10 year development plan, the budget, charity and sponsorship, other Company's documents of strategic importance. The Board makes decisions for the Company to start a new type of activity or to terminate a specific activity, when it does not contradict the purpose of the Company's activity. Also, the decisions related to the issuance of bonds, transfer of shares held by the Company to other persons, decisions on financial transactions with a value of more than EUR 3 million must be approved by the Board. The Board also resolves other issues assigned to it in the Company's Articles of Association.

Areas of activities of the CEO

The CEO is the sole governing body of the Company. The CEO organizes the activities of the Company, manages it, acts on behalf of the Company and has the right to conclude transactions unilaterally. The competence of the CEO, the procedure of election and revocation shall be established by laws, other legal acts and the Articles of Association.

Governance and control

The requirements for the governance of the Company are set forth by the Lithuanian Government's resolutions on the governance of state-owned or state-controlled companies, insofar as they apply to the EPSO-G group companies, and the Governance Code, insofar as the Company's Articles of Association do not state otherwise.

In accordance with the Integrated Planning and Monitoring Policy of the EPSO-G Group of Companies, which was approved at the meeting of the Board of the Company No 12 held on 19 May 2017 and which is directly applied at the Company in its entirety, the Company is preparing the strategy of the Company for a period of 5-10 years. The period of the strategy must coincide with the period of the parent company's strategy. The prepared strategy of the Company currently covers the period of 10 years up to 2028. The implementation of the strategic objectives set out in the strategy of the Company is ensured by the Company's performance, control, and risk management systems. The strategy of the Company is approved and its implementation is controlled by the Board. The Board of the Company prepares (updates) and approves the operational plan for a period of 3 years before the end of the current year. A monthly strategy implementation supervision system is introduced



Litgrid

ANNUAL REPORT

(All amounts are in EUR thousands unless otherwise stated)

at the Company and is linked with the Company's administrative staff remuneration system. The composition of the Company's Board is disclosed on the Company's website.

The Company's activities of the transmission system operator are regulated by the national regulatory authority, i.e. the National Energy Regulatory Council. Within its competence, the Council performs the functions of the state regulation in the electricity sector in the Republic of Lithuania, by ensuring, *inter alia*, the supervision of and control over the performance of regulated activities in the energy sector, as well as the proper implementation of the rights and duties of electricity undertakings and consumers.

The strategy and operational plan of the Company are implemented by and the activities of the Company's administrative staff are organised by the Company's Chief Executive Officer. The Company's administrative management personnel consists of the Chief Executive Officer, the Finance Department Director, the System Department Director, the Transmission Network Department Director, the Strategic Infrastructure Department Director, the Strategy Department Director, and the ITT and Administration Department Director. The composition of the Company's management is disclosed on the Company's website.

Corporate governance accommodates the principles of good governance practice and the policies on the governance of state-controlled companies. The Board of the Company approves the following policies, the implementation of which is to be ensured by the administrative staff of the Company: corruption prevention, remuneration, remuneration for activities in the management bodies of the group companies, assessment of employees' performance, project management, integrated planning and monitoring, corporate governance, accounting, support, dividends, transport, technological property, transparency and communication, protection of sensitive information, management of interests of collegial management bodies, executives and employees, treasury management and financial risks, risk management, social responsibility and other policies, the content of which is published on the Company's website.

The internal control systems of the Company are supported by the organisational structure, management culture and implemented good governance practices, as well as process management which is currently being implemented. It should be noted that the supervisory functions are carried out by the Board of EPSO-G UAB, meanwhile recommendations, proposals and conclusions on matters which are key to the Company's activities are provided by the Remuneration and Nomination Committee and the Audit Committee. The internal control system is initiated by the Company's Board and implemented by the administrative staff, assisted by the Audit Committee of EPSO-G UAB, the external independent audit, and divisions supporting the principal activity. The procedures and policies effective at the Company ensure the reliability of accounting and financial reporting, the compliance of the Company's activities with legal acts, operational efficiency, and achievement of operational objectives.

The Minister of Energy of the Republic of Lithuania by Order No 1-212 of 7 September 2015 approved the Corporate Governance Guidelines for the State-Owned Group of Energy Companies (the "Guidelines"). The Guidelines establish uniform principles of corporate governance to be applied to the entire EPSO-G group of companies and prescribe the purpose of the group of companies, its operational objectives, corporate governance organisation model, governance structure, as well as the system for accountability, supervision and control of operations. These Corporate Governance Guidelines are intended to support and further improve the procedures and policies of good governance practice applied at the Company.

Good governance practice of the EPSO-G group of companies upon the approval of the Guidelines by the Minister of Energy, the company controlling the EPSO-G group of companies is improving the governance practice in its operations and the operations of the group of companies, with reference to the recommendations set forth in the Governance Code and by implementing the recommendations of the international organisations, such as the OECD, intended to enhance the governance of state-controlled companies. The basis for the practical realisation of these Guidelines was created on 17 December 2015, with the approval of the newly revised Articles of Association of EPSO-G (the "Articles of Association of EPSO-G"), as the company controlling the entire EPSO-G group of companies, by the Ministry of Energy, which is the owner of the shares of EPSO-G. The newly revised Articles of Association of EPSO-G laid down the foundations for the establishment of the new management bodies at the level of EPSO-G, i.e. the Board, the Audit Committee, and the Remuneration and Nomination Committee, which, in turn, perform certain supervisory and management functions at the level of the entire group of companies.

Related-party transactions are disclosed in the notes to the financial statements as at 31 December 2020.

All related party transactions were at arm's length, including transactions as per para 37(2) of the Lithuanian Law on Companies.



IX. RISK FACTORS AND THEIR MANAGEMENT

Risk factors and their management

The Company applies the risk management model prepared in accordance with the Enterprise Risk Management methodology and standards of the Committee of Sponsoring Organisations of the Treadway Commission (the COSO ERM standards) applied in international practice defining the principles and responsibilities of risk identification, assessment and management.

The main objectives of the risk management process at the Company are as follows:

- increase the probability of success in achieving the Company’s business goals and ensuring efficiency of operations;
- build public and state confidence in the Company, protect reputation of the Company;
- proactively plan and coordinate the implementation of measures aimed at mitigating the negative impact of potential events and/or the probability of their occurrence.

Risk management model under the COSO ERM standards

Mission Vision Values	Strategic planning	Establishment of operational objectives	Introduction and monitoring	Higher value of business
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Leadership and culture	Strategy and setting of objectives	Activities	Performance monitoring and review	Communication and accountability
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Risk identification, analysis and assessment are conducted regularly in each quarter whereas a detailed assessment of risks is normally carried out once a year (during the updating of the strategy and planning of the process of business objectives) by preparing a new plan on risk management measures. The Company conducts ongoing control over the implementation of the actions specified in the plan on risk management measures.

Risk management directions for 2020

As every year, during the risk assessment for 2020 that the Company performed in 2019, certain risks were identified in respect of which the main risk management measures and initiatives are concentrated and coordinated. The main risk factors, management directions and measures for 2020 are listed below.

Risk	Description	n measures of risk management	Risk level
The development of the project synchronisation with the continental European networks	<p>The Company must ensure a timely preparation for a full synchronisation of the Lithuanian electricity system with the continental European networks.</p> <p>This risk may realise if at least one measure or action stipulated in the Plan for the Actions and Measures of the Electricity System Synchronisation Project will not be performed by the established deadline.</p> <p>In 2020, the Company continued to direct its efforts towards the implementation of the Company’s strategic objective regarding synchronisation with the continental European networks by separate activities and projects comprising critical workflows. The main operational directions in 2020</p>	<ul style="list-style-type: none"> • Timely performance of necessary procurements ensuring compliance with deadlines and the legal acts regulating public procurement procedures. • Limitation and minimisation of occurring interim delays. • Usage of additional external resources. • Establishment of the need for human resources for the implementation of the synchronisation programme. 	Extremely high level of risk



aimed at the mitigation of risk occurrence probabilities included:

- Identification of projects comprising critical ways;
- Resource planning;
- Compliance with good project management and quality management practices;
- Qualification requirements applicable to the highest-quality and experience standards;
- Internal audits and controls of project management;
- Control of checking compliance with time limits and implementation.

Operational risk

One of the main functions and responsibilities of the Company is to secure reliability of electricity transmission and prevent disruptions of energy supply. The main operational risks that could affect transmission reliability are caused by external environmental factors: natural disasters, disruptions in the operations of the main contractors, criminal acts of third parties, as well as internal factors such as information systems' failures. Emergency response plans that ensure business continuity are prepared and kept up to date.

In 2020, the Company ensured the preparation for a possible occurrence of the unplanned isolated operation of the system by preparing and/or updating the plan on the system recovery after the total accident, the business continuity plans and risk management plans.

- Ensurance of capacity reserves; Medium level of risk
- Testing of equipment, successful performance of the testing of isolated operation and trainings of operative employees;
- Monitoring of frequency parameters;
- Preparation of the plan on the continuity of the operation of the energy system of the Baltic countries.

Technological risk

Faults or failures of the most important technological equipment can have a negative impact on the Company's operations and financial results. In order to avoid disruptions in the electricity supply, the Company continuously monitors the condition of the transmission network, develops respective maintenance plans and timely plans

- Defects of the construction of the interconnections were removed; Very high level of risk
- It has been prepared for the ensurance/restoration of operation of the interconnections after the guarantee period and upon the occurrence of the impact from the third parties;
- High-quality operation and availability of the



	<p>necessary new investments in the network and ensures the reliability of the interconnections.</p> <p>In 2020, the Company maintained sufficient and optimal emergency reserve aiming to quickly remove possible failures of equipment, ensured high-quality operation and availability of the interconnections.</p>	<p>interconnections have been ensured;</p> <ul style="list-style-type: none"> • Annual servicing of the interconnections has been performed.
Financial risk	<p>The Company's activities expose it to financial risks: credit risk and liquidity risk. In managing these risks, the Company seeks to mitigate the impact of factors which could adversely affect the Company's financial performance. The Company has approved the Treasury and Financial Risks Management Policy.</p> <p>In view of a highly relevant strategic objective, the Company has also identified financial risk related to the project on synchronisation with the continental European networks, which was successfully controlled in 2020 and agreed and signed the support agreement with 75% of eligible expenses.</p>	<ul style="list-style-type: none"> • The minimum requirements established in the Treasury and Financial Risks Management Policy are applied for the credit ratings of the financial institutions. • Regular review of cash flows and update of the projections; • Ensurance of the unused reserve; <p>Low level of risk</p>
Cyber security risk	<p>By observing external factors and situation, the Company understands its strategic importance for the country's security and aims to ensure that the Company's strategic information and the main management systems are protected from any external/internal impact.</p> <p>In 2020, processes related to cyber threat monitoring/detection were further strengthened by introducing and updating existing systems.</p>	<ul style="list-style-type: none"> • Improvement of resilience through scanning and isolation of technological networks, tests/trainings; • Information security training courses for users. <p>High level of risk</p>
Risk of lack of relevant qualification employees	<p>Lack of specialists with necessary qualifications disrupts smooth running of the Company and implementation of the strategic objectives. Employee turnover at the Company (and in Lithuania) tends to increase, therefore the Company faces a persistent lack of employees with necessary qualification. Market competition for employees is intense (particularly for</p>	<ul style="list-style-type: none"> • The Remuneration Policy's calibration with the market; • Promotion of employee engagement; • Cooperation with universities; • The preparation of the programme on the strengthening of the employer's image. <p>Very high level of risk</p>



technical/engineering personnel), therefore it is becoming increasingly difficult to attract and retain them.

The Company has identified an additional risk relating to the lack of human resources in implementing one of the Company's strategic objectives, i.e. synchronisation with the continental European networks.

In controlling risk arising from the lack of qualified employees, the Company implements measures of continuous nature:

- The plan on the management of critical positions has been introduced;
 - The annual calibration of the Remuneration Policy with the market;
 - The implementation of the plan on the engagement enhancement measures for employees;
 - Optimal distribution of work load;
 - Cooperation with universities;
 - The programme on the strengthening of the employer's image;
-

The Company's financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by the European Union. The Company's internal control process includes the control of business processes related to service provision, IT system operations, and drawing up of financial statements. The drawing up of the consolidated financial statements is governed by the Company's accounting policies and procedure descriptions, which ensure that the accounting practices comply with International Financial Reporting Standards as adopted by the European Union and the laws of the Republic of Lithuania. The Company's procedure descriptions identify potential risks associated with accounting and financial reporting and specify methods and principles of their management and employees responsible for risk management.



X. REPORT ON SOCIAL RESPONSIBILITY

The companies of the EPSO-G group understand social responsibility as an integral and inseparable part of the sustainable business. The companies of the EPSO-G group understand a sustainable business development as a whole of targeted economic, social and environmental actions by increasing the general welfare of the society in the professional activities and by reducing the permissible environmental exposure limits.

The principles of social responsibility are implemented on the basis of the related policies of the group of companies and other valid internal documents.

- The Social Responsibility Policy. The policy is intended to improve the business practice based on good experience gained by the domestic and international organisations, implement, apply natural resource-saving technologies, materials and processes that are not harmful to human health.
- The Transparency and Communication Policy. The policy is intended to help communicate more effectively with each other and with the external stakeholders, i.e. society, shareholder, market regulators, etc.
- The Corruption Prevention Policy. The policy is intended to establish in the EPSO-G group the basic principles and requirements of prevention of corruption and guidelines for ensuring compliance with them, the implementation of which creates preconditions and conditions for the implementation of the highest standards of a transparent business conduct.
- The Remuneration Policy. The policy is intended to properly manage remuneration costs and create motivational incentives in order the remuneration amount would directly depend on the implementation of the objectives that are set for the company and for each employee.
- The Accounting Policy. The policy is intended to ensure that the stakeholders are able to assess the activity and perspective of the companies of the group and make respective economic decisions.
- The Dividend Policy. The policy is intended to establish clear guidelines for expected return on equity and investments for the existing and potential shareholders, while ensuring sustainable long-term corporate value growth, timely implementation of strategic projects of national significance, thus consistently increasing confidence in the entire energy transmission and exchange group of companies.
- The Interest Management Policy. The policy is intended to create at the EPSO-G group a uniform interest management system consistent with good practice that would allow ensuring that decisions in the companies of the group are made in an objective and impartial manner and would also form an environment that is unfavourable to corruption and would increase confidence in the activities of the companies of the group.
- The Policy for the Protection of Sensitive Information. The policy is intended to create a uniform system for the identification, use and protection of confidential information and information constituting commercial (production) secret, and to help members of the management bodies and employees of the companies of the EPSO-G group protect the confidential information they were entrusted with against inappropriate and harmful disclosure.
- The Policy for the Development and Operation of Technology Assets. The policy is intended to consistently implement the principles of management and development of electricity and natural gas infrastructure based on the cost and benefit analysis, introduce advanced technologies, manage and develop the energy transmission infrastructure in a socially responsible manner taking into account the occupational safety and environmental requirements.
- The Support Policy. The policy is intended to ensure that the support is provided publicly and does not cast doubt in the society regarding its expediency and transparency of the process of support granting.
- The Code of Conduct. Its purpose is to set uniform general behaviour guidelines for communication and cooperation with internal and external stakeholders: customers, contractors, business partners, shareholders, state and municipal authorities, society, etc.

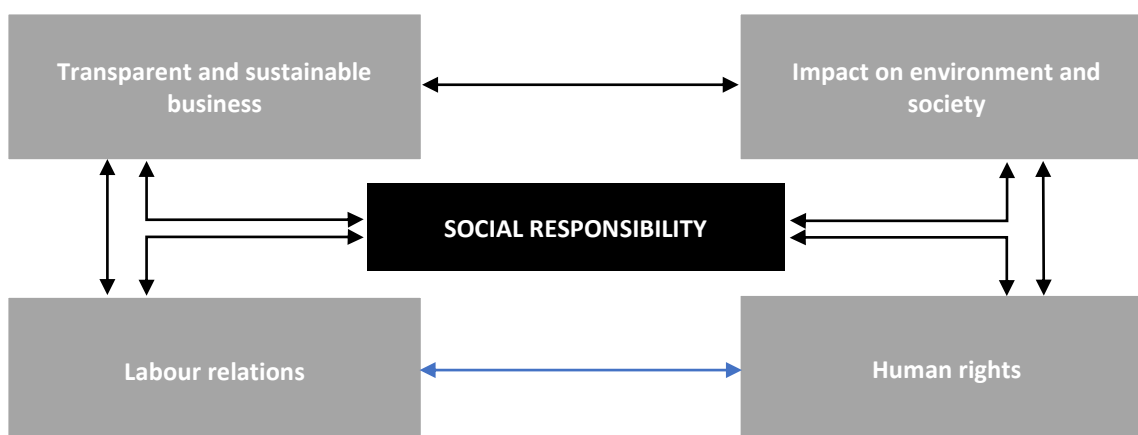
LITGRID follows the principles of social responsibility, sustainable development, transparency, and advanced environmental protection in its activities. The Company's operations form an integral part of a successful functioning of the national economy, while its long-term strategic goals and the strategic electricity projects it is implementing help secure the country's energy independence.

The scope and importance of the projects being implemented encourage the Company, its employees and management to adhere to the highest professional and ethical standards, take responsibility for promoting and developing awareness, responsibility and willingness of the society and its individual groups to actively participate in the creation of the well-being of the country. Our Social Responsibility Policy focuses on ensuring fair and motivating working conditions, developing responsibility and citizenship, and contributing to the growth and strengthening of the society in which we operate.

We dedicate our efforts and resources to:

- Promote economic growth of the society in which we operate;

- Achieve a harmonious integration of the performed reconstruction and construction projects in the surroundings of the communities;
- Cooperate actively with the contractors and suppliers in ensuring sustainability of operations with respect to the environment and expectations of citizens;
- Secure safe working environment as one of the key priorities of our activities;
- Create conditions that motivate our employees and promote their professional development;
- Preserve nature providing us with resources.



As we implement strategic projects of high value and historical significance, we realise that great works bring great responsibility. Maintaining and promoting a quality dialogue with the society for which and in which we work is a priority in our daily operations.

The companies of the EPSO-G UAB group understand the sustainable development of the business as a set of purposeful economic, social and environmental actions through the increase of the general well-being of the society and reduction of the permissible environmental impact limits in their professional activities as defined in the National Sustainable Development Strategy approved by the Government of the Republic of Lithuania.

The corporate social responsibility policy is understood as an integral and inseparable part of the business. The policy covers the following areas: corporate business ethics in the market and prevention of corruption, preservation of environment, employee development, human rights, equality and diversity, occupational safety and health, as well as mutual trust relationships with stakeholders.

Transparent and sustainable business

Corruption prevention

In its activities in the field of corruption prevention the Company follows the Corruption Prevention Policy of the EPSO-G UAB Group of Companies (which is announced publicly) and implements recommendations of the Anti-corruption Manual for Business².

Employees conduct their daily activities in compliance with the LITGRID's Code of Ethics and Conduct. Employees of LITGRID observe the requirements of this code in communication with each other as well as the suppliers, contractors, electricity producers, consumers, business partners, state and municipal institutions and the society.

The Company has implemented the principles of the Lithuanian Law on the Protection of Reporting Persons, i.e. internal reporting channels have been created, internal legal regulation has been updated and technical measures ensuring a full compliance with the requirements of the above-mentioned law have been introduced. The report on information received via internal reporting channels and actions performed is presented to EPSO-G UAB.

The Company pays special attention to the management of conflicts of interests. In compliance with the Lithuanian Law on the Adjustment of Public and Private Interests and the Policy of Management of Interest of Members of Collegial Bodies, Executives and Employees of the EPSO-G Group of Companies, the Company applies the control measures of the prevention of conflicts of interests and declaration of private interests: the internal electronic system for the declaration of interests has

² <https://www.stt.lt/korupcijos-prevencija/mokomoji-ir-metodine-medziaga/7452>

been developed that was used by all employees of the Company for a public declaration of their interests and that, in accordance with the requirements of Law on the Adjustment of Interests, was used by all employees of the Company who have the obligation under the law (140 employees) to publicly declare their interests; the content of the submitted declarations of interests (internal and those submitted to the Chief Official Ethics Commission) has been analysed and preliminary recommendations to the heads and employees of the divisions who declared potentially real or probable conflicts of interests have been prepared; preventive inspections have been carried out to assess the implementation of the provisions of the Law on the Adjustment of Interests (no violations were identified). Employee trainings are conducted and, when necessary, individual consultations are provided.

Likelihood of corruption risk in the field of the organisation of technical maintenance of the construction/reconstruction of the Company's buildings has been established and recommendations on the mitigation of the identified risk factors have been prepared.

In order to ensure that LITGRID employs only those who have impeccable reputation, reliability and loyalty of employees are verified, employees are being motivated to act with integrity and report about the noticed cases of corruption, risks arising from nepotism and cronyism are controlled. No persons with family or marriage relationship under direct subordination or control are employed at the Company.

The anti-corruption training courses for all employees were conducted during 2020. The anti-corruption online courses were attended by all employees of the Company, all newly hired employees attend the anti-corruption training courses.

The survey on corruption awareness by employees of LITGRID AB was carried out in December 2020. 54% of all employees of the Company were surveyed. The survey data shows that 95% of those surveyed negatively assess corruption (2019: 93%) and 99% negatively assess persons who give bribes (2019: 99%); 1% of the survey participants indicated that they have faced corruption in their activities over the three recent years (2019: 9%); and 94% of those surveyed stated that they would report the noticed cases of corruption (2019: 91%). The survey results demonstrate that the corruption awareness level increases and remains very high at the Company.

Communication with stakeholders

When implementing the objectives provided for in the operational strategy, LITGRID assesses and seeks to take into account social and economic interests and expectations of stakeholders. Each direction of operating activities is related to one or several stakeholders. Stakeholders are provided with a comprehensive information related to the activities carried out by the Company, except for the cases regulated in the Policy of Sensitive Information.

LITGRID classifies stakeholders into the following group:

- customers, employees, group companies, foreign partners, government representatives, National Regulatory Authority, contractors, suppliers, non-governmental organisations, trade unions, general public and media, local communities.

In 2020, LITGRID organised 26 online meetings with local communities, published 124 press notices, 88 social media posts, announced 110 statements in the News section of the Company's website, announced 100% of public procurements in the Public Procurement Information System, organised the campaign promoting safety of works near overhead lines when cutting forest in 40 regional and local newspapers and portals.

Social responsibility in the field of environmental protection

We adhere to the principle stating that harmony with the environment in which we work and live is the basis for the successful operation and development of the Company. The principles of our Environmental Protection Policy are as follows:

- Routes for new electricity lines are planned in a way that minimises damage to human economic activity and nature.
- When designing objects to be reconstructed or to be newly built, we provide for preventive environmental protection measures.
- We use environmentally friendly technologies and energy-efficient electrical equipment.

Environmental conservation in infrastructure projects

In order to achieve a more efficient use of renewable energy sources, the first reconstructions of the transformer substations were started in 2019 during which it was decided to use renewable electricity sources, i.e. solar power plants, for own needs. The solar power plants are planned to be installed in 13 substations. The installation of the first solar power plant was started in September 2020.

Procedures for environmental impact assessment or screening are always carried out for the electricity transmission lines to be constructed and their conclusions are taken into account in the preparation of technical designs. Environmental protection requirements are set in the design specifications for the construction of new or reconstruction of existing transformer

substations and switchgears. In all cases, efforts are made to select such equipment which is less harmful to the environment. For example, oil circuit breakers used to date in the reconstructions of transformer substations are being replaced by more modern gas ones. This minimises the risk of environmental pollution in the event of an accident and also reduces the operating costs of the equipment.

As 330 kV voltage transformer substations switch to remote control without the need for on-call staff, potentially contaminated rainwater purification systems with automatic oil-polluted flow closure and information transfer to the System Control Centre are installed. LITGRID's contractors are obliged and encouraged to organise the works sustainably, i.e. in such a way as to avoid or reduce potential effects on the environment, to manage the waste generated during construction, to record and declare imported taxable packaging and to provide supporting documentation.

When starting the performance of public procurement procedures, the prospective contractors are required to have the environmental management systems according to LST EN ISO 14001 standard implemented. When accepting completed works, the contractors' compliance with the requirements is checked including the waste management and relevant documentation.

Protection of birds

Bird protection in the areas of overhead lines is a challenge faced by the TSOs of all countries. Although the bird protection project that had been implemented for four years from 2016 was finalised, the implementation of the protection measures is continued.

Special bird protection devices, i.e. such as 'forks' preventing the birds from alighting over insulators, are installed on towers supporting 110 kV voltage overhead lines. Upper insulators in insulator strings are replaced with ones of larger diameter. These devices reduce the short-circuit probability upon alighting of large birds (white storks) and consequently the number of deaths of birds.

Wires of the reconstructed and newly built 110 kV and 330 kV electricity transmission lines are made more visible by equipping them with bird-diverting devices in places of the most intensive bird migration. In 2020, such devices (265 pieces) were installed on the 330 kV Lietuvos Elektrinė-Vilnius overhead line along the territory of Elektrėnai sea, Pastrėvys and the ponds of fish farm Bartžuvė.

During the period of nesting the Company takes all measures to cause as little disturbance to birds as possible when the route cleaning works are performed. In view of the recommendations of ornithologists, due to disturbance of birds during their nesting period from 1 May to 31 July the performance of works is restricted, it is fully taken into account even before the preparation of the schedules on the performance of the project's works.

The environmental monitoring of the newly constructed Kruonio HAE-Alytus electricity transmission line, which had been started in 2019, was continued in 2020. In spring and autumn of 2020, the accounting of birds who potentially died from collision with wires of the overhead lines was kept, the monitoring of insects and vegetation in the territories established in the monitoring programme was conducted. The monitoring report was submitted to the state institutions concerned - the Environmental Protection Agency, the State Service for Protected Areas. The environmental impact monitoring programme for 2021-2023 of the 330 kV Lietuvos Elektrinė-Vilnius overhead line was prepared.

Forest planting

In ensuring reliable supply of electricity, the protection areas of overhead lines are regularly monitored and cleaned, trees are pruned.

Realising the impact on nature resulting from the maintenance of overhead lines, the staff of the Company cherishes the tradition of organising the forest planting in April when a professional holiday of energy workers is celebrated. Regrettably the forest planning event was not organised in 2020 due to the pandemic and quarantine requirements.

LITGRID's employees estimate that during these forest planning events more than 16 thousand firs, pines and birches were planted in the Lithuanian forests and are eager to continue this tradition.

Social responsibility in relationship with employees

Equal opportunities

By implementing the requirements of the Labour Code of the Republic of Lithuania in the fields of equal opportunities and non-discrimination, LITGRID approved the Description of the Equal Opportunities Procedure and the Equal Opportunities Implementation Plan for 2020-2021 on 30 December 2019.

In its activities, LITGRID follows the principles of non-discrimination in all areas:

- Establishment of objective, non-stereotypical criteria during staff search, selection and dismissal procedures.
- Creation of a working environment and equal working conditions for all employees. The aim is to create an open, flexible and inclusive working environment hoping that this will help all LITGRID employees to successfully balance work and family

responsibilities. Employee sports and volunteering initiatives are encouraged and contributed to. The ideas of each employee are heard and their implementation is encouraged.

- The principles of integrity and gender equality are followed in the development and implementation of the Remuneration Policy.

After the approval of measures for the implementation of equal opportunities, LITGRID has committed to operatively and effectively respond to everyday manifestations of undesirable behaviour and to ensure uniform conditions for all employees and job applicants.

The aim is for equal opportunities to exist not only in documents, but also for the LITGRID community to be modern, caring, tolerant and open. We hope that respect for the individual, human rights and freedoms will become part of our daily conduct. Therefore, we encourage everyone to take an active interest in equal opportunities and contribute to the implementation and enforcement of equal opportunities within the Company.

Safety of workers and workers of contractors

In securing uninterrupted and smooth operation of the electricity transmission system the Company regularly carries out the maintenance, reconstruction of the existing transformer substations, switchgears, overhead and cable lines and builds new objects. These works are associated with a higher risk of accidents for workers performing construction works and for the Company's employees. In order to minimise or eliminate risks existing at the Company large attention is devoted to the fulfilment of occupational security requirements at workplaces.

The measures being implemented include the preparation of requirements for safe performance of work, occupational safety and health instructions, assessment of professional risk, provision of personal protection means to employees, arrangement of safe workplaces, organisation of trainings and instructions. Preventive examinations of employees' health are conducted, employees working outdoors get encephalitis vaccine. Employees are also given the possibility to receive vaccination to protect against flu before the start of the winter season.

One of the most important objectives of the Company is zero accidents in the objects of LITGRID during the performance of works and maintenance. Particular attention is addressed to this issue. Similarly as in the previous years, regular occupational safety control and monitoring of the contractors were continued in 2020. These control activities will be conducted by the employees of LITGRID until the middle of the year and starting from the second half of the year the services of the external independent company will also be used. More than 280 workplaces were inspected during the year and 41 cases of non-compliance with occupational safety requirements were identified. In all cases the contractor is notified and immediate decisions are made in order to avoid the repeated occurrence of such situations.

No fatal, serious or minor accidents occurred in 2020 involving the employees of the Company and the contractors. During the reconstructions two incidents occurred that did not result in any casualties thanks to mere coincidence. These events were examined and preventive measures were established in order to prevent the occurrence of similar situations in the future.

The year 2020 was the exceptional period as we were living under unusual circumstances and organised and performed works differently due to the start of the Covid-19 pandemic which changed the usual way of the organisation of business activities. The situation at the Company was continuously monitored and the latest developments were analysed.

The Emergency Operations Committee functioning at the Company established new principles, rules and recommendation for the organisation of work to protect the health of employees, contractors and clients and at the same time to ensure the possibilities for the Company to continue its activities. The majority of employees who were able to perform their functions remotely worked from home, the remaining staff members were provided with additional personal protection means, disinfectants. When necessary, the disinfection of the premises was also performed. In view of the changes in the situation during the year the established requirements were strengthened or mitigated, the unnecessary contacts with other persons were also restricted.

Trade union

The Company closely cooperates with the Trade Union of Employees of the Electricity Transmission Network operating at the Company that had 98 members in 2020. Cooperation is based on the principles of respect and social partnership.

Social responsibility in relationship with the society

Meetings with communities

LITGRID informs local communities in advance of projects being implemented in their neighbourhood. Therefore, 6 publicity meetings with the communities were held in 2020 in the surroundings of which the implementation of the new infrastructure projects or reconstructions will soon start. The Company strives to minimise the inconvenience caused to the residents during the implementation of infrastructure projects, and new routes are planned very carefully to reduce the impact on the living environment and nature

During the meetings the future routes were presented and expectations and requests of residents were heard.



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In addition, the Company initiated a series of unofficial meetings with the communities in 2020. Due to the quarantine requirements events were held remotely. The total of 20 events were organised during which prominent public figures Giedrius Savickas, Haroldas Mackevičius, Rafailas Karpis, Antanas Joniškis, Jazzu, Alfredas Bumblauskas met with the communities in the close proximity of which the synchronisation projects are and will be carried out until 2025. LITGRID introduced to residents the synchronisation projects, as well as the opportunity to spend meaningful leisure time was provided. Remote events were attended by more than 15,000 people from various cities and towns of Lithuania.

Noise reduction measures in the living environment

In 2020, large efforts were continued to address the issue of the reduction of noise emanated from electrical installations. Based on the previously performed design, barriers mitigating noise emanated from equipment (autotransformers and shunt reactors) to the environment were built at the Klaipėda transformer substation that improved the living conditions of nearby residents.

LITGRID operatively responded to reports received from residents of Alytus region regarding noise emanated from equipment. According to the memorandum signed with Alytus municipality on the noise emanated to the environment from the equipment of the Alytus HVDC converter station and the Alytus transformer substation, the measurements of the level of noise were conducted and the project *Installation of Noise Mitigation Measures at the Alytus HVDC Converter Station* was initiated.

The first stage of this complicated and complex project was performed in 2020 covering the modelling of noise emanated from equipment and selection of noise mitigation measures. The measures laid down in the study will be designed in 2021.

Safe conduct near electricity transmission lines

In December 2020, before the start of timber harvesting works, LITGRID initiated articles on safe conduct and work near high voltage overhead lines in the regional and local means of mass media (more than 40 newspapers and internet portals).

The number of various events caused by unsafe behaviour of people usually increases during the cold time of the year when timber harvesting becomes more intense. In order to prevent accidents and keep the network operating reliably, people need to know what works can be done and at what distance from the high-voltage line, and what to do in case they come up a damaged line. A comprehensive campaign was organised to discuss the ways of performance of works, distances to be maintained in cutting trees, branches, transporting them from tree cutting sites and actions to be taken in case of accidentally damaging the line.

Sponsorship

The Sponsorship Policy has been approved by the Company, however, the Company did not grant any support under it in 2020.

Volunteering

Social responsibility is implemented on the initiative of an employee, while the voluntary activity of LITGRID employees is encouraged, i.e. one day per year is dedicated to that according to the collective agreement.

Some of the LITGRID staff used the day to volunteer by organising activities for the children at the day care centre and working at a stray animal care organisation, providing assistance to the Food Bank.

Excursions

Due to the risk caused by the COVID-19 pandemic LITGRID did not organise any excursions in 2020.



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XI. SIGNIFICANT EVENTS OF THE REPORTING PERIOD

As the Company fulfils its obligations set forth in the legal acts regulating the securities market, it publishes notices of its material events and other regulated information on the EU-wide basis. The information is available on the Company's official website (www.litgrid.eu) and on the official website of NASDAQ Vilnius stock exchange (www.nasdaqbaltic.com).

Summary of the significant achievements and events in the LITGRID's activities in 2020

January

On 1 January 2020, the electricity and natural gas transmission prices approved by the National Energy Regulatory Council (NERC) entered into force. The approved average price of the electricity transmission service provided by LITGRID grew by nearly 24% from 1 January 2020 reaching 0.814 ct/kWh. This growth was mainly due to the fact that in 2019 the amount of LITGRID's permitted revenue was reduced by the determined amount of excess return on investments for the previous periods.

The price of LITGRID's system services grew by nearly 28% from 1 January 2020 reaching 0.785 ct/kWh. The main reasons for this price change were the costs required to ensure the isolated operation of the electricity system throughout the year, as well as the costs actually incurred by LITGRID in the previous period, but not included in the price of the previous period.

February

On 17 February 2020, LITGRID signed a contract with the Italian consulting and engineering company CESI, under which CESI will prepare the technical specifications for the procurement of synchronous compensators, i.e. requirements for this equipment as well as the methodology for the evaluation of the proposals. The value of the contract is EUR 273 thousand, whereof EUR 205 thousand are funded by the EU Connecting Europe Facility.

The installation of the synchronous compensators is stipulated under the terms of connection to the continental European networks established for Lithuania and other Baltic countries by ENTSO-E (the European Network of Transmission System Operators for Electricity) in May in 2019.

March

On 4 March 2020, the new LITGRID's electricity system management and data security centre was officially opened in Vilnius, which will ensure stable and secure operation of the national energy system and management of energy transmission flows as well as a higher level of physical and cyber security.

After the announcement of a state of emergency in Lithuania due to the threat of the spread of coronavirus (COVID-19) on 16 March 2020, the EPSO-G group introduced the following business continuity and preventive measures: employees responsible for monitoring of the situation and provision of information to the Company's management were appointed; units and employees performing critical functions and administering the main systems were identified, additional organisational measures in the system control centres were applied, technical and replacement measures in case of the spread of the virus were planned. The group companies reviewed their emergency situation management plans and developed additional documents and implementation measures: lists of critical activities, lists of measures required to ensure the continuity of these activities, lists of resources and responsible persons, as well as other documents and measures.

April

On 1 April 2020, the Baltic electricity transmission system operators, Lithuanian LITGRID, Estonian Elering and Latvian AST, agreed on a regional cooperation model that would help three Baltic states work together and jointly implement significant projects on synchronisation with electricity networks of western Europe faster, more efficiently and with lower costs. The document on the regional cooperation terms provides that the Baltic operators will jointly develop, implement and test the isolated operation plans, train the staff of the electricity transmission system operators of all three countries to work together, develop an emergency plan of connecting the Baltic electricity transmission system to the continental European network, and conduct studies of determining the requirements for ensuring stable operation the Baltic electricity transmission system. The Frequency Stability Assessment System (FSAS) and the Baltic Control Unit will be simultaneously developed, and a regional test of isolated operation will be performed to help test the readiness of the three Baltic states to independently manage the system's frequency.

On 6 April 2020, LITGRID signed a contract with the contractor Tetras that would make the Alytus (investments amount to EUR 1.496 million) and the Telšiai (EUR 1.456 million) substations ready for the installation of the synchronous compensators. These funds will be used to install circuit breakers, disconnectors and other primary equipment, to relocate part of the existing transformer infrastructure and prepare a location for connecting the synchronous compensators to the transmission network. The construction works are to be completed in September 2022. Investments are partly financed by the EU Connecting Europe Facility.

On 16 April 2020, LITGRID completed the reconstruction of the Parovėja switchgear and it was put into operation at full capacity. During the implementation of the project *Reconstruction of the 110 kV Switchgear of the 110-35-10 kV Parovėja Transformer Substation*, the contractor who was awarded the contract under the public procurement procedure performed design works and upgraded the switchgear equipment. The reconstruction ensures the electricity transmission reliability in the region and reduces the operating costs. The works under the public procurement contract signed in 2017 were performed by Energetikos Tinklų Institutas AB. The project value amounted to approximately EUR 1.313 million without VAT and was partly financed by the EU.

On 20 April 2020, at the Annual General Meeting of the Shareholders, the shareholders elected the Board of LITGRID for a new four-year term.

Two independent members were elected to the five-member Board of LITGRID: Domas Sidaravičius, the Finance Director of GALIO GROUP UAB, Artūras Vilimas, the Electrical Engineering and Applied Electronics Specialist, and three representatives of the holding parent company EPSO-G: Jūratė Marcinkonienė, the Head of Regulation and Planning, Algirdas Juozaponis, the Finance Director and Rimvydas Štilinis, the Infrastructure Director, who was elected the Chairman of the Board during the first meeting of the new term.

On 21 April 2020, LITGRID signed the contract with the value of EUR 14.85 million (excluding VAT) with Kauno Tiltai AB and Litenergoserbis UAB, the group of the entities that won the tender for construction works, on the reconstruction of the 330 kilovolt (kV) electricity transmission line from the power plant in Elektrėnai to Alytus. The decision to award the contract to the contractor was approved on 20 April during the Ordinary General Meeting of Shareholders of LITGRID. During the reconstruction, 207 overhead line towers and wires will be replaced, and lightning conductor cable and fiber-optic cable will be installed. The works will be performed in three stages, and their completion is scheduled in September 2023. The reconstruction works are partially financed by the EU structural funds. The reconstruction of the overhead line will contribute to ensuring a reliable and stable operation of the electricity system's transmission network, the uninterrupted electricity supply to consumers in Elektrėnai, Kaišiadorys region, Prienai region and Alytus region municipalities.

On 28 April 2020, the Lithuanian, Latvian and Estonian electricity transmission system operators LITGRID, Augstsprieguma Tīkls AS and Elering AS signed a memorandum and agreed that in 2025, when the countries connect to the electricity networks of western Europe, they will jointly control the energy system frequency through the Baltic Power and Frequency Control Unit. The memorandum also formalised the parties' intention to create a single market for capacity reserves. The agreement also establishes the creation of the single reserves market of the Baltic countries that will increase competition among the electricity producers providing reserve services.

May

On 26 May 2020, Lithuanian and Polish electricity transmission network operators LITGRID and PSE S.A. signed the implementation phase cooperation agreement for the Harmony Link interconnection project. Under this agreement, the electricity transmission system operators of both countries undertake to contribute in equal parts to the installation of the Harmony Link submarine interconnection. It is planned that this interconnection will be already built in 2025. The value of the project will reach approximately EUR 680 million. LITGRID will be responsible for procuring construction works for the HVDC cable, selecting the contractor, and signing and implementation of the bilateral agreement for construction works. The Polish operator PSE will be responsible for procuring construction works for the HVDC converter stations in Lithuania and Poland, selecting the contractor, and signing and implementation of the bilateral agreement for construction works. The design solutions and technical parameters of the Harmony Link interconnection will be approved by LITGRID and PSE by mutual agreement. Each country will pay 100% of the cost of installing the onshore cable on its territory and the full costs of installing the converter station there, while the costs of installing the offshore cable will be shared 50%/50%.

On 26 May 2020, the transmission system operators in Lithuania, Latvia, Estonia and Poland submitted a joint investment application with the value of EUR 1.2 billion (Lithuania's share is equal to EUR 462 million) for the funding of investments of stage II of the synchronisation project (construction of the Harmony Link submarine interconnection, improvement of the internal networks of each country, construction of the synchronous compensators and renewal of IT control systems) from the EU Connecting Europe Facility. This is the largest investment part of the synchronisation programme and the first time when the joint application was submitted by all four countries.

June

On 9 June 2020, LITGRID launched a feasibility study on the measures to mitigate noise emanated from the equipment of the LitPol Link interconnection converter station and the transformer substation in Alytus region. The study is developed by DGE Baltic Soil and Environment UAB. It is to be completed at the beginning of September 2020. This study will help answer questions on additional measures that will most effectively solve the issue of noise emanated from the strategic facility of Lithuania operating in Alytus, the LitPol Link interconnection converter station and the transformer substation. The study analyses the sound emanation causes in detail, as well as the sound emanation towards residential settlements, surveys of residents are conducted, the equipment operating modes, meteorological conditions are assessed, and the equipment's impact on the living environment is analysed.

On 30 June 2020, during the Extraordinary General Meeting of Shareholders, the shareholders of LITGRID approved the sale of one-fifth of the Company's shareholding in Duomenų Logistikos Centras to the infrastructure investment fund managed by Quaero Capital company in Switzerland. Under to the signed share purchase-sale agreement, LITGRID intends to sell 20.36% of shares and 79.64% of shares were sold to Ignitis Grupė. The total value of the transaction is EUR 10.1 million. Shares of Duomenų Logistikos Centras were sold to Ignitis Grupė in order LITGRID could concentrate on the core activities of the companies.

On 30 June 2020, LITGRID updated and submitted to the NERC for assessment the ten-year plan of the development of the electricity transmission network. It sets that over the next decade investments will be mainly directed towards the implementation of the project of synchronisation with the continental Europe. It is currently assessed that investments required for the development of the electricity transmission network in 2020-2029 may total to around EUR 1.3 billion. Slightly more than a half of the planned investments will be designated for the implementation of strategic projects of national significance. The remaining half of the planned investments is intended to be allocated for an effective development and systemic renewal of the network, physical and information security, development of the information systems as well as research and innovations.

During the preparation for connection to Europe the construction of the submarine electricity link with Poland Harmony Link will be completed, the optimisation of the North-East Lithuanian transmission network will be finalised, three autotransformers in the transformer substation in Alytus will be installed. Electricity transmission lines with the length of around 520 km will be built and reconstructed, two new 110 kV switchgears will be installed. In addition to the network's development for connection to Europe, LITGRID also plans to build new lines with the length of 72 km to secure the reliability of the electricity network. The total of 87 transformer substations are planned to be reconstructed.

July

On 2 July 2020, LITGRID completed the construction of the 110 kV Pagėgiai-Bitėnai electricity transmission line. Investment into the newly constructed 17.1km-long line amounted EUR 5 million, thereby increasing the reliability of electricity transmission to the consumers in Pagėgiai municipality and in the western part of Lithuania. This was the second completed project out of fourteen synchronisation projects approved by the Government.

On 3 July 2020, LITGRID initiated the tender procedure for the designing and construction of the 330kV Klaipėda-Grobinė and Jurbarkas-Bitėnai electricity transmission lines. The lines need to be reconstructed in order to form new double-circuit 330 kV electricity transmission lines Darbėnai-Bitėnai and Kruonis HAE-Bitėnai. These lines will help strengthen the transmission network in the western part of Lithuania, and ensure its reliable operation by building a submarine interconnection with Poland (Harmony Link) and disconnecting from Kaliningrad electricity transmission system. Upon completion of the tender, LITGRID will procure the services for technical project preparation and construction works.

On 7 July 2020, a transaction was concluded on the sale of shareholding of LITGRID and Ignitis Grupė in a company Duomenų Logistikos Centras to the infrastructure investment fund managed by Quaero Capital company in Switzerland.

On 9 July 2020, LITGRID initiated the procurement procedure for the consulting services, as Lithuania and Poland were getting ready for the construction of a submarine power cable Harmony Link in the Baltic Sea. It is expected to involve experts to rely on their experience in laying high voltage direct current power cables and converter stations necessary to ensure smooth implementation of the project. The consultants will assess the documents, for example, technical specifications and requirements, and will provide purposeful consultations on technical, commercial, regulatory matters in the course of the project implementation.

August

On 2 August 2020, LITGRID completed a partial testing of the isolated operation in Lithuania - the test was run in the part of the Lithuanian electricity network that was disconnected from the UPS/IPS system and that covered all the largest Lithuanian power plants. LITGRID dispatchers controlled the frequency independently. The testing involved the largest domestic electricity generators and the NordBal interconnection. The testing also involved the interconnection with Poland (LitPol Link) to check how its technological functionality could help control the frequency in the event of frequency fluctuations.

On 3 August 2020, it was announced that LITGRID and PSE, the electricity transmission system operators in Lithuania and Poland, are going to involve the Austrian capital international group ILF Consulting Engineers in the implementation of the interconnection Harmony Link project. ILF Consulting Engineers is expected to prepare the technical specifications for the procurement of construction of the major project components (a submarine power cable and converter stations), and to provide assistance with other project documentation. The contract value is EUR 1.367 million. It included preparation of a feasibility study, collection of permits for laying a cable in the Swedish Exclusive Economic Zone, preparation of procurement documentation for the cable and converter stations, consultation on procurement matters, and preparation of a study on assessment of cable deepening risks.

On 7 August 2020, LITGRID started construction of solar power plants at the reconstructed transformer substations. Electricity generated at the solar power plants will be used by the transformer substations themselves. By 2023, it is planned to build solar power plants at 21 reconstructed transformer substations. The volume of electricity generated by the solar power plants will be sufficient to meet, in full or in part, the needs of the transformer substations depending on the solar radiation, as well as to improve the reliability of electricity supply. It is expected that the installed power of the solar power plants will reach

15kW at each of the transformer substations. LITGRID operates over 200 transformer substations across the territory of Lithuania, which consume on average over 3,600 MWh of external electricity per year. It is expected that the solar power plants at 21 substations will generate in total 100 MWh of electricity per year, thereby reducing the demand of transformer substations for external electricity by 2.75%.

On 11 August 2020, LITGRID in cooperation with the electricity distribution operator ESO completed transformer substation reconstruction and network modernisation works in Juodkrantė for the total value of EUR 717 thousand. As a result of modernisation of the electricity transmission and distribution system in the Curonian Spit, the transformer substation in Juodkrantė was reconstructed in full, all old equipment was replaced with new one, and a new second autotransformer of 16 MVA capacity was installed, and the former scheme was replaced with a ring scheme. Those improvements are expected to increase the capacity of the electricity transmission network and ensure uninterrupted supply of electricity at neither of the branches in case of a breakdown.

On 12 August 2020, the concept document for development plan of submarine interconnection Harmony Link and the switchgear in Darbėnai, and the Strategic Environmental Assessment Report were drafted and submitted for public consideration, thereby seeking to ensure conditions necessary for sustainable development of this infrastructure.

On 17 August 2020, EPSO-G Infrastructure Director Mr Rimvydas Štilinis resigned from the position of the Board member of LITGRID with effect from 31 August 2020.

During the extraordinary Board meeting held on **18 August 2020**, a decision was made to elect the Board member Mr Algirdas Juozaponis (the CFO of EPSO-G) as the Chairman of the Board.

On 18 August 2020, the Lithuanian and Polish transmission system operators LITGRID and PSE signed a contract, based on which the capacity providers in Lithuania are now able to participate in the capacity mechanism auctions in Poland.

On 25 August 2020, LITGRID signed a contract with Elektromontuotojas UAB - a contractor engaged to reconstruct the transformer substation Plastmasė in Vilnius, which submitted the most cost-effective proposal during the public procurement procedure initiated in spring. During the implementation of the project *Reconstruction of the 110 kV Switchgear at the 110-6 kV Plastmasė Transformer Substation*, the contractor that awarded the contract will have to prepare a reconstruction project, replace the old equipment with new one, and replace the former scheme of the transformer substation. It is expected that the reconstruction of the switchgear will increase reliability of the electricity transmission in the eastern part of Lithuania, and will reduce the maintenance costs in the future. The project value is EUR 1.199 million (VAT excl.), whereof EUR 665.9 thousand is financed from the EU funds. The reconstruction of the switchgear is expected to be finalised in 2023.

September

On 3 September 2020, LITGRID initiated the tender procedure for procurement of synchronous compensators. These devices ensure inertia of the network and are one of key components required to ensure successful operation of the Baltic electricity systems after the synchronisation in 2025. The procurement covers the designing, production, installation services, warranty repairs and service, and spare parts necessary to ensure accessibility and reliability of the synchronous compensators. It is expected to sign a contract with the selected provider in the second quarter of 2021.

On 3 September 2020, LITGRID, together with its partners in Sweden, run the testing of the submarine interconnection NordBalt. It involved testing the ability to restart the system after a total blackout with the help of the power interconnection with Sweden.

On 8 September 2020, LITGRID started the preparatory work in relation to the offshore infrastructure for wind power generation. Over the next three years, it is expected to perform studies and surveys, and to plan the installations that are required to integrate the future wind power capacity generated in the Baltic Sea into the Lithuanian electricity system. The legal acts stipulating that, similarly as in other EU Member States, the transmission system operator will be responsible for preparing the infrastructure required to integrate the offshore wind power generation into the Lithuanian electricity system, were submitted by the Lithuanian Government for consideration by the Parliament. There are plans to perform a feasibility study for integration of the offshore wind power and to decide on the planning of territories in 2021; to perform a study of electricity transmission line route in 2022; and to perform a seabed survey and prepare technical specifications for procurement of construction works and territory planning documents in 2023.

On 8 September 2020, LITGRID completed a strategic environmental impact assessment and conceptual phase of engineering infrastructure development plans for two projects: the Kruonio HAE-Bitėnai electricity transmission line and the Mūša switchgear. Those are two out of 14 strategic national projects that are vital for synchronisation of the Lithuanian electricity system with the continental European networks. The project for the construction of the 330 kV Kruonio HAE-Bitėnai electricity transmission line covers the reconstruction of part of the currently existing line Jurbarkas-Bitėnai, by replacing a single-circuit line with a double-circuit line, and the construction of a new section between the line Jurbarkas-Bitėnai and the line Kruonio HAE-Sovetsk. The switchgear in Mūša will be constructed in Joniškis region at a T-shaped connection point of the lines between Jelgava (Latvia), Šiauliai and Telšiai. The conceptual frameworks for the engineering infrastructure development plans of the projects, including the principal electricity transmission line routes and the location of the switchgear, were approved by the Order of the Lithuanian Minister of Energy on 27 August and 3 September.

On 9 September 2020, LITGRID signed a contract with a Lithuanian-Estonian electricity demand response platform FuseBox. As a result of testing of the balancing services in the Lithuanian transmission system, a new market participant will be able to join the Baltic balancing service market and to trade balancing energy with the transmission operators.

On 14 September 2020, in order to strengthen reliable supply of electricity in the eastern part of Lithuania, LITGRID started reconstruction of the switchgear of a 110 kV transformer substation in Ažuolynė, Vilnius region. The reconstruction will involve replacements at the transformer substation, which will enable Energijos Skirstymo Operatorius AB (ESO) to connect an additional power transformer. This in turn will create conditions for increasing the installed power for large-scale consumers. Investments into this project amount to EUR 999,987.44 (VAT excl.). The reconstruction works under the public procurement contract have been awarded to the contractor Tetas UAB. The project is expected to be completed in 2021.

On 18 September 2020, a decision was made at the General Meeting of Shareholders of LITGRID to select PricewaterhouseCoopers UAB as an audit firm to conduct an audit of the company's financial statements for the years 2020 and 2021, prepared according to International Financial Reporting Standards, as adopted by the EU, together with the annual report. In addition, a decision was made to set a fee for audit services not in excess of EUR 197,472 (VAT excl.) (i.e. not in excess of EUR 98,736 (VAT excl.) per each financial year audit services).

On 22 September 2020, LITGRID signed an agreement with the European network operators on participation in a project *One Network of Europe (OneNet)*, which is financed from the European Union funds and which will involve testing of the flexible network solutions contributing to the implementation of a joint network vision. The project will cover a three-year period and it is financed using funds from the European Commission's innovation programme Horizon 2020. The total budget of the project amounts to EUR 27.9 million, of which EUR 106.8 thousand is allocated to LITGRID.

On 23 September 2020, it was announced that electricity generators and the largest consumers will connect to the transmission network operated by LITGRID at least 8 months earlier. The newly connected generators or consumers will be able to choose whether the construction works necessary for their connection will be procured and undertaken by the transmission system operator, or by themselves. An optimised process of connection of generators and consumers operated by LITGRID has been shortened on average between 30 and 22 months. In addition, the amendments to the legal acts for those who express interest to connect, stipulate an option to shorten the entire process for another six months at the least, provided the construction works are procured and organised by themselves, without initiating a public procurement procedure.

October

On 1 October 2020, the NERC set a price cap of 0.721 ct/kWh for LITGRID for electricity transmission services via a high voltage network for the year 2021, i.e. 11.4% lower compared to 0.814 ct/kWh set for the year 2020. The new tariff will be effective from 1 January 2021. A lower tariff was set due to LITGRID's decision to refund EUR 10 million arising from actual return on investment higher than that set by the regulator in 2018-2019, one year earlier than required under the regulation.

On 2 October 2020, the coordination committee of the EU funding instrument Connecting Europe Facility allocated the maximum possible amount of support for the key projects of synchronisation of the Baltic countries with the continental European networks. Support of EUR 719.7 million provided under the joint application of the Lithuanian, Latvian, Estonian and Polish TSOs will secure effective implementation of the largest infrastructural projects and will enable the Baltic countries to operate their systems under the frequency of Poland and other countries of continental Europe in 2025. The highest intensity support (75%) was allocated to the most significant and already started synchronisation projects. Support allocated to the construction of the submarine interconnection between Lithuania and Poland Harmony Link amounted to EUR 493 million, support for the installation of synchronous compensators in Lithuania, Latvia and Estonia totalled EUR 166.5 million and the remaining part of the support was designated for the modernisation and development of the networks necessary for the integration of the Harmony Link interconnection.

On 7 October 2020, the Baltic electricity transmission operators LITGRID, Augstsprieguma Tikls and Elering drafted a concept document of the Baltic frequency control unit and single balancing capacity market. The document stipulates that after the synchronisation with the continental European networks in 2025, the system's frequency will be controlled and the balancing capacity market will be organised.

On 12 October 2020, the Board of LITGRID adopted a resolution to remove Mr Daivis Virbickas from office as the Company's CEO with effect from 16 October, which will be the last day of office as the Company's CEO. Mr Vidmantas Grušas, the Director of Transmission Network Department, was appointed as an acting CEO of the Company for as long as a new CEO is elected to hold the position permanently.

On 15 October 2020, the Baltic electricity transmission system operators drafted new Baltic balancing energy market rules, which provide for operations in a common European balancing platform MARI. Joining of the platform is expected to occur during 2023-2024, thereby increasing the system's reliability, efficiency of operators and market participants, and providing possibilities to integrate a larger share of electricity generated from renewable energy sources. Joining of common European market platforms and participation in common system control and market mechanisms is a prerequisite for the Baltic states to implement synchronisation with the continental European networks. Depending on the selected scenario, joining is expected to occur between the third quarter of 2023 and the third quarter of 2024.

On 16 October 2020, having analysed the data provided by LITGRID on the acquisition costs and quantity of services that are vital for a stable work of system, the NERC set a 0.762 ct/kWh price for electricity system services for 2021, i.e. 2.9% lower compared to 0.785 ct/kWh price effective in 2020. The price for system services was lower due to lower projected costs of tertiary active power reserve and demand for reactive power and voltage control services in the year 2021.

On 21 October 2020, at the Extraordinary Meeting of Shareholders, the shareholders of LITGRID approved a EUR 17 million (VAT excl.) value contract with the Swedish company NKT HV Cables, which would provide repair services, on as-needed basis, of the submarine interconnection NordBalt. Based on the contract, an annual fee to the contractor will amount to EUR 300,000 (VAT excl.), and a one-off contribution will amount to EUR 250,000 (VAT excl.). Payment for the works ordered will be made in accordance with the terms stipulated in section Prices for Services of the contract.

On 22 October 2020, the Ministry of Energy together with the largest groups of energy companies Ignitis Grupė and EPSO-G signed arrangements, based on which the companies committed themselves to save at least 1.6 TWh in final energy consumption by 2030. Based on the arrangements concluded by the Ministry of Energy, Amber Grid and LITGRID, the subsidiaries of EPSO-G, committed themselves to save at least 4.19 GWh in final energy consumption by 2030.

On 29 October 2020, the NERC gave its approval to the electricity transmission prices and the procedure of their application, which were approved by resolution of the Board of LITGRID on 23 October 2020, in the Register of Legal Acts. With effect from 1 January 2021, an average electricity transmission service price is 0.721 ct/kWh, and the system service price is 0.762 ct/kWh.

The electricity transmission service price will be 11.4% lower compared to the price of 0.814 ct/kWh set for 2020 due to the Company's decision to refund EUR 10 million arising from actual return on investment higher than that set by the regulator in 2018-2019, one year earlier than required under the regulation.

The system service price will be 2.9% lower compared to the price of 0.785 ct/kWh set for 2020 due to lower reactive power and voltage control costs as a result of moving the operated shunt reactor from Ignalina Nuclear Power Plant to the switchgear in Elektrėnai, also due to regulatory reasons: lower price of gas security component, and payment of compensations to the service providers in respect of the previous periods.

On 29 October 2020, the NERC also set the price for the service of access to interconnection lines at 5.76 EUR/MWh, which will be effective from 1 January 2021. The price for the service of access to interconnection lines will be 2.0% lower compared to 5.87 EUR/MWh set for 2020.

On 29 October 2020, Plungė region municipality granted a construction permit for the implementation of LITGRID's project for reconstruction of the switchgear at the Oda transformer substation in the territory of Plungė region municipality. The project for the reconstruction of the 110 kV switchgear at the 110/10 kV Oda transformer substation will involve modernisation of the switchgear's equipment, the operation of which started back in 1970. The reconstruction of the switchgear will ensure reliability and will help reduce the maintenance costs in the future. The designing and reconstruction works under a public procurement contract are carried out by the contractor Tetras UAB. The project is expected to be completed in 2021. The project value is around EUR 900 thousand.

On 29 October 2020, the NERC notified the prices approved by the Board of LITGRID for the year 2021. With effect from 2021, the price for electricity transmission services will be 0.721 ct/kWh, i.e. 11.4% lower compared to the price of 0.814 ct/kWh set in 2020. The price for the system services will be 0.762 ct/kWh, i.e. 2.9% lower compared to the tariff of 0.785 ct/kWh effective in 2020. The NERC also approved the price for the service of access to interconnection lines at 5.76 EUR/MWh with effect from 1 January, i.e. 2% lower compared to the previous year. LITGRID provides the service of access to interconnection lines to companies exporting electricity to third countries.

November

On 3 November 2020, in implementing the resolution on measures necessary to protect from threats posed by the unsafe nuclear power plants of the third countries, LITGRID established zero capacity for the commercial electricity flow from Belarus. The operator informed the participants of the Nord Pool electricity exchange about the changes.

On 5 November 2020, LITGRID completed one of the stages of the LitPol Link interconnection expansion project - the reconstruction of the 110 kV Alytus-Prienai, Alytus-Igliauka and Alytus-Šeštokai overhead lines. During the reconstruction the sections of all three lines located near the Alytus transformer substation were replaced with underground cables. These works are necessary for the construction of the new 330 kV line between the Alytus substation and the LitPol Link converter located nearby.

On 25 November 2020, LITGRID announced about the completed significant territory planning stage in two synchronisation projects - in the Darbėnai-Bitėnai and Kruonio HAE-Bitėnai lines. The engineering infrastructure development plans were prepared for these lines and the reports on environment impact assessment of the economic activity are planned.

On 26 November 2020, Lithuanian and Polish electricity transmission operators LITGRID and PSE signed the agreement with the consortium that consists of MEWO S.A., Gdynia Maritime University and Garant Diving UAB regarding the seabed research in the Baltic sea area where the Harmony Link electricity interconnection between Poland and Lithuania is planned to be built.



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Under this agreement the consortium will carry out geophysical and geotechnical investigations of the seabed in the planned route of the cable between the Lithuanian and the Polish coasts of the Baltic sea. The prepared report will describe the condition of the seabed in the area of the cable's route and present information necessary for the strategy of the cable construction and security. The report will also help locating certain objects, for example, wrecked ships, unexploded explosive devices or other dangerous wrecks on the seabed.

December

On 2 December 2020, LITGRID completed the reconstruction of the 330 kV Lietuvos Elektrinė-Vilnius electricity transmission line. This is the third implemented strategic project vital for synchronisation of the Lithuanian electricity system with the continental European networks. The reconstructed line will substantially improve the electricity network of Vilnius region, ensure reliable supply to residents and businesses. During the reconstruction the 330 kV Lietuvos Elektrinė-Vilnius electricity transmission overhead line was transformed from a single-circuit to a double-circuit line. This change means that the transformer substation of the Lithuanian power plant in Elektrėnai and the transformer substation of Vilnius in Trakų Vokė are connected not only with the single line but rather with two lines which are erected on the same towers. The reconstruction project of the line Lietuvos Elektrinė-Vilnius was started in summer of 2016 and construction works were started at the beginning of 2019. Investments totalled EUR 19.2 million.

On 3 December 2020, the NERC approved new standard terms of balancing services and imbalance contracts prepared by LITGRID that enable the functioning of the balancing capacity market and demand aggregation services from 2021. The new segment of the balancing market was developed - the balancing capacity market in which LITGRID will conduct daily auctions for each hour and balancing capacities will be ordered by the market participants based on the actual demand for that hour at the lowest offered price for capacity. The balancing service, the so-called secondary reserve, was purchased for all year in advance. Starting from 2021, the balancing services can be provided not only by the electricity producers, but also by the independent demand response aggregators that, if needed, would reduce consumption for a certain price.

By changing the standard terms of balancing and imbalance contracts, LITGRID implements the amendments to the Law on Electricity adopted in June of this year and Regulation (EU) No 2019/943 of 2019 on the internal market for electricity. In 2020, LITGRID concluded the balancing agreements with five electricity producers and one demand aggregator.

On 10 December 2020, the TSOs of the Baltic countries signed the agreement with IT company Navitasoft on the development of the common data transparency platform. The common platform will enable the TSOs of Lithuania, Latvia and Estonia LITGRID, AST and Elering to better meet the needs of the regional balancing energy market. The operators together with the project's contractor Navitasoft plan to develop and launch the platform within five months. The single balancing energy market of the Baltic countries operates from 1 January 2018. LITGRID, AST and Elering jointly organise trade in balancing energy in the Baltic countries under the common Baltic balancing rules. The main objective of the single balancing market of the Baltic countries is to establish uniform principles and rules in the balancing market, promote competition, create equal opportunities for each market participant irrespective of the country in which it operates or is based and in such a way create conditions for increasing cost effectiveness to ensure growth of welfare of consumers.

On 14 December 2020, the TSOs of the Baltic countries and Poland LITGRID, AST, Elering and PSE signed the financing agreement with the Innovation and Networks Executive Agency of the European Commission regarding the financing of the second stage of the synchronisation project of the Baltic countries. The funds of EUR 720 million received from the Connecting Europe Facility will ensure smooth implementation of the infrastructure projects, allow Lithuania, Latvia and Estonia start operating in a synchronised mode with Poland and other countries of continental Europe by the end of 2025. The Coordination Committee of the Connecting Europe Facility agreed to support the main projects of the second stage of synchronisation with the highest permitted intensity (75%).

On 17 December 2020, the TSOs of the Baltic sea region Finnish Fingrid, Swedish Svenska Kraftnät, Danish Energinet, German 50Hertz, Estonian Elering, Latvian AST, LITGRID and, as observers, Norwegian Statnett agreed to commence preparatory works that would allow ensuring cooperation in the area of the expansion of electricity networks in the Baltic sea. The efforts of the Baltic Offshore Grid Initiative are focused on the creation of the common principles for the network planning, inclusion of the relevant regional projects in the ten-year network's planning documents of ENTSO-E and performance of the studies supporting the formation of a single vision of the offshore wind network development in the region.

On 23 December 2020, AIB, the organisation that brings together European institutions responsible for guarantees of origin, granted to the right to LITGRID to administer the exported guarantees of origin. AIB has more than 20 member countries that conduct transactions on guarantees of origin through the AIB Hub system regulated by the rules of the European Energy Certificate System.



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XII. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

2020 February 9 The Board of the Company, after evaluating the results of the public selection and the competence and experience of the candidate, has appointed Rokas Masiulis as the General Director of LITGRID AB, who starts work on February 22 2021.

XIII. MATERIAL EVENTS AT THE COMPANY DURING 2020

(<https://nasdaqbaltic.com/statistics/lt/news?num=100&page=1&issuer=LGD&filter=1>)

2020 DAY	NEWS
18 December	Notice on Convening an Extraordinary General Meeting of Shareholders of LITGRID AB
15 December	Concerning the opinion of the Audit Committee
3 December	Regarding the publication of LITGRID AB interim information and Investor's Calendar for 2021
4 November	LITGRID results for the nine months of 2020
29 October	Regarding Electricity transmission rates for 2021
21 October	Decisions taken in the extraordinary general meeting of shareholders of LITGRID AB
13 October	Correction: Notice on Convening an Extraordinary General Meeting of Shareholders of LITGRID AB
12 October	Regarding the director general of LITGRID, AB
2 October	National Energy Regulatory Council set the price cap for electricity transmission
30 September	Notice on Convening an Extraordinary General Meeting of Shareholders of LITGRID AB
18 September	Decisions taken in the extraordinary general meeting of shareholders of LITGRID AB
27 August	Notice on Convening an Extraordinary General Meeting of Shareholders of LITGRID AB
18 August	Regarding the Chairman of LITGRID AB Management Board
17 August	Regarding the member of Management Board of LITGRID, AB
5 August	Litgrid results for the first six months of 2020
7 July	Regarding the completion of the sale of the shares of UAB Duomenų logistikos centras, a subsidiary of LITGRID AB
30 June	Decisions taken in the extraordinary general meeting of shareholders of LITGRID AB
9 June	Regarding Conclusion of the Transaction with the Related Party
8 June	Regarding the sale of the shares of UAB Duomenų logistikos centras, a subsidiary of LITGRID AB
8 June	Convocation of the Extraordinary General Meeting of LITGRID AB shareholders
25 May	Decisions taken in the extraordinary general meeting of shareholders of LITGRID AB
18 May	Concerning the opinion of the Audit Committee
6 May	LITGRID AB results for the 1st Quarter of 2020



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DAY	NEWS
4 May	Convocation of the Extraordinary General Meeting of LITGRID AB shareholders
4 May	Procedure for the Payment of LITGRID AB Dividends for 2019
30 April	LITGRID AB annual information 2019
28 April	Ex-Dividend Date
20 April	Decisions taken in the ordinary general meeting of shareholders of LITGRID AB
31 March	Correction: Convocation of the Ordinary General Meeting of LITGRID AB shareholders
27 March	Convocation of the Ordinary General Meeting of LITGRID AB shareholders
27 March	Renewed dividend policy applied in LITGRID AB
10 March	Concerning the opinion of the Audit Committee
6 February	Interim unaudited financial results of Litgrid group and the Company for the twelve months of 2019
15 January	Correction: Decisions taken in the extraordinary general meeting of shareholders of LITGRID AB

XIV. SKAIDRUMO GAIRIŲ LAIKYMASIS

LITGRID AB complies with the Business Transparency and Communication Policy of the EPSO-G UAB Group (approved by the Board of LITGRID AB on 23 October 2017 in its entirety), which considers in detail the requirements set forth in the Transparency Guidelines, and defines their applicability to the companies of the EPSO-G group.

The implementation of the Transparency Guidelines is largely ensured by LITGRID AB through disclosure of information in the annual report and on the official website of the Company and through notices on the NASDAQ stock exchange, where information is disclosed in the format that is acceptable and comprehensible to the stakeholders.

Article 3 of Resolution No 1052 of 14 July 2010 of the Government of the Republic of Lithuania *On the approval of the Description of Guidelines for Ensuring the Transparency of State-owned Enterprises* (the “Transparency Guidelines”) stipulates that a state-owned enterprise (the “SOE”) complies with the provisions of the Corporate Governance Guidelines for the Companies Listed on Nasdaq Vilnius AB that are related to public disclosure of information.

Structured information on implementation of the Transparency Guidelines is presented below:

The following information must be published/other requirements must be implemented on the official website of LITGRID AB www.litgrid.eu :	
Company’s name, code, registered address, and a register in which data on the Company is compiled and stored	Implemented
Legal form, in case LITGRID AB is restructured, reorganised (the way of reorganisation is to be indicated), under liquidation, in the process of bankruptcy or bankrupt	Not applicable
Information on the authority representing the State, i.e. the Ministry of Energy, and link to its official website	Implemented
Goals, vision and mission of the activities	Implemented
Structure	Implemented
Data on the chief executive officer*	Implemented
Data on the chairperson and members of the board*	Implemented
Data on the chairperson and members of the supervisory board*	Not applicable
Names of the committees, data on their chairpersons and members*	Not applicable



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* <i>The following data must be provided: name, surname, start date of the term of office, other executive positions in other legal entities, education, qualification, and professional experience; indication of whether a member of a collegial body has been elected or appointed as an independent member.</i>	
Sum of the nominal values (in euros and cents) of shares and interest (in percentage) held by the State in the share capital of LITGRID AB under the title of ownership	Implemented
Information on initiatives and measures of social responsibility, significant ongoing or planned investment projects	Implemented
If LITGRID AB is a member of other legal entities (not applicable to subsidiaries and second-tier subsidiaries), the name, code, and register in which data on the Company is compiled and stored, registered address, and official websites of such legal entities	Implemented
A set of LITGRID AB annual financial statements, LITGRID AB annual report, as well as an auditor's report on LITGRID AB annual financial statements must be placed on LITGRID AB official website within 10 working days from the date of approval of the set of annual financial statements	Implemented
The sets of LITGRID AB interim financial statements and LITGRID AB interim reports must be placed on the official website not later than within 2 months after the end of the reporting period	Implemented
The following documents must be provided/other requirements must be implemented on the official website of LITGRID AB www.litgrid.eu:	
Articles of Association of LITGRID AB	Implemented
Operational strategy or its summary in cases when the operational strategy contains confidential information or information that is treated as a commercial (industrial) secret	Implemented
Remuneration policy that covers determination of remuneration for CEO and members of the collegial bodies and the committees of LITGRID AB	Implemented
Annual and interim reports of LITGRID AB	Implemented
Data disclosure is performed in accordance with the requirements of Lithuanian legal acts and good practice	Implemented
The sets of annual and interim financial statements for at least 5 years and the auditor's reports on the annual financial statements	Implemented
The above-mentioned documents must be provided in a PDF format with a technical possibility to be printed out	Implemented
The following information must be provided/other requirements must be implemented in the sets of financial statements:	
LITGRID AB keeps its accounting records in a way that ensures preparation of the financial statements in accordance with the International Accounting Standards	Implemented
LITGRID AB prepares a set of financial statements for the period of 6 months	Implemented
In addition to the annual report, LITGRID AB prepares an interim report for the period 6 months	Implemented
In addition to the content requirements set in the Law on Financial Reporting by Undertakings of the Republic of Lithuania, the following information must be disclosed in the annual report of LITGRID AB³:	
Brief description of the business model of LITGRID AB	Implemented
Information on significant events occurring during the financial year and after the end of the financial year (until the date of preparation of annual report) that had material impact on the activities of LITGRID	Implemented
Results of implementation of the objectives set in the operational strategy	Implemented
Profitability, liquidity, asset turnover, and debt ratios	Implemented
Implementation of special obligations	Implemented
Implementation of the investment policy, ongoing and planned investment projects, and investments implemented during the reporting year	Implemented
Implementation of the risk management policy applied by LITGRID AB	Implemented

² When information is treated as a commercial (industrial) secret or as confidential information of the SOE, the SOE is allowed not to disclose such information; however, in its annual report the SOE must indicate such non-disclosure and provide the reasons for non-disclosure.

Implementation of the dividend policy	Implemented
Implementation of the remuneration policy	Implemented
Total annual wage bill, average monthly salary by category of employees and/or business units	Implemented
The SOEs that are not required to prepare the social responsibility report, are recommended to provide information related to environmental, social and personnel, human rights, anti-corruption and anti-bribery matters in their annual report or annual activity report	Implemented
The consolidated annual report includes the following information: structure of the group, name, code and register in which data on the company is compiled and stored, registered address of each of the group companies, interest (percentage) held in the share capital of a subsidiary, financial and non-financial performance during the financial year	Not applicable
The interim report of LITGRID AB includes the following information: analysis of financial performance during the reporting period, information on significant events occurring during the reporting period, profitability, liquidity, asset turnover and debt ratios and changes therein compared to the respective period in the previous year	Implemented

XV. LITGRID AB NOTICE OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE FOR THE COMPANIES LISTED ON NASDAQ OMX AB

In line with Article 23(3) of the Law on Securities of the Republic of Lithuania and paragraph 24.5 of the Listing Rules of Nasdaq Vilnius AB, public limited liability company LITGRID AB (the “Company”) discloses its compliance with the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius and its specific provisions or recommendations. In case of non-compliance with this Code or some of its provisions or recommendations, the specific provisions or recommendations that are not complied with must be indicated, the reasons of such non-compliance must be specified and other explanatory information indicated in this form must be presented.

Free-form summary of the Company’s corporate governance report

LITGRID AB is part of the EPSO-G UAB group of companies (the “Group”). The Company’s corporate governance structure and the governance model are established by the Company’s Articles of Association, the Corporate Governance Guidelines of the EPSO-G Group of Companies approved by the Ministry of Energy (the ME), the sole shareholder of the parent company EPSO-G UAB, on 24 April 2018 and the Corporate Governance Policy of the EPSO-G Group of Companies. All the above-mentioned documents are published on the Company’s website and the website of EPSO-G UAB.

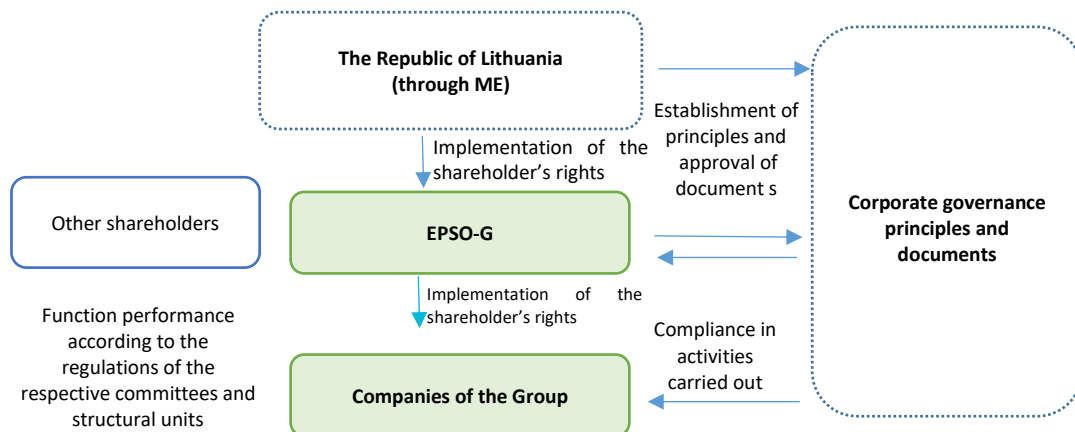


Chart 1. Main scheme of the implementation of corporate governance at the Group level.

Being part of the Group does not deny the Company’s independence. The Company operates independently aiming to achieve the objectives set in the Company’s Articles of Association and has the obligation to independently assess whether compliance with the Group’s corporate governance documents does not harm interests of the Company, its creditors, shareholders or other stakeholders.

The corporate governance structure established in the Company’s Articles of Association is as follows:

- The General Meeting of Shareholders;
- The Board (five members, two of whom are independent members, the other three members are nominated by the shareholder EPSO-G UAB);

- The committees operating at the Group level:
 - The Remuneration and Nomination Committee (mainly composed of independent members);
 - The Audit Committee (mainly composed of independent members).
- The Chief Executive Officer.

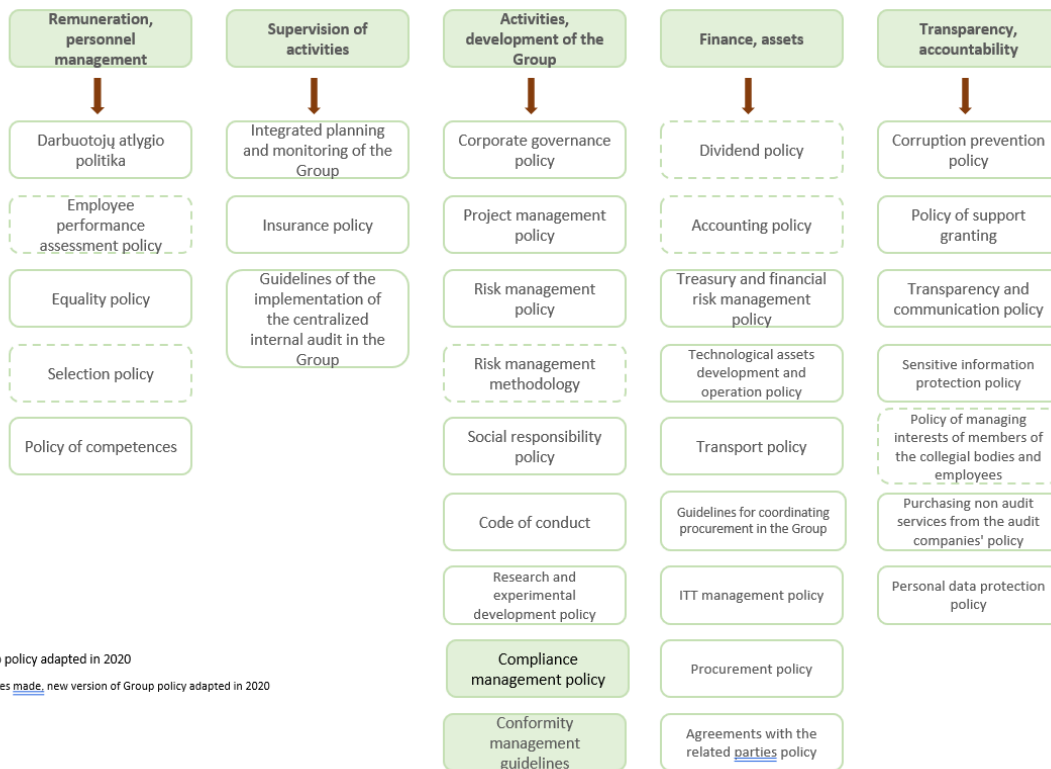
The Group has a centralised internal audit function. In order to ensure the independence of the internal audit, it is established that the head of the internal audit function is appointed and dismissed by the Board of EPSO-G UAB, which is mainly composed of independent members. The internal audit is also accountable to the Audit Committee, which is also mainly composed of independent members. The internal audit recommendations are analysed by the Company’s Board, which also approves the plan of measures for the implementation of audit recommendations.

On the basis of the Risk Management Policy of the EPSO-G UAB Group of Companies, the uniform risk management system of the Group is implemented at the Company according to the COSO ERM standards applicable in the international practice setting out risk identification, assessment and management principles and responsibilities. Risk management coordination is performed at the Group level.

The aim of the Group’s operating policies is to introduce a consistent and effective management system of the organisation helping employees successfully implement important strategic projects and create value to residents and businesses of the country in a transparent and effective manner. To ensure the effectiveness of the operating policies, the Company annually reports on the progress of the implementation of the operating policies.

On the basis of the Compliance Management Policy of the EPSO-G UAB Group of Companies, the uniform compliance management system of the Group is implemented at the Company. Compliance management coordination is performed at the Group level.

The operating policies that are currently effective at the Company are presented in the chart below



Explanatory notes:

- New Group policy adapted in 2020
- Policy changes made, new version of Group policy adapted in 2020



The report on corporate governance of state-owned enterprises indicates that the Group implements and complies with the principles of good governance. The highest rating A was awarded to the Group. In terms of the applied transparency standards, strategic planning and implementation, the Group received the high rating A and the established collegial bodies received the highest rating A+.

Structured table:

PRINCIPLES/RECOMMENDATIONS	YES/NO/ NOT APPLICABLE	COMMENTARY
<p>Principle 1: General meeting of shareholders, equitable treatment of shareholders, and shareholders' rights.</p>		
<p>The corporate governance framework should ensure the equitable treatment of all shareholders. The corporate governance framework should protect the rights of shareholders.</p>		
<p>1.1. All shareholders should be provided with access to the information and/or documents established in the legal acts on equal terms. All shareholders should be furnished with equal opportunity to participate in the decision-making process where significant corporate matters are discussed.</p>	<p>YES</p>	<p>Pursuant to the Law on Companies of the Republic of Lithuania and Chapter IX of the Company's Articles of Association, information on general meetings of shareholders being convened, their draft decisions and decisions made is published on the Company's website and on NASDAQ OMX Vilnius stock exchange in the Lithuanian and English languages.</p>
<p>1.2. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to their holders.</p>	<p>YES</p>	<p>Paragraphs 13-15 of the Company's Articles of the Association define that all shares of the Company are ordinary registered shares with the nominal value of EUR 0.29 each. All shares are intangible and recorded in the personal securities accounts of the shareholders managed by the securities account manager contracted to manage the share accounting.</p>
<p>1.3. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.</p>	<p>YES</p>	<p>Please refer to the commentary in paragraph 1.2. Chapter IV of the Company's Articles of Association also establishes shareholders' rights and obligations.</p>



1.4. Exclusive transactions that are particularly important to the company, such as transfer of all or almost all assets of the company which in principle would mean the transfer of the company, should be subject to approval of the general meeting of shareholders.	YES	Paragraph 38 of the Company's Articles of Association specifies the cases when the Board's decision regarding the transfer of the Company's assets is subject to the approval of the General Meeting of Shareholders.
1.5. Procedures for convening and conducting a general meeting of shareholders should provide shareholders with equal opportunities to participate in the general meeting of shareholders and should not prejudice the rights and interests of shareholders. The chosen venue, date and time of the general meeting of shareholders should not prevent active participation of shareholders at the general meeting. In the notice of the general meeting of shareholders being convened, the company should specify the last day on which the proposed draft decisions should be submitted at the latest.	YES	Each time the General Meeting of Shareholders is convened, the general rights of the shareholders are published on the Company's website.
1.6. With a view to ensure the right of shareholders living abroad to access the information, it is recommended, where possible, that documents prepared for the general meeting of shareholders in advance should be announced publicly not only in Lithuanian language but also in English and/or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders after the signing thereof and/or adopted decisions should be made available publicly not only in Lithuanian language but also in English and/or other foreign languages. It is recommended that this information should be placed on the website of the company. Such documents may be published to the extent that their public disclosure is not detrimental to the company or the company's commercial secrets are not revealed.	YES	Please refer to the commentary in paragraph 1.1.
1.7. Shareholders who are entitled to vote should be furnished with the opportunity to vote at the general meeting of shareholders both in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	YES	A standard notice on convening of the General Meeting of Shareholders always indicates a possibility for shareholders to vote in writing by filling in the attached form of a voting ballot.
1.8. With a view to increasing the shareholders' opportunities to participate effectively at general meetings of shareholders, it is recommended that companies should apply modern technologies on a wider scale and thus provide shareholders with the conditions to participate and vote in general meetings of shareholders via electronic means of communication. In such cases, the security of transmitted information must be ensured and it must be possible to identify the participating and voting person.	NO	A standard notice on convening of the General Meeting of Shareholders always indicates that the participation and voting by electronic means of communication will not take place. So far there is no need to vote by electronic means of communication. Upon requests by the shareholders, the introduction of such a voting option would be considered.



<p>1.9. It is recommended that the notice on the draft decisions of the general meeting of shareholders being convened should specify new candidatures of members of the collegial body, their proposed remuneration and the proposed audit company if these issues are included into the agenda of the general meeting of shareholders. Where it is proposed to elect a new member of the collegial body, it is recommended that the information about his/her educational background, work experience and other managerial positions held (or proposed) should be provided.</p>	<p>YES</p>	<p>A standard notice on convening of the General Meeting of Shareholders always indicates draft decisions containing information required by the Law on Companies of the Republic of Lithuania, including candidatures of members of new collegial bodies, their proposed remuneration, a proposed audit company and its proposed remuneration.</p> <p>Information on the collegial body member who is proposed to be elected is not released publicly, however, the standard notice on convening of the General Meeting of Shareholders always specifies that the shareholders may additionally familiarise with documents related to the agenda of the meeting, draft decisions, a general voting ballot at the premises of LITGRID AB at the registered office during specifically indicated hours.</p>
<p>1.10. Members of the company's collegial management body, heads of the administration⁴ or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders should take part in the general meeting of shareholders. Proposed candidates to member of the collegial body should also participate in the general meeting of shareholders in case the election of new members is included into the agenda of the general meeting of shareholders.</p>	<p>YES/NO</p>	<p>Relevant competent persons who can provide information related to the agenda of the General Meeting of Shareholders always attend the General Meeting of Shareholders. Meanwhile the proposed candidates to the members of the collegial body not always attend the General Meetings of Shareholders.</p>

⁴ For the purposes of this Code, heads of the administration are the employees of the company who hold top level management positions.



Principle 2: Supervisory board		
2.1. Functions and liability of the supervisory board		
The supervisory board of the company should ensure representation of the interests of the company and its shareholders, accountability of this body to the shareholders and objective monitoring of the company's operations and its management bodies as well as constantly provide recommendations to the management bodies of the company. The supervisory board should ensure the integrity and transparency of the company's financial accounting and control system.		
2.1.1. <i>Members of the supervisory board should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders and represent their interests, having regard to the interests of employees and public welfare.</i>	NOT APPLICABLE	The Supervisory Board is not formed at the Company.
2.1.2. <i>Where decisions of the supervisory board may have a different effect on the interests of the company's shareholders, the supervisory board should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed about the company's strategy, risk management and control, and resolution of conflicts of interest.</i>	NOT APPLICABLE	-
2.1.3. <i>The supervisory board should be impartial in passing decisions that are significant for the company's operations and strategy. Members of the supervisory board should act and pass decisions without an external influence from the persons who elected them.</i>	NOT APPLICABLE	-
2.1.4. <i>Members of the supervisory board should clearly voice their objections in case they believe that a decision of the supervisory board is against the interests of the company. Independent⁵ members of the supervisory board should: a) maintain independence of their analysis and decision-making; b) not seek or accept any unjustified privileges that might compromise their independence.</i>	NOT APPLICABLE	-
2.1.5. <i>The supervisory board should oversee that the company's tax planning strategies are designed and implemented in accordance with the legal acts in order to avoid faulty practice that is not related to the long-term interests of the company and its shareholders, which may give rise to reputational, legal or other risks.</i>	NOT APPLICABLE	-
2.1.6. <i>The company should ensure that the supervisory board is provided with sufficient resources (including financial ones) to discharge their duties, including the right to obtain all the necessary information or to seek independent professional advice from external legal, accounting or other experts on matters pertaining to the competence of the supervisory board and its committees.</i>	NOT APPLICABLE	-

⁵ For the purposes of this Code, the criteria of independence of the members of the supervisory board are interpreted as the criteria of unrelated parties defined in Article 31(7) and (8) of the Law on Companies of the Republic of Lithuania.



<p>2.2. Formation of the supervisory board</p>		
<p>The procedure of the formation of the supervisory board should ensure proper resolution of conflicts of interest and effective and fair corporate governance.</p>		
<p>2.2.1. The members of the supervisory board elected by the general meeting of shareholders should collectively ensure the diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance between the qualifications of the members of the supervisory board, it should be ensured that members of the supervisory board, as a whole, should have diverse knowledge, opinions and experience to duly perform their tasks.</p>	<p>NOT APPLICABLE</p>	<p>-</p>
<p>2.2.2. Members of the supervisory board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience.</p>	<p>NOT APPLICABLE</p>	<p>-</p>
<p>2.2.3. Chair of the supervisory board should be a person, whose current or past positions constituted no obstacle to carry out impartial activities. A former manager or management board member of the company should not be immediately appointed as chair of the supervisory board either. Where the company decides to depart from these recommendations, it should provide information on the measures taken to ensure impartiality of the supervision.</p>	<p>NOT APPLICABLE</p>	<p>-</p>
<p>2.2.4. Each member should devote sufficient time and attention to perform his duties as a member of the supervisory board. Each member of the supervisory board should undertake to limit his other professional obligations (particularly the managing positions in other companies) so that they would not interfere with the proper performance of the duties of a member of the supervisory board. Should a member of the supervisory board attend less than a half of the meetings of the supervisory board throughout the financial year of the company, the shareholders of the company should be notified thereof.</p>	<p>NOT APPLICABLE</p>	<p>-</p>
<p>2.2.5. When it is proposed to appoint a member of the supervisory board, it should be announced which members of the supervisory board are deemed to be independent. The supervisory board may decide that, despite the fact that a particular member meets all the criteria of independence, he/she cannot be considered independent due to special personal or company-related circumstances.</p>	<p>NOT APPLICABLE</p>	<p>-</p>
<p>2.2.6. The amount of remuneration to members of the supervisory board for their activity and participation in meetings of the supervisory board should be approved by the general meeting of shareholders.</p>	<p>NOT APPLICABLE</p>	<p>-</p>
<p>2.2.7. Every year the supervisory board should carry out an assessment of its activities. It should include evaluation of the structure of the supervisory board, its work organisation and ability to act as a group, evaluation of the competence and work efficiency of each member of the supervisory board, and evaluation whether the supervisory board has achieved its objectives. The supervisory board should, at least once a year, make public respective information about its internal structure and operational procedures.</p>	<p>NOT APPLICABLE</p>	<p>-</p>



<p>Principle 3: Management board</p>		
<p>3.1. Functions and liability of the management board The management board should ensure the implementation of the company's strategy and good corporate governance with due regard to the interests of its shareholders, employees and other interest groups.</p>		
<p>3.1.1. The management board should ensure the implementation of the company's strategy approved by the supervisory board if the latter has been formed at the company. In such cases where the supervisory board is not formed, the management board is also responsible for the approval of the company's strategy.</p>	<p>YES</p>	<p>Paragraph 36 of the Company's Articles of Association defines that the Company's Board approves the Company's strategy. In addition, in carrying out its supervisory function the Board regularly reviews reports on the implementation of the strategy.</p>
<p>3.1.2. As a collegial management body of the company, the management board performs the functions assigned to it by the Law and in the articles of association of the company, and in such cases where the supervisory board is not formed in the company, it performs inter alia the supervisory functions established in the Law. By performing the functions assigned to it, the management board should take into account the needs of the company's shareholders, employees and other interest groups by respectively striving to achieve sustainable business development.</p>	<p>YES</p>	<p>Paragraph 7.3 of the Company's Articles of Association provides that the Company's Board performs supervisory functions.</p>
<p>3.1.3. The management board should ensure compliance with the laws and the internal policy of the company applicable to the company or a group of companies to which this company belongs. It should also establish the respective risk management and control measures aimed at ensuring regular and direct liability of managers.</p>	<p>YES</p>	<p>Point (xi) of Paragraph 36 of the Company's Articles of Association defines that the Company's Board deliberates the documents of the group of companies (guidelines, policies, procedures, etc.) and decides on the scope of their application by the Company.</p> <p>In addition, by separate decisions, the Board instructs the CEO to provide regular reports on the indicators to be followed by the Board (e.g. the Company's strategy, activity plan, budget, etc.).</p>



<p>3.1.4. Moreover, the management board should ensure that the measures included into the <u>OECD Good Practice Guidance</u>⁶ on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards.</p>	<p>YES</p>	<p>The Company applies the following various documents in its activities that ensure implementation of the highest level internal control, ethics and compliance management tools:</p> <ul style="list-style-type: none"> - internal audit is accountable to the Board which is formed from external members (2 members are independent); - the Audit Committee is mainly composed of independent members to whom internal audit is also accountable; - The Company applies the Code of Conduct and the Corruption Prevention Policy of the EPSO-G UAB Group of Companies, the Sponsorship and Charity Policy of the EPSO-G UAB Group of Companies, the Policy of Management of Interests of the EPSO-G UAB Group of Companies, the Risk Management Policy of the EPSO-G UAB Group of Companies, the Transparency and Communication Policy of the EPSO-G UAB Group of Companies, the Compliance Management Policy of the EPSO-G UAB Group of Companies, etc.
<p>3.1.5. When appointing the manager of the company, the management board should take into account the appropriate balance between the candidate's qualifications, experience and competence.</p>	<p>YES</p>	<p>Paragraph 54 of the Company's Articles of Association establishes that the Company's CEO is appointed by the Board taking into account the recommendations of the Remuneration and Nomination Committee.</p> <p>Paragraph 56 of the Company's Articles of Association defines that in assessment of suitability of the candidate for the position of the CEO the Board shall consider his/her compliance with the requirements specified by these Articles of Association and the legal acts, and therefore may require that the candidate submit documents supporting this compliance and/or contact competent authorities for obtaining necessary information about the candidate.</p>

⁶ Link to the OECD Good Practice Guidance on Internal Controls, Ethics and Compliance: <https://www.oecd.org/daf/anti-bribery/44884389.pdf>



3.2. Formation of the management board		
<p>3.2.1. The members of the management board elected by the supervisory board or, if the supervisory board is not formed, by the general meeting of shareholders should collectively ensure the required diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance in terms of the current qualifications possessed by the members of the management board, it should be ensured that the members of the management board would have, as a whole, diverse knowledge, opinions and experience to duly perform their tasks.</p>	<p>YES</p>	<p>The selection of the members of the Company's Board is carried out in compliance with the procedure set by the Government of the Republic of Lithuania. Paragraph 28 of the Company's Articles of Association stipulates that in the process of selection of the Board members it is ensured that the Board consists of at least 2 (two) independent members. Their independence is established in accordance with the criteria laid down in the Corporate Governance Code and the Policy of Management of Interests of Members of Collegial Bodies, Executives and Employees of the Group of Companies (the "Policy of Management of Interests") as well as the requirements set forth by other applicable legal acts. It is ensured that at least 3 (three) members of the Board have no employment relationship with the Company and, when possible, it is aimed that employees of the Company are not appointed to the Board and that the Board members have competences taking into account the areas of responsibility and functions of the Board.</p> <p>The selection of Company's Board members is carried out by the Remuneration and Appointment Committee in accordance with the approved matrix of the Board competences.</p> <p>The Board members carry out an assessment of their activities every year. In addition, the Remuneration and Nomination Committee evaluates the performance of the Board on an annual basis and provides recommendations on performance improvement.</p>
<p>3.2.2. Names and surnames of the candidates to become members of the management board, information on their educational background, qualifications, professional experience, current positions, other important professional obligations and potential conflicts of interest should be disclosed without violating the requirements of the legal acts regulating the handling of personal data at the meeting of the supervisory board in which the management board or individual members of the management board are elected. In the event that the supervisory board is not formed, the information specified in this paragraph should be submitted to the general meeting of shareholders. The management board should, on yearly basis, collect data provided in this paragraph on its members and disclose it in the company's annual report.</p>	<p>YES</p>	<p>The indicated information is published and updated on the Company's website. This information is not repeatedly disclosed in the Annual Report, however the Annual Report contains the information on the chairperson of the Board, the CEO, the chief accountant and the head of the Internal Audit Unit.</p>
<p>3.2.3. All new members of the management board should be familiarised with their duties and the structure and operations of the company.</p>	<p>YES</p>	<p>The members of the Board are introduced to the structure and activities of the Company during the first sitting. The key corporate documents of the Company are shared.</p>



3.2.4. Members of the management board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience and sufficiently frequent reconfirmation of their status.	YES	Paragraph 27 of the Company's Articles of the Association defines that the Board is a collegial management body of the Company consisting of 5 members. The Board members are elected for a term of 4 years by the General Meeting of Shareholders, for which the Board is accountable, taking into account recommendations of the Remuneration and Nomination Committee. A member of the Board may continuously serve maximum 2 subsequent full terms of office, i.e. no longer than 8 years in a row.
3.2.5. Chair of the management board should be a person, whose current or past positions constitute no obstacle to carry out impartial activity. Where the supervisory board is not formed, the former manager of the company should not be immediately appointed as chair of the management board. When a company decides to depart from these recommendations, it should furnish information on the measures it has taken to ensure the impartiality of supervision.	YES	Paragraph 29 of the Company's Articles of Association provides the criteria according to which a person cannot be elected as a member of the Board. One of the measures for ensuring the impartiality of the chairperson of the Board is established in paragraph 46 of the Company's Articles of Association which states that the chairperson of the Board cannot be elected from among the Company's employees elected to the Company's Board.
3.2.6. Each member should devote sufficient time and attention to perform his duties as a member of the management board. Should a member of the management board attend less than a half of the meetings of the management board throughout the financial year of the company, the supervisory board of the company or, if the supervisory board is not formed at the company, the general meeting of shareholders should be notified thereof.	YES	The Company's minutes record the attendance and voting of the Board members during a decision-making process. As it is specified in paragraph 52 of the Company's Articles of the Association, each year the Board members perform an assessment of their activities, the results of which are submitted to the shareholders and the Remuneration and Nomination Committee. The participation of the Board members in the sitting is disclosed in the annual report.
3.2.7. In the event that the management board is elected in the cases established by the Law where the supervisory board is not formed at the company, and some of its members will be independent ⁷ , it should be announced which members of the management board are deemed as independent. The management board may decide that, despite the fact that a particular member meets all the criteria of independence established by the Law, he/she cannot be considered independent due to special personal or company related circumstances.	YES	The Company's website and the annual report contain information about the members of the Company's Board specifying the independent members.
3.2.8. The general meeting of shareholders of the company should approve the amount of remuneration to the members of the management board for their activity and participation in the meetings of the management board.	YES	Paragraph 34 of the Company's Articles of Association provides that the General Meeting of Shareholders may adopt a decision regarding the payment of remuneration to the Board members.

⁷ For the purposes of this Code, the criteria of independence of the members of the board are interpreted as the criteria of unrelated persons defined in Article 33(7) of the Law on Companies of the Republic of Lithuania.



<p>3.2.9. The members of the management board should act in good faith, with care and responsibility for the benefit and the interests of the company and its shareholders with due regard to other stakeholders. When adopting decisions, they should not act in their personal interest; they should be subject to no-compete agreements and they should not use the business information or opportunities related to the company's operations in violation of the company's interests.</p>	<p>YES</p>	<p>Taking into account the objective to monitor the absence of conflicts of interest of the members of the Company's Board, each year the members of the Board renew their declarations of interests.</p> <p>In addition, paragraph 33 of the Company's Articles of Association stipulates that the Board members may have another job or occupy another position compatible with their activities in the Board, including but not limited to executive positions in other legal entities, a job in a state or statutory service, duties at the Company and other legal entities (in conformity with restrictions set by Article 29 of the Articles of Association), as well as in legal entities, where the Company or the parent company acts as a participant, only by providing a prior notice to the Company's Board.</p> <p>The Company has adopted the Policy of Management of Interests of Members of Collegial Bodies, Executives and Employees of the EPSO-G Group of Companies.</p> <p>The Board members have signed commitments to protect confidential information.</p> <p>No-compete agreements are not concluded with the members of the Board. The need for such agreements was not established because the Company conducts a monopoly business.</p>
<p>3.2.10. Every year the management board should carry out an assessment of its activities. It should include evaluation of the structure of the management board, its work organisation and ability to act as a group, evaluation of the competence and work efficiency of each member of the management board, and evaluation whether the management board has achieved its objectives. The management board should, at least once a year, make public respective information about its internal structure and working procedures in observance of the legal acts regulating the processing of personal data.</p>	<p>YES</p>	<p>The Board carries out an assessment of its activities every year and prepares a performance improvement plan on its basis.</p> <p>In addition, the Remuneration and Nomination Committee and the Audit Committee acting at the level of the EPSO-G UAB group of companies evaluate annually decisions made by the Board and provide recommendations on performance improvement</p> <p>The results of the assessment of the Board's performance are presented in the Company's annual report.</p>



Principle 4: Rules of procedure of the supervisory board and the management board of the company The rules of procedure of the supervisory board, if it is formed at the company, and of the management board should ensure efficient operation and decision-making of these bodies and promote active cooperation between the company's management bodies.		
4.1. The management board and the supervisory board, if the latter is formed at the company, should act in close cooperation in order to attain benefit for the company and its shareholders. Good corporate governance requires an open discussion between the management board and the supervisory board. The management board should regularly and, where necessary, immediately inform the supervisory board about any matters significant for the company that are related to planning, business development, risk management and control, and compliance with the obligations at the company. The management board should inform the supervisory board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this.	NOT APPLICABLE	The Supervisory Board is not formed at the Company.
4.2. It is recommended that meetings of the company's collegial bodies should be held at the respective intervals, according to the pre-approved schedule. Each company is free to decide how often meetings of the collegial bodies should be convened but it is recommended that these meetings should be convened at such intervals that uninterrupted resolution of essential corporate governance issues would be ensured. Meetings of the company's collegial bodies should be convened at least once per quarter.	YES	Paragraph 45 of the Company's Articles of Association stipulates that the Board takes its decisions at the Board's meetings that are usually convened as often as it is necessary for the Board to be able to properly perform its functions and take decisions attributed to its competence, however not less than 12 times during a calendar year. At the beginning of each year, the Company's Board approves the schedule for the current year meetings and the activity plan (preliminary questions for a respective meeting of the Board).
4.3. Members of a collegial body should be notified of the meeting being convened in advance so that they would have sufficient time for proper preparation for the issues to be considered at the meeting and a fruitful discussion could be held and appropriate decisions could be adopted. Along with the notice of the meeting being convened all materials relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body present at the meeting agree with such change or supplement to the agenda, or certain issues that are important to the company require immediate resolution.	YES	According to the Regulations of the Board, the material is submitted to the Board five working days before the date of the ordinary meeting.
4.4. In order to coordinate the activities of the company's collegial bodies and ensure effective decision-making process, the chairs of the company's collegial supervision and management bodies should mutually agree on the dates and agendas of the meetings and close cooperate in resolving other matters related to corporate governance. Meetings of the company's supervisory board should be open to members of the management board, particularly in such cases where issues concerning the removal of the management board members, their responsibility or remuneration are discussed.	NOT APPLICABLE	The Supervisory Board is not formed at the Company.



Principle 5: Nomination, remuneration and audit committees

5.1. Purpose and formation of committees

The committees formed at the company should increase the work efficiency of the supervisory board or, where the supervisory board is not formed, of the management board which performs the supervisory functions by ensuring that decisions are based on due consideration and help organise its work in such a way that the decisions it takes would be free of material conflicts of interest.

Committees should exercise independent judgment and integrity when performing their functions and provide the collegial body with recommendations concerning the decisions of the collegial body. However, the final decision should be adopted by the collegial body.

5.1.1. Taking due account of the company-related circumstances and the chosen corporate governance structure, the supervisory board of the company or, in cases where the supervisory board is not formed, the management board which performs the supervisory functions, establishes committees. It is recommended that the collegial body should form the nomination, remuneration and audit committees ⁸ .	YES	The Company has the Remuneration and Nomination Committee formed by the Board of EPSO-G UAB acting in accordance with the regulations approved by the body that forms it; and the Audit Committee operating at the Group level formed by the sole shareholder EPSO-G UAB and acting in accordance with the regulations approved by the body that forms it.
5.1.2. Companies may decide to set up less than three committees. In such case, companies should explain in detail why they have chosen the alternative approach, and how the chosen approach corresponds with the objectives set for the three different committees.	YES	Given that the issues of remuneration and nomination are closely related and experts with the same qualifications are required to deal with these issues, it was decided to form a single Remuneration and Nomination Committee.

⁸ The legal acts may provide for the obligation to form a respective committee. For example, the Law on the Audit of Financial Statements of the Republic of Lithuania provides that public-interest entities (including but not limited to public limited liability companies whose securities are traded on a regulated market of the Republic of Lithuania and/or of any other Member State) are under the obligation to set up an audit committee (the legal acts provide for the exemptions where the functions of the audit committee may be carried out by the collegial body performing the supervisory functions).



<p>5.1.3. In the cases established by the legal acts the functions assigned to the committees formed at companies may be performed by the collegial body itself. In such case, the provisions of this Code pertaining to the committees (particularly those related to their role, operation and transparency) should apply, where relevant, to the collegial body as a whole.</p>	<p>NOT APPLICABLE</p>	<p>Please refer to the commentary in paragraph 5.1.1.</p>
<p>5.1.4. Committees established by the collegial body should normally be composed of at least three members. Subject to the requirements of the legal acts, committees could be comprised only of two members as well. Members of each committee should be selected on the basis of their competences by giving priority to independent members of the collegial body. The chair of the management board should not serve as the chair of committees.</p>	<p>YES</p>	<p>Chapters 7.8 and 7.9 of the Articles of Association of EPSO-G UAB regulate the formation of the committees within the EPSO-G group of companies and the areas of their competence. The aforementioned Articles of Association stipulate that the Remuneration and Nomination Committee and the Audit Committee shall consist of not less than three members.</p> <p>It is ensured that from among three members there is at least one independent member in the Remuneration and Nomination Committee and at least two independent members in the Audit Committee.</p> <p>Not all members of the Remuneration and Nomination Committee and the Audit Committee are appointed from the Board of EPSO-G. One member to each of the committees is appointed on the basis of competence when performing the external selection of an independent member of the committee.</p>
<p>5.1.5. The authority of each committee formed should be determined by the collegial body itself. Committees should perform their duties according to the authority delegated to them and regularly inform the collegial body about their activities and performance on a regular basis. The authority of each committee defining its role and specifying its rights and duties should be made public at least once a year (as part of the information disclosed by the company on its governance structure and practice on an annual basis). In compliance with the legal acts regulating the processing of personal data, companies should also include in their annual reports the statements of the existing committees on their composition, the number of meetings and attendance over the year as well as the main directions of their activities and performance.</p>	<p>YES</p>	<p>The authority of the committees is determined in the Articles of Association of EPSO-G UAB and under the decision of the body forming the committee - the Regulations of the Remuneration and Nomination Committee are approved by the decision of the Board of EPSO-G UAB, and the Regulations of the Audit Committee are approved by the decision of the sole shareholder EPSO-G UAB, as it is permitted by the Requirements for Members of the Audit Committee approved by the Bank of Lithuania (Article 5).</p> <p>The Regulations of the committees are published on the EPSO-G website. Information about the composition, activities of the committees and other information is presented in the consolidated Group's annual report.</p>



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<p>5.1.6. With a view to ensure the independence and impartiality of the committees, the members of the collegial body who are not members of the committees should normally have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or request that certain employees of the company or experts would participate in the meeting. Chair of each committee should have the possibility to maintain direct communication with the shareholders. Cases where such practice is to be applied should be specified in the rules regulating the activities of the committee.</p>	<p>YES</p>	<p>The Regulations of the Committees provide for the right of the members of the Committees to invite, at their discretion, to their meetings the members of the bodies of the companies of the EPSO-G UAB group of companies, employees, representatives, candidates for certain positions or other persons and to obtain from them the necessary explanations within their competence as well as require for that purpose that necessary actions would be carried out needed for the performance of the functions of the Committees.</p>
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5.2. Nomination committee		
<p>5.2.1. The key functions of the nomination committee should be the following:</p> <ol style="list-style-type: none"> 1) to select candidates to fill vacancies in the membership of supervisory and management bodies and the administration and recommend the collegial body to approve them. The nomination committee should evaluate the balance of skills, knowledge and experience in the management body, prepare a description of the functions and capabilities required to assume a particular position and assess the time commitment expected; 2) assess, on a regular basis, the structure, size and composition of the supervisory and management bodies as well as the skills, knowledge and activity of its members, and provide the collegial body with recommendations on how the required changes should be sought; 3) devote the attention necessary to ensure succession planning. 	<p>YES</p>	<p>The Remuneration and Nomination Committee of EPSO-G UAB serves as the advisory body to the Board of EPSO-G UAB and to the Company's Board. The main functions of the Committee are as follows:</p> <ul style="list-style-type: none"> - assistance in the selection of candidates for members of the bodies in all entities of the group of companies; - provision of recommendations for the entities of the group of companies on the appointment of members of the management bodies, conclusion of contracts with them and determination of remuneration for them; - provision of recommendations on the policies of the group of companies that govern the remuneration policy and employee performance assessment; - provision of recommendations on the planning system of succession of critical positions.
<p>5.2.2. When dealing with issues related to members of the collegial body who have employment relationships with the company and the heads of the administration, the manager of the company should be consulted by granting him/her the right to submit proposals to the Nomination Committee.</p>	<p>YES</p>	<p>The Regulations establish that the right of initiative to convene the Remuneration and Nomination Committee is exercised by the boards or general managers of the group of companies that also propose the agenda of the meeting by submitting issue-related materials and draft resolutions.</p> <p>Currently, this provision is not practically relevant, as employees of the Company are not included in the composition of the Board.</p>



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5.3. Remuneration committee		
<p>The main functions of the remuneration committee should be the following:</p> <ol style="list-style-type: none">1) submit to the collegial body proposals on the remuneration policy applied to members of the supervisory and management bodies and the heads of the administration for approval. Such policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as conditions which would allow the company to recover the amounts or suspend the payments by specifying the circumstances under which it would be expedient to do so;2) submit to the collegial body proposals regarding individual remuneration for members of the collegial bodies and the heads of the administration in order to ensure that they would be consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned;3) review, on a regular basis, the remuneration policy and its implementation.	YES	Please refer to the commentary in paragraph 5.2.1.



<p>5.4. Audit committee</p>	<p>YES</p>	<p>The Audit Committee of EPSO-G UAB serves as the advisory body to the Board of EPSO-G UAB and to the Company's Board. The main functions of the Committee are as follows:</p> <ul style="list-style-type: none"> - supervision of the preparation of the financial statements of the companies of the Group and performance of their audit; - responsibility for ensuring compliance with the principles of independence and objectivity by the auditors and audit firms of the companies of the Group; - responsibility for the supervision of the internal control, risk management and internal audit systems, effectiveness of operational processes of the companies of the Group; - responsibility for control of provision of non-audit services by the auditor and/or audit firm of the companies of the Group; - ensurance of the functioning of the complaints system and complaints handling; - evaluation of transactions with related parties.
<p>5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee⁹.</p>		
<p>5.4.2. All members of the committee should be provided with detailed information on specific issues of the company's accounting system, finances and operations. The heads of the company's administration should inform the audit committee about the methods of accounting for significant and unusual transactions where the accounting may be subject to different approaches.</p>		
<p>5.4.3. The audit committee should decide whether the participation of the chair of the management board, the manager of the company, the chief finance officer (or senior employees responsible for finance and accounting), the internal and external auditors in its meetings is required (and, if required, when). The committee should be entitled, when needed, to meet the relevant persons without members of the management bodies present.</p>	<p>YES</p>	<p>The Regulations of the Audit Committee stipulate that the members of the Committee, at their own discretion, may invite to their meetings the members of the bodies of the companies of the group, their employees, representatives, candidates for certain positions or other persons, and obtain from them the necessary explanations within their competence, as well as require for that purpose that necessary actions would be taken for the performance of the functions of the Committee.</p>

⁹ Issues related to the activities of audit committees are regulated by Regulation No 537/2014 of the European Parliament and the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, the Law on the Audit of Financial Statements of the Republic of Lithuania, and the Rules Regulating the Activities of Audit Committees approved by the Bank of Lithuania.



<p>5.4.4. The audit committee should be informed about the internal auditor's work programme and should be furnished with internal audit reports or periodic summaries. The audit committee should also be informed about the work programme of external auditors and should receive from the audit firm a report describing all relationships between the independent audit firm and the company and its group.</p>	<p>YES</p>	<p>The Audit Committee is regularly, at least quarterly, informed about the internal audit reports and at least once every six months, with the internal audit plan and it may provide recommendations with regard to them to the boards of the companies of the EPSO-G UAB group.</p> <p>The Audit Committee organises meetings with the external auditors to discuss the auditors' work program and uncertainties arising during the audit, and after the performance of the external audit, their conclusions and recommendations are discussed with the external auditors. Each year before the start of annual audits the audit firm submits its declaration of independence to the Audit Committee and to the companies.</p>
<p>5.4.5. The audit committee should examine whether the company complies with the applicable provisions regulating the possibility of lodging a complaint or reporting anonymously his/her suspicions of potential violations committed at the company and should also ensure that there is a procedure in place for proportionate and independent investigation of such issues and appropriate follow-up actions.</p>	<p>YES</p>	<p>The Regulations of the Audit Committee stipulate that the Audit Committee ensures the effective functioning of the complaints system and the proportionate and independent investigation of submitted complaints. In the implementation of this function, the Chairperson of the Audit Committee is immediately informed about significant complaints received. In addition, the Audit Committee is regularly reported on all complaints received by the companies of the EPSO-G UAB group, their investigation and decisions made on the basis of the findings of investigations carried out.</p>
<p>5.4.6. The audit committee should submit to the supervisory board or, where the supervisory board is not formed, to the management board its activity report at least once in every six months, at the time that annual and half-yearly reports are approved.</p>	<p>YES</p>	<p>The Regulations of the Audit Committee stipulate that the Audit Committee shall submit a quarterly activity report to the Board.</p> <p>In addition, it shall submit a consolidated activity report to the Ordinary General Meeting of Shareholders and to the Board of EPSO-G UAB.</p>



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Principle 6: Prevention and disclosure of conflicts of interest

The corporate governance framework should encourage members of the company's supervisory and management bodies to avoid conflicts of interest and ensure a transparent and effective mechanism of disclosure of conflicts of interest related to members of the supervisory and management bodies.

The corporate governance framework should recognise the rights of stakeholders established in the laws and encourage active cooperation between the company and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.

Any member of the company's supervisory and management body should avoid a situation where his/her personal interests are or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory or management body should, within a reasonable period of time, notify other members of the same body or the body of the company which elected him/her or the company's shareholders of such situation of a conflict of interest, indicate the nature of interests and, where possible, their value.

YES

This obligation is set out in paragraphs 57-58 of the Company's Articles of Association, the regulations of the management bodies and the Policy of Management of Interests of Members of Collegial Bodies, Executives and Employees of the EPSO-G Group of Companies.



Principle 7: Remuneration policy of the Company

The remuneration policy and the procedure for review and disclosure of such policy established at the company should prevent potential conflicts of interest and abuse in determining remuneration of members of the collegial bodies and heads of the administration, in addition it should ensure the publicity and transparency of the company's remuneration policy and its long-term strategy.

<p>7.1. The company should approve and post the remuneration policy on the website of the company; such policy should be reviewed on a regular basis and be consistent with the company's long-term strategy.</p>	<p>YES</p>	<p>The Company applies the Guidelines on the Establishment of Remuneration for the Activity at the Bodies of EPSO-G UAB and the Companies of the EPSO-G UAB Group of Companies, which are approved by the sole shareholder of EPSO-G UAB and available in a public domain.</p> <p>The Company applies the Remuneration Policy of the EPSO-G UAB Group of Companies and the Employee Performance Assessment Policy of the EPSO-G UAB Group of Companies in full. The Remuneration Policy is available in a public domain.</p>
<p>7.2. The remuneration policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as the conditions specifying the cases where the company can recover the disbursed amounts or suspend the payments.</p>	<p>YES</p>	<p>All possible forms of remuneration of the collegial bodies and employees are established in the Guidelines on the Establishment of Remuneration for the Activity at the Bodies of EPSO-G UAB and the Companies of the EPSO-G UAB Group of Companies and the Remuneration Policy of the EPSO-G UAB Group of Companies. Both these documents are available in a public domain.</p>
<p>7.3. With a view to avoid potential conflicts of interest, the remuneration policy should provide that members of the collegial bodies which perform the supervisory functions should not receive remuneration based on the company's performance.</p>	<p>YES</p>	<p>The Company applies the Guidelines on the Establishment of Remuneration for the Activity at the Bodies of EPSO-G UAB and the Companies of the EPSO-G UAB Group of Companies that regulate a fixed remuneration for members of the collegial bodies. The members of the Board do not receive remuneration based on the Company's performance.</p>



<p>7.4. The remuneration policy should provide sufficient information on the policy regarding termination payments. Termination payments should not exceed a fixed amount or a fixed number of annual wages and in general should not be higher than the non-variable component of remuneration for two years or the equivalent thereof. Termination payments should not be paid if the contract is terminated due to inadequate performance.</p>	<p>YES/NO</p>	<p>The Remuneration Policy of the EPSO-G UAB Group of Companies stipulates that the companies of the Group do not conclude advance agreements on the amounts of termination benefits (except for the CEOs whose terms of employment are determined by the Board). The amounts of benefits related to the termination of employment relationships are determined by taking into account the mandatory minimum amounts of such benefits established by the norms of labour law, except for exceptional cases when there are objective reasons for the agreement on higher benefits. The relevant Board of the Group company shall be informed of the disbursement of such benefits and the grounds for their payment at its forthcoming meeting.</p>
<p>7.5. In the event that the financial incentive scheme is applied at the company, the remuneration policy should contain sufficient information about the retention of shares after the award thereof. Where remuneration is based on the award of shares, shares should not be vested at least for three years after the award thereof. After vesting, members of the collegial bodies and heads of the administration should retain a certain number of shares until the end of their term in office, subject to the need to compensate for any costs related to the acquisition of shares.</p>	<p>NOT APPLICABLE</p>	<p>Such schemes are not applied at the Company.</p>
<p>7.6. The company should publish information about the implementation of the remuneration policy on its website, with a key focus on the remuneration policy in respect of the collegial bodies and managers in the next and, where relevant, subsequent financial years. It should also contain a review of how the remuneration policy was implemented during the previous financial year. The information of such nature should not include any details having a commercial value. Particular attention should be paid on the major changes in the company's remuneration policy, compared to the previous financial year.</p>	<p>YES</p>	<p>General information on the implementation of the Company's Remuneration Policy and average salary levels of individual employee groups are publicly disclosed in the Company's annual report. According to Article 25(5) of the Law of Energy of the Republic of Lithuania, the Company discloses remuneration established to the members of the Company's management bodies and other benefits related to the functions of the members of the management bodies. Information on remuneration of employees is published on the Company's website on a quarterly basis.</p>
<p>7.7. It is recommended that the remuneration policy or any major change of the policy should be included on the agenda of the general meeting of shareholders. The schemes under which members and employees of a collegial body receive remuneration in shares or share options should be approved by the general meeting of shareholders.</p>	<p>YES</p>	<p>The remuneration of the members of the Company's Board is determined by the General Meeting of Shareholders of the Company. Such schemes are not applied at the Company.</p>



Principle 8: Role of stakeholders in corporate governance		
<p>The corporate governance framework should recognise the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between the company and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle, the concept “stakeholders” includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.</p>		
<p>8.1. The corporate governance framework should ensure that the rights and lawful interests of stakeholders are protected.</p>	<p>YES</p>	<p>The Company has adopted the Transparency and Communication Policy of the EPSO-G UAB Group of Companies, which establishes goals to increase awareness and understanding of stakeholders about the activities of the EPSO-G UAB group of companies and individual group companies; to ensure employee engagement; to create and maintain sustainable relationship with stakeholders based on mutual respect.</p>
<p>8.2. The corporate governance framework should create conditions for stakeholders to participate in corporate governance in the manner prescribed by law. Examples of participation by stakeholders in corporate governance include the participation of employees or their representatives in the adoption of decisions that are important for the company, consultations with employees or their representatives on corporate governance and other important matters, participation of employees in the company’s authorised capital, involvement of creditors in corporate governance in the cases of the company’s insolvency, etc.</p>	<p>YES</p>	<p>The Company, together with the representatives of the Company’s employees, conducts consultations, negotiations and briefings on the processes for improving efficiency of the Company’s activities. Under the Company’s collective agreement signed with the representatives of the Company’s employees, the Company informs the representatives of the trade unions about projected changes in the Company, the Company’s financial position, etc. Stakeholders can take part in the corporate governance to the extent permitted by law.</p>
<p>8.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p>	<p>YES</p>	<p>Please refer to commentary in paragraphs 8.1. and 8.2.</p>
<p>8.4. Stakeholders should be provided with the possibility of reporting confidentially any illegal or unethical practices to the collegial body performing the supervisory function.</p>	<p>NO</p>	<p>The Company’s website contains the Company’s Code of Conduct that indicates the Trust Line contacts. The Audit Committee operating at the level of the EPSO-G group of companies ensures the functioning of the system of lodging complaints and their handling. It is expected that a system will be developed in the near future to provide information to the Audit Committee operating at the Group level.</p>



Principle 9: Disclosure of information		
The corporate governance framework should ensure the timely and accurate disclosure of all material corporate issues, including the financial situation, operations and governance of the company.		
9.1. In accordance with the company's procedure on confidential information and commercial secrets and the legal acts regulating the processing of personal data, the information publicly disclosed by the company should include but not be limited to the following:	YES	The Transparency and Communication Policy of the EPSO-G UAB Group of Companies has been adopted by the Company. Information indicated in this Policy is presented in the Company's annual report and on the Company's website.
9.1.1. operating and financial results of the company;	YES	
9.1.2. objectives and non-financial information of the company;	YES	
9.1.3. persons holding a stake in the company or controlling it directly and/ or indirectly and/or together with related persons as well as the structure of the group of companies and their relationships by specifying the final beneficiary;	YES	
9.1.4. members of the company's supervisory and management bodies who are deemed independent, the manager of the company, the shares or votes held by them at the company, participation in corporate governance of other companies, their competence and remuneration;	YES	
9.1.5. reports of the existing committees on their composition, number of meetings and attendance of members during the last year as well as the main directions and results of their activities;	YES	
9.1.6. potential key risk factors, the company's risk management and supervision policy;	YES	
9.1.7. the company's transactions with related parties;	YES	
9.1.8. main issues related to employees and other stakeholders (for instance, human resource policy, participation of employees in corporate governance, award of the company's shares or share options as incentives, relationships with creditors, suppliers, local community, etc.);	YES	
9.1.9. structure and strategy of corporate governance;	YES	
9.1.10. initiatives and measures of social responsibility policy and anti-corruption fight, significant current or planned investment projects. This list is deemed minimum and companies are encouraged not to restrict themselves to the disclosure of information included into this list. This principle of the Code does not exempt companies from their obligation to disclose information as provided for in the applicable legal acts.	YES	
9.2. When disclosing the information specified in Item 9.1.1 of recommendation 9.1, it is recommended that the company which is a parent company in respect of other companies should disclose information about the consolidated results of the whole group of companies.	YES	EPSO-G UAB, as a parent company, discloses consolidated information in the consolidated annual report.



Litgrid

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(All amounts are in EUR thousands unless otherwise stated)

<p>9.3. When disclosing the information specified in Item 9.1.4 of recommendation 9.1, it is recommended that the information on the professional experience and qualifications of members of the company's supervisory and management bodies and the manager of the company as well as potential conflicts of interest which could affect their decisions should be provided. It is further recommended that the remuneration or other income of members of the company's supervisory and management bodies and the manager of the company should be disclosed, as provided for in greater detail in Principle 7.</p>	YES	This information is disclosed in the Company's annual report and on the Company's website.
<p>9.4. Information should be disclosed in such manner that no shareholders or investors are discriminated in terms of the method of receipt and scope of information. Information should be disclosed to all parties concerned at the same time.</p>	YES	The Company publishes information through the information system of the Vilnius Securities Exchange in Lithuanian and English at the same time. The Company publishes information prior to or after a trading session at Vilnius Securities Exchange and presents it at the same time to all 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 or by any other means until such information is published in the information system of the securities exchange.



Principle 10: Selection of the company's audit firm		
The company's audit firm selection mechanism should ensure the independence of the report and opinion of the audit firm.		
10.1. With a view to obtain an objective opinion on the company's financial condition and financial results, the company's annual financial statements and the financial information provided in its annual report should be audited by an independent audit firm.	YES	An independent auditor is appointed by the General Meeting of Shareholders.
10.2. It is recommended that the audit firm would be proposed to the general meeting of shareholders by the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company.	YES	The Audit Committee operating at the Group level is actively involved in the selection process of an auditor. The Audit Committee provides a recommendation to the Company's Board on the auditor's nomination. The final decision is made by the General Meeting of Shareholders convened by the Board, which also proposes draft decisions.
10.3. In the event that the audit firm has received remuneration from the company for the non-audit services provided, the company should disclose this publicly. This information should also be available to the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company when considering which audit firm should be proposed to the general meeting of shareholders.	YES	The audit firm provides non-audit services in accordance with the EPSO-G UAB policy on the procurement of non-audit services by EPSO-G UAB group of companies from an audit firm or from any other firm that is part of the audit firm network. The latter policy is approved by the Audit Committee. The provision of non-audit services is supervised by the Audit Committee operating at the Group level, which, as mentioned in paragraph 10.2, is actively involved in the selection process of an auditor. Therefore, the Audit Committee, when submitting a recommendation to the Board on the auditor, has all the necessary information on the auditors.



THE COMPANY'S STATEMENT OF FINANCIAL POSITION
(All amounts are in EUR thousands unless otherwise stated)

	Notes	At 31 Dec 2020	At 31 Dec 2019 (restated)
ASSETS			
Non-current assets			
Intangible assets	5	6,248	4,857
Property, plant and equipment	6	331,709	321,201
Right-of-use assets	7	4,795	5,004
Deferred income tax assets	25	13,506	8,462
Loans granted	8	-	1,000
Financial assets	9	1,089	1,984
Non-current portion of unused funds balance of congestion management revenue	22	18,041	8,185
Total non-current assets		375,388	350,693
Current assets			
Inventories	10	26	36
Prepayments		988	527
Trade receivables under contracts with customers	11	22,944	14,940
Trade receivables	12	2,211	1,824
Other amounts receivable	13	3,284	111
Loans granted	8	1,000	1,203
Current portion of unused funds balance of congestion management revenue	22	6,860	4,463
Other financial assets	14	1,619	2,371
Cash and cash equivalents	15	33	30
Total current assets		38,965	25,505
TOTAL ASSETS		414,353	376,198
EQUITY AND LIABILITIES			
Equity			
Share capital	16	146,256	146,256
Share premium	16	8,579	8,579
Reserve for changes in fair value of financial assets	17	-	52
Legal reserve	17	14,626	14,626
Other reserves	17	23,144	23,099
Retained earnings/(deficit)		25,432	2,959
Total equity		218,037	195,571
Liabilities			
Non-current liabilities			
Non-current borrowings	20	65,677	79,903
Lease liabilities	21	4,590	4,771
Congestion management revenue	22	55,659	34,672
Provisions	23	2,597	823
Other non-current amounts payable and liabilities	24	1,677	5,487
Total non-current liabilities		130,200	125,656
Current liabilities			
Current portion of non-current borrowings	20	14,225	14,225
Current portion of lease liabilities	21	267	270
Trade payables	26	25,234	25,596
Current portion of congestion management revenue	22	6,860	4,463
Advance amounts received	27	5,399	2,338
Income tax payable		5,938	426
Provisions	23	795	1,147
Other current amounts payable and liabilities	28	7,398	6,506
Total current liabilities		66,116	54,971
Total liabilities		196,316	180,627
TOTAL EQUITY AND LIABILITIES		414,353	376,198

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



THE COMPANY'S STATEMENT OF COMPREHENSIVE INCOME
(All amounts are in EUR thousands unless otherwise stated)

	Notes	2020	2019 (restated)
Revenue			
Revenue from electricity transmission and related services	29	206,399	183,297
Other income	30	1,117	616
Total revenue		207,516	183,913
Operating expenses			
Expenses attributable to electricity and related services	31	(128,391)	(134,948)
Depreciation and amortisation	5,6,7	(20,354)	(20,418)
Wages and salaries and related expenses		(11,151)	(9,717)
Repair and maintenance expenses		(9,449)	(9,176)
Expenses for telecommunications and IT systems		(1,703)	(1,644)
Write-off expenses of property, plant and equipment		(590)	(187)
Impairment of property, plant and equipment	6	(233)	(239)
Reversal of impairment of inventories and amounts receivable		227	356
Impairment of investments		(719)	-
Other expenses		(5,097)	(6,086)
Total operating expenses		(177,460)	(182,059)
Operating profit/(loss)		30,056	1,854
Finance income		63	85
Finance costs		(964)	(1,117)
Dividend income		895	174
Disposal of subsidiaries and associates	1	831	2,150
Profit/(loss) before income tax		30,881	3,146
Income tax			
Current year income tax expenses	25	(9,313)	(4,074)
Deferred income tax income/(expenses)	25	5,035	3,887
Total income tax		(4,278)	(187)
Profit/(loss) for the period		26,603	2,959
Other comprehensive income that will not be reclassified to profit or loss			
Change in fair value of financial assets		(61)	(709)
Effect of deferred income tax		9	106
Total other comprehensive income that will not be reclassified to profit or loss		(52)	(603)
Total comprehensive income/(expenses) for the period		26,551	2,356
Basic and diluted earnings/(deficit) per share (in EUR)		0.053	0.006

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

THE COMPANY'S STATEMENT OF CHANGES IN EQUITY
(All amounts are in EUR thousands unless otherwise stated)

	Share capital	Share premium	Reserve for changes in fair value of financial assets	Legal reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2019	146,256	8,579	655	14,626	63,309	(37,588)	195,837
Comprehensive income/(expenses) for the period (restated)	-	-	(603)	-	-	2,959	2,356
Transfer to retained earnings	17	-	-	-	(40,210)	40,210	-
Dividends	18	-	-	-	-	(2,622)	(2,622)
Balance at 31 December 2019	146,256	8,579	52	14,626	23,099	2,959	195,571
Balance at 1 January 2020	146,256	8,579	52	14,626	23,099	2,959	195,571
Comprehensive income/(expenses) for the period	-	-	(52)	-	-	26,603	26,551
Transfer to reserves	17	-	-	-	45	(45)	-
Dividends	18	-	-	-	-	(4,085)	(4,085)
Balance at 31 December 2020	146,256	8,579	-	14,626	23,144	25,432	218,037

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



THE COMPANY'S STATEMENT OF CASH FLOWS
(All amounts are in EUR thousands unless otherwise stated)

		2020	2019 (restated)
Cash flows from operating activities			
Profit/(loss) for the period		26,603	2,959
Adjustments for non-cash items:			
Depreciation and amortisation expenses	5,6,7	20,354	20,418
Impairment of financial assets		719	-
Impairment/(reversal of impairment) of assets		(227)	(3,176)
Bad debts		-	2,820
Impairment of property, plant and equipment	6	233	239
Income tax expenses	25	4,278	187
(Gain)/loss on disposal/write-off of property, plant and equipment		590	187
Elimination of results of financing and investing activities:			
Interest income		(42)	(47)
Interest expenses		945	1,076
Disposal of subsidiaries and associate	1	(831)	(2,150)
Dividend income		(895)	(174)
Other finance costs/(income)		(2)	3
Changes in working capital:			
(Increase)/decrease in trade receivables and other amounts receivable		(7,627)	(221)
(Increase)/decrease in inventories, prepayments and other current assets		(348)	(30)
Increase/(decrease) in amounts payable, grants, deferred income and advance amounts received		(592)	5,239
Changes in other financial assets		(12,253)	2,663
Income tax (paid)		(3,802)	(3,209)
Net cash flows generated from operating activities		27,103	26,784
Cash flows from investing activities			
(Purchase) of property, plant and equipment and intangible assets		(51,776)	(41,957)
Grants received		9,788	14,848
Loan repayments received		1,203	-
Revenue received from congestion management		30,748	27,318
Disposal of subsidiaries and associate	1	1,652	3,315
Interest received		47	47
Dividends received		895	174
Other cash flows from investing activities		46	-
Net cash flows generated from/(used in) investing activities		(7,397)	3,745
Cash flows from financing activities			
Repayments of borrowings		(14,225)	(14,225)
Borrowings from related parties		-	(12,517)
Settlement of lease liabilities	21	(344)	(338)
Interest paid		(1,019)	(1,197)
Dividends paid		(4,115)	(2,619)
Net cash flows used in financing activities		(19,703)	(30,896)
Increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period	15	30	397
Cash and cash equivalents at the end of the period	15	33	30

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

1. General information

LITGRID AB (the "Company") is a public limited liability company registered in the Republic of Lithuania. The address of its registered office is Viršuliškių skg. 99B LT-05131, Vilnius, Lithuania. The Company was established as a result of the unbundling of Lietuvos Energija AB operations. The Company was registered with the Register of Legal Entities on 16 November 2010. The Company's code is 302564383.

LITGRID AB 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. The Company is also responsible for the integration of the Lithuanian electric power system into the European electricity infrastructure and the single electricity market.

On 27 August 2013, the National Commission for Energy Control and Prices granted a licence to the Company to engage in electricity transmission activities for indefinite term.

The principal objectives of the Company's activities include ensuring stability and reliability of the electricity system in the territory of Lithuania within the areas of its 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.

As at 31 December 2020, the Company's share capital amounted to EUR 146,256,100.20. It was divided into 504,331,380 ordinary registered shares with the nominal value of EUR 0.29 each. All shares are fully paid.

As at 31 December 2020 and 31 December 2019, the Company's shareholder structure was as follows:

The Company's shareholders	Number of shares held	Number of shares held (%)
EPSO-G UAB	491,736,153	97.5
Other shareholders	12,595,227	2.5
Total	504,331,380	100.0

The ultimate controlling shareholder of EPSO-G UAB (company code 302826889, address: Gedimino pr. 20, Vilnius) is the Ministry of Energy of the Republic of Lithuania.

As from 22 December 2010, the shares of the Company are listed on the additional trading list of NASDAQ OMX Vilnius Stock Exchange, issue ISIN code LT0000128415.

The Company's investments in the associate and the joint venture as at 31 December 2020 and 31 December 2019 were as follows:

Company	Address of the company's registered office	Shareholding as at 31 December 2020	Shareholding as at 31 December 2019	Profile of activities
Duomenų Logistikos Centras UAB	Žvejų g. 14, Vilnius, Lithuania	-	20%	IT services
LitPol Link Sp.z.o.o	Warszawska 165, 05-520, Konstancin-Jeziorna, Poland	50%	50%	Under liquidation

Liquidation of Litgrid Power Link Service UAB

On 26 April 2019, the decision of the sole shareholder was made to terminate the activities of Litgrid Power Link Service UAB and liquidate the company. On 14 October 2019, the share capital of Litgrid Power Link Service UAB (EUR 174 thousand) was annulled, partially offsetting it against the amount of retained deficit (EUR 9 thousand). The remaining cash balance of EUR 165 thousand was paid to the Company. On 19 December 2019, Litgrid Power Link Service UAB was liquidated and removed from the Register of Legal Entities.

Sale of shares of TETAS UAB

The Extraordinary General Meeting of Shareholders of LITGRID AB held 29 November 2019 adopted the decision to approve the decision of the Board of the Company of 7 November 2019 to conclude the share purchase and sale agreement with EPSO-G UAB regarding the sale of 100% of shares of TETAS UAB. Shares of TETAS UAB (400,000 units) were sold for a price established by the independent property valuer equal to EUR 3.15 million that was paid by EPSO-G UAB to the Company on 29 November 2019. Gain on disposal of TETAS UAB amounting to EUR 2.15 million was accounted for in the Company's statement of comprehensive income.



NOTES TO THE COMPANY'S FINANCIAL STATEMENTS
(All amounts are in EUR thousands unless otherwise stated)

Sale of shares of Duomenų Logistikos Centras UAB

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

Liquidation of LitPol Link Sp.z.o.o

On 19 June 2019, the Polish and the Lithuanian transmission system operators Polskie Sieci Elektroenergetyczne and LITGRID, the sole shareholders of subsidiary LitPol Link, each holding 50% of the company's shares, decided to liquidate the company. As at 31 December 2020, the acquisition cost of the investment to LitPol Link Sp.z.o.o. was EUR 250 thousand (EUR 295 thousand as at 31 December 2019), which was fully provided for. The Company's share of monetary funds equal to EUR 45.6 thousand was received on 15 October 2020. The liquidation process of the joint venture is expected to be completed in 2021.

As at 31 December 2020, the Company had 308 (31 December 2019: 290) employees.

2. Summary of principal accounting policies

The principal accounting policies applied in the preparation of the Company's financial statements for the year ended 31 December 2020 are summarised below.

2.1 Basis of preparation

The Company's financial statements for the year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

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

The Company's financial year coincides with the calendar year.

These financial statements include only the Company's financial statements because the Company had no subsidiaries in 2020.

The Company's management approved these financial statements on 15 March 2021. The shareholders of the Company have a statutory right to approve these financial statements or not to approve them and to require preparation of a new set of financial statements.

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

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

IFRSs, their amendments and IFRIC interpretations adopted by the Company for the first time in the financial year ended 31 December 2020 are as follows:

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. These amendments had no significant impact on the Company's financial statements.

Definition of a business - Amendments to IFRS 3 (issued on 22 October 2018 and effective for business acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The amendments revise the definition of a business. This amendment had no effect on the Company's financial statements.

Definition of materiality - Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. These amendments had no significant impact on the Company's financial statements.

Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). This amendment had no effect on the Company's financial statements.

COVID-19-related rent concessions - Amendments to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 January 2020). The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. This amendment had no effect on the Company's financial statements.

b) Standards, amendments and interpretations that have been approved by the European Union, but are not yet effective and have not been early adopted by the Company

There were no such amendments.

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

Classification of liabilities as current or non-current - Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. The Company is currently assessing the impact of these amendments on its financial statements.

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

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in



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order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

The Company is currently assessing the impact of these amendments on its financial statements.

2.2 Assets held for sale and discontinued operations

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

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

2.3 Investments in associates and joint ventures

An associate is an entity over which the Company has significant influence but no control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Significant influence generally accompanies a shareholding of between 20% to 50% of the voting rights. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

In the Company's financial statements, investments in the associate are accounted for using the equity method.

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

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.

Property, plant, and equipment is stated at acquisition cost, less grants received/receivable for the acquisition of property, plant, and equipment. Grants comprise financing from the EU structural funds and a part of congestion management revenue designated for the financing of investments.

Intangible assets

Intangible assets are initially recognised at cost. Intangible assets are recognised only if they are expected to provide economic benefit to the Company in future periods and their cost can be measured reliably. After initial recognition, intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any. Goodwill at initial recognition is measured as a positive difference between the historical cost and acquired net asset value and after the initial recognitions it is carried at acquisition value less accumulated impairment, if any.



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Depreciation and amortisation

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

Estimated useful lives of property, plant and equipment and intangible assets are as follows:

Categories of property, plant and equipment and intangible assets	Useful lives (in years)
Buildings	20 - 75
Structures and machinery, whereof	
- Constructions of transformer substations	30
- Structures, machinery and equipment, whereof:	
- 400, 330, 110, 35 kV electricity transmission lines	40 - 55
- 400, 330, 110, 35, 6-10 kV electricity distribution equipment	30 - 35
- 400, 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
Other property, plant and equipment, whereof:	
- computer hardware and communication equipment	3 - 10
- inventory, tools	4 - 10
Intangible assets, whereof:	3 - 4
- statutory servitudes	Not subject to amortisation

The useful economic life of statutory servitudes (incl. protection zones) is indefinite as the right to use these protection zones defined by statutory servitudes is not limited in time.

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

Subsequent repair costs incurred when performing major improvements are included in the carrying amount of property, plant and equipment, only when it is probable that future economic benefits associated with these costs will flow to the Company and these costs can be measured reliably. Repair costs for the asset category of overhead lines and cables are accounted for as component of item of assets by estimating the useful life of the new asset. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are recognised as expenses in the statement of comprehensive income during the financial period in which they are incurred.

2.5 Impairment of property, plant and equipment and intangible assets

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying value, the carrying value of the asset (cash-generating unit) is reduced to its recoverable value. An impairment loss is recognised 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 value of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying value does not exceed the carrying value that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised 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).

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

2.6 Financial assets

As a result of the adoption of IFRS 9 *Financial instruments*, the Company classifies its financial assets into the following three new categories:

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

Subsequent to initial recognition, financial assets are classified into the afore-mentioned categories based on the business model the Company applies when managing its financial assets. The business model applied to the group of financial assets is determined at a level that reflects how all groups of financial assets are managed together to achieve a particular business objective of the Company. The intentions of the Company's management regarding separate instruments has no effect on the applied business model. The Company may apply more than one business model to manage its financial assets.

The business model for managing financial assets is a matter of fact and not merely an assertion. It is typically observable through the activities that the Company undertakes to achieve the objective of the business model.

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

At initial recognition, the Company measures financial assets at fair value, except for trade receivables that do not have a significant financing component. At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

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

If the fair value of the financial asset at initial recognition differs from the transaction price, the difference is recognised in profit or loss.

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

Financial assets measured at amortised cost

Cash and cash equivalents comprise cash balances in the Company's bank accounts and their equivalents in various currencies the use of which is not restricted. Cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

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

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

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

Financial assets measured at fair value through profit or loss

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

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



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Financial assets measured at fair value through other comprehensive income

The Company had equity securities that were classified under the category of financial assets measured at fair value through comprehensive income.

Effective interest method

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

The effective interest rate is the rate that exactly discounts estimated future cash inflows through the expected life of the financial asset to the gross carrying amount of the financial asset that shows the amortised cost of the financial asset, before adjusting for any loss allowance. When calculating the effective interest rate, the Company estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the Company uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Expected credit losses

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

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

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

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

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

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

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

When granting the loan the Company assesses and recognises 12-month expected credit losses. In subsequent reporting periods, in case there is no significant increase in credit risk related to the borrower, the Company adjusts the balance of 12-month expected credit losses in view of the outstanding balance of the loan at the assessment date. Having determined that the financial position of the borrower has deteriorated significantly compared to the financial position that existed upon the issue of the loan, the Company records all lifetime expected credit losses of the loan. The latest point at which the Company recognises all lifetime expected credit losses of the loan granted is identified when the borrower is late to pay a periodic amount or the total debt for more than 30 days. In case of other evidence available, the Company accounts for all lifetime expected credit losses of the loan granted regardless of the more than 30 days past due presumption. Loans for which lifetime expected credit losses were calculated are considered credit-impaired financial assets.



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Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- a) significant financial difficulties of the borrower;
- b) a breach of contract, such as failure to pay the debt or regular payment in due time;
- c) a concession granted to the borrower due to economic or contractual reasons relating to the borrower's financial difficulties, which otherwise would not be granted by the lender;
- d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- e) the disappearance of an active market for that financial asset because of financial difficulties;
- f) financial assets are purchased or granted at a deep discount that reflects the incurred credit losses.

The combined effect of several events that may occur simultaneously or subsequently throughout the term of validity of the agreement on the financial assets may have caused financial assets to become credit-impaired.

The lifetime expected credit losses of loans receivable and trade receivables is recognised in profit or loss through the contrary account of doubtful receivables.

The Company derecognises loans receivable and trade receivables when it loses the right to receive contractual cash flows from financial assets.

Derecognition of financial assets

The Company derecognises financial assets in case of the following:

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

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

2.7 Inventories

Inventories are initially recorded at acquisition cost. Subsequent to initial recognition, inventories are stated at the lower of cost and net realisable value. Acquisition cost of inventories includes acquisition price and related taxes that are not subsequently recovered from tax administration authorities and costs associated with bringing inventory into their current condition and location. Cost is determined on the first-in, first-out (FIFO) basis. Net realisable value is the estimated selling price, less the estimated costs of completion and selling expenses.

2.8 Trade payables and other financial liabilities, borrowings

Financial liabilities, borrowings

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

In subsequent periods, financial liabilities are measured at amortised cost using the effective interest rate method. Interest expense is recognised using the effective interest rate method as disclosed in paragraph 2.6 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 derecognised when the obligation under the liability is settled, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and



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the recognition of a new liability. The difference in the respective amounts of financial liabilities is recognised in the statement of comprehensive income.

Trade payables

Trade payables represent commitments to pay for goods and services acquired from suppliers in the ordinary course of business.

Trade payables are classified as current liabilities if the term of their settlement is not longer than one year; otherwise they are included in non-current liabilities.

2.9 Dividend distribution

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

2.10 Foreign currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency") - the euros. All financial information presented in the euros has been rounded to the nearest thousand unless otherwise stated. Due to rounding effects, some of the tabular amounts may not add up.

Foreign currency transactions are recorded in the euros using the exchange rates of the euro against foreign currencies prevailing at the dates of transactions as established by the European Central Bank and the Bank of Lithuania. Monetary assets and liabilities are translated into the euros 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 recognised as the profit or loss of the reporting period.

2.11 Grants

Asset-related grants

The government and the EU grants received in the form of non-current assets or designated for the purchase of non-current are treated as asset-related grants. Public service obligation ("PSO") service fees allocated to the Company for the preparation and implementation of the strategic projects and a portion of congestion management revenue, which is designated to finance investments, are recognised as asset-related grants.

These grants are accounted for by reducing by the carrying amount of respective non-current assets. In the statement of comprehensive income grants are recognised over the useful life of the asset by reducing depreciation expenses.

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

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

Income-related grants

Grants received as a compensation for expenses or unearned income of the current or previous reporting period, also, all grants, which are not grants related to assets, are defined as grants related to income. Income-related grants are recognised as used in parts to the extent of expenses incurred during the reporting period or unearned income to be compensated by that grant.

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

2.12 Lease liabilities

Initial measurement of lease liability

The amount of the initial measurement of lease liability is calculated as the present value of lease payments not paid at the commencement date.

Lease payments are discounted using the incremental borrowing rate, which is applied when the contractual interest rate is not known. The incremental borrowing rate is determined by the rate at which the Company would be able to borrow funds for the purpose of acquiring certain assets for a respective period.

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



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

Subsequent measurement of lease liability

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

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

Remeasurement of lease liability

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

Revised discount rate

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

In the event of a change in the lease term or a change in the assessment of a purchase option, the Company sets the revised discount rate as the lessee's incremental borrowing rate at the remeasurement date.

Unchanged discount rate

The Company determines the revised lease payments for the remaining lease term on the basis of the revised contractual payments.

When discounting revised rents, the Company uses the unchanged discount rate unless lease payments change due to changes in variable interest rates. In this case, the Company uses a revised discount rate that reflects changes in the interest rate.

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets;
- and
- the consideration for the lease increases by an amount equivalent to the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a modification that is not a separate lease, at the effective date of the modification the Company:

- allocates the consideration in the modified contract;
- establishes the term of the modified lease; and
- remeasures the lease liability by discounting the revised lease payments using the revised discount rate.

When a lease modification is not accounted for as a separate lease, the Company accounts for the adjustment to the lease liability:

- by decreasing the carrying amount of the right-of-use assets to reflect the full or partial termination of the lease due to lease modifications by which the scope of the lease is reduced. Any gain or loss related to a full or partial termination of the lease is recognised by the Company in profit or loss;
- by making a corresponding adjustment to the right-of-use asset for all other lease modifications.

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

2.13 Provisions

Provisions are recognised only when the Company has a legal obligation or irrevocable commitment as a result of past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, the amount



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of provision is discounted using the effective pre-tax discount rate set based on the interest rates for the period and taking into account specific risks associated with the provision as appropriate. Where discounting is used, the increase in the provision due to the passage of time is recognised as borrowing costs.

2.14 Employee benefits

(a) Social security contributions

The Company pays 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 Company 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 recognised as expenses on an accrual basis and included in payroll expenses.

(b) Bonus plans

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

(c) Pension benefits to employees of retirement age

Each employee of retirement age who terminates his/her employment with 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 recognised in the balance sheet and it reflects the present value of these payments at the date of the financial statements. At each reporting date, the long-term employee benefit obligation is estimated with reference to actuary valuations using the projected relative unit method. The present value of the defined long-term employee benefit obligation is determined by discounting the estimated future cash flows using the effective interest rates as set for government debentures denominated in a currency in which payments to employees are expected to be made and with maturity similar to that of the related liability.

2.15 Congestion management revenue

The Company acquires the right to congestion management revenue when different electricity market prices occur in Lithuania, Sweden, Poland and Latvia as a result of insufficient capacity of electricity lines. Revenue that was received as a result of price differences at different bidding areas is distributed equally by the power exchange operator (Nord Pool AS) to the transmission system operators of the countries which operate the interconnections.

Regulation (EU) No 2019/943 of the European Parliament and of the Council of 5 June 2019 on conditions for access to the network for cross-border exchanges in electricity stipulates that congestion management revenue may be used for the following purposes: a) guaranteeing the actual availability of the allocated capacity of the interconnections; b) maintaining or increasing networks' capacities through network investments, in particular in new interconnections; c) if revenue cannot be efficiently used for the purposes set out in points a) and/or b) they may be used, subject to approval by the regulatory authorities of the Member States concerned, up to a maximum amount to be decided by those regulatory authorities, as income to be taken into account by the regulatory authorities when approving the methodology for calculating network tariffs and/or fixing network tariffs.

In line with the provisions of the EU Regulation, congestion management revenue is recognised in the following order of priority:

- a) when revenue is used for guaranteeing availability of the allocated capacity of the interconnections, it is recognised as income in the period during which the related expenses are incurred. In case of unplanned disconnection of the electricity interconnection and when the trade in the interconnection's capacities has already been completed at the electricity exchange (i.e. when they have already been allocated), the operators of the line ensure that the capacities traded are available to the market participants. In such a case, the operators incur costs that arise as a result of the price difference between the price of electricity traded by the operators and the price of regulation and (or) balancing electricity purchased/sold by the Company.
- b) when revenue is used for maintaining or increasing the interconnections' capacities, congestion management revenue is accounted for using the accounting policies applicable to grants, i.e. initially congestion management revenue is recognised as liability and recorded by reducing the value of the asset concerned, and subsequently it is recognised by reducing depreciation expenses of the related asset over the useful life of that asset.
- c) when revenue is used for reducing the tariff, revenue is recognised as income in the period during which the Company generates lower revenue due to lower tariffs.

As of May 2019, the account of the accumulated congestion management funds was linked to the EPSO-G Group account and is used to finance the Company's operations until there is no need to finance investments. In the Company's statement of financial position, the balance of this account is presented as the unused funds balance of congestion management revenue.



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In the statement of financial position, the Company records unused congestion management revenue as non-current and current liabilities (a part of congestion management revenue expected to be utilised within 12 months).

2.16 Right-of-use assets

Right-of-use assets are assets that the Company has the right to manage during the lease term. As of 1 January 2019, the Company recognises right-of-use assets for all types of leases, including the lease of a right-of-use asset in case of sublease, but excluding leases of intangible assets, short-term leases and leases of low value assets.

Initial measurement of right-of-use assets

At the commencement date, the Company measures right-of-use assets at cost, which consists of: the present value of the initial measurement of the lease liability, initial direct costs incurred related to the underlying asset, any lease payments at the commencement date, less any lease incentives

Subsequent measurement of right-of-use assets

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

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

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

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

A useful life of right of use assets related to the lease of land is determined by reference to the standard terms of land leases.

2.17 Leases

The Company is a lessor

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

2.18 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.

2.19 Revenue and expense recognition

The Company's revenue comprises as follows:

- Revenue from electricity transmission and related services;
- Other income.

Revenue is recognised when it is probable that economic benefits associated with a transaction will flow to the Company, and when a reliable estimate of the amount of revenue can be made. Revenue is measured at the fair value of the consideration received or receivable, net of value added tax and discounts.

Revenue from electricity transmission and related services

This group of the Company's revenue comprises revenue from electricity transmission, provision of system services, trade in imbalance and balancing electricity, congestion revenue, revenue from connection of new consumers, PSO services and other revenue related to electricity transmission and system services.

Revenue from contracts with customers comprises revenue from electricity transmission and system services, trade in imbalance and balancing electricity and revenue from connection of new consumers. The Company recognises revenue from contracts with customers over the reporting period in which the performance obligation is satisfied, i.e. the control of the good is transferred or the service is provided, except for revenue from connection of new consumers which is recognised by the Company over the useful life of the created asset (change in accounting policy is described in note 4). When recognising revenue the Company takes into consideration the terms of contracts signed with customers and all significant facts and circumstances, including the nature, amount, timing and uncertainty relating to cash flows arising from the contract with the



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customer. The main sale contracts are signed for the term of one year and coincide with the reporting period. All subsequent value adjustments for previous periods are not made, and contract modifications are rare.

Prices for the electricity transmission services are regulated by the National Energy Regulatory Council (the NERC) by establishing the upper limit of the prices for the transmission service. Specific prices and tariffs for the transmission services are established by the Company's Board within the limits approved by the NERC. When establishing prices for the next year, deviations of the current year (the year not yet ended) and deviations of the previous year (the year that already ended) and various forecasts for the upcoming year are assessed, i.e. they increase or decrease the prices for the next year, i.e. the prices are adjusted retrospectively. All possible price adjustments in the future periods for excess profit/higher loss incurred in the previous/current years are not treated as a variable part of the price under IFRS 15. Such decrease (due to excess profit earned) or increase (due to higher expenses incurred) in future revenue does meet the general accounting criteria for the recognition of liabilities or assets because it depends on the Company's operations in the future and is treated as regulatory assets or liabilities and therefore, in the opinion of the Company's management, it does not fall within the scope of IFRS 15.

The Company purchases system services from the producers and later provides this service to the distribution network operators and electricity consumers using the tariff established by the NERC. The Company recognises the gross amounts of revenue as it acts as a principal in the provision of system services.

PSO service funds 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 authorised by it. The annual quantities of PSO service funds are established by the NERC.

PSO service funds allocated by the NERC are accounted for by the Company as grants related to income as they are designated to compensate for the loss of revenue from services provided by electricity producers using renewable energy sources. Such grants are recognised as income:

- PSO service funds allocated by the NERC to the Company for balancing electricity produced from the renewable energy resources.
- when the NERC allocates PSO service funds to the Company for the connection of electricity generation facilities using wind, biomass, solar energy or hydro energy in the process of electricity generation to transmission networks, for the optimisation, development and/or reconstruction of transmission networks in relation to acceptance and transmission of electricity from producers using the renewable energy resources.

Other income

Interest income is recognised 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 recognised by the Company as other income.

Dividend income is recognised when the right to receive payment is established.

Recognition of expenses

Expenses are recognised in the statement of comprehensive income as incurred by the accrual method.

2.20 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 capitalised as part of the cost of that asset until the asset is ready for use or sale in full. Interest income related to temporary investment of borrowed funds until their use for the acquisition of the assets are deducted from the acquisition cost of the assets.

Other borrowing costs are recognised as expenses in the statement of comprehensive income as incurred.

2.21 Income tax

Income tax expenses for the period comprises the current year income tax and deferred income tax expenses.

Income tax

Income tax expenses for the current year are calculated on the current year 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 was 15% in 2020 and 2019.

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company changes its activities due to which these losses were incurred except when the Company does not continue its activities due to reasons which do not depend on the Company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5

consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature. Tax losses carried forward can be used to reduce the taxable income earned during the reporting year by maximum of 70%. In addition, the Company can take over tax losses of the group companies if the requirements laid down in the Law on Corporate Income Tax are met.

Deferred income tax

Deferred income tax is accounted for using the balance sheet liability method. Deferred income tax assets and deferred tax liability are recognised for future tax purposes to reflect differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax liabilities are recognised on all temporary differences that will increase the taxable profit in future, whereas deferred income tax assets are recognised to the extent it is probable that they will 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 income tax assets are reviewed at each reporting date and if it is not probable that the Company will generate sufficient taxable profit to realise 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 realised or settled.

Deferred income tax assets and liabilities are offset only where they relate to income taxes assessed by the same fiscal authority or where there is a legally enforceable right to offset current tax assets and current tax liabilities.

Current income tax and deferred income tax

Current income tax and deferred income tax are recognised as income or expenses and included in net profit or loss for the reporting period, except for the cases when tax arises from a transaction or event that is recognised directly in equity or in other comprehensive income, in which case taxes are also recorded in equity and in other comprehensive income respectively.

2.22 Earnings per share

Earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary registered shares issued. When the number of shares changes without causing a change in economic resources, the weighted average number of ordinary registered shares issued is adjusted in proportion to the change in the number of shares as if that change had occurred at the beginning of the previous period.

The Company has no dilutive share options, therefore, basic and diluted earnings per share do not differ.

2.23 Related parties

Parties are considered to be related if:

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - 1) has control or joint control of the reporting entity;
 - 2) has significant influence over the reporting entity; or
 - 3) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity;
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - 1) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - 2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - 3) Both entities are joint ventures of the same third party.
 - 4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - 5) The entity is controlled or jointly controlled by a person identified in (a).
 - 6) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - 7) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

2.24 Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.



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A contingent asset is not recognised in the financial statements but disclosed when an inflow of income or economic benefits is probable.

2.25 Events after the end of the reporting period

Events after the end of the reporting period that provide additional information about the Company's position at the date of the financial statements (adjusting events) are disclosed in the financial statements. Events after the end of the reporting period that are not adjusting events are disclosed in the notes when material.

2.26 Inter-company offsetting

For the purpose of the financial statements, assets and liabilities, income and expenses are not offset, except for the cases when such offsetting is specifically required by an individual standard.

2.27 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be available to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The 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 categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable in the market.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Valuations are performed by the management at each reporting date. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of assets or liabilities and the level of the fair value hierarchy as explained above.

In the financial statements as at 31 December 2020 and 2019, the Company did not have significant assets or liabilities measured or re-measured at fair value, except for financial assets measured at fair value through other comprehensive income (Notes 2.6 and 9) and property, plant and equipment (Notes 2.4 and 6).

The Company's principal financial assets not at fair value comprise cash and cash equivalents, trade and other receivables, trade and other payables and borrowings. Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value of a financial asset is not less than the amount discounted from the first day, on which payment may be required.

3. Accounting estimates and assumptions

3.1 Significant accounting estimates and assumptions

The preparation of financial statements according to International Financial Reporting Standards requires management to make estimates and assumptions that affect the accounting policies applied, the reported amounts of assets, liabilities, income and expenses, and the disclosures of contingencies. Actual results may differ from those estimates. The significant management estimates and assumptions and the main sources for uncertainties used in the preparation of these financial statements that



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might cause substantial changes in the carrying amounts of the related assets and liabilities in the next financial year are described below:

Valuation of property, plant and equipment

As disclosed in Note 6, the Company performed the valuation of property, plant and equipment. The determination of the assets' fair value is mainly affected by assumptions used in assessing the transmission service income for the future periods. The assumptions used in determining the fair value of property, plant and equipment are described in more detail in the above-mentioned note.

Depreciation rates for property, plant and equipment

The useful lives of PPE are determined separately for each asset (component) by estimating future economic benefit of that asset, taking into account the planned useful life of the group of those assets, the intensity of the use, the environment of use, changes in asset's useful properties over its useful life, technology and economic progress, morally aging asset, legal and other factors that limit the useful life of PPE. Useful lives of the assets are reviewed annually to ensure that depreciation rates are consistent with the expected useful lives of PPE. The effect of a change in estimate, if any, is recognized prospectively.

Congestion management revenue

Based on the accounting policies described in Note 2.15, accounting for congestion management revenue depends on the purpose for which revenue is used. These purposes are described in Regulation (EU) No 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity. The Company estimates that a substantial portion of congestion revenue balance as at 31 December 2020 will be used to finance investments into the projects, including the synchronisation projects, agreed with the NERC by 2025. Only a EUR 0.2-1 million portion of congestion management revenue will be used annually to compensate losses resulting from disconnection of the interconnections and safeguarding the use of traded capacity.

Deferred income tax assets formed due to congestion management revenue will be realized during useful life of the assets acquired using the congestion management funds. In the long run, the regulation ensures the profitability of the Company, therefore, in the opinion of the management, the deferred tax asset will be realized by reducing the income tax in the future.

3.2 Effect of COVID-19 on key accounting estimates and assumptions

The main areas considered by the Company's management when assessing the effect of the coronavirus (COVID-19) are presented below.

Going concern basis

After the announcement of a state of emergency in Lithuania due to the threat of the spread of COVID-19, already during the first wave of COVID-19 LITGRID AB reviewed and implemented additional business continuity and preventive measures: employees responsible for the monitoring of the situation and provision of information to the Company's management were appointed; business units and employees performing the critical functions and administrating the main systems were identified; additional organisational measures were implemented at the system control centres; technical and substitution measures were planned. The Company also reviewed the emergency situation management plans, developed additional documents and implementation measures: lists of the critical activities, lists of measures required to ensure the continuity of these activities, lists of resources and responsible persons as well as other documents and measures. The first wave of COVID-19 had no significant impact on the Company's activities and results of operations. The quantity of electricity transmitted during the second quarantine (in November and December) was 2.2% higher than during a respective period of 2019. Moreover, in the long-term the price regulatory mechanism establishes that revenue unearned during the calendar year will be compensated in the future periods. The Company's activities are regulated by the state authorities and it is the sole enterprise in Lithuania that provides electricity transmission services, therefore no threat arises for the Company's ability to continue its business activities.

Impairment of property, plant and equipment

The management reviewed the main assumptions used for the measurement of the fair value of property, plant and equipment. The management estimates that the COVID-19 pandemic will not significantly affect the value of the Company's non-current assets because the assets are measured using the income method by applying the discounted cash flow calculation technique and the Company's activities are regulated, and possible short-term changes in services rendered and revenue are assessed and compensated in the upcoming year.

Other accounting estimates

Based on the management's estimates, at the present time the COVID-19 pandemic has no impact on trade and other amounts receivable because the main clients are the large enterprises that are often also regulated and/or included in the list of low risk companies (around 74% of trade receivables comprise the amount receivable from Energijos Skirstymo Operatorius AB). The Company has entered into the credit insurance agreement for amounts receivable under the transmission and imbalance

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contracts. In addition, the participants of the imbalance market have provided the bank guarantees of the established amount or have paid deposits. At the time of preparation of the financial statements settlements were conducted as usual. There were no overdue payments arising from COVID-19.

The COVID-19 pandemic had no impact on the repayment of the Company's borrowings as cash flows generated by the Company are sufficient to ensure the fulfilment of financial liabilities.

The Company operates in one of the state's strategic and most secure sectors. Services provided by the Company are necessary and regulated based on the monopoly principle.

4. Change in the accounting policy and adjustment of comparative figures

As of 1 January 2020, the Company's management made a decision to change the accounting policy related to the connection of consumers and producers to the transmission network and services related to the relocation of infrastructure in order to better reflect the substance of these services.

Revenue received from connection of new consumers will now be accounted for by the Company over the useful life of the created asset because the connection of new consumers is related to further consumption and related revenue (until 1 January 2020 it was recognised at the time of provision of services). This accounting policy change did not have a material effect for previous accounting periods.

The Company has changed its accounting policy in relation to the connection of energy generators and relocation of electricity transmission infrastructure services in order to better reflect the nature of such services. In management's view these services are out of scope of IFRS 15 as the other side to such service agreements does not meet the definition of the customer as per IFRS 15.

As of 1 January 2020 the connection of energy generator is accounted for by analogy to grants thereby the cost of constructing the asset needed for connection is netted with the compensation received from the energy generator. In case of relocation works of the electricity transmission network when major improvements are performed and when the assets are created by the Company, the grant principle is applied and the assets are offset against the amount of compensation receivable from the customer, and when the assets are created by the customer, the assets received from the third parties are offset against the value of the assets. If the major improvement was not performed during the relocation and the asset was created by the Company, such asset is not recognised, i.e. compensation income from the customer and expenses for the creation of such asset are accounted for. When no major improvement is performed and the asset is created by the customer, the asset received from the customer free of charge is not recognised and accounted for in off-balance sheet accounts.

As a result of the change of this accounting policy, the Company retrospectively adjusted the 2019 year comparatives, and accordingly reduced assets and revenue as shown below:

	31-12-2019 (restated)	Correction	31-12-2019
Non-current assets			
Property, plant and equipment	321 201	(1 378)	322 579
Deferred tax asset	8 462	207	8 255
Equity			
Retained earnings	2 959	1 171	4 130

As the Company recognised the revaluation result of PPE on 31 December 2018, these changes in the accounting policies did not have a material effect on 31 December 2018.

The Company also decided to separately present trade receivables under contracts with customers according to the definition of "contract assets" provided in IFRS 15 by restating comparatives accordingly.

	31-12-2019 (restated)	Correction	31-12-2019
Current assets			
Trade receivables under contract with customers	14 940	14 940	0
Other trade receivables	1 824	(14 940)	16 764

Due to a higher value and materiality the Company decided to present the value of provisions in a separate line item in the Company's statement of financial position by restating comparatives accordingly.



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	31-12-2019 (restated)	Correction	31-12-2019
Non-current liabilities			
Provisions	823	823	0
Other trade payables and liabilities	5 487	(823)	6 310
Current liabilities	0		0
Provisions	1 147	1147	0
Other trade payables and current liabilities	6 506	(1 147)	7 653

The above-mentioned retrospective adjustments had no significant impact on the opening balance of the comparatives in the statement of financial position, therefore according to IAS 1 the third balance sheet was not presented.

In 2019 Company's cashflow statement the decrease/(increase) in the balance of congestion management revenue was wrongly presented within cash flows from investing activities (instead of operating activities, therefore the comparatives were restated accordingly:

	2019 (restated)	Correction	2019
Changes in working capital:			
Changes in other financial assets	2 663	2 713	(50)
Cashflows from investing activities			
Decrease/increase) in the balance of congestion management revenue	-	(2 713)	2 713

5. Intangible assets

	Patents and licences	Computer software	Other intangible assets	Statutory servitudes	Total
At 31 December 2018					
Acquisition cost	469	7,282	2	2,300	10,053
Accumulated amortisation	(239)	(3,283)	(2)	-	(3,524)
Net book amount	230	3,999	-	2,300	6,529
Net book amount at 31 December 2018					
Additions	-	249	-	-	249
Reclassification between categories	38	(146)	108	-	-
Value adjustment due to a change in assumptions*	-	-	-	(700)	(700)
Amortisation charge	(157)	(1,055)	(9)	-	(1,221)
Net book amount at 31 December 2019	111	3,047	99	1,600	4,857
At 31 December 2019					
Acquisition cost	507	6,763	110	1,600	8,980
Accumulated amortisation	(396)	(3,716)	(11)	-	(4,123)
Net book amount	111	3,047	99	1,600	4,857
Net book amount at 31 December 2019					
Additions	11	433	-	1,909	2,353
Reclassification between categories	82	(99)	17	-	-
Value adjustment due to a change in assumptions*	-	-	-	165	165
Amortisation charge	(93)	(1,007)	(27)	-	(1,127)
Net book amount at 31 December 2020	111	2,374	89	3,674	6,248
At 31 December 2020					
Acquisition cost	600	7,087	127	3,674	11,488
Accumulated amortisation	(489)	(4,713)	(38)	-	(5,240)
Net book amount	111	2,374	89	3,674	6,248

* In 2018, the Company included in intangible assets the right to use the land lots of the third parties based on servitudes on which electricity networks and installations are equipped (statutory servitudes). As at 31 December 2018, the Company recognised intangible assets and provisions amounting to EUR 2,300 thousand that are measured on the basis of available information on servitudes used, the expected compensation amount and by applying a 0.1 coefficient. The amount of compensations was reported at the discounted value using a discount rate of 2.24%.

As at 31 December 2019, based on information available on compensations paid for servitudes during 2019 the Company recalculated the amount of the provision and accordingly adjusted intangible assets and related provision by EUR 700 thousand.

On 8 July 2020, the Constitutional Court of the Republic of Lithuania announced the resolution whereby it confirmed that the provisions of the methodology on compensations for servitudes related to the principles on the establishment of the coefficient and the value of the land plot were in contradiction to the Constitution and the laws. The resolution is effective only for future periods and previously paid compensations should not be recalculated. In view of the resolution of the Constitutional Court, the Company recalculated the provision established for compensations for statutory servitudes by applying a 0.5 coefficient to one third of the land plots with electricity lines constructed from 11 March 1990 until 10 July 2004. The Company also reviewed the applied discount rate and applied the discount rate of 0.62%. The change of the discount rate had no significant impact on the present value of the provision. After the recalculation the Company increased intangible assets and the related provision by EUR 165 thousand.

At 1 January 2020 the law on Special Land Use Requirements came into effect and at 31 December 2020, the Company also recognised the provision of EUR 1,909 thousand and the related intangible assets for the formation of special land use requirements (protection zones). The provision was established based on the amendments to the provisions of the property cadastre adopted in 2020 that are necessary for the obligation established by the Lithuanian Law on Special Land Use Requirements to form the register of protection zones by 2023 and taking into consideration the description of the procedure for the setting up and approval of the protection zones approved by Order No 1-339 of the Minister of Energy of the Republic of Lithuania of 13 October 2020. The provision was calculated by estimating the cost of forming the protection zones and the registration fees and multiplying it by the number of protection zones. The discount rate of 0.62% was applied for the discounting of the provision.

Having assessed the recoverable value of statutory servitudes the Company did not establish any impairment of assets as at 31 December 2020. Company's PPE and intangible assets are measured as a single CGU as described in Note 6.

6. Property, plant, and equipment

	Land	Buildings	Structures and machinery	Other property, plant and equipment	Construction in progress	Total
At 31 December 2018						
Acquisition cost	520	10,039	280,719	8,091	7,678	307,047
Accumulated amortisation	-	-	-	-	-	-
Net book amount	520	10,039	280,719	8,091	7,678	307,047
Net book amount at 31 December 2018						
Additions	-	-	18	371	46,866	47,255
Prepayments for PP&E	-	-	-	-	(227)	(227)
Write-offs	-	-	(246)	(2)	-	(248)
Impairment	-	-	-	-	(239)	(239)
Reclassification from inventories	-	-	-	126	5	131
Reclassification between categories	-	8,060	16,708	2,343	(27,111)	-
Off-set of connection revenue against non-current assets	-	(45)	(1,236)	(97)	-	(1,378)
Off-set of grants against non-current assets	-	-	-	-	(12,251)	(12,251)
Depreciation charge	-	(460)	(16,630)	(1,799)	-	(18,889)
Net book amount at 31 December 2019	520	17,594	279,333	9,033	14,721	321,201
At 31 December 2019						
Acquisition cost	520	18,054	295,944	10,828	14,960	340,306
Accumulated amortisation	-	(460)	(16,611)	(1,795)	-	(18,866)
Accumulated impairment	-	-	-	-	(239)	(239)
Net book amount	520	17,594	279,333	9,033	14,721	321,201
Net book amount at 31 December 2019						
Additions	-	-	173	1,501	51,172	52,846
Prepayments for PP&E	-	-	-	-	(1,160)	(1,160)
Write-offs	-	-	(811)	(2)	-	(813)
Impairment	-	-	(233)	-	250	17
Reclassification to/from inventories	-	-	-	(12)	-	(12)
Reclassification between categories	388	853	17,740	1,279	(20,260)	-
Off-set of connection revenue against non-current assets	-	-	(733)	-	-	(733)
Off-set of grants against non-current assets	-	-	-	-	(20,714)	(20,714)
Depreciation charge	-	(560)	(16,458)	(1,905)	-	(18,923)
Net book amount at 31 December 2020	908	17,887	279,011	9,894	24,009	331,709
At 31 December 2020						
Acquisition cost	908	18,907	312,238	13,594	24,009	369,656
Accumulated amortisation	-	(1,020)	(32,994)	(3,700)	-	(37,714)
Accumulated impairment	-	-	(233)	-	-	(233)
Net book amount	908	17,887	279,011	9,894	24,009	331,709

Write-offs mainly represent derecognition of replaced parts of the assets during reconstruction.

Interest capitalised at the Company during the period ended 31 December 2020 amounted to EUR 49 thousand (EUR 91 thousand for the period ended 31 December 2019). The annual interest rate of capitalisation was 1.15% (0.96% for the period ended 31 December 2019).

The Company performed the last revaluation of its property, plant and equipment on the basis of valuation of its property, plant and equipment as at 31 December 2018. No regulatory decisions that could materially affect the value of the property were adopted in 2020.

The Company performed the valuation of property, plant and equipment (including construction in progress) as at 31 December 2020 and established that the carrying amount of the assets within the materiality limits corresponds to their fair value. The valuation corresponded to Level 3 of the fair value hierarchy (Note 2.8), it was performed using the Company's internal resources and not engaging an independent external valuer. The Company estimated the fair value of the assets as at 31 December 2020 under the income method using the discounted cash flows calculation technique. The value of assets was determined as the present value of net future cash flows.

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The Company assesses the assets as a business, but its assessment excludes all activities related to the transmission network development (and not related to the present assets being assessed), i.e. investments in development projects, connection of new consumers/producers, grants to development projects.

The value of assets was calculated using the following main assumptions:

- When establishing the price cap for electricity transmission in the current regulatory period (until 2021), the cost of capital is calculated under the LRAIC model value, however the actual return is calculated under a historical cost basis. Starting from 2022, the LRAIC model is applied in the regulatory pricing, i.e. the cost of capital is determined under the LRAIC model both when determining the price cap, and when calculating the actual return, if investments in the optimised assets over the longer period catch up the assets value calculated under the LRAIC model, i.e. the value of the assets calculated under the LRAIC model and under the historical cost basis is the same at the end of 2036.
- The amounts of investments until 20 from the ten-year investment plan adjusted according to the actual data with all development investments eliminated from it; the annual average of the 2021-2032 investments is applied in 2033-2036.
- All operating expenses attributable to the regulated activities are compensated through transmission revenue, except for the compensation of remuneration expenses in 2022-2026, the compensation assumption of which is 90%.
- The refund of the 2018-2020 investment return in excess of the amount permitted by the NERC (excess profit), following the assessment of efficient saving of operating expenses that increases the permitted investment return, to the network consumers (lower transmission price and revenue) was estimated when calculating the 2021-2022 cash flows.
- The rate of return on investments (WACC before tax) is equal to 3.92% in 2022-2026 (equivalent to a 3.34% WACC after tax) and from 2027 is the same as the discount rate, i.e. 4.17% (equivalent to a 3.55% WACC after tax). As at 31 December 2019 (WACC before tax) 2022-2026 - 3.41% (equals 2.9% WACC after tax), from 2027 m. equals the discount rate - 4.46% (equals WACC after tax 3.79%).
- The net cashflows generated by the Company's assets were discounted applying the discount rate (WACC after tax) of 3.55% (2019: 3.79%).

As at 31 December 2020, the Company had contractual commitments to purchase property, plant and equipment in the amount of EUR 35,093 thousand (31 December 2019: EUR 76,189 thousand) to be fulfilled in the upcoming periods.

The table below shows the residual values of the Company's PPE that would have been recognized if the assets had been accounted for using the cost method as at 31 December 2020 and 31 December 2019:

	Land	Buildings	Plant and Equipment	Other non-current assets	Construction in progress	Total
31-12-2020	908	18 190	405 553	10 000	23 102	457 753
31-12-2019	520	17 911	418 467	9 182	12 666	458 746

Property, plant, and equipment is stated at acquisition cost, less grants received/receivable for the acquisition of property, property, plant, and equipment. Grants comprise financing from the EU structural funds and a part of congestion management revenue designated for the financing of investments.

Had the value of property, plant and equipment not been reduced by the amount of grants, its carrying amount would have been EUR 313,067 thousand higher as at 31 December 2020 (31 December 2019: EUR 300,876 thousand). The following table shows information on property, plant and equipment, the value of which was reduced by the amount of grants received/receivable:

	At 31/12/2020	At 31/12/2019
Carrying amount at the beginning of the period	300,876	296,763
Additions	20,714	12,251
Depreciation	(8,451)	(8,118)
Write-offs	(72)	(20)
Carrying amount at the end of the period	<u>313,067</u>	<u>300,876</u>

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7. Right-of-use assets

As indicated below, the Company leases land, office premises, motor vehicles and other property, plant and equipment. The lease terms of the lease contracts (except for the lease of land) is 3 years. The lease terms of the land lease contracts is 99 years. When recognising right-of-use assets and lease liabilities and determining the lease terms the Company assessed extension and early termination options of the lease contracts.

The Company's right-of-use assets comprise as follows:

	Land	Buildings	Motor vehicles	Other property, plant and equipment	Total
Initial value of recognised assets at 1 January 2019	4,465	25	684	138	5,312
Depreciation charge	(45)	(12)	(202)	(49)	(308)
Net book amount at 31 December 2019	4,420	13	482	89	5,004
At 31 December 2019					
Acquisition cost	4,465	25	684	138	5,312
Accumulated depreciation	(45)	(12)	(202)	(49)	(308)
Net book amount	4,420	13	482	89	5,004
Net book amount at 31 December 2019	4,420	13	482	89	5,004
Additions	-	47	59	-	106
Write-offs	-	-	-	(11)	(11)
Depreciation charge	(45)	(13)	(197)	(49)	(304)
Net book amount at 31 December 2020	4,375	47	344	29	4,795
At 31 December 2020					
Acquisition cost	4,465	47	714	127	5,353
Accumulated depreciation	(90)	-	(370)	(98)	(558)
Net book amount	4,375	47	344	29	4,795

8. Loans granted

On 25 June 2018, the Company granted the loan of EUR 1 million to TETAS UAB (the annual interest rate is 2.2%, the repayment date of the loan is 25 June 2021).

The loan of EUR 1,203 thousand (the annual interest rate was equal to 2.09%) granted on 25 October 2017 was repaid by TETAS UAB on 23 October 2020.

The amount of loans granted to TETAS UAB amounted to EUR 1,000 thousand as at 31 December 2020 (31 December 2019: EUR 2,203 thousand).

9. Financial assets

The Company's financial assets measured at fair value through OCI comprise shares of TSO Holding AS:

	At 31/12/2020	At 31/12/2019
TSO HOLDING AS (2%)	1,089	1,984
Total	1,089	1,984

On 15 January 2020, the Company together with other shareholders of Nord Pool Holding AS, i.e. TSOs of the Nordic and Baltic countries, through a jointly controlled entity TSO HOLDING AS (the Company holds 2% of shares) sold 66% of shares of Nord Pool Holding AS to Euronext. In view of to the price established under the share purchase and sale agreement, on 31 December 2019 the Company adjusted the value of shares of Nord Pool Holding AS and accounted for the result in other comprehensive income and reduced the revaluation reserve.

After the receipt of dividends of EUR 895 thousand from TSO Holding AS in 2020, the Company adjusted the value of shares of TSO Holding AS by the same amount: accounted for EUR 834 thousand in finance costs and EUR 61 thousand in other comprehensive income and reduced the revaluation reserve.

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The valuation corresponded to Level 2 of the fair value hierarchy (Note 2.27) when the value was determined on the basis of the performed transaction.

10. Inventories

The Company's inventories comprise as follows:

	At 31/12/2020	At 31/12/2019
Materials, spare parts and other inventories	186	314
Less: impairment	(160)	(278)
Carrying amount	26	36

Movements in write-down allowance for inventories in 2020 and 2019 are indicated below:

	At 31/12/2020	At 31/12/2019
Carrying amount as at 1 January	278	306
Reversal of impairment	(118)	(28)
Carrying amount at 31 December	160	278

In 2020 and 2019, the Company established additional provisions for inventory write-down to net realisable value in relation to inventories stored at the warehouse and not moving or slow moving inventories and accounted for in operating expenses in the statement of comprehensive income.

The Company's inventories recognised as expenses in 2020 amounted to EUR 218 thousand (2019: EUR 75 thousand).

11. Trade receivables under contracts with customers

Trade receivables comprise as follows:

	At 31/12/2020	At 31/12/2019
Amounts receivable for electricity transmission	22,766	14,831
Accumulated amounts receivable for electricity services	333	372
Less: impairment of trade receivables	(155)	(263)
Carrying amount	22,944	14,940

The fair value of trade receivables under contracts with customers approximates their carrying amount.

In 2020, the Company accounted for impairment reversal of EUR 108 thousand with regard to amounts paid. Doubtful debts recognised as at 31 December 2019 amounted to EUR 263 thousand which were assessed on the individual basis.

12. Trade receivables

Trade receivables comprise as follows:

	At 31/12/2020	At 31/12/2019
Amounts receivable for electricity transmission	388	848
Other trade receivables	1,823	976
Carrying amount	2,211	1,824

The fair value of trade receivables approximate their carrying amount.

13. Other amounts receivable

Other amounts receivable comprise as follows:

	At 31/12/2020	At 31/12/2019
Grants receivable	3,191	-
Other amounts receivable	116	134
Less: impairment of other receivables	(23)	(23)
Carrying amount	3,284	111

The fair value of other amounts receivable approximates their carrying amount.

14. Other financial assets

	At 31/12/2020	At 31/12/2019
Funds deposited for guarantees and deposits	1,619	1,619
Available-for-sale financial assets	-	752
Carrying amount	1,619	2,371

As at 31 December 2019, available-for-sale financial assets comprised the value of a 20.36% shareholding in Duomenų Logistikos Centras UAB.

As at 31 December 2020 and 2019, the carrying amount of other financial assets approximates their fair value.

15. Cash and cash equivalents

	At 31/12/2020	At 31/12/2019
Cash at bank	33	30
Carrying amount	33	30

The carrying amount of cash and cash equivalents approximates the fair value.

16. Share capital and share premium

As at 31 December 2020 and 31 December 2019, the Company's share capital amounted to EUR 146,256,100.20 and it was divided into 504,331,380 ordinary registered shares with the nominal value of EUR 0.29 each. All the shares have been fully paid.

Share premium that were established during the unbundling in 2010 amount to EUR 8,579 thousand. Before the unbundling share premium arose during the increase of the share capital of Lietuvos Energija AB as a difference between the nominal value of shares and consideration received for shares.

Capital management

Capital consists of the equity capital disclosed in the statement of financial position.

According to the Law on Companies of the Republic of Lithuania, equity of the Company must account for at least ½ of the amount of the authorised share capital. The Company was in compliance with this requirement as at 31 December 2020 and 31 December 2019. No other external capital requirements have been imposed on the Company. Dividends are distributed as per approved dividend policy.

The Company's main objectives when managing capital are to safeguard the Company's ability to continue as a going concern. In order to maintain or change the capital structure, the amount of dividends to be paid to the shareholders can be adjusted, capital can be returned to shareholders, or a new share issue can be arranged.

17. Legal reserve, reserve for changes in fair value of financial assets and other reserves

Legal reserve

A legal reserve is a compulsory reserve under the Lithuanian legislation. The legal reserve should not be less than 10 per cent of the authorised share capital and can only be used to cover the Company's losses only. The legal reserve accumulated by the Company complies with the requirements of the legal acts of the Republic of Lithuania and represent 10 per cent of the authorised share capital.

Reserve for changes in fair value of financial assets

The reserve of changes in fair value of financial assets arises from revaluation of financial assets due to the value increase. In accordance with the Lithuanian legislation, this reserve can be used to increase the share capital. However, this reserve cannot be used to reduce losses.

Other reserves

Other reserves are formed based on the decision of shareholders and can be redistributed on the distribution of the next year's profit.

The Ordinary General Meeting of Shareholders of LITGRID AB held on 20 April 2020 approved the proposed profit appropriation and resolved to transfer EUR 45 thousand from profit to be appropriated to other reserves.

The Ordinary General Meeting of Shareholders of LITGRID AB held on 23 April 2019 approved the proposed profit appropriation and resolved to transfer EUR 40,210 thousand from other reserves to profit to be appropriated.

18. Dividends

The Ordinary General Meeting of Shareholders of LITGRID AB held on 20 April 2020 adopted the decision to pay dividends of EUR 4,085,084. Dividends per share amounted to EUR 0.0081.

The Ordinary General Meeting of Shareholders of LITGRID AB held on 23 April 2019 adopted the decision to pay dividends of EUR 2,622,523. Dividends per share amounted to EUR 0.0052.

19. Grants

The grants at the Company are mainly designated for the acquisition of non-current assets. Movements in grants in 2020 and 2019 were as follows:

	2020	2019
Carrying amount as at 1 January	-	-
Grants received	9,708	8,464
Grants receivable	3,191	-
Grants received in advance	80	6,384
Congestion revenue (Note 21)	8,005	3,787
Transfer to property, plant and equipment (Note 5)	(20,714)	(12,251)
Grants used for compensation of expenses	(190)	-
Transfer to advance amounts received (Notes 24 and 27)	(80)	(6,384)
Carrying amount at 31 December	-	-

20. Borrowings

The Company's borrowings comprise as follows:

	At 31/12/2020	At 31/12/2019
Non-current borrowings		
Bank borrowings	65,677	79,903
Current borrowings		
Current portion of non-current borrowings	14,225	14,225
Total borrowings	79,902	94,128

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Non-current borrowings grouped by maturity profile:

	At 31/12/2020	At 31/12/2019
From 1 to 2 years	14,225	14,225
From 2 to 5 years	29,452	37,535
After 5 years	22,000	28,143
Total	65,677	79,903

As at 31 December 2020 and 2019, no assets were pledged as collateral by the Company.

As at 31 December 2020, the weighted average interest rate on the Company's borrowings was 0.97% (31 December 2019: 1%). As at 31 December 2020, the outstanding balance of the Company's borrowings with the fixed interest rate amounted to EUR 52.71 million (31 December 2019: EUR 58.86 million).

As at 31 December 2020 and 2019, the Company had no unwithdrawn borrowings or overdrafts.

Under the loan agreements signed with Nordic Investment Bank and European Investment Bank, the Company is committed to comply with the net debt to EBITDA ratio, which should not exceed 6.5 in 2020 and 6.5 in 2019. The outstanding balance of non-current borrowings, which are subject to this requirement, from Nordic Investment Bank amounted to EUR 27,188 thousand as at 31 December 2020 (31 December 2019: EUR 35,271 thousand), and the outstanding balance of non-current borrowings, which are subject to this requirement, from European Investment Bank amounted to EUR 52,714 thousand as at 31 December 2020 (31 December 2019: EUR 58,857 thousand). As at 31 December 2020 and 31 December 2019, the Company complied with the requirement laid down in the loan agreements.

In addition, under the above-mentioned loan agreements with both banks, the Company is committed to comply with interest coverage ratio, which should be above 3. The Company complied with this requirement.

Reconciliation of net debt balances and cash flows from financing activities of 2020 and 2019:

	At 31/12/2020	At 31/12/2019
Cash and cash equivalents	33	30
Non-current borrowings	(65,677)	(79,903)
Lease liabilities	(4,590)	(4,771)
Current portion of non-current borrowings	(14,225)	(14,225)
Current portion of lease liabilities	(267)	(270)
Net debt	(84,726)	(99,139)
Cash and cash equivalents	33	30
Net debt with fixed interest rate	(52,714)	(58,857)
Net debt with variable interest rate	(32,045)	(40,312)
Net debt	(84,726)	(99,139)

	Cash	Borrowings	Leases	Total
Net debt at 31 December 2018	397	(120,870)	-	(120,473)
Acquisition of leases	-	-	(5,312)	(5,312)
(Decrease) in cash and cash equivalents	(367)	-	271	(96)
Repayment of overdraft	-	12,517	-	12,517
Repayment of borrowing	-	14,225	-	14,225
Net debt at 31 December 2019	30	(94,128)	(5,041)	(99,139)
Acquisition of leases	-	-	(106)	(106)
Increase/(decrease) in cash and cash equivalents	3	-	290	293
Repayment of borrowing	-	14,226	-	14,226
Net debt at 31 December 2020	33	(79,902)	(4,857)	(84,726)

21. Lease liabilities

The Company's lease liabilities and their movements:

	2020	2019
Carrying amount at the beginning of the period	5,041	-
Recognition of lease liabilities under IFRS 16	-	5,312
Concluded lease contracts	106	-
Restatement	(12)	-
Expenses of interest charged	66	67
Lease payments (principal and interest)	(344)	(338)
Carrying amount at the end of the period	4,857	5,041
Non-current lease liabilities	4,590	4,771
Current lease liabilities	267	270

The Company's lease liabilities comprise as follows:

	At 31/12/2020	At 31/12/2019
Current portion	267	270
Repayment terms of non-current liabilities:		
From 1 to 2 years	177	240
From 2 to 3 years	44	140
From 3 to 5 years	45	66
After 5 years	4,324	4,325
Total	4,857	5,041

The Company's interest calculated on lease liabilities and included in finance costs amounted to EUR 66 thousand in 2020 (2019: EUR 67 thousand).

The Company's short-term lease (up to 12 months) and low value lease (up to EUR 4,000) expenses amounted to EUR 166 thousand in 2020 (2019: EUR 568 thousand) and were accounted for in expenses.

The Company had no leases with variable payments not included in the value of lease liabilities.

The Company's lease payments made (capital value paid) in 2019 amounted to EUR 344 thousand (2019: EUR 338 thousand).

22. Congestion management revenue

	At 31/12/2020	At 31/12/2019
Non-current portion of congestion management revenue included in liabilities	55,659	34,672
Current portion of congestion management revenue included in liabilities	6,860	4,463
Total congestion management revenue	62,519	39,135
	2020	2019
Congestion management revenue at 1 January	39,135	15,754
Congestion management revenue received during the period	32,381	27,366
Transferred to property, plant and equipment	(8,005)	(3,787)
Congestion management revenue recognised as income during the period	(992)	(198)
Congestion management revenue at 31 December	62,519	39,135

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The principles of receipt and use of congestion management revenue are set out in Note 2.15. As at 31 December 2020, the unused balance of congestion management revenue reported under liabilities amounted to EUR 62,519 thousand. The projected use is specified in Note 3. The current portion of liabilities is expected to be settled (used) within 12 months.

As at 31 December 2020, the non-current and current portions of the unused funds balance of congestion management revenue amounted to EUR 18,041 thousand (31 December 2019: EUR 8,185 thousand) and EUR 6,860 thousand (31 December 2019: EUR 4,463 thousand), respectively. As it is explained in Note 2.15, the difference between the balance of congestion revenue included in current liabilities and in current assets resulted from a temporary use of funds to finance the Company's operations.

23. Provisions

	At 31/12/2020	At 31/12/2019
Provisions for pension benefits to employees*	218	173
Provisions for servitude liabilities **	1,250	1,161
Provisions for registration of protection zones ***	1,909	-
Provision for settlement of current liabilities	15	636
Carrying amount	3,392	1,970
Non-current provisions	2,597	823
Current provisions	795	1,147

*Provisions for pension benefits represent amounts calculated according to the Lithuanian laws and payable under the collective employment agreement effective at the Company (Note 2.14).

**As it is explained in Note 5, the Company recognised intangible assets and provisions amounting to EUR 2,300 thousand as at 31 December 2018. In 2019, provisions for servitude liabilities were reduced by EUR 700 thousand. In 2020, provisions for servitude liabilities were increased by EUR 165 thousand.

***As at 31 December 2020, the Company also recognised the provision of EUR 1,909 thousand and the related intangible assets for the formation of special land use requirements (protection zones). The provision was established based on the amendments to the provisions of the property cadastre adopted in 2020 that are necessary for the obligation established by the Lithuanian Law on Special Land Use Requirements to form the register of protection zones by 2023 and taking into consideration the description of the procedure for the setting up and approval of the protection zones approved by Order No 1 -339 of the Minister of Energy of the Republic of Lithuania of 13 October 2020. The discount rate of 0.62% was applied for the discounting of the provision.

Movements in provisions were as follows:

	Provisions for pension benefit obligations to employees	Provisions for servitude liabilities	Provisions for registration of protection zones	Provision for settlement of current liabilities	Total
Carrying amount at 31 December 2018	169	2,300	-	602	3,071
Revised estimate	4	(700)	-	34	(662)
Payments made	-	(439)	-	-	(439)
Carrying amount at 31 December 2019	173	1,161	-	636	1,970
Charged	-	-	1,909	-	1,909
Revised estimate	45	165	-	(621)	(411)
Payments made	-	(76)	-	-	(76)
Carrying amount at 31 December	218	1,250	1,909	15	3,392

24. Other non-current amounts payable and liabilities

	At 31/12/2020	At 31/12/2019
Advance amounts received from connection of new consumers	-	801
Grants received in advance*	1,677	4,686
Carrying amount	1,677	5,487

*Grants received in advance mainly consist of funds received from the CEF (Connecting Europe Facility) fund for the implementation of the synchronisation programme. Expenditures for which a grant was received are planned to be incurred in 2023.

25. Current income tax and deferred income tax

Income tax expenses comprise as follows:

	2020	2019
Current year income tax expenses	9,313	4,074
Deferred income tax income/(benefit)	(5,035)	(3,887)
Current year income tax expenses/(benefit)	4,278	187

On 5 June 2020, the Company's Board adopted the decision to conclude the agreement between parent company EPSO-G UAB and LITGRID AB on the take-over of tax losses (EUR 2,567 thousand) for consideration. In 2020, under this agreement the Company paid to EPSO-G UAB 15% of the amount of tax losses taken over, i.e. EUR 385 thousand. The tax payable to the tax authority was reduced accordingly.

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

Deferred income tax assets	Revaluation of property, plant and equipment and financial assets (decrease in value)	Impairment of assets	Congestion management funds	Statutory servitudes and protection zones	Other	Total
At 31 December 2018	1,260	485	4,379	-	146	6,270
Recognised in profit and loss	32	(465)	4,033	174	224	3,998
Recognised in other comprehensive income	106	-	-	-	-	106
At 31 December 2019	1,398	20	8,412	174	370	10,374
Recognised in profit and loss	(26)	127	4,667	300	127	5,195
Recognised in other comprehensive income	9	-	-	-	-	9
At 31 December 2020	1,381	147	13,079	474	497	15,578

Deferred income tax liabilities	Revaluation of property, plant and equipment and financial assets (increase in value)	Differences in depreciation rates	Tax relief on acquisition of PP&E	Statutory servitudes and protection zones	Effect of capitalisation of interest	Total
At 31 December 2018	-	158	(1,682)	-	(277)	(1,801)
Recognised in profit and loss	-	(3)	137	(240)	(5)	(111)
At 31 December 2019	-	155	(1,545)	(240)	(282)	(1,912)
Recognised in profit and loss	-	31	119	(311)	1	(160)
At 31 December 2020	-	186	(1,426)	(551)	(281)	(2,072)

Net deferred income tax assets at 31 December 2019	10,374
Net deferred income tax assets at 31 December 2020	15,578
Net deferred income tax liability at 31 December 2019	(1,912)
Net deferred income tax liability at 31 December 2020	(2,072)
Deferred income tax, net, at 31 December 2019	8,462
Deferred income tax, net, at 31 December 2020	13,506

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The analysis of movements in deferred income tax assets and liabilities over time is as follows:

	At 31/12/2020	At 31/12/2019
Deferred income tax assets:		
Deferred income tax assets to be realised after more than 12 months	15,453	10,357
Deferred income tax assets to be realised within 12 months	125	17
Total	15,578	10,374
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after more than 12 months	(1,909)	(1,858)
Deferred income tax liabilities to be settled within 12 months	(163)	(54)
Total	(2,072)	(1,912)

The table below presents reconciliation of income tax expenses reported in the statement of comprehensive income to income tax expenses calculated at a statutory income tax rate on profit before income tax:

	At 31/12/2020	At 31/12/2019
Profit/(loss) before income tax	30,881	3,146
Income tax calculated at a rate of 15%	4,632	472
Income tax expenses/(benefit) for the previous year	15	(3)
Effect of non-allowable deductions and non-taxable income	(369)	(282)
Income tax expenses/(benefit) recognised in profit or loss	4,278	187

26. Trade payables

	At 31/12/2020	At 31/12/2019
Amounts payable for electricity	13,123	11,837
Amounts payable for contractual works, services	1,714	3,857
Amounts payable for property, plant and equipment and inventories	10,397	9,902
Carrying amount	25,234	25,596

The fair value of trade payables approximates their carrying amounts.

27. Advance amounts received

	At 31/12/2020	At 31/12/2019
Advance amounts received from new consumers*	611	628
Grants received in advance	4,787	1,698
Other advance amounts received	1	12
Carrying amount	5,399	2,338

* Advance amounts received from new consumers represent advance amounts received from new consumers for connection to electricity networks.

28. Other amounts payable

	At 31/12/2020	At 31/12/2019
Employment-related liabilities	196	167
Accrued expenses relating to vacation reserve	988	918
VAT payable	1,946	1,035
Real estate tax payable	467	532
Dividends payable	470	500
Accrued other expenses and deferred revenue	2,062	2,057
Guarantee to secure fulfilment of obligations*	919	919
Other amounts payable and current liabilities	350	378
Carrying amount	7,398	6,506

* The Company's guarantees for the fulfilment of obligations comprise deposits received.

The fair value of current other amounts payable approximates their carrying amount.

29. Revenue from electricity transmission and related services

Electricity revenue comprises as follows:

	2020	2019
Electricity transmission services	83,363	69,315
Trade in balancing/imbalance electricity	21,217	26,376
System services	86,702	70,750
Revenue from other sales of electricity and related services	4,863	7,195
Revenue from PSO services	8,959	9,274
Revenue from connection of new consumers	184	105
Congestion revenue	991	198
Revenue from administration of guarantees of origin	120	84
Total	206,399	183,297

In 2020 the amount of revenue from contracts with customers were EUR 195 626 thousand (2019: EUR 173 636 thousand). Revenue from electricity transmission increased by 20.3% from 2019 and amounted to EUR 83.4 million representing 40.2% of the Company's total revenue. Increase in revenue resulted from a 22.5% increase in the average actual price of electricity transmission, while the quantity of electricity transmitted decreased by 1.8% to 10,089 million kWh.

Revenue from trade in balancing/imbalance electricity decreased by 19.6% compared to 2019. Lower revenue resulted from a 5% decline in the quantity sold and a 15.4% decline in the average transmission price.

Revenue from system services grew by 22.5% to EUR 86.7 million. The main reason for the growth was a 27.7% increase in the price of system services established by the NERC from 1 January 2020.

30. Other income

	2020	2019
Income from lease of assets	488	498
Other income	629	118
Total	1,117	616

Interest on late payment and default charges for a delayed performance of works by the contractors represented the major portion of the Company's other income (EUR 417 thousand) in 2020 (EUR 77 thousand in 2019).

31. Expenses of electricity transmission and related services

Electricity expenses comprise as follows:

	At 31/12/2020	At 31/12/2019
Electricity expenses for compensation of technological losses	15,190	22,226
Expenses for system services	81,740	74,398
Expenses for PSO services (balancing of generation using renewable energy sources)	8,855	9,166
Expenses for balancing/regulating electricity	20,833	25,917
Expenses for the participation in the ITC mechanism of the European Network of Transmission System Operators for Electricity (ENTSO-e)	781	3,043
Expenses for guaranteeing the availability of allocated capacities of the interconnections	992	198
Total	128,391	134,948

Expenses of purchase of electricity and related services accounted for a major portion of the Company's operating expenses: EUR 128.4 million (72.3% of the Company's total expenses). These expenses decreased by 4.9% compared to 2019. Expenses for system services increased by 9.9% to EUR 81.7 million mainly due to higher expenses related to ensuring the isolated operation of the Lithuanian energy system. Imbalance and balancing electricity expenses decreased by 19.6% and amounted to EUR 20.8 million due to decrease in sales volumes and the average purchase price. Expenses of compensating for electricity purchase technological losses in the transmission network decreased by 31.7% to EUR 15.2 million due to a 30.5% decrease in the average purchase price of electricity.

32. Segment information

The Company is engaged in the provision of electricity transmission and related services and its business activities are organised as a single segment. Net profit is the main profit (loss) measure for the segment. All non-current assets of the Company are allocated in Lithuania where the Company conducts its business activities. In 2020, revenue from the Lithuanian clients accounted for 95% of the Company's total revenue (93% in 2019).

In 2020 and 2019, the Company's revenue by geographical location of customers:

	2020	2019
Lithuania	196,673	171,404
Estonia	4,915	6,949
Sweden	3,151	3,521
Norway	1,057	234
Poland	1,157	876
Latvia	226	604
Croatia	197	2
Other countries	140	323
Total	207,516	183,913

All assets of the Company are located in Lithuania.

The Company's revenue from the major clients in 2020:

Company name	2020
Energijos Skirstymo Operatorius AB	154,900
ORLEN Lietuva AB	7,753
Ignitis Gamyba AB	6,002

The Company's revenue from the major clients in 2019:

Company name	2019
Energijos Skirstymo Operatorius AB	125,238
ELERING AS	6,949
Ignitis Gamyba AB	6,852

33. Related-party transactions

EPSO-G UAB was the parent company as at 31 December 2020 and 2019. The parent entity of this company was the Republic of Lithuania represented by the Ministry of Energy of the Republic of Lithuania. For the purposes of the related-party disclosure the Republic of Lithuania excludes central and local government authorities. The disclosures comprise transactions with the companies of the EPSO-G UAB group, associates and all entities controlled by or under a significant influence of the state (transactions with these entities are disclosed only if the amount of the transactions exceeds EUR 100 thousand during a calendar year) and with the management, and balances arising from these transactions. The list of entities controlled by or under a significant influence of the state, with which the transactions are disclosed, is presented at address: <https://vkc.sjpa.lt/apie-imones/vvi-sarasas/>.

The Company's related parties in 2020 and 2019 were as follows:

- The Company's parent EPSO-G, which is wholly owned by the Ministry of Energy of the Republic of Lithuania;
- The EPSO-G group companies:
 - Amber Grid AB (jointly controlling shareholders);
 - Tetras UAB (a subsidiary until from 29 November 2019 and a jointly controlling shareholders afterwards);
 - Baltpool UAB (jointly controlling shareholders);
- The companies of Ignitis Grupė AB:
 - Duomenų Logistikos Centras UAB (associate until 7 July 2020);
 - Energijos Skirstymo Operatorius AB;
 - Ignitis UAB;
 - Ignitis Gamyba UAB;
 - Energetikos Paslaugų ir Rangos Organizacija UAB
- Other state-owned entities:
 - State Enterprise Ignalina Nuclear Power Plant;
 - Other state-owned companies or those under significant influence.
- Management.

Transactions with related parties are carried out in accordance with the public procurement requirements or the tariffs approved by the legal acts.

The Company's transactions conducted with related parties in 2020 and balances arising from these transactions as at 31 December 2020 were as follows:

Related parties	Amounts receivable and accrued revenue	Amounts payable and accrued expenses	Loans granted	Purchases	Sales	Finance income
<u>EPSO-G UAB group companies</u>						
EPSO-G UAB	-	27	-	136	-	-
TETAS UAB	155	825	1,000	11,994	191	42
BALTPPOOL UAB	516	-	-	203	5,070	-
<u>State-owned companies</u>						
Energijos Skirstymo Operatorius AB	18,050	379	-	857	154,900	-
Ignitis Gamyba AB	777	8,548	-	80,884	6,002	-
Duomenų Logistikos Centras UAB	25	-	-	8	240	-
Ignitis Grupės Paslaugų Centras UAB	27	-	-	-	261	-
Ignitis UAB	721	-	-	2,137	4,867	-
Vilniaus Kogeneracinė Jėgainė UAB	-	100	-	-	32	-
Kauno Kogeneracinė Jėgainė UAB	28	-	-	192	282	-
Energetikos Paslaugų ir Rangos Organizacija UAB	-	-	-	712	-	-
Transporto Valdymas UAB	-	18	-	181	-	-
State Enterprise Ignalina Nuclear Power Plant	107	23	-	177	1,058	-
LTG Infra AB	52	-	-	-	492	-
	20,458	9,920	1,000	97,481	173,395	42

The Company's transactions with the state owned companies mainly comprise sales of electricity transmission, balancing, imbalances and systemic services, and the purchase of electricity. UAB EPSO-G provides management services, UAB TETAS provides services under construction/maintenance contracts, UAB BALTPPOOL transfers PSO funds allocated to the Company.

NOTES TO THE COMPANY'S FINANCIAL STATEMENTS
(All amounts are in EUR thousands unless otherwise stated)

The Company's transactions conducted with related parties in 2019 and balances arising from these transactions as at 31 December 2019 were as follows:

Related parties	Amounts receivable and accrued revenue	Amounts payable and accrued expenses	Loans granted	Purchases	Sales	Finance income	Finance costs
<u>EPSO-G group companies</u>							
EPSO-G UAB	-	16	-	113	3,150	-	17
TETAS UAB	246	254	2,203	4,856	16	47	5
BALTPPOOL UAB	415	-	-	-	4,800	-	-
<u>State-owned companies</u>							
Energijos Skirstymo Operatorius AB	13,835	2,661	-	2,269	125,340	-	-
Ignitis Gamyba AB	580	7,308	-	72,949	6,852	-	-
Energijos Tiekimas UAB	-	-	-	1,065	1,991	-	-
Ignitis UAB	15	-	-	1,312	2,762	-	-
Duomenų Logistikos Centras UAB	21	34	-	178	253	81	-
Ignitis Grupės Paslaugų Centras UAB	26	-	-	-	263	-	-
Vilniaus Kogeneracinė Jėgainė UAB	-	35	-	-	264	-	-
Transporto Valdymas UAB	-	18	-	183	-	-	-
Energetikos Paslaugų ir Rangos Organizacija UAB	-	240	-	989	-	-	-
Kauno Kogeneracinė Jėgainė UAB	281	-	-	-	279	-	-
Lietuvos Geležinkeliai AB	-	-	-	-	396	-	-
State Enterprise Ignalina Nuclear Power Plant	94	41	-	178	908	-	-
	15,513	10,607	2,203	84,092	147,274	128	22

Payments to key management personnel

	2020	2019
Employment-related payments	879	764
Whereof: termination benefits	90	-
Number of key management personnel (average annual)	7	7

No loans, guarantees or any other benefits were paid or calculated, nor any assets were transferred to the Company's management in 2020 and 2019.

Key management personnel consists of the Company's heads of administration and directors of the departments and Board members. In 2020, payments to the members of the collegial management bodies amounted to EUR 37 thousand (2019: EUR 18 thousand).

34. Basic and diluted earnings per share

In 2020 and 2019, the Company's basic and diluted earnings/(deficit) per share were as follows:

	2020	2019
Profit/(loss) for the period attributable to the Company's shareholders (EUR thousands)	26,603	2,959
Weighted average number of shares (units)	504,331,380	504,331,380
Basic and diluted earnings/(deficit) per share (in EUR)	0.053	0.006

35. Additional information on cash flows

The change in the Company's payables for non-current assets amounting to EUR 305 thousand (2019: EUR 5,229 thousand) and capitalised interest amounting to EUR 49 thousand (2019: EUR 91 thousand) were taken into account when calculating cash flows from investing activities in 2020.



NOTES TO THE COMPANY'S FINANCIAL STATEMENTS
(All amounts are in EUR thousands unless otherwise stated)

36. Financial risk factors

The Company is exposed to financial risks in its operations. In managing these risks, the Company seeks to mitigate the effect of factors which could make a negative effect on the financial performance of the Company. Financial risk management is conducted by the Company's Finance Planning and Analysis Division in accordance with the Treasury and Financial Risk Management Policy of the EPSO-G UAB Group as approved by the Board of LITGRID.

Financial instruments by category (as per the statement of financial position):

Financial assets	At 31/12/2020	At 31/12/2019
Trade receivables under contracts with customers	22,944	14,940
Trade receivables	2,211	1,824
Other amounts receivable	93	111
Loans granted	1,000	2,203
Portion of unused funds balance of congestion management revenue	24,901	12,648
Other financial assets	1,619	2,371
Cash and cash equivalents	33	30
Financial assets measured at amortised cost	52,801	34,127
Other financial assets		
Financial assets measured at fair value through other comprehensive income	1,089	1,984
Total financial assets	53,890	36,111
Financial liabilities	At 31/12/2020	At 31/12/2019
Borrowings	79,902	94,128
Lease liabilities	4,857	5,041
Trade payables	25,234	25,596
Other amounts payable and liabilities	3,451	3,476
Total	113,444	128,241

Credit risk

As at 31 December 2020 and 31 December 2019, credit risk was related to the following items:

	At 31/12/2020	At 31/12/2019
Financial assets, except for assets measured at fair value through other comprehensive income	52,801	34,127

The Company has a significant credit risk concentration, because exposure to credit risk is shared among 10 main customers, amounts receivables from which accounted for around 97% of the Company's total trade and other receivables as at 31 December 2020 (31 December 2019: 92%). As at 31 December 2020, amounts receivable from the major customer, i.e. distribution network operator Energijos Skirstymo Operatorius AB, accounted for 74% of the Company's total amounts receivable (31 December 2019: 68%).

When entering into imbalance contracts with participants of the electricity market, the Company requires to pay a cash deposit of the established amount or to provide a bank guarantee in accordance with terms and conditions set out in the imbalance contract. Under electricity transmission service contracts concluded with a state-owned company Energijos Skirstymo Operatorius AB or other large industrial enterprises, as well as under contracts where the prices of the services provided are not high, the Company does not require any collateral from customers.

The Company holds congestion management funds and cash and cash equivalents in the accounts of banks with an AA-rated rating. The table below shows the ratings of the parent banks of the banks in which the Company holds these funds (Note 14):

Swedbank	AA-
SEB	AA-
OP Corporate Bank	AA-

Trade and other receivables are mainly from the state-owned entities and large manufacturers with no history of significant defaults.

Liquidity risk

The main objective of the Company's liquidity policy is to ensure funding of its operations, i.e. to ensure that the Company 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 Company.

The Company's cash flows from operations were positive in 2020, therefore its exposure to liquidity risk is not significant. The Company's current ratio (total current assets / total current liabilities) and quick ratio ((total current assets - inventories) / total current liabilities) as at 31 December 2020 were 0.59 (31 December 2019: 0.46). As described in Note 2.15, the Company may use congestion management revenue when necessary. The Company assesses the need to use the congestion management funds for coming year and allocates this portion to current assets accordingly. The liquidity requirements for the coming year are satisfied through the operating profit and congestion management funds, which can be used to finance the operating activities of the Company.

The table below summarise the contractual maturity dates of the Company's financial liabilities. This information has been prepared based on undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. Balances of trade and other amounts payable with repayment terms up to 12 months are equal to their carrying amounts, because the impact of discounting is insignificant.

	Up to 3 months	Between 4 months and 1 year	Within the second year	Within third - fifth year	After five years
At 31 December 2020					
Trade and other amounts payable	28,685	-	-	-	-
Borrowings	1,299	13,669	14,822	30,467	22,612
Lease liabilities	87	254	240	275	7,755
At 31 December 2019					
Trade and other amounts payable	29,071	-	-	-	-
Borrowings	1,336	13,780	14,969	38,899	29,002
Lease liabilities	87	245	305	373	7,840

Market risk

a) Interest rate risk

The Company's income, expenses and cash flows from operating activities are substantially independent of changes in market interest rates. The Company has non-current borrowings with interest rates linked with EURIBOR repriced every 3 months. A shift of interest rate by +/- 0.1 p.p. results in the impact of interest rates of the Company's borrowings on profit before tax of EUR 32 thousand as at 31 December 2020 (31 December 2019: EUR 44 thousand).

b) Foreign exchange risk

To manage the foreign exchange risk, the Company enters into purchase/sale contracts only in the euros.

37. Fair value of financial assets and financial liabilities

The Company's principal financial assets and liabilities not carried at fair value are trade and other amounts receivable, cash and cash equivalents, loans, trade and other amounts payable and other financial assets.

The following methods and assumptions are used to estimate the value of each category of financial instruments that are not measured at fair value:

- The carrying amount of current trade and other amounts receivable, time deposits, other financial assets, cash and cash equivalents, current borrowings, current trade and other amounts payable approximates their fair value (Level 3).
- The fair value of non-current borrowings is based on the quoted market price for the same or similar 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 (Level 3). The fair value of the Company's non-current borrowings with fixed interest rates was approximately lower by 384 thousand euros than their carrying amounts as at 31 December 2020 (2019: EUR 483 thousand).

38. Contingent liabilities

Litigations

On 30 April 2020, a claim from a natural person was brought to the District Court of Vilnius City on compensation for a servitude established by law within the protection zones of overhead electricity lines. The claim seeks to award the Claimant from the Defendant AB Litgrid EUR 15,401.25 in compensation for the servitude in the land plot established by law and annual interest rate of 5% from the initiation of the court proceedings until the judgement was fully executed and all litigation costs. Currently, the procedural stage is in process, after which the case will be moved to the proceedings on the substance. The Company has formed a provision for the full amount of the claim.

On 12 March 2020, the Claimant Šiaulių Energija AB brought a claim against Energijos Skirstymo Operatorius AB for damages. The dispute arose over the accident that occurred in March 2019 at the Šiauliai cogeneration power plant managed by the Claimant Šiaulių Energija AB, during which, as stated in the Claimant's claim, the three-phase synchronous generator installed in the power plant went out of operation.

In accordance with the provisions of the Regulations on investigation and recording of accidents and disruptions of energy facilities, an accident investigation commission was formed by the order of the Chairman of the National Energy Regulatory Council (NERC) of 4 September 2019. After analysing the causes of the accident, the compliance of the Claimant's activities with the requirements of regulatory acts, the compliance of technical solutions with the power plant design project, the Commission made an accident investigation report stating that "the cause of the accident was that the generator's protections installed by the Claimant failed to protect the generator's installations from the external short circuit" that originated in the external network the way it was specified in the design of the electrical relay protection and automation part and in the rules for the installation of electrical relay protection and automation. LITGRID AB was involved in the case as a third party, but on 28 December 2020, the Claimant's statement on the clarification of the subject matter of the claim, on the change of the status of LITGRID AB in the case to the status of the Defendant was submitted stating that the Defendants Energijos Skirstymo Operatorius AB and LITGRID AB are to be held jointly and severally liable for paying the Claimant Šiaulių Energija AB damages amounting to EUR 1,272,075.59. The Claimant's statement was adopted by resolution. After considering the arguments of the claim and the submitted evidence, no provision has been formed.

After the appeal of Achema AB was rejected on 7 May 2020, the case of Achema AB regarding losses resulting from the power outage in the ammonia production department of Achema AB was closed and the provision of EUR 567 thousand related to this case was reversed.

39. Services provided by the audit firm

In 2020, the audit firm provided non-audit services to the Company in the amount of EUR 5,148.

40. Events after the end of the reporting period

After receiving the NERC's permission, an agreement between the Company and EPSO-G was signed on 26 February 2021, which allows to use the available congestion management funds for intercompany borrowing purposes.
