Kvalifikuotas elektroninis parašas
GIEDRUOLĖ GUOBIENĖ
2020-04-22 18:51:43 GMT+3
Paskirtis: Parašas

Qualified Electronic Signature
DARIUS KAŠAUSKAS
2020-04-22 18:56:19 GMT+3
Purpose: Signature

Kvalifikuotas elektroninis parašas
DARIUS MAIKŠTĖNAS
2020-04-22 19:03:56 GMT+3
Paskirtis: Parašas

Kvalifikuotas elektroninis parašas
JONAS AKELIS
2020-04-22 19:25:41 GMT+3
Paskirtis: Parašas

ignitis grupė

2019

Annual report and social responsibility report

Consolidated annual report, consolidated and the Company‘s financial statements for the year ended 31 December 2019,
Prepared according to International Financial Reporting Standards as adopted by the European Union, presented together with the independent auditor‘s report

Contents

Overview

Management's foreword

Dear Customers, Partners, Employees, Shareholders,

2019 was a year of tremendous change and transformation. After brand consolidation, in September we became an international energy company Ignitis Group.

The new name marks the beginning of a new phase in the Group's readiness to meet its 2030 goals and focus on sustainable and environmentally friendly development in the international marketplace, ensuring high quality customer service and operating efficiency.

We feel being responsible in a world facing the challenges of climate change and understand that the energy of the future is inseparable from decarbonisation. We demonstrated this not just by making statements but by taking real actions. 472 million Eur, our of the 600 million Eur raised through the issue of green bonds, were invested to Green Generation projects. These Investments create not only economic value but also environmental benefits for Lithuania. In addition, in December 2019 we became the first company from the Baltic States and Poland to join the "Business Ambition for 1.5°C" initiative of the United Nations and other international organisations. In this way, we committed by 2050 to reduce net carbon dioxide (CO2) emissions to zero.

In the previous year, we continued to set for ourselves ambitious goals to increase our income outside Lithuania and expand our services abroad. The results of 2019 revealed that these goals are gradually becoming a reality: Group's sales from abroad grew more than 25%. This is evidence that the Group became a serious market player on the international scale.

However, further Investments are needed to preserve current and further expansion. With the aim to invest approx. EUR 6bn over the next decade, long-term financing alternatives is being assessed. One of which – Ignitis Group initial public offering (IPO). The first steps towards this ambition have already been taken: delisting process of Ignitis Gamyba and ESO has been initiated, Ministry of Finance assigned the company to be prepared for the IPO by autumn, 2020.

Had it not been for the highest standards of governance and transparency, which are an integral part of the Group's activities, the set goals would not have been achieved. We are excited to have them appraised in 2019 by the Governance Coordination Centre, where Ignitis Group was raked as number one in the Good Corporate Governance Index published by this centre.

The beginning of 2020 started with challenges related to COVID-19 epidemic and quarantine which affected everyone. The Group had to react instantly to make sure that health of the employees and business continuation would be ensured. During this current period, more than half of the Group's employees are working from home whereas other employees' health is ensured at maximum. At the same time, we are already thinking what steps must be taken to cope with the crisis and how we can help to our financially affected customers. The dedicated team is already working on this and I personally believe that the situation will be managed well. The most important thing is to stay healthy and continue to create value for Lithuania.

While focusing on the Energy Smart world, our aim is to create value for Lithuania, we are committed to continuously working towards a more transparent and effective outcome.

Darius Maikštėnas
Chairman of the Board and the CEO
UAB „Ignitis grupė"

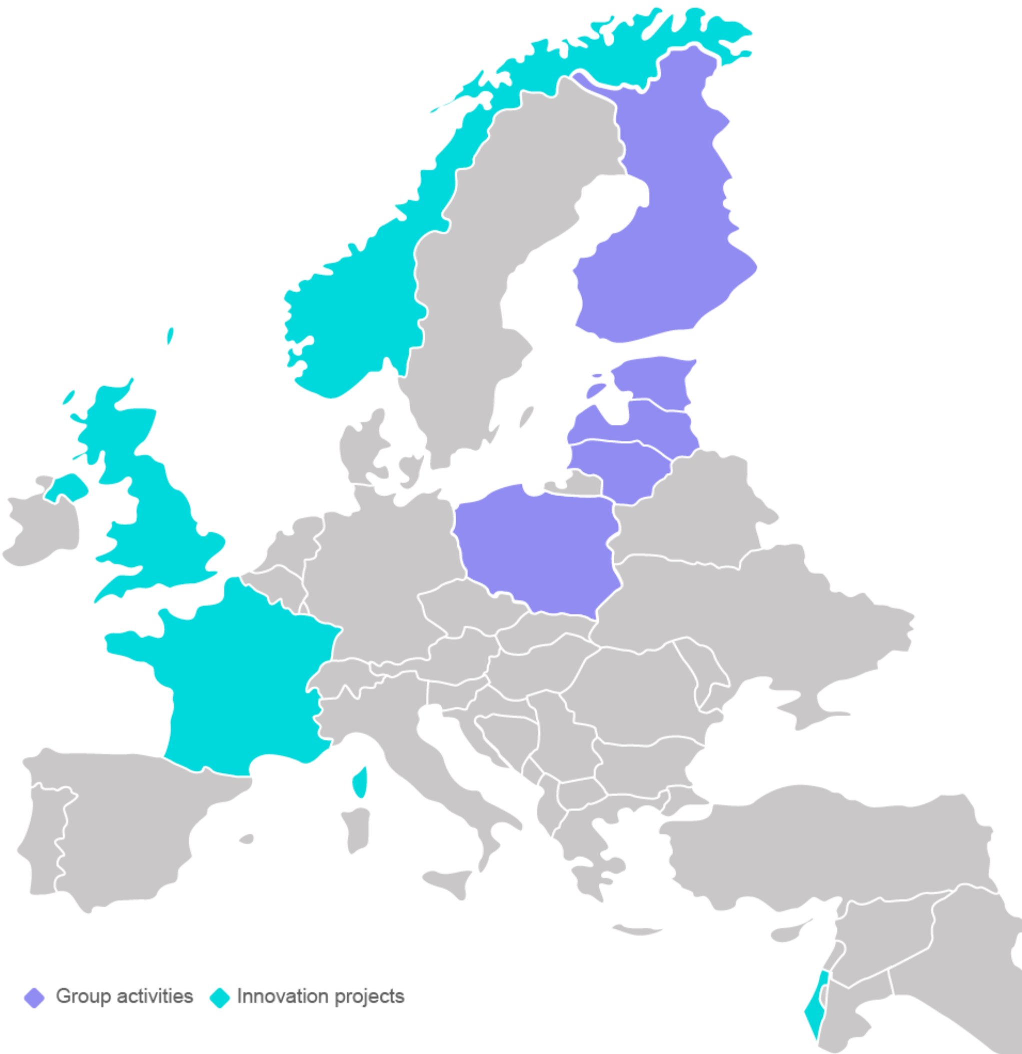
Ignitis Group – creating an Energy Smart world!

The international energy company Ignitis Group is one of the largest energy groups in the Baltic region.

The Group companies generate, distribute and supply energy, as well as develop new green generation capacities and Energy Smart solutions.

We operate in Lithuania, Latvia, Estonia, Poland and Finland. Group Innovation fund has invested in energy start-ups based in the UK, Israel, Norway and France.

The Ministry of Finance of the Republic of Lithuania is the sole shareholder of the Company.



2019 – year of transformation

After the Group had announced its strategy for 2030 in 2018, former Lietuvos energija outlined clear lines of action plan. 2019 was another year focusing towards sustainable development and global recognition.

In 2019, a team of Group leaders and communication specialists refined and agreed the overall positioning of the Group. The outcome of the in-depth analysis, i.e. strategic positioning of Energy Smart, has become the basis for both a radical change of the Group's name and development of a new brand and its visual identity.

A wording Energy Smart encodes the essence of the Group's Strategy 2030: focus on real energy. The energy as it was seen by the pioneers of Elektra, AB back in the 1940s, who set an ambition to create a value for Lithuania. Energy Smart is about creating value by disposing activities that are not typical for an energy company and focusing on what we do best.

Energy Smart, as the Group's transformation, is a reflection of energy resilience. It encompasses a wide range of energy activities: production, distribution, supply and customer care. Only now is it green, smart and open.

Such is Ignitis Group that creates the Energy Smart world. Ensuring national strategic energy needs while rapidly developing Green Generation. Opening to innovations, competition and changes. Enabling new technologies to become platforms for innovative solutions accessible to everyone. Offering a wide range of energy services and solutions and helping customers become Energy Smart.

"Transformation of energy sector from a monopolistic towards competitive, led by empowerment of consumers choices, is one of the historic changes.

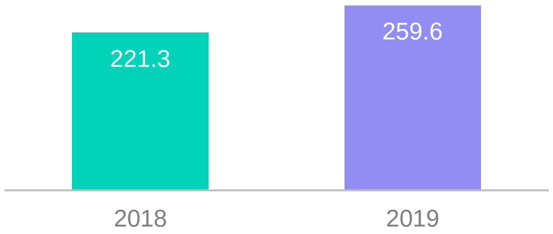
Together with the industry changes, we repositioned ourselves to ensure a successful continuation of our work on sustainable development and global recognition."

Darius Maikštėnas
CEO

Performance highlights

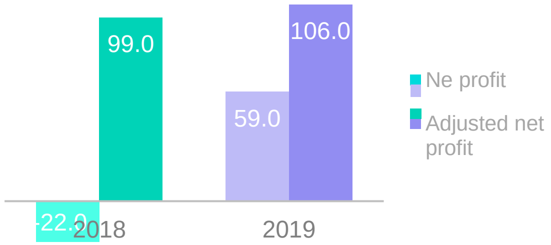
Profits and returns*

Adjusted EBITDA APM
EURm



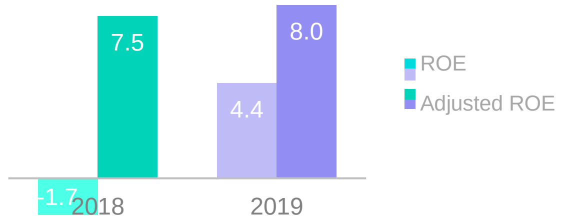
Adjusted EBITDA increased by 17.3%, mainly as a result of continued Investments in distribution networks, expansion in Green Generation segment, and efficient use of Kruonis PSHP.

Net profit, Adjusted net profit APM
EURm



Adjusted net profit increased by 7.1% driven by growth in Adjusted EBITDA.

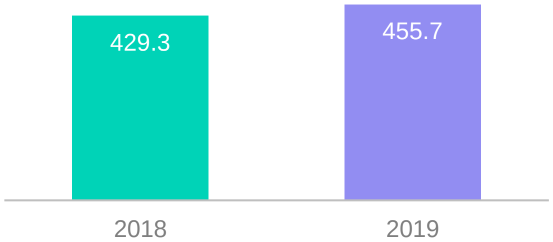
ROE, Adjusted ROE APM
%



Adjusted ROE reached 8.0% and exceeded the target of 6.6%.

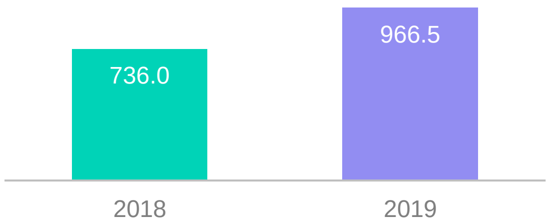
Cash flow and balance sheet*

Investments APM
EURm



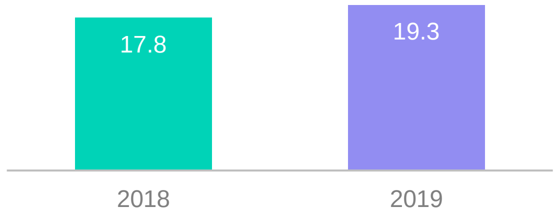
Investments remained stable at relatively high levels, as we continued the construction of two co-generation plants and renewal of electricity distribution network, as well as started building our first wind farm in Poland.

Net debt APM
EURm



Net debt increased by 31.3% driven by Investments.

FFO/Net debt APM
%

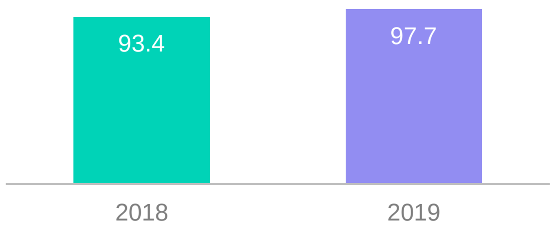


FFO / Net debt improved from 17.8% to 19.3%, as FFO growth outpaced that of Net Debt.

** Because of the restatement of the 2018 Financial Statements, performance indicators presented here (and throughout this report) for 2018 might differ from those presented in the 2018 Annual Report. Changes of the financial statements of 2018 are disclosed in the 2019 Financial Statements Notes 4.26 and 4.27 and changes of operating segments in Note 42. In case of a change of calculation of APM in 2019, measures of 2018 were recalculated as to calculation of 2019. Calculation of Adjusted EBITDA and Adjusted net profit was changed (please find more information in the Adjusted EBITDA and Adjusted net profit sections of the report).*
APM Alternative Performance Measure - Adjusted figures used in this report refer to measures used for internal performance management. As such, they are not defined or specified under International Financial Reporting Standards (IFRS), nor do they comply with IFRS requirements. Descriptions of Alternative Performance Measures are presented on page 37.

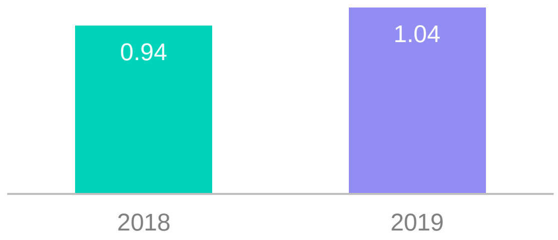
Sustainable development

Green share of generation
%



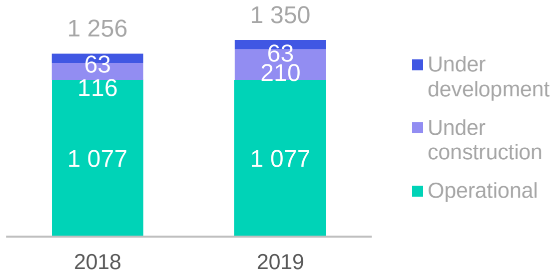
Green share of generation grew by 4.6% due to increase of electricity generated from wind farms and Kruonis PSHP, and decrease from gas fired Elektrėnai Complex.

Green electricity generated
TWh



Green electricity generated increased by 10.6% which was mainly due to the acquisition of two wind farms in Lithuania (total capacity of 34 MW), better wind conditions, and higher generation at Kruonis PSHP.

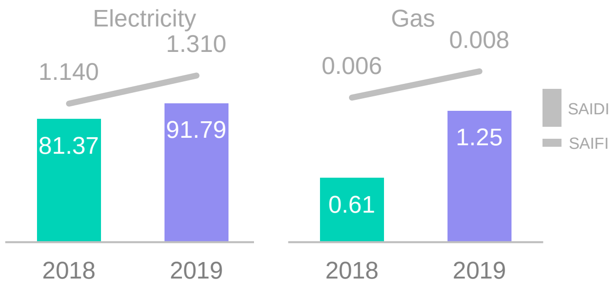
Green Generation capacity
MW



Our Green Generation portfolio grew by 94MW, or 7.5% as a result of acquisition and beginning of construction of our first wind farm in Poland. Installed capacity remained unchanged.

Quality and efficiency

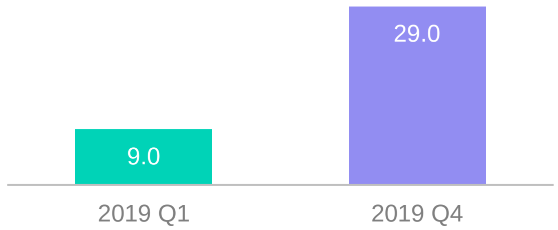
SAIDI/SAIFI
Min./Units



Decrease in electricity and gas quality indicators was mainly caused by external factors resulting in network interruptions and medium voltage grid breakdowns.

Social

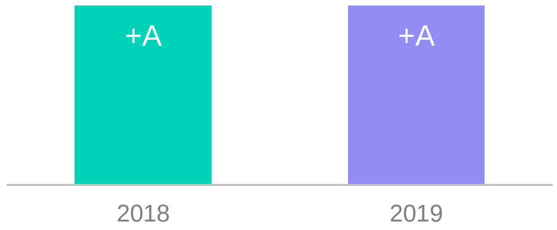
Employee Net Promoter Score (eNPS)
%



From 2019 the Group started to monitor eNPS, which improved from 9% in Q1 to 29% in Q4.

Governance

SOEs Good Corporate Governance Index



Group is Lithuania's governance index leader since 2017. The monitoring and recognition is assigned by the Governance Coordination Centre.

Targets and results

Group strategy is based on three core priorities: sustainable development, quality and efficiency, and transparency. In 2019, Group focused its efforts towards increasing the Group's value by implementing strategic projects: digitalization of the distribution network, Green Generation expansion, including development of waste-to energy and biomass CHP plants in Vilnius and Kaunas, and wind farms in Lithuania and Poland, consolidation of Customers and Solutions segment, as well as creation of innovative services and products.

0

SUSTAINABLE DEVELOPMENT	Annual targets for 2019	Guidance for 2019	Actual 2019 results
Financial Create value for shareholders	Group Adjusted EBITDA APM	235–240 million Eur	260 million Eur*
	Group Adjusted return on equity APM	> 6.6%	8.0%
Green Generation Increase installed capacity	Implement the Group's strategic projects to build cogeneration plants in Vilnius and Kaunas.	Construction of Vilnius and Kaunas CHPs	Kaunas CHP project implemented as per plan, Vilnius CHP project - with minor delays.
	Develop and acquire new Green Generation capacity	Start the development of > 150 MW Green Generation capacity	Development of 157 MW of Green Generation capacity was started: 94MW onshore wind in Poland and 63 MW onshore wind in Lithuania
Customers and solutions Consolidation and rebranding	Consolidate Group's commercial operations and create a strong Customers and Solutions organization that is ready for international expansion	September 2019	Customers and Solutions integrated (July 2019) and new Ignitis brand introduced as planned (September 2019)
Innovative products and services	Create innovative services and products and thus develop the Group's competitive advantages to enable international expansion	October 2019	Virtual prosumers platform launched successfully and on time (October 2019)
Flexible Generation Stability of the energy system	-	-	-
QUALITY AND EFFICIENCY	**Annual targets for 2019**	**Guidance for 2019**	**Actual 2019 results**
Networks Digitalization of distribution network	Implementation of smart meter program and data exchange project	December 2019	Smart meter program** and data exchange project*** implemented as planned
People and Culture Employee experience	Improve the experience of Ignitis Group employees	Q4 > Q1 2019	Employee Net Promoter Score (eNPS) improved: Q4 2019 (26%) vs. Q1 2019 (9%)
Quality Customer experience	-	-	-
TRANSPARENCY	**Annual targets for 2019**	**Guidance for 2019**	**Actual 2019 results**
Transparency Compliance to the highest transparency standards (in relation to partners and investors)	-	-	SOEs Good Corporate Governance index****: A+ (the highest rate) 2018 – 2019

Annual targets for 2018 are not disclosed due to lack of comparability.
** Investment rating maintained.*
*** Implementation of smart metering system in Lithuania;*
**** Data collection and exchange platform project;*
***** SOE Good Corporate Governance index, which is compiled based on legal acts, recommendations of the OECD, other international organisations, Nasdaq Corporate Governance Code and other relevant documents.*

Most significant events

During the reporting period (2019)

Q1

- ESO updated its business strategy. The main goal of ESO is to ensure reliable, effective and smart grid that enables further market development and the best customer experience.
- Based on the opinion of the Company's Supervisory Board, the Board of the Company nominated Rimgaudas Kalvaitis as the CEO of Ignitis Gamyba.
- Ignitis Renewables CEO has been appointed to be Aleksandr Spiridonov.
- Darius Montvila was elected as the head of the prospective Customers and Solutions segment company Ignitis, which started its activities after the merge of Lietuvos Energijos Tiekimas and Energijos Tiekimas.

Q2

- In May, Ignitis Renewables acquired 100% shares of Pomerania, the company developing 94 megawatt (MW) capacity wind farm project in Poland.
- The test of Lithuanian energy system recovery after the total accident and isolated operation of a part of the system was successfully completed in the power plants managed by Ignitis Gamyba – in Kruonis PSP, Kaunas HPP and in the combined cycle block in Elektrėnai.
- The merger of Lietuvos Energijos Tiekimas and Energijos Tiekimas (now "Ignitis") was finalised.

Q3

- The Supervisory Board of ESO approved the updated ESO 10-year Investment plan. By 2028 ESO will invest EUR 1,83bn in increasing network resilience and security, deploying smart solutions, improving customer experience, and promoting the market of services providing a level playing field for all market participants.
- Ignitis Group Innovation Center has started to publish open datasets. In the first phase, the data sets provided by ESO have been made published.
- Lietuvos energija changed its legal name and brand to Ignitis Group. The legal name of Lietuvos energijos tiekimas was changed to Ignitis, Lietuvos energijos gamyba to Ignitis Gamyba, and Lietuvos energija renewables to Ignitis Renewables. In international markets, the group operates under the Ignitis brand.

Q4

- The world's first nationwide platform Saulės Parkai, available throughout the country, started its activity on 1 October. It is easily accessible to residents willing to use renewable solar energy in their homes. Part of a remote solar power plant can be acquired or leased through this platform.
- The first 50 Ignitis ON charging stations for electric vehicles were launched in Vilnius.
- Management of the Company made a decision to initiate delisting of Ignitis Gamyba and ESO procedures.
- The Ministry of Finance formed a working group to assess Group's the long-term financing alternatives, including the Company's initial public offering (IPO).
- The Company joined the initiative of the United Nations and other international organizations 'Business Ambition for 1.5°C'. The Company is committed to reduce net carbon dioxide (CO2) emissions to zero by 2050.
- Ignitis Gamyba won the auction of the tertiary active power reserve, announced by LITGRID, and will ensure the tertiary active power reserve in the full scope of 475 MW.

After the reporting period (2020)

- At the beginning of January, Ignitis entered the Finnish market, becoming one of the first independent gas suppliers in the country and concurred a market leader position.
- In January, Group sold the last real estate objects offered in auction.
- In January, Ignitis Gamyba started the installation of the largest 3 MW solar power plant in the Baltic States.
- In February, the first heat produced from waste by Kaunas CHP reached Kaunas households.
- In February, working group formed by Ministry of Finance, provided a recommendation to the Company to prepare for IPO by autumn, 2020.
- In March, European Investment Bank (EIB) allocated 60 million EUR for development of the first Group wind farm in Poland.
- During the extreme situation due to Covid-19, Ignitis do not apply self-service system service fees, customer service centres are temporarily closed, preferential payment terms are applied to the customers affected by the quarantine.
- In March, an agreement between the Company and minority shareholders of ESO and Ignitis Gamyba have been reached on the delisting of shares and the claims have been withdrawn.
- Government of the Republic of Lithuania approved the conversion of Ignitis Grupė from a private limited liability company (UAB) into a public limited liability company (AB) and also agreed that the share capital of the public limited liability company shall be increased by additional contributions by issuing new ordinary registered uncertificated shares.
- The Articles of Association of the Company have been amended – number of Supervisory Board members have been increased from 5 to 7.
- Circulars of ESO and Ignitis Gamyba official tender offers have been approved. End date of official tender offers are 22 April 2020 (inclusive).

Business model

Activities of the Group

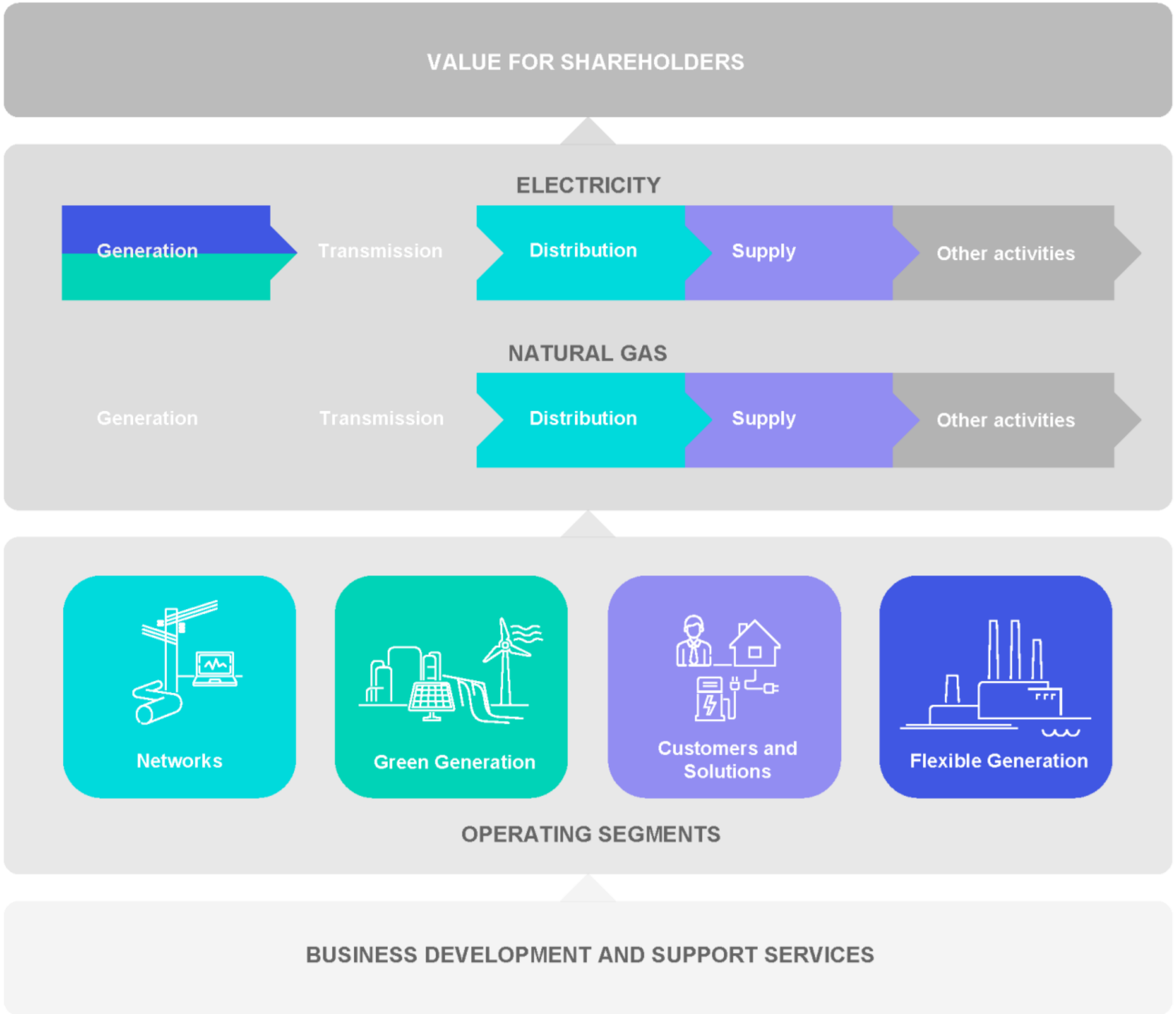
The Group is engaged in the energy generation, distribution and supply, and the development of Energy Smart solutions within Baltic region.

In order to focus on value-creating activities and their sustainable development, the Group aims to reduce non-core activities by divesting or closing them.

Majority of Group’s Investments are aimed at the reduction of carbon dioxide emissions. The Group has issued green bonds with a total face value of EUR 600 million. Proceeds of the green bonds are being used for a number of projects which are expected to reduce carbon emissions by 700,000 tons every year.

Approximately 3,800 employees work in the Group.

Group‘s value chain and organizational performance model

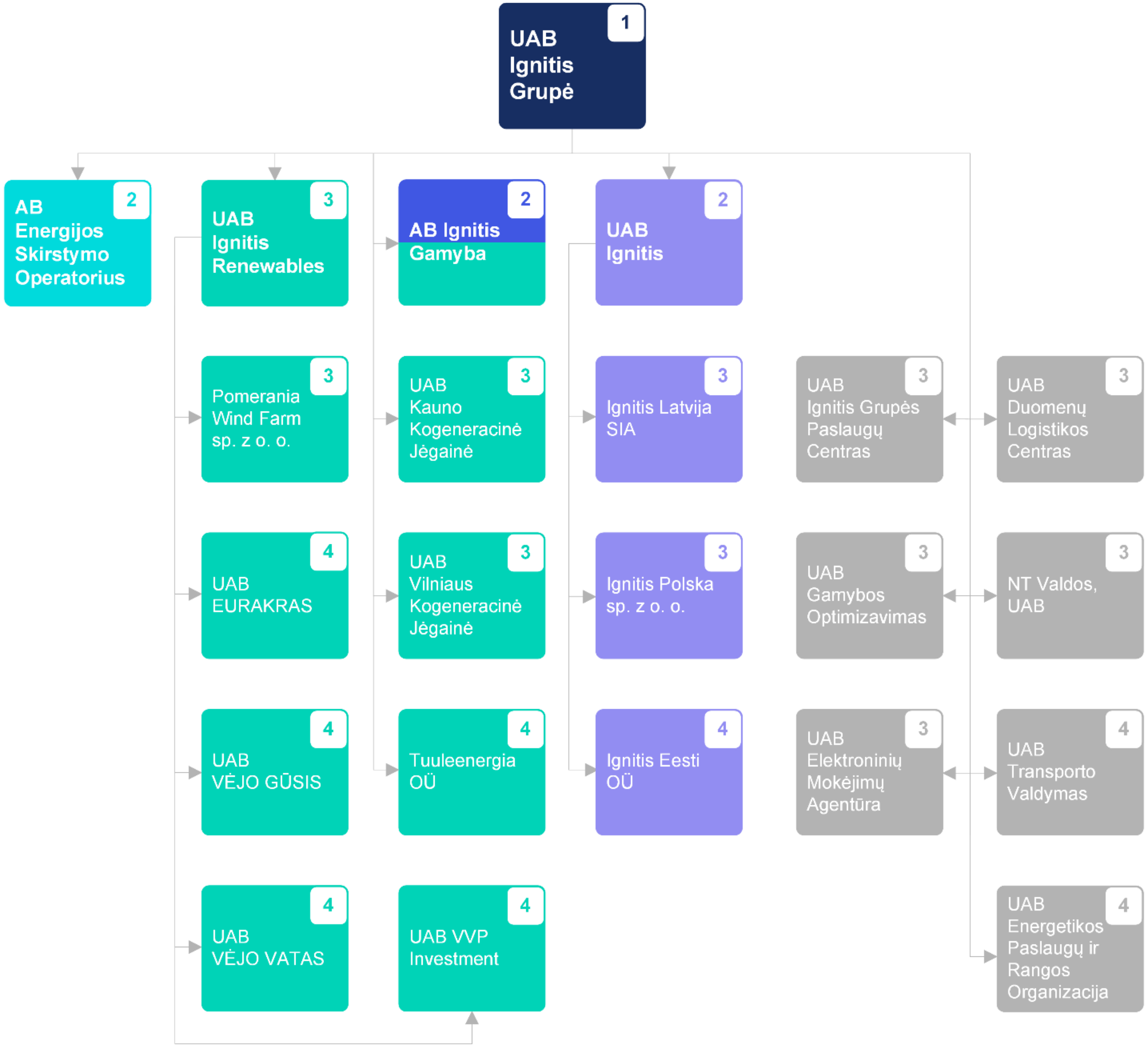


Structure of the Group

At the date of this report, the entities showed in the picture to the right were controlled, directly or indirectly, by the Group*.

Model of management:

1	**The Supervisory Board** is formed of 7 non-executive members (2 shareholder representatives, 5 independent)**. **The Board** is formed of 5 executive members. **CEO –** Chairman of the Board.
2	**The Supervisory Board** is formed of 5 non-executive members (at ESO: 2 shareholder representatives, 2 independent members and 1 employees' representative) or 3 non-executive members (2 shareholder representatives and 1 independent member). **The Board** is formed of 5 or 3 executive members. **CEO** – Chairman of the Board.
3	**The Board** is formed of 3 non-executive members (2 shareholder representatives and 1 independent member). The structure of the Board is different across companies. The Board is not formed until the company starts operations. The Board of Ignitis grupės paslaugų centras is formed ensuring representation of all shareholders, taking into account the implementation of specific legislation. The Boards of Ignitis Latvija and Ignitis Polska are formed of 1 member – CEO, the Supervisory Boards are formed from shareholders representatives. **CEO** is not a member of the Board.
4	**CEO.** **The Board** is not formed.



** The color structure in the picture reflects companies' assignment to a particular business segment (according to the information on page 13 et seq. in this report).*
*** This composition of the Supervisory Board is valid from April 8, 2020, when the updated Articles of Association of the Company were registered. In 2019 the Supervisory Board had 5 members: 2 shareholder representatives and 3 independent members..*

Strategy

As a basis for activities, Group follows its Strategy 2030 approved in 2018, combining extensive experience, innovations and openness to the world while ensuring national energy independence.

Mission – to create an Energy Smart world.

Vision – a globally competitive energy company creating value for Lithuania.

Values – guidelines in both day-to-day operations and implementation of strategic changes (values detailed on the right).

Corporate values of the Group

Responsibility	Partnership	Openness	Growth
Care. Do. For Earth. Starting with myself.	Different. Strong. Together.	See. Understand. Share. Open to the world.	Curious. Bold. Everyday.

Strategic priorities and perspectives

The implementation of the Strategy 2030 focuses on sustainable development, quality and efficiency, and transparency. The Group pursues these priorities having in mind the perspectives of People and Organization, and Finance.

Markets

In 2019, the Group was present in the markets of Lithuania, Latvia, Estonia and Poland, and from 2020 - Finland. Both short-term and long-term strategic goals focus on further international development, primarily in the Green Generation segment, but also in Customers and Solutions segment.

Group priorities and prospects for 2030

Priorities

1. Sustainable development

Expanding green generation capacity, driving innovations and new energy solutions, expanding internationally.

2. Quality and efficiency

Improving customer experience, increasing quality of services, automating/robotising processes and increasing operational efficiency. Ensuring stable Return on capital.

3. Transparency

Maintaining the highest standards of transparency with investors and partners.

Perspectives

People and organisation: We are different and therefore strong. We think and act globally. We are proud to be creating future energy ourselves.

Finance: Creation of long-term value for shareholders. Efficient use of Group financial capability for international development through the most competitive capital market instruments. Consistent implementation of dividend policy. Safe credit risk management.

Segments

Networks

The core activities of Networks segment is to operate, maintain, manage and develop electricity and gas distribution networks and to ensure the safe and reliable operation, as well as guaranteed electricity and gas supply.

Strategic goals:

- We continuously invest to modernize our distribution network to ensure its stability, reliability and energy efficiency
- We enable energy transition and evolution:
  - renewable energy expansion (by facilitating grid connections and empowering prosumers and decentralised generation),
  - innovations (through sandboxes for start-ups and ensuring grid capacity for EV networks)
  - energy market efficiency (through smart meter roll out and creation of data hub).

Green Generation

The Green Generation portfolio consists of 1.1 GW of total installed capacity. This includes four operating wind farms in Lithuania and Estonia with a total installed capacity of 76MW, and two hydro powerplants: Kruonis PSHP (900MW) and Kaunas HPP (101MW) in Lithuania.

In addition to operating assets, our Green Generation portfolio contains projects with additional 273 MW of electrical capacity and 299 MW of thermal capacity under construction or under development. These are two wind farms, one in Poland (94 MW) and one in Lithuania (63 MW) and two waste-to-energy/biomass CHP plants in Lithuania: Vilnius (92 MW electric, 229 MW heat) and Kaunas (24 MW electric, 70 MW heat).

Strategic goals:

- We target to reach 3000 MW (excluding hydro assets) of installed Green Generation capacity by 2030.

Customers and Solutions

Activities of Customers and Solutions segment include electricity and gas supply, trading and balancing, energy efficiency projects, construction of solar power plants for businesses and residents, installation and operation of electric vehicle charging stations, energy solutions (gas boilers, heat pumps). Our Customers and Solutions business is active in Latvia, Estonia, Finland and Poland.

Strategic goals:

- We scale our core energy supply & trading business and complement it with innovative new energy solutions and platforms (community solar, EV's, prosumers, etc.)
- We invest and innovate together with our partners to make our solutions more Energy Smart.
- Increasing our brand awareness regionally.

Flexible Generation

Flexible Generation segment operates the largest electricity generation capacity in Lithuania, 1055 MW Elektrėnai Complex. Facilities of Elektrėnai Complex provide system services and ensure stability of Lithuania's electricity system.

Strategic goals:

- We aim to ensure stability, flexibility and high reliability of Lithuania's electricity system.
- We aim to contribute to the synchronization of the Baltic states with Continental Europe networks by maintaining, modernizing and developing local reliable electricity generation facilities.

70% of Group's Adjusted EBITDA 2019

Fully regulated

17% of Group's Adjusted EBITDA 2019

Mostly contracted

4% of Group's Adjusted EBITDA 2019

Serves 1.6m customers

8% of Group's Adjusted EBITDA 2019

Mostly regulated

Group priorities for the period of 2020–2022

- Expansion of Green Generation portfolio:
  - Completion of construction and start of operations of Kaunas and Vilnius waste-to-energy and biomass CHPs, Pomerania wind farm in Poland, and Mažeikiai wind farm in Lithuania.
  - Addition of new projects to the portfolio.
- Increasing quality and efficiency of distribution activities: implementation of digitalization projects, implementation of measures to improve service quality and customer satisfaction, preparation for the new regulatory period of electricity distribution network.
- Growth and development of new energy solutions in the Customers and Solutions segment. Positioning of Ignitis brand in Lithuania and abroad. Preparation for the deregulation of the electricity B2C market in Lithuania.
- Preparation for the capacity auctions in Lithuania.
- Increasing the efficiency of Group support services. Discontinuing non-core activities.

Ongoing and planned Investments

The Group's largest ongoing and planned Investments

Segment	Investments
Green Generation	– Construction of Vilnius waste-to-energy and biomass CHP (Lithuania) – Construction of Kaunas waste-to-energy CHP (Lithuania) – Construction of Pomerania wind farm (Poland) – Development and construction of Mažeikiai wind farm (Lithuania) – Development and construction of new wind/solar farms
Networks	– Smart meter roll-out – Renewal and maintenance of electricity and natural gas distribution networks – Connecting new customers to electricity and gas distribution networks and upgrading the capacity of existing connection points.

Dividend policy

The Company pays dividends in accordance to the valid version of 14 January 1997 Resolutions of the Government of the Republic of Lithuania No 20 "Regarding the Dividends of State-Owned Enterprises" (link).

Dividend pay-out ratio for the financial year or for the period shorter than a financial year depends on Return on equity ratio (ROE) achieved in that period (please see the table on the right). Dividend pay-out ratio is calculated by dividing dividends by the retained earnings of the Company at the end of the period.

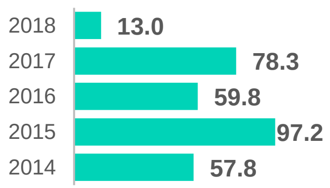
The Company can suggest lower pay-out ratio if any of the following is true:

- The Company is implementing a project of national importance
- The Company's Debt to Equity ratio exceeds 1.0
- The Company's Total Equity (after the payment of dividends) becomes lower than the sum of its issued capital, legal reserve, revaluation reserve and reserve for acquisition of own shares

Dividend pay-out matrix

	Pay-out ratio
ROE ≤ 1%	≥ 85%
1% < ROE ≥ 3%	≥ 80%
3% < ROE ≥ 5%	≥ 75%
5% < ROE ≥ 10%	≥ 70%
10% < ROE ≥ 15%	≥ 65%
ROE > 15%	≥ 60%

Dividends paid for the financial year, million Eur



Business environment

The most relevant internal and external factors, which might have significant financial and/or non-financial impact for the Group, are listed below:

Internal environment factors

- Occupational health and safety.
- Ensuring IT system development needs and targeted architecture and digitizing business processes.
- Personal data protection and cyber security.
- Staff turnover.
- Prevention of corruption.
- Potential for operational efficiency enhancement.
- Strategic procurement and timely implementation of priority projects.

External environment factors

Political	– National Energy Independence Strategy. – Energy Security Policy: strategic energy projects. – Environment and climate change policy: EU policies of reducing green-house gas emissions.
Economical	– COVID-19 outbreak and social and economic restrictions on its management measures. – Before COVID-19 outbreak and quarantine announcement the country's economy grew, electricity consumption in Lithuania was projected to increase, however, local electricity generation covered only a quarter of national consumption. – Impact of economic development cycles on changes in energy demand. – Synchronization of Lithuania's electricity system with the electricity system of Continental Europe has the potential to open up new markets. However, competition might increase as well. – Growing competition in the power generation market. – Increasing competition between system service providers. – Lack of competition in the outsourced market of contracts work results in rising prices for services. – Fluctuation of electricity and gas market prices. – Cost of resources.
Social	– Rapid growth of purchasing power in Lithuania. However, still lower in absolute terms compared to EU average. – Safety of employees/contractors/residents. – Growing public expectations regarding new technology solutions.
Technological	– Conventional power generation has to face challenges and opportunities brought by the power generation from renewable energy sources. – Innovation development, new energy services and technologies. – The need for digital technologies and complex modern solutions (e.g. Cloud, IoT, etc.) to increase competitiveness. – Sub-optimal and not fully automated distribution network. – Growing risk of cyber threats.
Legal/Regulatory/ Compliance	– New regulatory period for electricity distribution network. – Deregulation of the electricity B2C market in Lithuania. – Continuation of designated supply business model. – RES auctions, offshore wind farms' development. – Capacity auctions, system services uncertainty. – Risk of non-compliance: NERC's qualitative distribution indicators (SAIDI, SAIFI, duration of connection of new customers), anti-money laundering and counter-terrorist financing, personal data protection.
Environmental	– Growing public attention to climate change. – Increasing environmental requirements.

GDP forecast

Gross domestic product (GDP) has been growing for several years now in the European Union, including Lithuania. According to the EC report published in February 2020[1], GDP growth in European Union (EU28) amounted to 1.5%, in euro zone – 1.1% in 2019. The EC forecasted Lithuania's GDP growth for 2019 (3,9%) was almost in line with the actual GDP confirmed by the Bank of Lithuania which amounted to 3.8%.

Until the start of COVID-19 pandemic it was forecasted that GDP growth will continue. However, after announcement of quarantine, the situation changed dramatically. Bank of Lithuania in its forecast published in March 2020[2], announced the expected GDP decrease of the Lithuanian economy by 11.4% in 2020, and increase by 9.7% in 2021.

COVID-19 factors

On 30 January 2020, the World Health Organization (WHO) declared a global emergency as a result of the COVID-19 outbreak and identified the spread of the disease as a pandemic on 11 March 2020. On 26 February 2020, because of the threat of COVID-19, the Government of the Republic of Lithuania declared an emergency in the country, and on 14 March 2020 quarantine was declared starting from 16 March 2020, and was still in force at the time of publication of this report.

The duration of the quarantine announced in Lithuania and the restrictions imposed by foreign states may affect the targets and financial results of the Group for 2020. The Company performed the assessment of COVID-19 impact on the Group's targets and financial results, based on the information available at the time of the publication of the annual report. The Company found that if the duration of the quarantine in Lithuania and the restrictions imposed by other countries will be longer than 3 months, the Group's financial results for the year 2020 may be affected. However, reasonable estimates for the long-term impact of COVID-19 cannot be provided at the time of publication of this annual report.

Energy markets review

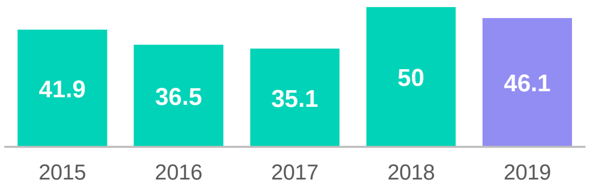
Wholesale electricity market

In 2019, prices fell in all of the bidding areas of the Nord Pool Nordic power exchange. Compared to 2018, the average system price was lower by approx. 11% (2018 – 43.99 Eur/MWh, 2019 – 38.94 Eur/MWh), in the fourth price area of Sweden, with which Lithuania is connected through the NordBalt power link – approx. 14% (2018 – 46.36 Eur/MWh, 2019 – 39.80 Eur/MWh), in Finland – approx. 6% (2018 – 46.80 Eur/MWh, 2019 – 44.04 Eur/MWh), in Lithuania – approx. 8% (2018 – 50.00 Eur/MWh, 2019 – 46.12 Eur/MWh), Latvia and Estonia – approx. 7% (2018 – 49.90 Eur/MWh, 2019 – 46.28 Eur/MWh).

It is noteworthy that unlike in 2018, prices in Finland were more similar to those in the Baltic region and differed from the rest of the Scandinavian region in 2019, while in Lithuania during certain periods prices were lower than in Latvia and Estonia. In 2019, the average price difference between Lithuania and Sweden in the fourth zone was approx. 73% higher than in 2018 and reached approx. 6.30 Eur MWh (2018 – approx. 3.64 Eur/MWh). The highest difference was observed during June and September – approx. 11–17 EUR/MWh.

Electricity prices as per Lithuanian price area, Eur/MWh

(source: „Nord Pool")



In 2019, total energy demand in the price areas of Nord Pool power exchange decreased by approx. 1.5%, wind farm - increased by approx.17%, total installed wind power capacity increased from 17 GW to almost 20 GW, hydroelectric power plant production decreased by approx. 5%, nuclear power plant changed slightly. Unit 2 of the Ringhals nuclear power plant in Sweden was shut down at the end of last year (852 MW), Ringhals 1 is scheduled to shut down at the in 2020 (881 MW).

Annual electricity demand in Lithuania was similar to that in 2018 – approx. 12 TWh (excl. Kruonis PSHP demand). In Latvia and Estonia demand decreased by approx. 2% and totalled 8 TWh and 7 TWh respectively. In 2019 Lithuania produced about 12% more electricity than in 2018, meanwhile Latvia - approx. 5% less, Estonia - approx. 41% less. Lithuania remains an energy-deficit country, producing around 30% of the country's demand, Latvia – approx. 85%. Estonia has decided to shut down polluting oil shale fired power stations and became an energy-deficit country, producing about 74% of the country's demand.

In 2019, the balance of Lithuanian commercial imports changed. In 2019, import from third countries increased by approx. 35% compared to 2018, from Scandinavia increased approx. 20%. Export to Poland increased several times.

Natural gas market

In 2019, the global liquefied natural gas (LNG) market suffered overcapacity, therefore, buyers held extremely strong bargaining positions in this market.

In 2019, LNG supply worldwide increased by about 12% and totalled 483bn m^3. The largest increase in the liquefaction capacity of natural gas was recorded in the USA. This country liquefied approx. 20bn m^3 more gas in 2019 than in 2018.

Since the beginning of last year, European natural gas indices have been reflecting global LNG price trends and have come down. The Dutch TTF (Title Transfer Facility) price index in January 2019 was approx. 24 EUR per MWh, and in December it decreased to approx. 15.89 EUR per MWh.

For most of the year, shipment of LNG cargo from Europe and United States of America to Asia were economically unviable. As a result, Europe has, to some extent, been balancing global LNG flows by accepting additional loads. This was particularly noticeable in October and November, when LNG transportation costs were sharply up.

[1] *Source: European Commission. European Economic Forecast Winter 2020.*
[2] *Source: Bank of Lithuania. Lietuvos ekonomikos apžvalga: 2020 m. March.*

One of the highlights of 2019 for the natural gas market was the US decision to impose sanctions on companies constructing the Nord Stream 2 pipeline. According to market analysts, these sanctions will delay the completion of the gas distribution pipeline construction for an indefinite period.

As at 31 December 2019, European natural gas storage filling rate stood at 88%, which was 18% higher than a year ago.

In 2019, 19.6 TWh or 2.2 times more natural gas was supplied from the Klaipėda LNG terminal to customers of Lithuania than in 2018. According to the data of the Lithuanian transmission system operator, the consumption of natural gas in the country was 5% higher than in 2018 and reached 23.5 TWh.

A look at 2020 in Lithuania‘s energy sector

Commented by Vytautas Rimas, Head of Market Regulation at Ignitis Group.

In 2018, following the approval of the new Lithuanian National Energy Independence Strategy (NEIS) and the corresponding plan of measures for the implementation of the strategy, actions for a greener and more secure energy sector were initiated.

In 2019, a number of important political decisions were taken which set the scene for certain measures and actions: adoption of a so-called law on synchronisation with EU funding for this project; the announcement of auctions promoting the development of renewable energy, the decision on smart metering deployment, the renewed model for prosumer development, a record high ranking in “Doing Business 2020” which was partially influenced by the shortened connection time to the grid, etc.

And while the country’s energy sector seems to be moving forward, we are going to face new challenges in 2020.

Since the Astravyets nuclear power plant (NPP) has been a constant topic of discussion, next year we will probably focus on "catching" electrons potentially trying to get to Lithuania from unsafe third-country nuclear power plants. Following the launch of the Astravyets NPP, we will have to agree with Latvia and Estonia on a trade with third countries and regarding isolated work test of the electrical systems in the Baltic States, which is a prerequisite for synchronization with continental Europe.

While household consumers are waiting for smart electricity meters, we will also have to properly prepare for the planned market liberalisation, because the draft laws provide that the first part of the country’s largest household electricity consumers will have to choose their new electricity supplier on 1 January 2021. Accordingly, to make this process for consumers as smooth as possible, awareness raising initiative is expected to start from mid-2020: consumers will learn about the planned stages of liberalization, the benefits and the opportunities they can embrace from this process.

Next year, even bigger breakthrough of prosumers is expected in the area of renewable energy, and a second auction (0.7 TWh) for the allocation of renewable energy promotion allowances is planned in mid-2020. In addition, the development of offshore wind farms in the Baltic Sea will be supported by the conceptual decisions and research in 2020, which should be one of the cornerstones for the successful implementation of the national energy sector goals set by the NENS not only in the short but also in the long term. It is noteworthy that next year not only potential developers, but also municipalities will be engaged in the field of renewable energy. Most of the municipalities (50 out of 60 municipalities) will have to prepare action plans for the use of RES in the period of 2021–2031. Willing to prove that these scenarios do not exist on paper alone, municipalities will also need to recall their Sustainable Urban Mobility Plans prepared some time ago, as some of them will have to stretch to meet the targets for the development of electric vehicle charging stations.

In the field of reliable electricity generation, the year of 2020 will also be exceptional to Lithuania. After a longer break. Vilnius and Kaunas co-generation power plants, which are expected to start the operation in 2020, will bring a new reliably accessible electricity generation capacity in Lithuania to a more significant level (116 MW). It is also expected that, once the necessary legislative changes and the final concept have been decided, auctions of Capacity Mechanisms should take place at the end of next year to ensure the adequacy of the Lithuanian energy system after synchronisation with continental Europe in 2025. For this reason, and the potential impact of these mechanisms on the final consumer electricity bill, this matter will potentially be one of the main topics in the country’s energy heaven next year.

In the light of all these pending tasks, it is to be hoped that the potentially changing political winds will not prevent everyone from marching forward and consolidating on what has been achieved so far.

Published on vz.lt as at December 2019

Securities of the Group

Issuers of shares

The shares of ESO and Ignitis Gamyba are listed on the Nasdaq Vilnius Stock Exchange. The trading in shares of the companies was started on 11 January 2016 and 1 September 2011, respectively. Both companies concluded the securities accounting agreements on the accounting of securities issued and management of personal securities accounts with SEB bankas AB.

Structure of the issued capital and shareholders owning more than 5 per cent of the issuer's issued capital as at 31 December 2019

Company	Number of ordinary registered shares issued	Nominal value per share	Total nominal value of shares (in EUR)	ISIN code	Securities' abbreviation	Trading list	Full name of the shareholder	Voting rights conferred by shares owned,%
Ignitis Gamyba	648,002,629	0.29	187,920,762.41	LT0000128571	LNR1L	Baltic main list	The Company	96.82%
ESO	894,630,333	0.29	259,442,796.57	LT0000130023	ESO1L	Baltic main list	The Company	94.98%

On 4 December 2019, the Extraordinary General Meetings of Ignitis Gamyba and ESO took the decision to delist the shares of these companies from the NASDAQ Vilnius Stock Exchange to approve the Company as the entity who will make a formal offer to buy out the shares of both companies listed on the Nasdaq Vilnius Stock Exchange. At the date of signing this report, the delisting process is not yet completed and the shares of ESO and Ignitis Gamyba are still traded on the Nasdaq Vilnius Stock Exchange.

Debt securities

As at 31 December 2019, the Company had two green bond issues outstanding, both listed on the Luxembourg and NASDAQ Vilnius stock exchanges. Total nominal value of these bonds was EUR 600 million.

Credit rating

In May 2019, credit rating agency S&P Global Ratings affirmed BBB+ credit rating for the Company. However, credit rating outlook was revised from stable to negative. This was mainly impacted by the highest level of Investments in the history of the Group made during 2018-2019 period, which resulted in increase of Net debt and worsened credit metrics.

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Debt securities issued by the Company

Company	Total nominal values of the issue, EUR	ISIN code	Buy-out date
Company	300,000,000.00	XS1646530565	2027.07.14
Company	300,000,000.00	XS1853999313	2028.07.10

Material events

There are no agreements concluded between the Issuer and the members of the management bodies or employees that provide for compensation in case of their resignation or dismissal without a reasonable cause or in case of termination of their employment as a result of the change in control of the Issuer.

No significant agreements were concluded to which the Issuer is a party and which would enter into force, change or terminate as a result of the changed control of the Issuer, as well as their effect, except where because of the nature of the agreements their disclosure would cause significant harm to the Issuer.

During the reporting period, the Issuer did not conclude any harmful agreements (which do not correspond to the Company's objectives, current market conditions, violate the interests of shareholders or other groups of persons, etc.) or agreements concluded in the event of a conflict of interests between the issuer's managers, the controlling shareholders or other related parties obligations to the issuer and their private interests and / or other duties.

Results

Results

Key operating indicators

		2019	2018	Δ	Δ,%
Electricity					
Electricity distributed	TWh	9.55	9.59	-0.04	-0.43%
Electricity generated	TWh	1.06	1.01	0.05	5.26%
Green share of generation	%	97.68%	93.38%	-	4.61%
Green electricity generated	TWh	1.04	0.94	0.10	10.03%
Green Generation capacity	MW	1,350	1,256	94.00	7.48%
Green Generation installed capacity	MW	1,077	1,077	0.00	0.00%
Green Generation projects under construction	MW	210	116	94.00	81.03%
Green Generation projects under development	MW	63	63	0.00	0.00%
Electricity sales in retail market	TWh	5.86	5.91	-0.05	0.84%
Lithuania	TWh	5.03	5.22	-0.19	-3.58%
Latvia	TWh	0.83	0.69	0.14	20.73%
Electricity sales in wholesale market	TWh	4.71	0.70	4.01	574.72%
New connection points and upgrades	units	40,151	30,976	9,175	29.62%
SAIDI	min.	91.79	81.37	10.42	12.81%
SAIFI	units	1.31	1.14	0.17	14.74%
Gas					
Gas distributed	TWh	6.97	7.60	-0.64	-8.39%
Gas sales	TWh	9.83	11.33	-1.50	-13.22%
New connection points and upgrades	units	11,793	14,741	-2,948	-20.00%
SAIDI	min.	1.25	0.61	0.64	106.23%
SAIFI	units	0.008	0.006	0.00	35.93%

Analysis of key operating indicators

Electricity

Distributed electricity in 2019 remained at a similar level and amounted to 9.55 TWh. The distribution of electricity to customers of the independent supply slightly increased by 0.9% and amounted to 6.22 TWh. The volumes of public and guaranteed supply slightly decreased by 2.8% and amounted to 3.33 TWh (2018: 3.42 TWh).

Electricity generation at Kaunas HPP decreased by 21.8% in 2019 compared to 2018 due to a lower level of water in the Nemunas river and amounted to 0.27 TWh. Electricity generation volumes at Kruonis PSHP increased by 14.1% due to higher volatility of electricity market prices and amounted to 0.54 TWh. Electricity generation volumes at the Elektrėnai Complex decreased by 63.2% in 2019 and reached 0.02 TWh (2018: 0.07 TWh). Following the acquisition of Vėjo Vatas and Vėjo Gūsis in November 2018, the volume of electricity generated at wind farms operating in Estonia and Lithuania totalled 0.23 TWh, which is 81.4% more compared to the previous year. Therefore, the share of green electricity generated in 2019 increased to 97.7% from 93.4% in 2018.

SAIDI ratio deteriorated and was 91.79 minutes (2018: 81.37 minutes). SAIFI indicator was equal to 1.31 interruptions (2018: 1.14 interruptions) in 2019. Deterioration of quality indicators of continuous electricity supply due to external impact and increased breakdowns in the medium voltage grids, caused by fallen trees.

During 2019, 40,151 new connection points and upgrades were completed in the electricity distribution network. The number of new electricity connection points and upgrades increased by 29.6%compared to the previous year.

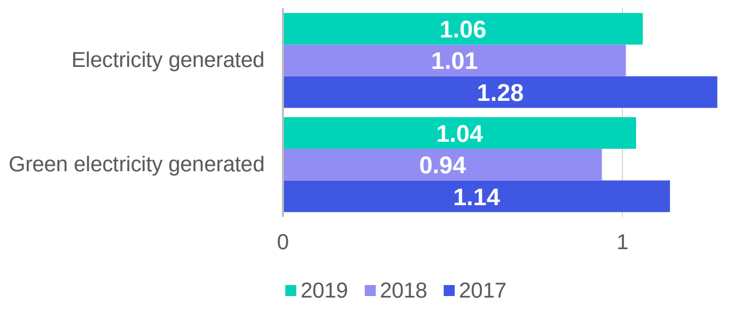
Gas

The volume of gas distributed in 2019 decreased by 8.4% and amounted to 6.97 TWh (2018: 7.60 TWh). In 2019, higher average air temperatures were the main contributor to the reduction in gas distribution, especially during February and March. The volume of gas sold in the retail market decreased by 13.2% and amounted to 9.83 TWh in 2019 (2018: 11.33 TWh). This was mainly influenced by changes in the legal framework. The obligation for regulated energy producers to purchase natural gas supplied through the Klaipėda LNG Terminal from a designated supplier was abolished.

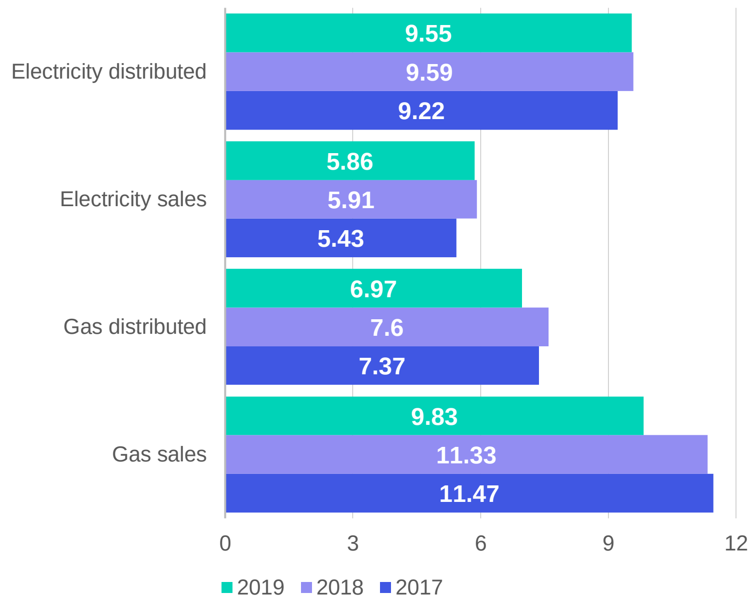
Gas distribution SAIDI ratio deteriorated during 2019 and was 1.25 minutes (2018: 0.61 minutes) and SAIFI ratio was approximately equal to 0.008 interruptions (2018: approx. 0.006 interruptions). Deterioration of the quality indicators mainly resulted from third party's interruption to the network, which affected more customers, compared to 2018.

In 2019, 11,793 new connection points and upgrades were completed in the gas distribution network, which is 20.0% less than during 2018.

Electricity generated, TWh



Electricity distributed and sold, gas distributed and sold, TWh



Key financial indicators

		2019	2018*	Δ	Δ,%
Revenue	EURm	1,090.6	1,070.1	20.6	1.9%
EBITDA APM	EURm	206.8	145.3	61.5	42.3%
EBITDA margin APM	%	19.0%	13.6%	-	-
Adjusted EBITDA APM	EURm	259.6	221.3	38.3	17.3%
Adjusted EBITDA margin APM	%	23.8%	20.7%	-	-
EBIT APM	EURm	82.8	-20.4	103.2	506.0%
Adjusted EBIT APM	EURm	149.7	133.6	16.1	12.1%
Net profit	EURm	59.0	-22.0	80.9	368.4%
Adjusted net profit APM	EURm	106.0	99.0	7.0	7.1%
Investments APM	EURm	455.7	429.3	26.4	6.1%
FFO APM	EURm	187.0	131.4	55.6	42.3%
FOCF APM	EURm	-196.2	-206.9	10.7	5.2%
		2019.12.31	**2018.12.31***	**Δ**	**Δ,%**
Total assets	EURm	3,198.1	2,853.9	344.2	12.1%
Equity	EURm	1,348.6	1,302.5	46.1	3.5%
Net debt APM	EURm	966.5	736.0	230.5	31.3%
Net working capital APM	EURm	-1.4	-19.2	17.8	92.9%
ROE APM	%	4.4%	-1.7%	-	-
Adjusted ROE APM	%	8.0%	7.5%	-	-
ROCE APM	%	3.8%	-1.1%	-	-
Adjusted ROCE APM	%	6.9%	7.0%	-	-
Net debt/EBITDA APM	times	4.67	5.07	-	-
Net debt/Adjusted EBITDA APM	times	3.72	3.33	-	-
FFO/Net debt APM	%	19.3%	17.8%	-	-

** In case of a change of calculation of APM in 2019, respective numbers and ratios for 2018 were recalculated based on the same principles as 2019 numbers and ratios. In 2019 we have changed Adjusted EBITDA and Adjusted net profit formulas. Adjusted EBITDA now includes the following new adjustments: i) elimination of the result of disposal of non-current assets, and ii) cash effect of new connection points and upgrades (please find more information in the "Adjusted EBITDA" section of the report). Adjusted Net profit now includes the following new adjustments: i) elimination of the result of disposal of non-current assets; ii) cash effect of new connection points and upgrades; iii) temporary fluctuations in fair value of derivatives; and iv) changes in market value of emission allowances (please find more information in the "Adjusted net profit" section of the report).*

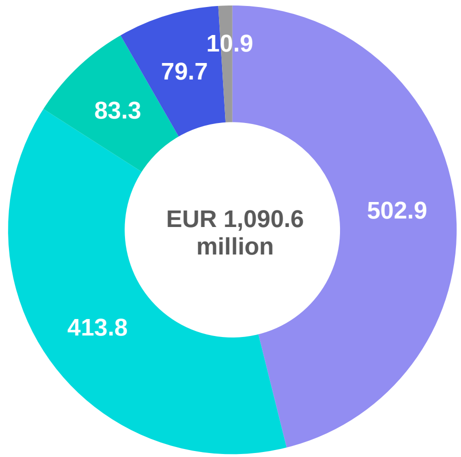
Analysis of Key Financial Indicators

Revenue

Revenue of the Group increased by 1.9% (+EUR 20.6 million) in 2019 as compared to 2018 and totalled EUR 1,090.6 million. The main reasons causing Revenue changes were as follows:

1. **Higher Revenue of the Networks segment (+EUR 32.6 million).** The increase was mainly driven by higher distribution Revenue (EUR 21.1 million) and transmission Revenue (EUR 13.4 million) due to increase of tariffs.
2. **Higher Revenue of the Flexible Generation segment (+EUR 11.7 million).** The segment's Revenue grew mainly because of EUR 9.3 million compensation from the Ministry of Finance of the Republic of Lithuania for the indemnification of potentially inflicted damage by Alstom Power Ltd during the implementation of the project of Lietuvos Elektrinė in 2005–2009. Sales were also boosted by sales of fuel oil stocks that were no longer in use.
3. **Higher Revenue from the Green Generation segment (+EUR 4,9 million).** Revenue growth was driven by two major reasons: the increased portfolio of wind farms (+EUR 6.8 million) and favourable wind conditions (+EUR 2.6 million). The above reasons outweighed lower Revenue of Kaunas HPP and Kruonis PSHP. Revenue of Kaunas HPP decreased due lower generation volumes because of the hydrological drought.
4. **Lower Revenue from the Customers and Solutions segment (-EUR 22.4 million).** The decline was mainly driven by lower gas sales to B2B customers (-EUR 54.3 million) and lower Revenue from derivative instruments (-EUR 36.1 million). Decrease was partly offset by increase of Revenue from public electricity supply activities (+EUR 42.1 million), increase of gas sales to residential customers (+EUR 8.2 million), higher sales of other electricity, gas and related services (+EUR 7.7 million) and increase of retail electricity supply income (+EUR 4.7 million).

Revenue by segment 2019, EURm



In 2019, the Group earned 92.0% of its Revenue in Lithuania (EUR 1,003.7 million). The Group's Revenue from foreign countries (Latvia, Estonia, Poland) increased by 25.4% and reached EUR 87.0 million (2018: EUR 69.3 million).

Revenue by segment, EURm

	2019	2018	Δ	Δ,%
Customers and Solutions	502.9	525.3	(22.4)	-4.3%
Networks	413.8	381.2	32.6	8.5%
Green Generation	83.3	78.3	4.9	6.3%
Flexible Generation	79.7	68.0	11.7	17.1%
Other	10.9	17.1	(6.2)	-36.2%
Revenue	**1,090.6**	**1,070.1**	**20.6**	**1.9%**

Revenue by country, EURm

	2019	2018	Δ	Δ,%	2019,%
Lithuania	1,003.7	1,000.7	2.9	0.3%	92.0%
Other	87.0	69.3	17.6	25.4%	8.0%
Revenue	**1,090.6**	**1,070.1**	**20.6**	**1.9%**	**100.0%**

Expenses

Purchases of electricity and gas

The Group's purchases of electricity and gas amounted to EUR 734.7 million in 2019 and decreased by 7.6% compared to 2018. Decrease was mainly caused by lower gas purchases for trade (-EUR 59.0 million) due to lower sales to business clients and change in regulation of the designated supply model.

SG&A expense

In 2019 SG&A expense was equal to EUR 147.9 million and rose by 15.2% (+EUR 19.5 million). This change was mainly driven by:

1. Increase in repair costs of EUR 8.6 million (or +40.6%) which was mainly caused by increased repair and maintenance works required for the electricity distribution network (+EUR 7.8 million) and the provision for the Elektrėnai complex dismantling projects (+EUR 1.4 million).
2. Increase in Salaries and related expenses by EUR 7.2 million (or +9.1%) which increased mainly due to the Group's average salary growth, which was in line with the average salary growth in the country.

Other operating expenses

Depreciation expenses increased by EUR 22.2 million in 2019 because of the following factors:

1. Increase of non-current assets resulting from new Investments;
2. Increase of non-current assets due to revaluation of distribution network assets at the end of 2018;
3. Impact of IFRS 16.

Impairment expenses and write-offs of property, plant and equipment in 2019 decreased by EUR 73.3 million compared to 2018. This decrease was caused by the effect of revaluation of distribution network assets which was recognized in 2018. While independent valuation resulted in increase of the asset value, for accounting reasons the increase of value of certain assets was recognized in equity under revaluation reserve and loss related to revaluation of certain assets was recognized in the income statement.

Operating expenses, EURm

	2019	2018	Δ	Δ,%
Purchases of electricity and gas	**734.7**	**795.0**	**-60.4**	**-7.6%**
Purchases of electricity and related services	493.6	491.3	2.2	0.5%
Purchases of gas for trade and related services	218.1	277.1	-59.0	-21.3%
Purchases of gas for production	23.0	26.5	-3.6	-13.4%
SG&A expense APM	**147.9**	**128.4**	**19.5**	**15.2%**
Salaries and related expenses	87.0	79.7	7.2	9.1%
Repair and maintenance expenses	29.8	21.2	8.6	40.6%
Other	31.1	27.4	3.7	13.4%
Depreciation charge	109.9	87.7	22.2	25.4%
Impairment expenses and write-offs of property, plant and equipment	13.7	86.9	-73.3	-84.3%
Write-offs and impairments of short term and long-term receivables, inventories and other	1.3	1.4	-0.1	-8.3%
Revaluation of emission allowances	0.4	-8.9	9.4	104.8%
Total operating expenses	**1,007.8**	**1,090.5**	**-82.6**	**-7.6%**

Adjusted EBITDA*

Adjusted EBITDA amounted to EUR 259,6 million in 2019 and was 17.3% or EUR 38.4million higher than in 2018. Adjusted EBITDA margin reached 23.8% (2018: 20.7%).

Adjusted EBITDA by segments

Adjusted EBITDA increased across all segments:

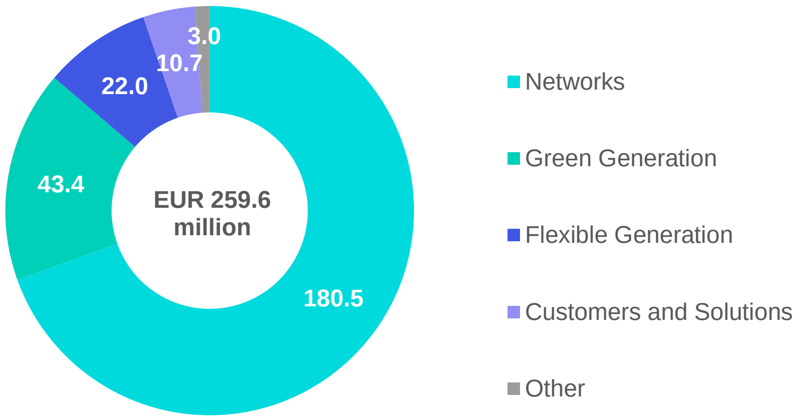
1. **Networks grew by EUR 11.6 million.** The increase was driven by the growing number of new connection points and upgrades in the distribution network, and continued distribution network renewal investments.
2. **Green Generation increased by EUR 5.4 million.** This was mainly influenced by the increased portfolio of the wind farms at the end of 2018 (+EUR 6.0 million), and better result of Kruonis PSHP (+EUR 4.7 million) which was mainly caused by effective utilisation of fluctuations in electricity prices. The growth was negatively impacted by worsened result of Kaunas HPP (-EUR 4.3 million) due to lower water level in Nemunas and also by the increased OPEX of Vilnius and Kaunas CHP projects, as the launch of plants is approaching (-EUR 1.6 million).
3. **Flexible Generation increased by EUR 8.7 million.** Increase was caused by better results of 7th unit of Elektrėnai Complex (+EUR 4.6 million) due to testing of isolated network service provided in 2019 (unit was preserved and did not provide any services in 2018). Gain from sale of fuel oil stocks (+EUR 1.8 million) also had a positive impact.
4. **Customers and Solutions increased by EUR 4.0 million.** The growth was mainly driven by better results of Ignitis Latvija electricity hedging activity (+EUR 3.5 million) and better Ignitis Polska trading activity results (+EUR 1.6 million).
5. **Result from other activities grew by EUR 8.6 million** mainly due to less negative results of EnePRO, activities of which are being terminated (+EUR 8.2 million).

As of 1 January 2019, change of IFRS 16 resulted in operating lease expenses being shifted from SG&A expense to depreciation. As a result, Adjusted EBITDA increased by EUR 3.5 million compared to 2018. This effect is reflected in each segment's Adjusted EBITDA above..

Adjusted EBITDA by segments, EURm

	2019	2018	∆	∆,%	2019,%
Networks	180.5	168.8	11.6	6.9%	69.5%
Green Generation	43.4	38.1	5.4	14.1%	16.7%
Flexible Generation	22.0	13.3	8.7	65.4%	8.5%
Customers and Solutions	10.7	6.7	4.0	59.8%	4.1%
Other	3.0	-5.6	8.6	153.7%	1.2%
Adjusted EBITDA APM	**259.6**	**221.3**	**38.3**	**17.3%**	**100.0%**

Adjusted EBITDA 2019, EURm



**Adjusted EBITDA is based on management adjustments. A more detailed description of the management adjustments is presented in Consolidated and Company Financial statements, Note 42 "Operating segments".*

Adjusted EBITDA by types of activities

In 2019 Adjusted EBITDA of regulated and contracted activities amounted to 82.6% of the total Adjusted EBITDA.

Regulated activities include:

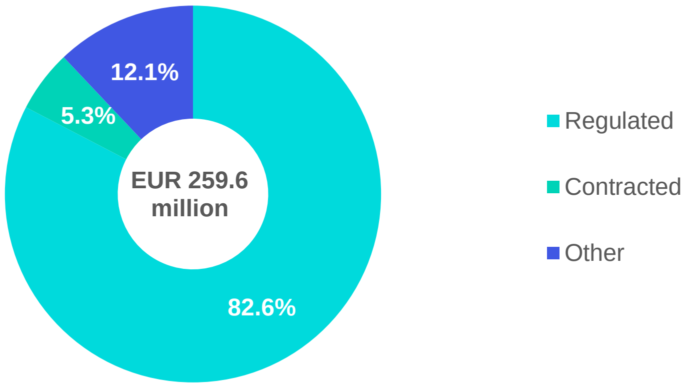
1. Electricity and gas distribution;
2. Strategic reserve and system services provided to the transmission system operator;
3. Public and guaranteed supply of electricity, and gas supply to residents of Lithuania.

Contracted activity includes wind farms with fixed long term feed-in or feed-in premium tariffs.

Adjusted EBITDA by types of activities, EURm

	2019	2018	Δ	Δ,%	2019,%
Regulated	214.5	194.1	20.4	10.5%	82.6%
Contracted	13.8	6.7	7.1	106.1%	5.3%
Other	31.3	20.5	10.8	52.8%	12.1%
Adjusted EBITDA APM	**259.6**	**221.3**	**38.3**	**17.3%**	**100.0%**

Adjusted EBITDA by types of activities 2019, EURm



EBITDA adjustments*

EBITDA adjustments, EURm

	2019	2018	Δ	Δ,%
EBITDA APM	**206.8**	**145.3**	**61.5**	**42.3%**
Adjustments				
Temporary regulatory differences (1)	31.7	81.5	-49.8	-61.1 %
Temporary fluctuations in fair value of derivatives (2)	16.8	-14.9	31.7	213.0%
Cash effect of new connection points and upgrades (3)	16.1	12.5	3.6	29.0%
Other (4)	-11.8	-3.1	-8.7	-281.3%
Total adjustments	**52.8**	**76.0**	**-23.2**	**-30.5%**
Adjusted EBITDA APM	**259.6**	**221.3**	**38.3**	**17.3%**
Adjusted EBITDA margin APM	*23.8%*	*20.7%*	-	-

(1) Elimination of the difference between the actual profit earned during the reporting period and profit allowed by the regulator.

(2) Elimination of temporary fluctuations in the fair value of derivatives related to other periods (including contracts that are settled in the current period but are related to future periods). The Group uses derivatives for economic hedge of electricity and gas supply contracts, however does not fully apply hedge accounting, therefore the management eliminates them when analysing current period results.

(3) According to updated accounting policy, revenues from new connection points and upgrades are recognized throughout the useful life of the newly created infrastructure, even though the cash is received when the new connection point or upgrade is completed. In order to better reflect the cash flow, and results of connection points and upgrades completed in the current period, Revenues are Adjusted, as if they were booked at the moment of connection or connection upgrade.

(4) Other adjustments mostly contains of received compensations related to the previous periods: i) received compensation of EUR 9.28 million for the indemnification of potentially inflicted damage by Alstom Power Ltd during the implementation of the project of the public limited liability company Lietuvos Elektrinė in 2005–2009; ii) compensation received from Litgrid AB for transmission and system services (for January and February 2016). Other adjustments also include add-backs of inventory and receivables impairments and write-offs, as well as elimination of gains or losses from disposal of non-current assets.

** In 2019 the management decided to perform additional EBITDA adjustments: i) Following the retrospective change in accounting policy, to include adjustment for cash effect of new connection points and upgrades in the distribution network; ii) to eliminate the gains or losses from disposals of non-current assets.*
A more detailed description of the management adjustments is presented in Consolidated and Company Financial statements, Note 42 "Operating segments".

Adjusted EBIT

In 2019, Adjusted EBIT amounted to EUR 149.7 million, which was 12.1% higher than in 2018. The increase in Adjusted EBIT was mainly driven by higher Adjusted EBITDA (+EUR 38.3 million) (the reasons behind the increase are described in "Adjusted EBITDA" section) and higher depreciation (-EUR 22.2 million) (the reasons behind the increase are described in "Expenses" section).

Adjusted EBIT by segments, EURm

	2019	2018	Δ	Δ,%
Networks	98.9	111.5	-12.6	-11.3%
Green Generation	30.7	27.3	3.5	12.8%
Flexible Generation	10.4	1.7	8.8	527.4%
Customers and Solutions	3.8	5.5	-1.8	-32.0%
Other	5.9	-12.3	18.3	148.0%
Adjusted EBIT APM	**149.7**	**133.6**	**16.1**	**12.1%**
Adjusted EBIT margin APM	*13.7%*	*12.5%*		

Adjusted net profit

Adjusted net profit amounted to EUR 106.0 million in 2019 and was 7.1% higher than in 2018.
The following effects had the biggest impact:

1. **Higher Adjusted EBITDA** (+EUR 38.3 million) – the reasons behind the increase are described in "Adjusted EBITDA" section.
2. **Higher depreciation expenses** (-EUR 22.2 million) – the reasons behind the increase are described in "Expenses" section.
3. **Higher impairments and write-offs of non-current assets** (-EUR 5.8 million).
4. **Higher financial expenses** (-EUR 3.9 million).

Net profit adjustments include an additional income tax adjustment of 15% (statutory income tax rate in Lithuania) applied on all other adjustments (except for those where income tax is already included in the adjustment calculations).

Adjusted net profit, EURm

	2019	2018	Δ	Δ,%
Adjusted EBITDA APM	**259.6**	**221.3**	**38.3**	**17.3%**
Depreciation and amortisation expenses	-109.9	-87.7	-22.2	-25.4%
Adjusted EBIT APM	**149.7**	**133.6**	**16.1**	**12.1%**
Impairment expenses and write-offs of non-current assets (excluding material one-off non-cash asset revaluation, impairment and write-off effects)	-13.7	-7.9	-5.8	-73.6%
Write-offs of inventories and receivables	-1.3	-1.4	0.1	10.0%
Financial income	2.2	1.6	0.6	35.3%
Financial expenses	-18.8	-14.9	-3.9	-26.4%
Results of the revaluation and closing of derivative financial instruments	0.0	-0.6	0.6	100.0%
Current year income tax (expenses)/benefit	-6.7	-4.6	-2.1	-46.4%
Deferred income tax (expenses)/benefit	-0.4	16.9	-17.3	-102.6%
Adjustments' impact on income tax	-5.0	-23.8	18.8	79.0%
Adjusted net profit APM	**106.0**	**99,0**	**7.0**	**7.1%**

Adjusted net profit adjustments, EURm

	2019	2018	Δ	Δ,%
Net profit	**59.0**	**-22.0**	**80.9**	**368.4%**
Adjustments				
Temporary regulatory differences	31.7	81.5	-49.8	-61.1%
Temporary fluctuations in fair value of derivatives	16.8	-14.9	31.7	213.0%
Cash effect of new connection points and upgrades	16.1	12.5	3.6	29.0%
Material one-off non-cash asset revaluation, impairment and write-off effects	0.0	79.1	-79.1	-100.0%
Other adjustments*	-12.7	-13.4	0.8	5.8%
Adjustments' impact on income tax	-5.0	-23.8	18.8	79.0%
Total adjustments**	**47.0**	**120.9**	**-73.9**	**-61.1%**
Adjusted net profit APM	**106.0**	**99.0**	**7.0**	**7.1%**
Adjusted ROE APM	*8.0%*	*7.5%*	-	-
ROE	*4.4%*	*-1.7%*	-	-

** Other adjustments consist of: i) changes in market value of emission allowances, ii) gains or losses from disposals of non-current assets, and iii) received compensations related to the previous periods.*
*** In 2019 we have changed Adjusted net profit formula. Adjusted Net profit now includes the following new adjustments: i) elimination of the result of disposal of non-current assets; ii) cash effect of new connection points and upgrades; iii) temporary fluctuations in fair value of derivative contracts; and iv) changes in market value of emission allowances. These changes are reflected in both 2018 and 2019 numbers above.*

Reported net profit

Reported net profit in 2019 increased to EUR 59.0 million, compared to net loss of -EUR 22 million in 2018. Reported net profit was higher mainly due to these reasons:

1. Distribution network assets' revaluation completed in 2018 resulted in a negative (EUR 67,9 million)revaluation result accounted on the income statement. It is important to note that net revaluation result was positive (i.e. resulted in increase of distribution network asset value by EUR 76 million), however, the positive part of revaluation result was accounted in the revaluation reserve on the balance sheet.
2. Temporary regulatory differences in the Customers and Solutions segment's public supply activity in 2018 (EUR 34 million). It resulted from the difference between the forecasted electricity market price included in the public supply tariff by the regulatory authority, and the actual market price.

Reconciliation of reported net profit with EBIT and EBITDA, EURm

	2019	2018	Δ	Δ,%
Net profit (losses)	**59.0**	**-22.0**	**80.9**	**368.4%**
Current year income tax expenses	6.7	4.6	2.1	46.4%
Deferred income tax Revenue (expenses)	0.4	-16.9	17.3	102.6%
Profit (loss) before tax	**66.2**	**-34.2**	**100.4**	**293.2%**
Finance income	-2.2	-1.6	-0.6	-35.3%
Financial expenses	18.8	14.9	3.9	26.4%
Results of the revaluation and closing of derivative financial instruments	-	0.6	-0.6	-100.0%
EBIT APM	**82.8**	**-20.4**	**103.2**	**506.0%**
Reversal of depreciation and amortisation expenses	109.9	87.7	22.2	25.4%
Reversal of impairment expenses and write-offs of non-current assets	13.7	86.9	-73.3	-84.3%
Reversal of expenses of the revaluation of emission allowances	0.4	-8.9	9.4	104.8%
EBITDA APM	**206.8**	**145.3**	**61.5**	**42.3%**

Investments

In 2019, Investments amounted to EUR 455.7 million or 6.1% more than in 2018. The largest investments were made in construction of Vilnius and Kaunas CHPs (45.1% from total Investments), electricity distribution network expansion (17.4%) and gas distribution network expansion (9.8%).

Green Generation segment investments increased to EUR 256.5 million in 2019 and were EUR 123.7 million higher than in 2018. Major contributor to that were increased investments in construction of Vilnius and Kaunas CHPs from EUR 113.4 million in 2018 to EUR 205.6 million in 2019. In addition to that, in 2019 we acquired 100% shares of Pomerania, which develops a 94 MW wind farm project in Poland, and started the construction of the wind farm.

Networks segment investments amounted EUR 181.4 million and were lower by EUR 89.9 million compared to 2018. Decrease was mainly driven by lower investments in renewal of the electricity distribution network (EUR 44.5 million in 2019, down from EUR 121.5 million). Investments in the expansion of the electricity distribution network also decreased by EUR 4.5 million and amounted to EUR 79.1 million. 40.2k new connection points and upgrades were completed in the electricity distribution network in 2019, 18.0% more than in 2018. Admissible electric power of new connection points and upgrades reached 446.1 MW in 2019 and was 0.3% higher than in 2018 (444.6 MW). Investments in the expansion of gas distribution network amounted to EUR 45.0 million in 2019 and were EUR 2.7 million lower than in 2018. 504.9 km of the new gas pipelines were constructed in 2019 (614.2 km in 2018).

We received EUR 82.3 million subsidies for our Investments in 2019. Most of it was European Union subsidies for Vilnius CHP project (EUR 60.9million) the remaining subsidies were related to distribution network expansion investments covered by customers benefiting from these investments.

Dynamics of the Group's Investments by segments, EURm

	2019	2018	Δ	Δ,%
Green Generation	256.5	132.8	123.7	93.1%
Networks	181.4	271.3	-89.9	-33.1%
Customers and Solutions	2.1	0.3	1.8	569.2%
Flexible Generation	0.4	1.5	-1.0	-70.2%
Other	15.2	23.4	-8.2	-34.9%
Investments APM	**455.7**	**429.3**	**26.4**	**6.1%**
Subsidies	82.3	43.9	38.5	87.7%
Investments (excl. subsidies)	**373.3**	**385.4**	**-12.1**	**-3.1%**

Balance sheet

Assets

At the end of 2019, total assets reached EUR 3,198.1 million (12.1% growth year-over-year). The increase was mainly influenced by the increase in tangible non-current assets resulting from investments made during 2019.

Equity

At the end of 2019, equity amounted to EUR 1,348.6 million (3.5% growth year-over-year).

Liabilities

Total liabilities increased by 19.2% or EUR 298.1 million during 2019.

Non-current liabilities rose by 15.6% or EUR 181.8 million, which was mainly influenced by the increase in non-current loans (+EUR 85.5 million), and subsidies in relation to Vilnius CHP project (+EUR 59.1 million).

Current liabilities rose by 30.4% or EUR 116.3 million. Bank overdrafts increased the most (+EUR 149.0 million). The increase was partly offset by decreases in current portion of non-current borrowings (-EUR 24.4 million) and amounts payable for gas (-EUR 28.8 million).

Balance sheet, EURm

	2019	2018	Δ	Δ,%
Non-current assets	2,770.6	2,411.0	359.6	14.9%
Current assets	427.5	442.9	(15.4)	-3.5%
TOTAL ASSETS	**3,198.1**	**2,853.9**	**344.2**	**12.1%**
Equity	1,348.6	1,302.5	46.1	3.5%
Total liabilities	1,849.5	1,551.4	298.1	19.2%
Non-current liabilities	1,350.5	1,168.7	181.8	15.6%
Current liabilities	499.0	382.7	116.3	30.4%
TOTAL EQUITY AND LIABILITIES	**3,198.1**	**2,853.9**	**344.2**	**12.1%**
Asset turnover ratio APM	*0.36*	*0.40*	-	-
ROA APM	*1.9%*	*-0.8%*	-	-
Current ratio APM	*0.86*	*1.16*	-	-
Working capital/Revenue APM	*-0.1%*	*-1.8%*	-	-

Financing

Net debt

As of 31 December 2019, Net debt amounted to EUR 966.5 million, an increase of 31.3% or EUR 230.5 million compared to 31 December 2018. The increase was mostly influenced by increase in Gross debt, as cash and cash equivalents remained relatively stable.

During 2019, Gross debt increased by 27.0% or EUR 233.8 million, and on 31 December 2019 amounted to EUR 1,098.3 million (on 31 December 2018 – EUR 864.5 million). The main factor for this increase was financing of investments in Vilnius and Kaunas CHP projects, as well as Pomerania wind farm, which were mainly funded by debt. As a result, bank overdrafts increased by EUR 149.0 million, non-current loans increased by EUR 85.5 million. In addition to that, IFRS 16 was introduced from 1 January 2019, which changed the treatment of operating lease liabilities, which are now required to be capitalized and accounted on the balance sheet. This has resulted in increase of Gross debt by EUR 42.2 million.

FFO/Net debt improved from 17.8% to 19.3%.

Net debt, EURm

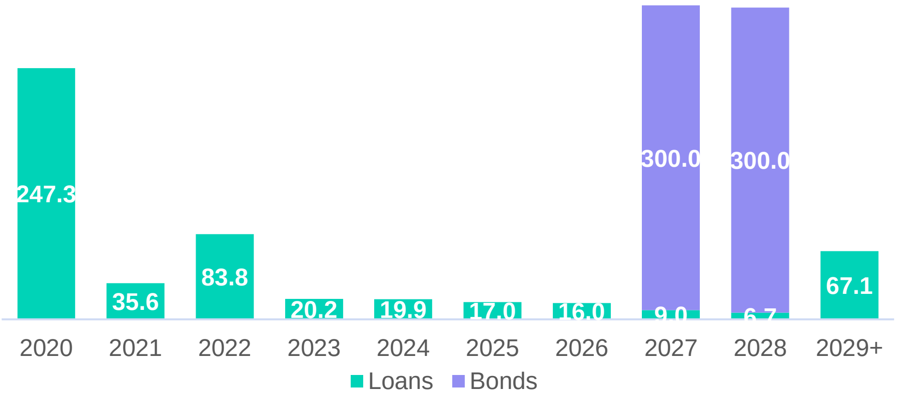
	2019	2018	Δ	Δ,%
Total non-current financial liabilities	**855.7**	**749.7**	**106.0**	**14.1%**
Non-current loans	231.7	146.2	85.5	58.5%
Bonds	590.1	589.0	1.1	0.2%
Other entities	0.0	0.2	-0.2	-100.0%
Interests payable (including accrued)	0.1	0.0	0.1	608.3%
Finance lease	0.0	14.3	-14.3	-100.0%
Lease liabilities (IFRS 16)	33.8	0.0	33.8	100.0%
Total current financial liabilities	**242.6**	**114.8**	**127.8**	**111.4%**
Current portion of non-current loans	37.5	61.8	-24.4	-39.4%
Current loans	0.0	0.0	0.0	0.0%
Current portion of finance lease liabilities	0.0	5.2	-5.2	-100.0%
Lease liabilities (IFRS 16)	8.4	0.0	8.4	100.0%
Banks overdrafts	191.3	42.3	149.0	352.6%
Interests payable (including accrued)	5.4	5.5	0.0	-0.3%
Gross debt	**1,098.3**	**864.5**	**233.8**	**27.0%**
Cash, cash equivalents and short-term investments	**131.8**	**128.5**	**3.3**	**2.6%**
Cash and cash equivalents	131.8	127.8	4.0	3.1%
Short-term investments	0.0	0.7	-0.7	-100.0%
Net debt APM	**966.5**	**736.0**	**230.5**	**31.3%**
Net debt / Adjusted EBITDA APM	*3.72*	*3.33*	-	-
FFO / Net debt APM	*19.3%*	*17.8%*	-	-
Gross debt/Equity APM	*81.4%*	*66.4%*	-	-
Equity ratio APM	*42.2%*	*45.6%*	-	-

Maturities

Green bonds, which mature in 2027 (EUR 300.0 million) and in 2028 (EUR 300.0 million) make the largest portion of the Group's financial liabilities.

The average maturity of the borrowings as at 31 December 2019 was 6.3 years (31 December 2018: 7.6 years).

Group's borrowings repayment schedule, EURm



Interest rate, currency, and liquidity risk

On 31 December 2019, borrowings amounting to EUR 700.0 million were subject to the fixed interest rate (72.4% of the total borrowings) and the remaining amount of borrowings was subject to the floating interest rate. All borrowings were in EUR.

The Group manages liquidity risk by entering into the credit line agreements with banks. On 31 December 2019, undrawn credit line facilities amounted to EUR 108.7 million. All the credit lines are committed, i.e. funds have to be paid by the bank upon request. At the end of 2019, current ratio was at 0.86 (2018: 1.16).

Cash flows

Net cash flows from operating activities (CFO) amounted to EUR 177.2 million in 2019. CFO remained stable compared to 2018.

Net cash flows from investing activities (CFI) amounted to EUR 347.3 million in 2019. Compared to 2018, CFI were less negative and increased by 5.2% (EUR 19.2 million).

Net cash flows from financing activities (CFF) amounted to EUR 25.1 million in 2019. Compared to 2018, CFF fell by 77.7% (EUR 87.3 million). The net cash flows from financing activities were mainly influenced by bonds issued in 2018.

In 2019, the Group's FFO ratio increased by 42.3% (EUR 55.6 million) and amounted to EUR 187.0 million. The main reason for the growth was growth in EBITDA.

Cash flows, EURm

	2019	2018	Δ	Δ,%
Cash and cash equivalents (including overdraft) at the beginning of the period	**85.6**	**161.1**	**-75.5**	**-46.9%**
CFO	177.2	178.5	-1.4	-0.8%
CFI	-347.3	-366.5	19.2	5.2%
CFF	25.1	112.4	-87.3	-77.7%
Increase (decrease) in cash and cash equivalents (including overdraft)	**-145.0**	**-75.5**	**-69.5**	**92.0%**
Cash and cash equivalents (including overdraft) at the end of period	**-59.4**	**85.6**	**-145.0**	**-169.4%**
FFO APM	*187.0*	*131.4*	*55.6*	*42.3%*
FOCF APM	-196.2	-206.9	10.7	5.2%

Five-year summary

Key operating indicators

		2019	2018	2017	2016	2015
Electricity						
Electricity distributed	TWh	9.55	9.59	9.22	8.98	8.53
Electricity generated	TWh	1.06	1.01	1.28	1.49	2.01
Green share of generation	%	97.68%	93.38%	89.14%	67.13%	48.30%
Green electricity generated	TWh	1.04	0.94	1.14	1.00	1.00
Green Generation capacity	MW	1,350	1,256	1,159	1,159	1,117
Green Generation installed capacity	MW	1,077	1,077	1,043	1,043	1,001
Green Generation projects under construction	MW	210	116	116	0	0
Green Generation projects under development	MW	63	63	0	116	116
Electricity sales in retail market	TWh	5.86	5.91	5.43	4.93	4.49
Lithuania	TWh	5.03	5.22	4.78	4.79	4.49
Latvia	TWh	0.83	0.69	0.66	0.14	-
Electricity sales in wholesale market	TWh	4.71	0.70	0	-	-
New connection points and upgrades	th. units	40.15	30.98	29.64	29.36	28.50
SAIDI	min.	91.79	81.37	137.83	172.92	106.53
SAIFI	units	1.31	1.14	1.32	1.25	1.06
Gas						
Gas distributed	TWh	6.97	7.60	7.37	7.39	6.83
Gas sales	TWh	9.83	11.33	11.47	11.31	14.49
New connection points and upgrades	th.units	11.79	14.74	12.53	5.29	4.08
SAIDI	min.	1.25	0.606	1.161	0.529	1.034
SAIFI	units	0.008	0.006	0.007	0.006	0.007

Key financial indicators

		2019	2018*	2017*	2016*	2015*
Revenue	EURm	1,090.6	1,070.1	1,100.8	1,101.6	1,095.8
EBITDA APM	EURm	206.8	145.3	227.2	232.8	172.8
EBITDA margin APM	%	19.0%	13.6%	20.6%	21.1%	15.8%
Adjusted EBITDA APM	EURm	259.6	221.3	238.2	233.9	215.8
Adjusted EBITDA margin APM	%	23.8%	20.7%	21.6%	21.2%	19.7%
EBIT APM	EURm	82.8	-20.4	97.1	147.4	65.1
Adjusted EBIT APM	EURm	149.7	133.6	150.9	155.3	141.6
Net profit	EURm	59.0	-22.0	93.5	118.4	55.3
Adjusted net profit APM	EURm	106.0	99.0	126.7	117.9	122.5
Investments APM	EURm	455.7	429.3	253.4	240.5	150.4
FFO APM	EURm	187.0	131.4	223.1	216.1	171.1
		2019.12.31	2018.12.31	2017.12.31	2016.12.31	2015.12.31
Total assets	EURm	3,198.1	2,853.9	2,505.1	2,432.2	2,339.2
Equity	EURm	1,348.6	1,302.5	1,343.6	1,319.5	1,304.5
Net debt APM	EURm	966.5	736.0	442.3	315.8	251.8
Working capital APM	EURm	-1.4	-19.2	-8.8	-34.0	-8.5
ROE APM	%	4.4%	-1.7%	7.0%	9.0%	4.2%
Adjusted ROE APM	%	8.0%	7.5%	9.5%	9.0%	9.4%
ROA APM	%	1.9%	-0.8%	3.8%	5.0%	2.3%
ROCE APM	%	3.8%	-1.1%	5.7%	9.2%	4.3%
Adjusted ROCE APM	%	6.9%	7.0%	8.8%	9.7%	9.3%
Equity ratio APM	%	42.2%	45.6%	53.6%	54.3%	55.8%
Net debt/EBITDA APM	times	4.67	5.07	1.95	1.36	1.46
Net debt/Adjusted EBITDA APM	times	3.72	3.33	1.86	1.35	1.17
FFO/Net debt APM	%	19.3%	17.8%	47.8%	64.9%	65.1%
Current ratio APM	times	0.86	1.16	1.29	1.05	1.05
Working capital/Revenue APM	%	-0.1%	-1.8%	-0.8%	-3.1%	-0.8%

** In case of a change of calculation of APM in 2019, respective numbers and ratios for 2015-2018 were recalculated based on the same principles as 2019 numbers and ratios. In 2019 we have changed Adjusted EBITDA and Adjusted net profit formulas. Adjusted EBITDA now includes the following new adjustments: i) elimination of the result of disposal of non-current assets, and ii) cash effect of new connection points and upgrades (please find more information in the "Adjusted EBITDA" section of the report). Adjusted Net profit now includes the following new adjustments: i) elimination of the result of disposal of non-current assets; ii) cash effect of new connection points and upgrades; iii) temporary fluctuations in market value of derivative contracts; and iv) changes in market value of emission allowances (please find more information in the "Adjusted net profit" section of the report).*

Fourth quarter

Revenue

In 2019 Q4, compared to 2018 Q4, Revenue decreased mainly due to lower gas sales to business customers (-EUR 27.0 million).

Adjusted EBITDA

In 2019 Q4, compared to the same period last year, Adjusted EBITDA increased by EUR 7.4 million. The growth was mainly influenced by EUR 5.1 million higher Adjusted EBITDA of the Customers and Solutions segment.

Adjusted net profit

Adjusted net profit remain relatively unchanged in Q4 2019 compared to the same period last year.

Investments

Investments in 2019 Q4 decreased because of the following reasons:

1. Investments in renewal of the electricity distribution network decreased by EUR 22.4 million;
2. Vehicle fleet upgrade happened in 2018 Q4 (-EUR 15.9 million);
3. Investments in expansion of the gas distribution network decreased by EUR 9.9 million;
4. Investments in expansion of the electricity distribution network decreased by EUR 6.1 million.

Financial indicators, EURm

	2019 Q4	2018 Q4	Δ	Δ,%
Revenue	285.6	317.4	-31.8	-10.0%
EBITDA APM	53.4	34.1	19.3	56.6%
EBITDA margin APM	18.7%	10.7%	-	-
Adjusted EBITDA APM	74.1	66.7	7.4	11.1%
Adjusted EBITDA margin APM	26.0%	21.0%	-	-
EBIT APM	18.3	-72.4	90.7	125.3%
Adjusted EBIT APM	48.4	43.3	5.1	11.7%
Net profit	15.0	-54.4	69.4	127.6%
Adjusted net profit APM	32.7	32.2	0.5	1.5%
Investments APM	120.5	177.3	-56.8	-32.1%
FFO APM	50.2	32.9	17.3	52.7%

Quarterly summary, 2018–2019

Financial indicators, EURm

		2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1
Revenue	EURm	285.6	251.8	222.5	330.7	317.4	215.5	225.9	311.3
EBITDA APM	EURm	53.4	48.4	50.7	54.2	34.1	4.9	51.4	54.8
EBITDA margin APM	%	18.7%	19.2%	22.8%	16.4%	10.7%	2.3%	22.8%	17.6%
Adjusted EBITDA APM	EURm	74.1	52.6	54.7	78.2	66.7	35.3	46.9	72.4
Adjusted EBITDA margin APM	%	26.0%	20.9%	24.6%	23.6%	21.0%	16.4%	20.7%	23.3%
EBIT APM	EURm	18.3	17.9	20.5	26.0	-72.4	-17.3	30.7	38.6
Adjusted EBIT APM	EURm	48.4	24.2	26.0	51.2	43.3	14.1	25.1	51.1
Net profit	%	15.0	19.5	7.5	17.0	-54.4	-25.6	26.5	31.4
Adjusted net profit APM	%	32.7	22.4	11.7	39.2	32.2	-1.2	19.0	40.1
Investments APM	EURm	120.5	98.1	138.1	99.0	177.3	102.6	91.6	57.8
FFO APM	EURm	50.2	42.5	47.2	47.0	32.9	-3.5	49.7	50.6
		2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1
Total assets	EURm	3,198.1	3,078.5	2,999.5	2,974.6	2,853.9	2,716.5	2,552.1	2,468.1
Equity	EURm	1,348.6	1,342.0	1,325.6	1,323.0	1,302.5	1,257.6	1,267.9	1,315.5
Net debt APM	EURm	966.5	925.4	842.0	761.2	736.0	599.2	557.7	477.7
Net working capital APM	EURm	-1.4	11.8	-18.4	-37.5	-19.2	-30.7	-4.0	25.4
ROE (LTM) APM	%	4.4%	-0.8%	-4.3%	-2.8%	-1.7%	3.9%	7.7%	7.8%
Adjusted ROE (LTM) APM	%	8.0%	8.1%	6.3%	6.8%	6.8%	7.5%	9.7%	10.1%
ROCE(LTM) APM	%	3.8%	-0.4%	-2.2%	-1.7%	-1.1%	3.6%	6.3%	6.2%
Adjusted ROCE (LTM) APM	%	6.9%	7.0%	6.7%	6.9%	7.0%	7.8%	8.6%	8.7%
Net debt/EBITDA (LTM) APM	times	4.67	4.94	5.85	5.26	5.07	3.17	2.42	2.08
Net debt/Adjusted EBITDA (LTM) APM	times	3.72	3.67	3.58	3.35	3.33	2.64	2.35	1.99
FFO/Net debt (LTM) APM	%	19.3%	18.3%	14.7%	16.9%	17.8%	28.8%	39.4%	47.2%

Alternative performance measures

Indicator	Formula	Definition	Meaning and interpretation of indicator
Adjusted EBIT	Adjusted EBITDA - Depreciation and amortisation expenses	Adjusted EBITDA less depreciation and amortization expenses	Adjusted EBIT is a profit measure, which allows for a more reliable comparison of the Group's results over time and with peers, than EBIT.
Adjusted EBIT margin	Adjusted EBIT / Revenue	Profitability ratio, which shows Adjusted EBIT as a percentage of revenue	The higher the indicator value, the higher the profitability of the Group.
Adjusted EBITDA	EBITDA + Temporary regulatory differences + Temporary fluctuations in fair value of derivatives + Cash effect of new connection points and upgrades + Add-back of inventory and receivables impairments and write-offs + Elimination of gains or losses from disposal of non-current assets + Other items which are non-recurring, and/or non-cash, and/or related to other periods, and/or non-related to the main activities of the Group.	EBITDA after eliminating items, which are non-recurring, and/or non-cash, and/or related to other periods, and/or non-related to the main activities of the Group, and after adding back items, which better reflect the result of the current period	Adjusted EBITDA is a key measure of the Group's performance, used as a measure for Group's targets. This indicator allows for a more reliable comparison of the Group's results over time and with peers, than EBITDA.
Adjusted EBITDA margin	Adjusted EBITDA / Revenue	Profitability ratio, which shows Adjusted EBITDA as a percentage of revenue	The higher the indicator value, the higher the profitability of the Group. The indicator is also useful for monitoring Group's efficiency. The higher the Adjusted EBITDA margin of the Group, the lower the Group's operating expenses compared to Revenue, and the higher the efficiency.
Adjusted net profit	Adjusted EBIT + Impairment expenses and write-offs of non-current assets, inventories and receivables + Financial income - Financial expenses + Results of the revaluation and closing of derivative financial instruments - Current year income tax expenses - Deferred income tax expenses - Adjustments' impact on income tax	Net profit after eliminating items which are non-recurring, and/or related to other periods, and/or non-related to the main activities of the Group, and after adding back items, which better reflect the result of the current period	This is one of the key indicators that measures profitability of the Group. It is also used for computing Adjusted ROE, which is another key indicator of the Group's performance
Adjusted return on equity (Adjusted ROE)	Adjusted net profit / Average equity at the beginning and end of the reporting period	Profitability ratio of Adjusted net profit in relation to equity.	Adjusted ROE is a key measure of Group's performance, used for setting up and monitoring of Group's targets. Shareholder of the Group expresses expectation in terms of Adjusted ROE. Adjusted return on equity shows how effectively the company is using shareholders' capital to generate profits.
Asset turnover ratio	Revenue / Average assets at the beginning and end of the reporting period	Efficiency ratio, which measures revenues relative to total assets.	The indicator shows the effectiveness of use of the Group's assets. A higher value indicates a higher degree of effectiveness in managing the assets.
Current ratio	Current assets at the end of the period / Current liabilities at the end of the period	Liquidity ratio, which shows how many times current assets cover current liabilities	Current ratio shows the ability of the company to meet its current liabilities by using it's current assets and reflects the liquidity position of the company. The higher the ratio, the better the liquidity position.
Gross debt/Equity	Gross debt / Equity	Leverage ratio, which measures of the degree to which a company is financing its operations through debt versus equity	The lower the indicator value, the greater the Group's ability to meet its financial liabilities and attract new debt capital. It is one of the indicators specified in the Group's dividend policy.
EBIT	Profit (loss) before tax - finance income + financial expenses + results of the revaluation and closing of derivative financial instruments	EBIT – earnings before interest and tax expenses are deducted	Profit measure used as a proxy for operating cash flow, after accounting for estimate of capital expenditures through depreciation and amortization expenses.
EBIT margin	EBIT / Revenue	Profitability ratio, which shows EBIT as a percentage of revenue	The higher the indicator value, the higher the profitability of the Group.

Indicator	Formula	Definition	Meaning and interpretation of indicator
EBITDA	Profit (loss) before tax - finance income + financial expenses + results of the revaluation and closing of derivative financial instruments + depreciation and amortisation + revaluation, impairments (reversals), and write-offs of property, plant and equipment + changes in market value of emission allowances + impairments (reversals) of long term amounts receivable and loans	EBITDA – earnings before interest, taxes, depreciation, and amortization	Profit measure used as a proxy for operating cash flow.
EBITDA margin	$\frac{\text{EBITDA}}{\text{Revenue}}$	Profitability ratio, which shows EBITDA as a percentage of revenue	The higher the indicator value, the higher the profitability of the Group.
Equity ratio	$\frac{\text{Equity at the end of the period}}{\text{Total assets at the end of the period}}$	Leverage ratio, which shows the proportion of the total assets financed by equity	This indicator shows the share of equity in the capital structure. The lower the ratio, the more the Group depends on debt financing to fund its activities.
Free Operating Cash Flow (FOCF)	Cash flows from operating activities - Investments	Free operating cash flow is the cashflow remaining to the company after covering operating and capital expenditures	The higher the FOCF, the more cash flow is available for shareholders and lenders of the company. If FOCF is negative, the company needs to raise additional financing to fund its operations.
Funds from operations (FFO)	EBITDA + interest received - interest paid - current year income tax	FFO is the proxy for Company's cashflow after taking into account EBITDA, net interest, and income tax expenses.	FFO shows the Group's ability to generate cash from operations. Indicator is used during the credit rating review process of the Group.
Investments	Investments to non-current tangible and intangible assets and shares in other companies	Capital spent on acquiring non-current tangible and intangible assets, as well as shares in other companies	Indicator shows the amount of capital the Group spends on acquiring, upgrading, and repairing non-current tangible and intangible assets, as well as shares in other companies. This is one of the main indicators that significantly impacts the Group's cash flows and leverage levels.
Net debt	Gross debt - cash and cash equivalents - other financial assets	Net debt is the total financial liabilities of the Group, net of cash and cash equivalents, and short-term investments	Net debt shows the level of indebtedness of the Group, if its cash and cash equivalents, and short-term investments were used to pay out the outstanding debt. Indicator is used during the credit rating review process of the Group.
Net debt/Adjusted EBITDA	$\frac{\text{Net debt}}{\text{Adjusted EBITDA}}$	Leverage ratio, which shows the Group's ability to repay its debt from the profit earned.	The value of the indicator shows how many years it would take for the Group to pay back its debt if Net debt and Adjusted EBITDA were held constant. The lower the indicator value, the greater the Group's ability to cover its financial liabilities from the profit earned. This is one of the key indicators of the Group's leverage level.
Net debt/EBITDA	$\frac{\text{Net debt}}{\text{EBITDA}}$	Leverage ratio, which shows the Group's ability to repay its debt from the profit earned	The value of the indicator shows how many years it would take for the Group to pay back its debt if Net debt EBITDA were held constant. The lower the indicator value, the greater the Group's ability to cover its financial liabilities from the profit earned. Indicator is used during the credit rating review process of the Group.
Return on assets (ROA)	$\frac{\text{Net profit (loss)}}{\text{Average assets at the beginning and end of the reporting period}}$	Profitability ratio, which shows how well the Group employs it's total assets	The indicator shows how well the Group utilizes its assets to generate profit.. A higher indicator value shows higher profitability of the Group's total assets.
Return on Capital Employed (ROCE)	$\frac{\text{EBIT}}{\text{Average net debt at the beginning and end of the reporting period + average equity at the beginning and end of the reporting period}}$	Profitability ratio, which shows how well the Group employs it's capital	The indicator shows how well the Group utilizes its capital employed to generate profit. A higher indicator value shows higher profitability of the Group's capital employed..
Return on equity (ROE)	$\frac{\text{Net profit (loss)}}{\text{Average equity at the beginning and end of the reporting period}}$	Profitability ratio of net profit in relation to equity.	ROE is a measure of Group's performance. Return on equity shows how effectively the company is using shareholders' capital to generate profits.

Indicator	Formula	Definition	Meaning and interpretation of indicator
Selling, General & Administrative Expense (SG&A)	Total operating expenses - purchases of electricity, gas for trade, and related services, gas for production - reversals - impairments - revaluations - write-offs - expenses related to emission allowances, their revaluation and provisions - short-term and low-value lease	Expenses not directly tied to making a product or performing a service.	This indicator helps management to evaluate the effectiveness of the Group's operations by monitoring the overhead expenses.
Net working capital	Current assets (excluding non-current assets held for sale) - cash and cash equivalents - other financial assets - current liabilities + current portion of non-current loans + current loans + lease liabilities	Net working capital shows the amount of capital, other than that used for investing in non-current assets, tied in business operations.	Net working capital is a measure of operating efficiency. The lower the net working capital, the more efficient the company's operations and use of funds.
Net working capital/Revenue	$\frac{\text{Net working capital}}{\text{Revenue}}$	Efficiency ratio, which shows Net working capital as proportion of Revenue	Net working capital/Revenue is a measure of operating efficiency. The lower the indicator, the more efficient the company's operations and use of funds.

For those indicators, which consist of a number from the balance sheet as a numerator and a number from the income statement or the cash flow statement as a denominator (or vice versa), for interim period calculations LTM figures are used in order not to distort the comparability.

Other definitions

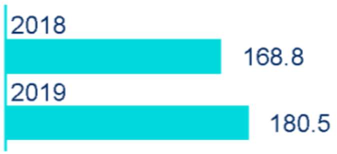
Indicator	Method of indicator calculation	Definition	Meaning and interpretation of indicator
Gross debt	Non-current loans and bonds + non-current lease liabilities + current portion of non-current loans + current loans + current lease liabilities	Total debt of the Group	Indicator shows the level of debt of the Group.
Revenue	Revenue from contracts with customers + other income	Revenue of the Group's main and other activities.	Indicator shows revenues generated by the Group.

Operating segments

Operating segments

Networks

Adjusted EBITDA (EURm)

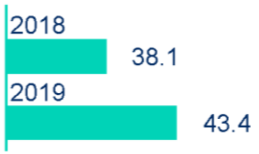


Main indicators 2019 (EURm)

Revenue	413.8
Adjusted EBIT	98.9
Adjusted net profit	73.3
Investments	181.4
Net debt	657.7

Green Generation

Adjusted EBITDA (EURm)

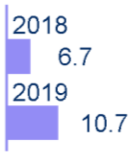


Main indicators 2019 (EURm)

Revenue	83.3
Adjusted EBIT	30.7
Adjusted net profit	25.8
Investments	256.5
Net debt	278.5

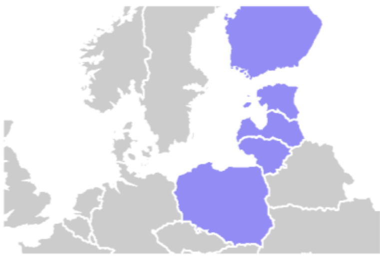
Clients and Solutions

Adjusted EBITDA (EURm)



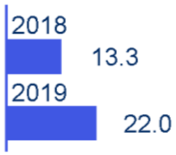
Main indicators 2019 (EURm)

Revenue	502.9
Adjusted EBIT	3.8
Adjusted net profit	-1.1
Investments	2.1
Net debt	91.2



Flexible Generation

Adjusted EBITDA (EURm)



Main indicators 2019 (EURm)

Revenue	79.7
Adjusted EBIT	10.4
Adjusted net profit	10.6
Investments	0.4
Net debt	-43.2

APM *All indicators provided in this page (except Revenue) are considered as Alternative Performance Measures.*

Networks

Strategy

Our strategic focus is on reliable and efficient energy distribution. We enable energy transition and evolution.

Our distribution activities are based on our local electricity and gas distribution networks by ensuring reliability and efficiency of distribution services as well as connecting new customers to our networks. We continuously invest to modernize our distribution network to ensure its stability, reliability and energy efficiency for 100% of Lithuanian business and residential customers. We implement smart solutions and seek to create favourable conditions for competition in the energy market through efficient infrastructure management.

Acting as an enabler is at our core. We enable renewable energy expansion (by facilitating grid connections and empowering prosumers and decentralised generation), innovations (through sandboxes for start-ups and ensuring grid capacity for EV networks) and energy market efficiency (through smart meter roll out and creation of data hub).

Our strategic directions are aligned with the National Energy Independence Strategy.

2019 review

In 2019, we renewed distribution strategy for 2030. The actions outlined in the distribution strategy will provide customers with the best experience in terms of infrastructure reliability and expertise, as well as diversity of services and pricing. Empowering infrastructure will allow market participants to develop and provide services that meet individual needs of each customer.

Continuing the refinement of distribution operations, in Q1 2019 non-regulated services were discontinued: heat pumps and solar power plants, sales of electric vehicle charging stations, gas cylinder terminals, “Electrician to the house” and “Gasman to the house” services.

In July, distribution system operator ESO announced the updated 10-year Investment plan of EUR 1.83bn with focus on three main directions during 2019-2028: network reliability, smart network, customer experiences and market facilitation. These Investments will aim to significantly improve the resilience of the network to force majeure, its intelligence and efficiency, and to enhance network security.

In September, the general shareholder meeting of distribution network operator ESO approved the initiative of the majority shareholder to include a representative of employees and one independent member in the Supervisory Board.

As a part of the implementation of the smart meter installation programme, following public discussions, NERC approved Investments of EUR 147 million for the smart meter project. NERC statement indicates that the conducted cost-benefit analysis was positive. According to the chosen optimal plan, 1.2 million smart meters will be installed by the end of 2023. This will cover about 90 percent of electricity consumed in the distribution network.

A number of tenderers showed a great interest in the smart meter programme procurement procedure.

Customer self-service system was updated in September 2019, focusing on the infrastructure activities and services of the operator. Actions to facilitate the connection of prosumers and remote prosumers to the distribution network were implemented.

In October 2019, Transparency International Lithuanian branch recognized distribution operator ESO as one of the most transparent Lithuanian companies.

As a result of the distribution network operator’s progress made in connecting new customers to the electricity network, Lithuania climbed to the 15th place (up 11 places since last year) in “Getting Electricity” ranking of the World Bank’s Doing Business 2020 survey. This helped to raise the country’s overall ranking to 11th place (up 3 places since last year) among 190 economies in the world.

Plans

Enhancement of quality and efficiency of distribution activities will continue to be pursued in the future: implementation of smart meter roll out and digitization projects, implementation of measures to improve service quality and customer satisfaction, preparation for the new electricity network regulatory period.

Priority activities: implementation of smart metering program and data hub project (data collection and exchange platform) on time and on schedule. There is also a greater focus on enhancing the customer experience.

Operating performance in 2019

Electricity distribution

Distributed electricity in 2019 remained at a similar level as in 2018 and amounted to 9.55 TWh. The distribution of electricity to customers of the independent supply slightly increased by 0.9% and amounted to 6.22 TWh. The volumes of public and guaranteed supply decreased by 2.8% and amounted to 3.33 TWh (2018: 3.42 TWh).

SAIDI ratio deteriorated and reached 91.79 minutes (2018: 81.37 minutes). SAIFI indicator was equal to 1.31 interruptions (2018: 1.14 interruptions). Deterioration of electricity distribution network quality indicators was caused by external factors and increased breakdowns in the medium voltage grids, caused by fallen trees.

During 2019, 40,151 new connection points and upgrades were established in the electricity distribution network, an increase of 29.6% compared to the previous year.

Gas distribution

The volume of gas distributed in 2019 decreased by 8.4% and amounted to 6.97 TWh (2018: 7.60 TWh). In 2019, higher average air temperatures were the main contributor to the reduction in gas distribution especially during February and March compared to the same period in 2018.

SAIDI ratio deteriorated during 2019 and was 1.25 minutes (2018: 0.61 minutes). SAIFI ratio was approximately equal to 0.008 interruptions (2018: approx. 0.006 interruptions). Deterioration of gas distribution network quality indicators mainly resulted from third party network interruptions, which affected more customers compared to 2018.

11,793 new connection points and upgrades were established in the gas distribution network, or 20.0% less than last year.

Networks key operating indicators

		2019	2018	Δ,%
Electricity				
Electricity distributed	TWh	9.55	9.59	-0.4%
Independent supply	TWh	6.22	6.17	0.9%
Public supply	TWh	2.86	2.91	-1.8%
Guaranteed supply	TWh	0.47	0.51	-8.8%
Electricity distribution network	th. km	125.50	125.08	0.3%
Technological costs in electricity distribution network	%	6.3%	6.0%	0.3%
New connection points and upgrades	th	40.2	31.0	29.6%
Time to connect (average)	c. d.	32.0	46.3	-30.9%
SAIDI	min.	91.79	81.37	12.8%
SAIFI	unit	1.31	1.14	14.7%
Gas				
Gas distributed	TWh	6.97	7.60	-8.4%
Gas distribution network	th. km	9.48	8.95	5.9%
Technological costs in gas distribution network	%	2.2%	2.1%	0.1%
New connection points and upgrades	th	11.8	14.7	-20.0%
Time to connect (average)	c. d.	65.1	87.7	-25.8%
SAIDI	min.	1.25	0.61	106.2%
SAIFI	unit	0.008	0.006	35.9%

Financial results in 2019

In 2019, Networks Revenue reached EUR 413.8 million and was 8.5% or EUR 32.6 million higher than in 2018. The increase was mainly driven by higher distribution Revenue (+EUR 21.1 million) and transmission Revenue (+EUR 13.4 million) mainly due to higher tariffs. Adjusted EBITDA increased by 6.9% or EUR 11.6 million, which was driven by growing number of new customers and upgrades in the electricity distribution network, as well as continued electricity distribution network renewal Investments. Adjusted net profit decreased by 21.2% due to higher depreciation expenses.

Segment's property, plant and equipment, intangible and right-of-use assets increased by 8.1% or EUR 121.9 million following Investments made. However, compared to 2018, Investments decreased by EUR 89.9 million or 33.1%, mainly as a result of EUR 77.0 million lower Investments in renewal of the electricity distribution network.

Main financial results of Networks segment, EURm

	2019	2018	Δ,%
Revenue	413.8	381.2	8.5%
Adjusted EBITDA APM	180.5	168.8	6.9%
Adjusted EBIT APM	98.9	111.5	-11.3%
Adjusted net profit APM	73.3	83.1	-11.8%
Property, plant and equipment, intangible and right-of-use assets	1,628.8	1,506.9	8.1%
Net debt APM	657.7	625.2	5.2%
Investments APM	181.4	271.3	-33.1%
Adjusted EBITDA margin,% APM	43.6%	44.3%	-
Net debt/Adjusted EBITDA APM	3.64	3.70	-

Green Generation

Strategy

Green Generation segment is Ignitis Group's key driver towards sustainable growth and decarbonization. In 2019 we joined the Initiative of the United Nations and other international organizations "Business Ambition for 1.5°C" and committed to reducing net carbon dioxide (CO2) emissions to zero by 2050.

We target to reach 3000 MW (excluding hydro assets) of installed renewable energy capacity by 2030 and rely on a growing pipeline of renewable projects. Accordingly, we promote the use of renewable energy resources and contribute to the initiatives intended to address climate change and achievement of sustainable development goals.

Onshore wind, offshore wind, waste-to-energy, biomass and solar are our target technologies. Our core focus is on home markets - Baltic countries and Poland. We also explore new opportunities in countries on the energy transformation path.

2019 review

At the end of 2019, we operated a Green Generation portfolio with a total installed capacity of 1.1 GW, which included hydro and wind assets.

During the year our portfolio of assets under construction or under development has increased from 179 MW to 273 MW. The increase has resulted from the acquisition of our first wind farm project (94 MW) in Poland, Pomerania region. The wind farm is currently under construction. During 2019 we also continued the construction of Vilnius (92 MW electric, 229 MW heat) and Kaunas (24 MW electric, 70 MW heat) waste-to-energy and biomass CHP plants, as well as continued the development of our 63 MW onshore wind farm in the north-western part of Mažeikiai.

In 2019 we consolidated our renewable energy development and wind farm operations competencies under one company - Ignitis Renewables. Now all our operating wind farms in Lithuania and development projects across all countries are coordinated by Ignitis Renewables.

Our Vilnius and Kaunas CHP projects have been recognised as projects of national importance by the Lithuanian Government. These projects will ensure lower heat prices for consumers, create additional local electricity generation capacity, and will solve country's waste management problems. We carry out the Vilnius CHP construction project independently, while Kaunas CHP construction project is being developed with a strategic partner - Fortum. During 2019 we have reached a number of milestones for these projects. In Kaunas CHP we assembled the team necessary for operating the plant, we have successfully completed the hydraulic test of the boiler and entered the final stage of construction. In October, the power plant was connected to the thermal power network and, following its testing in December, the construction of a transformer substation transmitting electricity generated by the power plant was finalised.

In April 2019 in Vilnius CHP we announced the first waste tender.
In December in Vilnius CHP we signed the agreement for the utilisation of ashes, which will be used to restore the landscape of the Langøya island in Norway.

In relation to our hydro assets, 400 MW of Kruonis PSHP will continue providing secondary reserve services to the TSO in 2020, while the remaining 500 MW of Kruonis PSHP and Kaunas HPP will be operating on a market basis.

Plans

We plan to complete the construction of Kaunas CHP in 2020, Vilnius CHP in early 2021, and Pomerania wind farm in 2021. We also aim to start the construction of Mažeikiai wind farm this year, as well as to continue expanding of our renewable energy portfolio by acquiring and developing new projects. Preparation for the offshore wind auctions in the Baltic sea is also on our agenda.

Operating performance in 2019

Electricity generated in Green Generation segment increased by 10.0% in 2019. This mainly resulted from the acquisitions of Vėjo Vatas and Vėjo Gūsis (34 MW) wind farms in November 2018, and from higher load factors of the wind farm portfolio due to better weather conditions. Increase in wind generation (+81.4%) was slightly offset by generation of hydro portfolio, which decreased by 1.1%. Electricity generation volumes at Kruonis PSHP increased by 14% compared to 2018 stimulated by higher volatility of electricity market prices, while electricity generation at Kaunas HPP decreased by 21.8% in 2019 compared to 2018 due to a lower level of water in the Nemunas river (water level was 23% lower).

Financial results in 2019

Green Generation Revenues reached 83.3 million in 2019, EUR 4.9 million more than in 2018. Revenue growth was driven by two major factors: the increased portfolio of wind farms (+EUR 6.8 million) and favourable meteorological conditions for wind power operations (+EUR 1.7 million). Revenue growth was partly offset by lower production volumes in Kaunas HPP (-EUR 4.3 million).

In 2019, Adjusted EBITDA amounted to EUR 43.4 million (2018: EUR 38.1 million). This was mainly influenced by the increased portfolio of the Group's wind power plants at the end of 2018 and increased Adjusted EBITDA of Kruonis PSHP. Increasing OPEX of co-generation power plants as the launch of plants is approaching and lower generation of Kaunas HPP had a negative impact on Adjusted EBITDA .

Property, plant and equipment, intangible and right-of-use assets in the Green Generation segment grew due to ongoing Investments in Vilnius and Kaunas CHP plants and acquisition and start of constructions of Pomerania wind farm. The segment's Net debt increased accordingly.

Green Generation key operating indicators

		2019	2018	Δ,%
Electricity generated:	TWh	1.04	0.94	10.0%
Wind	TWh	0.23	0.13*	81.4%
Hydro	TWh	0.81	0.82	-1.1%
Wind farms availability factor	%	98%	99%	-1.1%
Wind farms load factor	%	34%	28%	6.0%
Installed capacity:				
Installed capacity - electricity	MW	1077	1077	0%
Wind	MW	76	76	0%
Hydro	MW	1001	1001	0%
Installed capacity - heat	MW	40	40	0%

** Electricity generated in power plants owned by the Group. Electricity generated in Vėjo Vatas and Vėjo Gūsis untilll acquisition is excluded.*

Main financial results of Green Generation segment, EURm

	2019	2018	Δ,%
Revenue	83.3	78.3	6.3%
Adjusted EBITDA APM	43.4	38.1	14.1%
Adjusted EBIT APM	30.7	27.3	12.8%
Adjusted net profit APM	25.8	22.1	16.5%
Property, plant and equipment, intangible and right-of-use assets	546.7	321.0	70.3%
Net debt APM	278.5	94.8	193.8%
Investments APM	256.5	132.8	93.1%
Adjusted EBITDA margin,% APM	52.2%	48.6%	
Net debt/Adjusted EBITDA APM	6.41	2.49	

Customers and Solutions

Strategy

We aim to scale our core energy supply & trading business and complement it with innovative energy solutions and platforms (community solar, EV's, prosumers, etc.) by leveraging our customer base. We invest and innovate together with our partners to make our solutions more Energy Smart.

Our core focus is on home markets in Baltic countries and Finland, however, we also explore new opportunities across the region.

We contribute to the development of a responsible and sustainable business culture in the energy sector.

2019 review

In 2019, Customers and Solutions segment continued expanding geographically by signing the first gas supply contracts with major Finnish business customers. Service mix has also been expanded by launching the first network of electric vehicles' fast-charging stations *Ignitis ON* in Vilnius, Lithuania. This network currently consists of 59 high-capacity charging stations.

We also continued to innovate and launched the first nationwide solar platform *Community Solar* in the world. This platform makes it possible for any household in Lithuania to generate solar power. The platform is open to all solar power plant developers.

In 2019, we finalized the consolidation of all our Customers and Solutions businesses under a single legal entity Ignitis. The final step was the merger of Lietuvos Energijos Tiekimas and Energijos Tiekimas in June 2019. The consolidation will enable us to create higher value added for both our private and business customers, by facilitating the development of diversified higher quality services, and allowing us to better prepare for the deregulation of the electricity public supply market. After the consolidation we started to offer smart energy services and became the largest supplier of electricity and gas in Baltic states, providing all main energy services to over 1.6 million people and more than 14k businesses.

Plans

Following the consolidation and rebranding in 2019, we will continue growing the Customers and Solutions business in 2020. We have already signed our first gas supply agreements in Finland and became one of the first players in the Finnish gas market, which has been opened to competition in January 2020. Also, actions will be taken in 2020 to prepare for the deregulation of the electricity market for household customers, and for enhancing customer experience.

Operating performance in 2019

Total electricity sales in retail market in 2019 remained stable at 5.4 TWh. However, across geographies performance was different. Lithuanian retail market saw a decrease of 3.1%, which was offset by 20.7% increase in Latvian market. Both in B2C and B2B segments decreased in Lithuania by respectively 2.8% and 3.7%. Electricity sales volume in the wholesale market increased almost 7 times due to more active wholesale activities.

Gas volumes sold decreased in 2019 by 13.2% and amounted to 9.83 TWh. Lithuanian gas sector experienced major changes in 2019. Designated supply model regulation has been changed from 1 January 2019, which resulted in the abolishment of a requirement for regulated energy producers to purchase natural gas through the Klaipėda LNG terminal from the designated supplier. Therefore, energy producers were given an option to source natural gas from other suppliers. Increased competition resulted in decline of our B2B gas sales by 42.4%. Sales in wholesale gas market increased more than four times due to increase in trading on the exchange and through LNG terminal.

Customers and Solutions key operating indicators

		2019	2018	Δ,%
Electricity sales				
Retail	TWh	5.40	5.40	0.1%
Lithuania	TWh	4.56	4.71	-3.1%
B2C	TWh	2.88	2.97	-2.8%
B2B	TWh	1.68	1.74	-3.7%
Latvia	TWh	0.83	0.69	20.7%
Wholesale trading	TWh	4.71	0.70	574.7%
Gas sales	TWh	**9.83**	**11.33**	**-13.2%**
Retail	TWh	8.01	10.91	-26.6%
Lithuania	TWh	6.74	10.23	-34.1%
B2C	TWh	2.08	2.13	-2.3%
B2B	TWh	4.66	8.10	-42.4%
Latvia	TWh	1.27	0.68	86.2%
Wholesale	TWh	1.82	0.43	323.3%

Financial results in 2019

In 2019, Customers and Solution's segment Revenue amounted to EUR 502.9 million and was 4.3% lower than in 2018. The decline was mainly driven by lower gas sales to B2B customers (-EUR 54.3 million) and lower Revenue from derivative instruments (-EUR 36.1 million). Decrease was partly offset by increase of Revenue from public electricity supply activities (+EUR 42.1 million), increase of gas sales to residential customers (+EUR 8.2 million), higher sales of other electricity, gas and related services (+EUR 7.7 million) and increase of retail electricity supply income (+EUR 4.7 million).

The growth of Adjusted EBITDA by 59.8% was mainly driven by better results of Ignitis Latvija electricity derivatives activity (EUR +3.5 million) and better Ignitis Polska trading activity results (+EUR 1.6 million).

Net debt increased because of lower cash and cash equivalents balance at the year-end, and increase of non-current liabilities because of the transfer of electricity public supply activity transferred from Networks to Customers and Solutions.

Main financial results of Customers and Solutions segment, EURm

	2019	2018	Δ,%
Revenue	502.9	525.3	-4.3%
Adjusted EBITDA APM	10.7	6.7	59.8%
Adjusted EBIT APM	3.8	5.5	-32.0%
Adjusted net profit APM	-1.1	0.8	-231.6%
Property, plant and equipment, intangible and right-of-use assets	43.0	42.7	0.8%
Net debt APM	91.2	38.8	134.8%
Investments APM	2.1	0.3	569.2%
Adjusted EBITDA margin,% APM	2.1%	1.3%	
Net debt/Adjusted EBITDA APM	8.56	5.82	

Flexible Generation

Strategy

We ensure flexibility and stability of power generation system and contribute to successful synchronization with the Continental European network.

We own and operate the largest electricity generation capacities in Lithuania: gas fired Elektrėnai Complex, which consists of Combined Cycle Unit (CCU) and Units 7 and 8.

The main goal of Flexible Generation segment is to contribute to successful synchronization of the Baltic States with the network system of Continental Europe, to preserve capacities of reliable local electricity generation, and to develop new capacities if required.

2019 review

The most important events of 2019 were the successful testing of the isolated networks and successful auctions for reserve services. We won the auction of the tertiary active power reserve, announced by the TSO (Litgrid), and signed a contract to provide this service in 2020. Under the agreement, we will provide this vitally important service ensuring power grid reliability with Units 7 and 8 of Elektrėnai Complex within the scope of 475 MW. Since the launch of the auctions for tertiary active power reserve, this is the first case when one supplier is selected to provide all the services. We have also signed an agreement with TSO (Litgrid) for services ensuring isolated operation of the power system in 2020. These services will be provided by the CCU and Unit 8 of the Elektrėnai Complex.

Plans

No new development Investments are planned in the short term. The focus is on maintaining, modernizing and developing local reliable power generation capacity and contributing to the synchronization of the Baltic countries with the continental European network. The following activities are planned: active involvement in the process of drafting the Law on Electricity and the bylaws related to the new power market by participating in public discussions and commenting on documents approved by different institutions. We expect to successfully participate in capacity auctions in Lithuania and Poland (if any were to happen in 2020 and if we were eligible to participate).

Operating performance in 2019

Actual volumes of electricity generated in Elektrėnai Complex decreased by 63.2% in 2019, comparing to 2018.

In 2019, the tertiary active power reserve in the capacity of 260 MW was ensured by the most effective unit of Elektrėnai Complex – the Combined Cycle Unit (CCU). The tertiary active power reserve has to be able to activated within 12 hours after the request of TSO. CCU was constantly ready to produce electricity and contribute to the overall security of the energy system. The generation of the CCU on a commercial basis was only available with the residual power (the capacity remaining from designated for the service of tertiary reserve).

Provision of the strategic reserve services has been discontinued from 2019.

Flexible Generation key operating indicators

		2019	2018	Δ,%
Electricity generated	TWh	0.02	0.07	-63.2%
Tertiary active power reserve	MW	260	260	0%
Strategic power reserve	MW	0	212	-100%
Installed capacity:				
Installed capacity – electricity	MW	1055	1055	0%
Installed capacity - heat	MW	50	50	0%

Financial results in 2019

Compared to 2018, Revenue from Flexible Generation increased by 17.1% (EUR 11.7 million). The growth in Revenue was mainly influenced by the aforementioned indemnification of potentially inflicted damage by Alstom Power Ltd and sale of fuel oil stocks.

The segment's Adjusted EBITDA for 2019 was EUR 8.7 million higher compared to the previous year. Adjusted EBITDA increased mainly because operations of the 7th unit of the Elektrėnai Complex which operated for testing of isolated network in 2019, while in 2018 it did not provide any services (+EUR 4.6 million). The increase was also affected by positive result of sale of fuel oil stocks (+EUR 1.8 million).

Net debt decreased by EUR 20.2 million due to higher cash and cash equivalents (-EUR 10.6 million effect) and lower long-term financial liabilities (-EUR 7.0 million).

Main financial results of Flexible Generation segment, EURm

	2019	2018	Δ,%
Revenue	79.7	68.0	17.1%
Adjusted EBITDA APM	22.0	13.3	65.4%
Adjusted EBIT APM	10.4	1.7	527.4%
Adjusted net profit APM	10.6	-2.3	554.7%
Property, plant and equipment, intangible and right-of-use assets	392.0	401.8	-2.4%
Net debt APM	-43.2	-23.0	-87.8%
Investments APM	0.4	1.5	-70.2%
Adjusted EBITDA margin,% APM	27.6%	19.6%	
Net debt/Adjusted EBITDA APM	-1.96	-1.72	

Corporate governance

Key information about the company and the Group

Company name	Ignitis Group
Company code	301844044
Issued capital	EUR 1,212,156k
Paid-up share capital	EUR 1,212,156k
Address	Žvejų st. 14, LT-09310, Vilnius, Lithuania
Telephone	(+370 5) 278 2998
Fax	(+370 5) 278 2115
E-mail	grupe@ignitis.lt
Website	www.ignitisgrupe.lt
Legal form	Private Limited Liability Company
Date and place of registration	28 August 2008, Register of Legal Entities
Register accumulating and storing data about the Company	Register of Legal Entities, State Enterprise the Centre of Registers

The company's shareholder is the Republic of Lithuania. On 13 February 2013, the Company's shares were transferred to the Ministry of Finance by the right of trust.

With effect from 30 August 2013, the Company's name Visagino Atominė Elektrinė was changed to Lietuvos Energija. As from 6 September 2019, the name of the Company was changed to Ignitis Group.

As of 31 December 2019, the issued capital was divided into ordinary registered shares with the nominal value of EUR 0.29 each. All the shares are fully paid.

At the date of this report, these entities* were controlled, directly or indirectly, by the Group:

Company	Company code	Registered office address	Effective ownership interest (%)	Share capital EUR	Profile of activities
Ignitis Gamyba	302648707	Elektrinės st. 21, Elektrėnai	96,82	187 921	Production and supply of electricity and trading
Energijos Skirstymo Operatorius	304151376	Aguonų st. 24, Vilnius	94,98	259 443	Supply and distribution of electricity to the consumers; distribution of natural gas
Ignitis	303383884	Žvejų st. 14, Vilnius	100	40 140	Supply of electricity and gas and trade
Ignitis Latvija	40103642991	Darzciema st. 60, LV-1048, Riga	100	5 500	Supply of electricity.
Ignitis Eesti	12433862	Narva st. 5, 10117 Tallinn	100	35	Supply of electricity.
Ignitis Polska	0000681577	Puławska 2-B, PL-02-566, Warshaw	100	10 million PLN	Supply of electricity.
Ignitis Renewables	304988904	P. Lukšio st. 5B, Vilnius	100	3	Analysis and coordination of the activities of legal entities belonging to the Company.
Tuuleenergia Osaühing	10470014	Keskus, Parnu (Estonia)	100	499	Production of renewable electricity.
Eurakras	300576942	Žvejų st. 14, Vilnius	100	4 621	Production of renewable electricity.
Vėjo Gūsis	300149876	Žvejų st. 14, Vilnius	100	7 443	Production of renewable electricity.
Vėjo Vatas	110860444	Žvejų st. 14, Vilnius	100	2 896	Production of renewable electricity.
VVP Investment	302661590	Žvejų st. 14, Vilnius	100	250	Development of a renewable energy (wind) power plant project.
Pomerania Wind Farm	0000450928	Al. Grunwaldzka 82/368, 80-244 Gdańsk	100	60k PLN	Development of a renewable energy (wind) power plant project.
Vilniaus Kogeneracinė Jėgainė	303782367	Žvejų st. 14, Vilnius	100	52 300	Modernization of the provision of centralized supply of heat in Vilnius city
Kauno Kogeneracinė Jėgainė	303792888	Žvejų st. 14, Vilnius	51	40 000	Modernization of the provision of centralized supply of heat in Kaunas city
Gamybos Optimizavimas	304972024	Žvejų st. 14, Vilnius	100	350	Planning, optimization, forecasting, trading, brokering of electricity and other energy production regime
Ignitis Grupės Paslaugų Centras	303200016	A. Juozapavičius st. 13, Vilnius	100	7 914*	Provision of information technology and telecommunications and other services
Elektroninių Mokėjimų Agentūra	136031358	Žvejų st. 14, Vilnius	100	1 370	Provision of collection services
NT Valdos	300634954	Geologų st. 16, Vilnius	100	5 000	Disposal of real estate, other related activities and provision of services
Transporto Valdymas	304766704	Smolensko st. 5, Vilnius	100	2 359	Vehicle rental, leasing, repair, maintenance, renewal and service
Duomenų Logistikos Centras	302527488	A. Juozapavičius st. 13, Vilnius	79,64	4 033	Information technology and telecommunication services
Energetikos Paslaugų ir Rangos Organizacija	304132956	Motorų st. 2, Vilnius	100	350	Construction, repair and maintenance of electricity networks and related equipment, connection of customers to electricity networks, repair of energy equipment and production of metal structures
Lietuvos Energijos Paramos Fondas	303416124	Žvejų st. 14, Vilnius	100	-	Provision of support to projects, initiatives and activities, relevant to the society

** Until the reorganisation completion date on 31/12/2019, the issued capital of UAB „Ignitis Grupės Paslaugų Centras" was EUR 6,960,000.*

***More information about the entities and their financial indicators provided in the Company's website (link).*

Corporate governance report

The purpose of the Company and the Group is understood as pursuit of the objectives related to the activities of the Group, as set forth in the State Sector Strategy Papers and their implementing documents, by ensuring socially responsible enhancement of the long-term value of the Company and the Group and appropriate return on capital invested by the shareholder, by balancing the interests of the shareholder (state) with the interests and expectations of other stakeholders Therefore, the aim of the Company is to ensure effective and transparent operations. In order to achieve this aim, the reorganisation was carried out in 2013, during which the corporate governance of the Group was reorganised and improved.

The new governance structure and model of the Group have been developed on the basis of the most advanced international and national practices, following the recommendations published by the OECD, having regard to the Corporate Governance Code of companies listed on the Nasdaq Vilnius exchange, Guidelines on the Governance for State-owned Enterprises recommended by the Baltic Institute of Corporate Governance (BICG). The corporate governance model of the power generation companies' group was implemented in observance of the Corporate Governance Guidelines approved by the Ministry of Finance of the Republic of Lithuania on 7 June 2013 and renewed on 1 June 2017 and 16 September 2019 (the Guidelines are available at www.le.lt).

The primary goal of the corporate governance is to achieve the effect of synergy aligning different activities of the *Ignitis Group* companies and targeting them at the achievement of the common goals at the Group level.

Principles of the corporate governance of the Group are as follows:

1. **Making preconditions for effective Corporate Governance:** an environment in which the Group of Companies or individual companies operate promotes transparency in the market, ensures separation of management, oversight and state regulatory functions.
2. **The exercise of the rights conferred by shareholders' shares:** the corporate governance system shall ensure the possibilities of exercising the property and non-property rights arising from the share management, while safeguarding the interests of minority shareholders. The shareholder of the Company shall seek and ensure that the Group of Companies operates on an equal footing with other market participants, without creating exclusive business conditions for the Group of Companies.
3. **The role of stakeholders:** the Corporate Governance system shall recognise the expectations and rights of stakeholders arising from agreements or legal regulation, as well as shall encourage active cooperation in creating sustainable added value.
4. **Openness and Transparency:** the Corporate Governance system must ensure timely and accurate disclosure of information about the Group of Companies by providing financial, operational, managerial, as well as other information to be communicated to the stakeholders. The Group of Companies strives for transparency in all areas of its activities, and observes the principles of zero tolerance to corruption and of unbundling of the activities of the Group of Companies from political influence.
5. **Responsibility and accountability of the managing and supervisory bodies:** the Corporate Governance system shall ensure that the managing and supervisory bodies of the Group of Companies or of individual companies properly perform their functions and are accountable to the shareholders.

For many years the Company has been recognised as the best managed state-owned company. The Good Corporate Governance Index has been compiled since 2012 by the Governance Coordination Centre on annual basis with the aim to assess and measure how each state-owned company implements key good governance practices. Currently, this index is the most widely used measure for assessing the quality of governance of all state-owned enterprises. In the Corporate Governance Index of the state-owned enterprises for 2018–2019, the Company received the highest possible "A+" rating and was recognised as the governance leader in the category of large companies.

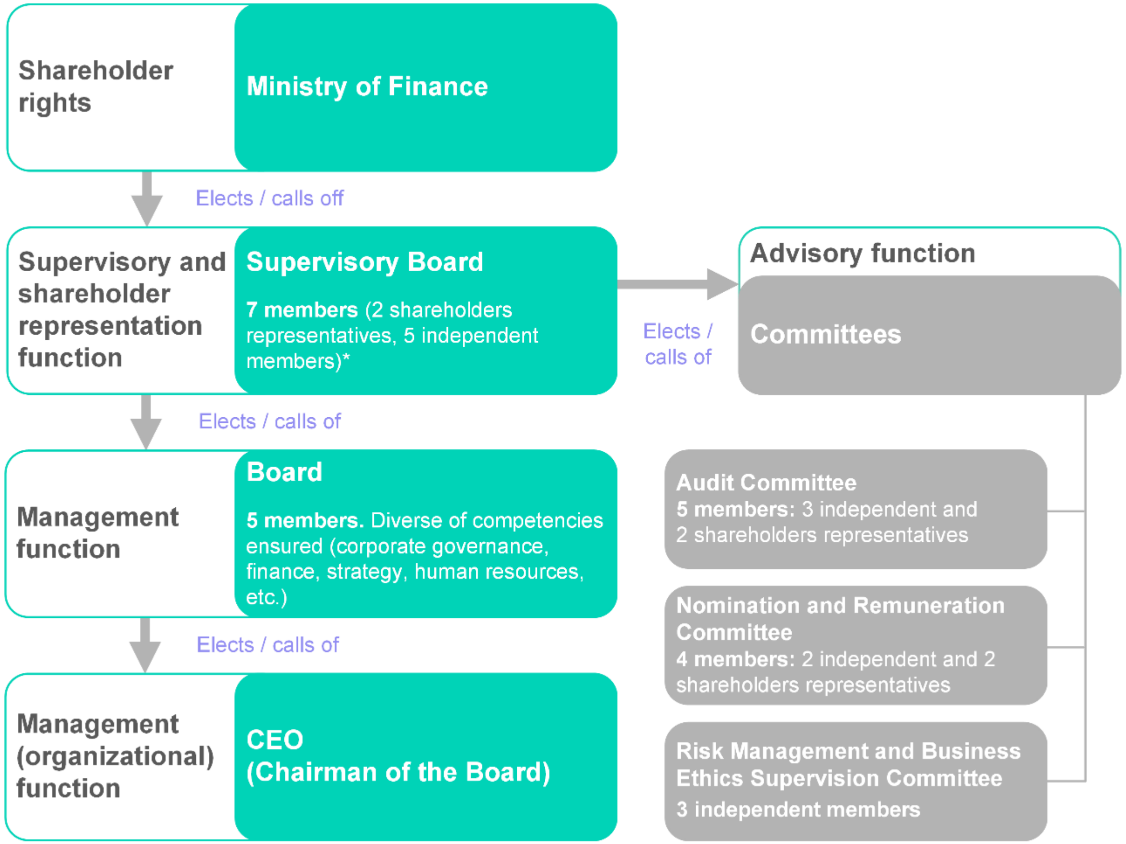
The Company applies the Corporate Governance Code for the companies listed on the Nasdaq Vilnius AB. Information on compliance with this Code of Governance is provided for in Annex No 1.

Governance structure

The corporate governance of the Group of Companies is understood as a system designed to manage and control the Group of Companies with a view to pursuing for the objectives which are common not only for the individual company but also for the entire Group of Companies. In performing the functions of patronage assigned to it, the Company implements the corporate governance of the Group of Companies.

The whole and the system of the managing and supervisory bodies of the Group of Companies must be formed and operate in such a way as to create the preconditions necessary to ensure proper representation of the State as a shareholder, and the reconciliation of interests of other stakeholders, and separation of the management and supervisory (control) functions of the Group of Companies. The whole and the system of the managing and supervisory bodies must be formed and operate so as to comply with the principles of corporate governance, the requirements arising from the corporate governance legislation (including the legal acts of the EU and of the Republic of Lithuania regulating the unbundling of energy sector activities), the international good practice.

Corporate governance structure



** This composition of the Supervisory Board is valid from 8 April 2020, when updated Articles of Association of the Company were registered. In 2019 the Supervisory Board consisted of 5 members: 2 representatives of the Ministry of Finance and 3 independent members*

Shareholder and shareholders expectations

The sole shareholder of the Company – the Republic of Lithuania, and the rights and obligations of the shareholder are exercised by the Ministry of Finance of the Republic of Lithuania, which adopts the principal decisions relating to the exercise of property rights and obligations. The management of the shares shall be carried out in accordance with the Law on Companies, which establishes the property and non-property rights and obligations of the shareholder, and the Description of the Procedure of the Implementation of State Property and Non-Property Rights in State-Owned Enterprises approved by the Resolution No 665 of the Government of the Republic of Lithuania of 6 June 2012 (hereinafter – the Property Guidelines), Articles of Association of the Company.

Shareholder expectations

In accordance with the Property Guidelines, the authority representing the state shall prepare and submit to the state-owned enterprise a letter on the objectives pursued by the State in the state-owned enterprise and its expectations at intervals of no more than four years. With that in mind, the letter on the expectations of the State in relation to the activities of the Group companies was approved by the order of the Minister of Finance on 13 April 2018 (the shareholder's letter is available at www.ignitisgrupe.lt).

In this letter, the shareholder expects the Group to:

- Strategic directions of activities for 2018–2025: sustainable, socially responsible development through the further development of a modern, globally competitive energy company.
- To develop in a way that creates added value for the Lithuanian economy.
- To strengthen the value chain by improving operational efficiency and quality of service.
- To offer an example of good governance practices for other state-owned companies.
- To operate based on the principles of transparency, responsibility and established values.

Shareholder competence

The Company's shareholder competence also covers the following key areas:

- Appointment and removal of the member of the Company's Supervisory Board, determination of the remuneration for the independent members of the Supervisory Board;
- Amendment of the Articles of Association of the Company;
- Approval of the annual financial statements and the consolidated financial statements of the Group companies, as well as the interim financial statements prepared for the purpose of deciding on the distribution of dividends for a period shorter than the financial year;
- Approval of the Company's annual report and consolidated annual report of the Group companies;
- Making a decision on the allocation of profit (loss) and the distribution of dividends for a period shorter than a financial year;
- Making a decision to increase or decrease the authorized capital of the Company;
- Making a decision on the Company's restructuring, reformation, reorganization, liquidation;
- Approval of the decisions of the Board of the Company regarding the Company becoming a founder and shareholder of other legal entities
- Approval of the decisions of the Board of the Company regarding the most important decisions related to the status of the Group companies of strategic importance for national security engaged in the production, distribution and supply activities in the energy sector as well as the status of the companies directly controlled by the Company operating in the energy production sector.

Shareholder decisions

Decisions taken by the Company's shareholder during the reporting period:

- Daiva Kamarauskienė, director of the Budget Department of the Ministry of Finance, appointed as a member of the Company's Supervisory Board by the order No 1K-30 of the Minister of Finance of 1 February 2019.
- Audit firm Ernst & Young Baltic UAB was elected for the audit of the consolidated financial statements of the Company and its subsidiaries for 2019-2021 by the order No 1K-59 of the Minister of Finances of 25 February 2019.
- Consolidated financial statements for the year 2018, the Company's profit (loss) allocation for the year 2018 and the Company's consolidated annual report for the year 2018 were approved by the order No 1K-136 of the Minister of Finances on 30 April 2019.
- New edition of the Articles of Association of the Company approved by the order No 1K-238 of the Minister of Finance of 5 August 2019.
- Guidelines for Corporate Governance of State-Owned Energy Group were amended by the order No 1K-269 of the Minister of Finance of 16 September 2019.
- Decisions of the Board of Directors of the Company on voting at extraordinary general meetings of shareholders of ESO and Ignitis Gamyba regarding delisting of shares of these companies from the stock exchange were approved by the order No 1K-369 of the Minister of Finance of 29 November 2019,

Supervisory bodies

Supervisory board

Under the Corporate Management Guidelines, the Supervisory Board is a collegial supervisory body provided in the Statute of the Company. The Supervisory Board is elected by the General Meeting of Shareholders for the period of four years. The Supervisory Board of the Company consists of 7 members: 2 representatives of the Ministry of Finance and 5 independent members.* The Supervisory Board elects its Chairman from its members. Such a method for the formation of the Supervisory Board is in line with the corporate management principles. No members of the Supervisory Board have any participation in the capital of the company or group enterprises.

The Supervisory Board of the Company shall be formed in view of the provision that the competences of the members of the Supervisory Board must be diverse, they must meet the requirements of which are set in the Description of Selection of the Candidates for the Collegial Supervisory or Management Body of a State or Municipal Enterprise, a State-Owned or Municipally-Owned Company or its Subsidiary approved by the Resolution No 631 of the Government of the Republic of Lithuania of 17 June 2015. The Head of the Company, the member of the Board of the Company, a person who is not legally entitled to hold this post, as well as a person whose participation would cause a conflict of interest and would infringe the principles of impartiality and objectivity cannot be the member of the Supervisory Board. The Company observes the recommendation to elect independent member as the Chairman of the Supervisory Board. The rule that the member of the Supervisory Board may not hold office for more than 3 consecutive terms of office, each not exceeding 4 years is also maintained.

Members of the Supervisory Board (at the date of publication)

1. DARIUS DAUBARAS, Chairman, independent member

Education: University of Cambridge, Master's degree in International Relations; University of Pennsylvania, USA, Business Administration Master's Degree in the field of finance and business management; University of Denver, USA, Bachelor's Degree in Business Administration with a major in finance and management;
Place of employment, position: Saudi Aramco, senior finance executive to advise company's executive management on implementation of corporate projects, acquisitions, Investments and joint venture, Treasury department Member of the Supervisory Board of "Smart Energy Fund powered by Ignitis Group" (until 01/7/2019)

2. DAIVA LUBINSKAITĖ-TRAINAUSKIENĖ, Independent member

Education: ISM University of Management and Economics, Master's Degree; Public Relations Professional Studies at Vilnius University; Vilnius University, Diploma of a Specialist in Philology
Place of employment, position: Thermo Fisher Scientific Baltics UAB, company code 122351387. Address: V.A. Graičiūno st. 8 Vilnius, Director of Personnel. Association of Personnel Management Professional, company code 300563101, address J. Galvydžio st. 5, Vilnius, Member of the Board.

3. ANDRIUS PRANCKEVIČIUS, Independent member (since 22/12/2017)

Education: Kaunas University of Technology, Bachelor's degree in Business Administration and Master's degree in Marketing Management; Harvard Business School, Leadership Development
Place of employment, position: Linas Agro Group AB, company code 148030011, address Smėlynės st. 2C, Panevėžys, Deputy Chief Executive Officer, Member of the Board; Kekava PF, Kekava, Kekavos r., Kekavos mun., Kekava PF, Chief Executive Officer and Chairman of the Board; Linas Agro AB, company code 147328026, address Smėlynės st. 2C, LT-35143 Panevėžys Member of the Board; Lielzeltini SIA,"Mazzeltiņi", Janeikas, Ceraukstes pag., Bauskas nov., Latvija Chairman of the Board; Broileks SIA, company code. 50103262981, address "Mazzeltiņi", Janeikas, Ceraukstes pag., Bauskas nov., LV Chairman of the Board; (Cerova SIA, company code 43603019946, address Bauskas nov., Ceraukstes pag., Mūsa, Centra iela 11, LV, Chairman of the Board; Žilvista ŽŪB, company code 302299020, address Panevėžio r. sav., Velžio mun., Staniūnų k., Paplentės g. 20 Member

4. DAIVA KAMARAUSKIENĖ, member (since 1/2/2019)

Education: Vilnius University Faculty of Economics, master's degree.
Place of employment, position: Ministry of Finances, company code 288601650, Lukiškių st., Vilnius, Budget Department of the Ministry of Finance, Director.

5. AUŠRA VIČKAČKIENĖ, member

Education: Vilnius University, Master's degree in Management and Business Administration; Vilnius University, Bachelor's degree in Management and Business Administration **Place of employment, position:** Ministry of Finances, company code 288601650, Lukiškių st., Vilnius, Assets Management Department, Finance, Director; Būsto paskolų draudimas UAB, company code 110076079, Ulonų st. 5 Vilnius, Member of the Board.

** This composition of the Supervisory Board is valid from 8 April 2020, when updated Articles of Association of the Company were registered, in 2019 the Supervisory Board consisted of 5 members: 2 representatives of the Ministry of Finance and 3 independent members).*

None of Supervisory Board members holds shares of the Group companies.

Term of office of the current Supervisory board is from 30 August 2017 to 29 August 2021.

The main functions and responsibilities of the Supervisory Board are as follows

consideration and approval of the business strategy of the Company and the Group companies' activities, analysis and evaluation of the information on the implementation of the business strategy, provision of this information to the annual General Meeting, election and removal of the Members of the Board, supervision of activities of the Board and the CEO, provision of comments to the General Meeting of Shareholders on a set of financial statements, appropriation of profit or loss, and annual report. The Supervisory Board also addresses other matters within its competence.
The Supervisory Board is functioning at the Group level, i.e., where appropriate, it addresses the issues related not only to the activities of the Company, but also to the activities of its subsidiaries or the activities of their management and supervisory bodies.

Changes in the composition of the Company's Supervisory Board during the reporting period:

On the 1st of February, 2019, the Ministry of Finance of the Republic of Lithuania submitted to the Company a sole shareholder's decision to appoint Daiva Kamarauskienė the member of the Supervisory Board of the Company. She replaced Ramūnas Dilba who was recalled from the Supervisory Board of the Company by the decision of the Ministry of Finance on 7 November 2018 and who is acting chancellor at the Ministry of Energy of the Republic of Lithuania as of 6 November 2018.

After the reporting period the Articles of Association of the Company has been amended – number of Supervisory Board members will be increased by two additional independent members, making the total of 7 Supervisory Board members.

Activities of the Company's Supervisory Board during the reporting period

Overall 13 meetings of the Supervisory Board were held in January-December of 2019: 11 of them were attended by all members of the Supervisory Board who were elected at that time, in two of the meetings one member of the Company's Supervisory Board was absent.

Activities of the Supervisory Board in 2019 covered the following key areas:
- Evaluation of nominations for members of the Group companies' management and supervisory bodies;
- Submission of proposals regarding the business organization and planning, objectives, financial position and performance of the Company;
- Issues related to the remuneration system of the Group companies;
- Issues related to major Investment projects of the Group companies;
- Issues related to the organization and operation of the Company's Supervisory Board and its committees.

Information on payments made to the members of the Supervisory Board during the reporting period

The Articles of Association establish that independent members of the Supervisory Board may be remunerated for their work at the Supervisory Board at the decision of the general shareholders' meeting. The terms and conditions of the agreements with the members of the Supervisory Board, including the remuneration of independent members, are established by the General Meeting of Shareholders.

Details of the remuneration paid to the independent members of the Supervisory Board during the reporting period are provided below

Committees of the Supervisory Board

In order to perform its functions and duties effectively the Company's Supervisory Board forms committees. The committees submit their conclusions, opinions and suggestions to the Company's Supervisory Board in accordance with their competence. The committee must have at least three members, where at least one member has to be a member of the Supervisory Board and at least 1/3 of the members shall be independent, except for the Audit Committee, which must aim for at least 2/3 of the members to be independent. The members of the committees are elected for the period of four years.
The following committees of the Supervisory Board are operating:
- **The Risk management and business ethics supervision committee** is responsible for submission of conclusions and suggestions regarding management and control system in the group of companies and/or status of implementation of the main risk factors and risk management tools to the Supervisory Board; for compliance with business ethics, maintenance of bribery and corruption risk system and submission of recommendations to the Supervisory Board;
- **The Audit committee** is responsible for submission of objective and impartial conclusions and suggestions regarding audit, related party transactions, as provided in the Law on Companies of the Republic of Lithuania, and functioning of internal control system in the group of companies to the Supervisory Board;
- **The Nomination and remuneration committee** is responsible for submission of conclusions and suggestions about appointment, revocation of the members of management and supervisory bodies of the Group companies, and about incentive issues to the Supervisory Board, as well as for the evaluation of performance of the Board and its members and submission of appropriate opinion. The committee's functions also cover formation of common remuneration policy in the Group companies, determination of the size and composition of remuneration, incentive principles, etc.

If necessary, other committees may be formed according to the ad hoc principle (e.g., to solve special issues, to prepare, supervise or coordinate strategic projects, etc.). On the day when this report was announced, the committees of Risk management and business ethics supervision, Audit and Nomination and remuneration were operating in the Company. In addition, by the decision of the Supervisory Board, the Steering Committee of the Company's IPO has been formed from the representatives of the Company's shareholder, members of the Supervisory Board and the Board.

Risk Management and Business Ethics Supervision Committee

Main function of the committee:

- To monitor the way the risks relevant for the achievement of the targets set for Ignitis Group and its Group companies are identified, assessed and managed;
- To assess the adequacy of internal control procedures and risk management measures in view of the risks identified;
- To assess the progress achieved in the implementation of risk management measures;
- To monitor the process of risk management;
- To analyse the financial possibilities for the implementation of risk management measures;
- To assess the risks and the risk management plan for Ignitis Group and its Group companies;
- To assess the periodic cycle of risk identification and assessment;
- To monitor availability of risk registers, analyse their data, provide recommendations;
- To monitor the availability of internal documentation pertaining to risk management;
- To assess the tolerance and adequacy of internal documents that regulate fight of the group of companies against bribery and corruption, and to monitor periodically their implementation/ compliance;
- To monitor periodically information related to the controlling actions of assurance of business ethics, events and unsolved incidents (security of transparency, prevention of corruption, management/prevention of corruption risk, etc.);
  - To perform other functions assigned to the Committee based on the decision of the Supervisory Board of Ignitis Group.

Activities of the Risk Management and Business Ethics Supervision Committee during the reporting period

Overall 7 meetings of the Risk Management and Business Ethics Supervision Committee were held during the reporting period.

Activities of the Risk Management and Business Ethics Supervision Committee in 2019 covered the following key areas:

- Risk assessment and management process applied in the Group;
- The key risks of the Group and their management measures;
- Company's risk register and risk management plan;
- Information security;
- The Group's Business Continuity System;
- Risks associated with Green Generation capacity and their management;
- Cooperation with the Audit Committee of the Supervisory Board;
- Cooperation with the following function of the Group: information security, prevention, risk management, occupational safety, personal data protection and compliance.

Members of the Risk Management and Business Ethics Supervision Committee

Committee member	Term of office	Education	Place of employment, position
ANDRIUS PRANCKEVIČIUS **Chairman, independent member**	From April 2018 to April 2022	Kaunas University of Technology, Bachelor's degree in Business Administration and Master's degree in Marketing Management; Harvard Business School, Leadership Development.	Linas Agro Group, AB, Deputy Chief Executive Officer, Member of the Board; Kekava PF, Chief Executive Officer and Chairman of the Board; Linas Agro, AB, (Lithuania,) Member of the Board; Lielzeltini, SIA, (Latvia), Chairman of the Board; Broileks, SIA, (Latvia), Chairman of the Board; Cerova, SIA, (Latvia), Chairman of the Board. Žilvista ŽŪB, Member
DARIUS DAUBARAS **Independent member**	From April 2018 to April 2022	University of Cambridge, Master's degree in International Relations; University of Pennsylvania, USA, Business Administration Master's Degree in the field of finance and business management; University of Denver, USA, Bachelor's Degree in Business Administration with a major in finance and management;	SAUDI ARAMCO Senior Adviser Chairman of the Supervisory Board of Ignitis Group, independent member Member of the Supervisory Board of "Smart Energy Fund powered by Ignitis Group" (until 01/7/2019)
ŠARŪNAS RAMEIKIS **Independent member**	From April 2018 to April 2022		R.Mištauto ir T.Milickio Law Firm „Konsus", Lawyer

None of Risk Management and Business Ethics Supervision Committee members holds shares of the Group companies.
The term of office of the current Risk Management and Business Ethics Supervision Committee will last until 23 April 2022.

Audit Committee

Main functions of the Audit Committee:

- To monitor the process of preparation of Company's and its Group companies financial statements, paying particular attention to assessment of suitability and consistency of applied accounting methods;
- To monitor effectiveness of internal control and risk management systems of the Company and the Group companies that affect financial accountability of the audited company;
- To monitor independence and objectivity of auditors and audit companies, and to submit recommendations regarding selection of the audit company;
- To supervise audit processes of the Company and the Group companies, to verify audit's effectiveness and reaction of the administration to the recommendations submitted in the management letter by the audit company;
- To monitor effectiveness of internal audit function of the Company and the Group companies, to submit recommendations to the Supervisory Board regarding selection, appointment and dismissal of the head of the Company's Internal Audit Service, to coordinate and evaluate periodically the work of the Company's Internal Audit Service, to discuss verification results, removal of defects and implementation of internal audit plans;
- to approve operational rules of the Company's Internal Audit Service and plan of internal audit;
- To monitor whether the activities of the Company and the Group companies are in compliance with the laws of the Republic of Lithuania, other legal acts, Articles of Association and business strategy;
- To submit opinion to the Group's companies, whose shares are traded on the regulated market, regarding transactions with the associated party, as provided in paragraph 5 of article 37^2 of the Law on Companies of the Republic of Lithuania;
- To assess and analyse other issues assigned to the Committee by the Supervisory Board;
- To perform other functions related to the committee's functions and provided in the legal acts of the Republic of Lithuania and the Corporate Governance Code for the Companies listed on Nasdaq Vilnius.

The group of companies has a centralised internal audit function since 5 January 2015. This helps ensure independence and objectivity of the internal audit, consistency in application of uniform methodology and reporting principles, and a more rational allocation of the available audit resources and competences.

Activities of the Audit Committee during the reporting period

Overall 16 meetings of the Audit Committee were held during the reporting period.

Activities of the Audit Committee in 2019 covered the following key areas:

- Monitoring the financial reporting process carried out by the independent auditor and discussion on financial statements of the Group companies;
- Monitoring of the efficiency of internal control and risk management systems of the Group companies;
- Assessing the efficiency of the business processes of the Company and providing recommendations for their improvement;
- Monitoring the effectiveness of the organisation of internal audit process;
- Getting acquainted with the observations of internal audit submitted to the Management of the Group companies;
- Monitoring whether the Management of the Company considers the recommendations and observations made by the internal and independent auditor or an audit company;
- Granting permission to the audit company to participate and submit proposals for the purchase of services other than the audit of financial statements;
- Familiarization with the main projects and initiatives in the Group companies.

Members of the Audit Committee

Committee member	Term of office	Education	Place of employment, position
IRENA PETRUŠKEVIČIENĖ **Chairperson** **Independent member**	From October 2017 to October 2021	Vilnius University, Degree in Economics	The Authority of Audit, Accounting, Property Valuation and Insolvency Management under the Ministry of Finances of the Republic of Lithuania, Member of Audit Oversight Committee; European Stability Mechanism (ESM), Member of Auditors Board. Lietuvos Geležinkeliai AB, Member of Audit Committee; Maxima Grupė UAB, Chairman of Audit Committee.
DANIELIUS MERKINAS **Independent member**	From October 2017 to October 2021	Vilnius University, Master's degree in Management and Business Administration; Deventer Business College, Deventer, Netherlands, Master's degree in International Marketing.	NNL Termo UAB, CEO, Chairman of the Board; NNT LT UAB, CEO, Chairman of the Board; Nordnet UAB, Head of Commerce, Chairman of the Board; Mercado prekyba UAB, CEO. Litcargo UAB, Chairman of the Board. Lietuvos paštas AB, Member of the Board (until 31/10/2019)
ŠARŪNAS RADAVIČIUS **Independent member**	From May 2018 to October 2021	Vilnius University, Master's degree in Audit and Accounting.	Rodl & Partner UAB, CEO (until August 2019).
INGRIDA MUCKUTĖ **Member**	From May 2018 to October 2021	Vilnius University, Master's degree in Finance, Accounting and Banking Vilnius University, Bachelor's degree in Management and Business Administration	The Ministry of Finance of the Republic of Lithuania, Head of Reporting, Audit, Property Valuation and Insolvency Management Division
AUŠRA VIČKAČKIENĖ **Member**	From October 2017 to October 2021	Vilnius University, Master's degree in Management and Business Administration; Vilnius University, Master's degree in Management and Business Administration	Lithuanian Ministry of Finance, Asset Management Department, Director Member of the Supervisory Board of Ignitis Group.

None of Audit Committee members holds shares of the Group companies.
The term of office of the current Audit Committee will last until 12 October 2021.

Nomination and Remuneration Committee

The main functions of the Nomination and Remuneration Committee are the following:

- To provide suggestions in relation to the long-term remuneration policy of the Company and the Group companies' (fixed pay, performance-based pay, pension insurance, other guarantees and remuneration forms, compensations, severance pay, other items of the remuneration package), and the principles of compensation for expenses related to the person's activities;
- To monitor compliance of the remuneration and bonuses policies of the Company and the Group companies with international practice and good governance practice guidelines, and provide suggestions for their improvement;
- To assess the terms and conditions of Company and the Group companies' agreements between the Company and the Group companies and the members of the management and supervisory bodies;
- To assess the procedures for recruitment and hiring of candidates to the positions of management and supervisory bodies and top management of the Company and Group companies, and establishment of qualification requirements for them; submit recommendations and findings to the Supervisory Board;
- To assess the structure, size, composition and activities of management and supervisory bodies of the Company and the Group companies;
- To oversee and assess the implementation of measures ensuring business continuity of management and supervisory bodies of the Company and the Group companies;
- To perform other functions falling within the scope of competence of the Committee as decided by the Supervisory Board.

Activities of the Nomination and Remuneration Committee during the reporting period

Overall 14 meetings of the Nomination and Remuneration Committee were helddurning the reporting period. .

Activities of the Nomination and Remuneration Committee in 2019 covered the following key areas:

- Evaluation of nominations for members of the Company's group companies management and supervisory bodies;
- Issues related to the development of remuneration policy;
- Issues related to the implementation of the Company's strategy and objectives in the area of people and culture.

Members of the Nomination and Remuneration Committee

Committee member	Term of office	Education	Place of employment, position
DAIVA LUBINSKAITĖ-TRAINAUSKIENĖ Chairperson Independent member	From September 2017 to September 2021	ISM University of Management and Economics, Master's Degree; Public Relations Professional Studies at Vilnius University; Vilnius University, Diploma of a Specialist in Philology.	*Thermo Fisher Scientific Baltics, UAB*, Director of Personnel; Association of Personnel Management Professionals (PVOA), the Member of the Board Member of the Supervisory Board of Ignitis Group.
LĖDA TURAI-PETRAUSKIENĖ **Independent member**	From March 2018 to September 2021.		*L-CON Global UAB*, leadership training partner, shareholder
DAIVA KAMARAUSKIENĖ **Member**	From March 2019 to September 2021	Vilnius University Faculty of Economics, master's degree.	Budget Department of the Ministry of Finance, Director Member of the Supervisory Board of Ignitis Group.
AUŠRA VIČKAČKIENĖ **Member**	From September 2017 to September 2021	Vilnius University, Master's degree in Management and Business Administration; Vilnius University, Master's degree in Management and Business Administration	Lithuanian Ministry of Finance, Asset Management Department, Director Member of the Supervisory Board of Ignitis Group.

None of Nomination and Remuneration Committee members holds shares of the Group companies. The term of office of the current Nomination and Remuneration Committee will last until 12 September 2021.

Management bodies

Board

The Board is a collegial management body provided for in the Articles of Association of the Company. The activities of the Board are regulated by the Law on Companies, its implementing legislation , the Guidelines for Corporate Governance of State-Owned Energy Group, the Articles of Association of the Company and the Rules of Procedure of the Board. During the reporting period, the rules governing the election of the members of the Board of the Company were not amended. The members of the Board are employees of the Company, they are elected by the Supervisory Board on the proposal of the Nomination and Remuneration Committee. The Board consists of 5 members and elects the Chairman, the CEO of the Company, from among its members. No members of the Board participate in the capital of the Company or Group companies. Remuneration for the activities in the Board is paid in accordance with the guidelines established by the shareholder of the Company.

The Board of the Company shall be formed in view of the provision that the competences of the members of the Board must be diverse, they must meet the requirements which are set in the Description of Selection of the Candidates for the Collegial Supervisory or Management Body of a State or Municipal Enterprise, a State-Owned or Municipally-Owned Company or its Subsidiary approved by the Resolution No 631 of the Government of the Republic of Lithuania of 17 June 2015. The member of the Supervisory Board, a person who is not legally entitled to hold this post cannot be the member of the Board, as well as a member of the supervisory body, management body or

Members of the Board (at the date of publication of this report)

1. DARIUS MAIKŠTĖNAS, Chairman of the Board, CEO

Education: Harvard Business School, General Management Program; Baltic Management Institute, Executive MBA degree; Kaunas University of Technology, Bachelor's degree in Business Administration
Place of employment, position: Energijos Skirstymo Operatorius, company code 304151376, address Aguonų st. 24, Vilnius, Chairman of the Supervisory board; WIDER COMMUNICATIONS INCORPORATED, DELAWARE CORPORATION, USA, shareholder, the member of the Board (until 21/05/2019); WIDER COMMUNICATIONS LIMITED PRIVATE LIMITED COMPANY, UK a sole member of the Board (until 21/05/2019)

2. DARIUS KAŠAUSKAS, Member of the Board, Finance and Treasury Director

Education: ISM University of Management and Economics, Doctoral studies of Social Sciences in the field of Economics; ISM University of management and Economics, BI Norwegian Business School, Master's degree in Management; Vilnius University, Master's degree in Economics
Place of employment, position: Duomenų Logistikos Centras, company code 302527488, address A.Juozapavičiaus st. 13 Vilnius, Chairman of the Board; Lietuvos Energijos Paramos Fondas, company code K. 303416124, address Žvejų st. 14, Vilnius, Member of the Board; 288th DNSB Vingis, Member of the Revision Commission; Enepro, company code 304132956, address Motorų st. 2 Vilnius, Chairman of the Board (until 24/10/2019) ESO, company code 304151376, address Aguonų st. 24, Vilnius, Member of the Supervisory board.

3. VIDMANTAS SALIETIS, Member of the Board, Commerce and Services Director

Education: Stockholm School of Economics in Riga (SSE Riga), Bachelor's degree in Economics and Business
Place of employment, position: Ignitis Latvija, company code 40103642991, address Darzciema st. 60, LV-1048, Ryga, the member of the Board (until 22/10/2019); Ignitis Eesti, company code 12433862, address Narva st. 5 10117 Tallinn, Estonia, Chairman of the Board (until 14/11/2019), Energijos Tiekimas UAB, company code 302449388, address: P.Lukšio st. 1, Vilnius, Chairman of the Board (until 01/06/2019); Ignitis Group, company code 303383884, address: Žvejų st. 14, Vilnius Chairman of the Board (until 01/06/2019); Ignitis UAB, UAB Member of the Supervisory Board (from 01/06/2019), Chairman of the Supervisory Board (from 22/08/2019) Elektroninių mokėjimų agentūra, company code 136031358, address Žvejų st. 14, Vilnius Member of the Board; NT Valdos, company code 300634954, address P.Lukšio st. 5B, Vilnius, Chairman of the Board; Gamybos Optimizavimas, company code 304972024, address Žvejų st. 14, Vilnius Chairman of the Board.

4. ŽIVILĖ SKIBARKIENĖ, Member of the Board, Organisational Development Director

Education: Mykolas Romeris University, Faculty of Law, Doctoral degree in Social Sciences Field of Law; Vilnius University, Faculty of Law, Master's degree in Law
Place of employment, position: Verslo Aptarnavimo Centras UAB, company code 303359627, address P. Lukšio st. 5b, Vilnius, Chairman of the Board (until 01/01/2020); GPC, company code 303200016, address A. Juozapavičiaus st. 13, Vilnius, the Board member (from 28/06/2019), Chairwoman of the Board (from 31/07/2019); Elektroninių mokėjimų agentūra, company code 136031358, address Žvejų st. 14, Vilnius Member of the Board; Ignitis Gamyba, company code 302648707, address Elektrinės st. 21 Member of the Supervisory Board.

5. DOMINYKAS TUČKUS, Member of the Board, Infrastructure and Development director

Education: L. Bocconi University (Italy), Master's degree in Finance; L. Bocconi University (Italy), Bachelor's degree in Business Management and Administration
Place of employment, position: Ignitis Gamyba, company code 302648707, address Elektrinės st. 21, Elektrėnai, Chairman of the Supervisory board; Ignitis UAB, company code 303383884, address: Žvejų st. 14, Vilnius Member of the Board (until 01/06/2019); Ignitis UAB, company code 303383884, address: Žvejų st. 14, Vilnius Member of the Supervisory Board (until 01/06/2019); Eurakras, company code 300576942, address Žvejų st.14, Vilnius, Member of the Board (until 03/09/2019); Tuulueenergia OU, company code 10470014, address Keskus, Helmküla küla, Varbla vald, Pärnumaa, Chairman of the Board (until 28/01/2019); Vilnius CHP, company code 303782367, address Žvejų st. 14, Chairman of the Board; Ignitis Renewables, company code 304988904, address P. Lukšio st. 5B, Vilnius, Member of the Board (from 03/01/2019); Smart Energy Fund KŪB, powered by Ignitis Group, company code 304596351, address Antakalnio st. 17, Vilnius, Member of the Advisory Committee.

administrative body of a legal entity engaged in electricity or gas transmission activities, an auditor or an employee of an audit company who participates and/or participated in the audit of financial statements if a period of more than 2 years has not elapsed; and the person who is not legally entitled to this post. The Members of the Board of the Company must meet the general and specific criteria laid down by law. The need for competences shall be determined by the Supervisory Board during the formation of the Board.

Besides, according to the Company's Articles of Association, members of the Board may not have any other job or hold any other office that would be incompatible with their activity on the Board, including the holding of management positions in other legal entities (except for the position and work in the Company or the Group of companies), work in civil service, statutory service. Members may hold any other position or have other job, except for the position held in the Company and other legal entities the participant whereof the Company is, also engage in educational, creative, or authorship activity only on receipt of prior consent from the Company's Supervisory Board. This rule also applies to the management of all Group companies.

None of the Board members holds shares of the Group companies.

The term of office of the current Board is from 1 February 2018 to 31 January 2022. There were no changes in the composition of the Company's Board during the reporting period.

The main functions and responsibilities of the Board

Implementation of the strategy of the Company (its Group of Companies), financial management and reporting, performance management, assets, participation in other legal entities, making decisions on approval of significant transactions. The competence of the Board of the Company also includes decisions on the common rules and principles (policies, guidelines, recommendations) applicable to the Group of Companies, decisions related to the general interest of the Group of Companies, and achievement of its objectives, the structure of the Group of Companies, and the issues of service activities.

Board members have to ensure the appropriate performance of Company activities/mentoring of the respective areas at Group level in the field of its competences. Each member of the Board is responsible for the analysis of the issues assigned to his competence, i.e. the field under his supervision directly related to work at the Board on which the respective decision must be made, and presentation of all relevant information to other members of the Board so that the necessary decisions of the Board would be made in a timely manner. At the date of publication of the report, the applicable rules of procedure of the Company's Board specify the following areas of responsibility of the Board members:
- Strategy and governance;
- Organisational development;
- Finance and treasury;
- Infrastructure and development;
- Commerce and services.

Specific areas of competence may be changed upon the proposal of the Chairman of the Board with the approval of the Supervisory Board of the Company.

Activities of the Company's Board during the reporting period:

Overall 66 meetings of the Board were held in January-December 2019. 61 of them were attended by all members of the Board, 5 meetings were attended by four out of five members of the Board.

Activities of the Board in 2019 covered the following key areas:
- Evaluation of the most significant transactions planned by the Company, approval of their conclusion and approval of essential terms of transactions;
- Evaluation of the organization of the Company and the Group companies' activities and taking decisions related thereto;
- Evaluation and approval of the Company's operational planning documents, taking into account the opinion of the Company's Supervisory Board;
- Setting the operational guidelines and rules, general policies for group companies, annual financial plans, annual rate of Return on assets, maximum amounts of debt obligations for the Company and the Group companies, as well as establishing performance parameters for the Company and Group companies;
- Making decisions on participation and voting in general meetings of shareholders of the companies in which the Company is a shareholder;
- Approval of the Company's Annual Report and submission to the Supervisory Board and the General Meeting of Shareholders;

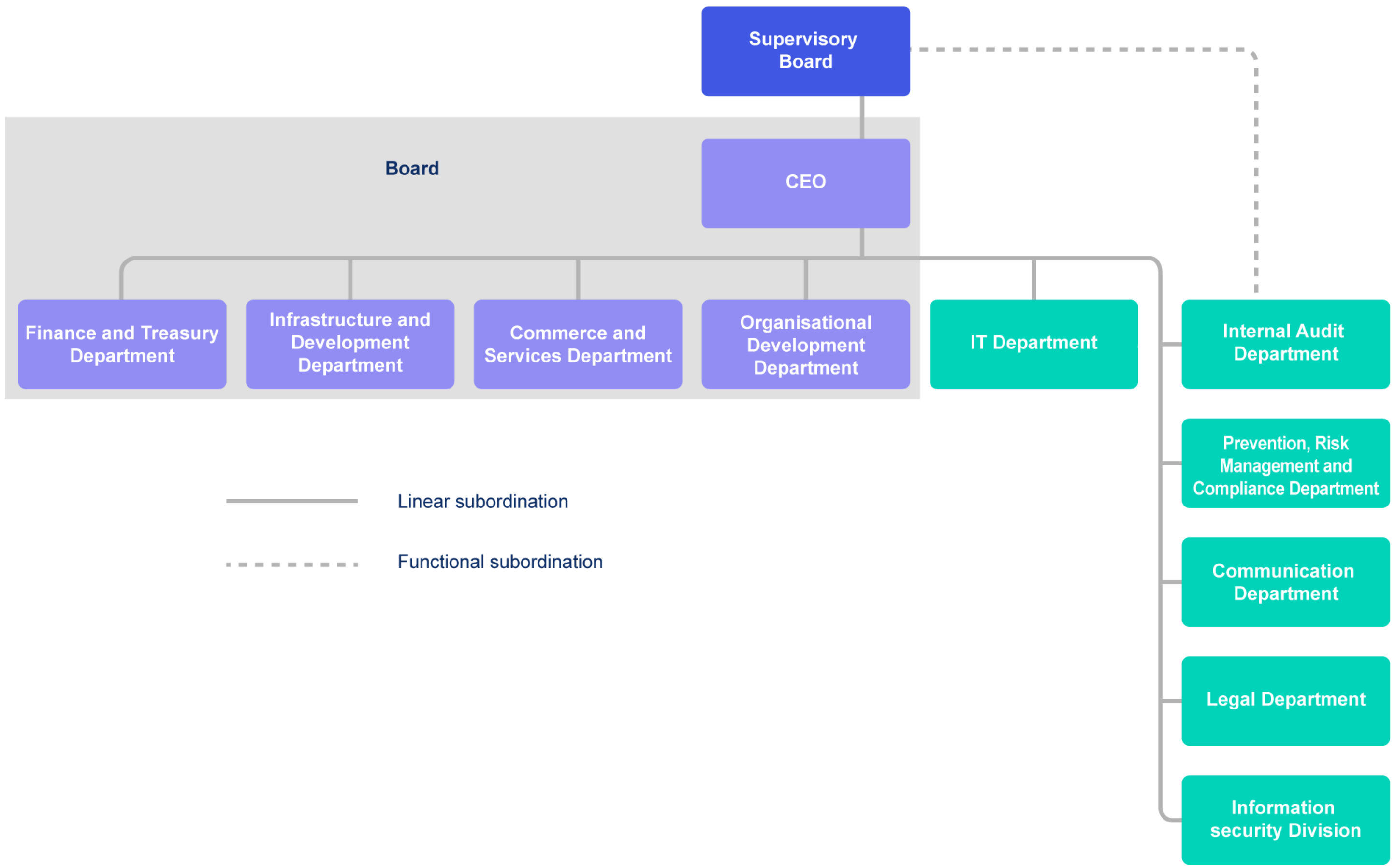
Evaluation of the Company's annual financial statements and draft allocation of profit (loss) and providing feedback to the Supervisory Council and the General Meeting of Shareholders.

CEO

CEO is a single-person management body of the Company, who organizes, directs, acts on behalf of the Company and concludes transactions unilaterally, except as provided by the Law on Companies, its implementing legislation and the Articles of Association of the Company.

The competence of CEO, the procedure of appointment and removal, the terms of office shall be established by the Law on Companies, its implementing legislation, the Guidelines for Corporate Governance of State-Owned Energy Group and the Articles of Association of the Company. In accordance with the Guidelines for Corporate Governance of State-Owned Energy Group, the Chairman of the Board elected by the Board is appointed as CEO of the Company. It should be noted that CEO of the Company, as a state-owned enterprise, is also subject to the special recruitment features provided for in the Law on Companies, according to which the term of CEO is limited to 5 years. It is also stipulated that the same person may not be elected as CEO for more than two consecutive terms.

The Company's governance structure



Remuneration report

Principles of remuneration of collegial bodies

The Guidelines for Corporate Governance of State-Owned Energy Group, approved by the Ministry of Finance of the Republic of Lithuania on 7 June 2013 (wording of the Order No 1K- 82 of 26 March 2020), establish the principles of remuneration of members of collegial bodies. Accordingly, the maximum monthly amount of the remuneration paid for the activities in the Supervisory Board, its committees or to the members of the managing and supervisory bodies of other companies in the Group of Companies, who are subject to remuneration, cannot exceed 1/4 (one quarter) of the amount of the monthly salary paid to the CEO of the Company (basic pre-tax remuneration). The maximum monthly amount of the remuneration paid to the Chairman of the Supervisory Board of the Company for the work in the Supervisory Board or its committees cannot exceed 1/3 (one third) of the amount of the monthly salary paid to the CEO of the Company (basic pre-tax remuneration).

In addition, the Corporate Governance Guidelines authorize the Company's Supervisory Board to determine, based on the opinion of the Nomination and Remuneration Committee, the guidelines/system for the remuneration of the Company and its group companies. In view of this, the Company's Supervisory Board has approved the guidelines for the remuneration of the managers of the Group of Companies, which were last updated in 22 November 2019. For the purposes of these guidelines, the remuneration system consists of the following elements:

- A fixed component of the remuneration represents the monthly salary specified in the employment contract;
- A variable component of remuneration shall be allocated for the achievement of goals/ indicators set as a percentage of the fixed wage component or another base of calculation.

It should be noted that the above parts of the remuneration scheme apply to members of the collegial bodies of the Group consisting of the employees of the Group companies (executive board).

Additional remuneration of the Board member (RBM) in the Supervisory Board or Board:

- To the managers of structural divisions, who also serve as a member of the Board (executive board) in the respective Group company (board member's rights and duties are defined in the board member activity agreement), the size of the RBM varies according to the level of the position;
- when necessary, to the management of the group companies operating in foreign countries, the specific amount of the RBM is determined by the decision of the Board of the Company, without violating the principle of internal justice and within the limit set in the remuneration guidelines.

The Management Remuneration Guidelines also provides that the total remuneration of the management may not exceed the sum of the maximum amounts of the RBM and the maximum values of the remuneration range, which are approved annually by the Company's Supervisory Board.

Information about the payments to the members of supervisory and management bodies of the Company during the reporting period

Position, name, surname	Fixed monthly remuneration (before taxes, EUR)	1/12 share of annual variable remuneration for the results of previous year (before taxes, EUR)	Calculated amounts for the activities (January-December 2019) in the Supervisory Board* (before taxes, EUR)	Average remuneration for the activities as the member of the Board (before taxes, EUR)	Other payments (before taxes, EUR)
MEMBERS OF THE SUPERVISORY BODIES*					
Darius Daubaras, Chairman of the Supervisory Board, member of the Risk management and business ethics supervision committee (independent member)	-	-	16,650	-	-
Andrius Pranckevičius, Member of the Supervisory Board, chairman of the Risk management and business ethics supervision committee (independent member)	-	-	5,288	-	-
Daiva Liubinskaitė-Trainauskienė, Member of the Supervisory Board, chairwoman of the Nomination and remuneration committee (independent member)	-	-	5,070	-	-
Šarūnas Rameikis, Member of the Risk management and business ethics supervision committee (independent member)	-	-	3,375	-	-
Irena Petruškevičienė, chairwoman of the Audit committee (independent member)	-	-	11,738	-	-
Danielius Merkinas, member of the Audit committee (independent member)	-	-	10,590	-	-
Šarūnas Radavičius, member of the Audit committee (independent member)	-	-	8,258	-	-
Lėda Turai-Petrauskienė, member of the Nomination and remuneration committee (independent member)	-	-	-	-	-
MEMBERS OF THE MANAGEMNET BODIES					
Darius Maikštėnas, CEO	8,170	2,508			
Darius Maikštėnas, chairman of the Board	-	-	-	2,550	-
Živilė Skibarkienė, member of the Board	-	-	-	1,815	-
Darius Kašauskas, member of the Board	-	-	-	1,815	-
Dominykas Tučkus, member of the Board	-	-	-	1,815	-
Vidmantas Salietis, member of the Board	-	-	-	1,815	-

** Members of the supervisory bodies can only be paid if they are independent members of the Supervisory Board and/or independent members of the committees of the Supervisory Board. Data on actual payments made in accordance with deeds submitted by independent members during the reporting period is provided.*

Number and average monthly salary of the employees (before taxes, EUR)

Employee category	The Company in 2019		The Company in 2018	
	Headcount	Average monthly salary	Headcount	Average monthly salary
Head of the company	1	9,725	1	6,234
Top level executives	11	7,342	9	5,358
Mid-level executives	21	6,320	20	3,774
Experts, specialists	68	3,833	85	2,192
Workers	-	-	-	-
Average salary	**101**	**4,281**	**115**	**2,784**

Employee category	Group	
	2019	2018
Head of the company	7,262	5,348
Top level executives	6,713	4,589
Mid-level executives	3,323	2,333
Experts, specialists	1,906	1,309
Workers	1,475	979
Average salary	**2,015**	**1,374**

The Company's total wage fund for 2019 was EUR 4.9 million (2018 – EUR 3.3 million). The Group's total wage fund for 2019 was EUR 87.6 million (2018 – EUR 64.45 million). Compared to 2018, the amount in the fund was changed due to the recalculated remuneration (multiplied by 1.289) announced as from 2019.

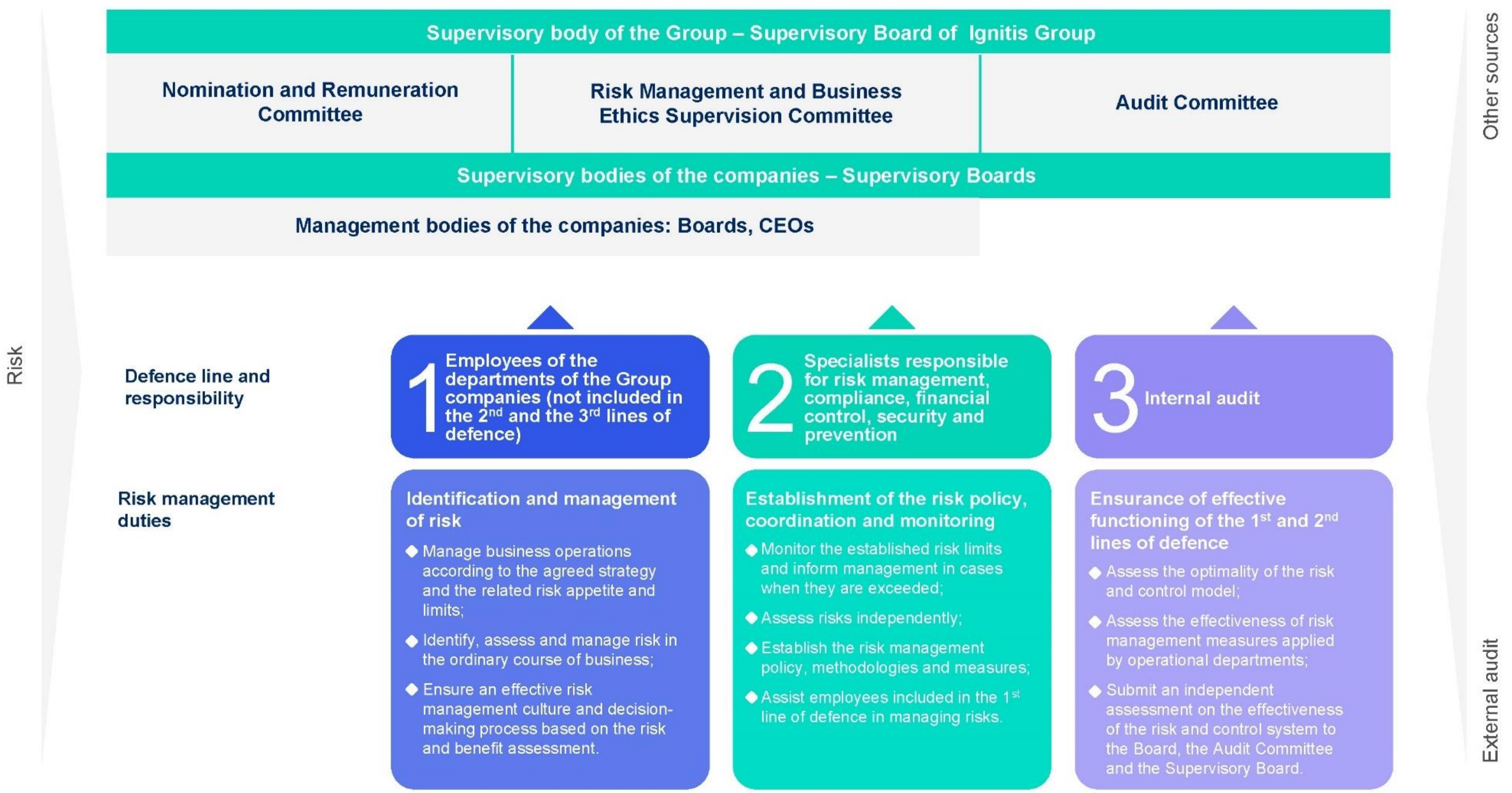
Risk factors and it's management

The risk management model, which is applicable in the Group, has been based on the guidance of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the main principles of AS/NZS ISO 31000:2009 (Risk management - Principles and guidelines).

The main objectives of the risk management process in the Group are as follows:

- To achieve the Group's performance objectives with controllable, yet in principle acceptable deviations from these objectives;
- To ensure of provision of information of the highest possible accuracy to decision makers, shareholders and other stakeholders;
- To protect of the Group's reputation;
- To protect interests of shareholders, employees, clients, stakeholders and the society;
- To ensure of the stability (including financial) and sustainability of the Group's activities.

Risk management and control model



The risk management principles provided for in the Group Risk Management Policy and other internal documents are consistently applied across the entire Group. The uniform risk management principles ensure that the management personnel of the Group companies receive risk management information covering all areas of activities. To ensure the practicality of the risk management process, specific activity areas supplement information on their activities with detailed risk assessment, monitoring, and management principles.

Aiming to ensure that risk management information and decisions correspond to recent developments and changes in the Group's activities, the Group companies' risk level is re-assessed each year during a specified time period and risk management actions are established. In addition, the Group companies monitor existing and new risk factors on a quarterly basis and defines additional actions to manage risks, if needed.

Risk appetite and risk tolerance limits are established within the Group. Risk appetite means the level and type of risk that the Group is ready to accept aiming to implement strategic objectives. Risk appetite determined by assessing the potential impact of risk exposure in the context of financial, reputational, compliance, corruption, human safety and health and business continuity aspects. Tolerance limit means the level of risk the excess of which is not acceptable for the Group and which is expressed in the results of operations or values of incidents. The risk appetite and risk tolerance limits of the Group are established and reviewed as needed by the Company's Board. Where risk appetite and risk tolerance limits are exceeded by the Company, action plans are prepared in order to meet the mentioned thresholds.

The effectiveness of the management plans is assessed by the Company's Board, the Company's Supervisory Board and the Company's Risk Management and Business Ethics Supervision Committee under the Supervisory Board. In order to effectively manage risks arising from its activities, the Group applies the three lines of defence principle by establishing a clear segregation of duties for risk management and control between the Group's management and supervisory bodies, structural departments or functions (see Figure above).

Risk factors for 2020 and it's management policies

As is the case each year, in 2019 the Group performed risk assessment for the year 2020 which included the determination of the areas where the Group's main risk management measures and initiatives are concentrated and coordinated. The list of the main risk factors for 2020 and their management policies is presented below. Most of the risks related to sustainability (related to the environment, human resources management) have been assessed as being within the Group's appetite and tolerance and are therefore not mentioned in the table.

Risk factor	Sources of risk	Main risk management policies	Risk level
Regulation	Regulatory risk in the Group manifests through a complicated planning of cash flows and risk of damage to reputation. The National Energy Regulatory Council remains the main regulatory authority making the largest impact on the prices of services provided by the companies and their Revenue by establishing ceilings for the prices. The most relevant regulation issues for the Group in 2019 were as follows: – The risk of non-notification of the European Commission about State aid, as described in points 7.3 and 7.4 of the PSO procedure, the services are not coordinated with the European Commission; – Provision of the PSO (strategic reserve service) services has been halted from 2019. A new concept of power market is being developed; – Electricity market deregulation; – A review of required quantity of liquefied natural gas in terminal.	– Efforts are made to fulfil the requirements of the regulatory authority in as specific manner as possible and to unify the principles of cooperation with the regulatory authority at the Group level. – For the purpose of ensuring compliance with new requirements, the Group-level projects engaging the best specialists of the Group with regard to the issue concerned are organised. – The compliance function is strengthened and formed at the Group. – Active participation in the process of public coordination of legal acts; – The Board of the Company regularly reviews the relevant regulatory risks..	Very high
Health and safety of employees, residents and contractors	With regard to the principal business activity companies due to a specific character of the activity and nature of works the Group bears an inherent risk of health and safety of employees, residents and contractors. This risk remains a priority area for many years and the main causes of this risk, in addition to high-risk working environment, include the lack of awareness or experience/knowledge and rushing when carrying out works. No any fatal or serious accidents to Group employees or contractors occur in 2019. With regard to residents one fatal accident was related to electricity equipment and a dangerously close proximity to it. The trend of minor accidents in the Group did not change significantly. To prevent the occurrence of such accidents in the future, public communication campaigns are being conducted.	– Motivational and disciplinary system for employees and contractors. – External and internal educational activity. – Modern training bases. – Regular control and monitoring of (employees/contractors') occupational safety	High
Disruptions in electricity distribution and generation activities (risk of a cyber-attack)	By observing external factors, geopolitical situation the Group understands its strategic importance for the country's security and by cooperating with external establishments and by introducing internal measures it aims to ensure that both the Group's strategic information and the main management systems are protected from the impact of any external/internal crime. In 2019, processes related to cyber threat monitoring/detection were continuously strengthened by introducing and updating existing systems During 2019, the relevance of information security continuously increased as a result of planned testing of electrical systems operating in the island mode in the Baltic States and Kaliningrad, the General Data Protection Regulation and internal and external changes being implemented (introduction of smart meters, digitalisation of processes).	– Improvement of resistance through scanning and isolating technology networks, carrying out tests/trainings. – Enhancement of monitoring/detection/suspension. – Cooperation with external institutions.	High

Risk of rise in borrowing costs	Considering the fact that the Group finances its operations by obtaining loans discipline in planning long-term Investments and controlling costs becomes particularly important. Therefore, the Group pays additional attention both to the control of costs and Investment plans and aims to retain the existing credit rating that would allow maintaining borrowing costs at the same level. The overall deterioration of the country's economy or failure to properly manage Investments could worsen the situation.	– Internal measures for the control of finances. – Monitoring of the situation in the market.	High
Lack of financing for the strategy implementation	A possible delay of strategic programmes that are expected to generate income would suspend a further implementation of the strategy or the occurrence of regulatory risks that change the volume of planned cash flows could potentially and hinder further implementation of the strategy.	– Monitoring of the project's portfolio at the level of the Board. – Forecasting, monitoring, analysing cash flows.	High
Corruption	In order to achieve its strategic goals, the Group continuously carries out large-scale tenders that must ensure that confidential information is not disclosed during the procurement process and that a due-diligence of the business partner, service provider or other third party is performed before signing the agreements.	– Reinforcement of the process for dealing with reported cases of potential corruption and irregularities; – Standardization of procedures and strengthening of control mechanisms; – Implementation of an Anti-bribery management systems (LST/ISO 37001: 2017) through standardisation of the Group's risk assessment and management; – The Code of Ethics is being developed.	High
Compliance	The Group companies, having a significant market power (either individually or collectively), cannot drive competitors out of the market or prevent them from entering the market, may not discriminate suppliers/buyers without justification and restrict output/sales. Group companies (where relevant) must comply with the requirements of REMIT, the Third Energy Package, AML, the National Energy Regulatory Council and other regulatory authorities (European Commission, Ministry of Energy of the Republic of Lithuania, etc.) applicable to the activities of the Group.	Centralised coordination of compliance issues within the Group.	High
Risks associated with the COVID-19 outbreak	Quarantine was declared throughout the territory of the Republic of Lithuania from 16 March 2020, which was still in force at the time of publication of this annual report. In assessing the company's business continuity risks, management took into account the uncertainty caused by the COVID-19 outbreak at the time of the release of the annual report due to the potential impact on the Group's activities in the future. The potential financial impact: – Cash flows from electricity and gas payments: payment delays, arrangements on longer debt repayment terms. Following the recommendation of the Government of The Republic of Lithuania, we grand special deferrals for payments for electricity and gas distribution and supply. Decisions are made based on the requests of private and business customers for the quarantine period. Customer requests are analyzed case by case, not exceeding the predefined amount. – Increase in the percentage of bad debts. Depending on the duration of the quarantine, the financial impact of the consequences will increase, but given the most likely scenarios for the spread of COVID-19 publicly discussed by experts, this should not jeopardize business continuity. Reasonable or significant assumptions as of the date of issue of the annual report cannot be reasonably determined. – Cash flow from declining of electricity and gas consumption during the quarantine period and slower recovery of consumption after the period ended. The negative impact of electricity and gas consumption will potentially affect the business segment, however it partially will be offset by increased electricity consumption in the private clients' segment. This should not jeopardize business continuity. Reasonable or significant assumptions as of the date of issue of the financial statements cannot be reasonably determined. – Cash flows related to the risk of delays in the development of large infrastructure projects (construction and development of new power plants). Depending on the duration of the quarantine, there could be a risk of project delays due to disruptions of supply chain or due to appeared risk of infection of critical personnel with COVID 19. The positive impact on cash flows could be due to subsequent Investments, however accordingly the planned income earnings and cash flow from operations related to the ongoing project could be delayed. This should not jeopardize business continuity. Reasonable or significant assumptions as of the date of issue of the annual report cannot be reasonably determined.	Group's management assessed the potential disruptions of cash flow, supply of services or goods, the attraction of sources of financing, the potential reduction in electricity and gas consumption due to economic slowdown, the risk of COVID-19 infection of critical function personnel and the risk of delays in ongoing projects, using all the information available at the time of the annual notification on the future risks posed by COVID-19, have not identified any circumstances which may give rise to doubts both as a result of the activities of the Group as a whole and the continuity of the individual undertakings belonging to the Group, and have taken action to manage the risks arising from the group's activities and have taken action to manage the risks arising from the Group's activities. .	Very high

Supervisory and management bodies of the listed companies

The supervisory and management structure of the subsidiaries of the Group companies is formed taking into account the activities of a particular company, stock managers, legal status and other aspects. The rule is that the managing and supervisory bodies of the subsidiaries must be optimal, they must ensure the implementation of the interests of the Company as a shareholder, of other shareholders and of stakeholders, and must comply with the international and national best practices on corporate governance.

Listed companies of the Group companies are subject to the management model with the collegial supervisory body - the Supervisory Board (by including the independent member(s) and the shareholders' representatives, as well as, if necessary, and employee representative(s)), and with the collegial managing body – the Board of the Employees of the company.

As at 31 December 2019, the Supervisory Board of ESO consisted of the following members (term of office till 29 March 2022):

Full name	Participation in the capital of the Company and Group companies,%	Term of office	Place of employment
Darius Maikštėnas Chairman	-	From 30/03/2018 to 29/03/2022	Ignitis Group, Chairman of the Board, CEO
Darius Kašauskas Member	-	From 30/03/2018 to 29/03/2022	Ignitis Group, member of the Board Finance and Treasury Director
Kęstutis Betingis Independent member	-	From 28/05/2018 to 29/03/2022	Betingio ir Ragaišio Lawyer Firm, lawyer
Žaneta Kovaliova Independent member	-	From 15/10/2019 to 29/03/2022	UP Consulting Group Ltd, CEO
Dalia Jakutavičė Employee representative, Member	-	From 15/10/2019 to 29/03/2022	Deputy Chairwoman of the Lithuanian Energy Workers' Trade Union Federation

On 6 August 2019, ESO received a letter from the Company informing that, that, subject to the opinion of the Company's Supervisory Board, of the Company, Dalia Jakutavičė and Žaneta Kovaliova a have been nominated for the positions of the member of Supervisory Board of ESO. The Extraordinary General Meeting of Shareholders of the Company held on 15 October 2019 elected Ms. Žaneta Kovaliova and Ms. Dalia Jakutavičė as the members of the Supervisory board of ESO.

As at 31 December 2019, the Board of ESO consisted of the following members (term of office till 26 December 2022):

Full name	Participation in the capital of the Company and Group companies,%	Term of office	Place of employment
Mindaugas Keizeris Chairman	-	From 27/12/2018 to 26/12/2022	ESO, CEO
Augustas Dragūnas Member	-	From 27/12/2018 to 26/12/2022	ESO, Director of Finance and Administration
Virgilijus Žukauskas Member	-	From 27/12/2018 to 26/12/2022	ESO, Director of Network Operations
Ovidijus Martinonis Member	-	From 27/12/2018 to 26/12/2022	ESO, Director of Network Development
Renaldas Radvila Member	-	From 27/12/2018 to 26/12/2022	ESO, Director of the Services

During the reporting period, there were no changes in the composition of the Board of ESO.

As at 31 December 2019, the Supervisory Board of Ignitis Gamyba, consisted of the following members (term of office until 25 March 2022):

Full name	Participation in the capital of the Company and Group companies,%	Term of office	Place of employment
Dominykas Tučkus Chairman	-	From 26/03/2018 to 25/03/2022	Ignitis Group, member of the Board, Infrastructure and Development Director
Živilė Skibarkienė Member	-	From 26/03/2018 to 25/03/2022	Ignitis Group, member of the Board, Organisational Development Director
Edvardas Jatautas Independent member	-	From 26/07/2019 to 25/03/2022	Profectus Novus UAB owner, Chairman of the Board; Addendum Group Inc., founder, President; Addendum Solutions UAB founder, member of the Board. Lithuanian American Business Association in Los Angeles, member of the Board SIA Addendum LV founder, member of the Board. OU Addendum EE founder, member of the Board.

On 12 March, 2019, *Ignitis Gamyba* (former *Lietuvos energijos gamyba*) received a letter from the Company (former *Lietuvos energija*) informing that after the approval of the Company's Supervisory Board, Rimgaudas Kalvaitis has been nominated for the position of the member of the Board of the company and CEO. Accordingly, on the same day Mr Kalvaitis submitted his request to resign from his current position as a member of the Supervisory Board of the Company. He is out of these duties from 27 March, 2019. On 27 March 2019 Mr. Edvardas Jatautas has been elected as an independent member of the Supervisory board of *Ignitis Gamyba* until the end of the term of office.

As at 31 December 2019, the Board of Ignitis Gamyba, consisted of the following members (term of office until 2 April 2022):

Full name	Participation in the capital of the Company and Group companies,%	Term of office	Place of employment
Rimgaudas Kalvaitis Chairman	-	From 27/03/2019 to 02/04/2022	Ignitis Gamyba, CEO
Darius Kucinas Member	-	From 03/04/2018 to 02/04/2022	Ignitis Gamyba, Director of Production
Mindaugas Kvekšas Member	-	From 03/04/2018 to 02/04/2022	Ignitis Gamyba, Director of Finance and Administration

The Board and the Supervisory Board of *Ignitis Gamyba* (former *Lietuvos Energijos Gamyba*) received the notice of Eglė Čiužaitė regarding her resignation from the office of CEO and thus on 7 January 2019 decided to remove Ms Čiužaitė from the office of the company's CEO from 21 January 2019. Ms Čiužaitė also resigned from the office of the Company's Board member and chairwoman of the Board from 21 January 2019. The Production Director Darius Kucinas has been acting as a temporary CEO of the Company from 22 January 2019. On 27 March, 2019 the Board of the Company has elected Rimgaudas Kalvaitis as Chief Executive Officer of the Company.

People and culture

Key principles of people and culture

Strategic priorities

In Group's Strategy 2030 these strategic priorities are detailed:

Teams
Empowered, flexible, creating

Learning culture
Always, everywhere and fast

Employee
Engaged and productive

Working principle
Effective and empowering

Human resources management policy

Group's human resources management policy sets the principles and defines the key provisions, that the Group follow in managing their human resources and implementing strategic goals. The policy is focused on the development of employees' professional skills and the formation of a responsible organizational culture, ensuring the value increase for customers, partners and society.

Key human resources management principles

Employee awareness is developed by creating an organizational culture focused on efficiency, result, innovation and customer	– A Group based on ownership, long-term partnership between employer and employees is created. – Search for efficient work reserves in all Group processes. – A competent team of employees focused on a sustainable result is formed. – The number of innovative ideas aimed at the Group's goals is increased. – A customer-oriented Group is being developed.
Flat and slender Group companies management models	– The aim is that appropriate and necessary decisions are made promptly and the Group is managed efficiently.
Optimized and consolidated human resource management	– Concentrates on the development of human resource management tools and the adoption of the necessary decisions for the efficient and smooth management of human resources in the Group. – Sharing and implementing best human resource management practices.
Strengthened leadership competences	– Leadership competence is developed, enabling employees to make bold decisions and feel personally responsible for the Group's goals.
Motivation of learning and knowledge preservation	– Accumulated experience and knowledge is transferred to new employees. – Taking into account ongoing and anticipated changes in the Group, employees are provided with new knowledge and skills.
Systematic human resource management approach	– The Group follows a systematic approach to human resource management: it integrates the main areas of human resource management based on the competency model.
Competitive and motivating recognition system	– The aim is to be competitive in the market by attracting and retaining employees in the Group. – Employees who achieve excellent work results and have high potential are identified, their maintenance in the Group and further growth is taken care of.

Employee diversity and representation

There have been 3,742 employees as of 31 December 2019 (number of employment contracts excluding long-term leave, "headcount"). This is similar to the end of 2018, when the Group had 3,713 employees. In 245 of Group employees worked on fixed-term conditions, whereas in 2018 fixed-term contracts concluded 274.

101 employees worked ("headcount") in the Company on 31 December 2019 (115 on 31 December 2018). The decrease was mainly due to the part of employees being transferred to the Group subsidiary company - GPC.

Employee turnover rate

The Group companies value every employee and their contribution to the company and aims to create favourable working conditions. The result of these efforts – declining overall employee turnover rate. During 2019, this figure amounted to 11.5% and compared to 2018 when it stood at 24.2%, decreased more than twice. In the Company employee turnover rate amounted to 21.8% in 2019 and compared to 2018 (when stood at 24.4% due to the Company's Management Board change) slightly decreased. There have been 80 part-time employees in the Group in 2019 and their turnover rate was 77.5%.

Employee diversity

Group ensures that job opportunities are not dependent on the employee's gender. This is also emphasized during the staff selection process. Because of the peculiarity of activities in the sector, technological nature of the operations, the predominant members of the staff are males, while females are working mostly in administration or customer service divisions.

In 2019, males amounted for 72.2% and females for 27.8% of total Group employees. There have been 64.8% males and 35.2% females specialists. The gender distribution within middle level managers is similar – males accounted for 68.8% and females for 31.2%. The same trend can be observed among employees within management positions: 70.1% of managers is males and 29.9% - females.

These figures have not significantly changed compared to 2018 when 72% of the Group employees were males and 28% females. The gender distribution of management positions remained similar as well – males amounted to 71% and females to 29%.

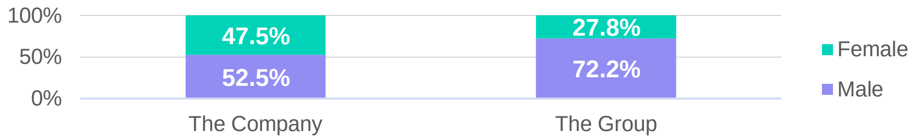
Looking at the Group companies, the tendency of larger share of employees being males in companies with more technological roles. For example, the share of males in ESO amounted to 82.6%, whereas females – 17.4%. Similar tendency is seen in Ignitis Gamyba too – males amounted for 87.2% and females to 12.8%. A similar trend can be observed among employees within management positions in these companies: females amounted to 16.6% of top and middle management positions in ESO and 11.8% in Ignitis Gamyba.

Number of Group employees as of 31 December 2019

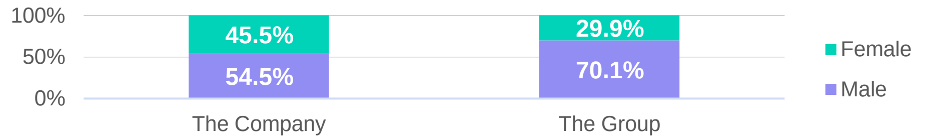
Company	Total number of employees*
Energijos Skirstymo operatorius	2 374
Verslo Aptarnavimo Centras	438
Ignitis Gamyba	352
Ignitis Grupės Paslaugų Centras	178
Ignitis	103
Ignitis Group	101
Vilnius CHP	44
Kaunas CHP	36
Transporto valdym,as	27
Energetikos Paslaugų ir Rangos Organizacija	21
Duomenų Logistikos Centras	14
NT Valdos	10
Ignitis Latvija	9
Ignitis Renewables	8
Ignitis Polska	8
Gamybos Optimizavimas	7
Elektroninių Mokėjimų Agentūra	4
Pomerania	2
Ignitis Eesti	1
Eurakras	1
Vėjo Gūsis	1
Vėjo Vatas	1
VVP Investment	1
Tuuleenenergia	1
Total	**3 742**

** In the annual report number of employees refers to the headcounts*

Distribution of personnel by gender in 2019



Distribution by gender of employees who hold executive positions in 2019

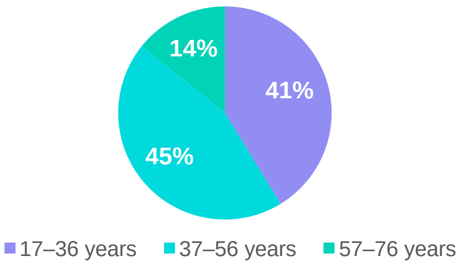


**CEOs, top and middle management*

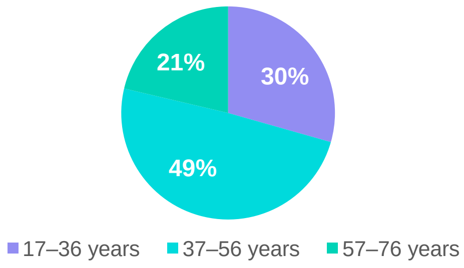
Distribution by age

The Group offers employment opportunities for people of all ages. The biggest group of the Group companies' employees are in the age range from 37 to 56 years (1,788, ~48% of total employees), closely followed by the age group from 17 to 36 years (1,219, 39% of total employees). The smallest group include employees in the age group from 57 to 76 year.

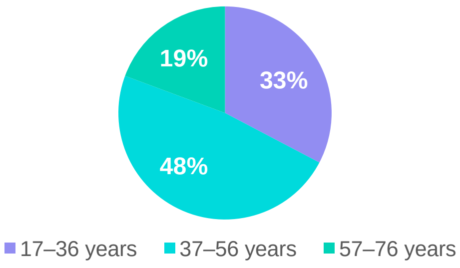
Groups' Females employees by age group in 2019



Groups' Male employees by age group in 2019



Groups' employees by age group in 2019

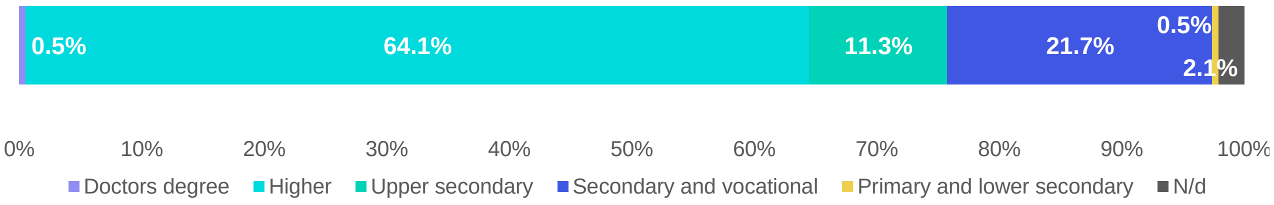


Distribution by education

64.1% of the Groups' employees have higher education, 11,3% - post-secondary and 21,7% - secondary and vocational education. 19 employees hold PhD degree.

99% of the Company's employees have higher educations, 2 of them hold PhD degrees as well.

Groups' employees by education in 2019



Employee representation

11 trade unions operate in the Group. These unions were founded by the employees of ESO and Ignitis Gamyba, two largest companies of the Group of Companies. 7 trade unions operate in the company ESO, and 4 trade unions in Lietuvos energijos gamyba. Collective agreements in the Group are signed by employees of ESO and Ignitis Gamyba, which is 73% of the employees. Other Group companies have works councils. There is a common group of additional benefits throughout the Group.

On 15 April 2019, ESO was the first in Lithuania to sign an agreement with all 7 trade unions operating in the company, which provides for the involvement of a trade union delegated employee representative on the supervisory board, while pursuing objectives of mutual interest. As of October 2019, the employee representative is a member of the Supervisory Board of ESO and thus contributes to the sustainable development and growth of the Company by ensuring representation of the rights or legal interests of all employees of the Company.

In addition, periodic meetings are held at the Company to discuss strategic projects implemented by the Company, other relevant questions. Trade union representatives always participate in working groups, where employee-related issues are addressed (working conditions, remuneration and social issues).

Culture of organisation

The Group seeks to form and maintain an organizational culture that fosters long-term employer-employee partnerships based on the Group's values and principles of conduct, mutual value generation and the creation of a successful future together. The aim is to ensure a positive microclimate for productive and efficient work, employee involvement and empowerment, interest in the success of the Group's companies, quality and efficiency of activities, and socially responsible behaviour.

Strategic initiatives for the coordinated development of the organization, human resource management, formation of a new organizational culture, efficiency of activity organization, development of new employees, and strengthening and maintenance of employee competencies were continued in 2019.

Human and Culture Department Team in 2020 targets to increase the attractiveness of the Group's employer image, improve remuneration and benefit systems, develop a model of leadership competencies and prepare a leadership development plan.

Human rights and equal opportunities

In the provision of its services and activities in different communities, the Group operates in accordance with the principles of the protection of human rights, promotes and respects international protection of human rights in its sphere, and ensures that it does not contribute to violations of human rights and advocates any violation thereof.

The Group implements a fair and transparent remuneration policy, complies with the laws governing overtime and working hours, opposes any discrimination (with regard to employees or during employment) and forced or child labour, respects the right of employees to rest, and promotes work-family balance.

The Equal Opportunities Policy, applicable to the entire Group, provides the principles of equal opportunities throughout the Group, measures for their implementation and describes the procedure for reporting and dealing with equal opportunities violations

In 2019, no reports discrimination or other incidents related to human rights violations have been received in Group companies.

Notification on discrimination

Reports of human rights, equal opportunities or other violations may be made directly to the head of the Company’s Human Resources Department may be notified of discrimination of equal opportunities directly by email or via the Trust Line by e-mail pasitikejimolinija`ignitis.lt or by leaving a message on the answering machine +370 640 88889.

Recruitment

As of 2019, the Group implements a unified sample management system 'SmartRecruiters'. This system helps to save a lot of time spent on technical tasks (reading candidates' emails, creating lists of candidates, manually uploading ads on different portals and managing candidates' CVs across different platforms). All this is now done through the system, with more time spent on attracting, evaluating, and qualifying the selection process.

The Talent recruitment unit now has a unified database of candidates with access to information on each candidate, and the system's built-in personal data protection helps manage candidates' data in a proper manner. It is noteworthy that the system has the ability to recommend candidates, thus employees of the Group companies can recommend candidates for the position and monitor the recommendations made. The system also has a mobile application that can be used by all employees of the Group.

Moreover, candidates now have the opportunity to apply not only through submission of CV, but also through their LinkedIn profile. The 'SmartRecruiters' system allows candidates to create a candidate portal, where they can track their selection process and see at what selection stage they are and follow up with the recruiting team.

Statistics on the recruitment by the Group in 2019

600 New employees	**18 000** Candidates	**340** Recommendations by the employees

Internship possibilities

The Group companies create conditions for high school and vocational students to adapt theoretical knowledge and acquire practical skills. In 2019, 57 trainees from different universities and vocational schools completed the traineeship in the Group. 8 students were employed. Most trainees (31) were recruited and employed (4) by ESO.

In 2019, the Group participated in Career Days organized by Vilnius Gediminas Technical University, Kaunas University of Technology and Vilnius College of Technology and Design. The Company participated in the Student Practice Forum, which introduced students to the field of energy and professions. The Group also contributed to the project 'Būsiu' and National Career Week, during which the Group companies' employees visited schools to introduce various professions in the energy sector.

In Q4 2019, a strategy for cooperation with educational establishments has been developed and agreed the implementation of which will continue in 2020. The Group aims not only to promote the engineering professions, but also to raise students' awareness on a wide range of positions in the energy sector. The goal of this strategy in 2020 is to strengthen the Group's cooperation with educational establishments, not only contributing to student engagement initiatives, but also improving student experience and study quality.

Integration of new employees

With a view to ensuring smooth and appropriate adaptation of new employees, they are invited to attend 'Days of new employees' and relevant training sessions. During these sessions the employees are introduced to the corporate strategy, other managers and operations of individual divisions. The new employees are briefed on the structure of the energy sector, the strategic directions of the Company, its mission, vision, values, anti-corruption policy, the main operational principles in the energy sector, the foundations of electrical engineering .

On the first day at work, mentors are appointed to assist the new employees and be responsible for the most diversified assistance during their probation period. Mentors are the employees of the same division, responsible for wide-ranging assistance to new employees during the probationary period.

Development of competencies

The Group is consistently concerned with the improvement of the qualifications of its employees and ensures that employees have all the statutory certificates required for their work, and that they develop the competences required for their work. Various training sessions to improve general, vocational and managerial competencies have been organized in individual companies, for example, Leadership, Team Building, Change Management, Communication, Project Management, Business Process Management, etc.

During 2019, every employee of the Group attended training (only instructor-led trainings included) lasting, on average, 8 hours. In 2018, the number of training hours was 25 hours (electronic and live trainings included).

In order to improve the competency development program, the Education Guidelines were updated in 2019. The Grow academy, an in-house training program for lecturers and participants, launched its operations. In 2019, 30 new lecturers were selected, training of trainers was organised, training materials were updated, in-house trainers' development club was established.

Each new employee of the Group attends 'Days of new employees' (for more see section 'Integration of New Employees'). In 2019, the program of 'Days of new employees' has been updated: with new notifications and the format of the day changed using the Customer Journey Mapping technique.

Development of competencies in 2019

Trainings	Number of participants	Learning hours (per person)
Leadership Development Program	150	65 h
ABC on Energy	179	8 h
Different trainings for employees	3702	8 h

Remuneration and additional benefits

The Group companies have implemented an advanced employee remuneration system placing the Company on an equal footing with other leading companies of the country remunerating their employees according to their performance, the value created for the organisation and the team. The remuneration system was developed on the basis of 'Korn Ferry' methodology ensuring objective evaluation of the employee's job positions according to the required qualification, complexity of the problems, and the level of responsibility assigned to a specific job position.

In 2019, the Group Remuneration Policy, which sets out the cornerstone principles of remuneration management, was updated: internal justice, external competitiveness, clarity, transparency, flexibility, ensuring that employees all Group companies are rewarded in the same way for the same type of work, expertise and performance.

Information on the employee compensation is provided above in this report.

The Group companies have an employee benefit system in place. Additional benefits are an additional motivational tool aimed at increasing employee engagement, helping to reconcile work and rest. Employees can use their additional motivation tools to improve their skills, achieve better performance, and enrich their work experience at the Company. Following is a brief discussion of the additional benefits available to the Group employees.

Additional benefits provided to the employees of the Group

Company events and celebrations	Pension scheme	Health insurance	Distance working
Social benefits to employees	Employee referral bonuses	Two days of sick leave without a certificate of incapacity	Additional paid holidays
Flexible working hours	Training and continuos professional development	Culttural and sporting activities	First two days of sick leave paid at 100%

Work-life balance

Group employees can choose to work remotely 5 working days a month. In 2019, employees took advantage of this opportunity and worked remotely for 10,181 days. The ability to work remotely helps employees plan their time, reconcile work and rest. It also contributes to more sustainable consumption and energy savings. Teleworkers do not have to go to the workplace and save fuel and electricity used at the workplace.

Employees have the opportunity to choose working hours that are convenient to them. They can start work between 7 a.m. and 9 a.m. in the morning and end between 4 a.m. and 6 a.m. in the evening. On the basis of the place of residence, employees can choose when to go to work, avoiding traffic jam and saving time.

Care for health and securing the future

The Group companies offer all employees additional benefits that will help them to take better care of their health and well-being or to invest more effectively for the future. Every year, employees can choose which additional benefits they want to take health insurance or a 3rd pillar pension option.

Employees also have the opportunity to take two days of sick leave without a certificate of incapacity, and if certificate of incapacity is necessary, the first two days of sick leave are paid at 100%.

Opportunity to learn and share interests

In addition to organising in-house training for employees, the Group also provides opportunities for external training and development. For example, employees can attend language classes. Students can use the opportunity to take paid leave for study. We are pleased that the employees of the Group companies are active and have different interests, thus, we encourage them to team up and spend time together in a meaningful way. The Group has a book club, and the Group's volleyball team has repeatedly won the International Volleyball Tournament of Energy Companies.

On joy and sorrow

The employees of the Group are one big family, so we are not only concerned with the work, but also the personal lives of the employees. We contribute to joyful moments and provide additional benefits on occasion of a childbirth or marriage. In the event of an accident (such as the loss of a close family member), a social benefit is paid to the employee.

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Employee Net Promoter Score (eNPS)

The Group is making consistent efforts to become an organisation, in which operations are based on common values, the required competences and the replacement for key employees are built in a consistent and coordinated manner, and the internal environment is conducive to employee engagement. Employee Net Promoter Score started to apply in 2019.

This study reveals how employees' value various organizational experiences, how satisfied they are with the company, and whether they would recommend it to their friends or colleagues. The Company surveys its employees quarterly and invites all Group employees to participate.

The results of the survey in 2019 showed a tendency to improve each quarter. Overall eNPS score in 2019 was 24.5%.

eNPS score in 2019

Attendance by Groups' employees,%		eNPS,%
Q1	68,7	9,0
Q2	68,7	23,0
Q3	66,1	37,0
Q4	67,7	29,0

Occupational health and safety

The Group has been dedicating significant attention to developing the health and safety culture at the working places, and strengthening the responsibility of the employees. The Group has approved its 'Occupational Health and Safety Policy' (OHS) designed to build safety culture in the Company based on personal responsibility and cooperation. The highest-level managers are responsible for a safe and healthy working environment, and safety culture is perceived as a component of the organisational culture.

In order to ensure the safety and health of employees, the Group implements various measures: preparation of safe work instructions, acquisition and distribution of necessary equipment to employees, installation of safe workplaces, health inspections, occupational safety training, etc. PHSW specialists are responsible for proper working tools, they assess the risk related to the working place, organise health checks, vaccination (for employees working in field conditions).

Success in this area requires the involvement of employees, and therefore the implementation of measures to improve the health care, monitoring, safe and clean working environment and safety and culture of employees.

Companies of the Group facilitate an active dialogue related to the implementation of healthcare, monitoring, safe and clean working environment, and improvement of health and safety at work. Due to the mandatory and additional measures in the areas of health and safety, and the provision of the employees with persona protection means, the number of incidents at work has decreased.

With respect to infringement of safety at work requirements the Group follows a zero-tolerance policy. Regular checks and inspections are conducted at contractor sites, if necessary, all the infringements are recorded, or the operations may be suspended. Such inspections of the contractor sites, or training or safety days are organised, or other measures are implemented by Group companies at their own initiative, as no such requirements are provided in any legal acts. In 2019, the Group's company ESO further applied the procedure of contractor ranking. This procedure is used to assess the quality of contractors' performance, taking into account not only compliance with contractual deadlines, but also whether the works were carried out subject to occupational safety requirements and the number of occupational safety violations

In 2019, Occupational safety and health management standard ISO 45001:2018 standard was implemented by the Ignitis Gamyba. Whereas in ESO Occupational safety and health management system OHSAS 18001:2007 is applied.

Group's occupational safety and health indicators in 2019

Incidents and accidents at work	– ESO: 103 incidents, 94 of them – car accidents. 14 minor injuries: 4 of them on their way to/from work, 10 of them at work. – The main reason for minor injuries is careless behaviour of employees at workplace, when injured by slipping, tripping or falling. All injuries were investigated. – Ignitis Gamyba: 1 minor accident and 2 minor non-work-related injuries (high blood pressure and food poisoning). – The medical point was contacted for one minor injury for the eye contamination.
Occupational safety and health violations by contractors' employees in the Company's objects, and their nature	– ESO: 3,591 contractors' site was inspected, and 1,027 violations were identified. Operations were suspended 34 times due to complex or serious infringements. – Nature: inappropriate registration of works, failure to use of personal protective equipment, improper working environment. – 3 contractors' employees were involved in minor accidents. – Ignitis Gamyba: among the contractors total 11 OSH violations were recorded, in 4 cases unsafe work was suspended. – Nature: failure to use of personal protective equipment, non-compliance with occupational safety and health rules, inappropriate registration of works, inappropriate performance of work with fire, etc. – Vilnius CHP: 3 accidents.
Indicator of time lost as a result of OSH violations	– ESO: 2,582 working days were lost as a result of accidents at work – Ignitis Gamyba: 6 working days were lost as a result of accidents at work, and 3,694 working days were lost due to sickness. – Vilnius CHP: 382 working days were lost.

Innovations

Innovation development within the Group includes 4 ongoing open innovation programs. Based on these programs, we collect and develop the ideas. The aim is to collect 500 ideas, to carry out 15 pilot projects and to apply 5 selected ideas to the activities of the group by 2021. Until the end of 2019, 300 ideas were collected, 11 pilot projects were carried out and 4 ideas were put into action.

Open innovation programmes

Open partnership – is the search for partnerships for joint projects, research and development.

The largest ongoing partnership project is the pilot project of a floating solar power plant in the upper Kruonis PSHP implemented in cooperation with Kaunas University of Technology. The project has been funded with additional EUR 235k from the Lithuanian Business Support Agency (LVPA).

The floating solar power station in Kruonis PSHP would be the first such power plant in this region and it would be distinguished by its technical solutions. It would be possible to utilize an area of over 300 ha of the upper basin of Kruonis PSPP. The construction of the power plant would adjust to the variable water level in the basis and would be resilient to waving and ice.

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Open funding – is the Smart Energy Fund powered by Ignitis Group investing in energy start-ups.

A venture capital fund founded by the Group 'Smart Energy Fund powered by Ignitis Group' invested EU 3.1 million in 14 start-ups from 6 countries (France, UK, Lithuania, Estonia, Norway, Israel). The fund has invested in start-ups that develop innovative solutions in the fields of energy generation, storage, transmission, distribution, prosumers and e-mobility.

„Smart Energy Fund powered by Ignitis Group“ Investments

3,1	14	6	21
million EUR	different companies	countries	Investment partners

Open culture – promoting a culture of energy innovation, participating in conferences, organizing hackathons.

In 2019, Innovation and Technology Festival LOGIN hosted the Ignitis Group hackathon on energy innovation. In a 2-day Smart Energy hackathon more than 40 enthusiasts from different fields competed in the two-day hackathon: energy professionals, IT specialists, project management professionals, business developers, business executives and other experts from Lithuania and abroad.

Open infrastructure and data – Sandbox and Open Data programmes operating in the Group.

ESO launched Sandbox programme in 2018, and in 2019 it was expanded throughout the Group, offering technologies and solutions that can be tested in other Group companies' infrastructure. During the lifetime of the programme, 32 applications have been received from 6 countries and 6 Sandbox projects are in progress. Even a few tried-and-tested technologies helped to solve existing problems and are already used in daily activities.

Ongoing innovation projects

Prosumers

Following the amendments to the Law on Energy from Renewable Sources and Law on Electricity allowing to generate solar power in one place in Lithuania and use it in another, the project *Ignitis Saulės Parkai* launched.

In October 2019, the world's first remote solar power platform *Ignitis Saulės Parkai* was launched, which offers the opportunity to generate electricity from solar energy for residents of single and multi-family homes. The platform is open to all solar power plant developers who can submit their projects for sale.

Through the platform *Ignitis Saulės Parkai*, residents are able to purchase or rent a part of the solar power plant offered by any developer with a minimum output of 1 kW and a maximum capacity of 30 kW.

Power conditioning systems

In 2019, ESO has installed two pilot power conditioning systems that provide quality power to customers when network conditions prevent it. If claimed successful, it will be used in the future instead of costly and lengthy line reconstruction.

The power conditioning system operates in hybrid mode, with part of the power being supplied from the grid and the missing portion is covered by batteries. This system offers a possibility to postpone urgent and unplanned reconstructions and becomes a tool to manage Investments. It also assists the user in maintaining power supply in the event of a network failure by improving SAIDI / SAIFI performance.

Automatic network inspection

ESO analysed and implemented the pilot project for the overhead electric lines' inspection digitization solutions to optimise the inspection process and data collection by using artificial intelligence (AI) to perform data analysis. The process comparison was made in terms of speed, quality and price.

The following was tested during the pilot project:

- Drones in hard-to-reach locations which are difficult to access for a fault inspection (defect detection process).
- Sterblue automatic flight planning, data acquisition and AI for element/defect recognition.
- Hepta – purchase of the defect process description from a company that performs drone inspections.
- After examining the pilot results, 1,000 km of overhead electric lines were chosen for trial inspection by using LIDAR technology.

Microgrids

The microgrids project is piloting a solution, yet untried by the Group, to supply grid-independent electricity by using renewable sources, battery and diesel generator.

This solution is aimed at addressing problematic areas of the network where, in geographically isolated locations, customers are supplied with electricity through long overhead electricity lines over forests or under water.

The solution is being piloted in two remote settlements in Prienai and Plungė districts.

Digitisation and robotization

Operation excellence and digitisation programs applied by the Group help create a culture of continuous improvement and rapid learning. In 2019, digitisation and operational excellence team focused on organising hackathons, process automation, and operational excellence enhancement.

Hackathons

In 2019, three hackathons were organized – two for staff, one for external partners. The hackathons addressed the real challenges of the Group and brought together teams from various divisions and Group companies. A total of 17 ideas were developed during the internal hackathons, where 11 ideas were implemented or developed after these hackathons.

Here are some examples of ideas that have been developed after the hackathon:

- Internal automated chat assistant chatbot to help answer employee questions related to the employment relationship. This tool is planned to be enhanced by updating the database with questions raised by employees referring to the employees of the internal group service centre.
- Automated personalised offers regarding solar power plants that help identify potential customers and proactively send them personalised offers.

Hackathons will be continuously organised in 2020 as a great medium to attract people from various fields and to meet the challenges within the Group. An artificial intelligence hackathon is expected to be held in 2020 to test artificial intelligence technologies within the Group.

Process automation

In 2019, a lot of attention has been paid to adapting new technologies. The Robotic process automation (RPA) technology was launched: automated manual and repetitive operations performed using different computer programs.

In 2018, FTE saving when using RPA amounted to 8.5, while in 2019, – 76. By allowing the robots to perform part of their work, the Group's employees had the opportunity to choose more interesting and higher value-added tasks.

Development of automation excellence is planned in 2020 by using artificial intelligence technologies.

Operational Excellence programme

The Group companies have been operating an operational excellence program for four years to help the Group companies create more value for their customers and shareholders. In 2019, more than 1,400 operational improvements have been implemented whereby saving EUR 1.8 million and approx. 259k working hours.

Here are some examples of how the emerging ideas helped employees to enhance the operational excellence:

- When connecting the newly constructed gas distribution pipeline to the existing one, employees suggested applying Kaizen, which helps to save approx. EUR 16k per year. Employees have improved drilling equipment so that work can be done in less time and with less material without interrupting gas distribution to customers.
- Customer service staff implemented as many as 32 ideas to improve customer service experience: improved informative capability of the self-service website, facilitated data collection needed for certificates, improved customer communication templates, accelerated consumption reporting for business customer. These improvements helped to save up to 5k working hours and to accelerate and improve the processes for customers.
- Within the scope of the Operational Efficiency Program, work is also being done on larger projects involving several teams from different fields and competencies. One such project, when performing the analysis, helped eliminate the need for manual input of data and develop a methodology that made the Investment planning process 90–100% accurate.

Operational excellence remains an important value driver for our customers and shareholders, as well as an integral part of the activities of each employee of the Group.

Social responsibility

Principles of the report

This Group's Social Responsibility Report drawn up taking into the account the principles of the United Nations (UN) Global Compact and evaluating the Group's activities in the context of the United Nations Sustainable Development Goals. Information has also been prepared in accordance with the Nasdaq ESG Reporting Guides and the requirements of the Republic of Lithuania Law on Consolidated Financial Reporting by Groups of Undertakings.

Based on the above mentioned requirements, Group prepared information on responsible business activities during 2019. This information is integrated and a part of consolidated Group annual report. Separate Responsible Business Report for the 2019 year Group will not be prepared. Listed companies of the Group (ESO and Ignitis Gamyba) their social responsibility principles and key operating areas discusses in their 2019 annual reports, which should be approved on 30 April 2020 during the Ordinary General Meetings of Shareholders. Separate Responsible Business Reports by each of the Group companies are not prepared, as the information is included in this Group annual report.

The Responsible Business Report provided below should be read in conjunction with the other of this Consolidated Report and the annual reports of the other Group companies.

Major events of the Group and its companies that occurred in 2019 are described in detail in the section 'Overview', the Group's strategy and goals - 'Business Model', operating and financial results for 2019 and their comparison with previous periods - in the section 'Results'. More details on the Group's employees, their cross-sectional composition, remuneration system, occupational health and safety, various initiatives can be found in the section 'People and Culture' of this report, and information on the Group's governance, management bodies, their functions – in the section 'Corporate Governance Report'.

Annual reports prepared by the Group companies provide more detailed information on the company-specific events and performance data applicable only to these companies. In the annual reports of Group companies material events related to their business and financial results are analysed in more detailed. Annual reports of listed Group companies can be found using these links: ESO 2019 annual report, Ignitis Gamyba 2019 annual report. Annual reports of other Group companies can be found (link).

All statements and reports prepared by the Group companies draw the overall picture of the Group's activities, meanwhile this report and the Responsible Business Report below highlight the most significant aspects for the Company and the Group.

Group reporting improvement plans for 2020

According to the Group's strategy for 2030, the development of sustainable and transparent business is a priority for all Group companies. In this context, the Group is currently updating its internal regulations on the responsible business (corporate social responsibility). The Group's Responsible Business (Corporate Social Responsibility) Strategy is expected to be adopted by the end of Q1 2020. The Group publishes the main parts of this strategy and related documents and action plans in this report and/or will make it publicly available on its website.

Due to the high complexity of the Group, this report does not provide an overview of all the indicators recommended by the International Standards for Responsible Business, nor compares them with previous periods. In 2020, the Group attaches great importance to strengthening accountability of responsible business. With this in mind, a new system of the Group's responsible business indicators is expected to be prepared in 2020 that the Group and its companies could use this system to prepare reports from 2021 onwards (for the previous reporting period).

Principles of Group's social responsibility

Group's responsible business is based on its values and defines the approach of all Group companies social, environmental, transparency principles to their internal processes, operations and relations with stakeholders.

All Group companies during their operations are subject to the below policies which they must follow:

- Social responsibility policy
- Anticorruption policy
- Zero Tolerance Policy Against incidents at work
- Human resource management policy
- Code of Ethics
- Other internal documents, defining principles which Group companies adheres during the development of the responsible business

Copies of all documents mentioned above can be found in Group website (link).

Stakeholders

The involvement of the stakeholders is crucial part of ensuring socially responsible functioning of the Group.

By including social and environmental matters in the relations with the stakeholders Group is aiming not only to contribute to the development of sustainable society and vital preservation of environment to our future generations, but also encourages others to contribute as well.

In the activities Group strives to take into account the interests of various stakeholders, and make such decisions that the interests of all parties involved would be met.

Key stakeholders and their expectations from the Group

Stakeholder	Expectations / interests	Actions by the Group
Shareholders and investors	Expects the Group to operate in an open, transparent and financially sound manner.	The Group seeks to establish sustainable relationships with the shareholders and investors of the Group companies. We keep them up-to-date on major events, make live presentations, provide answers to emerging questions, and strive to build a relationship of mutual trust.
Customers	Expect the best value for money, relevant solutions and good service.	The Group takes care of its customers and strives to provide them with the highest quality services that will satisfy their expectations.
Employees	Expects the Group, as an employer, to ensure good working and wage conditions, to take care of employees' health and safety at work, to empower employees and to offer them the opportunity to act.	The Group ensures equality of employees and equal pay conditions. The Group takes responsibility for the employee development, their health and an effective reconciliation of work and private life. A culture of openness and values is being implemented taking into account employee input.
Communities	Seek to secure a safe and high-quality environment and defend the interests of their members.	The Group maintains regular contact with communities, informing them of ongoing activities that may affect community members or their environment. Seeks to participate in community life in terms of a friendly neighbourhood.
Politicians	Create the legal framework and perform a certain supervisory function, seek to take into account the problems and issues raised by the voters.	The Group and its employees cooperate transparently, provide information, but remain apolitical.
Government authorities	Seek to ensure compliance with the law, perform control and oversight functions, and safeguard customer interests.	The Group engages actively and in good faith with the authorities to develop the Group's activities in a sustainable manner and to comply with all legal requirements.
Non-governmental organizations, associations	Carry out educational and social activities, represent the interests of society and their individual groups, and seek transparency.	The Group maintains relations with various non-governmental organizations, business associations and is involved in the some of their activities. Sharing experience, information, teaching and learning is at the heart of this relationship.
Opinion leaders	Share their impressions and opinions, shape the attitude of their audience.	The Group proactively introduces to the activities of companies, explains the reasons and consequences of its decisions.
Media	To raise public concerns, to gain reliable knowledge and to inform the public on the Group's news and key energy topics.	The Group proactively communicates its activities, responds promptly and transparently, helps to understand and advise on its activities.

Supporting the Global Compact

The Group has expressed its support for the ten principles of the Global Compact, which define business responsibility in the areas of human rights, labour, the environment and anti-corruption.

These generally accepted and declared guidelines for responsible behaviour apply equally to all Group companies and are a clear and strong reference for the development of socially responsible business activities. The Group seeks to reduce the impact of their activities to environment, community and other businesses, and, by joint efforts, the Group tackles economic, social and environmental challenges, and contributes to the development of society and growth of economy.

Control over the implementation of these principles and management of related risks is an integral part of the Group companies' corporate control and risk management. This chapter and the following chapters of this Annual Report cover the main challenges and achievements in line with the above priorities and principles.

Global Compact Principles applied within Group

Human rights	
Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights.	By operating in different communities, the Group companies respect and protect human rights and freedoms, and promote and advance democratic values, in accordance with the guidelines set forth in the Universal Declaration of Human Rights.
Principle 2. Make sure that they are not complicit in human rights abuses.	The Group companies make sure that they are not complicit in human rights abuses and speak out against any violations thereof. The Group aims to create an employee-friendly environment where everyone's best abilities are displayed.
Employee rights	
Principle 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	The Group companies uphold the freedom of association and the effective recognition of the right to collective bargaining.
Principle 4. The elimination of all forms of forced and compulsory labour.	The Group companies' operations do not involve any form of forced and compulsory labour.
Principle 5. The effective abolition of child labour.	Only legally employed adults of working age work in the Group companies.
Principle 6. The elimination of discrimination in respect of employment and occupation.	The Group applies the same employment opportunities and working conditions to all persons, taking into account only the nature of the professional activity. And the same criteria and principles are applied in case of the termination of employment.
Environmental protection	
Principle 7. Businesses should support a precautionary approach to environmental challenges.	The Group employs advanced, energy and resource-efficient measures and technologies to reduce the environmental impact of its operations, and implements processes that meet environmental standards.
Principle 8. Undertake initiatives to promote greater environmental responsibility.	The Group promotes sustainable usage of energy resources among residents and businesses, and actively participates in eco-initiatives and environmental prevention programs.
Principle 9. Encourage the development and diffusion of environmentally friendly technologies.	The Group invests and develops the production of green energy, takes responsibility for the efficiency improvement and digitalization of the electricity distribution network. Priority is given to less polluting transport, enabling employees to commute to work and meetings by bicycle and scooter, and choose public transport.
Anti-corruption	
Principle 10. Businesses should work against corruption in all its forms, including extortion and bribery.	The Group works against any form of bribery, trading in influence, extortion and/or other forms of corruption.

Areas, priorities and operation guidelines of the Group‘s responsible business

SUSTAINABLE DEVELOPMENT GOALS

The Group identifies five priorities for responsible business to outline key guidelines for responsible business. When carrying out planned activities under these guidelines, the Group companies contribute to the Sustainable Development Goals as defined by the United Nations.

- **Environmental sustainability field** – through the deployment of advanced and sustainable technologies, increasing energy production from renewable and indigenous sources, by promoting and actively participating in preventive programs ensuring environmental protection and cultivation, and by developing energy efficiency services and products. When generating hydropower, we pay attention to fisheries conservation, and when generating wind power and maintaining electricity distribution networks – to bird conservation.

- **Social environment field** – through relationships with employees and the public to ensure human rights, workplace quality and safety, equal opportunities, to promote citizenship, volunteering, networking and collaboration with local communities, science and business cooperation, public education on energy efficiency and safe energy consumerism.

- **Economic environment and governance** – through transparent market operations by ensuring profitability of operations and financial return to the shareholder, r, by advocating ethical and honest cooperation with customers, suppliers, investors, partners, by actively combating all forms of corruption, by providing high quality, safe and reliable services, by improving performance, using and deploying smart and secure digital solutions.

Group responsibilities and interfaces with the Sustainable Development Goals (SDG)

SCOPE	Environmental sustainability	Social environment		Economic environment and governance	
PRIORITIES	Environmental sustainability and energy awareness	Equal opportunities and a culture of continuous improvement	Partnership with societies	Responsibility and transparency	Open and fair marketing
OPERATIONAL GUIDELINES	**Green Generation.** The highest environmental and **ecological standards**. **Reducing the environmental impact** of operations **and CO_2 emissions.** **Promoting energy efficiency.** Focus on **waste sorting** and rational management and use of resources.	Unconditional **respect for human rights** and freedoms. **Zero tolerance for discrimination** and harassment. Ensuring **equal working and pay conditions**. Maintaining a **safe work** culture. **Promoting development** and supporting employee initiatives and representation.	**Public education** (understanding the basics of energy, safe handling of electricity and gas, consumption efficiency). **Promoting** citizenship, responsibility, and **sustainability**. **Cooperation** with local communities, educational institutions. Strengthening the **tradition of volunteering.**	Securing **interests of shareholders**. **Zero tolerance for corruption** and avoidance of conflicts of interest. **Ensuring privacy and protection of personal data** and confidentiality of information. **Professional representation** of the interests of the organization and responsible use of the organisational resources.	Market **empowerment**. Fair **competition**. Great attention on the selection of trustworthy partners and ensuring a **fair partnership**. Management and accountability **in line with the highest standards.**
INTERCONNECTI ON WITH SDG	7 AFFORDABLE AND CLEAN ENERGY 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 13 CLIMATE ACTION	8 DECENT WORK AND ECONOMIC GROWTH 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE		7 AFFORDABLE AND CLEAN ENERGY 8 DECENT WORK AND ECONOMIC GROWTH 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	

Environmental sustainability

The Company seeks to use natural resources in daily activities efficiently, reduce an impact of energy objects on people and the environment – to implement modern, efficient and safe technologies, reduce pollution, implement environmentally friendly innovations and solutions in energy generation.

The Group consistently follow the international and national requirements of environmental legislation and norms, as well as professionally apply preventive measures that reduce the negative impact on the environment.

During the 2020 risk assessment environmental risk was assessed as being within the Group's appetite and tolerance.

Areas of interest

Energy generating companies consistently comply with all environmental protection requirements and on their own initiative proactively take care of the new facilities constructions and old facilities renovations in order to ensure that the impact of their activities on the environment would be minimised. Relevant environmental issues; energy efficiency, reduction of fossil fuel, safe use of ecologically hazardous substances, safe operation of equipment, responsible management of accumulated waste, reduction of air pollution, etc.

In distribution companies we constantly implement effective preventive measures for accidents, disturbances, gas losses and pollution. Planned Investments in environmentally friendly modern electricity distribution infrastructure technologies: we replace old overhead power lines with underground cables that reduce visual pollution and danger to large migratory birds and are more climate resistant; install reliable equipment for collecting insulating oil; reconstruct transformer substations; replace old equipment with less quieter ones by reducing outside noise.

Environmental management system standards

The largest Group companies Ignitis Gamyba and ESO maintain the environmental management standard ISO 14001. A globally recognized certificate indicates that companies follow the most important requirements for identifying, monitoring, managing, and improving environmental aspects. The certificate, issued to Ignitis Gamyba, is valid for the products and services provided by the power plants of Ignitis Gamyba in Elektrėnai, Kruonis and Kaunas. This means that the strict global environmental requirements are fulfilled by all the power plant operations: the electricity and thermal energy generation and the operation of the power, heat, turbine, natural gas, oil and petroleum product facilities at the Elektrėnai Complex, electricity generation and supply, operation of facilities and power reserving at the Kruonis PSHP, and the electricity generation and supply as well as operation of facilities at the Kaunas HPP. Vilnius TPP-3 is not in operation at the moment, but will be used in the future for the generation of heat and electricity, if required. In December 2019, SGS Klaipėda UAB performed the re-certification audit of the management system implemented under the international standard ISO 14001:2015 with no any discrepancies identified, and the standard was re-certified until 30 December 2022. Additionally, no any discrepancies were identified during the audit of the ESO in 2019.

Energy production from renewables

Development of energy production from renewable sources (RE) is one of the strategic objectives of the Group in pursuit to increase energy independence, thus promoting RES, mitigating climate change and contributing to the implementation of the global sustainable development goals. Changes in electricity production from RES in 2019 discussed in the section 'Operating Segments' (part of 'Green Generation') of this report.

The Group is the only in the market offering the 'Green Lithuanian energy' – a certified energy product produced from renewable resources at Kaunas HPP. To purchasers of the green energy (both entities and household customers) a Group company Ignitis issues energy origin guarantee certificates. In 2019, Ignitis supplied 799.8 GWh of electric energy produced from renewable sources (under origin guarantee certificates).

Climate change

CO_2 neutral by 2050

In December 2019, the Group joined the initiative of the United Nations and other international organizations 'Business Ambition for 1.5°C'. By joining this initiative, the Group committed to reduce net carbon dioxide (CO_2) emissions to zero by 2050. By joining this ambitious initiative, Ignitis Group commits to review its strategy and provide therein the commitment to become a CO_2 neutral company by 2050. In the Group will set for itself interim measurable and science-based targets how decarbonisation will be gradually pursued in all activities of the Group. I

Green bonds

In July 2017, the Group issued its inaugural green bond of 300 million EUR. A year after, in July 2018, the second issue of green bonds of the Group were successfully distributed. With the attracted funds, the Group is planning to finance further Investments into the wind energy, efficiency enhancement of the electricity distribution grid, as well as projects on energy production from waste and bio-mass, and clean transportation projects. The Group undertakes to use funds attracted with the green bonds only for financing such Investments that are intended for the Green Generation projects. Norwegian independent CICERO Center for International Climate Research and Swedish Environmental Research Institute have granted the highest green category to Green Bond Framework of the Group.

Termination of polluting generation

Ignitis Gamyba decommissioned inefficient old units in Elektrėnai Complex. A total of six of the eight old units have already been dismantled or are being dismantled.

Energy consumption efficiency

ESO is committed to continuously improve the efficiency of the distribution network. At the same time, it was agreed with the Ministry of Energy of the Republic of Lithuania to invite the companies and institutions operating in Lithuania to implement energy consumption efficiency increasing solutions. In order these examples to be more visible and would attract others, in 2019 ESO established Smart energy club, which unities companies that already established energy saving initiatives. By the end of 2019, 166 companies and institutions were members of the Smart energy club and during the year saved over 140 GWh of energy. Such amount would cover Utena municipality energy consumption for a year.

In autumn, 2019 the traditional ESO conference „As much as industry needs", for the industry players took place. The project, during which solutions for rational electricity consumption solutions, especially focusing for the business and industrial players, goal is to create rational society.

ESO, Ignitis Gamyba and Ignitis have signed energy consumption education and consulting agreements with Ministry of Energy of the Republic of Lithuania, under which obliged to educate and advise consumers on energy consumption efficiency questions helping to reduce energy costs and increase the efficiency. Companies actively pursues information initiatives promoting household, industry consumers on how to reduce energy consumption. In 2019 advises on efficient energy usage were published in publications, press. Also, comparative energy consumptions analysis have been provided for the clients.

Energy and resources

The Group and its employees are concerned about the moderate and sustainable use of energy resources. The Group aims to contribute to a cleaner environment in many ways. From 2020, all the Group companies expressed intention to pay more attention on the calculation and publication of accurate rates of energy and other resources. Only having a precise data on consumption, we will be able to plan how to save, reduce energy consumption and use energy more efficiently. The key rates are electricity, electricity used for heating (electricity and gas), water consumption, fuel consumption.

Resources used by the Group in 2019

Electricity	~37,800 MWh
Electricity for heating	~60,310 MWh
Gas for heating	67,000 m^3
Water consumption	170,000 m^3
Paper used	~25.2 t (~10.1k packages)

Employees of the Group companies work in more than one building in different cities of the country. It is expected that part of the staff will move to a single, common office by 2021. The new premises will be more modern, cost-effective and environmentally friendly than existing buildings.

Vehicle fleet and business trips

The Group aims to manage its vehicle fleet efficiently. Employees are encouraged to use shared cars, public transport, taxis, and to cooperate and avoid solo travelling, if possible. Employees are also provided with the alternative means of transport - electric scooters or bicycles.

The target for the Group of companies is to have an up-to-date, environmentally friendly and modern vehicle fleet, thus endeavours to use as many electric vehicles as possible. As at 2019, the Group had 19 electric cars. Last year after a public tender, Nissan Leaf electric cars were added to the Group's vehicle fleet for three years. Compared to regular cars, electric cars allow a significant reduction in carbon dioxide emissions and contribute to reducing air pollution and protecting the environment. Electric cars produce zero emissions. The group estimates that 19 new electric cars will reduce about 65 tons of CO_2 emissions each year[3]. It is expected that 5% of the vehicle fleet will be made up of electric cars by the end of 2021.

Although the aim is to upgrade the vehicle fleet and use electric cars, however, petrol/diesel vehicles remain the most common choice for travelling. At present, the Group has a fleet of 946 cars and 382 special vehicles (trailers, electric vehicles). In 2019, the group used two types of fuel for its cars - diesel and petrol. The consumption of petrol amounted to 420k litres and diesel - 1850k litres.

As the Group expands its operations in Lithuania and abroad, domestic and international travel by various means of transport is increasing. In 2019, the Group's employees travelled approx. 650k km by air transport, while by the taxi they drove 40k km. Data on travelling by train is not available. The Group encourages to organise meetings between employees in different companies and departments through video conferencing, in order to reduce transport costs and environmental impact of emissions.

*[3] CO_2 calculation (av. veh. emission 130 g/km CO_2, i.e. 0,00013 t/km * 2200 km/month * 12 months * 19 units elec. car = 65 t CO_2).*

Waste management

Special waste baskets for sorting household waste are installed on the sites of the Group's companies, in addition to the special containers for no longer used small electric and electronic equipment and batteries. The production wastewater is treated in the in-house treatment plant equipped with alarm lamps to identify oil product traces. According to the approved resource saving plan, actions are being taken to reduce the need for self-managed resources. The Company concludes agreements with specialised companies for safe management and handling of the waste generated from the production operations.

In 2019, at the power plants of the Company 90 tons of hazardous waste and approx. 7,720 tons of non-hazardous waste were transferred, 5,863 tons of ferrous metals and 118 tons of brass were sold, 94 tons of household waste was collected.

Contributing to environmental protection and pollution reduction in Lithuania, all waste generated from ESO activities is sorted by separating secondary raw materials, hazardous waste, accounted under GPAIS (Unified Product, Packaging and Waste Record Keeping System) and handed over to specialised waste management companies. The Company's partners (contractors) are subject to the same conduct of business standards. ESO has updated the principles for collecting 'reversible substances' resulting from contract work. During 2019, ESO generated in its activities and transferred 2,672 tons of waste.

Group employees demonstrate initiative regarding waste management. In 2019, they launched the initiative 'a one-bin per cabinet' to reduce the number of trash bags and encourage employees to move more and carry sorted trash into special trash cans placed in every kitchenette on each floor. In 2020, internal initiatives are planned to recall the principles of sorting and to avoid single-use bottles.

In addition, a waste-to-energy cogeneration power plant Vilnius and Kaunas CCH will start their operations in 2020. Thus, a public education campaign will be launched to introduce the principles of the circular economy and encourage responsible.

Social environment

Vast actions in the social environment, especially those which includes employees, are detailed in this annual report section under People and Culture section, providing a short summary below of how to the Group activities the public is involved.

Public involvement

ESO implements large-scale long term social responsibility initiatives, which are united by the active involvement of target society groups and ideas of secure and effective energy usage. Through the media – using television, radio, press and the internet information on the safety principles that must be observed when working outside is being spread. Particular attention is addressed to reminding on the underground electricity and gas network, as well as on the advice related to safety during storms. Attention is also paid to the prevention and public awareness increase of thefts due to which the operation of the electricity network is disrupted.

Ignitis Gamyba seeks to contribute to the public involvement, especially the education about energy sector to the youth. Company organises free of charge visits to the objects it manages combined cycle block in Elektrenai, Kruonis HAE, Kaunas HE. In the objects excursions are organised presenting to the visitors the history of the objects, operations, technology and main equipment. During 2019 more than 100 have been organised, including more than 1 700 visitors from the various companies, schools and organisations.

Group employees actively participated in the Energy day in April 2019, during which more than half hundred lessons have been conducted in the schools about energy sector and efficient energy usage.

For the new projects implementing Group companies Ignitis Renewables, Vilnius CHP and Kaunas CHP the support from the local communities is crucial. Therefore, companies periodically organise meetings with them, participate in their celebrations, where presents their operations, projects under development implementation, answers relevant questions.

Funding

In order to improve transparency Group does not fund any activities since 2018. Support funding through which funding was previously provided to be liquidated. New invitations for the support are not acceptable and not considered.

Memberships

We believe that sharing the experiences is also a part of responsibility. Therefore, Group is actively involved in the various organisations:

Several Group companies are the members of **National Lithuanian Electricity Association (NLEA)**. Every year, together with other members of the Association we celebrate Lithuanian Energy Day. While being member of the NLEA, we are also involved in the activity of the other organizations:

- „Eurelectric".
- The World Energy Council.
- The International Gas Union.
- Lithuanian Confederation of Industrialists.
- The Investors' Forum.

Since 2016 the Company is a member of **the United Nations Global Compact**, and is committed itself to implement its activities in accordance with the 10 principles of the Agreement.

In 2019 „Ignitis Group" became a member of the **„Baltic Institute of Corporate Governance" (BICG)** organization, which aims to increase the transparency, competitiveness and corporate governance of companies in our region.

Ignitis Group, developing wind farm projects, in 2019 joined the organization that brings together the members of the wind industry in Europe and the wider world.

Economic environment and governance

Ethics and anti-corruption

The Group maintains a zero-tolerance policy with respect to any manifestation of corruption, and supports high ethical, integrity and transparency standards. The Group companies emphasise the importance to work in good faith, transparently and build reliable relations with our customers, partners, suppliers and institutions. Therefore, they will continue making efforts to ensure, that the market in which they operate, comply with the principle of ethics and transparency, and in particular, ensuring zero tolerance to corruption.

The Group has approved the Zero Tolerance Policy Against Corruption, which is made public. This policy commits to comply, in good faith, with all the legal norms related to the activity, including anti-corruption, measures, also to fight corruption and implement the anti-corruption measures. The Policy applies to all employees, contractors, suppliers, consultants and other intermediaries. The Group of companies does not support or sponsor any politicians or political parties, and refrains from any direct or indirect forms of influence upon them. The Group has a clearly defined procedure regarding permitted/not permitted gifts, or other benefits. A gift registry was launched in 2019, which records all gifts received and provided in the employment relationship.

The Group's employees are consistently educated on the benefit and the significance of fighting corruption. All the new employees of the Group are required to read and familiarise themselves the Zero Tolerance Policy Against Corruption, and attend the mandatory training on fighting corruption and business ethics. During 2019, the Group was continuing educating its employees in the area of understanding of corruption: invited the employees to inquire regarding the damage caused by corruption, be able to recognise its manifestations, and be responsive. Nearly 1,500 employees of the Group have completed the anti-corruption e-training, each of them spent for the training 1.5 hour of own time. The anti-corruption training is dedicated not only for employees of the Group companies, but also for business partners. In 2019, the anti-corruption trainings of a total of 23 hours attracted 294 business partners.

Every year, the Group conducts a corruption perception survey. More than 1,400 employees participated in the survey, which results were published at the end of December 2019 (the survey started in December 2019 and completed in the begging of January 2020). 96% of respondents said that if they encountered corruption, they would report it to management or law enforcement authorities. 73% of respondents agreed that cases of additional reward (bribe offered) to employees are not common. 4% of respondents stated that they had been exposed to corruption (offered a bribe or similar). The survey results show a trend that the perception of corruption in the Group has remained stable for several years and continues to be very high. However, there is intention to further improve both Instructor-led and e-trainings. The Group intends to introduce an anti-corruption management certificate.

Code of Ethics

The Group prepared the Code of Ethics in 2019 and approved it at the beginning of 2020 (link). It outlines how the Group employees should behave themselves and encourage others and is applicable to all Group employees, as well as supervisory and management bodies, not depending on their positions, company of the Group, country in which they are working and the partners. The Code of Ethics guides the Group employees to behave in relation to the Group's expectations. This Code also guides all related parties on ethical and responsibility principles Group's operations are based on and what behaviour is expected from their as well.

Whistleblowing

The Group encourages reporting of possible cases of corruption and violation of the Code of Ethics by email of the Trust Line pasitikėjimolinija@ignitis.lt or by phone +370 640 88889. These contacts are available to employees as well as all stakeholders - telephone number and email are publicly available on a website. The Group undertakes to protect the confidentiality of whistle-blowers.

In 2019, 482 reports were received via the Trust Line. The number of reports increased significantly (2018: 25 reports) due organizational changes :in a number of cases customers, unable to access a customer service number, were calling the line.

Purchases and demands for suppliers

The centralized procurement function of Ignitis Group companies is carried out by the Ignitis Grupės Paslaugų Centras. It carries out procurement procedures and provides planning and execution services for the procurement of goods, services or works. All procurements are centralized, the procurement processes are standardized and concentrated on a single online platform. To ensure a transparent and open public procurement process and open dialogue, every year we invite the suppliers to information meetings during high-value procurements planned by the procuring organizations are presented in detail.

The Group complies with the requirements of the European single procurement document when conducting its procurement. Suppliers involved in criminal activities or related to corruption, fraud, terrorist offences, money laundering or terrorist financing, child labour or other means of trafficking in human beings cannot participate in procurement.

For procurement of products for which environmental criteria are to be applied, we apply the environmental requirements specified in the order of the Minister of the Environment. The procurement qualifies as 'green' only if a product is in compliance with all product-related minimum environmental criteria. If products offered by suppliers do not meet the prescribed environmental requirements, such offers shall be excluded from the procurement procedure. For certain procurements, environmental and energy efficiency criteria are additionally applied.

Additionally, in some procurements the social tender evaluation criterion is applied to assess the extent to which the monthly median of the salary offered to contractors performing the tasks specified in the procurement documents exceeds the minimum wage established in the Republic of Lithuania. The higher the remuneration the contractor pays the contract staff, the higher the score it is awarded. We apply this criterion quite extensively in our procurement of ESO.

In 2019, the Group completed 2,845 tenders. During the year, 223 claims were received from suppliers regarding the tenders made by the Group companies, 41 of them were found to be justified and were satisfied, and 43 claims were partially satisfied.

Protection of personal data

The Group has a common Data Protection Policy and a Data Protection Standard, which form the basis of a unified data protection management strategy and objectives.

2019 Group companies (ESO, Ignitis) have consulted and received recommendations from the State Data Protection Inspectorate on a number of occasions regarding preparation for the implementation of strategically important projects - smart meter deployment and electricity market deregulation

In order to assess the compliance of the activities and processes of the Group companies with the General Data Protection Regulation (GDPR) in 2019, August–October a regular internal audit of the customer's personal data protection controls was carried out. The audit identified processes that require improvements and/or additional controls to fully comply with BDAR requirements. The developed action plan will be implemented in 2020. When implementing new processes, we assess risks by conducting data protection impact assessments and selecting appropriate data management and security measures to mitigate/eliminate these risks. We also follow all procedures and requirements set forth in GDPR.

We ensure the employees comply with data protection principles when working with personal data, so we consult them daily and provide them with recommendations.

In 2020, we plan to improve our data protection management processes so that they are simple and easy to administer for the employees who work with them on a daily basis. We plan to organize training on data protection impact assessment and data security breaches.

Achievements and awards

According to the Doing Business 2020 report published by the World Bank, Lithuania has jumped from 26 to 15th place in terms of the getting electricity indicator, i.e. 11 position higher than in 2019 (33rd place in 2017, 55th place in 2016). This is also largely the merit of ESO, company of the Group.

In 2019, Ignitis Group was recognised as the best managed state-owned company. The Group was raked as number one in the Good Corporate Governance Index published by Governance Coordination Centre.

In 2019, Ignitis Group received an award for the best bond issuer relations with investors and attended Nasdaq Stock Market closing bell ceremony in New York.

Ignitis Group was awarded in the Polish Business Awards in the category "The largest Lithuanian Investment in Poland 2019" for the construction of the Pomerania wind farm.

Annexes

Other important information

The Annual Report provides information to the shareholders, creditors and other stakeholders of UAB „Ignitis grupė" (hereinafter "Ignitis Group" or the "Company") about the Company's and its controlled companies, which altogether are called Group of companies (hereinafter and the "Group") operations for the period of January-December 2019.

The Annual Report has been prepared by the Company's Administration in accordance with the Lithuanian Law on Companies, the Lithuanian Law on Consolidated Financial Reporting, the Lithuanian Law on Securities, the Rules for Disclosure of Information and the updated version of the Guidelines for Disclosure of Information approved by the Board of the Bank of Lithuania, the Lithuanian Government's Resolution On the approval of the guidelines for ensuring transparency of operations of state-owned entities and other legal acts.

The Company's management is responsible for the information contained in the Annual Report. The report and the documents, on the basis of which it was prepared, are available at the head office of the Company (Žvejų g. 14, Vilnius), on working days from Mondays through Thursdays from 7.30 a.m. To 4.30 p.m., and on Fridays from 7.30 a.m. to 3.15 p.m. (by prior arrangement).

All public announcements, which are required to be published by the Company according to the effective legal acts of the Republic of Lithuania, are published on the Company's website (www.ignitisgrupe.lt) and the website of Nasdaq Vilnius stock exchange (www.nasdaqbaltic.com).

Significant arrangements

The Company was not a party to any significant arrangements that would take effect, be amended or terminated in the event of changes in the Company's control situation.

There were no arrangements between the Company and the members of its management bodies or its employees that would provide for payment of termination benefits in the event of their resignation or dismissal without a valid reason or in the event of termination of their employment t as a result of changes in the Company's control situation.

Detrimental transactions

No detrimental transactions were concluded during the reporting period on behalf of the Company (transactions that are not consistent with the Company's objectives or usual market terms and conditions, infringe interests of the shareholders or other stakeholders etc.), which had or potentially may have a negative impact on the Company's performance and/or results of operation, nor were any transactions concluded resulting in conflict of interests between the responsibilities of the Company's management, majority shareholders or other related parties against the Company and their own private interests and/or other responsibilities.

The main attributes of the internal control and risk management systems involved in the preparation of the consolidated financial statements

The Company's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The employees of the company from which the Company outsources the accounting functions, make sure that the financial statements are prepared properly and that all data are collected in a timely and accurate manner. The preparation of the Company's financial statements, internal control and financial risk management systems, legal acts governing compilation of the financial statements are monitored and managed.

Information about audit

On 25 February 2019, General Meeting of Shareholders of the Company adopts decision regarding the election of the audit company for the audit of the Company's and its subsidiaries financial and consolidated financial reports and the terms of remuneration for the audit services (UAB „Ernst & Young Baltic" was elected as the audit company for the audits of financial reports of the Company and its subsidiaries for the period of 2019-2021). Sum of 2019 annual audit services of the Company and its subsidiaries financial and consolidated financial reports amounted to 299,991.67 EUR (VAT excluded).

Other agreements with auditors

The Company has not entered into any additional arrangements with the entity that audited its financial statements.

Material events of the Company

During the reporting period (2019)

31 December	Regarding the decision of the Court
31 December	Reporting dates of the Company in 2020
31 December	Preliminary financial results of the Company for 11 months of 2019
20 December	Regarding completed reorganisation of VAC and GPC
4 December	Regarding the decisions adopted at the General meetings of shareholders of subsidiaries and the intention to make an official tender offer
4 December	Regarding the working group, initiated by the Ministry of Finance of the Republic of Lithuania, the authority implementing the rights of the sole shareholder of the Company
29 November	Preliminary financial results of the Company for 10 months of 2019
20 November	The results of the Company in Q3 2019: Revenue growth was driven by increased volumes of wholesale trading in Poland, profit of wind farms portfolio doubled
19 November	Further explanation regarding the delisting of the Company's subsidiaries shares and the potential IPO
13 November	Regarding the formation of a working group, initiated by the Ministry of Finance of the Republic of Lithuania, the authority implementing the rights of the sole shareholder of the Company
11 November	Regarding the initiation of the process of delisting of shares of the Company's subsidiaries Ignitis Gamyba and ESO from trading on the regulated market
29 October	CORRECTION: Reporting dates of the Company in 2019
25 October	Regarding the termination of conditional share sale-purchase agreement and the end of negotiations
21 October	Regarding the initiation of reorganisation of VAC and GPC
30 September	Preliminary financial results of the Company for 8 months of 2019
13 September	Regarding the loan increase for the Company
6 September	Regarding the registration of the Articles of Association of the Company
6 September	Preliminary financial data of the Company for 7 months of 2019
5 September	Results of the Company's Group for the first half of 2019: Adjusted EBITDA by 9,8 percent., Group's Revenues abroad increased four times to EUR 175.7 million
4 September	CORRECTION: Reporting dates of the Company in 2019
29 August	CORRECTION: Reporting dates of the Company in 2019
5 August	Regarding change of the name of the Company
31 July	Preliminary financial data of the Company for 6 months of 2019
1 July	Regarding the Investor's Letter of the Company
28 June	Preliminary financial data of the Company for 5 months of 2019
31 May	Correction: the Company's annual information for the year 2018
31 May	The Company retained BBB+ credit rating
31 May	Preliminary financial data of the Company for 4 months of 2019
28 May	Regarding the Acquisition of 100% of Pomerania Shares and Shareholder Claim Rights
21 May	Regarding the approval of the terms and conditions for the reorganisation of Lietuvos Rnergijos Tiekimas and Energijos Tiekimas
17 May	Results of the Company's Group in Q1 2019: Adjusted EBITDA increased of due to the consequent Investments in to the network and green generation
6 May	Correction: Reporting dates of the Company in 2019
2 May	The Company's annual information for the year 2018
2 May	Regarding the resolutions of the Ordinary General Meeting of the Shareholders of the Company
24 April	Regarding the new trademark applications

17 April	The Company's Group holds an Investor Conference Webinar to introduce the financial results for the year 2018 and guidance for 2019
17 April	Regarding the Company Board decisions
12 April	The Company's Group will hold an Investor Conference Webinar to introduce the financial results for the year 2018 and guidance for 2019
8 April	Correction: Reporting dates of the Company in 2019
2 April	Regarding the decision of ESO to refuse the appeal in court
29 March	Preliminary financial data of the Company for 2 months of 2019
25 March	Regarding the sale of 100 percent shares of Vėjo Vatas, Vėjo Gūsis, Eurakras, Mažeikiai
12 March	Regarding the Loan Agreement with Lietuvos Energijos Tiekimas
28 February	Preliminary financial data of the Company for 1 month of 2019
28 February	Interim information of the Company for the twelve-month period of 2018:
1 February	Regarding a New Member of Supervisory Board of the Company
31 January	Preliminary financial data of the Company for 12 months of 2018
18 January	Lietuvos energija plans to reorganise Lietuvos Energijos Tiekimas and Energijos Tiekimas

After the reporting period (2020)

20 April	Correction: Reporting dates of Ignitis Group in 2020
16 April	Regarding conclusion of a credit agreement with Swedbank, AB
10 April	Correction: Reporting dates of the Company in 2020
8 April	The number of members of the Supervisory Board is changed in the Company
2 April	The start of the official tender offer for shares of ESO and Ignitis Gamyba
31 March	Preliminary financial data of the Company for 2 months of 2020
31 March	Regarding approval of the official tender offer circulars of ESO and Ignitis Gamyba shares
27 March	The number of members of the Supervisory Board will be increased in the Company
23 March	The Company will start preparation for its initial public offering
19 March	Courts approved waivers of claims of minority shareholders of ESO and Ignitis Gamyba
18 March	The Government approved the conversion of The Company and the increase of share capital
17 March	The Company and minority shareholders of its subsidiaries ESO and Ignitis Gamyba reached a settlement
10 March	Financing contract for the Pomerania wind farm project is signed
5 March	Correction: Reporting dates of The Company in 2020
28 February	Preliminary financial data of The Company for 1 month of 2020
28 February	In 2019 , the year of transformation, The Company improved its financial indicators
28 February	Regarding recommendation of the working group set up by the Ministry of Finance and the proposal to approve the actions authorizing to prepare for the initial public offering of shares of the Company
25 February	Regarding financing contracts for the Pomerania wind farm project
31 January	Correction: Preliminary financial results of the Company for 12 months of 2019
31 January	Preliminary financial results of the Company for 12 months of 2019
10 January	Regarding the information submitted to the Bank of Lithuania about official tender circulars of subsidiaries shares
8 January	Regarding the decision to appeal the judgement
6 January	Regarding the decision to appeal the judgement
3 January	Regarding the decision of the Court

Report of the Audit Committee

In 2019, in implementing the functions laid down in the regulations of the Audit Committee of the Company's Supervisory Board, the Audit Committee of Ignitis Group held 16 sittings. In 2019, the activities of the Audit Committee covered the following areas:

- Monitoring on the financial reporting process and discussion on financial statements of the Group carried out by the independent auditor;
- Monitoring of the efficiency of internal control and risk management systems of the Group;
- Assessing the efficiency of the business processes of the Group and providing recommendations for their improvement;
- Monitoring the effectiveness of the organization of internal audit process;
- Getting acquainted with the observations of internal audit submitted to the management of the Group;
- Monitoring whether the management of the Group considers the recommendations and observations made by the internal and Independent Auditor or an Audit Firm;
- Granting permission to the Audit Firm to participate and submit proposals for the purchase of services other than the audit of financial statements in the purchase;
- Familiarisation with the main projects and initiatives in the Group of companies.

The detailed information on the activities of the Audit Committee in 2019 was presented in the Audit Committee's reports and submitted to the Supervisory Board of Ignitis Group.

The Audit Committee declares that in 2019 there were no factors restricting the activity of the Audit Committee and the Audit Committee received from the Group all information necessary for the exercise of its functions. In 2019, the Audit Committee did not identify any significant findings having a negative impact on the activity of the Ignitis Group of which the Company's Supervisory Board would not be informed.

Irena Petruškevičienė
Chair of the Audit Committee

Compliance with the Guidelines for Ensuring the Transparency of State-Controlled Enterprises

Point of the Description of the Guidelines for Ensuring the Transparency of the activities of State-Controlled Enterprises (according to the wording of 30 March 2019)	Disclosure	Explanation
Section 2. Disclosure of information of a State-Owned company		
5. The following data and information must be published on the website of a State-owned company:		Information is published on www.ignitisgrupe.lt
5.1. name;	Ongoing	
5.2. code and register that collects and stores data on the enterprise;	Ongoing	
5.3. registered office (address);	Ongoing	
5.4. legal status if a State-owned company is being reformed, reorganized (the method of reorganization shall be specified), liquidated, is facing bankruptcy or is bankrupt;	Ongoing	
5.5. name of the authority representing the State and a link to its website;	Ongoing	
5.6. operational goals, vision and mission;	Ongoing	
5.7. structure;	Ongoing	
5.8. details of the Head;	Ongoing	
5.9. details of the Chairman and of the members of the Board, if, according to the Articles of Association, the Board is formed	Ongoing	
5.10. details of the Chairman and of the members of the Supervisory Board, if, according to the Articles of Association, the Supervisory Board is formed;	Ongoing	
5.11. names of the committees, details of their chairmen and of the member, if committees are formed;	Ongoing	
5.12. the sum of the nominal values of the state-owned shares (in euro to the nearest euro cent) and share (percentage) in the authorized capital of a State-owned company;	Ongoing	
5.13. special obligations being fulfilled, which are determined in accordance with the recommendations approved by the Minister of Economy and Innovation of the Republic of Lithuania: the purpose of the special obligations, the state budget appropriations allocated to their implementation in the current calendar year, and the legislation entrusting a State-owned company with the performance of a special obligation shall be indicated, the conditions for fulfilling a special obligation and/or regulated pricing shall be established;	Not relevant	
5.14. information on social responsibility initiatives and measures, important ongoing or planned Investment projects.	Ongoing	
6. For publicity purposes in connection with the management and supervisory bodies set up in State-owned companies, as well as in connection with the professionalism of the members of the committees, the following data of the persons specified in sub-clauses 5.8–5.11 of the Description are published: forename, surname, date of commencement of the current position, other management posts held in other legal entities, educational background, qualification, professional experience. If the person specified in Sub-clauses 5.9–5.11 of the Description is elected or appointed as an independent member, this shall be additionally specified along with his/her details.	Ongoing	Information is published on www.ignitisgrupe.lt
7. The following documents must be published on the website of a state-owned company:	Ongoing	Information is published on www.ignitisgrupe.lt
7.1. articles of Association;	Ongoing	
7.2. an official letter from an authority representing the State on the setting state goals and expectations in a State-owned company	Ongoing	
7.3. operations strategy or its summary in cases where the operations strategy contains confidential information or information that is considered a commercial (industrial) secret;	Ongoing	
7.4. document that establishes the remuneration policy covering determining the salary of the Head of a State-owned company and the remuneration of the members of collegial bodies and committees formed in a State-owned company.	Ongoing	
7.5. annual and interim reports of a state-owned company, annual and interim activity reports of a State Enterprise for a period of at least 5 years;	Ongoing	
7.6. sets of annual and interim financial statements for a period of at least 5 years and reports of an auditor of annual financial statements.	Ongoing	
8. If a state-owned company is the parent company, the structure of the Group of Companies, as well as the data referred to in Sub-clauses 5.1 to 5.3 of the Description of the subsidiaries and subsequent subsidiaries, website addresses, portion (percentage) of shares held by the parent company in their authorized capital, as well as annual consolidated financial statements and consolidated annual reports must be published on its website.	Ongoing	Information is published on www.ignitisgrupe.lt
9. If a state-owned company is a participant of legal entities other than those specified in Point 8 of the Description, the data referred to in Sub-clauses 5.1–5.3 of the Description of those legal entities and the addresses of their websites must be published on its website.	Ongoing	Information is published on www.ignitisgrupe.lt
10. Data, information and documents referred to in Points 5 and 6, Sub-clauses 7.1 to 7.4, and in Points 8 and 9 of the Description, that have changed or in cases where incorrect data of this kind has been published, must be changed immediately on the website too.	Ongoing	Information and documents that have

		changed are updated immediately
11. A set of annual financial statements of a state-owned company, annual report of a state-owned company, annual activity report of a State Enterprise, as well as report of an auditor of the annual financial statements of a state-owned company must be published on the website of a state-owned company within 10 working days from the approval of the set of annual financial statements of a state-owned company.	Ongoing	Documents are published on the website within the set deadline
12. The sets of interim financial statements of a State-owned company, the interim reports of a state-owned company and the interim activity reports of a State Enterprise must be published on the website of a State-owned company no later than 2 months after the end of the reporting period.	Ongoing	Documents are published on the website within the set deadline
13. The documents referred to in Point 7 of the Description shall be published in PDF format and technical possibilities for their printing shall be ensured.	Ongoing	Published PDF documents
Section 3. Preparation of sets of financial statements, reports and activity reports		
14. State-owned companies shall keep their accounts in such a way as to ensure the preparation of financial statements in accordance with international accounting standards.	Ongoing	The Company keeps its accounts in accordance with IFRS
15. In addition to the set of annual financial statements, a state-owned company prepares a set of 6-month interim financial statements, while a State Company - sets of interim financial statements for 3, 6 and 9 months.	Ongoing	The Company prepares sets of interim financial statements for 3, 6 and 9 months
16. A State-owned company, which according to the Law on Audit of Financial Statements of the Republic of Lithuania, is classified as a public interest entity, in addition to the annual report, additionally prepares a 6-month interim report. A State Enterprise, which according to the Law on Audit of Financial Statements of the Republic of Lithuania, is classified as a public interest enterprise, in addition to the annual activity report, additionally prepares a 6-month interim report.	Ongoing	The company prepares a 6-month interim report
17. In addition to the Contents requirements established in the Law on Financial Reporting of Enterprises of the Republic of Lithuania or in the Law on State and Municipal Enterprises of the Republic of Lithuania, in the annual report of a State-owned company or in the annual activity report of a State Enterprise additionally must be provided:	Ongoing	The company provides information in the annual report
17.1. a brief description of the business model of a state-owned company;	Ongoing	
17.2. information on significant events that occurred during and after the financial year (prior to the preparation of the annual report or the annual activity report) and which were essential to the operation of a state-owned company;	Ongoing	
17.3. results of the implementation of the objectives provided for in the operational strategy of a state-owned company;	Ongoing	
17.4. profitability, liquidity, asset turnover, debt indicators;	Ongoing	
17.5. fulfilment of special obligations;	Not relevant	
17.6. implementation of Investment policy, ongoing and planned Investment projects and Investments during the reporting year;	Ongoing	
17.7. implementation of the risk management policy applied in a state-owned company;	Ongoing	
17.8. implementation of dividend policy in state-owned companies;	Ongoing	
17.9. implementation of remuneration policy;	Ongoing	
17.10. total annual payroll fund, average monthly salary by current position and/or units;	Ongoing	
17.11. information on compliance with the provisions of Sections 2 and 3 of the Description: shall be specified how they are implemented, which provisions are not complied with, and explanation as to why they are not complied with shall be provided.	Ongoing	
18. State-Owned companies and State Enterprises, that are not mandatory required to prepare social responsibility reports, are recommended to provide in the annual report or in the annual activity report, as appropriate, information related to environmental, social and personnel, human rights, fight against corruption and bribery matters.	Not relevant	The company prepares a social responsibility report (integrated in the annual report)
19. If information referred to in Point 17 of the Description is considered a commercial (industrial) secret or confidential information of a state-owned company, a state-owned company may not disclose such information. However, it must be specified in the annual report of a state-owned company or in the annual activity report of a State Enterprise, as appropriate, that this information is not being disclosed and the reason for the non-disclosure must be specified.	Not relevant	The company provides information in the annual report
20. Other information not specified in this Description may also be specified in the annual report of a State-owned company or in the annual activity report of a State Enterprise.	Ongoing	Other information is also provided in the annual report
21. A state-owned company, which is the parent company, shall present in the consolidated annual report and, if it is not required by law to draw up a consolidated annual report, then in its annual report the structure of the Group of Companies, as well as the data referred to in Sub-clauses 5.1 to 5.3 of the Description of each subsidiary, portion (percentage) of shares held in the authorized capital of a subsidiary, financial and non-financial performance for the financial year. If a State-owned company, which is the parent company, draws up a consolidated annual report, the requirements of Point 17 of the Description shall apply to it *mutatis mutandis*.	Ongoing	The company provides information in the annual report
22. The interim report of a state-wned company or the interim activity report of a State Enterprise presents a brief description of the business model of a State-owned company, analysis of financial performance for the reporting period, information on significant events that occurred during the reporting period, as well as profitability, liquidity, asset turnover, debt indicators and their changes compared to the corresponding period of the previous year.	Ongoing	The company provides information in the interim report

Compliance with the Corporate Governance Code

Ignitis Group (hereinafter referred to as the Company), acting in compliance with Article 12(3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of Nasdaq Vilnius AB, hereby discloses how it complies with the Corporate Governance Code for the Companies listed on Nasdaq Vilnius AB as well as its specific pro-visions 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 are indicated and the reasons for such non-compliance are specified.

Summary of the Corporate Governance Report

The corporate governance model of the Group was implemented following the governance guidelines approved by the Ministry of Finance of the Republic of Lithuania on 7 June 2013. The guidelines were updated on 26 March 2020 (link).

Corporate governance activities are concentrated at the level of the parent company of the Group– the responsibilities of which involve coordination of such areas as finance, law, planning and monitoring, human resources, risk management, audit, technology, communication and other common areas of the Group entities. Activities of the Group entities in these areas are based on mutual agreement, i.e. cooperation with a focus on achievement of common result, and they are coordinated by policies (common provisions and norms) applicable to all Group entities. Use this link for the description of the corporate governance principles and of the governance and control system. More information on the management bodies ant its members, committees etc. is provided in annual report and in the table below, in which information on compliance with the Corporate Governance Code for the Companies listed on Nasdaq Vilnius is disclosed.

The Corporate Governance Report was prepared in accordance with the new version of the Code of Conduct for the Management of Listed Companies of AB Nasdaq Vilnius, approved at the meeting of the Board of AB Nasdaq Vilnius on 15 January 2019 (Minutes No. 19-63), at the meeting of the Bank of Lithuania on 7 January 2019 (Decision No. 241-3).

Principles / recommendations	Yes / No / Not applicable	Commentary
Principle 1: General meeting of shareholders, equitable treatment of shareholders, and shareholders' rights **The corporate governance framework should ensure the equitable treatment of all shareholders. The corporate governance framework should protect the rights of shareholders.**		
1.1. All shareholders should be 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.	Yes	All information that shall be public in accordance with legal acts is published in Lithuanian and English via informational system of stock-exchange Nasdaq Vilnius and on the website of the Company. The place, date and time of the General Meeting of Shareholders convened by the Company is determined in order to enable the shareholders to participate in the decision-making process where significant corporate matters are discussed.
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 all of their holders.	Yes	The Company's authorized share capital consists of EUR 0.29 nominal value ordinary shares, which provide their holders equal property and non-property rights.
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.	Yes	The rights, provided by the shares are indicated in the Company's Articles of Association, which is publicly available on the Company's website.
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.	No	The Articles of Association of the Company do not provide that the mentioned transactions must be approved by 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	The Company convenes General Meetings of Shareholders and implements other meeting-related procedures in accordance with the procedure established in the Law on Companies of the Republic of Lithuania.
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 applicable	The Company's sole shareholder is the State. The rights of the Company's shareholder are implemented by the Ministry of Finance of the Republic of Lithuania. There are no shareholders residing overseas; therefore, this recommendation is not relevant.

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.		
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	The institution implementing the rights of the Company's shareholder may exercise its right to attend the General Meeting of Shareholders under the procedure laid down in the legal acts and this right is not restricted.
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.	Not applicable	As the rights of the Company's shareholder are implemented by the Ministry of Finance of the Republic of Lithuania, the adoption of decisions at General Meetings of Shareholders takes place according to the internal procedures of the Ministry.
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.	Yes	Information on candidates to a collegial body of a state-owned company elected by the General Meeting of Shareholders is provided under the procedure established in the laws. The selection procedures and selection requirements are set by separate legal acts. Information on the candidate's education, work experience, competence, position held and former positions (CV), declaration of interests and other documents specified in the legal acts are provided. An opinion on the suitability of candidates is submitted by the Selection Commission formed in accordance with the procedure established by legal acts. The declarations of interest disclose all circumstances that could give rise to a conflict of interest between a candidate and the Company, as well as the measures for managing it. The institution implementing the rights of the Company's shareholder is informed about the proposed audit company under the procedure laid down in the legal acts and this right is not restricted.
1.10. Members of the company's collegial management body, heads of the administration[4] or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders should take part in the general meeting of shareholders. Proposed candidates to member of the collegial body should also participate in the general meeting of shareholders in case the election of new members is included into the agenda of the general meeting of shareholders.	Not applicable	As the rights of the Company's shareholder are implemented by the Ministry of Finance of the Republic of Lithuania, the adoption of organization and decisions at General Meetings of Shareholders takes place according to the internal procedures of the Ministry.
Principle 2: Supervisory board		
2.1. Functions and liability of the supervisory board **The supervisory board of the company should ensure representation of the interests of the company and its shareholders, accountability of this body to the shareholders and objective monitoring of the company's operations and its management bodies as well as constantly provide recommendations to the management bodies of the company.** **The supervisory board should ensure the integrity and transparency of the company's financial accounting and control system.**		
2.1.1. Members of the supervisory board should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders and represent their interests, having regard to the interests of employees and public welfare.	Yes	All members of the Supervisory Board act in good will with respect to the Company, with due regard to the Company's interests and public welfare. The duties set out in this recommendation are embedded in the agreement on activities of a member of the Supervisory Board and agreement on activities of an independent member of the Supervisory Board.
2.1.2. Where decisions of the supervisory board may have a different effect on the interests of the company's shareholders, the supervisory board should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed about the company's strategy, risk management and control, and resolution of conflicts of interest.	Yes	Collegial bodies of the Company follow the prescribed recommendations. Before taking decisions, members of the collegial bodies discuss their influence to the Company's performance and the shareholder. The Company's Articles of Association oblige the collegial bodies of the Company and also each of their members to act on behalf of the Company and its shareholders. Communication with the shareholders and obligations for them are established in accordance with requirements of legal acts. The Company's Supervisory Board informed the institution holding the rights of the Company's shareholder on its activity at least once (1) a quarter, submitted quarterly reports on the Company's performance.
2.1.3. The supervisory board should be impartial in passing decisions that are significant for the company's operations and strategy. Members of the supervisory board should act and pass decisions without an external influence from the persons who elected them.	Yes	The Company's Supervisory Board is independent from the Company's management bodies and takes decisions that are significant to the Company's activities and strategy, acts independently in accordance with requirements of legal acts.

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

2.1.4. Members of the supervisory board should clearly voice their objections in case they believe that a decision of the supervisory board is against the interests of the company. Independent[5] members of the supervisory board should: a) maintain independence of their analysis and decision-making; b) not seek or accept any unjustified privileges that might compromise their independence.	Yes	Members of the Supervisory Board have the right to express their opinion concerning all questions included to the agenda that according to work regulations of the Supervisory Board must be properly reflected in the protocol of the meeting. The duties set out in this recommendation are embedded in the agreement on activities of a member of the Supervisory Board and agreement on activities of an independent member of the Supervisory Board.
2.1.5. The supervisory board should oversee that the company's tax planning strategies are designed and implemented in accordance with the legal acts in order to avoid faulty practice that is not related to the long-term interests of the company and its shareholders, which may give rise to reputational, legal or other risks.	Yes	In exercising its competence to supervise the activities of the Company's management bodies, the Supervisory Council performs the duties specified in the recommendation, and submits its opinion on tax planning issues.
2.1.6. The company should ensure that the supervisory board is provided with sufficient resources (including financial ones) to discharge their duties, including the right to obtain all the necessary information or to seek independent professional advice from external legal, accounting or other experts on matters pertaining to the competence of the supervisory board and its committees.	Yes	The Company ensures that the Supervisory Board is supplied with all of the resources required for its activities (monitors technical aspects of the Supervisory Board meetings, provides all the required information and performs other functions specified in the Supervisory Board's Work Regulations). Agreement of activities of a member of the supervisory board defines that the Company commits to creating proper working conditions for the supervisory board and its members by supplying them with technical and administrative tools required for work. The Articles of Association set out that the supervisory board has the right to apply to the board and chief executive officer asking for documents and information pertaining to the Company's operations, and the board of directors and chief executive officer must ensure that the documents and information so requested are produced to the supervisory board within reasonable time. The provision regarding supply of information is also included in the agreement of activities of a member of the supervisory board.
2.2. Formation of the supervisory board **The procedure of the formation of the supervisory board should ensure proper resolution of conflicts of interest and effective and fair corporate governance.**		
2.2.1. The members of the supervisory board elected by the general meeting of shareholders should collectively ensure the diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance between the qualifications of the members of the supervisory board, it should be ensured that members of the supervisory board, as a whole, should have diverse knowledge, opinions and experience to duly perform their tasks.	Yes	Pursuant to the Law on Companies of the Republic of Lithuania, the Supervisory Board is elected and the qualification of its members is assessed at the general meeting of shareholders. The main activities of the Company are the exercise of the functions of the parent company of the group, and the majority of the members of the Supervisory Board have experience in the field of corporate governance.
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.	Yes	The members of the Supervisory Board are elected according to the maximum term of office, specified in the Law on Companies of the Republic of Lithuania – for 4 years per term of office. The Articles of Association of the Company stipulate that a member of the Supervisory Board may not hold office for more than 3 consecutive terms. The Company's Articles of Association provide a possibility to revoke (dismiss) both separate members of the Supervisory Board and the whole Supervisory Board in corpore, without waiting for their mandates' terms to end. The members of the Supervisory Board (separate or the body itself) may be dismissed by the General Shareholder Meeting.
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.	Yes	The Chairman of the Company's Supervisory Board and the CEO of the Company is not the same person. The members of the Supervisory Board and the Chairman have not been members of the Board of the Company or the CEO of the Company.
2.2.4. Each member should devote sufficient time and attention to perform his duties as a member of the supervisory board. Each member of the supervisory board should undertake to limit his other professional obligations (particularly the managing positions in other companies) so that they would not interfere with the proper performance of the duties of a member of the supervisory board. Should a member of the supervisory board attend less than a half of the meetings of the supervisory board throughout the financial year of the company, the shareholders of the company should be notified thereof.	Yes	Members of the Supervisory Board are active participants of the meetings of the collegial body and devote sufficient time to perform their duties as members of the collegial body. In 2019 there were 13 (thirteen) Supervisory Board's meetings, and 11 of them were attended by all members of the Supervisory Board, 2 where unattended by one member.
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.	Yes	Information on the candidates to the Company's Supervisory Board members (as well as information on the candidate's compliance with the independence requirements) is provided to the General Meeting of Shareholders in accordance with the Law on Companies of the Republic of Lithuania (see commentary on recommendation 1.9).

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

2.2.6. 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.	Yes	The independent member of the Supervisory Board is remunerated for his/her activity in the Supervisory Board according to the procedure and terms established in the agreement signed with him on activity as an independent member of the Supervisory Board. The conditions of the agreement with the independent member of the Supervisory Board are approved by the General Meeting of Shareholders. According to the Corporate Governance Guidelines, the amount of remuneration to the independent member of the Supervisory Board has been limited to a maximum amount sum calculated in proportion to the remuneration of the CEO of the Company (1/4 of the CEO's remuneration to an independent member of the Supervisory Board and 1/3 of the Independent Chairman of the Supervisory Board).
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 organization 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 working procedures.	Yes	The Supervisory Board makes an assessment of its activity every year. The Supervisory Board assesses the organization of meetings, efficiency, the need for competences, mutual cooperation, and sufficiency of the information furnished by the management for decision-making. Information on the working procedure regulations of the Supervisory Board, applied practices, adopted decisions is not published; however, the Supervisory Board informs the institution implementing the right of the Company's shareholder thereof at least once a quarter.
Principle 3: Management Board		
3.1. Functions and liability of the management board **The management board should ensure the implementation of the company's strategy and good corporate governance with due regard to the interests of its shareholders, employees and other interest groups.**		
3.1.1. The management board should ensure the implementation of the company's strategy approved by the supervisory board if the latter has been formed at the company. In such cases where the supervisory board is not formed, the management board is also responsible for the approval of the company's strategy.	Yes	The Company's Board carries out the duty of implementation of the Company's strategy approved by the Company's Supervisory Board.
3.1.2. As a collegial management body of the company, the management board performs the functions assigned to it by the Law and in the articles of association of the company, and in such cases where the supervisory board is not formed in the company, it performs inter alia the supervisory functions established in the Law. By performing the functions assigned to it, the management board should take into account the needs of the company's shareholders, employees and other interest groups by respectively striving to achieve sustainable business development.	Yes	As there is the Supervisory Board formed in the Company, the Board performs the functions of the Company's collegial management body. The obligation to take into account the Company, the shareholders, the employees and other interest groups is established in the agreement on performance in the Board signed by each member of the Board.
3.1.3. The management board should ensure compliance with the laws and the internal policy of the company applicable to the company or a group of companies to which this company belongs. It should also establish the respective risk management and control measures aimed at ensuring regular and direct liability of managers.	Yes	The Board of the Company adheres to the aforementioned recommendation, approves and ensures compliance with internal policies.
3.1.4. Moreover, the management board should ensure that the measures included into the OECD Good Practice Guidance[6] on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards.	Yes	The Board of the Company follows the aforementioned recommendation.
3.1.5. When appointing the manager of the company, the management board should take into account the appropriate balance between the candidate's qualifications, experience and competence.	Yes	When appointing the CEO of the Company the Board takes into account the balance of his/her qualifications, experience and competence as well as the opinion of the Company's Supervisory Board.
3.2. Formation of the management board		
3.2.1. The members of the management board elected by the supervisory board or, if the supervisory board is not formed, by the general meeting of shareholders should collectively ensure the required diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance in terms of the current qualifications possessed by the members of the management board, it should be ensured that the members of the management board would have, as a whole, diverse knowledge, opinions and experience to duly perform their tasks.	Yes	The Board of the Company ensures the balance of its members' qualifications. The main activities of the Company are the exercise of the functions of the parent company of the group, and the majority of the members of the Board have experience in the field of corporate governance.
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	Yes	Information on candidates to the Board of a state-owned company is provided under the procedure established in the laws. The selection procedures and selection requirements are set by separate legal acts. An opinion on the suitability of candidates is submitted by the Selection Commission formed in accordance with the procedure established by legal acts. Information on the candidate's education, work experience, competence, position held and former positions (CV), declaration of interests and other documents specified in the legal acts are provided at the

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

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.		meeting of the Company's Supervisory Board, which elects the Board or its individual members. Information on offices held by members of the Board or their involvement in activities of any other companies is constantly collected, accumulated, and published in the annual report, as well as on the Company's website.
3.2.3. All new members of the management board should be familiarized with their duties and the structure and operations of the company.	Yes	The members of the Board after their election are acquainted with the Company's activities, organizational and management structure, strategy, activities and financial plans.
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	The members of the Board are elected according to the maximum term of office, specified in the Law on Companies of the Republic of Lithuania – for 4 years per term of office. Limitations concerning re-election of the members of the Board are not provided in the Company's Articles of Association, nevertheless, limitations provided by valid legal acts are applied to candidates to members of the Board. The Company's Articles of Association provide a possibility to revoke (dismiss) both separate members of the Board and the whole collegial body in corpore, without waiting for their mandates' terms to end. The members of the Board (separate or the body itself) may be dismissed by the Supervisory Board.
3.2.5. Chair of the management board should be a person who's 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	Current or past positions of the Chairman of the Board of the Company do not create preconditions for possible impartiality. The Chairman of the Board of the Company is a member of the Board and CEO of the Company, but in this case the impartiality of its activities is ensured, as there is the Supervisory Board formed in the Company.
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 members of the Board of the Company actively participate in the meetings of the Board and devoted sufficient time to the performance of their duties as a member of the collegial body. In 2019, 66 (sixty-six) meetings of the Board of the Company were held. In 2019, all elected members of the Board participated in 61 meetings of the Board, 4 members – in 5 meetings.
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.	Not applicable	There is the Supervisory Board formed in the Company.
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.	No	Since the Company has a Supervisory Board that has the competence to elect and revoke the members of the Board, the remuneration of the Board members is also determined by the Supervisory Board.
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.	Yes	The members of the Board act in good faith towards the Company and in accordance with the interests of the Company and taking into account the welfare of the society.
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 organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the management board, and evaluation whether the management board has achieved its objectives. The management board should, at least once a year, make public respective information about its internal structure and working procedures in observance of the legal acts regulating the processing of personal data.	Yes/No	Each year the members of the Company's Board perform an assessment of their activities by completing the questionnaires, which include the evaluation of the work of the Board.
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	Yes	Legal acts, Articles of Association and rules of procedure governing activities of the Company's supervisory and management bodies lay down the principles and procedure of cooperation between supervisory and management bodies of the Company and ensure that management and supervisory bodies cooperate to attain the greatest possible benefit to the Company and its shareholders.

[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.

at the company. The management board should inform he supervisory board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this.		
4.2. It is recommended that meetings of the company's collegial bodies should be held at the respective intervals, according to the pre-approved schedule. Each company is free to decide how often meetings of the collegial bodies should be convened but it is recommended that these meetings should be convened at such intervals that uninterruptable resolution of essential corporate governance issues would be ensured. Meetings of the company's collegial bodies should be convened at least once per quarter.	Yes	Meetings of collegial bodies proceed according to the pre-approved schedule. An annual plan of meetings and their agendas are formed for the Supervisory Board which, with consideration to activities of the group of Companies and processes going on in them, is supplemented in the course of the year. Meetings of the Supervisory Board are held once a month and of the Board – once a week. Members of the Supervisory Board suggest issues to be discussed during meetings. Members of the Supervisory Board are familiarized with activities pursued not only by the Company, but also those of separate companies of the Group.
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	Members of the collegial body are informed on the agenda of a meeting in advance. The agenda of the future meeting is discussed at the end of the current meeting, and issues are included into the agenda of the future meeting by consensus. In the course of the meeting, the agenda is not usually changed. All members of collegial bodies receive the material necessary for decision-making on issues on the agenda in advance and have a possibility to become familiar with them, also to ask questions before the meeting and during the meeting; they have the right to suggest that materials of the issue discussed should be supplemented, or ask to specify it. All members of the collegial bodies are informed about any received comments or specification.
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.	Yes	Meetings of the Supervisory Board are also attended by the Board of the Company. Dates and agenda of the meetings are coordinated in such a way that they could be attended by all members of collegial bodies. The Supervisory Board and the Board cooperate in forming agendas of the meetings by including relevant issues on activities of the Company or the Group's companies.
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	There are three supervisory committees set up at the Company - Risk Management and Operational Ethics Supervision, Nomination and Remuneration and Audit committees that operate on the Group level.
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.	Not applicable	
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.	Not applicable	See the comments for recommendation 5.1.1
5.1.4. Committees established by the collegial body should normally be composed of at least three members. Subject to the requirements of the legal acts, committees could be comprised only of two members as well. Members of each committee should be selected on the basis of their competences by giving priority to independent members of the collegial body. The chair of the management board should not serve as the chair of committees.	Yes	Committees consist of at least 3 members by involving also independent members. Chairpersons of all committees are independent members.
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	Yes/No	Committees are advisory bodies of the Supervisory Board. Their regulations are approved and members are appointed by the Supervisory Board. Committees prepare reports on their performance at least once every 6 (six) months that is delivered at the meeting of the

[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).

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.		Supervisory Board. The number of meetings and main activities are disclosed in the annual report; the Supervisory Board is informed on the main decisions adopted in them at least once every 6 months.
5.1.6. With a view to ensure the independence and impartiality of the committees, the members of the collegial body who are not members of the committees should normally have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or request that certain employees of the company or experts would participate in the meeting. Chair of each committee should have the possibility to maintain direct communication with the shareholders. Cases where such practice is to be applied should be specified in the rules regulating the activities of the committee.	Yes	All chairpersons of committees are independent members, there are members of the Supervisory Board in the composition of the committees. The members of the Supervisory Board have the right to attend meetings of committees. If necessary, at the invitation of committees, particular employees or experts attend the meetings. Chairpersons of committees have a possibility to maintain direct relationships with the institution implementing the shareholder's rights.
5.2. Nomination committee		
5.2.1. The key functions of the nomination committee should be the following: 1) to select candidates to fill vacancies in the membership of supervisory and management bodies and the administration and recommend the collegial body to approve them. The 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.	Yes	The main functions of the Nomination and Remuneration Committee are described in the Corporate Governance Guidelines and conform with, however, not limited to, the functions laid down in this principle.
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.	Yes	The Nomination and Remuneration Committee submits an opinion on candidatures to the management and supervision bodies of the Group's companies (if necessary, it may submit an opinion also regarding other candidatures). Decisions on the approval of such candidatures are adopted by the Supervisory Board. An opinion on the suitability of the mentioned candidatures is also submitted by the Company's Board (including the CEO).
5.3. Remuneration committee		
5.3.1. The main functions of the remuneration committee should be as follows: 1) submit to the collegial body proposals on the remuneration policy applied to members of the supervisory and management bodies and the heads of the administration for approval. Such policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as conditions which would allow the company to recover the amounts or suspend the payments by specifying the circumstances under which it would be expedient to do so; 2) submit to the collegial body proposals regarding individual remuneration for members of the collegial bodies and the heads of the administration in order to ensure that they would be consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned; 3) review, on a regular basis, the remuneration policy and its implementation.	Yes	The main functions of the Nomination and Remuneration Committee are described in the Corporate Governance Guidelines and comply with, however, are not limited to, the functions listed in this principle. The Nomination and Remuneration Committee submits an opinion on the guidelines for the top-level management policy to the Supervisory Board. The Supervisory Board adopts decisions on the approval of such remuneration guidelines with consideration to the opinion of the Nomination and Remuneration Committee.
5.4. Audit committee		
5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee[9].	Yes	The main functions of the Audit Committee are described in the Corporate Governance Guidelines and conform with the functions laid down in the legal acts regulating the activities of the audit committee.
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.	Yes	All members of the committee are provided with detailed information on specific issues of the Company's accounting system.
5.4.3. The audit committee should decide whether the participation of the chair of the management	Yes	Meetings of the Audit Committee are attended by the Head of the Internal Audit Unit, and, if

[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.*

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.		necessary, by other employees when discussing specific issues. The Audit Committee also cooperates with other committees, and, if necessary, joint meetings are organised. If necessary, a meeting of the Audit Committee is attended by representatives of the company conducting an independent audit of financial statements.
5.4.4. The audit committee should be informed about the internal auditor's work program and should be furnished with internal audit reports or periodic summaries. The audit committee should also be informed about the work program of external auditors and should receive from the audit firm a report describing all relationships between the independent audit firm and the company and its group.	Yes	The Audit Committee receives the information referred to in this paragraph, submits an opinion on annual plans of internal audit that is approved by the Supervisory Board. The Internal Audit Unit informs the Audit Committee on the implementation of internal audit plans and submits reports. If necessary, a meeting of the Audit Committee is attended by representatives of the company conducting an independent audit of financial statements.
5.4.5. The audit committee should examine whether the company complies with the applicable provisions regulating the possibility of lodging a complaint or reporting anonymously his/her suspicions of potential violations committed at the company and should also ensure that there is a procedure in place for proportionate and independent investigation of such issues and appropriate follow-up actions.	Yes	Audit committee performs these functions.
5.4.6. The audit committee should submit to the supervisory board or, where the supervisory board is not formed, to the management board its activity report at least once in every six months, at the time that annual and half-yearly reports are approved.	Yes	The Audit Committee submits its performance reports to the Supervisory Board at least once every 6 months.
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.**		
6.1. 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	The Company does observe the recommendations. According to the Company's Articles of Association, each candidate to a member of the collegial body is obliged to provide a declaration of interest to the body electing him/her stating all of circumstances which could lead to a conflict of interests between the candidate and the Company. In the event a new circumstance emerge that may give rise to a conflict of interest between a member of the collegial body and the Company, a member of the Supervisory Board must immediately inform in writing the Company and the Supervisory Board of such new circumstances. Besides, according to the Company's Articles of Association, members of the Board may not have any other job or hold any other office that would be incompatible with their activity on the Board, including the holding of management positions in other legal entities (except for the position and work in the company or the Group of companies), work in civil service, statutory service. Members may hold any other position or have other job, except for the position held in the Company and other legal entities the participant whereof the Company is, also engage in educational, creative, or authorship activity only on receipt of prior consent from the Supervisory Board.
Principle 7: Remuneration policy of the company **The remuneration policy and the procedure for review and disclosure of such policy established at the company should prevent potential conflicts of interest and abuse in determining remuneration of members of the collegial bodies and heads of the administration, in addition it should ensure the publicity and transparency of the company's remuneration policy and its long-term strategy.**		
7.1. The company should approve and post the remuneration policy on the website of the company; such policy should be reviewed on a regular basis and be consistent with the company's long-term strategy.	Yes	The Remuneration Policy of the Company approved by decision of the Board governs the setting and payment of remuneration in the Company. The Company's remuneration policy is published on the Company's website.
7.2. The remuneration policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as the conditions specifying the cases where the company can recover the disbursed amounts or suspend the payments.	Yes	The Remuneration Policy defines remuneration components, their maximum amounts, the principles of allocation and payout, which are common for all companies of the Group. According to the provisions of the Remuneration Policy, the variable remuneration component is paid only in case the target achievement value is at least 70 percent. If criteria for the evaluation of performance results are not met, i.e. the goal achievement value is below 70 percent, the variable remuneration component is not paid.
7.3. With a view to avoid potential conflicts of interest, the remuneration policy should provide that members of the collegial bodies which perform the supervisory functions should not receive remuneration based on the company's performance.	Yes	The Remuneration Policy is aimed at defining the principles of employee remuneration. The published Guidelines for Corporate Governance of State-Owned Energy Group, provide for the principles of remuneration of collegial bodies. The remuneration of members of collegial bodies carrying out supervisory functions does not depend on the performance of the Company.

7.4. The remuneration policy should provide sufficient information on the policy regarding termination payments. Termination payments should not exceed a fixed amount or a fixed number of annual wages and in general should not be higher than the non-variable component of remuneration for two years or the equivalent thereof. Termination payments should not be paid if the contract is terminated due to inadequate performance.	Yes	The Company follows this recommendation in accordance with provisions of the Labor Code of the Republic of Lithuania, without exceeding the sums laid down therein.
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.	Not applicable	The financial incentive scheme is not applied at the Company.
7.6. The company should publish information about the implementation of the remuneration policy on its website, with a key focus on the remuneration policy in respect of the collegial bodies and managers in the next and, where relevant, subsequent financial years. It should also contain a review of how the remuneration policy was implemented during the previous financial year. The information of such nature should not include any details having a commercial value. Particular attention should be paid on the major changes in the company's remuneration policy, compared to the previous financial year.	Yes/No	The Company follows the provisions of the Guidelines for Corporate Governance of State-Owned Energy Group approved by the Ministry of Finance of the Republic of Lithuania, also the principles laid down in Resolution No. 1341 of the Government of the Republic of Lithuania "On the Remuneration of Managers of State-Owned Enterprises" (as subsequently amended) (hereinafter – the Resolution). The Company has been providing the Ministry of Social Security and Labor of the Republic of Lithuania with information on the implementation of the Resolution. The Company plans to publish information on the implementation of Remuneration Policy in the nearest future.
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.	No	Remuneration policy of the Company is approved by the Board of the Company, remuneration guidelines - by the Supervisory Board.
Principle 8: Role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.**		
8.1. The corporate governance framework should ensure that the rights and lawful interests of stakeholders are protected.	Yes	The Company's management system provides protection for the rights of the stakeholders that are protected by laws. The Company pursues the maximum possible transparency in its relations with all stakeholders and the compliance with the highest ethical requirements and principles – in its activities, because honest and open business activities are one of the key elements of impeccable business reputation. The Company takes into account the changing customer needs, constantly improving its operational processes, empowering employees, taking care of the safety and health of its employees, seeking to maintain a close relationship with investors and ensure information accessible to all, continuously updating the information and posting it in the "Investors" section of its website.
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 authorized capital, involvement of creditors in corporate governance in the cases of the company's insolvency, etc.	Yes	The Company observes these recommendations when establishing the general rules applied to the Group of companies. Interest holders (e.g. trade unions of employees of daughter companies) may participate in the management of daughter companies to the extent provided for by the laws.
8.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	The Company does observe the recommendations. The stakeholders are given access to the necessary information.
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.	Yes	The Company has a trust line, information can also be provided anonymously by e-mail: pasitikejimolinija@ignitis.lt.
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:		
9.1.1. operating and financial results of the company;	Yes	The Company's operating and financial results are published each month, also in the Company's

		interim and annual reports.
9.1.2. objectives and non-financial information of the company;	Yes	The Company's business objectives and non-financial information is published in the Company's interim and annual reports, the Company's strategy and activity plans.
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;	Not applicable	The Company is a state-owned enterprise whose rights are exercised by the Ministry of Finance of the Republic of Lithuania.
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	The information is published in the Company's interim and annual reports, and on the Company's website.
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	The information is published in the Company's interim and annual reports, and on the Company's website.
9.1.6. potential key risk factors, the company's risk management and supervision policy;	Yes	The information is published in the Company's interim and annual reports, and on the Company's website.
9.1.7. the company's transactions with related parties;	Yes	The information is published on the Company's website. The Company's announcements on material events are published on the information disclosure system used by Nasdaq Vilnius Stock Exchange.
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	The information is published in the Company's interim and annual reports, and on the Company's website.
9.1.9. structure and strategy of corporate governance;	Yes	The information is published in the Company's interim and annual reports, and on the Company's website.
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	The information is published in the Company's interim and annual reports, and on the Company's website.
9.2. When disclosing the information specified in paragraph 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	The Company discloses the Group's consolidated results.
9.3. When disclosing the information specified in paragraph 9.1.4 of recommendation 9.1, it is recommended that the information on the professional experience and qualifications of members of the company's supervisory and management bodies and the manager of the company as well as potential conflicts of interest which could affect their decisions should be provided. It is further recommended that the remuneration or other income of members of the company's supervisory and management bodies and the manager of the company should be disclosed, as provided for in greater detail in Principle 7.	Yes	The information specified in Item 4 of the recommendation is published in the Company's annual report and on the Company's website. The Company makes public the salary to the Company's CEO and other benefits associated with the functions as members of the management bodies.
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.	Yes	The Company discloses the information via the information disclosure system used by the Vilnius Stock Exchange in the Lithuanian and English languages simultaneously. The Company observes the recommendation and announces its material events before or after a trading session on the Vilnius Stock Ex-change, except for the cases provided for by legal acts. The Company does not disclose the information likely to impact the price of the issued by it securities in its comments, interviews or otherwise by the time such information is announced via the information system of the Stock 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	The Company executes its annual financial statement audit. The audit firm also verifies the compliance of the Company's annual report with its audited financial statements.
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.	No	The audit firm is being selected according to the procedure, laid out in the Public procurement law of the Republic of Lithuania, the selected audit firm is proposed to the General Shareholder Meeting by the Company's Board.
10.3. The audit firm is being selected according to the procedure, laid out in the Public procurement law of the Republic of Lithuania, the selected audit firm is proposed to the General Shareholder Meeting by the Company's Board.	Yes	The Company does observe the recommendations.

Glossary

%	Per cent
000 / k	Thousand
AB	Joint stock company
B2B	Business to business
B2C	Business to consumer
BICG	Baltic Institute of Corporate Governance
bn	Billion
c.d.	Calendar days
CCU	Combined cycle unit
CO2	Carbon dioxide
Customers of independent suppliers	Electricity users who have selected an independent electricity supplier as their supplier
E	Electricity
EA	Emission allowances
Electricity generated	Electricity generated in wind farms, solar power plants, biofuel plants, hydropower plants (including Kruonis pumped storage power plant), waste plants and electricity generated in Elektrėnai Complex
Electricity sales in retail market	Amount of electricity sold in Lithuania (B2C, B2B and guaranteed customers) and in Latvia
Electricity sales in wholesale market	Proprietary trading in wholesale market in Poland
Energijos Tiekimas	Energijos Tiekimas UAB
Enerpro	UAB Energetikos paslaugų ir rangos organizacija
eNPS	Employee Net Promoter Score
ESO	AB „ESO“
etc.	et cetera
EU	European Union
Eurakras	UAB „EURAKRAS“
FTE	Full-time equivalent
GDP	Gross domestic product
GDPR	General Data Protection Regulation
Government of the Republic of Lithuania	Government of the Republic of Lithuania
GPAIS	Unified Product, Packaging and Waste Record Keeping System
GPC	UAB „Ignitis grupės paslaugų centras“

Green electricity generated	Electricity generated in wind farms, solar power plants, biofuel plants, hydropower plants (including Kruonis pumped storage power plant) and waste plants
Green Generation capacity installed	Wind farms, solar power plants, biofuel plants, hydropower plants (including Kruonis pumped storage power plant) and waste plants that have completed and have passed a final test
Green share of generation,%	Green share of generation shall be calculated as follows:Green electricity generated (including Kruonis pumped storage power plant) divided by total electricity generated in the Group
Group	Group companies of Ignitis Group UAB
Guaranteed supply	Supply of electricity in order to meet electricity demand of customers who have not selected an independent supplier under the established procedure or an independent supplier selected by them does not fulfil its obligations, terminates activities or the agreement on the purchase and sale of electricity
Hydro power	Kaunas Algirdo Brazauskas hydroelectric power plant and Kruonis pumped storage power plant
IFRS	International Financial Reporting Standards
IFRS	International Financial Reporting Standards
Ignitis	Ignitis UAB (former Lietuvos energijos tiekimas and Energijos tiekimas)
Ignitis Eesti	Ignitis Eesti OÜ
Ignitis Gamyba	AB „Ignitis gamyba“
Ignitis Latvija	Ignitis Latvija SIA
Ignitis Polska	Ignitis Polska sp. z o.o.
Ignitis Renewables	UAB „Ignitis renewables“
Installed capacity	Where all assets have been completed and have passed a final test
Investments	Acquisition of property, plant and equipment and intangible assets, acquisition of shareholdings
IPO	Initial Public Offering
ISO	International Organization for Standardization

Kaunas A. Brazauskas HPP	Kaunas Algirdas Brazauskas Hydroelectric Power Plant
Kaunas CHP	UAB Kauno kogeneracinė jėgainė
Kruonis PSHP	Kruonis Pumped Storage Hydroelectric Plant
KTU	Kaunas University of Technology
Lietuvos energija	„Lietuvos energija", UAB (current UAB „Ignitis grupė")
Lietuvos Energijos Tiekimas	Lietuvos Energijos Tiekimas UAB
Litgas	Litgas UAB
Litgrid	Litgrid AB
LNG	Liquefied natural gas
LNG	Liquefied natural gas
LNGT	Liquefied natural gas terminal
LRAIC	Long-run average incremental cost
LTM	Last twelve months
LVPA	Lithuanian Business Support Agency
m.	Metai
Mažeikiai	UAB „VVP Investment"
min.	Minimum
MLN / m	Million
mnth.	Month/months
MW	Megawatt
MWh	Megawatt hour
NEIS	National Energy Independence Strategy
NERC	The National Energy Regulatory Council
New connection points and upgrades	Number of new customers connected to the network and capacity upgrades of the existing connection points
NG	Natural gas
NPS	Net promoter score
NT Valdos	NT Valdos, UAB
OECD	Organisation for Economic Co-operation and Development

OHS	Occupational Health and Safety Policy
OPEX	Operating expenses
Pomerania	Pomerania Wind Farm sp. z o. o.
PSO	Public service obligation
Public supply	Electricity supply activity performed in accordance with the procedure and terms established by legal acts by an entity holding a public supply licence
Q	Quarter
RBM	Remuneration of the Board member
RE	Renewable energy
RES	Renewable energy sources
RPA	Robotic process automation
SAIDI	Average duration of unplanned interruptions in electricity or gas transmission
SAIFI	Average number of unplanned long interruptions per customer
SOE	State-owned company
TE-3	Vilnius Third Combined Heat and Power Plant
The Company / Ignitis Group	UAB „Ignitis grupė" (former „Lietuvos energija", UAB)
Tuuleenergia	„Tuuleenergia osaühing"
TWh	Terawatt-hour
UAB	Private Limited Liability Company
UN	United Nations
Units	Units
Vėjo Gūsis	UAB „VĖJO GŪSIS"
Vėjo Vatas	UAB „VĖJO VATAS"
VGTU	Vilnius Gediminas Technical University
Vilnius CHP	UAB Vilniaus kogeneracinė jėgainė
Visagino atominė elektrinė	Visagino atominė elektrinė UAB
vs.	Versus

Consolidated and the Company's financial statements

for the year ended 31 December 2019, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, presented together with the independent auditor's report

Content

The Company and the Group's consolidated financial statements were approved by Ignitis grupė UAB management and signed on 22 April 2020:

Darius Maikštėnas	Darius Kašauskas	Giedruolė Guobienė
Chief Executive Offiucer	Finance and Treasury Director	Ignitis Grupės Paslaugų Centras UAB, Head of Accounting Department acting under Order No IS-88-20 of 10/04/2020

Building a better working world

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VAT payer code LT108784411
Register of Legal Entities

INDEPENDENT AUDITOR'S REPORT

To the shareholder of UAB Ignitis grupe

Report on the Audit of the Company's and Consolidated Financial Statements

Opinion

We have audited the accompanying separate financial statements of UAB Ignitis grupe (hereinafter the Company), and the consolidated financial statements of UAB Ignitis grupe and its subsidiaries (hereinafter the Group), which comprise the statements of financial position as of 31 December 2019, statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2019 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (regulation (EU) No 537/2014 of the European Parliament and of the Council). 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 are independent of the Company and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of the financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the financial statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How the matter was addressed in the audit
Impairment assessment of investments into subsidiaries and receivables from subsidiaries	
As disclosed in Note 9 to the financial statements, the carrying value of the Company's investments into subsidiaries amounts to EUR 1,204 million and the total balance of receivables from these subsidiaries (comprising loans granted and accrued interest), amounts to EUR 835 million (Notes 10 and 18) as at 31 December 2019. During the current year impairment indicators were identified by the management regarding the investments in certain subsidiaries, therefore an	We gained an understanding of the management's process for the evaluation of the performance of subsidiaries and for assessment of the recoverable value of investments in subsidiaries. Among other procedures, we considered the completeness of the impairment indicators identified by the management by comparing the carrying value of the Company's investments into each subsidiary with the Company's share in the net assets of the subsidiary at their book value and discussing with the

Key audit matter	How the matter was addressed in the audit
impairment assessment was performed by comparing the carrying value of these investments to their recoverable amount to determine whether an impairment was required to be recognised. The Company's management has assessed the recoverable amount based on the value in use calculations and fair value of net assets of subsidiary. As a result, no additional impairment loss has been identified. In addition, the Company's management has reversed EUR 13 million of the previously recognised impairment for the investments, as disclosed in Note 9 to the financial statements. The management's assessment of the recoverable amount of investments into subsidiaries and impairment losses on receivables from them requires estimation and judgement around assumptions used as disclosed in Notes 9 and 10. Changes to these assumptions could lead to material changes in the estimated recoverable amount of investments and impairment losses on receivables from subsidiaries, impacting both potential impairment charges and also potential reversals of impairment recorded in prior years. This annual impairment test was significant to our audit as it involves management judgment regarding the assumptions used in the underlying cash flows forecasts and net assets amounts calculated, respectively. Furthermore, the investments into the subsidiaries and receivables from these subsidiaries represent more than 92% of the total assets of the Company as at 31 December 2019. Therefore, we considered it to be a key audit matter.	management their performance and outlook. We also considered the assumptions and methodologies used by the management to determine the recoverable amounts of the investments in subsidiaries, including accounts receivable from these subsidiaries. We involved internal valuation specialists to assist us with the assessment of the valuation models and key assumptions used by the management in the value in use and fair value of net assets calculations for the specific business. We assessed whether future cash flows were based on the business plans in the respective cash generating units, and whether net assets calculations were substantiated based on the assets fair value less cost to sell, where information on future disposal agreements was obtained. We tested the sensitivity in the available headroom of the investment considering if a possible change in assumptions could cause the carrying amount to exceed its recoverable amount and assessed the historical accuracy of management's estimates. We also considered the subsidiaries' ability to repay the amounts due to the Company by examination of their liquidity position based on their financial statements as well as their future cash flow forecasts. Finally, we evaluated the adequacy of the Company's disclosures included in Notes 9 and 10 to the financial statements about the assumptions used in the impairment test and the outcome of the test.
Revenue from contracts with customers	
Revenue from contracts with customers for the financial year ended 31 December 2019 amounts to EUR 1,079 million (EUR 1,024 million for the year ended 31 December 2018). Application of appropriate financial reporting standards for revenue recognition from contracts with customers is rather complex and requires significant management judgement. Furthermore, as disclosed in Note 4.27 of the accompanying financial statements, the management of the Group in 2019 has reassessed the accounting treatment for certain transactions following the initial application of IFRS 15 "Revenue from contracts with customers" and restated comparative information in respect of connection fees of new customers to the distribution system, and agent vs. principal assessment for: (a) Public Service Obligations fees (PSO fee) of electricity distribution and supply services in Lithuania and of electricity supply services in Latvia; (b) Liquefied natural gas terminal security component (LNGT security component) for natural gas	In relation to revenue recognition we performed the following procedures, among others: - we gained an understanding of the revenue recognition and measurement processes for key revenue streams of the Group; - we tested key controls implemented over the electricity distribution system and the gas and electricity supply processes; - we tested relevant IT general controls for selected IT systems (including billing systems) used by the Group in the process of revenue recognition and measurement; - we obtained external customer confirmations for selected largest customers of (a) gas distribution revenue, (b) revenue from trade in electricity and gas in Lithuania, (c) electricity generation revenue of the active capacity reserve and (d) revenue from assurance of the capacity reserve recognized by the Group; - we performed analytical review procedures by forming an expectation of revenue based on the key performance indicators, including taking into

Key audit matter	How the matter was addressed in the audit
supply service in Lithuania; (c) electricity transfer component, which includes both transmission and distribution, and gas distribution component in Latvia. In addition, as disclosed in Note 4.26, the management of the Group has corrected some errors related to regulatory assets / liabilities recognition and revenue recognition for certain electricity trading exchange contracts. Due to changes in IFRS 15 application and correction of errors, the Group changed the comparative figures presented in the financial statements for 2019. Revenue recognition was significant to our audit due to the materiality of the amounts involved, significant management judgment applied in analyzing and applying the IFRS revenue recognition requirements to the key revenue streams of the Group, and its impact on the consolidated financial statements for 2019.	consideration historical revenue information, changes in approved tariffs and comparing with actual results; - we understood how the amounts of regulatory assets / liabilities accounted for were calculated and performed recalculation of these amounts; - we tested a sample of revenue transactions near the financial year-end for their recognition in the appropriate accounting period. In relation to the accounting treatment changes and error corrections made in the 2019 financial statements comparative information with respect to IFRS 15 application, our procedures included the following, mainly to assess management's applied judgment and whether the new application better reflects the substance of the transactions entered into by the Group: - we have read contracts with customers on a sample basis and reviewed IFRS 15 analysis prepared by the management as to whether performance obligations in contracts with customers have been appropriately identified and whether revenue related to the different performance obligations is recognized in accordance with IFRS 15 requirements; - we have reviewed management's analysis to assess whether the Group acts as a principal or an agent in relation to (a) PSO fee of the electricity distribution and supply services in Lithuania and of electricity supply services in Latvia; (b) LNGT security component for natural gas supply service in Lithuania; and (c) electricity transfer component, which includes both transmission and distribution, and gas distribution component in Latvia in accordance with IFRS 15 requirements; - we have assessed the calculations relating to the accounting treatment changes and error corrections related to the restated comparative information; - we have involved our IFRS specialists to assist us with the assessment of the judgements made by the management. Furthermore, we have considered the adequacy of disclosures done by the Group regarding: - revenue from contracts with customers recognition and measurement accounting policies applied (Note 2.22), - significant management judgment used to determine the appropriate accounting policies (Notes 4.12, 4.13 and 4.14), and - accounting treatment and error correction changes as well as their impact on the amounts presented in the 2019 financial statements (Notes 4.26 and 4.27).

Key audit matter	How the matter was addressed in the audit
Fair value assessment of property, plant and equipment of the electricity distribution segment	
The property, plant and equipment allocated to the electricity distribution business segment (the electricity PPE) is accounted for at revalued amounts less subsequent accumulated depreciation and subsequent accumulated impairment losses and had a net book value of EUR 1,181 million as at 31 December 2019. In 2018 the Group has performed a revaluation of property, plant and equipment of the electricity PPE and accounted for revaluation results (Note 4.3). IAS 16 requires the Group to perform a further revaluation of assets, when the fair value of a revalued asset differs materially from its carrying amount. As disclosed in Note 4.3, the possible change in fair value of electricity PPE was tested by management of the Group as at 31 December 2019 by using a discounted cash flows model and comparing the potential fair value derived from the model to the carrying value of the electricity PPE. The fair value assessment of property, plant and equipment was significant to our audit as it involves management's judgment in making the assumptions related to cash flows forecasts, as well as the discount rate, used in it as disclosed in Note 4.3. Furthermore, the carrying value of the electricity PPE represents approximately 37% of the total assets of the Group as at 31 December 2019.	Our audit procedures included, among others, the following: - we have obtained an understanding of the process (including assumptions and methods) through which management perform their assessment of fair value changes of the electricity PPE; - we considered reasonability of significant assumptions used by management in their estimation of cash flow forecasts by comparing previous management estimates of cash flows components to actual levels; - we involved valuation specialists to assist us with the consideration of the discount rate and valuation model used by the management in the fair value assessment; - we tested arithmetical accuracy of the discounted cash flows model; - we tested the sensitivity of potential fair value changes of the electricity PPE, considering if a reasonably expected change in the assumptions (as disclosed in Note 4.3) could cause the fair value to significantly differ from its carrying value; - we have read and compared the property, plant and equipment disclosure prepared by the management and presented in Note 6 to source data and supporting accounting registers; - finally, we have considered the adequacy of the Group's disclosures included in Note 4.3 about the assumptions used in the fair value assessment and the outcome of the it, including sensitivity disclosures.
Impairment assessment of property, plant and equipment	
The property, plant and equipment allocated to gas distribution segment cash generating unit (the gas CGU) and the major part of hydroelectric and thermal power plant assets are accounted for at cost less accumulated depreciation and accumulated impairment losses, and had a net book value of EUR 243 million and EUR 447 million as at 31 December 2019, respectively. Decreasing operating results of the gas distribution business segment in year 2019 were considered as an indication for potential impairment by the management. Therefore, the management of the	Our audit procedures included, among others, the following: - we have obtained understanding of the process (including assumptions and methods) how management perform their assessment of gas CGU and hydroelectric and thermal power plant assets impairment testing; - we considered reasonability of significant assumptions used by management in their estimation of cash flow forecasts by comparing previous management estimates of cash flows components to actual levels;

Key audit matter	How the matter was addressed in the audit
Group performed an impairment test of the gas CGU based on the recoverable value estimate (using a discounted cash flows model) as disclosed in Note 4.3 to the accompanying financial statements. As a result of testing no additional impairment was recognized. Management of the Group concluded that there are no indications indicating the possibility of impairment for hydroelectric and thermal power plants, therefore as of 31 December 2019 no impairment tests were carried out for these assets, except of the Elektrėnai complex. The management of the Group performed an impairment test of Elektrėnai complex based on the recoverable value estimate (using a discounted cash flows model) as disclosed in Note 4.4 to the accompanying financial statements. As a result of testing no additional impairment was recognized. The impairment tests were significant to our audit as they involve management judgment in making the assumptions related to cash flows forecasts, as well as the discount rate, used in the recoverable value estimates as disclosed in Notes 4.3 and 4.4. Furthermore, the gas CGU and hydroelectric and thermal power plant assets carrying values represent approximately 8% and 14% of the total assets of the Group as at 31 December 2019, respectively.	- we involved valuation specialists to assist us with the consideration of the discount rate and valuation model used by the management in the gas CGU and Elektrėnai complex impairment tests; - we tested arithmetical accuracy of the discounted cash flows models; - we tested the sensitivity in the available headroom of the gas CGU and Elektrėnai complex considering if a reasonably expected change in the assumptions (as disclosed in Notes 4.3 and 4.4) could cause the carrying amount to exceed its recoverable amount; - we have read and compared the property, plant and equipment disclosure prepared by the management and presented in Note 6 to source data and supporting accounting registers; - we have analyzed changes in the regulatory environment, taking into account the recent decisions made by the National Energy Regulatory Council and assessed their impact on management assumptions used in the calculation of the recoverable amounts of the gas CGU and Elektrėnai complex; - finally, we have considered the adequacy of the Group's disclosures included in Notes 4.3 and 4.4 about the assumptions used in the impairment test and the outcome of the test, including sensitivity disclosures.

Other matters

The statutory Company's separate financial statements and the Group's consolidated financial statements for the year ended 31 December 2018 were audited by other auditor which has issued an unqualified opinion as of 16 April 2019.

Other information

Other information consists of the information included in the Group's 2019 Annual Report, including Corporate Governance Report Annex and the Chapter of Corporate Social Responsibility Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information presentation.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as indicated below.

In connection to our audit of the financial statements, our responsibility is to read the other information 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

We also have to evaluate, if the financial information included in the Group's Annual Report, including Corporate Governance Report, corresponds to the financial statements for the same financial year and if the Group's Annual Report, including Corporate Governance Report, was prepared in accordance with the relevant legal requirements. In our opinion, based on the work performed in the course of the audit of financial statements, in all material respects:

- The financial information included in the Group's Annual Report, including Corporate Governance Report, corresponds to the financial information included in the financial statements for the year then ended; and
- The Group's Annual Report, including Corporate Governance Report, was prepared in accordance with the

requirements of the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania and the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

We also need to check that the Corporate Social Responsibility Report has been provided. If we identify that Corporate Social Responsibility Report has not been provided, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and/or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and/or the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate 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

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Appointment and approval of the auditor
In accordance with the decision made by the shareholder in 2019 we have been appointed to carry out the audit of the Company's and the Group's consolidated financial statements. Our appointment to carry out the audit of the Company's and the Group's consolidated financial statements in accordance with the shareholder's has been made for a three-year period. The audit of the financial statements for the year ended 31 December 2019 was our first annual audit of the Company and the Group.

Consistency with the audit report submitted to the audit committee
We confirm that our opinion in the section 'Opinion' is consistent with the additional Audit report which we have submitted to the Company, the Group and the Audit Committee.

Non audit services
We confirm that to the best of our knowledge and belief, services provided to the Company and the Group are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in the Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Throughout our audit engagement period, we have not provided to the Company and the Group any other services except for the audit of the financial statements.

The partner in charge of the audit resulting in this independent auditor's report is Jonas Akelis.

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

Jonas Akelis
Auditor's licence
No. 000003

22 April 2020

All amounts are in EUR thousand unless otherwise stated

Group's Statement of Financial Position

	Notes	Group At 31 December 2019	Group At 31 December 2018 (restated*)	Group At 1 January 2018 (restated*)
ASSETS				
Non-current assets				
Intangible assets	5	142,737	106,330	36,360
Property, plant and equipment	6	2,347,817	2,091,386	1,761,082
Right-of-use assets	7	61,044	-	-
Prepayments for non-current assets	15	27,809	23,621	21,911
Investment property	8	5,530	6,494	14,878
Non-current receivables	10,11	165,031	160,606	170,488
Other financial assets	12	3,735	2,008	426
Other non-current assets	13	5,087	6,094	3,239
Deferred tax assets	25	11,770	14,468	18,081
Total non-current assets		**2,770,560**	**2,411,007**	**2,026,465**
Current assets				
Inventories	14	46,621	43,137	56,866
Prepayments and deferred expenses	15	50,548	30,655	38,119
Trade receivables	16	117,867	143,120	112,092
Other receivables	17	31,780	25,436	27,800
Other current assets		5,796	2,147	1,093
Prepaid income tax		2,434	4,192	2,102
Other financial assets	12	-	656	-
Cash and cash equivalents	19	131,837	127,835	171,756
		386,883	**377,178**	**409,828**
Assets held for sale	20	40,643	65,706	79,301
Total current assets		**427,526**	**442,884**	**489,129**
TOTAL ASSETS		**3,198,086**	**2,853,891**	**2,515,594**

	Notes	Group At 31 December 2019	Group At 31 December 2018 (restated*)	Group At 1 January 2018 (restated*)
EQUITY AND LIABILITIES				
Equity				
Issued capital	21	1,212,156	1,212,156	1,212,156
Reserves	22	259,651	212,802	99,380
Retained earnings (deficit)		(172,188)	(169,994)	(73,353)
Equity attributable to equity holders of the parent		**1,299,619**	**1,254,964**	**1,238,183**
Non-controlling interests		49,001	47,558	42,651
Total equity		**1,348,620**	**1,302,522**	**1,280,834**
Liabilities				
Non-current liabilities				
Non-current loans and bonds	23	821,929	735,410	480,068
Non-current lease liabilities	24	33,818	14,334	187
Grants and subsidies	26	267,949	208,874	200,311
Deferred income tax liabilities	25	38,408	36,409	36,049
Provisions	28	35,564	35,355	7,367
Deferred income	27	151,910	136,438	128,704
Other non-current amounts payable and liabilities	29	883	1,887	1,832
Total non-current liabilities		**1,350,461**	**1,168,707**	**854,518**
Current liabilities				
Current portion of non-current loans	23	37,454	61,819	119,599
Current loans	23	196,737	47,727	14,082
Lease liabilities	24	8,400	5,220	145
Trade payables	30	78,567	93,237	98,338
Advances received	27	51,745	49,766	27,765
Income tax payable		6,171	4,545	3,695
Provisions	28	19,818	5,558	2,498
Deferred income	27	9,749	9,122	4,365
Other current amounts payable and liabilities	31	85,042	102,682	109,421
		493,683	**379,676**	**379,908**
Liabilities directly associated with the assets held for sale	20	5,322	2,986	334
Total current liabilities		**499,005**	**382,662**	**380,242**
Total liabilities		**1,849,466**	**1,551,369**	**1,234,760**
TOTAL EQUITY AND LIABILITIES		**3,198,086**	**2,853,891**	**2,515,594**

**Part of amounts do not agree with the financial statements of 2018 due to correction of errors and changes in accounting methods as disclosed in the Note 4.26 and Note 4.27*

All amounts are in EUR thousand unless otherwise stated

Company's Statement of Financial Position

	Notes	Company	
		At 31 December 2019	At 31 December 2018
ASSETS			
Non-current assets			
Intangible assets	5	1,874	1,874
Property, plant and equipment	6	86	427
Right-of-use assets		838	-
Prepayments for non-current assets	15	144	816
Investments in subsidiaries	9	1,204,494	1,206,921
Non-current receivables	10, 11	723,201	679,593
Other financial assets	12	3,474	2,008
Deferred tax assets	25	763	1,077
Total non-current assets		**1,934,874**	**1,892,716**
Current assets			
Prepayments and deferred expenses	15	32	62
Other receivables	11, 17	380	631
Prepaid income tax		-	15
Current loans	18	270,949	189,324
Cash and cash equivalents	19	144	231
		271,505	**190,263**
Assets held for sale	20	7,141	7,141
Total current assets		**278,646**	**197,404**
TOTAL ASSETS		**2,213,520**	**2,090,120**

	Notes	Company	
		At 31 December 2019	At 31 December 2018
EQUITY AND LIABILITIES			
Equity			
Issued capital	21	1,212,156	1,212,156
Reserves	22	80,720	19,811
Retained earnings		36,525	78,231
Total equity		**1,329,401**	**1,310,198**
Liabilities			
Non-current liabilities			
Non-current loans and bonds	23	639,465	671,245
Non-current lease liabilities	24	563	-
Provisions	28	-	-
Other non-current amounts payable and liabilities	29	-	378
Total non-current liabilities		**640,028**	**671,623**
Current liabilities			
Current portion of non-current loans	23	32,901	57 401
Current loans	23	196,737	47 721
Lease liabilities	24	277	-
Trade payables	30	259	947
Advances received	27	52	51
Provisions	28	-	806
Other current amounts payable and liabilities	31	13,865	1 373
Total current liabilities		**244,091**	**108 299**
Total liabilities		**884,119**	**779 922**
TOTAL EQUITY AND LIABILITIES		**2,213,520**	**2 090 120**

All amounts are in EUR thousand unless otherwise stated

Statement of Profit or Loss and other Comprehensive Income

	Notes	Group 2019	Group 2018 (restated*)	Company 2019	Company 2018
Revenue from contracts with customers	32	1,079,347	1,024,278	3,283	3,188
Other income	33	11,280	45,782	25	703
Dividend income	39	-	-	25,918	67,378
		1,090,627	**1,070,060**	**29,226**	**71,269**
Operating expenses					
Purchases of electricity, gas for trade and related services	34	(711,669)	(768,462)	-	-
Purchases of gas and heavy fuel oil		(22,987)	(26,545)	-	-
Depreciation and amortisation	5, 6, 7, 26	(109,887)	(87,664)	(273)	(7)
Salaries and related expenses		(86,986)	(79,741)	(5,582)	(5,067)
Repair and maintenance expenses		(29,798)	(21,200)	-	-
Revaluation of property, plant and equipment	6, 7, 26	(816)	(67,671)	-	-
Impairment (reversal of impairment) of investments in subsidiaries		-	-	13,047	(6,815)
Impairment (reversal of impairment) of amounts receivable and loans		172	(9,876)	(1,394)	(11,198)
Impairment of property, plant and equipment	6, 20	(8,655)	(3,151)	-	-
Other expenses	35	(37,208)	(26,143)	(1,891)	(1,357)
Total operating expenses		**(1,007,834)**	**(1,090,453)**	**3,907**	**(24,444)**
Finance income	36	2,193	1,621	15,502	10,069
Finance expenses	37	(18,833)	(14,899)	(17,015)	(12,169)
Results of the revaluation and closing of derivative financial instruments		-	(573)	-	(572)
Profit (loss) before tax		**66,153**	**(34,244)**	**31,620**	**44,153**
Current year income tax (expenses)/benefit	38	(6,739)	(4,604)	-	7
Deferred income tax (expenses)/benefit	38	(438)	16,877	583	528
Net profit (loss)		**58,976**	**(21,971)**	**32,203**	**44,688**
Attributable to:					
Equity holders of the parent		56,665	(22,440)	32,203	44,688
Non-controlling interests		2,311	469	-	-

	Notes	Group 2019	Group 2018 (restated*)	Company 2019	Company 2018
Other comprehensive income (loss)					
Items that will not be reclassified to profit or loss					
Revaluation of property, plant and equipment, net of deferred income tax effect		(2)	103,941		
Revaluation of Emission allowances		721	19,198		
Recalculation of the defined benefit plan obligation, net of deferred income tax		(28)	77	-	-
Items that will not be reclassified to profit or loss in subsequent periods, total		**691**	**123,216**	**-**	**-**
Items that may be reclassified to profit or loss in subsequent periods, total					
Exchange differences on translation of foreign operations into the Group's presentation currency		(5)	(26)	-	-
Items that may be reclassified to profit or loss in subsequent periods, total		**(5)**	**(26)**	**-**	**-**
Total other comprehensive income (loss)		**686**	**123,190**	**-**	**-**
Total comprehensive income (loss) for the period		**59,662**	**101,219**	**32,203**	**44,688**
Attributable to:					
Equity holders of the parent		57,351	94,964	32,203	44,688
Non-controlling interests		2,311	6,255	-	-

**Part of amounts do not agree with the financial statements of 2018 due to correction of errors and changes in accounting methods as disclosed in the Note 4.26 and Note 4.27*

All amounts are in EUR thousand unless otherwise stated

Group's Statement of Changes in Equity

Group	Notes	Equity attributable to equity holders of the Company: Issued capital	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Subtotal	Non-controlling interests	In total
Balance as at 1 January 2018 as previously reported		**1,212,156**	**46,512**	**52,826**	**42**	**(13,706)**	**1,297,830**	**45,796**	**1,343,626**
Effect of change in accounting policies following the adoption of new IFRS		-	-	-	-	(59,647)	(59,647)	(3,145)	(62,792)
Restated balance as at 1 January 2018		**1,212,156**	**46,512**	**52,826**	**42**	**(73,353)**	**1,238,183**	**42,651**	**1,280,834**
Revaluation of non-current assets, net of deferred income tax effect		-	-	117,357	-	-	117,357	5,781	123,138
Exchange differences on translation of foreign operations into the Group's presentation currency		-	-	-	(26)	-	(26)	-	(26)
Result of change in actuarial assumptions		-	-	-	-	73	73	5	78
Total other comprehensive income (loss)		**-**	**-**	**117,357**	**(26)**	**73**	**117,404**	**5,786**	**123,190**
Net profit (loss) for the reporting period (restated*)		-	-	-	-	(22,440)	(22,440)	469	(21,971)
Total comprehensive income for the period (restated*)		**-**	**-**	**117,357**	**(26)**	**(22,367)**	**94,964**	**6,255**	**101,219**
Transfer of revaluation reserve to retained earnings (transfer of depreciation, net of deferred income tax)		-	-	(6,746)	-	6,746	-	-	-
Emission allowances utilised		-	-	(473)	-	473	-	-	-
Depreciation of the revaluation reserve of emission allowances		-	-	(29)	-	29	-	-	-
Transfer to reserves, movement in reserves		-	3,339	-	-	(3,339)	-	-	-
Dividends	39	-	-	-	-	(78,265)	(78,265)	(2,596)	(80,861)
Increase in issued capital of Kauno kogeneracinė jėgainė UAB		-	-	-	-	-	-	1,172	1,172
Acquisition of subsidiary		-	-	-	-	82	82	-	82
Part of the increase in issued share capital of Ignitis gamyba AB by way of in-kind contribution attributable to non-controlling interests		-	-	-	-	-	-	76	76
Balance as at 31 December 2018 (restated*)		**1,212,156**	**49,851**	**162,935**	**16**	**(169,994)**	**1,254,964**	**47,558**	**1,302,522**
Balance as at 1 January 2019		**1,212,156**	**49,851**	**162,935**	**16**	**(169,994)**	**1,254,964**	**47,558**	**1,302,522**
Revaluation of property, plant and equipment, net of deferred income tax effect		-	-	(2)	-	-	(2)	-	(2)
Revaluation of Emission allowances		-	-	699	-	-	699	22	721
Exchange differences on translation of foreign operations into the Group's presentation currency		-	-	-	(5)	-	(5)	-	(5)
Remeasurement of the defined benefit plan obligation, net of deferred income tax		-	-	-	-	(26)	(26)	(2)	(28)
Total other comprehensive income (loss)		**-**	**-**	**697**	**(5)**	**(26)**	**666**	**20**	**686**
Net profit (loss) for the reporting period		-	-	-	-	56,665	56,665	2,311	58,976
Total comprehensive income for the period		**-**	**-**	**697**	**(5)**	**56,639**	**57,331**	**2,331**	**59,662**
Transfer of revaluation reserve to retained earnings (transfer of depreciation, net of deferred income tax)		-	-	(15,812)	-	15,812	-	-	-
Emission allowances utilised		-	-	(812)	-	812	-	-	-
Depreciation of the revaluation reserve of emission allowances		-	-	(15)	-	15	-	-	-
Transfer to reserves, movement in reserves	22	-	62,796	-	-	(62,796)	-	-	-
Dividends	39	-	-	-	-	(13,000)	(13,000)	(896)	(13,896)
Increase in issued capital of Ignitis grupės paslaugų centras UAB		-	-	-	-	-	-	8	8
Other adjustments of retained earnings		-	-	-	-	324	324	-	324
Balance as at 31 December 2019		**1,212,156**	**112,647**	**146,993**	**11**	**(172,188)**	**1,299,619**	**49,001**	**1,348,620**

**Part of amounts do not agree with the financial statements of 2018 due to correction of errors and changes in accounting methods as disclosed in the Note 4.26 and Note 4.27*

All amounts are in EUR thousand unless otherwise stated

Company's Statement of Changes in Equity

Company	Note	Issued capital	Legal reserve	Other reserves	Retained earnings	In total
Balance as at 1 January 2018		**1,212,156**	**14,516**	**-**	**117,103**	**1,343,775**
Other comprehensive income		-	-	-	-	-
Total other comprehensive income (loss)		-	-	-	-	-
Net profit (loss) for the reporting period		-	-	-	44,688	44,688
Total comprehensive income for the period		-	-	-	**44,688**	**44,688**
Transfers to legal reserve	22	-	5,295	-	(5,295)	-
Dividends	39	-	-	-	(78,265)	(78,265)
Balance as at 31 December 2018		**1,212,156**	**19,811**	**-**	**78,231**	**1,310,198**
Balance as at 1 January 2019		**1,212,156**	**19,811**	**-**	**78,231**	**1,310,198**
Other comprehensive income		-	-	-	-	-
Total other comprehensive income (loss)		-	-	-	-	-
Net profit (loss) for the reporting period		-	-	-	32,203	32,203
Total comprehensive income for the period		-	-	-	**32,203**	**32,203**
Transfers to legal reserve	22	-	60,909	-	(60,909)	-
Dividends	39	-	-	-	(13,000)	(13,000)
Balance as at 31 December 2019		**1,212,156**	**80,720**	**-**	**36,525**	**1,329,401**

All amounts are in EUR thousand unless otherwise stated

Statement of Cash Flows

	Notes	Group 2019	Group 2018 (restated*)	Company 2019	Company 2018
Cash flows from (to) operating activities					
Net profit (loss)		58,976	(21,971)	32,203	44,688
Adjustments to non-cash items:					
Depreciation and amortisation expenses	5, 6, 7	118,900	96,934	273	7
Impairment of property, plant and equipment	6, 20	8,655	3,151	-	-
Grants designated for property, plant and equipment in respect of which impairment and/or revaluation was recognised	26	-	(10,003)	-	-
Revaluation of property, plant and equipment	6	787	76,617	-	-
Revaluation of investment property	8	-	(18)	-	-
Revaluation of derivatives		(730)	(354)	-	-
Impairment/(reversal of impairment) of financial assets	10,12,16,17	(172)	9,876	1,394	11,198
Impairment/(reversal of impairment) of investments in subsidiaries	9	-	-	(13,047)	6,815
Income tax expenses	38	7,177	(12,273)	(583)	(535)
(Depreciation) of grants	26	(9,011)	(9,270)	-	-
Increase (decrease) in provisions	28	5,010	2,484	(806)	(2,097)
Inventory impairment allowance/(reversal)		(27)	(718)	-	-
Expenses/(income) of revaluation of emission allowances	5	367	(8,933)	-	-
Emission allowances utilised		880	908	-	-
Elimination of results of investing activities:					
- Dividend (income)	39	-	-	(25,918)	(67,378)
- (Gain)/loss on disposal and/or write-off of property, plant and equipment		3,158	477	-	-
Results of the revaluation and closing of derivative financial instruments		-	-	-	572
Other (income)/expenses of investing activities		-	82	-	15
Elimination of results of financing activities:					
- Interest income	36	(1,547)	(1,427)	(15,500)	(10,040)
- Interest expense	37	15,288	12,442	14,413	11,217
- Other (income)/expenses of financing activities		2,899	2,263	2,600	924
Changes in working capital:					
(Increase) decrease in trade receivables and other amounts receivable		10,429	(21,603)	(1,714)	106
(Increase) decrease in inventories, prepayments and other current assets		(21,491)	18,896	702	(20)
Increase (decrease) in amounts payable, deferred income and advance amounts received		(17,841)	47,281	(2,127)	(463)
Income tax (paid)		(4,552)	(6,309)	897	-
Net cash flows from (to) operating activities		**177,155**	**178,532**	**(7,213)**	**(4,991)**

	Notes	Group 2019	Group 2018 (restated*)	Company 2019	Company 2018
Cash flows from (to) investment activities					
(Purchase) of property, plant and equipment and intangible assets		(428,160)	(416,205)	(45)	(6,454)
Proceeds from sale of property, plant and equipment and intangible assets		39,536	48,162	-	-
Loans (granted)		-	-	(191 876)	(351,160)
Loan repayments received		-	-	67 579	140,117
Acquisition of investments in subsidiaries	9	(27,965)	(23,509)	(13 300)	(46,254)
Disposal of investments in subsidiaries	9	-	-	39 748	
Grants received	26	64,048	25,523	-	-
Interest received		1,054	1,105	14 017	5,389
Dividends received		-	-	25 918	67,378
Other increases (decreases) in cash flows from investing activities		4,200	(1,582)	-	(1,582)
Net cash flows from (to) investing activities		**(347,287)**	**(366,506)**	**(57 959)**	**(192,566)**
Cash flows from (to) financing activities					
Loans received	23	130,937	57,810	-	-
Issue of bonds	23	-	294,346	-	294,346
Repayments of borrowings	23	(70,394)	(155,421)	(57 401)	(95,052)
Lease payments	23	(7,379)	(544)	(238)	-
Interest paid	23	(14,146)	(10,402)	(13 306)	(7,746)
Dividends paid		(13,915)	(80,608)	(13 000)	(78,265)
Increase in issued capital of Kauno kogeneracinė jėgainė UAB	9	-	7,840	-	-
Result of the closing of derivative financial instruments		-	(573)	-	(572)
Other increases (decreases) in cash flows from financing activities		-	-	(1)	(9,700)
Net cash flows from (to) financing activities		**25,103**	**112,448**	**(83 946)**	**103,011**
Increase (decrease) in cash and cash equivalents (including overdraft)		**(145,029)**	**(75,526)**	**(149,118)**	**(94,546)**
Cash and cash equivalents (including overdraft) at the beginning of the period		85,575	161,101	(42,029)	52,517
Cash and cash equivalents (including overdraft) at the end of period	19	**(59,454)**	**85,575**	**(191,147)**	**(42,029)**

**Part of amounts do not agree with the financial statements of 2018 due to correction of errors and changes in accounting methods as disclosed in the Note 4.26 and Note 4.27*

1 General

These financial statements cover the financial statements of a parent company Ignitis grupė UAB (hereinafter "the Company") and consolidated financial statements of the Company and its subsidiaries (hereinafter collectively "the Group"). Reporting period is one year ended 31 December 2019.

Ignitis grupė UAB is a private limited liability company registered in the Republic of Lithuania. The Company's registered office address is Žvejų g. 14, LT-09310, Vilnius, Lithuania. The Company is a limited liability profit-oriented entity registered on 28 August 2008 with the Register of Legal Entities managed by the public institution the Centre of Registers. Company code 301844044, VAT payer's code LT10004278519. The Company has been founded for an indefinite period.

The Company is a parent company, which is responsible for the management and coordination of activities of group companies engaged in electricity and heat generation (including electricity generation from renewable energy sources), supply, electricity import and export, distribution and trade, natural gas distribution and supply, as well as in service and development of electric energy industry. Information on the Group's structure is provided in Note 9.

The Company analyses the activities of group companies, represents the whole group, implements its shareholders' rights and obligations, defines operation guidelines and rules, and coordinates the activities in the fields of finance, law, strategy and development, human resources, risk management, audit, technology, communication, etc.

The Company seeks to ensure effective operation of group companies, implementation of goals related to the Group's activities set forth in the National Energetic Independence Strategy and other legal acts, ensuring that it builds a sustainable value in a socially responsible manner.

The Company is wholly owned by the State of the Republic of Lithuania.

Shareholder of the Company	As at 31 December 2019		As at 31 December 2018	
	Share capital, in EUR '000	%	Share capital, in EUR '000	%
Republic of Lithuania represented by the Ministry of Finance of the Republic of Lithuania	1,212,156	100	1,212,156	100

As at 31 December 2018 under current employment contracts the Group and the Company employed 3,846 and 108 employees, respectively (31 December 2018: 3,813 and 125 employees contracted, respectively).

These financial statements were authorized for issue in accordance with a resolution of the directors on 20 April 2020.

The Company's shareholders have a statutory right to either approve or refuse to approve these financial statements and require the management to prepare a new set of financial statements.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the Company's and the Group's financial statements for the year ended 31 December 2019 are summarized below:

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Group and the Company's financial statements as at and for the year ended 31 December 2019 have been prepared on a going concern basis applying measurement based on historical cost, except for property, plant and equipment, emission allowances measured at revaluated amount, investment property, and certain financial instruments measured at fair value.

These financial statements are presented in euros and all values are rounded to the nearest thousand (EUR '000), except when otherwise indicated. The Group and the Company's financial statements provide comparative information in respect of the previous period.

In addition, the Group presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective correction of errors, application of an accounting policy or accounting treatments, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at 1 January 2018 is presented in these consolidated financial statements as the management of the Group during 2019 have corrected certain errors and reviewed accounting treatment applied for:
- Presentation of revenue received from new customers connection fees (Note 4.27)
- Presentation of revenue relating to rendering of Public Service Obligations (hereinafter "PSO services") (Note 4.27)
- Presentation of incomes of Liquefied Natural Gas Terminal's (hereinafter "LNGT") security component collected from customers (Note 4.27)
- Presentation of incomes of electricity transfer (includes both transmission and distribution) and gas distribution services in Latvia (Note 4.27)
- Accounting principles for revenue, receivables and payables related to regulated activities (Note 4.26)
- Presentation of revenue and costs related to electricity trading exchange market through the forward and future contracts (Note 4.26).

Correction of errors and change of accounting treatment for the Group's financial statements are applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors therefore the Group presents an additional statement of financial position for the 1 January 2018, when the revised accounting and presentation methods were applied retrospectively by restating items in the financial statements (see Note 4).

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

IFRS 16: Leases (New)
(published 31 January 2016, effective from 1 January 2019)

The Company and the Group first-time adopted IFRS 16 Lease in the financial year ended 31 December 2019, which had a significant impact on the Company's and the Group's financial statements. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees are required to recognize:

All amounts are in EUR thousand unless otherwise stated

(a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. When the Group/Company is a lease, the value of assets being transferred under the lease agreement and related lease liabilities is stated in the Group and the Company's statement of financial position.

The Company and the Group accounted for the impact of the first-time adoption of IFRS 16 starting from 1 January 2019 using the modified retrospective approach.

The Company and the Group performed the calculation of assets transferred according to the lease agreement and related liabilities under IFRS 16. At 1 January 2019, the Company and the Group recognized assets and liabilities managed under the right-of-use, which indicates the impact of the first-time adoption of IFRS 16 on the Group's and the Company's financial statements.

The impact of the first-time adoption of IFRS 16 on the items of the Group's statement of financial position is shown in the table below:

	As at 31 December 2018	IFRS 16	As at 1 January 2019
ASSETS			
Non-current assets	**2,411,007**	**14,566**	**2,425,573**
Property, plant and equipment	2,091,386	(35,969)	2,055,417
Right-of-use assets	-	50,535	50,535
Current assets	**442,884**	**-**	**442,884**
TOTAL ASSETS	**2,853,891**	**14,566**	**2,868,457**
EQUITY AND LIABILITIES			
Equity	**1,302,522**	**-**	**1,302,522**
Retained earnings (deficit)	(169,994)	-	(169,994)
Non-current liabilities	**1,168,707**	**12,281**	**1,180,988**
Non-current lease liabilities	14,334	12,281	26,615
Current liabilities	**382,662**	**2,285**	**384,947**
Lease liabilities	5,220	2,285	7,505
TOTAL EQUITY AND LIABILITIES	**2,853,891**	**14,566**	**2,868,457**

The impact of the first-time adoption of IFRS 16 on the Company's financial statements is shown in the table below:

	As at 31 December 2018	IFRS 16	As at 1 January 2019
ASSETS			
Non-current assets	**1,892,716**	**1,024**	**1,893,740**
Right-of-use assets	-	1,024	1,024
Current assets	**197,404**	**-**	**197,404**
TOTAL ASSETS	**2,090,120**	**1,024**	**2,091,144**
EQUITY AND LIABILITIES			
Equity	**1,310,198**	**-**	**1,310,198**
Retained earnings (deficit)	78,231	-	78,231
Non-current liabilities	**671,623**	**253**	**671,876**
Non-current lease liabilities	-	253	253
Current liabilities	**108,299**	**771**	**109,070**
Lease liabilities	-	771	771
TOTAL EQUITY AND LIABILITIES	**2,090,120**	**1,024**	**2,091,144**

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	Group	Company
The future minimum lease payments under irrevocable operating lease agreements as at 31 December 2018 are as follows:	**21,464**	**1,033**
Less: Commitments relating to short-term leases	(23)	-
Less: Commitments relating to leases of low-value assets	(6)	-
Corrected future minimum lease payments under irrevocable operating lease agreements as at 31 December 2018 are as follows:	21,435	1,033
The weighted average interest rate as at 1 January 2019, %	3,44	0,42
The lease liability is recognized on 1 January 2019 by applying the interest rate	14,566	1,024
Lease liabilities as at 1 January 2019	**14,566**	**1,024**
whereof:		
Short-term lease liabilities	2,285	771
Long-term lease liabilities	12,281	253

Practical expedient when the Group and the Company is a lessee:

Upon adoption of IFRS 16, the Group and the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The following specific transition requirements and available practical expedients that the standard provides were applied by the Group and the Company:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics,
- For initial application applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date and to leases for which a new underlying asset is of low value amounted to thousand 3 EUR or less,
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application,
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Amendments to IFRS 9: Prepayment features with negative compensation (published 12 October 2017, effective from 1 January 2019)

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. According to the Company's and the Group's management, the first-time adoption of the amendments had no significant impact on the Company's and the Group's financial statements

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (published 12 October 2017, effective from 1 January 2019)

The amendment relates to whether the measurement, in particular relating to impairment, of long-term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The amendment clarifies that entities shall apply the requirements in IFRS 9, Financial instruments, before applying requirements in IAS 28 to long-term interests to which the equity method is not applied. In applying IFRS 9, the Company does not take account of any adjustments to the carrying amount of long-term interests that result from the application of IAS 28. According to the Company's and the Group's management, the first-time adoption of the amendments had no significant impact on the Company's and the Group's financial statements.

IFRIC 23 Uncertainty over Income Tax Treatment
(published 7 June 2017, effective from 1 January 2019)

The interpretation clarifies how the recognition and measurement requirements of IAS 12 Income taxes, are applied where there is uncertainty over income tax treatments. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by taxation authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. According to the Company's and the Group's management, the first-time adoption of the interpretation had no significant impact on the Company and the Group's financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
(published 7 February 2018, effective from 1 January 2019)

The amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. According to the Company and the Group's management, the first-time adoption of the amendments had no significant impact on the Company and the Group's financial statements.

Annual Improvements to IFRSs 2015–2017 Cycle
(published 17 December 2017, effective from 1 January 2019)

- *IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:* The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- *IAS 12 Income Tax*: The amended explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. This requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits.
- *IAS 23 Borrowing Costs*: The amendments to paragraph 14 clarify that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally

According to the Company's and the Group's management, the first-time adoption of the regular annual amendments had no significant impact on the Company and the Group's financial statements.

Standards, amendments and interpretations issued but not yet effective and not early adopted

Other new standards, amendments and interpretations that are mandatory for annual periods beginning on 1 January 2020 or later and that have not been adopted when preparing these financial statements:

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
(published 11 September 2014, effective date not appointed)

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IFRS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management has assessed that adoption of new standard will have no significant effect on financial statements of the Company and the Group.

Amendments to References to the Conceptual Framework in IFRS Standards
(published 29 March 2018, effective from 1 January 2020)

The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The IASB has also issued a separate accompanying document, *Amendments to References to the Conceptual Framework in IFRS Standards*, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its purpose is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. The Company and the Group are currently assessing the impact of this amendment on their financial statements.

Amendments to IFRS 3: Definition of a Business
(published 22 October 2018, effective from 1 January 2020)

The IASB issued amendments to the definition of a business in IFRS 3 (amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity is determining whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020, with earlier adoption permitted. The amendments have not yet been endorsed by the EU. The Company and the Group are currently assessing the impact of this amendment on their financial statements.

Amendments to IAS 1 and IAS 8: Definition of a Material
(published 31 October 2018, effective from 1 January 2020)

The amendments are effective annual reporting periods beginning on or after 1 January 2020. 1 January. or later with the option to apply earlier. The amendments clarify the definition of 'material' and how it should be applied. New definition clarifies that 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' In addition, the explanations accompanying the definition have been improved. The amendments also ensure that the definition of material is consistent across all IFRSs. The amendments have not yet been endorsed by the EU. The Company and the Group are currently assessing the impact of this amendment on their financial statements.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
(published 26 September 2019, effective from 1 January 2020)

Amendments to IFRS 9, IAS 39 and IFRS 7 conclude phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The Company and the Group are currently assessing the impact of this amendment on their financial statements. The standard has not yet been approved by the EU.

IFRS 17: Insurance Contracts (New)
(published 18 May 2017, effective from 1 January 2023)

IFRS 17 changes IFRS 4, which permits entities to continue to use current practices in accounting for insurance contracts. This made it difficult for investors to compare the financial performance of similar insurance companies. IFRS 17 is a general principle-based standard that sets out accounting requirements for all types of insurance contracts, including reinsurance contracts held by an insurer. The Standard requires the recognition and measurement of classes of insurance contracts: (i) risk-adjusted present value of future cash flows (cash flows from the performance of the contract), which reflects all available information about cash flows from the contract that is consistent with market observable data by adding (if the value is a liability) or subtracting (if the value is an asset); (ii) the amount reflecting unearned profit (contracted service margin) from the group of contracts. Profits from a group of insurance contracts will be recognized by insurers for the duration of the insurance coverage and the moment they transfer the risk. If a group of contracts is or becomes a loss, the entity will recognize the loss immediately. The standard has not yet been approved by the EU. This IFRS will not have any impact on the financial position or performance of the Group and the Company as insurance services are not provided.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current
(published 23 January 2020, effective from 1 January 2022)

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. The Company and the Group are currently assessing the impact of this amendment on their financial statements. These Amendments have not yet been endorsed by the EU.

2.2 Consolidation

Consolidation

The consolidated financial statements of the Group include the financial statements of the parent company Ignitis grupė UAB and its directly and indirectly controlled subsidiaries. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Control is generally obtained by holding more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The financial statements of subsidiaries have been prepared using uniform accounting policies and for the same reporting period as that covered by the financial statements of the parent company. On consolidation, all inter-company transactions, balances and unrealized gains and/or losses on transactions among the Group companies are eliminated.

Non-controlling interest represents a part of profit or loss and net assets which is not controlled by the Group. Non-controlling interest is reported separately in the consolidated statement of profit or loss and other comprehensive income. The share of equity attributable to the non-controlling interest and to the owners of the parent is shown separately in the consolidated balance sheet.

Business combinations

Business combination applying IFRS 3 (subsidiaries that are not under common control)

Acquisition of subsidiaries that are not under common control is accounted for using the acquisition method. When the acquisition method is applied the consideration transferred in a business combination is measured as fair value of net assets transferred to the former owners of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:
- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see below); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable net assets assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Contingent consideration

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

Business combination is achieved in stages

When a business combination is achieved in stages, the Group's previously held interests (including joint operations) in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

Business combination of entities under common control

For a business combination of entities under common control the following methods are applied:
(a) the acquisition method set out in IFRS 3 or;
(b) the pooling of interests' method.

In selecting which method to apply to the accounting for business combinations of entities under common control, the Group assesses whether there is a "commercial substance" for which the following criteria are considered:

- the purpose of the transaction;
- the involvement of outside parties in the transaction, such as non-controlling interests or other third parties;
- whether or not the transaction is conducted at fair value;
- the existing activities of the entities involved in the transaction; and
- whether or not it is bringing entities together into a 'reporting entity' that did not exist before.

If the transaction has a commercial substance to the merging parties the Group applies the acquisition method as set above in paragraph "Acquisition of subsidiaries that are not under common control", accordingly if not – the Group applies the pooling of interests' method. By applying the pooling of interests' method, the business combination of entities under common control is accounted according to the following procedures:

- the assets and liabilities of the entities in business combinations are stated at their carrying amounts equal to those reported in the consolidated financial statements of the ultimate parent company;
- no newly arising goodwill is recognized on a business combination, however acquiree can recognize intangible assets that meets recognition criteria in IAS 38;
- any differences between consideration paid and the carrying amount of net assets acquired as at the date of acquisition is recognized directly in equity within retained earnings.

Changes in ownership interest in a subsidiary that do not result in changes in control

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

2.3 Investments in subsidiaries (the Company)

A subsidiary is an entity directly or indirectly controlled by a parent company. Investments in directly controlled subsidiaries are stated in the parent company's balance sheet at acquisition cost less impairment loss, where the investment's carrying amount in the parent company's statement of finacial position exceeds its estimated recoverable amount. Contingent consideration is included to acquisition cost at its fair value as at acquisition date. Afterwards, decrease/increase in consideration payable is accounted through profit or loss and may trigger impairment test for investment in the subsidiary.

2.4 Investments in associates and joint ventures

An associate is an entity over which the Group/Company has significant influence. 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.

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

In the consolidated financial statements of the Group results of operations, assets and liabilities of associates are accounted for using an equity method, except when the investment is classified as held-for-sale and it is recognised according to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates at initial recognition are carried at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the investee. Profit and other distributions received by the Group from an associate reduce the carrying amount of the investment in the associate. Adjustments to the investment's carrying amount are also performed for changes in the Group's share of the net assets in the associate arising from changes in the associate's other comprehensive income.

Losses of an associate in excess of the Group's share of assets in that associate are not recognised, unless the Group had incurred legal or indirect obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the fair value of the Group's share of net identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognised as deemed goodwill. The goodwill is included in the net book amount of the investment and is assessed for impairment as part of the investment. Any excess of the fair value of the Group's share of net identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss. Where the Group company conducts transactions with an associate of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the relevant entity.

All amounts are in EUR thousand unless otherwise stated

2.5 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (hereinafter 'the functional currency'). The consolidated financial statements are presented in the euros (EUR).

Transactions and balances

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

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into euros at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at average exchange rates observed during reporting period. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is reclassified to profit or loss.

2.6 Property, plant and equipment

Property, plant and equipment is stated at cost or revalued amount. The following categories of Property, plant and equipment are accounted for at cost less accumulated depreciation and impairment:

- Assets of Hydro Power Plant, Pumped Storage Power Plant,
- Structures and machinery of Thermal Power Plant (Elektrėnai Complex and Vilnius Thermal Power Plant No 3),
- Gas distribution pipelines, gas technological equipment and installations,
- Wind power plants and their installations,
- IT and telecommunication equipment.

All other property, plant and equipment are measured at revaluated amounts, based on periodic valuations by external independent valuers or by the Group's management, 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.

Cost includes replacement costs of components of property, plant and equipment when incurred and when these costs meet the recognition criteria of property, plant and equipment. All other repairs and maintenance costs charged to the statement of profit or loss and other comprehensive income as incurred.

Increases in the carrying amount arising on revaluation of property, plant and equipment are recognised in other comprehensive income and accumulated to the revaluation reserve in shareholders' equity. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. Decreases in the carrying amount of an asset arising on revaluation are recognised in profit or loss; decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation reserve. Each year the difference between depreciation based on the revalued amount of the asset (when the carrying amount increases after revaluation) is charged to profit or loss and depreciation based on the asset's original acquisition cost is transferred from revaluation reserve to retained earnings, net of deferred income tax.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate the acquisition cost/revalued amounts to their residual values over their estimated useful lives (number of years), as follows:

Category of property, plant and equipment	Useful lives (number of years)
Buildings	8–75
Structures and machinery	
- electrical and communication devices	20–25
- electricity distribution equipment	15-45
- electrical equipment	15-35
- other equipment	5-50
Wind power plants and their installations	20
Assets of Hydro Power Plant, Pumped Storage Power Plant, and Structures and machinery of Thermal Power Plant (Reserve Power Plant and Combined Cycle Unit)	
Assets of Hydro Power Plant, Pumped Storage Power Plant,	
- hydrotechnical waterway structures and equipment	75
- pressure pipelines	50
- hydrotechnical turbines	25-40
- other equipment	8-15
Structures and machinery of Reserve Power Plant:	
- structures and infrastructure	10-70
- thermal and electricity equipment	10-60
- measuring devices and equipment	5-30
- other equipment	8-15
Structures and machinery of Combined Cycle Unit:	
- structures and infrastructure	20-50
- electricity lines	20-40
- electricity generation equipment	20-50
Gas distribution pipelines, gas technological equipment and installations	18–55
Vehicles	2-35
IT and telecommunication equipment	3-10
Other property, plant and equipment:	
- tools, other property, plant and equipment	4-10

Property, plant and equipment include spare parts, spare equipment and maintenance equipment when they meet the definition of property, plant and equipment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time (more than one year) to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets (see Note 2.17).

When property is retired or otherwise disposed of, the cost and related accumulated depreciation are derecognized and any related gains or losses are included in profit or loss of the statement of profit or loss and other comprehensive income. Gains or losses on disposal of property, plant and equipment are determined as proceeds received on disposal less the book value of assets disposed. When revalued assets are disposed, the corresponding portion of revaluation reserve is transferred to retained earnings (deficit).

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

Construction in progress is transferred to appropriate categories of property, plant and equipment when it is completed and ready for its intended use.

2.7 Intangible assets

Patents, licences and trademarks

Patents, licenses and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

Intangible assets acquired in a business combination and recognised separately from goodwill are recognised initially at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortisation is calculated using a straight-line basis over the estimated useful life of 3 to 5 years or a specific validity term of a license and/or patent, if any. Useful life is reviewed on year-by-year basis. For the license acquired in a business combination (license to produce electricity with incentive tariff), useful life is determined to be 12 years.

Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (2 to 4 years).

Emission allowances

For detailed description of accounting policy for emission allowances see Note 2.23.

Servitudes

The Group intangible assets includes 'Servitudes' which comprise the Group rights to use the land plots owned by third persons on the basis of servitudes. Servitudes comprise statutory and contractual servitudes. Statutory servitudes comprise the Group's rights to use the land plots owned by third persons in which electric networks were established up to 10 July 2004 on the basis of statutory servitudes. Contractual servitudes comprise the Group's rights to use the land plots owned by third persons in which electric networks were established since 2018 on the basis of contractual servitudes. The useful life of an intangible asset (right to use the land which has a servitude) is indefinite, therefore, these assets are not subject to amortisation. Useful life of intangible assets are indefinite since the right to use the land is granted for an indefinite period of time according to the conditions of agreements for compensation for servitudes as well as Clause 4.130 of Civil code. Accordingly, right to use the land (to which servitude is applied) is retained by the Group regardless of the condition, repairs or renewals of Group's assets constructed on the mentioned land. Since, right-to-use the land is indefinite both contractual and statutory servitudes are out of scope of IFRS 16 lease. However, the Group has accounted for provision to compensate land owners for servitudes in accordance with requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets (see Note 2.21, Provisions). Remeasurement of provision due to changes in underlying assumptions is accompanied with respective adjustment of carrying amount of intangible assets.

The Group tests the intangible assets of servitudes for potential impairment, by comparing their recoverable value with the carrying value at least once per year or when there are signs of impairment. If the value of the asset changes, such change is accounted for by decreasing/increasing the value of the servitudes.

Special conditions on land use (protection zones)

The Group's intangible assets includes the Group's obligations to register and the right to use a third-party land on the basis of special conditions on land use. The accounting policies applied are similar to those applied for intangible assets 'Servitudes'.

Other intangible assets

Intangible assets expected to provide economic benefits in future periods are measured at acquisition cost less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight-line basis over the estimated economic useful life of 3 to 4 years.

The Group and the Company's intangible asset amortization expenses are accounted for within depreciation and amortization item in the statement of profit or loss and other comprehensive income.

2.8 Right-of-use assets

Right-of-use asset is the asset that reflects the right of the Group and the Company to use the leased asset over the life of a lease. As at 1 January 2019, the Group and the Company recognize a right-of-use asset for all types of leases, including leases of right-of-use assets in sublease, with the exception of leases of intangible assets, short-term leases and leases for which the underlying asset is of low value.

Initial measurement of right-of-use assets

At the commencement date, the Company/Group measures the right-of-use asset at cost. The cost of the right-of-use asset comprises: the amount equal to the lease liability at its initial recognition, lease payments made at or before the commencement of the lease (less any lease incentives received), any initial direct costs incurred by the Company/Group, and an estimate of costs to be incurred by the Company/Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Company/Group incurs obligation for these costs either at the commencement date or as a consequence of having used the underlying asset during a particular period. The Company/Group recognizes these costs as part of the cost of right-of-use asset when the Company/Group incurs an obligation for these costs.

Subsequent measurement of right-of-use assets

Subsequent to initial recognition, the Company/Group measures the right-of-use asset using the cost model. Under the cost model, the Company/Group measures a right-of-use asset at cost: less any depreciation and any accumulated impairment losses adjusted for any remeasurement of the lease liability.

The right-of-use assets depreciated by the Company/Group under the depreciation requirements of IAS 16, Property, Plant and Equipment.

If the lease transfers ownership of the underlying asset to the Company/Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Company/Group will exercise a purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Company/Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.
The Company/Group does not apply IFRS 16 Leases to leases of intangible assets.

The Group and the Company presents rights-of-use assets separately from tangible assets in the statement of financial position.

2.9 Impairment of non-financial assets

At each reporting date, the Group/Company reviews the book values of its property, plant and equipment, intangible assets and right-of-use assets to determine whether there are any indications that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is impossible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. Where a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, otherwise they are allocated to the smallest groups of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at each reporting date, and whenever there is an indication that the asset may be impaired.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit.

2.10 Investment property

Investment property, which consists of the Group’s buildings and structures, is held to earn rentals or for capital appreciation. Investment property is recognised initially at acquisition cost, and is subsequently carried at fair value, which is determined by independent property valuers. Investment property is not depreciated, and gain or loss on change in the fair value of investment property is recognised in profit or loss for the reporting period.

Transfers to and from investment property are made only when there is an evidence of change in the purpose of use of assets. Certain immovable property may be occupied by the Group, with the remainder being held for rental yields or for capital appreciation. If part of immovable property occupied by the Group can be sold separately, the Group accounts for such property separately. The portion that is owner-occupied is accounted for under IAS 16 and the portion that is held to earn rentals is accounted for under IAS 40.

2.11 Assets held-for-sale

Non-current assets held-for-sale are stated at the lower of the carrying amount and fair value less costs of disposal if the carrying amount is recovered principally through a sale transaction rather than through a continuing use.

2.12 Financial assets

The Company/Group recognises financial assets in its statement of financial position when, and only when, it becomes party to the contractual provisions of the instrument. The purchase or sale of financial assets is recognised using trade date accounting.

Financial assets are initially measured at 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 a financial asset.

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

The Company and the Group classify their financial assets into the following three new categories:

(i) financial assets subsequently measured at amortised cost;
(ii) financial assets subsequently measured at fair value through other comprehensive income; and
(iii) financial assets subsequently measured at fair value through profit or loss.

Subsequent to initial recognition, financial assets are classified into the afore-mentioned categories based on the business model the Company/Group applies when managing its financial assets and characteristics of cash flows from these 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/Group. The intentions of the Company’s/Group’s management regarding separate instruments has no effect on the applied business model. The Company/Group may apply more than one business model to manage its financial assets. In view of the business model applied for managing the group of financial assets, the accounting for financial assets, except for financial assets subsequently measured at fair value through other comprehensive income as the Group and the Company does not have this kind of assets, is as follows:

Financial assets measured at amortised cost

Loans granted by the Company/Group, amounts receivable, and cash and cash equivalents 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. These assets are stated at amortised cost using the effective interest method. Amortised cost is the amount at which the financial instrument was recognised at initial recognition minus principal repayments, plus accrued interest, and, for financial assets, minus any write-down for expected credit losses. Effective interest rate method is a method applied to allocate interest income over the relevant period so as to achieve a constant periodic rate of interest (effective interest) on the carrying amount. The effective interest rate exactly discounts estimated future cash inflows or outflows (excluding future expected credit losses) to gross carrying amount of the financial instrument over the expected life of the financial instrument or a shorter period, if necessary.

Financial assets are recognised as current assets, except for maturities greater than 12 months after the date of the preparation of the statement of financial position, in which case they are classified as non-current assets.

Assets held in order to collect contractual cash flows that represent solely payments of principal and interest (SPPI) are carried at amortised cost. Interest income calculated on these financial assets is recognised as finance income and amortised using the effective interest rate method. Any gain or loss arising from the write-off of assets is recognised in the statement of profit or loss and other comprehensive income. Impairment losses are accounted for as impairment and write-off expenses in the statement of profit or loss and other comprehensive income.

Financial assets at fair value through profit or loss

Debt instruments that do not meet the criteria of financial assets to be measured at amortised cost or financial assets to be measured at fair value through other comprehensive income (FVOCI) are stated as financial assets to be measured at fair value through profit or loss (FVPL).

To this category, the Company/Group attributes amounts receivable from disposal of business or equity instruments that do not meet the SPPI conditions. The Company/Group attributes financial assets to assets measured at fair value through profit or loss, if this eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising gains or losses thereof on different bases. A gain or loss on fair value measurement of debt investment is recognised in profit or loss in the period in which it arises.

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/Group 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/Group uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Impairment of financial assets – expected credit losses

The Group and the Company assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortised cost regardless of whether there are any impairment indicators.

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

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money; and reasonable and supportable information about past events and current conditions, and reasonable and supportable forecasts of future events and economic conditions at the reporting date.

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/Group 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 is 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 information, including future-oriented information.

For short-term trade receivables without a significant financing component the Company/Group applies a simplified approach required by IFRS 9 and measures the loss allowance at expected lifetime credit losses from initial recognition of the receivables.

The Company/Group assesses impairment of amounts receivable individually or collectively.

The Company's/Group'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 debtor 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. In the absence of reliable sources of information on the credit history of a particular debtor its financial position as at the date of assessment, including forward-looking information, the Company/Group assesses the debt on a collective basis.

For the purpose of determining the lifetime expected credit losses of amounts receivable, the Company/Group on a collective basis applies the loss ratio matrix. The loss ratio matrix is based on historical data on the settlement for trade receivables during the period of validity of trade receivables and is adjusted with respect to future forecasts. The loss ratios are updated during the preparation of the annual financial statements with respect to the impact of operational prospects where these prospects are indicative of any exacerbation of economic conditions during upcoming years or of customer types. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics. The non-recoverability analysis is conducted for the last several years in order to determine the general default ratio. As regards different groups of consumers, a different loss ratio matrix is used.

The lifetime expected credit losses of other amounts receivable are assessed based on the individual assessment basis. The Company's/Group's management performs 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.

Recognition stages of expected credit losses:

1. Upon granting of a loan or concluding a finance lease agreement, the Company/Group recognises the expected credit losses for the twelve-month period. Interest income from the loan (finance lease) is calculated on the carrying amount of financial assets without adjusting it by the amount of expected credit losses.
2. Upon establishing that the credit risk related to the borrower or lessee has significantly increased, the Company/Group accounts for the lifetime expected credit losses of the loan or finance lease agreement. All lifetime expected credit losses of a financial instruments are calculated only when there is a significant increase in credit risk relating to the borrower. Interest income from the loan (finance lease) is calculated on the carrying amount of financial assets without adjusting it by the amount of expected credit losses.
3. Where the Company/Group establishes that the recovery of the loan is doubtful or that the condition of the lessee shows that the loan of this lessee needs to be classified as doubtful debts, the Company/Group classifies this loan (finance lease receivables) as credit-impaired financial assets (doubtful loans and receivables). Interest income from the loan (finance lease) is calculated on the carrying amount of financial assets which is reduced by the amount of expected credit losses.

In stage 2, an assessment of the significant deterioration in the borrower's financial situation is performed by comparing the financial situation as at the time of the assessment and the financial situation as at the time of issuing the loan.

The latest point at which the Company/Group 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/Group accounts for all lifetime expected credit losses of the loan granted regardless of the more than 30 days past due presumption.

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 difficulty of the borrower;
(b) a breach of contract, such as a default or past due event for more than 90 days;
(c) the lender, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or another financial reorganisation;
(e) the disappearance of an active market for that financial asset because of financial difficulties;
(f) the purchase or origination of a financial asset 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.

Derecognition of financial assets

A financial asset (or, where applicable a part of financial asset or group of similar financial assets) is derecognised when:
- the rights to receive cash flows from the asset have expired;
- the right to receive cash flows from the asset is retained, but an obligation is assumed to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the rights to receive cash flows from the asset are transferred and either (a) substantially all the risks and rewards of the asset have been transferred, or (b) substantially all the risks and rewards of the asset have neither been transferred nor retained, but control of the asset has been transferred:
    - if control is not retained, the financial asset is derecognised and any rights and obligations created or retained in the transfer are recognised separately as assets or liabilities;
    - if control is retained, it shall continue to recognise the financial asset is continued to be recognised to the extent of continuing involvement in the financial asset.

Whether the control of the transferred asset is retained 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, control is not retained. In all other cases, control is retained.

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

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method, except for natural gas and liquefied natural gas, the cost of which is determined using the weighted average costing method. The cost of inventories comprises purchase price, taxes (other than those subsequently recoverable by the Group and the Company from the tax authorities), transportation, handling and other costs directly attributable to the acquisition of inventories. Cost does not include borrowings costs. Net realisable value is the estimated selling price in the ordinary course of business, less attributable variable selling expenses.

Natural gas balance cost is determined according to the weighted average. The Group's inventories, which consist of liquefied natural gas at the LNG terminal and Klaipėda distribution station, are stated at acquisition cost. The value of natural gas in storage and the cost price of natural gas shall is calculated using a weighted average cost method. The weighted average price is calculated as the weighted average of the stock at the beginning of the month and the purchases during the month.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown under liabilities within current borrowings in the balance sheet.

2.15 Issued capital

Ordinary shares are classified as equity.

When an entity acquires its own shares, the shares acquired are deducted from equity. For the purpose of the statement of profit or loss and other comprehensive income, no gain or loss is recognised on the purchase, sale, issue or cancellation of the entity's own equity instruments.

Share premium represents the difference between the nominal value of the new share issue and the fair value of consideration received for shares sold.

2.16 Trade payables

Trade payables are recognised when the other party has performed its obligations under the contract. Trade payables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

2.17 Financial liabilities and equity instruments issued

Recognition of instruments as debt or equity instruments

Debt or equity instruments are classified as financial liabilities or equity based on the substance of the arrangement.

Equity instruments

Equity instrument is any contract that evidences an interest in the assets of the Company/Group after deducting all of its liabilities. Equity instruments are recorded at the value of the proceeds received net of direct issue costs. Share premium represent the difference between the nominal value of shares and the proceeds received.

Financial liabilities

Liabilities are classified as financial liabilities at fair value through profit or loss, or other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings and bonds issued at the moment of initial recognition, are recognised at fair value, less transaction costs.

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

Financial liabilities are classified as current liabilities unless the Company/Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

If a financing agreement concluded before the balance sheet date proves that the liability was non-current by its nature as of the date of the balance sheet, that financial liability is classified as non-current.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time (more than one year) to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets until those assets are completely ready for use or sale. Interest income that relate to temporal investment of borrowed funds until their use for the acquisition of the assets are deducted from the acquisition cost of the assets.

Derecognition of financial liabilities

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

2.18 Lease liabilities

a) The Group's and the Company's as Lessees accounting policy applicable from 1 January 2019

Initial measurement of lease liability

At the commencement date, the Group / Company measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If the interest rate implicit in the lease cannot be readily determined, the Group / Company applies incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date: fixed payments, less any lease incentives receivable; variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; amounts expected to be payable by the Company/Group under residual value guarantees; the exercise price of a purchase option if the Company/Group is reasonably certain to exercise that option; payments of penalties for terminating the lease, if the lease term reflects the Company/Group exercising an option to terminate the lease. Variable lease payments that depend on an index or a rate include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as LIBOR) or payments that vary to reflect changes in market rental rates.

Subsequent measurement of lease liability

After the commencement date, the Company/Group measures the lease liability by: increasing the carrying amount to reflect interest on the lease liability; reducing the carrying amount to reflect the lease payments made; and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The periodic rate of interest is the discount rate or if applicable the revised discount rate.

After the commencement date, the Company/Group shall recognise in profit or loss, unless the costs are included in the carrying amount of another asset applying other applicable Standards, both: interest on the lease liability; and variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

Remeasurement of lease liability

After the commencement date, the lease liability is remeasured to reflect changes to the lease payments. The Company/Group recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Company/Group shall recognise any remaining amount of the remeasurement in profit or loss.

Revised discount rate

The Company/Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate, if there is a change in the lease term. The Company/Group determines the revised lease payments on the basis of the revised lease term or when there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances. The Company/Group determines the revised lease payments to reflect the change in amounts payable under the purchase option.

If there is a change in the lease term or in the assessment of an option to purchase, the Company/Group shall determine the revised discount rate as the interest rate implicit in the lease for the of the lease term, if that rate can be readily determined, or the lessee’s incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined.

Unchanged discount rate

The Company/Group remeasures the lease liability by discounting the revised lease payments using the original incremental borrowing rate, if either:

- there is a change in the amounts expected to be payable by the Company/Group under a residual value guarantee. The Company/Group determines the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.
- there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The Company/Group remeasures the lease liability to reflect those revised lease payments only when there is a change in the cash flows (i.e. when the adjustment to the lease payments takes effect).

The Company/Group determines the revised lease payments for the remainder of the lease term based on the revised contractual payments.

The Company/Group uses an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In that case, the Company/Group uses a revised discount rate that reflects changes in the interest rate.

Lease modifications

The Company/Group accounts for a lease modification as a separate lease if both:

- 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 commensurate with the standalone price for the increase in scope and any appropriate adjustments to that standalone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification the Company/Group performs the following:

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

For a lease modification that is not accounted for as a separate lease, the Company/Group accounts for the remeasurement of the lease liability by:

- decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The Company/Group recognises in profit or loss any gain or loss relating to the partial or full termination of the lease.
- making a corresponding adjustment to the right-of-use asset for all other lease modifications.

The Company/Group presents lease liabilities in the statement of financial position separately from other liabilities. Interest expense on the lease liability are presented separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs, which is presented in the statement of profit or loss and other comprehensive income.

b) The Group and the Company as Lessees accounting policy applicable before 1 January 2019

In the comparative period, the Group and the Company as a lessee classified leases that transfer substantially all of the risks and rewards of ownership as finance leases and all other leases as operating leases. For the purpose of a finance lease, upon initial recognition the leased assets were measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset. Assets held under operating leases were not recognized in the Group and the Company statement of financial position. Instead, payments made under such leases were recognized in profit or loss on a straight-line basis over the term of the lease.

The Group and the Company are lessors

At inception of a contract, the Group and the Company, as a lessor, determines whether the lease is a finance lease or an operating lease. If Group and the Company determines that the lease transfers substantially all of the risks and rewards of ownership of the underlying asset, the lease is a finance lease. Leases in which the Group and the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Lease payments are accounted for on a straight-line basis over the lease term and recognised as revenue in the statement of profit or loss and other comprehensive income based on its lease nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent payments are recognised as revenue in the period in which they are earned.

The accounting policies applied by the Group and the Company as a lessor in the comparative period were similar to those in IFRS 16.

2.19 Current and deferred income tax

Income tax

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount of income tax are those that are enacted or substantively enacted at the balance sheet date.

Current income tax is calculated on profit before tax. Calculation of income tax is based on requirements of the Lithuanian regulatory legislation on taxation.

Standard corporate income tax rate of 15 per cent was applicable to the companies in Lithuania, in Poland – 19 per cent, in Latvia and Estonia – 20 per cent on the gross amount of the distribution.

In Lithuania tax losses can be carried forward for an indefinite period, except for losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company/Group changes its activities due to which these losses incurred except when the Company/Group does not continue its activities due to reasons which do not depend on Company/Group itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and can only be used to reduce the taxable income earned from the transactions of the same nature In terms of utilizing tax losses carried-forward the amount may not exceed 70%.of the taxpayer's taxable profits in a given year.

The prepaid income tax and recognized income tax liabilities are offset in the statement of financial position of the Company/Group when they relate to the same taxation authority.

Deferred income tax

Deferred income tax is accounted for using the liability method. Deferred 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 tax liabilities are recognised on all temporary differences that will increase the taxable profit in future, whereas deferred tax assets are recognised to the extent that is probable to reduce the taxable profit in future. These assets and liabilities are not recognised when temporary differences arise from goodwill or 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.

The carrying amounts of deferred income tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available against which such deferred income tax assets could be utilised in full or in part. Deferred income tax assets are reduced to an amount which is likely to reduce the taxable profit in future.

Deferred income tax is determined using tax rates that are expected to apply when the related deferred income asset is realized or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Current and deferred income tax for the reporting period

Current 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 other comprehensive income in the same or subsequent period or on business combination.

Intra-group transfer of accrued tax losses

Upon transfer of the accumulated tax losses to other companies of the Group the transferor derecognises deferred tax attributable to transferred tax loss carried forward and recognizes the consideration receivable in the statement of profit or loss and other comprehensive income under ‘Deferred income tax expense’ caption. The consideration received is presented in the cash flow statement under ‘Income tax (paid)’.

2.20 Employee benefits

Social security contributions

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

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company and the Group recognise termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Non-current benefits are recognised at present value discounted using market interest rate.

Actuarial gains or losses arising from adjustments based on experience or from changes in actuarial assumptions are recognised immediately within the Group and the Company's other comprehensive income. All past service costs are recognised immediately.

Non-current employee benefits

Each employee of retirement age who terminates his/her employment with the Group and the Company upon retirement is entitled to receive a payment equal to 2 monthly salaries according to Lithuanian laws. A liability for such pension benefits is recognised in the statement of financial position and it reflects the present value of these benefits at the date of the balance sheet. The aforementioned non-current liability for pension benefits to employees at the reporting date is estimated with reference to actuarial valuations using the projected relative unit method. The present value of the defined non-current liability for pension benefits to employees is determined by discounting the estimated future cash flows using the effective interest rates as set for government bonds denominated in a currency in which the benefits will be paid to employees and that have maturity term similar to that of the related liability.

2.21 Provisions

Provisions are recognised when the Group and the Company have a legal obligation or irrevocable commitment as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Expenses related to provisions are recorded in loss, net of compensation receivable. If the effect of the time value of money is material, the amount of provision is discounted using the effective pre-tax discount rate based on the interest rates for the period and taking into account specific risks associated with the provision as appropriate. When discounting is applied, increase in the provisions reflecting the period of past time is accounted for as finance expense.

Provisions for servitudes

Provisions for servitudes are recognised only when the Group 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. Expenditures related to provision for servitudes are recognised as non-current intangible assets in view of amounts to be compensated. If the effect of the time value of money is material, the amount of provision is discounted using the effective pre-tax discount rate based on the interest rates for the period and taking into account specific risks associated with the obligation. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance expense.

Payments of compensations to land owners are recorded as decreases of provision, while remeasurement of provision due to changes in underlying assumptions is recorded as change in respective intangible asset (Note 2.7).

Provisions for registration of protection zones

Provisions for registration of protection zones, compensations are recognised only when the Group 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. Expenditures related to provision for registration of protection zones and compensations are recognised as intangible assets based on the amounts to be compensated. If the effect of the time value of money is material, the amount of provision is discounted using the effective pre-tax discount rate based on the interest rates for the period and taking into account specific risks associated with the obligation. When discounting is applied, increase in the provisions reflecting the period of past time is accounted for as finance expense.

Payments related to registration of protection zones are recorded as decreases of provision, while remeasurement of provision due to changes in underlying assumptions is recorded as change in respective intangible asset (Note 2.7).

Provisions for onerous contracts

Provisions for onerous contracts represent unavoidable costs of meeting contractual obligations in excess of the economic benefits expected to receive. Provisions are measured at present value using the effective interest rate method.

Recognition of provision regarding the electricity services related to Public Service Obligation is described in Note 2.22 under heading "Regulation of tariffs and profitability".

2.22 Revenue and expense recognition

Revenue from contracts with customers

The Group and the Company in the contracts with customers identifies performance obligations (stated either explicitly or implied) to transfer either distinct goods or services or series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Promised goods or services represent separate performance obligation if the goods or services are distinct. A promised good or service is considered distinct if both of the following criteria are met:
(i) customer can benefit from the good or service on its own or with other readily available resources (i.e. distinct individually) and
(ii) the good or service is separately identifiable from other promises in the contract (distinct within the context of the contract).

Group's major legal performance obligations identified in the contracts with customers are: sale of electricity and gas, supply, transmission, distribution, new customers connection, provision of Public Service Obligations (hereinafter "PSO services") and provision of Liquefied Natural Gas Terminal Security Component Obligations (hereinafter "LNGT services"). PSO services are described in this Note under heading "Public Service Obligations", LNGT services – under heading "LNGT security component".

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties.

For certain service contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. When recognising revenue, the Group and the Company takes into consideration terms of contracts signed with customers and all significant facts and circumstances, including the nature, amount, timing and uncertainty relating to cash flows arising from the contract with the customer.

Revenue from sale of electricity

The Group's sale of electricity to end customers includes sale of electricity, distribution, supply, electricity-related services, Public Service Obligations Fee (hereinafter "PSO fee") and other services rendered in the process of sale of electricity.

Revenue from sale of electricity to household customers is recognised in each reporting period according to invoices issued, in which the volume of electricity consumed is calculated. The volume of electricity consumed is calculated on the basis of declared or actual readings. If the Group doesn't receive the data of electricity consumed according to the readings of meters due to specific reasons (customer's delays to present readings, fails of the remote meter's scanner or other agreements with the customer)the revenue from sale of electricity is recognised based on the average usage estimation method. By applying the average usage estimation method consumption of the electricity is calculated according to the historical 12 months data of electricity consumption, i.e. the average consumption for the certain period is calculated, and at the end of year is adjusted according to the actual readings. Revenue from sale of electricity to business customers is recognised upon sale of electricity based on the actual consumption of electricity which is determined according to the readings of electricity meters. Revenue from electricity distribution services is recognised on a monthly basis referring to the readings of measuring devices as submitted by customers.

Electricity tariff

Final electricity tariff to end customers comprise of the following components:
(a) Electricity price itself (import or price of manufactured)
(b) Electricity supply services' price
(c) Electricity transfer services' price, which include two components: transmission over high voltage grid and distribution over medium and low voltage grid
(d) PSO fee

Tariffs for electricity transmission, distribution and PSO fee are regulated by National Energy Regulatory Council (hereinafter 'NERC') by establishing the upper limit for tariffs of the transmission and distribution services and PSO fee. Specific prices for the transmission and distribution and PSO fee are established by the supplier of the service within the limits approved by NERC.

Tariffs of electricity sold by the producers and independent suppliers of electricity as well as tariffs for assurance of capacity reserves are not regulated, except the cases when the producer or supplier is recognised as an undertaking with significant power following the respective market research by NERC. In that case, the procedure for tariff setting is established by NERC. Tariffs for imported and exported electricity are not regulated.

Electricity supply is provided by the Group and the revenue from them is recognised over time based on the actual electricity supplied. Electricity transmission services are provided by transmission system operator which is not a part of Group. The Group collects electricity transmission fees from business customers and private individuals and transfer them to transmission system operator. In Lithuania, the Group having contracts with end users, where it is clearly stated that for operations of electricity transfer services (includes transmission and distribution) and meters is responsibility of the Group, consider itself as a Principal and therefore the revenue from transmission services is recognized on a gross basis (see Note 4.13). In Latvia the electricity transmission and distribution services is responsibility of the transmission/distribution system operator which is not a part of the Group, therefore in relation of these services the Group consider itself as an Agent (see Note 4.13). In Lithuania electricity distribution services are provided by the Group.

Public Service Obligations (PSO)

The purpose of PSO services' provision is to implement the strategic objectives of the energy, economic and environmental policy of the Republic of Lithuania, ensuring the implementation of the interests of all electricity consumers. Under the public service obligation scheme approved by Ministry of Energy PSO fees are collected by electricity suppliers from end users through the electricity tariff and transferred then to the budget, from which the Public Service Obligation Funds (hereinafter "PSO funds") are distributed (i.e. disbursed) to PSO service providers. The list of services supported by PSO is determined by the Government of the Republic of Lithuania.

Collection of PSO fees

PSO fee is an integral part of electricity tariff to the customer. As well as transmission service fees the Group collects PSO fees from business customers and private individuals, connected to electricity distribution grid, and transfer them to the operator of energy exchange Baltpool UAB, which also acts as the administrator of PSO services and is engaged in the collection of PSO fees, payments and administration of PSO funds.

The Group acting as an electricity supplier, who collects PSO fees through the electricity tariff from end users and then transfers them to operator of electricity exchange, consider itself as an Agent due to lack of control over PSO fees and therefore the income of PSO fees is recognized on a net basis (Note 4.14, 4.27), i.e. an income and disbursements of PSO fees (regardless of whether the net of them is positive or negative) are recognized under the "Purchases of electricity, gas for trade and related services" item in a statement of profit or loss and other comprehensive income.

Revenue from PSO funds

The Group is entitled to the PSO funds due to provision of PSO services that are approved by the Government of the Republic of Lithuania. PSO funds are recognized as revenue under the "Revenue from contracts with customers' item in a statement of profit or loss and other comprehensive income. The Group obtains an income of the following PSO funds:

(i) The Group is entitled to the PSO funds due to provision of PSO services, related to predetermined power plants ensuring power system reserves, in previous years. From 1 January 2019 the Group does not render such PSO service, but as at 31 December 2019 the Group has an irrevocable obligation to receive the resulting difference in accordance with applicable laws regarding the PSO funds related to PSO services that were rendered in previous years. Given that the allocated amount of PSO funds was determined for the next calendar year by NERC in view of the projected costs of the Group, the difference in PSO funds raised due to that the projected costs differ from that factually incurred in the coming years. A part of this resulting difference regarding the PSO funds is refunded during the year 2019 and is recognised in the statement of profit or loss and other comprehensive income under the item "Revenue from contracts with customers".

A part of PSO funds to be refunded by the state during the next 12 calendar months is recognised in the statement of financial position under the current assets item "Other receivables", accordingly another part of PSO funds to be refunded after 12 months is recognised under the non-current assets' item "Non-current receivables" (Note 4.20).

(ii) the Group produces electricity from renewable energy sources which are public interest services and is qualified for subsidies financed by the PSO fund budget. The support is granted over a period of 12 years at a premium to the market price. The revenue of PSO funds is calculated according to factual produced volume of electricity. PSO funds are paid under a public service obligations scheme based on pre-determined annual quantities and prices of services set by NERC. The tariff is established by NERC based on the estimates of variable electricity production costs provided by the producers.

Revenue from sales of electricity

Sales of self - generated electricity

The sales of electricity produced using own resources are conducted at the Power Exchange (hereinafter 'the Exchange') by submitting electricity sale offers to the Exchange. On the Day-Ahead market, the transaction for the purchase and sale of electricity is considered as concluded if the automatic coupling algorithm does not by default reject the submitted offer of selling electricity. Transactions on the Intraday market are approved by market participants. Following the approval of the transaction, the system of the Exchange sends a confirmation of the concluded electricity sale transaction to the seller. The seller's performance obligation under the concluded transaction is to supply the volume of electricity as indicated in the seller's offer to the electricity transmission system. The performance obligation is to be carried out throughout a certain period during which the supply of the agreed volume of electricity is maintained to the network. The progress of fulfilment of the performance obligation is assessed considering the volume of electricity indicated in respect of the transaction.

The price of the transaction and consideration to be paid to the seller correspond to the amount indicated in the confirmation notice of the transaction. The entire consideration of the seller payable at a flat rate. Upon receipt of the confirmation on the conclusion of the transaction on the sale of electricity, the prices of that transaction remain unchanged.

Revenue is recognised considering the actually supplied electricity pertaining to the transaction, without any deduction of commissions that might be deducted by trading intermediaries representing the Group at the Exchange.

Electricity trading on stock exchange

An income and costs from the sale of electricity on stock exchanges are recognized in accordance with IFRS 9 and presented as the balance within the item of "Purchases of electricity, gas for trade and related services" in a statement of profit or loss and other comprehensive income.

The Group participates in electricity trading exchange market through forward and future contracts. The purpose of these deals is to earn profits from short-term fluctuations in electricity prices on the exchange. In such deals the Group does not provide supply of electricity to final customers. Settlements are made by settling liabilities between the Group and the other party to the exchange transaction, and by making a cash payment for the remaining outstanding debt. The Group accounts for contract balances in the financial statements at fair value, and income and costs are presented in one item "Purchases of electricity, gas for trade and related services" in the statement of profit or loss and other comprehensive income as profit or loss. Presentation of income and costs in this one item based on the fact that, under IFRS 9, transactions made by the Group cannot be classified under the own use' exception, and therefore only the result of those transactions should be recognized in profit or loss (Note 4.26).

Revenue from electricity-related services

Other revenue from the services related to energy supply comprises the following:
1) revenue from generation of electricity of the active capacity reserve,
2) revenue from assurance of the capacity reserve,
3) revenue from reactive power and voltage management services,
4) system recovery after the total accident, including isolated operation testing (hereinafter 'the Services').

The customer receives the benefits of other services related to energy supply at the same time the service is actually rendered to the customer. The customer may consume the benefits of the services separately or together with other services rendered to the customer. In the agreement, the services to be rendered to the customer are defined separately from other services stipulated under the agreement. The services are rendered per customer. The performance obligation under the agreement concluded with the customer is to be carried out throughout the period of validity of the agreement. The progress of fulfilment of the performance obligation is assessed considering the volume of services rendered, stated at electricity and power measurement units (kWh, MW/h, etc.).

Under the agreement concluded with the customer, the customer is provided an option to acquire additional services and regulating electricity on demand. The customer is not obligated to acquire from the seller any amount of additional services defined (in the agreement). The fixed consideration for the service of system recovery after the total accident, including the service of isolated operation testing, is to be paid to the seller as per agreement. The seller is entitled to 1/12 of the total price of the service each month. In view of the above, the whole of the agreement concluded with the customer is assessed at the moment of signing the agreement and the total consideration is attributed to the identified performance obligation.

For the purpose of its performance obligations, the seller recognises revenue pursuant to the provisions of IFRS 15 (paragraphs B39–B43) regarding customer options for additional goods or services, under which the revenue recognised is actually consistent with the invoices issued to the customer for the services relating to the supply and assurance of the active power and management of the reactive power rendered over time. Moreover, the seller additionally recognises 1/12 of the total price of the agreement that the seller intends to pay for the services of system recovery after the total accident, including isolated operation testing, throughout the term of validity of the agreement, i.e. within one year.

Revenue from supply and transfer of electricity

Revenue from supply and transfer (includes both transmission and distribution) of electricity to household customers is recognised in each reporting period according to invoices issued, in which the presented volume of electricity consumed is calculated on the basis of declared or actual readings, i.e. determined upon inspection or received via smart meters. If declared or actual meter readings are not available, revenue from supply and transfer of electricity is recognised based on the average usage estimation method.

Revenue from supply and transfer of electricity to business customers is recognised over time based on the actual electricity supplied which is determined according to the readings of electricity meters.

The Group has concluded that it is acting as an Agent in the provision of (i) electricity transfer, which includes both transmission and distribution and (ii) gas distribution services, provided in Latvia because the Group has no control over these service obligations (Note 4.13, 4.27).

Tariffs for electricity transmission, distribution and supply (both public and guaranteed) are regulated by regulation institutions by establishing the upper limit for tariffs of the transmission, distribution and supply services. Specific prices for the transmission, distribution and supply services are established by the supplier of the service within the limits approved by regulation institution.

Revenue from electricity-related services: electricity balancing services

Revenue from electricity balancing services is recognized when the services are provided. In order to balance the electricity supply schedule, the Group provides service of electricity balancing: provides the missing electricity to or accept the excess from electricity transmission system, thus ensuring the optimal amount of electricity in the transmission system.

Revenue from electricity balancing services is recognized as income in the statement of profit or loss and other comprehensive income on a monthly basis based on monthly reported amounts of electricity received / supplied.

Revenue from supply of thermal energy

Under the agreements concluded with the customers, the seller commits to supply thermal energy to its customers in compliance with the defined technical requirements (temperature graph, pressure, flow, quality of thermofication water, etc.). Under the agreement concluded with the customer, the single performance obligation that the seller commits to is the supply of thermal energy. The customer receives and simultaneously consumes the benefits of the service relating to the supply of thermal energy at the same time the seller carries out its performance obligation. The seller carries out its performance obligation throughout the period of validity of the agreement. The progress of fulfilment of the performance obligation is assessed considering the volumes of thermal energy actually supplied to the customer as determined on the basis of data of metering devices.

In the agreement concluded with the customer, the consideration paid to the Group comprises the fixed part and the variable part. The fixed part comprises the customer's payments for the actually supplied thermal energy. The variable part arises due to default interest (interest on late payment) to be paid by the customer to the seller in cases where the customer fails to timely reimburse for the services rendered.

The Group recognises revenue considering the volumes of thermal energy actually produced and supplied to the customer at the price calculated with reference to the methodology on the establishment of the heating price as approved by NERC.

Revenue from sale of natural gas

The Group's tariff of natural gas to end customers includes sale of natural gas, distribution, supply, LNGT security component and other services rendered in the process of sale of natural gas.

Natural gas tariff

Final natural gas tariff to end customers comprise of the following components:

(a) Cost of gas import
(b) Natural gas transfer cost, which includes transmission over high-pressure and distribution over medium and low pressure grids costs
(c) LNGT security component

In Lithuania natural gas distribution services are provided by the Group and the revenue from them is recognised over time based on the actual natural gas supplied. In Latvia natural gas distribution services are provided by the operator of distribution system which is not a part of the Group. Natural gas transmission services are provided by the gas transmission system operator.

LNGT security component

The Law on the Liquefied Natural Gas Terminal of the Republic of Lithuania (Article 5.2) provides that contribution so-called security component related to the following securities of natural gas supply shall be collected from end users and added to the natural gas transmission price:

- for the installation of LNGT, its infrastructure and connection and all fixed operating costs that are not included in other state regulated prices, and
- to compensate for the reasonable costs of supplying the minimum quantity required to ensure the necessary operation of the LNGT

Similarly to PSO fees, LNGT security component is collected by natural gas suppliers from end users through the natural gas tariff and transferred then to the budget, from which the LNGT funds are distributed (i.e. disbursed) to LNGT service providers.

The Group company Ignitis UAB acts as a natural gas supplier that collects LNGT security component from end users and as designated liquefied natural gas supplier (hereinafter "designated supplier") the function of which is to ensure the necessary operation of the LNGT by supplying the minimum quantity of natural gas.

Ignitis UAB action as natural gas supplier to end users

LNGT security component and natural gas transmission services are an integral part of natural gas tariff to the customer. Payments for LNGT security component and gas transmission services are collected directly from customers or natural gas suppliers, if the customers don't have a direct contract with the operator of transmission system. Collected amounts of LNGT security component are transferred to operator of transmission system AB Amber Grid (doesn't belong to the Group) which is appointed to perform the function of administering the LNGT security component. In accordance of IFRS 15 the Group in providing these services consider itself by acting as an Agent and recognises the revenue on a net basis, because the Group is not exposed to any inventory risk, as well as the Group has no legal power to establish pricing of this component. The income of LNGT security component is recognized on a net basis (Note 4.14, 4.27), i.e. an income and disbursements of LNGT security component (regardless whether the net of it is positive or negative) are recognized under the one item "Purchases of electricity, gas for trade and related services" in a statement of profit or loss and other comprehensive income.

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Ignitis UAB action as designated LNG supplier to gas market

Since 2019, Ignitis UAB is providing dedicated LNG supply function. The company took over these activities after the acquisition of another company of the Group – LitGas UAB.

In order to maintain the LNG Terminal infrastructure in minimum mode, a certain amount of natural gas, which is to be supplied through the LNG Terminal, is required for filling, regasification or transshipment and supply to the Lithuanian natural gas system or the international LNG market.

The Law on the LNG Terminal and the Description of the Natural Gas Supply Diversification Procedure determines that the required quantity shall be supplied by the designated supplier (nominated by the Ministry of Energy for 10 years) by concluding a contract with the LNG supplier.

To ensure the operation of LNG terminal the designated supplier shall sell the required quantity on a competitive market and therefore its costs which due to the nature of its activities are exclusively borne (whereas other suppliers don't incur) are compensated by operator of transmission system paying LNGT funds that are paid from the budget of LNGT security component collected by natural gas suppliers from end customers. Therefore the Group receives the revenue of these LNGT funds. LNGT funds are recognized as revenue under the "Revenue from contracts with customers' item in a statement of profit or loss and other comprehensive income.

Revenue from distribution of natural gas

Revenue from non-household customers for the distribution of natural gas is recognised over time based on to the readings of measuring devices provided by users or, if users did not provide the readings of measuring devices, referring to the quantities of gas calculated according to the approved methodology for the calculation of quantities of natural gas, as agreed with NERC (an accrual basis).

Revenue from household customers is recognised over time based on the quantities of gas calculated according to the approved methodology for the calculation of quantities of natural gas, i.e. the calculation of revenue takes into account mismatches between quantities of gas declared by household customers and quantities of gas distributed to them (an accrual basis). Revenue from household consumers does not form a significant part of revenue from natural gas distribution activities.

In relation of distribution services provided in Latvia the Group considers itself as an Agent. The Group is not responsible for development/maintenance of gas distribution network in Latvia, accordingly not responsible that these funds are used for their intended purpose. The Company is not exposed to any inventory risk, as well as the Group has no legal power to establish the pricing of gas distribution services provided in Latvia (Note 4.13, 4.27).

Revenue from supply of natural gas

Revenue from supply of natural gas to non-household customers is recognised on a monthly basis referring to the readings of measuring devices provided by them and verified by the distribution system operator (an accrual basis).

Liquefied natural gas is sold to regulated (supervised) energy producers at the market price set and approved by NERC. Non-regulated sales of natural gas are conducted at the prices agreed between the parties. Revenue is recognised on a monthly basis according to quantity supplied.

Revenue from gas-related services: gas balancing services

The transaction of the balancing of natural gas provides two parts: the transmission of liquefied natural gas at the fixed value of natural gas as established in the agreement with an obligation to repurchase it, and the balancing service, which comprises the supplied/accepted quantity of natural gas at the fee established in the agreement. The recipient of the service assumes the natural gas price risk.

Since the Group has an obligation to repurchase the transmitted quantity of gas or to return the accepted quantity of gas, such a transaction is not regarded as a sale of goods, and revenue is recognised only for the balancing service rendered.

Revenue from sale of services for the quantity of natural gas supplied/accepted, i.e. the balancing service, is recognised as sales revenue in the statement of profit or loss and other comprehensive income each month with reference to the data on the quantity of natural gas accepted/supplied each month submitted on a monthly basis.

Natural gas price risk is recognised as revenue or cost in the statement of profit or loss and other comprehensive income by each time accepting the returned quantity of natural gas. The change in price is assessed on the basis of the fixed value of natural gas as established in the agreement and the actual gas price prevailing in the market at the moment of the return.

Revenue from gas-related services: gas reload and storage services

The Group, acting as an intermediary in the provision of LNG reloading and storage services, is not exposed to the risk of stock price fluctuations, and therefore does not register LNG gas purchased for reloading purposes as its own inventory, and recognizes the service income in profit or loss and other comprehensive income.

Regulation of tariffs and profitability

Profitability of some individual Group companies and their individual activities is regulated by NERC through the service tariffs approved for the next periods. The level of tariffs depends on the projected costs and volume of services for the next period, the extent to which the previous period earnings are at variance with the regulated level, and other factors.

Actual costs of regulated activities incurred by the Group during the year may be at variance with the projected costs that are considered during the approval of the tariffs, and the actual volume of services may be at variance with the projected one. Accordingly, actual earnings from regulated activities may be at variance with the regulated level, and the resulting difference will affect the future tariffs of services.

The Group does not recognise assets and liabilities of the regulated activities that are intended to eliminate the mismatches between the current year earnings and the regulated level, provided the difference will be recovered/refunded only through the provision of services in the future.

Tariffs for electricity and gas distribution are regulated by NERC by establishing the price caps. The specific prices for the distribution services are established by the Group company, which is a distribution network operator, within the limits approved by NERC.

Sale of liquefied gas to regulated consumers is regulated through setting the sale prices.

Tariffs for electricity transmission and PSO services are regulated by NERC by establishing the price caps for the services. The specific prices and tariffs for the transmission and PSO services are established by the operator of transmission system that is not part of the Group and within the limits approved by NERC.

Tariffs of electricity sold by the producers and independent suppliers as well as tariffs for capacity reserve services are not regulated, except when the producer or independent supplier holds more than 25% of the market, in which case the procedure for tariff setting is established by NERC.

Tariffs for import and export of electricity are not regulated.

Revenue from new customers connection fees

The Group obtains revenue from services of new customers connection to the electricity and natural gas distribution networks. Connection fees obtained by the Group are non-refundable upfront fees paid by the customers for the connection to electricity and gas distribution network. The Group signs separate agreements with customers for connection services. The Group also signs agreement with private customers and business customers for electricity and gas distribution. Connection fees do not represent a separate performance obligation from the sale of ongoing distribution of electricity or gas services as they are highly interrelated (see Note 4.15). Therefore, revenue from connection fees is deferred and recognized as revenue over the estimated average useful life of assets providing the connection service, being 27 years for electricity grid and 46-55 years on for gas grid (Note 4.27).

Connection fees received from customers which are deferred are accounted as liabilities under connection contracts with customers in the statement of financial position.

Construction contracts

Construction and contractual services comprise a number of interrelated works. Accordingly, the promise of the seller to render construction services to the customer is identified as a performance obligation in the agreement concluded with the customer. The performance obligation under the agreement concluded with the customer is to be carried out throughout the period of validity of the agreement. The progress of completion of the performance obligation is measured using the input method. The Group have determined that the input method, on the basis of costs incurred, provides an appropriate measure of progress towards complete satisfaction of the performance obligation.

After the completion of construction and contractual works, the seller grants a warranty period for these works and goods used. Pursuant to paragraph B31 of IFRS 15, whether the warranty is required by law, the warranty is aimed at protecting customers from the risk of purchasing defective products, therefore, it is not deemed a separate performance obligation of the seller.

The agreement concluded with the customer indicates the total price that the seller will recognise as revenue upon execution of the performance obligation over the validity period of the agreement. The seller and the customer may agree that the consideration for contractual works might increase due to additional works or other costs, but no variable consideration arises in the agreement concluded with the customer as a result of this condition.

Revenue under the agreement concluded is recognised as at a certain date on a stage of completion basis expressed in terms of percent. At the date of preparation of the financial statements, the seller assesses the ratio between the actually incurred expenses and the expenses projected in the estimate to the agreement and accounts for the amount of revenue as the product of the price of the agreement and the established stage of completion ratio.

Other revenue sources

Interest income

Interest income is recognised on amortised cost basis. For the purpose of the cash flow statement, interest received (excl. value added tax) is attributed to investing activities, whereas for the purpose of the statement of profit or loss and other comprehensive income, interest received is recognised as finance income.

Operating lease income

Operating lease income is recognised on a proportionate basis over the lease period.

Dividend income

Dividend income is recognised after the shareholders' rights to receive payment have been established. Dividends received are attributed to investing activities in the statement of cash flows. Dividends of subsidiaries, attributable to the parent company, are eliminated in the consolidated financial statements.

Expense recognition

Expenses are recognised in the statement of profit or loss and other comprehensive income as incurred applying accrual basis.

2.23 Emission allowances

Based on the EU Directive 2003/07/EC, the greenhouse gas emissions trading scheme was developed which came into force on 1 January 2005. The first period of operation of this scheme covered 3 years from 2005 to 2007; the second period covered 5 years from 2008 to 2012, and the third period covers 7 years from 2013 to 2020. The Scheme's operation period is in line with the period established under the Kyoto Agreement. The system functions on 'Cap' and 'Trade' basis. The governments of the EU Member States are required to set caps for each emission unit in the scheme and for the period of implementation. These caps are specified in the National Allocation Plan to be developed by a responsible authority of each Member State (in Lithuania – the Ministry of Environment). The National Allocation Plan determines the annual emission amount (measured as tons of carbon dioxide equivalent) for each emission unit and each period and allocates annual emission allowances.

A Member State has an obligation to allocate emission allowances by 28 February of each year in accordance with the National Allocation Plan. A Member State is to assure that an operator of each emission unit will submit data on the unit's actual amount of greenhouse gas emissions during the current calendar year not later than by 30 April of the next year.

Intangible assets

The EU emission allowances are treated as intangible assets that were provided by the state or acquired by an entity in the form of non-monetary grant and that should be accounted for at fair value at the moment of their issuance or transfer.

After the initial recognition (see in this note under the heading 'Government grant') emission allowances are carried using the revaluation method using the active market prices. Increases in the carrying amount arising on the revaluation of emission allowances are presented in other comprehensive income and credited against revaluation reserve directly to equity and decreases in excess of the previously accumulated amount in the revaluation reserve are recognised in the profit or loss in the statement of profit or loss and other comprehensive income. Upon the realisation of emission units, the positive balance in the revaluation reserve is recognised directly within retained earnings.

Government grant

The EU emission allowances provided to the Group at no consideration are treated as a non-monetary government grant which is recognised at fair value at the date of its receipt or issuance. Subsequently, the government grant is recognised as income in proportion to emission allowances utilised during the validity period of emission allowances or upon their disposal.

Provision for the utilisation of emission allowances

As the Group makes emissions, a liability arises to pay for these emissions to the state using emission allowances, the nominal value of which is equal to the quantity of emissions. Such liability is a provision which is estimated at a value equal to expenses to be incurred by the Group for the settlement of liability at financial reporting date. The liability can be offset against intangible assets only when the actual quantity of emissions is approved by an appropriate regulatory state authority. Changes in the value of liability are recognised in the profit or loss.

Lending of emission allowances

Lending of emission allowances is a sale transaction during which assets are disposed and the right to receive emission allowances is acquired. The right to receive emission allowances is recognised as other non-current assets. Such assets are initially recognised at acquisition cost, and subsequently such assets are tested for impairment as described in Note 2.9.

2.24 Grants and subsidies

Asset-related grants

The Group for presentation in financial statements of grants related to asset uses the method which recognises the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset. Government and the EU asset-related grants comprise grants received in the form of non-current assets or in the form of cash intended for the acquisition of non-current assets. Grants are initially recorded at the fair value of the asset received and subsequently recognised in profit or loss by reducing the depreciation charge of the related asset over the expected useful life of the asset. Liability related to received asset-related grants is presented in the statement of financial position under the non-current liabilities' item "Grants and subsidies" (Note 26).

Upon the revaluation of non-current assets grants related to non-current assets in respect of which impairment was recognised on revaluation are written off in a respective proportion.

Income-related grants

Government and the European Union grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The income-related grants are recognised as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant. Grants related to income are presented as part of profit or loss.

2.25 Dividend distribution

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

2.26 Contingencies

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

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

2.27 Events after the reporting period

All events after the reporting period (adjusting events) are accounted for in the financial statements provided that they are related to the reporting period and have a significant impact on the financial statements. Events after the reporting period that are significant but are not adjusting events are disclosed in the notes to the financial statements.

2.28 Related parties

Related parties are defined as shareholders, heads of administration and their deputies, their close family members, state-owned enterprises and companies that directly or indirectly (through the intermediary) control the Group or are controlled by, or are under common control with the Group,-- provided such relationship empowers one of the parties to exercise control or significant influence over the other party in making financial and operating decisions.

2.29 Inter-company offsetting

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when a certain IFRS specifically requires such set-off.

2.30 Fair value

Fair value is defined as 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. There are three levels in the fair value hierarchy:

- Level 1: fair value of assets is based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: fair value of assets is based on other observable market data, directly or indirectly.
- Level 3: fair value of assets is based on non-observable market data.

2.31 Operating segments

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.

2.32 Financial guarantee contracts

The Company provides financial guarantees to subsidiaries in relation to loans taken from banks or other liabilities for consideration, which is recognised in profit or loss on an accrual basis. The fair value of financial guarantee is determined based on present value of reduction of subsidiaries' interest payments to bank. The consideration that subsidiaries pay to Company for the given financial guarantee corresponds to that reduction. When the consideration corresponds to the reduction of subsidiaries' interests payments to the bank the Company doesn't recognise the fair value of financial guarantee as 'Investment in subsidiary' and accordingly 'Financial guarantee obligation' in its stand-alone financial statements. All Company's guarantees are provided for the consideration that corresponds to the reduction of subsidiaries' interests payments to the bank, therefore their fair value approximate to 0. Subsidiaries recognise the liability at fair value including the value of the guarantee provided by the Company. If the consideration is at lower price than the reduction of subsidiaries' interest payments, the Company recognise the fair value of financial guarantee as 'Investment in subsidiary' and accordingly 'Financial guarantee obligation' in its separate financial statements and subsidiaries recognise the liability without the guarantee with the difference recognised as a capital contribution. The methods to determine expected credit losses for financial guarantee contracts are used as for financial assets (see in Note 2.12 in heading 'Impairment of financial assets – expected credit losses'. Financial guarantee contracts are measured at the higher of expected credit loss and the amount, that is initially recognised less any cumulative amount of income/amortisation recognised. No expected credit losses were identified as at 31 December 2019.

All amounts are in EUR thousand unless otherwise stated

2.33 Put option arrangements

The Group has a written put option over the equity of subsidiary Kauno Kogeneracinė Jėgainė UAB which permit the holder to put their shares in the subsidiary back to the group in a deadlock situation at the value of funds invested (period of construction and one year after the end of construction) and the market price (one year after start-up) less 15%. The amount that may become payable under the option on exercise is initially recognised at the present value of the redemption amount within liabilities with a corresponding charge directly to non-controlling interest in equity. The liability is subsequently accreted through finance charges up to the redemption amount that is payable at the date at which the option first becomes exercisable. In the event that the option expires unexercised, the liability is derecognised with a corresponding adjustment to non-controlling interest in equity.

3 Financial risk management

3.1 Financial risk factors

The Group and the Company are exposed to a variety of financial risks in their operations: market risk (including foreign exchange risk, interest rate risk in relation to cash flows), credit risk and liquidity risk. In managing these risks, the Group companies seek to mitigate the impact of factors which could adversely affect the Group and the Company's financial performance results.

Market risk

Foreign exchange risk

The sale/purchase contracts of the Group and the Company are mainly denominated in the euro. Foreign exchange risk is mainly characteristic to contracts concluded by the Company's subsidiaries for the purchase of natural gas from third parties. Aiming to reduce foreign exchange risk the agreement on natural gas purchase and supply is concluded in the same currency.

In 2017, the Company's subsidiary Ignitis UAB established in Poland a company Ignitis Polska Sp. z o.o. controlled by the Group, whose assets and liabilities are recorded in Polish zloty. The expansion of the subsidiary's activities in the future may expose the Group to foreign exchange risk due to fluctuations in exchange rates of the Polish zloty against the euro. The Group has not entered into the PLN / EUR exchange rate swaps. As the group expands in Poland, management will consider entering into exchange rate swaps.

Interest rate risk

The Group's income and cash flows are affected by fluctuations in market interest rates because the Group's loans and borrowings had fixed and variable interest rates as at 31 December 2019. The Company has financial assets measured at amortised costs with fixed interest rates, therefore, it is exposed to interest rate risk.

Interest rate risk is substantially related to the risk that the interest rate of the credits held by the Company and the Group might be subjected to adverse changes.

In assuming debt obligations, it is aimed that non-current liabilities would bear a fixed interest rate. If the fixing of the interest rate is not possible due to objective reasons and the liability assumed comprises a significant amount (in the context of the Company or the Group), interest rate derivatives are used for the purpose of interest management, including interest rate swaps, interest rate options, interest rate collars, and interest rate swaptions. The aim must be that non-current borrowings with fixed interest rates comprised no less than 50% of the Group's consolidated long-term loan portfolio. The usage of any of the interest rate derivatives requires the expiry date of the derivative to correspond to the maturity date of the debt obligation.

The risk of adverse changes in the interest rate of the investment is not actively insured. Risk management measures are applied only when the market has obvious indications that the interest rate might significantly decrease, resulting in negative investment returns.

Interest rate risk is assessed in relation to sensitivity of the Group's and the Company's profit to potential shift in interest rates. This assessment is given in the table below.

Group	Increase/decrease, percentage points	(Decrease)/increase in profit
2019	0,3/-0,3	(48)/48
2018	0,3/-0,3	(40)/40

Company	Increase/decrease, percentage points	(Decrease)/increase in profit
2019	0,3/-0,3	51/(51)
2018	0,3/-0,3	52/(52)

As at 31 December 2019 and 31 December 2018, the Group and the Company had no significant valid interest rate swaps.

Fair values of financial instruments

The Company and the Group's derivative financial instruments (Levels 1 and 2 of the fair value hierarchy), the Company and the Group's equity instruments (Level 1), the Company and the Group's price premium payable and amounts receivable for disposal of Litgrid AB shares (Level 3) are measured at fair value.

Fair value is determined on the basis of quoted market prices, discounted cash flow models and option pricing models as appropriate.

The carrying amount of the Group and the Company's financial assets and financial liabilities measured at amortised cost approximated their fair value. except for bond issue debts.

The bond issue debt of EUR 590,120 thousand (31 December 2018: EUR 588,999 thousand) (Note 23), the fair value of which was equal to EUR 630,732 thousand as at 31 December 2019 (31 December 2018: EUR 599,261 thousand), was reported in the Group and the Company statement of financial position at 31 December 2019. The fair value was calculated by discounting future cash flows related to the coupon payments with reference to the interest rate observable in the market and the payment of EUR 300,000 thousand on 14 July 2027, as well as the payment of EUR 300,000 thousand on 10 July 2028. The cash flows were discounted using a weighted average discount rate of 1.29% (31 December 2018 – 1.95%). Discount rates for certain bond issues are determined as 120 base points interest rate increased by EUR interest rate swap for tenors that is similar to period left until redemption of issued bonds. The bond issue debt is attributed to Level 2 of the fair value hierarchy.

All amounts are in EUR thousand unless otherwise stated

As at 31 December 2019, the fair value of the Company's amounts receivable related to EUR 416,288 thousand (31 December 2018: EUR 366,288 thousand) green bond amounts receivable of the subsidiary Energijos skirstymo operatorius AB was approximately equal to EUR 445,059 thousand as at 31 December 2019 (31 December 2018: EUR 372,238 thousand). The fair value is estimated by discounting cash flows with reference to the interest rate determined as 120 base points interest rate increased by EUR interest rate swap for tenors that is similar to period left until redemption of issued bonds. The cash flows were discounted using a weighted average discount rates of 1.30% (31 December 2018 – 1.95%). The fair value of amounts receivables is attributed to Level 2 of the fair value hierarchy.

On 8 November 2017, the Company took over debt liabilities of its subsidiary Energijos skirstymo operatorius AB to creditors, i.e. the banks OP Corporate Bank Plc and SEB AB. As at 31 December 2019, the subsidiary's debt to the Company amounted to EUR 82,247 thousand (31 December 2018: EUR 139,649 thousand) (Notes 10, 18). Accordingly, the carrying amount of debt liabilities to OP Corporate Bank Plc and SEB Bankas AB that were taken over by the Company was equal to EUR 82,246 thousand as at 31 December 2019 (31 December 2018: EUR 139,649 thousand) (Note 23). The fair value of financial assets and financial liabilities related to the debts taken over, which is calculated by discounting future cash flows with reference to the interest rate observable in the market, is equal to EUR 80,936 thousand (31 December 2018 – EUR 141,881 thousand). The cash flows were discounted using a discount rate of 0.973% (31 December 2018 – 0.809%). The measurement of financial assets and financial liabilities related to the debts taken over is attributed to Level 2 of the fair value hierarchy.

The carrying amount of the loans of Ignitis gamyba AB was equal to EUR 25,734 thousand (31 December 2018 – EUR 38,036 thousand). The fair value of these borrowings was approx. EUR 24,101 thousand as at 31 December 2019 (31 December 2018 – EUR 34,655 thousand). The fair value was measured as present value of discounted cash flows at a discount rate of 3.00% (31 December 2018 – 3.22%).

As at 31 December 2019, the Group and the Company accounted for an amount receivable for the sale of LitGrid AB at fair value through profit or loss. The carrying amount of the amount receivable was equal to EUR 158,658 thousand (31 December 2018 – EUR 158,658 thousand). Their fair value is attributed to Level 3 in the fair value hierarchy. Fair value was estimated on the basis of discounted cash flows using the rate of 0.614% (31 December 2018 – 0.614%).

The table below presents allocation between the fair value hierarchy levels of the Group's financial instruments as at 31 December 2019 (refer to Note 2.30 for the description of the fair value hierarchy levels):

Group	Note	Carrying amount	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	In total
Measured at fair value through profit (loss)						
Assets						
Receivable for the sale of LitGrid AB	10	158,658	-	-	158,658	158,658
Derivative financial instruments	31	5,788	13	5,775	-	5,788
Liabilities						
Put option redemption liability	4.8, 31	16,660	-	16,660	-	16,660
Derivative financial instruments	31	2,528	500	2,028	-	2,528
Measured at amortized costs						
Liabilities						
Bonds issued	23	590,120	-	630,732	-	616,057
Debt liabilities to OP Corporate Bank Plc and SEB Bankas AB	23	82,247	-	80,936	-	80,936
Loans of Ignitis gamyba AB	23	25,734	-	24,101	-	24,101

The table below presents allocation between the fair value hierarchy levels of the Company's financial instruments as at 31 December 2019 (refer to Note 2.30 for the description of the fair value hierarchy levels):

Company		Carrying amount	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	In total
Measured at fair value through profit (loss)						
Assets						
Receivable for the sale of LitGrid AB	10	158,658	-	-	158,658	158,658
Measured at amortized costs						
Assets						
Green bond receivables from subsidiary Energijos skirstymo operatorius AB	10	416,288	-	445,059	-	445,059
Liabilities						
Bonds issued	23	590,120	-	630,732	-	616,057
Debt liabilities to OP Corporate Bank Plc and SEB Bankas AB	23	82,247	-	80,936	-	80,936

All amounts are in EUR thousand unless otherwise stated

Credit risk

The Group's and the Company's exposure to credit risk arises from operating activities of the companies (trade and other amounts receivable) and from financing activities (cash and cash equivalents, loans granted).

The Group is not exposed to significant credit risk concentration related to trade receivables and other amounts receivable. Principally all loans granted, trade receivables and other amounts receivable of the Company are due from related parties (see Note 41). As at 31 December 2019 and 2018, other receivables of the Group principally consisted of the EPSO-G outstanding receivables for the sale of LitGrid AB shares in year 2012 (Note 10).

The priority objective of the Group's and the Company's treasury management is to ensure security of funds and maximize return on investments in pursuance of this objective. Risk of counterparties defaulting is managed by entering into transactions with reliable financial institutions (or subsidiaries of such institutions) with a long-term credit rating (in foreign currency) not lower than 'A-' according to the rating agency Fitch Ratings (or an equivalent rating of other rating agencies).

The maximum exposure to credit risk as at 31 December 2019 and 2018 is equal to the carrying amount of financial assets and the nominal value of guarantees issued.

	Note	Group		Company	
		As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Financial assets measured at amortised cost:					
Non-current receivables	10	3,330	489	564,543	520,935
Trade receivables	16	117,867	143,120	-	-
Other receivables	17	24,858	11,814	380	629
Current loans	18	-	-	270,949	189,324
Cash and cash equivalents	19	131,837	127,835	144	231
Amounts receivable under finance lease agreements					
Non-current portion	11	21,057	10,904	-	-
Current portion	11	4,582	3,029	-	-
Financial assets at fair value through profit or loss in the statement of profit or loss and other comprehensive income					
Amount receivable on disposal of LitGrid AB	10	158,658	158,658	158,658	158,658
Investments into convertible bonds	12	500	500	500	500
Derivative financial instruments	31	5,788	2,046	-	-
In total		**468,477**	**458,395**	**995,174**	**870,277**
Off-balance sheet commitments:					
Open guarantees issued	40	-	-	199,322	98,845
In total		**468,477**	**458,395**	**1,194,496**	**969,122**

Liquidity risk

The liquidity risk is managed by planning future cash flows of each Group company and ensuring sufficient cash and availability of funding through committed credit facilities and overdrafts to support Group's ordinary activities. The refinancing risk is managed by ensuring that borrowings over a certain period were repaid from available cash, from cash flows expected from operating activities of the Group companies over that period, and from unwithdrawn committed credit facilities which have to be repaid in later periods.

As at 31 December 2019, the Group's current liquidity ratio (total current assets/total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) were 0.857 and 0.763 respectively (31 December 2018: 1.157 and 1.045 respectively). As at 31 December 2019, the Group's balance of credit and overdraft facilities not withdrawn amounted to EUR 283,593 thousand (31 December 2018: EUR 469,939 thousand).

As at 31 December 2019, the Company's current ratio (total current assets/total current liabilities) was 1.142 (31 December 2018 – 1.823). As at 31 December 2019, the Company's balance of credit and overdraft facilities not withdrawn amounted to EUR 108,709 thousand (31 December 2018 – EUR 157,740 thousand).

To support the fulfilment of obligation of the Group companies to credit institutions and other creditors, the Company issued guarantees in the amount of EUR 199,322 thousand as at 31 December 2019 (31 December 2018 – EUR 98,845 thousand) (Note 40).

The table below summarises the Group and the Company's financial liabilities by category:

	Note	Group		Company	
		As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Amounts payable measured at amortised cost					
Borrowings	23	1,056,120	844,956	869,103	776,367
Lease liabilities	24	42,218	19,554	-	-
Non-current trade payables	29	550	729	-	-
Trade payables	30	78,567	93,236	259	947
Other current amounts payable and liabilities	31	33,327	56,915	1,316	1,045
Financial liabilities at fair value through profit or loss in the statement of profit or loss and other comprehensive income					
Derivative financial instruments	31	3,047	35	-	-
Put option redemption liability	31	16,660	16,660	-	-
Off-balance sheet commitments:					
Open guarantees issued	40	-	-	199,322	98,845
In total		**1,230,489**	**1,032,085**	**1,070,000**	**877,204**

The table below summarises the maturity profile of the Group and the Company's financial liabilities under the contracts (based on contractual undiscounted payments of interest-bearing financial liabilities and the carrying amounts of other financial liabilities):

Group	2019				
	Less than 3 months	3 months to 1 year	1 and 5 years	After 5 years	In total
Borrowings and lease liabilities	63,447	195,787	205,307	773,628	1,238,169
Trade payables and non-current amounts payable to suppliers	19,642	58,925	550	-	79,117
Other payables	12,497	37,490	-	-	49,987
Derivative financial instruments	3,047	-	-	-	3,047
As at 31 December 2019	**98,633**	**292,202**	**205,857**	**773,628**	**1,370,320**

All amounts are in EUR thousand unless otherwise stated

Group	2018				
	Less than 3 months	3 months to 1 year	1 and 5 years	After 5 years	In total
Borrowings and finance lease liabilities	31,112	98,796	162,130	703,095	995,133
Trade payables and non-current amounts payable to suppliers	23,309	69,928	729	-	93,966
Other payables	18,489	55,468	-	-	73,957
Derivative financial instruments	35	-	-	-	35
As at 31 December 2018	**72,945**	**224,192**	**162,859**	**703,095**	**1,163,091**

Company	2019				
	Less than 3 months	3 months to 1 year	1 and 5 years	After 5 years	In total
Borrowings and lease liabilities	59,366	183,545	76,014	651,556	970,481
Trade payables and non-current amounts payable to suppliers	259	-	-	-	259
Open guarantees issued	13,526	40,580	45,335	99,881	199,322
As at 31 December 2019	**73,151**	**224,125**	**121,349**	**751,437**	**1,170,062**

Company	2018				
	Less than 3 months	3 months to 1 year	1 and 5 years	After 5 years	In total
Borrowings and finance lease liabilities	28,411	90,694	106,245	675,111	900,461
Trade payables and non-current amounts payable to suppliers	947	-	378	-	1,325
Open guarantees issued	18,475	55,426	5,147	19,796	98,844
As at 31 December 2018	**47,833**	**146,120**	**111,770**	**694,907**	**1,000,630**

3.2 Capital risk management

Pursuant to the Lithuanian Republic Law on Companies, the issued capital of a public limited liability company must be not less than EUR 40 thousand, the issued capital of a private limited liability company must be not less than EUR 2,5 thousand, and the shareholders' equity must be not lower than 50% of the company's issued capital. Foreign subsidiaries are subject for compliance with capital requirement according to regulation adopted in those foreign countries. As at 31 December 2019, the Company and all the companies of the Group, except for Ignitis Latvija SIA, complied with these requirements. On 31 December 2019, Ignitis Latvija SIA obtained a confirmation from the Company certifying that financial support will be provided for not less than 12 months after the approval of its financial statements.

When managing the capital risk in a long run, the Group seeks to maintain an optimal capital structure of subsidiaries to ensure a consistent implementation of capital cost and risk minimization objectives. The Group companies form their capital structure in view of internal factors relating to operating activities, the expected capital expenditures and developments and in view of business strategy of the Group companies, as well as based on external current or expected factors significant to operations relating to markets, regulation and local economic situation.

The Board of Ignitis UAB Group approved a dividend policy, which sets uniform principles for the payment of dividends for all the Group companies. The dividend policy is one of capital risk management tools. Based on the newly approved policy, distribution of dividends proposed by the Company and the Group companies will depend on the ratio of return on equity and net profit (loss) earned. According to dividend policy, appropriation of profit for the payment of dividends for the financial year or a period shorter than the financial year will depend on the ratio of return on equity, availability of financial resources for payment of dividends, implementation of economic projects important for the State and other significant circumstances. Between 60% and 85% of net profit is appropriated for the payment of dividends, depending on the ratio of return on equity at the end of the reporting period.

- A company is not obliged to distribute dividends only when it incurs net loss. A company will not pay any dividends when its financial debts at the end of the reporting period are equal to or exceed four times Earnings Before Interest, Taxes, Depreciation, and Amortization (EBIDTA – a non-IFRS alternative performance measure) amount for the last twelve months as from the end of the reporting period.
- Dividends will not be paid if the Group company's equity (after the payment of dividends) becomes lower than the sum of its issued capital, legal reserve, revaluation reserve and reserve for acquisition of own shares, and also if a company becomes insolvent or would become insolvent upon payment of dividends. The Company will also be able not to pay dividends if its ratio of borrowings to equity becomes equal to or exceeds 1.0.

4 Critical accounting estimates and judgements used in the preparation of the financial statements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of financial statements according to International Financial Reporting Standards as adopted by the European Union requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and costs and contingencies. Change in the underlying assumptions, estimates and judgements may have a material effect on these stand-alone financial statements of the Company and consolidated financial statements of the Group in the future.

4.1 Revaluation of property, plant and equipment

The Group accounts for Land, Buildings, Structures and machinery, Vehicles, Other property, plant and equipment and Construction-in-progress at revalued amount in accordance with IAS 16 Property, Plant and Equipment.

Revaluation of Property, plant and equipment (hereinafter "PPE") stated at revalued amount are performed regularly, using independent appraisers revaluations when there is indication, that market value of assets has changed significantly due to internal or external factors.

Most recent revaluations by the group of assets were performed:

Group	Recent revaluations performed
Land	2018
Buildings	2019
Structures and machinery	2018
Vehicles	2019
Other property, plant and equipment:	2018

During 2019 additions to construction-in-progress amounts to EUR 398,049 thousand while carrying amount as at 31 December 2019 of construction-in-progress is EUR 373,912 thousand. As additions to construction-in-progress during 2019 were conducted at market values and accounted for at 31 December 2019 within carrying value of construction-in-progress the Group concludes that there is no indications of a significant difference between the net book amount and market value of construction-in-progress. Detailed information disclosed in Note 6.

The vehicles revaluation was conducted in December 2019 based on published market prices (third level in the fair value hierarchy). Review of revaluation results indicated that carrying value of Vehicles accounted for in PPE does not differ significantly as compared to market prices of similar assets. As at 31 December 2019 only assets accounted for as held for sale were updated with revaluation results as management considered the amount to be significant. Detailed revaluation results are disclosed in Note 20.

As at 31 December 2019, other Group assets stated at revalued amounts were not revalued, because there were no indications of a significant difference between the net book amount and market value of assets stated at revalued amount.

In 2018, the Group performed the revaluation of Buildings and Structures and machinery stated at revalued amount. Revaluations were performed by independent valuers using the cost approach and the income approach. Based on the revaluation results, increase in value in the amount of EUR 45,669 thousand was recognised. Detailed revaluation results are disclosed in Note 6.

4.2 Impairment of property, plant and equipment

At least once a year the Group assesses whether there is any indication that the carrying amount of property, plant and equipment *"Gas distribution pipelines, gas technological equipment and installations", "Assets of Hydro Power Plant, Pumped Storage Power Plant" and "Structures and machinery of Thermal Power Plant""* recorded at acquisition cost could be impaired and whether the carrying amount of property, plant and equipment *"Structures and machinery"* recorded at the revalued amount does not differ materially from their fair value (according IAS 16: when the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required). The Group performs the impairment test and revaluation of assets, if such indications are found.

4.3 Revaluation of property, plant and equipment, used in electricity business segment and Impairment of property, plant and equipment, used in gas distribution

As at the reporting date of 31 December 2019, the Group performed a test of *"Gas distribution pipelines, gas technological equipment and installations"* attributable to gas distribution Cash Generating Unit (hereinafter "CGU") and *"Structures and machinery"* attributable to electricity CGU respectively for impairment and potential need of revaluation using the discounted cash flow method. Discounted cash flows were calculated in accordance with the legal acts and methodologies regulating the activities of natural gas, electricity distribution and warranty supply activity, effective as at 31 December 2019. The legal acts and methodologies regulating the activities of natural gas and electricity distribution and guaranteed supply in force as at the reporting date are as follows:

1. *Methodology of Setting Price Ceilings of Electricity Transmission, Distribution and Public Supply Services and Public Energy Price Ceilings* ("the Electricity Methodology") approved by the National Energy Regulatory Council's Resolution No O3-3 of 15 January 2015 and subsequent amendments;
2. *Description of Requirements for Accounting Separation and Cost Allocation of Electric Power Sector Companies and Requirements Related to Accounting Separation* ("the Electricity Description") approved by the National Energy Regulatory Council's Resolution No O3E-468 of 21 December 2018 and subsequent amendments;
3. Methodology for Setting the Rate of Return on Investments ("the WACC Methodology") approved by the National Energy Regulatory Council's Resolution No O3-510 of 22 September 2015.
4. *Methodology of Setting Regulated Prices in the Natural Gas Sector* ("the Gas Methodology") approved by the National Energy Regulatory Council's Resolution No O3-367 of 13 September 2013 and subsequent amendments;
5. *Description of Requirements for Accounting Separation and Cost Allocation of Gas Sector Companies and Requirements Related to Accounting Separation* ("the Gas Description") approved by the National Energy Regulatory Council's Resolution No. O3E-464 of 21 December 2018 and subsequent amendments.

Test on the need for revaluation of property, plant and equipment attributed to the electricity business segment as at 31 December 2019

In 2019, the Group performed a separate assessment for "Structures and machinery" used in electricity distribution activities performed by subsidiary Energijos skirstymo operatorius AB. The carrying amount of the assessed assets in the Group accounts was EUR 1,178,943 thousand as at 31 December 2019. The potential change in fair value of these assets was tested by making cash flow forecast for the period until 2059, because the electricity distribution activity is regulated on the basis of regulated asset base, which mostly consists of assets with long useful life – electricity lines (useful life of 40 years).

The following key assumptions were used by the Group in making cash flow forecast:

- As from 2021, the amount of electricity distributed will rise by half of the GDP, e.g. the projected GDP growth in 2021 would be at 2.3%; therefore, the projected growth of the amount of electricity distributed would be at 1.15%.
- When setting the price cap of the electricity distribution service for 2020, the NERC approved by the Certificate of 17 October 2019 the rate of return on investments (hereinafter – WACC) equal to 5.04% for this period. According to the regulatory principles WACC is determined for the five year regulatory period (electricity segment - 2016-2020, natural gas segment – 2019-2023) except for the cost of debt component, which is adjusted annually depending on actual Group company's funding The return on investments of 4.78% for the upcoming regulatory period in electricity segment of 2021–2025 is calculated as the average between the rate of return on investments of 3.59% that was newly established by NERC for the gas sector (for 2019–2023) and the rate of pre-tax return on investments of 5.96% that is estimated by the management in the long term for the electricity sector. As from 2026 (in the long term), the pre-tax rate of return on investments of 5.96% has been applied for the cash flow forecast period (as calculated according to:
  a) the calculation data, which is publicly available on the NERC's website www.vert.lt;
  b) the WACC Methodology as approved by NERC, and
  c) projected market trends).

  In the long term, an assumption is made that the rate of return on investments (pre-tax equals to 5.96%, after tax – 5.07%) will approximate the discount rate.
- The discount rate was determined using the Capital Asset Pricing Model CAPM. It was assumed that the market player will not apply any unsystematic risk premium due to the following reasons:
  a) size of a business, if compared with the Lithuanian economy and other local companies (one of the largest companies in Lithuania);
  b) monopolised and securely regulated business;
  c) model compliance with the current methodology defined in regulatory legislation, which does not provide for any additional risk premiums.

- Discount rate of 5.07% (after tax) (5.96% - pre-tax) was used to calculate discounted cash flows.
- Forecasted operating expenses for the year 2020 are based according to the approved budget, for the period of 2021-2030 according to subsidiary Energijos skirstymo operatorius AB strategy and expected reduction in operating costs due to implementation of activity excellence initiatives (process review, robotisation, improvements) and data-driven solution that will enable to run business more efficiently. Forecasted operating expenses until 2030 are expected to be approximately lower by 16% comparing to the upper level approved by NERC. Calculations are based on forecasted macroeconomic assumptions (increase of payroll expenses and inflation). Forecasted changes since 2031 are according to the projected average annual consumer price index (CPI) and wage developments.
- A part of operating expenses incurred by the Group is not included in the regulated prices of the electricity distribution and supply activity in accordance with the provisions of the Electricity Description.
- The calculation of the level of revenue does not involve estimates that additional profit would be earned as a result of the planned performance efficiency (such a possibility is established in the Electricity Methodology).
- Investments are forecasted based on the ten-year investment plan for 2019–2028. A similar level to that in 2028 is expected from 2029 until 2030, however, more extensive investing is planned starting from 2031 and until 2036, i.e. all the investments that were not made in prior periods with reference to the amount calculated in accordance with the long-run average incremental cost (LRAIC) model approved by NERC ('the Model') are expected to be implemented. It is planned that all items of technological assets that are currently depreciated or will become depreciated over the period until 2060 will be renewed until 2060.
- The cost of capital (return on investments and depreciation of non-current assets) is calculated and included when determining the prices of the distribution services for other regulatory periods in accordance with the Model approved by NERC and in view of paragraph 7 of the Electricity Methodology.
- The evaluation model foresees that when setting the price caps for distribution services in medium and low voltage networks in the period from 2019 to 2020,the difference in the level of revenue in the amount of 53 million (plus additional interest of EUR 0.567 million), which reduces the Group income, will be refunded (via tariff) in the next regulatory period (from 2021), so the value of the assets will not change due to this NERC's decision No O3E-334 of 17 October 2018 On recalculating the price caps for electricity distribution services provided by Energijos skirstymo operatorius AB through medium and low voltage networks for the year 2019.

Given that no significant changes have taken place in the regulatory environment for electricity and having assessed all above-mentioned assumptions and having performed the test on fair value assessment, the Group has identified that the carrying amount of property, plant and equipment attributed to the electricity business segment as at the reporting date of 31 December 2019 would increase immaterially (less than 5%), hence the management of the Group decided to withhold from making full revaluation to reflect the mentioned assets at new fair value.

Sensitivity analysis

At the end of 2019, the Group performed the sensitivity analysis on the fair value assessment in respect of changes in unobservable inputs using the following scenarios:

Sensitivity analysis scenario I

If NERC continued to calculate the return on investment based on historical acquisition cost of property, plant and equipment with only limited adjustments to the LRAIC model (as adjusted for the prices set for period from 2019 to 2020), rather than relied on the LRAIC model to its full extent, the value of the Group's property, plant and equipment would decrease approximately by EUR 400 million.

Sensitivity analysis scenario II

If the amount, i.e. EUR 53 million plus additional interest of EUR 0.5 million, by which the Group's distribution income for the years 2019 - 2020 was reduced is not reimbursed by NERC, the Group's revenue during the forecast period (from 2020 to 2059) would decrease by the aforesaid amount of EUR 53 million plus additional interest of EUR and 0.5 million, and the fair value of property, plant and equipment would decrease by EUR 49 million.

Sensitivity analysis scenario III

If NERC established the level of revenue from 2026 and applied 20% lower rate of return on investments, i.e. equal to 4.78% (which is the average rate of return on investments effective for the electricity sector and the gas sector for the new regulatory period from 2026 as established by NERC in respect of the Group), plant and equipment would decrease by EUR 310 million.

Sensitivity analysis scenario IV

If the (pre-tax) discount rate was applied within the interval of -/+ 20%, the value of assets would correspondingly decrease or increase.

The sensitivity of the value of assets to the discount rate is presented in the table below:

Measured output	Change in discount rate (after-tax)				
	-20%	-10%	0%	10%	20%
Discount rate (pre-tax), %	4.78	5.36	5.96	6.56	7.15
Discount rate (after-tax), %	4.06	4.56	5.07	5.58	6.08
Change in value of property, plant and equipment (million EUR)	457	213	0	-181	-333

Revaluation of property, plant and equipment attributed to the Electricity Distribution Business Segment as at 31 December 2018

In 2018, the Group performed revaluation for Buildings, Structures and machinery and Construction-in-progress which are used in electricity distribution activities performed by subsidiary Energijos skirstymo operatorius AB. The carrying amount of the assessed assets was EUR 1,206 million as at 31 December 2018. The fair value of these assets was determined using the income approach and the cost approach. The fair value of these assets was tested by making cash flow forecast for the period until 2058, because the electricity supply activity is regulated on the basis of regulated asset base, which mostly consists of assets with long useful life – electricity lines (useful life of 40 years).

The **cost approach** relates to Replacement Cost New (RCN) approach at individual asset level. A direct cost method was applied to 98% of PP&E (percentage calculated based on the fair value as at 31 August 2018), whereby RCN was estimated for new assets. RCN includes the cost of materials, installation works, labour, transportation and handling fees, overall costs of contractor, also indirect costs, such as engineering and design costs, at 2018 market prices.

The main assumptions of the cost approach used for the valuation were as follows:
- RCN values, which reflect all costs that are incurred upon creation of new identical assets;
- Depreciation curves, which determine the developments in the value of an asset over its life cycle according to the characteristics of that asset and its useful life;
- Functional obsolescence, which estimates the decrease in the usefulness of an asset due to its existing alternatives and technological progress;
- Hold factor, which establishes the minimum value for an asset, since the Subsidiary can continue to use fully depreciated assets.

Under the income method, the economic obsolescence of assets was assessed. This method was used to estimate economic depreciation.

When estimating economic obsolescence, a cash flow forecast was prepared for the period from September 2018 to 2058. Key assumptions used in the cash flow forecasts to estimate economic depreciation of assets were as follows:

- from 2019, the amount of electricity distributed will rise by half of the GDP, e.g. the projected GDP growth would be at 2,8%; therefore, the projected growth of the amount of electricity distributed would be at 1.4%.
- setting the price cap of the electricity distribution service for 2019, in the Certificate of 17 October 2018, NERC approved the rate of return on investments equal to 5.04% for this period. This rate is used to determine the return on investments for the period of 2019–2020. With regard to the fact that the WACC methodology provides identical WACC calculation principles to be applied to the Electricity and Natural Gas Business Segments, for the upcoming regulatory period of 2021–2025, the return on investments is calculated as the average between the rate of return on investments of 3.59% that was newly established by NERC for the gas sector (for 2019–2023) and the rate of pre-tax return on investments of 5.96% that is estimated by the management in the long term for the electricity sector (i.e. 4.78%). From 2026 (in the long term), the rate of pre-tax return on investments of 5.96% has been applied for the cash flow forecast period (as calculated according to: a) the calculation data, which is publicly available on the NERC website, b) the WACC Methodology as approved by NERC, and c) projected market trends). In the long term, an assumption is made that the rate of return on investments (pre-tax 5.96% equivalent to post-tax 5.07%) will approximate the discount rate;
- The discount rate was determined using the Capital Asset Pricing Model (CAPM). It was assumed that the market player will not apply any unsystematic risk premium due to the following reasons:
- size of a business, if compared with the Lithuanian economy and other local companies (one of the largest companies in Lithuania);
- monopolised and securely regulated business;
- model compliance with the current methodology defined in regulatory legislation, which does not provide for any additional risk premiums.
- the cash flows were discounted using an post-tax discount rate of 5.07%;
- the Subsidiary's operating expenses for 2019 are planned under the budget and its operating expenses for 2020–2030 are planned on the basis of ESO's strategy with respect to planned directions for expense reduction. Starting from 2031 (it is expected that by 2030 the level of operating expenses will be up to 16% lower than the level of expenses permissible by the regulator (calculated on the basis of the projected market macroeconomic assumptions (increase in wages and inflation)) as a result of the implementation of operational excellence measures (process supervision, robotisation, improvements) and data-based solutions that will increase the efficiency of operations), changes are planned referring to expected changes in the average annual consumer price index and remuneration prevailing during valuation;
- a part of operating expenses incurred by the Subsidiary is not included in the regulated prices of the electricity distribution and supply activity in accordance with the provisions of the Electricity Description;
- the calculation of the level of revenue does not involve estimates that additional profit would be earned as a result of the planned performance efficiency (such a possibility is established in the Electricity Methodology);
- investments are shown under the ten-year investment plan for 2018–2027. More extensive investing is planned starting from 2028 and until 2035, i.e. all the investments that were not made in prior periods with reference to the amount calculated in accordance with the long-run average incremental cost (LRAIC) model approved by the NERC ("the Model") are expected to be performed. It is planned that all items of technological assets that are currently depreciated or will become depreciated over the period until 2058 will be recovered until 2058;
- the cost of capital (return on investments and depreciation of non-current assets) is calculated and included when determining the prices of the distribution services for other regulatory periods in accordance with the Model approved by the NERC and in view of paragraph 7 of the Electricity Methodology;
- the valuation model assumes that the difference in the level of revenue in the amount of EUR 26.5 million, calculated in establishing the price caps for electricity distribution services through medium and low voltage networks for 2019 (and the additionally calculated amount of interest equal to EUR 0.567 million) will be returned to the Subsidiary during the upcoming regulatory period (starting from 2021). Therefore, the value of assets will not change as a result of this resolution of NERC.

Based on the discounted cash flow method, the value of the Group's electricity business enterprise was estimated and the value attributable to PPE was determined.

Having assessed all above-mentioned assumptions and having performed the fair value assessment, the Group has identified that the carrying amount of property, plant and equipment attributed to the electricity business segment as at the reporting date of 31 December 2018 would increase materially. Consequently, the Group's management decided to increase by EUR 37,125 thousand carrying value of the assets (Note 6).

The Group performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs using the following scenarios:

Sensitivity analysis scenario I

By calculating the level of revenue and performing regular assessment of the adjustments of the return on investments arising between the actual return on investments, as calculated on the basis of the LRAIC model, and the actual (historical) return on investments, as calculated on the basis of the performance of investments, and depreciation, the value of property, plant and equipment would decrease by EUR 339 million;

Sensitivity analysis scenario II

If judicial authorities rejected the complaint concerning NERC's resolution under which the income from distribution services for 2019 of Energijos skirstymo operatorius AB was reduced by EUR 26.5 million and interest in the amount of EUR 0.5 million was additionally charged the income for the forecast period (2019–2058) would decrease by the said amounts of EUR 26.5 million and EUR 0.6 million and the fair value of PP&E would decrease to EUR 1.119 million;

Sensitivity analysis scenario III

Had NERC established the level of revenue starting from 2026 and applied a 20% lower rate of return on investments, i.e. equal to 4.78% (which is the average rate of return on investments effective for the electricity sector and the gas sector for the new regulatory period as established by NERC in respect of Energijos skirstymo operatorius AB), the fair value of property, plant and equipment would decrease by EUR 308 million;

Sensitivity analysis scenario IV

If the (pre-tax) discount rate was applied within the interval of -/+ 20%, the value of assets would correspondingly decrease or increase.

The sensitivity of the value of assets to the discount rate is presented in the table below:

Measured output	Change in discount rate (after-tax) -20%	-10%	0%	10%	20%
Discount rate (pre-tax), %	4.78	5.36	5.96	6.56	7.15
Discount rate (after-tax), %	4.06	4.56	5.07	5.58	6.08
Change in value of property, plant and equipment (million EUR)	521	242	0	-205	-376

Review of impairment of assets used in gas distribution in 2019

The carrying amount of assessed assets of *"Gas distribution pipelines, gas technological equipment and installations"* managed by the Company's subsidiary Energijos skirstymo operatorius AB and attributable to gas distribution CGU in the Group accounts as at 31 December 2019 amounts to EUR 242,288 thousand. This property, plant and equipment attributable to gas distribution CGU is accounted applying cost model and is stated at acquisition cost less accumulated depreciation and impairment. The recoverable amount of these assets, which is the fair value less costs to sell, has been tested by making cash flow forecast for the period until 2074 for the natural gas operating segment, because the gas distribution activity is regulated on the basis of regulated asset base, which mainly consists of assets with long useful life – gas pipelines (useful life of 55 years).

The following key assumptions were used by the Group in making cash flow forecast:

- In setting the price cap of the gas distribution service for 2019–2023, NERC approved the rate of return on investments equal to 3.59% for this period. In 2020, WACC of 3.84 % (pre-tax) was applied for approving the natural gas distribution price, and, therefore, it was assumed that in the period from 2021 until 2023 the same WACC of 3.84 % (pre-tax) will apply. As from 2024 (in the long term), the rate of return on investments of 5.96%, estimated by the management, has been applied for the cash flow forecast period (as calculated according to the calculation data, which is publicly available on the NERC's website, the WACC (pre-tax) Methodology as approved by NERC, and projected market trends). In the long term, an assumption is made that the rate of return on investments will approximate the discount rate.
- Discount rate of 5.07% (after tax) (5.96% pre-tax) was used to calculate discounted cash flows.
- Forecasted operating expenses for the year 2020 are based according to the approved budget, for the period of 2021-2030 according to the Company's subsidiary Energijos skirstymo operatorius AB strategy and expected reduction in operating costs (forecasted operating expenses until 2030 are expected to be approximately lower by 16% compared to the upper level approved by NERC (calculations are based on forecasted macroeconomic assumptions (increase of payroll expenses and inflation))) due to implementation of activity excellence initiatives (process review, robotisation, improvements) and data-driven solution that will enable to run business more efficiently. Forecasted changes since 2031 are according to the projected average annual consumer price index (CPI) and wage developments.
- A part of operating expenses incurred by the 's subsidiary not included in the regulated prices of the gas distribution activity in accordance with the provisions of the Gas Description.
- The calculation of the level of revenue does not involve estimates that additional profit would be earned as a result of the planned performance efficiency (such a possibility is established in the Gas Methodology).
- Investments are shown under the ten-year investment plan for 2019–2028. Starting from 2029 and until 2074, gradual decrease is expected to occur with each year.

Having assessed all above-mentioned assumptions and having performed an impairment test, the Group has identified that the carrying amount of property, plant and equipment attributed to the gas business segment as at the reporting date of 31 December 2019 would decrease immaterially (less than 5%), hence the management of the Group decided to withhold from making adjustments to the value of gas assets.

Sensitivity analysis

The Group performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs using the following scenarios:

Sensitivity analysis scenario I

Had NERC established the level of revenue for the gas CGU starting from 2023 and applied a 5% lower rate of return on investments, i.e. equal to 5.66% (pre-tax), and determined that no additional impairment would be calculated.

Sensitivity analysis scenario II

If the estimated after-tax discount rate was at 5.58% (which is 10% higher than the discount rate of 5.07% used in the long-term model), an impairment of EUR 35 million would be recorded.

The sensitivity of the value of assets to the discount rate is presented in the table below:

Measured output	Change in discount rate (after-tax) -20%	-10%	0%	10%	20%
Discount rate (pre-tax), %	4,78	5,36	5,96	6,56	7,15
Discount rate (after-tax), %	4,06	4,56	5,07	5,58	6,08
Change in value of property, plant and equipment (million EUR)	150	104	0	28	-1

Previous assessment of impairment of assets used in gas distribution (restated as disclosed in Note 4.27)

The Group property, plant and equipment of Gas distribution pipelines, Gas technological equipment and installations with the carrying amount of EUR 201,249 thousand as at 31 December 2018 are owned by the Company's subsidiary Energijos skirstymo operatorius AB. This property, plant and equipment is stated at acquisition cost, less depreciation and impairment. The recoverable value (being fair value less cost of disposal) of these assets were assessed by forecasting cash flows until 2073, because the gas distribution activity is regulated with reference to the regulated asset base, which mainly consists of assets with long-term useful life, e.g. gas distribution pipelines (55 years).

The main assumptions used in the cash flow forecast were as follows:

1. In setting the price cap of the gas distribution service for 2019–2023, NERC approved the rate of return on investments equal to 3.59% for this period; From 2024 (in the long term), the rate of return on investments of 5.96%, estimated by the management, has been applied for the cash flow forecast period (as calculated according to the calculation data, which is publicly available on the NERC's website, the WACC Methodology as approved by NERC, and projected market trends). In the long term, an assumption is made that the rate of return on investments will approximate the discount rate;
2. The cash flows were discounted using a post-tax discount rate of 5.07%;
3. The Group's operating expenses for 2019 are planned under the budget and its operating expenses for 2020–2030 are planned on the basis of the Company's subsidiary's strategy with respect to planned directions for expense reduction. Starting from 2031 changes are planned referring to expected changes in the average annual consumer price index and remuneration prevailing during valuation. It is expected that by 2030 the level of operating expenses will be up to 16% lower than the level of expenses permissible by the regulator (calculated on the basis of the projected market macroeconomic assumptions: increase in wages and inflation) as a result of the implementation of operational excellence measures (process supervision, robotisation, improvements) and data-based solutions that will increase the efficiency of operations;

4. A part of operating expenses incurred by the Group is not included in the regulated prices of the gas distribution activity in accordance with the provisions of the Gas Description;
5. The calculation of the level of revenue does not involve estimates that additional profit would be earned as a result of the planned performance efficiency (such a possibility is established in the Gas Methodology);
6. Investments are shown under the ten-year investment plan for 2018–2027. Starting from 2028 and until 2073, gradual decrease is expected to occur with each year.

Having assessed all above-mentioned assumptions and performed the fair value assessment, the Group has identified that the increase in the value of property, plant and equipment attributed to the gas distribution CGU was equal to EUR 575 thousand as at 31 December 2018. The Management made a decision to reverse the previously recorded impairment of the gas distribution CGU established in prior periods (Note 6).

Impairment test and reversal of impairment for the Gas Business Segment have been performed as at 31 December 2018, as the assumptions of the impairment test have significantly changed and the impairment that had been accounted for as at 31 December 2014 needs to be reversed.
The principal assumptions due to the change in which the reversal of impairment for the gas distribution CGU has been identified are as follows:

1. The estimated increase in investments will consequently result in increasing return on investments and depreciation. The value of regulated assets used in the 2018 impairment test is higher as at the beginning of 2019 than that estimated in the 2014 impairment test model.
2. The assumptions related to the regulatory return and discount rate have changed. In the 2014 impairment test model, return is calculated at 7.09% and the discount rate is set at 6.03% (post-tax). In the 2018 impairment test, regulatory return for 2019–2023 is calculated at 3.59% and after 2023 is calculated at 5.96% pre-tax which is an equivalent of post-tax discount rate of 5.07% which was used in the model.
3. The amount of income tax relief for investments is estimated to be higher.

The Group performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs and applying scenarios when (i) starting from 2023 is applied a 10% lower rate of return on investments, i.e. equal to pretax 5.36% (ii) estimated post-tax discount rate was at 5.32% (which is 5% higher than the discount rate of 5.07% used in the long-term model) and determined that no additional impairment would be calculated in tested scenarios.

4.4 Review of power plants impairment

The carrying amount of assessed assets of *“Assets of Hydro Power Plant, Pumped Storage Power Plant”* and *“Structures and machinery of Thermal Power Plant”* managed by subsidiary Ignitis gamyba AB in the Group accounts as at 31 December 2019 amounts to EUR 446,553 thousand.

Thermal Power Plant consists of Elektrėnai Complex and Vilnius Thermal Power Plant No 3.
Elektrėnai Complex consists of the Reserve Power Plant, Combined-Cycle Unit and new Biofuel and Steam Boiler Plants.

As at 31 December 2019, the Group management assessed the external factors (changes in economic and regulatory environment, market composition, interest rates, etc.) and the internal factors (changes in the purpose of use and useful life of assets, cash flow generation capacity of assets, etc.) that might impact the value of non-current assets. In view of this, it was decided to carry out an impairment test of the Elektrėnai Complex as a cash-generating unit. Following the Elektrėnai Complex impairment test and after deducting grants, the recoverable amount exceeded the carrying amount of Elektrėnai Complex. The main aspects of testing are described below. No impairment indications were identified for the remaining property, plant and equipment.

In line with the decisions of NERC on the regulated prices of Elektrėnai Complex services in 2020 and volume of services of Elektrėnai Complex for future periods, the Group management treated the Elektrėnai Complex as a single cash generating unit.

Elektrėnai Complex is treated as a single cash generating unit based on the following:

- Elektrėnai Complex commonly shared infrastructure, which is necessary for electricity generation facilities: For Units 7 and 8 and a combined cycle unit, (hereinafter “the CCU”).
- The electricity transmission system operator informed that all Elektrėnai Complex units owned by the Group, which do not provide tertiary active power reserve service (hereinafter - the Reserve), will be used to provide services ensuring isolated operation of the power system in 2020.
- One of the Elektrėnai Complex electricity generation facilities provides both services at a partial capacity, i.e. services ensuring isolated operation of the power system is provided by using the capacity not allocated to the Reserve service.
- The Reserve Service Agreement provides for the possibility of exchanging the reserve service equipment with other equipment managed by the Group that meets the technical requirements.
- The electricity and thermal power generation, capacity reserve services, as well as services ensuring isolated operation of the power system at the Elektrėnai Complex are considered to be regulated activities.
- The Biofuel and Steam Boiler Plants share the same infrastructure with other facilities of the Elektrėnai Complex (electricity connections, thermal power networks, other pipelines, pumps, chemical bar, etc.), which represents the major part of all assets operated by the Elektrėnai Complex. The steam boilers have been mounted in the same building, which is used for the services provided by Combined-Cycle Unit, and the main purpose of use of the boilers (99.9% of assets of the Steam Boiler Plant are attributed to this area) is to activate the electricity generation units of the Elektrėnai Complex from “cold” operation mode and to generate steam energy that is necessary to support the infrastructure of the Elektrėnai Complex;
- The Biofuel and Steam Boiler Plants also supply thermal power that is necessary to support the infrastructure of the Elektrėnai Complex and to activate the electricity generation units of the Elektrėnai Complex.

The recoverable amount of cash generating unit was estimated with reference to the value in use calculations. These calculations take into account the forecasts of financial performance results prepared by the management for the period of five years. Continuous cash flow is estimated using the discounted cash flow in the fifth year.

The management estimated the projected operating profit in view of historical data, forecasts of market position and the legal acts in effect, as well as based on the relevant resolutions of NERC, the Ministry of Energy, and the Government.

Key assumptions used in performing the impairment test as at 31 December 2019 were as follows:

1. The value in use was estimated with reference to the most up-to-date budget for the year 2020 and the management’s forecast covering the period 2021-2024, the projected pre-tax discounted cash flows using a pre-tax weighted average capital cost (WACC) of 5.18%. The WACC was estimated with reference to risk-free borrowing cost, the risk premium for the equity and the relative risk rate for the sector, calculated using publicly available market data and based on the terms and conditions of the new credit agreement.
2. Cash flow forecasts are prepared by the management as a result of financial projections based on the financial performance results, market development expectations and regulatory environment. The forecast of revenue from regulated activities also take into account the depreciation expenses of property, plant and equipment and the return on investments, which is calculated on a proportion of the value of the assets used in the regulated activities. When estimating return on investments for 2020, the management used the rate of return on investments set by NERC for this year, which

was 5.07%. The rate of return on investment for 2021–2024 was calculated in accordance with The Methodology of Determination of the Rate of Return on Investments approved by the Order No O3-510 of NERC of 22 September 2015 has been approved by the Methodology for Determining the Rate of Return on Investments, taking into account the most current market information and long-term forecasts and amounts to 3.20–3.40%. Long-term cash flow forecasts were prepared taking into the account volume of services in 2020 and the legal framework applicable to them.

As a result of the impairment test in Elektrėnai Complex, it was determined that the assets' recoverable amount of EUR 226 million exceeded their carrying amount (less grants) of EUR 185 million as of 31 December 2019. Accordingly, no impairment was recognised. The sensitivity of the recoverable amount to changes in the WACC (discount rate) is presented in the table below. If the WACC increased by 0.5%, the recoverable amount of Elektrėnai Complex would amount to EUR 199 million, or to EUR 179 million if the WACC increased by 1.0%. Another table below also reveals the dependence of recoverable amount on the long-term cash flow growth assumption. The impairment test was based on a long-term cash flow growth assumption of 2%.

Analysis of the recoverable amount sensitivity to changes in WACC:

Measured output	WACC change, %						
	-0.50%	0.00%	0.50%	1.00%	1.50%	2.00%	2.50%
WACC, %	4.68	5.18	5.68	6.18	6.68	7.18	7.68
Recoverable amount, EUR million	262	226	199	179	163	150	139
Recoverable amount compared to carrying amount, EUR million	73	36	10	-11	-27	-40	-51

Analysis of the recoverable amount sensitivity to the changes of the long-term cash flow growth assumption, other assumptions remain constant.

Measured output	Change of the long-term cash flow growth assumption, %						
	-2.0%	-1.5%	-1.0%	-0.5%	0.0%	0.5%	1.0%
Long term cash flow forecast, %	0%	0,5%	1,0%	1,5%	2,0%	2,5%	3,0%
Recoverable amount, EUR million	160	171	185	202	226	258	304
Recoverable amount compared to carrying amount, EUR million	-30	-19	-5	13	36	68	115

Previous review of power plants impairment

As at 31 December 2018, the Group's management assessed the external factors (changes in economic and regulatory environment, market composition, interest rates, etc.) and the internal factors (changes in purpose of use and useful life of assets, cash flow generation capacity of assets, etc.) that might impact the value of non-current assets, and identified impairment indications for the Group's property, plant and equipment category 'Structures and machinery of Thermal Power Plant' consisting of the Reserve Power Plant, Combined-Cycle Unit and new Biofuel and Steam Boiler Plants (hereinafter 'the Elektrėnai Complex').

No impairment indications were identified for the Group's property, plant and equipment category 'Structures and machinery of Hydro Power Plant and Pumped Storage Power Plant' consisting of Kruonis Pumped Storage Power Plant and Kaunas Algirdas Brazauskas Hydroelectric Power Plant.

4.5 Impairment of investments into subsidiaries

Although the shares of the Company's subsidiaries Energijos skirstymo operatorius AB and Ignitis gamyba AB are traded on Nasdaq Vilnius Stock Exchange, the Group's management believes this market is not active enough so that the quoted stock price could be treated as equivalent to the fair value of investments in subsidiaries at the reporting date.

As at 31 December 2019, the Company's management performed an assessment to identify any indicators of impairment for investments into subsidiaries and amounts receivable with reference to the external factors (changes in economic and regulatory environment, market composition, interest rate, etc.) and internal factors (return on investments, results of operations, etc.) that might have impact on impairment of investments into subsidiaries and amounts receivable.

Having identified impairment indications for investments in subsidiaries and amounts receivable as at 31 December 2019, the Company performed impairment testing for the following subsidiaries: Energijos skirstymo operatorius AB, Ignitis UAB, Ignitis renewables UAB, Eurakras UAB, Vėjo vatas UAB, Vėjo gūsis UAB, Tuuleenergia OÜ, NT Valdos UAB and Elektroninių mokėjimų agentūra UAB. Impairment indication is determined when at least one of the following indicators are met (except for early stage companies):

1. Actual adjusted EBITDA is less than budgeted adjusted EBITDA
2. Actual adjusted net profit is less than actual dividends paid
3. Book value of Investment is higher than book value of equity

Energijos skirstymo operatorius AB

The Company performed an impairment test for investment into subsidiary Energijos skirstymo operatorius AB. There is no impairment loss for investment into Energijos skirstymo operatorius AB as at 31 December 2019.

The main assumptions used in impairment test were as follows:

1. The cash flow of gas distribution activity forecast covered the period until the year 2074, with reference to the fact that gas distribution activity is focused on regulated activity property plant and equipment base with a long time useful life assets (55 years); after year 2074 calculated terminal cash flow
2. The cash flow of electricity distribution activity forecast covered the period until the year 2059, with reference to the fact that electricity distribution activity is focused on regulated activity property plant and equipment base with a long time useful life assets (40 years), i.e. electricity lines. A terminal cash flow applied for the period after year 2059.
3. The cash flows forecasted with the return on investment (ROI) of 5.96 % (electricity since year 2026 and gas since year 2024). ROI is calculated according public information and methods, approved by NERC and planned market trends.
4. Discount rate (weighted average cost of capital after tax) of 5.07% was used to calculate discounted cash flows.
5. Forecasted operating expenses for the year 2020 according to approved budget, for the period of year 2021-2030 according to Energijos skirstymo operatorius AB strategy and expected reduction in operating costs (forecasted operating expenses reduction approximately lower by 16% compared to the level approved by regulatory institution until the year 2030 (calculations based on forecasted macroeconomic assumptions (increase of payroll expenses and inflation), as well as performance of activity excellence tools (process review, robotization, improvements) and data-driven solution that will enable to run business more efficiently. Forecasted changes since the year

2031 according the projected average annual consumer price index (CPI) and wage developments.
6. Forecasted revenue level is not affected by the additional profit generated due to the planned efficiency of the Energijos skirstymo operatorius AB .
7. Capital investments forecasted using approved 10 year capital investments plan, after 10 years using management assumptions provided.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs:
1. The discount rate change has a significant impact for the result of impairment test. The sensitivity analysis showed that a 0.5 p.p. change in the discount rate would result in a decrease of the investment by up to EUR 34.1 million (at discount rate of 5.57%) or would have no impact for the value of investments (at discount rate of 4.57%).
2. The ROI change has a significant impact for the result of impairment test. The sensitivity analysis showed that a 0.5 p.p. change in the ROI would result in a decrease of the investment by up to EUR 60.0 million (at ROI of 5.46%) or would have no impact for the value of investments (at ROI of 6.46%).

Ignitis UAB

The Company performed an impairment test for investment into subsidiary Ignitis UAB. There is no impairment loss for investments as at 31 December 2019. The Company determined that carrying value of investment is lower than its estimated recoverable value and reversed EUR 4,010 thousand impairment loses. Detailed information disclosed in Note 9.

As at 31 December 2019, the Company tested for impairment its investment in subsidiary Ignitis UAB using the discounted cash flow method. Discount rate (weighted average cost of capital after tax) of 8.3% was applied to calculate discounted cash flows.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. The sensitivity analysis showed that a 1.0 p.p. change in the discount rate would not have impact for the value of investments into Ignitis UAB.

Ignitis renewables UAB

The Company performed an impairment test for investment into subsidiary Ignitis renewables UAB. There is no impairment loss for investments into Ignitis renewables UAB as at 31 December 2019. The scope of impairment test of Ignitis renewables UAB includes impairment test of subsidiaries (Eurakras UAB, Vėjo vatas UAB, Vėjo gūsis UAB) directly controlled by Ignitis renewables UAB that develop and manage wind farm parks.

The impairment test was performed using the discounted cash flow method and using the following key assumptions:
1. The cash flow forecast covered the period until the year 2045 as usual period of wind farm parks operations lasts for 25 – 30 years;
2. The production volume is stable each year, based on the study of the wind power farm prepared by a third party or actual volume of production (depends on wind farm park).
3. During the first twelve months of operation, the price of electricity is equal to agreed tariff. After end of period when agreed tariff is applied there is used projection of electricity prices prepared by third party;
4. The cash flows were discounted using a discount rate (weighted average cost of capital after tax) of 4.7%.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. The sensitivity analysis showed that a 1.0 p.p. change in the discount rate would not have impact for the value of investments into Ignitis renewables UAB.

Tuuleenergia OÜ

The Company performed an impairment test for investment into subsidiary Tuuleenergia OÜ. There is no impairment loss for investments into Tuuleenergia OÜ as at 31 December 2019.

The impairment test was performed using the discounted cash flow method and using the following key assumptions:
1. The cash flow forecast covered the period until the year 2038;
2. The production volume is stable each year, based on the study of the wind power farm prepared by a third party.
3. During the first twelve months of operation, the price of electricity is the market price plus 54.00 EUR/MWh feed-in premium.
4. The cash flows were discounted using a discount rate (weighted average cost of capital after tax) of 4.3%.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. The sensitivity analysis showed that a 1.0 p.p. change in the discount rate would not have impact for the value of investments into Tuuleenergia OÜ.

NT Valdos UAB

The Company performed an impairment test for investment into subsidiary NT Valdos UAB. There is no impairment loss for investments into Ignitis UAB as at 31 December 2019. The Company determined that carrying value of investment is lower than its estimated recoverable value and reversed previously recorded impairment loss EUR 9,035 thousand impairment loses. Detailed information disclosed in Note 9.

As at 31 December 2019, the Company tested for impairment its investment in subsidiary NT Valdos UAB using the net assets method. For the purposes of determining the net asset value of an investment, all assets (long-term and short-term) of the subsidiary were valued at market value, less any debts and liabilities of the subsidiary.

Elektroninių mokėjimų agentūra UAB

The Company performed an impairment test for investment into subsidiary Elektroninių mokėjimų agentūra UAB. There is no impairment loss for investments into Elektroninių mokėjimų agentūra UAB as at 31 December 2019.

As at 31 December 2019, the Company tested for impairment its investment in subsidiary using the discounted cash flow method. Discount rate (weighted average cost of capital after tax) of 5,6% was applied to calculate discounted cash flows.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. The sensitivity analysis showed that a 1.0 p.p. change in the discount rate would not have impact for the value of investments into Elektroninių mokėjimų agentūra UAB.

The Company's other investments in subsidiaries

As at 31 December 2019, there were no indications of impairment in respect of other investments in the subsidiaries of the Company.

Previous year Impairment of investments into subsidiaries and amounts receivable

As at 31 December 2018, the Company's management carried out an impairment test to determine existence of indications of impairment for investments into subsidiaries and amounts receivable with reference to the external factors (changes in economic and regulatory environment, market composition, interest rate, etc.) and internal factors (return on investments, results of operations, etc.) that might have impact on impairment of investments into subsidiaries and amounts receivable.

Having identified impairment indications for investments in subsidiaries and amounts receivable as at 31 December 2018, the Company performed impairment testing for the following subsidiaries: Energijos skirstymo operatorius AB, Ignitis UAB (former name – Energijos tiekimas UAB), Eurakras UAB, Tuuleenergia OÜ, Energetikos paslaugų ir rangos organizacija UAB. There was not identified impairment of investmens in subsidiaries except for investments in Energetikos paslaugų ir rangos organizacija UAB.

As at 31 December 2018, the Company determined impairment for investments into Energetikos paslaugų ir rangos organizacija UAB in the amount of EUR 6,723 thousand. Following the recognition of impairment, the investment's recoverable amount (which is equivalent to its fair value) is equal to EUR 0 thousandDetailed information disclosed in Note 9.

4.6 Impairment of goodwill in consolidated accounts

The Company performed an impairment test of EUR 1,461 thousand goodwill recognized on acquisition of subsidiary Eurakras UAB and impairment test of EUR 2,150 thousand goodwill recognized on acquisition of subsidiary VVP Investment UAB and determined no impairment of goodwill as at 31 December 2019 (Note 43).

4.7 Judgements and accounting estimates pertaining to control over Kauno kogeneracinė jėgainė UAB

As at 31 December 2019, the Company held 51% shareholding in Kauno Kogeneracinė Jėgainė UAB (hereinafter "KKJ"), and the remaining 49% of shares was held by FORTUM HEAT LIETUVA UAB (hereinafter "FORTUM").

Both shareholders have signed the Shareholders' Agreement under which key decisions over the business should be taken unanimously by the shareholders and / or by the Board which consists of equal number of representatives from both shareholders and one independent member. If the shareholders fail to reach the consensus on the deadlock situation, the Company has an option to buy (call option) all the shares of KKJ held by FORTUM and thus, whereas FORTUM has an option to sell (put option) to the Company its shareholding in KKJ, for the price, the calculation of which is defined in the Shareholders' Agreement. As a result the Management believe the Group exercise control over KKJ, as this can be exercised when decisions need to be made.

In the Group's management view, the call option's exercise price that the Company will have to pay to FORTUM for buyout of KKJ shares owned by FORTUM, in case the Company accepts option executed by Fortum, approximates the fair value of the shares less 15% within the limits of the materiality (materiality threshold is based on the best estimate practice, such as +/- 15% of the market value).

At 31 December 2019, the Group accounted for EUR 16,660 thousand (31 December 2018: EUR 16,660 thousand) put option exercise liability (Note 31) measured as net present value of the single future cash outflow, which would be paid to FORTUM for KKJ shares in a deadlock situation in case the put option is exercised.

4.8 Deferred payment on disposal of shares of LitGrid AB

In 2012, the shares of LitGrid AB held by the Company were transferred to a newly established private limited liability company EPSO-G UAB in return for a certain consideration based on the market value of the shares established by independent valuers. The purchase-sale agreement of shares of LitGrid AB provides for a premium to the final price, the amount of which depends on the return on regulated assets of the electricity transmission activity in year 2014–2018..

At the initial assessment of the price premium the Company concluded that according to the purchase-sale agreement of shares of LitGrid AB, the price premium is negative and amounts to EUR 4,679 thousand at 31 December 2019 (31 December 2018: EUR 4,679 thousand). According to EPSO-G UAB calculations the price premium at 31 December 2019 is negative and amounts to EUR 27,075 thousand (31 December 2018: EUR 27,075 thousand).

The Company disagrees with EPSO-G UAB prepared calculations. There is currently a debate on how to resolve the situation. For the purposes of the statement of financial position, the Company's management has assessed and recognised the negative premium price for amount EUR 15,877 thousand (as at 31 December 2018: EUR 15,877 thousand) on the basis of a scenario, that the possible agreement between the parties would be the average value of the Company's and EPSO-G UAB calculations. After this assumption the gross receivable on disposal of the shares of LitGrid AB amounted to EUR 174,535 thousand was reduced by EUR 15,877 thousand as the sales price will be adjusted by the price premium.

Deferred receivables are assigned to level 3 of the fair value hierarchy.

4.9 The Group's and the Company's non-current assets held for sale and discontinued operations

Non-current assets held for sale

The Group and the Company classify property, plant and equipment and disposal groups as held for sale, if their carrying amount is recovered through a disposal rather than through continuing use, the assets and disposal groups are available for immediate sale, and a sale is considered highly probable in their current condition and under the conditions that are usual for sale of such assets and disposal groups. The Group and the Company are committed to a plan to sell these assets and disposal groups, and initiate an active programme to locate a buyer. The sale of assets is to be performed within one year of classification as held for sale and there are no indications that the plan will be significantly changed or withdrawn.

The Group's non-current assets held for sale consist of property, plant and equipment and disposal groups, that comprise transport business of the subsidiary Transporto valdymas UAB and IT business of the subsidiary Duomenų logistikos centras UAB (Note 20).

The transport business comprises motor vehicles, agreements on lease of motor vehicles that are expected to be disposed all together, as well as other assets and liabilities related to transport business. The transport business is classified in the Group's financial statements as assets held for sale based on the Group's management decision to sell the business and initiation of location of the future investor to enter into sale transaction of transport business.

All amounts are in EUR thousand unless otherwise stated

In November 2016, the Company's shareholder made a decision to launch the sale process of the Company's subsidiary Duomenų logistikos centras UAB. On 7 August 2017, the Company announced it has signed the agreement on the sale and purchase of the company's shares. On 21 June 2018, the Competition Council terminated the procedure for treatment of certain concentrations following the notice of the buyer on the abandonment of concentration. The Company passed the decision to agree with the termination of the agreement with the buyer. The Company does not withdraw from its plans to sell the company and continues to seek for a potential buyer and has renewed the sale process of Duomenų logistikos centras UAB.

The Company statement of financial position at 31 December 2019 includes the investment into Duomenų logistikos centras UAB in amount of EUR 4,705 thousand (31 December 2018: EUR 4,705 thousand) within item 'Non-current assets held for sale'.

The Company statement of financial position at 31 December 2019 includes the investment into Transporto valdymas UAB in amount of EUR 2,359 thousand (31 December 2018: EUR 2,359 thousand) within item 'Non-current assets held for sale'.

In year 2020, the Group's and the Company's management plans to continue active sales of assets and expects the sale transactions started in year 2017–2018 to be finalised in year 2020.

Discontinued operations

As at 31 December 2019 the Group recognized assets of subsidiaries Transporto valdymas UAB and Duomenų logistikos centras UAB in statement of financial position as Assets held for sale (note 20) and liabilities of subsidiaries are accounted for as Liabilities directly associated with the assets held for sale. The Group considered whether results of financial performance attributable to subsidiaries, according to requirement provided in IFRS 5 "Non-current assets held for sale and discontinued operations", comprise the Group discontinued operations. IFRS 5 defines discontinued operations as *"a component of an entity that either has been disposed of or is classified as held for sale and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale."*. The Group management has applied a significant judgment in determining that the operations of individual subsidiaries do not represent a separate major line of the Group business thus results of financial performance attributable to subsidiaries do not meet definition of discontinued operations provided in IFRS 5.

4.10 Provision for statutory servitudes

On 1 November 2017, amendments to the Law on Electricity of the Republic of Lithuania came into effect. The amendments set forth compensation for servitudes established for the construction of electricity networks in land not owned by the operator. The Electricity Law provides that the construction of electricity transmission and distribution networks or other types of electricity installations will be subject to the payment of one-off compensations for damages related with the establishment of statutory servitudes (which came into effect on 10 July 2004). The methodology on the payment of servitudes came into force as of 31 July 2018. Under this methodology, an estimated gross amount of payments for servitudes was assessed and accounted for in 2018. This estimate included a significant assumption on the number of land owners who will approach the Group for compensation, since the law prescribed the Group obligation to compensate those land owners which approached the Group for it. At the date of initial recognition, the Group recognized EUR 28,563 thousand of intangible assets (assets with indefinite useful life carried at cost less impairment) and EUR 28,725 thousand (at discounted value) of non-current liability provision under IAS 37. The amount of compensations paid in the period from year 2018 until 2019 was EUR 1,674 thousand. Provision for compensation for servitude was reduced accordingly.

At the end of year 2019, the Group assessed the key assumptions used to estimate the provision, i.e. the expected timing of compensation, the number of claimants, the period over which full payment will be made, and the discount rate. On the basis of the historical information available as well as updated assumptions, the following was calculated and accounted:: (a) EUR 26,426 thousand of the intangible assets; (b) EUR 23,018 thousand of the provision for non-current obligation; (c) EUR 3,893 thousand of the current portion of the provision for non-current obligation. For the purpose of the calculation of the provision, the discount rate was applied with reference to the lending rate of similar liabilities and was equal to 0.559% (31 December 2018 – 1.135%). In calculating the total amount of compensations, the percentage of customers who are unlikely to apply for compensations used was 15% (5% in 2018) based on the management estimates and the number of clients who actually applied during the period from year 2018 to 2019. The period during which the customers will apply for compensation is 10 years from the effective date of the methodology with additional period of 1 year of the date of the submission of the request to pay the compensation (the terms of the methodology provide for two years from the date of the submission of the request to pay the compensation, but effectively the Group pays within one year). It should be noted that the value of the provision may vary depending on the number of actual applicants, a sensitivity analysis of this significant assumption is provided below:

	Number of applicants, %				
Measured output	**80%**	**85%**	**90%**	**95%**	**100%**
Change in provision for compensations of servitudes, thousand EUR	-1,725	-	+1,770	+3,530	+5,280

As at 31 December 2019, the amount of the provision was equal to EUR 26,952 thousand (31 December 2018: EUR 28,023 thousand) (Note 28). The total amount of the provision is included in non-current liabilities pursuant to the provisions of the aforementioned methodology, according to which the one-off compensation for statutory servitudes is to be paid within 2 years from the date of the submission of an eligible application.

4.11 Determining whether statutory and contractual servitudes are a lease

Management of the Group analysed whether statutory and contractual servitudes are in scope of IFRS 16 Lease and concluded that statutory and contractual servitudes are not in scope since both statutory and contractual servitudes are not limited in time and can be used by the Group for an indefinite period of time.

4.12 Determining whether the Group acts as a Principal or an Agent in relation to electricity transfer, which includes both transmission and distribution, and gas distribution services

Electricity transfer services

In providing electricity transfer service (includes both transmission and distribution) to end users, the Group in Lithuania and Latvia acquires electricity transmission services from transmission grid operator (not a part of the Group), and in Latvia acquires electricity distribution services from distribution grid operator which is not a part of the Group. Management of the Group analysed related contracts with electricity transmission and distribution grid operators and contracts with customers, also evaluated applicable regulatory environment for the conclusion whether the Group is acting as a Principal or as an Agent in relation of electricity transmission services in Lithuania and electricity transfer (includes both transmission and distribution) services in Latvia have considered arguments provided further:

- According to the legislation the electricity transfer service comprises of (i) electricity transmission over high voltage grid and (ii) distribution over low and mid-voltage grid services. Electricity distribution services are provided by the distribution grid operator. In Lithuania the distribution grid operator is the Group, in Latvia – a company which is not a part of the Group. Transmission services are provided by transmission system operator which is not a part of the Group.
- The Group controls transmission services in Lithuania before transferring it to the end customer on the following grounds:
  - The Group is primarily responsible against the end users for electricity transfer service towards end customers.
  - The Group bears a risk of loss in case of outage of electricity, regardless of whether there was transmission or distribution grid failure.
  - The Group has discretion in establishing the final distribution price and transmission component is not re-charged on a pass-through principle.
- The Group doesn't control transmission and distribution services in Latvia before transferring it to the end customer on the following grounds:
  - For all transfer services the Group is not ultimately responsible, since according to the laws and regulations and agreements with customers the owner of the transmission and distribution grid takes full responsibility;
  - The Group also does not bear inventory risk since price of transfer services is determined based on meter readings – i.e. transfer fee is charged to the Group only to the amount of electricity consumed by the end customer;
  - The prices of transfer components are determined by the grid operator, which is not a part of the Group, and approved by regulator.

Following the arguments presented above the Management has applied a significant judgment concluded that the Group acts:

- as an Agent in relation to electricity transmission and distribution services acquired from the Latvian operator of electricity transfer system (Note 4.27),
- as a Principal in relation to electricity transmission services acquired from the Lithuanian operator of transmission system.

Gas distribution services

In providing gas distribution services to customers in Lithuania the Group uses its own distribution network, in Latvia – the Group acquires these services from the company which is not a part of the Group. Management of the Group analysed related contracts with the Latvian gas distribution grid operator and contracts with customers, also evaluated applicable regulatory environment and for the conclusion whether the Group is acting as a Principal or as an Agent in relation to gas distribution services in Latvia have considered arguments provided further:

- For gas distribution services the Group is not ultimately responsible, since according to the laws and regulations and agreements with customers the owner of the distribution grid takes full responsibility;
- The Group also does not bear inventory risk since price of distribution services is determined based on meter readings – i.e. distribution fee is charged to the Group only to the amount of gas consumed by the end customer;
- The price of distribution component is determined by the grid operator, which is not a part of the Group, and approved by regulator.

Following the arguments presented above the Management has applied a significant judgment (see Note 4.27) and concluded that the Group acts as an Agent in relation to gas distribution services acquired from the Latvian operator of gas distribution system.

4.13 Determining whether the Group acts as a Principal or an Agent in relation to PSO fees and LNGT security component

Management has applied a significant judgment (see Note 4.27) and concluded that the Group acts as an Agent in relation to collection of PSO fees and LNGT security components from customers due to the following argumentation:

1) the Group is not responsible for PSO and LNGT projects / initiatives, accordingly it is not responsible that collected PSO fees and LNGT security component are used for their intended purpose,
2) the Group is not exposed to any inventory risk,
3) the Group has no legal power to establish pricing of these components.

4.14 Determining whether connection of a new customer to the grid is a separate performance obligation from ongoing distribution service

Having considered that the Group has an ongoing distribution service contract with a new customer for both gas and electricity distribution, management of the Group also concluded that connection fees do not represent a separate performance obligation from the sale of ongoing distribution service (Note 4.27), since they are both highly interrelated due to the following:

- Majority of new customers pay the connection fees with the only reason being to get an ongoing access to the grid, so from the perspective of a customer there is one single service the Group is providing to its customers, which is ongoing access to the grid,
- connection fee does not represent 100% of connection costs incurred by the Group and significant part of connection costs is collected by the Group through the distribution tariff,
- connection and ongoing distribution services are highly interdependent, as ongoing access cannot be provided without providing the connection of the customer to the grid first.

4.15 Provision for special conditions on land use (protection zones)

On 6 June 2019 the Lithuanian Republic Law on Special Conditions on Land Use introducing obligation for the Group to register special protection conditions (protection zones) of a land owned or near the Group infrastructure in the state real estate registry and pay compensations to land owners for the land covered by the protection zones. This Law defines the procedure and principles for registration of these special land areas and requires to pay compensations for the use of special land areas under the procedure approved by the Government of the Republic of Lithuania.

When providing information to NERC on the price caps for electricity and gas for the year 2020, the Group assessed that the Lithuanian Republic Law on Special Conditions on Land Use will come into force on 1 January 2020 and that all special conditions on land use must be registered within 3 years period and compensation paid accordingly. Accordingly, NERC has included the cost of the registration of protection zones in the revenue cap for electricity and gas distribution effective for the year 2020. Costs of compensation to land owners for protection zones were excluded from the price cap for distribution for the year 2020. Electricity distribution price for the year 2020 includes EUR 8,059 thousand of protection zone registration costs, while gas distribution price – EUR 269 thousand. The provision of EUR 8,328 thousand was therefore recognized as the best management estimate (Note 28).

No provision is accounted for protection zone registration costs expected to be incurred in year 2021 and 2022, as the new wording of the regulation on Real Property Register is not yet approved by the relevant authorities and there is an uncertainty over the exact scope of work needed to register the protection zones. The management estimates that the compensation costs for the registration of protection zones in year 2021 and 2022 could be similar to those of year 2020 and amount to EUR 8.3 million annually, and EUR 24.9 million in the period from year 2020 to 2022, taking into account that the registration process will require the assistance of surveyors and/or other qualified professionals to develop plans/maps for special land use conditions. In case the Government of the Republic of Lithuania approves the new wording of the Regulations of the Real Estate Register and services of surveyors and/or other qualified professionals are not needed to develop plans/maps for special land use conditions, additional service costs for the registration of protection zones (registration, customer information, communication and other costs) associated with this obligation would amount to EUR 3.6 million.

No provision is accounted for compensation of land owners for the protection zones since the Government has not yet passed a methodology for payment of compensations for special protection zones that would describe the compensation mechanism and terms and therefore the Group is not able to determine reliably the amount of expenditures expected to be incurred for it.

4.16 Leases – determing the lease term and estimating the incremental borrowing rate

Determining the lease term of contracts with renewal and termination options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Group included the renewal period as part of the lease term for leases of shorter non-cancellable period (i.e., one to three, three to five, five to seven years, etc.). The Group usually exercises its option to renew for these leases. Lease of the state-owned land is not subject to an extension clause, after which the lessee has a pre-emptive right to extend the lease. The periods covered by termination options are included as part of the lease term only when they are reasonably certain to be exercised.

Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities (Note 24). The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

4.17 Provision for expected credit losses of trade receivables

The Group's uses a provision matrix to calculate expected credit losses for trade receivables. The Group accounts for expected credit losses (ECLs) assessing amounts receivable on an individual basis or on a collective basis applying provision matrixes adopted by the Group companies in respect of their clients / borrowers.

Collective assessment of ECLs applying provision matrix

The Company and the Group companies use a provision matrixes to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e. by customer type).

The provision matrixes are initially based on the Company and the Group companies historical observed default rates. The Company and the Group companies calibrates the matrixes to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., changes in gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group trade receivables is disclosed in Note 16.

Individual assessment of ECLs

Decision to asses amounts receivable on an individual basis depends on the possibility to obtaining information on the credit history of a particular client / 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 client, thus enabling making judgement on the recognition of lifetime expected credit losses in respect of that particular client / borrower. These accounting estimates require significant judgement. Judgement is based on information about substantial financial difficulties experienced by the debtor, probability that the debtor will enter bankruptcy or any other reorganisation, default of delinquency in payments.

In the absence of reliable sources of information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information, the Company/Group assesses the debt on a collective basis.

4.18 Estimation of over declaration of electricity usage by private customers and accounting for deferred revenue

In the circumstances when the tariff in subsequent period is higher than in current period according to the historical evidence of the Group it has been identified that private customers tend to overdeclare the consumption of electricity in the last months of the year. Since Group electricity distribution revenue depends on declarations of electricity consumed by the customers, overdeclaration increase Group revenue and therefore the Group needs to estimate the amount of the overdeclared (Note 17) consumption to evaluate the amount of deferred revenue. Estimation is based on historical consumption by the customers as well as Group assessment of technological losses in the electricity grid. All assumptions are reviewed at each reporting date For more information refer to Note 31.

4.19 Tax audits

If the Group determines that the tax treatment involves uncertainty that affects the application of IAS 12, the Group applies IFRIC Interpretation 23. This Interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

If the Group identifies the matters for which the tax determination is uncertain a provision is recognised for those matters considering that there will be a future outflow of funds to a tax authority due to rejection to accept an uncertain law treatment when making the examination of all relevant information. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

The Group in identifying whether it has any uncertain tax positions assess whether there is a possibility that the taxation authority may challenge those tax treatments. The Group determined, based on its tax compliance, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authority in case of examination of those treatments.

In accordance of legislation Tax Authorities may at any time during 3 successive years after the end of the reporting tax year inspect the Group books and accounting records and impose additional taxes or fines.

The Group management is not aware of any circumstances that the examination might result in a potential material liability in this respect.

4.20 Useful lives of property, plant and equipment and intangible assets

The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the experience with similar assets. However, other factors, such as technical or commercial obsolescence and physical wear and tear, result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following key factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions (Note 5, 6).

4.21 Provisions related to Emission allowances and dismantling of units in Elektrenai Complex

Emission allowances

As emissions are made, a liability is recognised for the obligation to deliver allowances equal to emissions that have been made. This liability falls within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. It is measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The liability is estimated at the market price multiplied by the number of allowances required to cover emissions made up to the reporting date. The Group estimates the provisions for emission allowances based on actual quantity of emission during the reporting period multiplied by the market price of one emission allowance. The quantity of actual emissions is approved by a responsible state authority during four months after the end of the year. The provision accounted for as at 31 December 2018 was consistent with actual quantities of emissions that were confirmed in year 2019. The Group management, based on its own experience, does not expect any significant differences to arise between the estimated provision at 31 December 2019 (Note 28) and the quantity of emissions which will be approved in year 2020.

Dismantling of units in Elektrenai Complex

At each reporting date, the Group estimates the provision for the dismantling of units 5–6 (i.e. blocks that consist of assets related to electricity generation) and chimneys at the Elektrenai Complex taking into account the expected economic outflows, which will be incurred in the future, when dismantling works will be actually performed. The dismantling of units 5, 6 and chimneys was initiated mainly due to health and safety reasons. The Group publicly announced its intention to carry out the works, currently a public call for tender was launched. For such reasons, the Company has an irrevocable obligation, therefore, provision was recognised under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

4.22 Accrued revenue from PSO funds

The Group rendered PSO services until 31 December 2018. PSO funds were allocated to the maintenance of the infrastructure of the Elektrėnai Complex (Elektrenai Complex is predetermined power plants ensuring power system reserves of the state), to cover expenses related to the testing of the necessary electricity generation facilities and relatively fixed costs of equipment used for provision of services. Infrastructure maintenance costs cover fuel, emission allowance and other production costs that are incurred in the course of generation of heat which is necessary to support infrastructure, as well in the course of generation electricity which is consumed by the Elektrėnai Complex, and gas consumption capacity taxes.

Allocated amount of PSO funds is determined for the next calendar year by NERC, in view of the projected costs of the Group. According to the Group management assessment, the Group has an irrevocable obligation to receive or pay the resulting difference in accordance with applicable laws regarding the PSO funds.

As at 31 December 2019, the Group recognised PSO funds to be refunded by the state during next 12 calendar months in the amount of EUR 1,039 thousand. As at 31 December 2018: the Group accounted for EUR 2,765 thousand a payable amount for the same service in current liabilities under the caption ‘Provisions.

Additionally, EUR 4,875 thousand of PSO funds to be refunded to the state were recognized in the non-current liabilities under the caption ‘Provisions’ as of 31 December 2018. As at 31 December 2019, no non-current PSO funds receivable or payable were recognised.

As at 31 December 2018, non-current amount payable was carried at amortised cost using the effective interest rate approach. When discounting the payable PSO funds during the period of refunding, a discount rate of 0.92% was used, and discounting effect of EUR 86 thousand as at 31 December 2018, excluded from the above amounts, was recognised within ‘Other financial income’.

As at 31 December 2019, the discounting effect was recalculated for both - amounts receivable and payable of PSO services, capacity reserve services and system maintenance services, and the overall discounting effect, excluded from the above mentioned amounts, amounted to EUR 151 thousand as at 31 December 2019.

At the end of year 2019, the Group updated its estimate associated with the PSO funds receivable and payable for year 2018 pursuant to the NERC's decisions on setting prices. The adjusted estimate was largely due to the regulator's evaluation of accounts receivable and payable, included in the PSO funds for year 2018, made when setting the prices for regulated services in year 2020 and its decision to evaluate the difference between planned and factual expenses in year 2018 by reference to services rather than equipment.

4.23 Regulated activity: Accrual of income and regulatory provisions from capacity reserve and system services

Profitability of the Group is regulated by NERC through the service tariffs approved for the next periods. The level of tariffs depends on the projected costs and volume of services for the next period, the extent to which the previous period earnings are at variance with the regulated level, and other factors.

Actual costs incurred by the Group during the year may be at variance with the projected costs that are considered during the approval of the tariffs, and the actual volume of services may be at variance with the projected one. Accordingly, the actual earnings of the Group may be at variance with the regulated level, and the resulting difference will affect the future tariffs of services.

On 14 November 2019, NERC adopted a resolution No O3E–715 'On Approval of the Methodology for Establishing the Prices for Electricity, Capacity Reserve Services and Services Ensuring Isolated Operation of the Power System' (hereinafter "the Methodology"). This Resolution stipulates that Companies that discontinue capacity reserve services shall reimburse any discrepancies between the projected and actual costs of providing these services to the transmission system operator if the costs actually incurred by the Group were less than the revenues received from the transmission system operator. If the actual costs incurred by the Group were higher than the income of the transmission system operator, the transmission system operator shall reimburse this amount to the Group.

With regard to the resolution above, the Group recognises assets and liabilities of the regulated activities that are intended to eliminate the mismatches between the current year earnings and the regulated level regardless the difference under the provision of services in the future. Due to the change in legislation, the management of the Group accounted for EUR 7,630 thousand to be refunded to the Transmission system operator for tertiary capacity reserve and system services in the non-current liabilities under the caption 'Provisions', while EUR 475 thousand of receivables related to secondary active capacity reserve were accounted for in the Non-current receivables (note 10) as at 31 December 2019. As at 31 December 2019, EUR 5,060 thousand of funds receivable for system services were accounted for in the Other receivables (note 17). As at 31 December 2018, and before adoption of resolution No O3E-715, such regulatory assets and liabilities did not qualify for recognition under IFRS, as disclosed in Note 4.26 below.

4.24 Legal disputes over the NERC's decisions related to regulated revenue

In year 2014, NERC adopted a resolution, by which the Group was declared as an undertaking with significant power in the electricity generation market. Based on this resolution, earnings from sale of electricity generated at the Group hydroelectric plants were subject to restriction by deducting the respective amount from the PSO funds approved for the Group. On 17 October 2016, the Supreme Administrative Court of Lithuania announced its judgement based on which the aforementioned resolution of NERC was repealed. As at 31 December 2019, the amount of the Group contingent assets (these contingent assets are not recognised in the financial statements) related to the legal dispute concerning the NERC's decision, by which the Group was declared as an undertaking with significant power in the electricity generation market and thus the amount of the payable PSO funds was additionally reduced by EUR 2.51 million, amounted to EUR 2.51 million and remains unchanged from 31 December 2018.

4.25 Collection of cash on suspense account

The Group;'s Subsidiary Elektroninių mokėjimų agentūra UAB (hereinafter "EMA") made a significant decision regarding cash amounts collected from the customers which are held inEMA's deposit account for one business day before transferring it to the service providers. These funds are held in separate and special purpose banks deposit accounts, their purpose is clearly defined in agreements with the banks. Moreover, EMA is not allowed to invest does not invest these cash funds and does not receive any interest or similar income from them. The principle of such cash holding and handling is disclosed to EMA's customers and EMAis able to identify the owners of the cash at any time. Additionally the clients as the real cash owners participate in deposit insurance scheme as well.. For this reason, EMA assesses the risk that a customer will sue EMA for funds in the event of banks bankruptcy.Therefore, it is considered that Elektroninių mokėjimų agentūra UAB does not have credit risk. Due to that the Group does not recognise clients cash in statement of financial position. Clients funds held in deposit account composed EUR 2,752 thousand as at 31 December 2019 (EUR 6,428 thousand as at 31 December 2018).

4.26 Corrections of errors

In preparing these financial statements, the Group has made adjustments to prior periods due to identified errors:

i) The Group corrected the identified errors from the previous financial periods during the preparation of these annual financial statement. In 2019, the subsidiary Ignitis gamyba AB reviewed financial statements accounting principles for revenues, receivables, and payables related to capacity reserve (secondary and tertiary power reserves) and system restoration services (hereinafter – regulated activities), which are regulated by NERC. Tariffs for these regulated activities for the next calendar year are set by NERC based on Group and Ignitis gamyba AB forecasted expenses taking into account planned and factual revenue and expense variance in the prior financial year. In the financial statements prepared for the year ended 31 December 2018, the Group and Ignitis gamyba AB reported regulated activities revenues using the accrual principle based on factual expenses incurred, i.e. regulatory activities revenues were recognized by the Group and Ignitis gamyba AB in such volume, which under NERC's methodology, is permissible taking into consideration permissible return on investment and factual expenses for services provided incurred during the period. Due to variance between planned and factual revenues and expenses set by NERC, regulatory activities revenues and corresponding payables and other payables were corrected. Until 2019,, revenues were recognized following the assumption about NERC's ability to promptly and based on unilateral decision initiate legal act amendments, that would be necessary in order to establish an obligation for the Group to refund the difference between mentioned regulatory planned and actual service estimates even if the Group and Ignitis gamyba AB is no longer providing regulatory services mentioned above.
   In year 2019, by reviewing accounting of previously mentioned operations, it was noted that payable or refundable amounts in the future periods depend on whether or not the Group and Ignitis gamyba AB will provide these services and will carry them out in the future, i.e. these amounts are related to currently uncompleted agreements, and in such case, provision, contingent liabilities and contingent assets should not be accounted (under IAS 37 "Provision, Contingent Liabilities and Contingent Assets"). See these restatements in columns 1 – 3 of Group's Statement of Profit or Loss and other Comprehensive Income for 2018 in table below.

ii) The Group company Ignitis Polska Sp. z o. o. based in Poland, participates in electricity trading exchange market through forward and futures contracts. The purpose of these deals is to earn profits from short-term fluctuations in electricity prices on the exchange. Ignitis Polska Sp. z o. o.

does not provide supply of electricity to final customers. Settlements are made by settling liabilities between the company and the other party to the exchange transaction, and by making a cash payment for the remaining outstanding debt. Ignitis Polska Sp. z o. o. account for contract balances in the financial statements at fair value, and income and expenses are presented in the seperate items in the statement of profit or loss and other comprehensive income. After reviewing contracts of Ignitis Polska Sp. z o. o. the Group has determined that income and expense should be reported in the item of costs in the statement of profit or loss and other comprehensive income as profit or loss. Management's decision to amend presentation of revenue and costs is based on the fact that, under IFRS 9, transactions made by Ignitis Polska Sp. z o. o. cannot be classified under the “own use” exception, and therefore only the result of those transactions should be recognized in profit or loss. See these restatements in column 4 of Group’s Statement of Profit or Loss and other Comprehensive Income for 2018 in table below.

All amounts are in EUR thousand unless otherwise stated

Retrospectively corrected captions of Group's Statement of Financial Position

Correction of 2018 year

Group	31 December 2017 (previously reported)	Correction of liabilities due to regulated services income	31 December 2017 after corrections of errors*	Effect of IFRS 15 adoption	Effect of IFRS 9 adoption	1 January 2018 after corrections of errors and adoption of IFRS 9 and IFRS 15 adjustments
ASSETS						
Non-current assets						
Intangible assets	36,360	-	36,360	-	-	36,360
Property, plant, and equipment	1,761,082	-	1,761,082	(10,356)	-	1,750,726
Prepayments for non-current assets	21,911	-	21,911	-	-	21,911
Investment property	14,878	-	14,878	-	-	14,878
Non-current receivables	170,488	-	170,488	-	-	170,488
Other financial assets	426	-	426	-	-	426
Other non-current assets	3,239	-	3,239	-	-	3,239
Deferred tax assets	7,084	-	7,084	10,997	-	18,081
Total non-current assets	**2,015,468**	**-**	**2,015,468**	**641**	**-**	**2,016,109**
Current assets						
Inventories	56,866	-	56,866	-	-	56,866
Prepayments and deferred expenses	38,119	-	38,119	-	-	38,119
Trade receivables	112,563	-	112,563	-	(471)	112,092
Other receivables	27,800	-	27,800	-	-	27,800
Other current assets	1,093	-	1,093	-	-	1,093
Prepaid income tax	2,102	-	2,102	-	-	2,102
Cash and cash equivalents	171,756	-	171,756	-	-	171,756
	410,299	**-**	**410,299**	**-**	**(471)**	**409,828**
Assets held-for-sale	79,301	-	79,301	-	-	79,301
Total current assets	**489,600**	**-**	**489,600**	**-**	**(471)**	**489,129**
TOTAL ASSETS	**2,505,068**	**-**	**2,505,068**	**641**	**(471)**	**2,505,238**
EQUITY AND LIABILITIES						
Equity						
Issued capital	1,212,156	-	1,212,156	-	-	1,212,156
Reserves	99,380	-	99,380	-	-	99,380
Retained earnings (deficit)	(13,706)	-	(13,706)	(59,194)	(453)	(73,353)
Equity attributable to equity holders of the parent	**1,297,830**	**-**	**1,297,830**	**(59,194)**	**(453)**	**1,238,183**
Non-controlling interests	45,796	-	45,796	(3,127)	(18)	42,651
Total equity	**1,343,626**	**-**	**1,343,626**	**(62,321)**	**(471)**	**1,280,834**
Liabilities						
Non-current liabilities						
Non-current loans and bonds	480,068	-	480,068	-	-	480,068
Lease liabilities	187	-	187	-	-	187
Grants and subsidies	200,311	-	200,311	-	-	200,311
Deferred corporate income tax liabilities	36,049	-	36,049	-	-	36,049
Provisions	1,893	5,474	7,367	-	-	7,367
Deferred income	54,509	-	54,509	63,839	-	118,348
Other non-current amounts payable and liabilities	7,306	(5,474)	1,832	-	-	1,832
Total non-current liabilities	**780,323**	**-**	**780,323**	**63,839**	**-**	**844,162**
Current liabilities						
Current portion of non-current loans	119,599	-	119,599	-	-	119,599
Current loans	14,082	-	14,082	-	-	14,082
Current portion of finance lease liabilities	145	-	145	-	-	145
Trade payables	98,338	-	98,338	-	-	98,338
Contract liabilities	27,765	-	27,765	-	-	27,765
Corporate income tax payable	3,695	-	3,695	-	-	3,695
Provisions	2,498	-	2,498	-	-	2,498
Deferred income	5,242	-	5,242	(877)	-	4,365
Other current amounts payable and liabilities	109,421	-	109,421	-	-	109,421
	380,785	**-**	**380,785**	**(877)**	**-**	**379,908**
Liabilities directly associated with the assets held for sale	334	-	334	-	-	334
Total current liabilities	**381,119**	**-**	**381,119**	**(877)**	**-**	**380,242**
Total liabilities	**1,161,442**	**-**	**1,161,442**	**62,962**	**-**	**1,224,404**
TOTAL EQUITY AND LIABILITIES	**2,505,068**	**-**	**2,505,068**	**641**	**(471)**	**2,505,238**

**Corrections affect Financial statements of year 2018 (see above for the disclosures of the reasons of corrections provided by the Group)*

All amounts are in EUR thousand unless otherwise stated

Retrospectively corrected captions of Group's Statement of Financial Position

Correction of year 2018

Group	31 December 2018 as previously reported	Correction of liabilities due to regulated services income	Income taxes related to revenue from regulated activities	Error impact to non-controlling interest	31 December 2018 after corrections of errors*
ASSETS					
Non-current assets					
Intangible assets	106,330	-	-	-	106,330
Property, plant, and equipment	2,091,590	-	-	-	2,091,590
Prepayments for non-current assets	23,621	-	-	-	23,621
Investment property	6,494	-	-	-	6,494
Non-current receivables	160,606	-	-	-	160,606
Other financial assets	2,008	-	-	-	2,008
Other non-current assets	6,094	-	-	-	6,094
Deferred tax assets	14,468	-	-	-	14,468
Total non-current assets	**2,411,211**	**-**	**-**	**-**	**2,411,211**
Current assets					
Inventories	43,137	-	-	-	43,137
Prepayments and deferred expenses	30,655	-	-	-	30,655
Trade receivables	143,120	-	-	-	143,120
Other receivables	25,436	-	-	-	25,436
Other current assets	2,147	-	-	-	2,147
Prepaid income tax	4,192	-	-	-	4,192
Other financial assets	656	-	-	-	656
Cash and cash equivalents	127,835	-	-	-	127,835
	377,178	**-**	**-**	**-**	**377,178**
Assets held-for-sale	65,706	-	-	-	65,706
Total current assets	**442,884**	**-**	**-**	**-**	**442,884**
TOTAL ASSETS	**2,854,095**	**-**	**-**	**-**	**2,854,095**

Group	31 December 2018 as previously reported	Correction of liabilities due to regulated services income	Income taxes related to revenue from regulated activities	Error impact to non-controlling interest	31 December 2018 after corrections of errors*
EQUITY AND LIABILITIES					
Equity					
Issued capital	1,212,156	-	-	-	1,212,156
Reserves	212,802	-	-	-	212,802
Retained earnings	(147,554)	-	-	-	(147,554)
Result for financial year 2018	(9,209)	7,392	(2,218)	(165)	(4,200)
Equity attributable to equity holders of the parent	**1,268,195**	**7,392**	**(2,218)**	**(165)**	**1,273,204**
Non-controlling interests	48,356	-	-	165	48,521
Total equity	**1,316,551**	**7,392**	**(2,218)**	**-**	**1,321,725**
Liabilities					
Non-current liabilities					
Non-current loans and bonds	735,410	-	-	-	735,410
Lease liabilities	14,334	-	-	-	14,334
Grants and subsidies	208,874	-	-	-	208,874
Deferred corporate income tax liabilities	38,688	-	1,109	-	39,797
Provisions	30,571	4,784	-	-	35,355
Deferred income	115,261	-	-	-	115,261
Other non-current amounts payable and liabilities	11,274	(9,387)	-	-	1,887
Total non-current liabilities	**1,154,412**	**(4,603)**	**1,109**	**-**	**1,150,918**
Current liabilities					
Current portion of non-current loans	61,819	-	-	-	61,819
Current loans	47,727	-	-	-	47,727
Current portion of finance lease liabilities	5,220	-	-	-	5,220
Trade payables	93,237	-	-	-	93,237
Contract liabilities	55,325	(5,559)	-	-	49,766
Corporate income tax payable	3,436	-	1,109	-	4,545
Provisions	2,788	2,770	-	-	5,558
Deferred income	7,912	-	-	-	7,912
Other current amounts payable and liabilities	102,682	-	-	-	102,682
	380,146	**(2,789)**	**1,109**	**-**	**378,466**
Liabilities directly associated with the assets held for sale	2,986	-	-	-	2,986
Total current liabilities	**383,132**	**(2,789)**	**1,109**	**-**	**381,452**
Total liabilities	**1,537,544**	**(7,392)**	**2,218**	**-**	**1,532,370**
TOTAL EQUITY AND LIABILITIES	**2,854,095**	**-**	**-**	**-**	**2,854,095**

**Corrections affect Financial statements of year 2018 (see above for the disclosures of the reasons of corrections provided by the Group)*

All amounts are in EUR thousand unless otherwise stated

Retrospectively corrected captions of Group's Statement of Profit or Loss and other Comprehensive Income

Correction of year 2018

Group	2018 as previously reported*	Correction of liabilities due to regulated services income	Income taxes related to revenue from regulated activities	Error impact to non-controlling interest	Netting of income and expenses of electricity trading in market	2018 after corrections of errors*
		1	2	3	4	
Revenue from contracts with customers	1,208,444	7,392	-	-	(36,252)	1,179,584
Other income	45,782	-	-	-	-	45,782
	1,254,226	**7,392**	**-**	**-**	**(36,252)**	**1,225,366**
Operating expenses						
Purchases of electricity, gas for trade and related services	(947,989)	-	-	-	36,252	(911,737)
Purchases of gas and heavy fuel oil	(26,545)	-	-	-	-	(26,545)
Depreciation and amortisation	(87,460)	-	-	-	-	(87,460)
Salaries and related expenses	(79,741)	-	-	-	-	(79,741)
Repair and maintenance expenses	(21,200)	-	-	-	-	(21,200)
Result of revaluation of non-current assets	(67,671)	-	-	-	-	(67,671)
Reversal of (impairment) of amounts receivable and loans	(9,876)	-	-	-	-	(9,876)
Impairment of property, plant and equipment	7,205	-	-	-	-	7,205
Other expenses	(26,143)	-	-	-	-	(26,143)
Total operating expenses	**(1,259,420)**	**-**	**-**	**-**	**36,252**	**(1,223,168)**
Profit (loss) from operations	**(5,194)**	**7,392**	**-**	**-**	**-**	**2,198**
Finance income	1,621	-	-	-	-	1,621
Finance costs	(14,899)	-	-	-	-	(14,899)
Results of the revaluation and closing of derivative financial instruments	(573)	-	-	-	-	(573)
Profit (loss) before tax	**(19,045)**	**7,392**	**-**	**-**	**-**	**(11,653)**
Current year income tax (expenses)/benefit	(3,495)	-	(1,109)	-	-	(4,604)
Deferred income tax (expenses)/benefit	14,598	-	(1,109)	-	-	13,489
Net profit (loss) from continuing operations	**(7,942)**	**7,392**	**(2,218)**	**-**	**-**	**(2,768)**
Net profit (loss) from discontinued operations	-	-	-	-	-	-
Net profit (loss)	**(7,942)**	**7,392**	**(2,218)**	**-**	**-**	**(2,768)**
Attributable to:						
Equity holders of the parent	(9,209)	-	-	5,009	-	(4,200)
Non-controlling interests	1,267	-	-	165	-	1,432
Other comprehensive income (loss)						
Items that will not be reclassified to profit or loss						
Gain/(loss) on revaluation of property, plant and equipment	123,139	-	-	-	-	123,139
Recalculation of the defined benefit plan obligation, net of deferred income tax	77	-	-	-	-	77
Items that will not be reclassified to profit or loss in subsequent periods, total	**123,216**	**-**	**-**	**-**	**-**	**123,216**
Items that may be reclassified to profit or loss in subsequent periods, total						
Exchange differences on translation of foreign operations into the Group's presentation currency	(26)	-	-	-	-	(26)
Items that may be reclassified to profit or loss in subsequent periods, total	**(26)**	**-**	**-**	**-**	**-**	**(26)**
Total other comprehensive income (loss)	**123,190**	**-**	**-**	**-**	**-**	**123,190**
Total comprehensive income (loss) for the period	**115,248**	**7,392**	**(2,218)**	**-**	**-**	**120,422**
Attributable to:						
Equity holders of the parent	108,195	-	-	5,009	-	113,204
Non-controlling interests	7,053	-	-	165	-	7,218

**Corrections affect Financial statements of year 2018 (see above for the disclosures of the reasons of corrections provided by the Group)*

All amounts are in EUR thousand unless otherwise stated

Retrospectively corrected captions of Group's Statement of Cash Flow

Correction of year 2018

Group	2018 as previously reported	Corrections of errors	2018 after corrections of errors *
Cash flows from (to) operating activities			
Net profit (loss)	(7,942)	5,174	(2,768)
Adjustments to non-cash items:			
Depreciation and amortisation expenses	96,730	-	96,730
Impairment of property, plant and equipment	(7,205)	-	(7,205)
Grants designated for property, plant and equipment in respect of which impairment and/or revaluation was recognised	(10,003)	-	(10,003)
Revaluation of property, plant and equipment	76,617	-	76,617
Revaluation of investment property	(18)	-	(18)
Revaluation of derivatives	(354)	-	(354)
Impairment/(reversal of impairment) of financial assets	9,876	-	9,876
Corporate income tax expenses	(11,103)	2,218	(8,885)
(Depreciation) of grants	(9,270)	-	(9,270)
Increase (decrease) in provisions	404	2,080	2,484
Inventory write-down allowance/(reversal)	(718)	-	(718)
Expenses/(income) of revaluation of emission allowances	(8,933)	-	(8,933)
Emission allowances utilised	908	-	908
Elimination of results of investing activities:			
- (Gain)/loss on disposal and/or write-off of property, plant and equipment	477	-	477
Other (income)/expenses of investing activities	82	-	82
Elimination of results of financing activities:			
- Interest received	(1,427)	-	(1,427)
- Interest paid	12,442	-	12,442
- Other (income)/expenses of financing activities	2,263	-	2,263
Changes in working capital:			
(Increase) decrease in trade receivables and other amounts receivable	(21,603)	-	(21,603)
(Increase) decrease in inventories, prepayments and other current assets	18,896	-	18,896
Increase (decrease) in amounts payable, deferred income and advance amounts received	44,722	(9,472)	35,250
Corporate income tax (paid)	(6,309)	-	(6,309)
Net cash flows from (to) operating activities	**178,532**	**-**	**178,532**

Group	2018 as previously reported	Corrections of errors	2018 after corrections of errors *
Cash flows from/(used in) financing activities			
(Purchase) of property, plant and equipment and intangible assets	(416,205)	-	(416,205)
Proceeds from sale of property, plant and equipment and intangible assets	48,162	-	48,162
Acquisition of investments in subsidiaries	(23,509)	-	(23,509)
Disposal of investments in subsidiaries	-	-	-
Grants received	25,523	-	25,523
Interest received	1,105	-	1,105
Other increases (decreases) in cash flows from investing activities	(1,582)	-	(1,582)
Net cash flows used in investing activities	**(366,506)**	**-**	**(366,506)**
Cash flows from/(used in) financing activities			
Loans received	57,810	-	57,810
Issue of bonds	294,346	-	294,346
Repayments of borrowings	(155,421)	-	(155,421)
Lease payments	(544)	-	(544)
Interest paid	(10,402)	-	(10,402)
Dividends paid	(80,608)	-	(80,608)
Increase in issued capital of Kauno Kogeneracinė Jėgainė UAB	7,840	-	7,840
Result of the closing of derivative financial instruments	(573)	-	(573)
Net cash flows from (used in) financing activities	**112,448**	**-**	**112,448**
Increase (decrease) in cash and cash equivalents (including overdraft)	**(75,526)**	**-**	**(75,526)**
Cash and cash equivalents (including overdraft) at the beginning of the period	161,101	-	161,101
Cash and cash equivalents (including overdraft) at the end of period	**85,575**	**-**	**85,575**

**Corrections affect Financial statements of year 2018 (see above for the disclosures of the reasons of corrections provided by the Group)*

4.27 Change in management judgment on applying accounting methods

In preparing these financial statements, the Group has adopted changes in accounting methods

Connection fees

On 1 January 2018, the Group adopted IFRS 15 Revenue from Contracts with Customers and its amendments for the first time and they had a significant impact on the Group's financial statements. The Group accounted for the impact of the first-time adoption of IFRS 15 starting from 1 January 2018 using the modified retrospective approach.

Upon initial application of IFRS 15 with respect to revenue from new customer connection the Group assessed the existence of separate performance obligation through the legal point of view, i.e. if the Group had a new connection contract with the customer and the distribution as a service was provided to the end customer through the customer's contract for supply services, the new connection contract was treated as separate performance obligation, accordingly revenue received from the customer was recognized as income, when the connection service was provided. In case the Group signed two separate agreements with the customer – one for connection service, another one for distribution service, these two were treated as a single performance obligation, accordingly the connection fees paid by the customers were recognized as revenue through the useful life of new infrastructure created.

Following this judgment starting from year 2018 the connection fees in gas segment were recognized when connection service was provided. In electricity segment from 1 January 2018 to 1 October 2018 connection fees were deferred over the period of estimated customer relationship, which is determined based on the useful life of the related newly created property, plant and the equipment (the connection infrastructure).

During the implementation of the project initiated by the Company, the purpose of which is to optimise the activities of the Group and concentrate the function of energy supply to a single company, the activity of public electricity supply was unbundled from the Group company Energijos skirstymo operatorius AB and transferred to another Group company Ignitis UAB, which was a supplier of natural gas to household and business customers. Following the transfer of electricity public supply activities as of 1 October 2018, new customer connection in electricity segment was reconsidered as a separate performance obligation under IFRS 15, accordingly related revenue from 1 October 2018 was recognized when connection service was fully provided.

Management of the Group has extensively analysed IFRS 15 accounting policies, which were also reviewed by the Bank of Lithuania as an oversight body of listed entities, also auditors were involved in the discussions. The accounting policies applied upon initial adoption of IFRS 15 were assessed as appropriate after evaluating management judgement made in a number of areas. However, one year after mandatory implementation of the new standard, the Group observed the development of relevant industry practice, referred to

the developing authoritative guidance on IFRS 15 application, analysed "implied contract" concept (as per IFRS 15 requirements), and consulted with its auditors, and as a result the Group has reconsidered its accounting treatment.

The Group changed the accounting treatment of new customer connection fees by deferring all gas and electricity fees over the useful lives of the related assets (which represents the best management estimate for customer relationship period). According to the management such accounting treatment would more fairly reflect the Group's financial performance and ongoing provision of access to distribution service to the customer, as well as will allow the Group to be better comparable to its peers within the industry. This change in accounting treatment is accounted for retrospectively and comparative information is restated (see the table below).

Public Service Obligations

PSO fee is an integral part of electricity tariff to the customer. Final electricity tariff to end customers comprise of the following components:
(a) Electricity price itself (import or price of manufactured)
(b) Electricity supply services' price
(c) Electricity transfer services' price, which include two components: transmission over high voltage grid and distribution over medium and low voltage grid
(d) PSO fee

The Group acting as an electricity supplier collects PSO fees from business customers and private individuals, connected to electricity distribution grid, and transfer them to the operator of energy exchange Baltpool UAB, which also acts as the administrator of PSO services and is engaged in the collection of PSO fees, payments and administration of PSO funds. PSO funds are used to support and promote local production from renewable energy sources, to secure reserves of the electricity system at designated power plants, which is necessary for ensuring the state's energy security and to ensure other services related to public interest. The list of services supported by PSO is determined by the Government of the Republic of Lithuania.

In 2018 PSO fee as integral part of distribution service tariff was not identified as a separate performance obligation. The distribution service as a whole, including transmission, distribution and PSO fee was treated as one performance obligation (PSO fee cannot be separated). PSO fee generally is treated as a tax collected from customers, however this tax cannot be treated as sales tax, or value-added tax (VAT), since: (1) PSO fee is charged based on production or distributed energy unit, rather than sales amount, as is applied in VAT case; (2) the Group cannot claim a refund of PSO fees in the event the related the customer fails to pay for the services being sold; (3) the Group is exposed to price risk - in case of illegal consumption, the Group's settlement amount as PSO fee to Baltpool UAB will be determined based on current period's prices, however, the customer will be charged based on historical prices. Following the above, the Management treated the Group as Principal in relation to PSO fee in 2018.

During the year 2019 the Group changed the method of accounting for PSO fee by treating the Group as an Agent in relation to the PSO fee. Such decision has been taken after extensive analysis of relevant industry practice and taking into consideration the facts, that the Group is not responsible for PSO projects / initiatives, accordingly not responsible that collected PSO fees are used for their intended purpose. The Group is not exposed to any inventory risk, as well as the Group has no legal power to establish pricing of this component.

The changed accounting methods allows the Group to be better comparable to its peers within the electricity industry (especially, where such PSO fee is excluded from the final electricity tariff). This change in accounting treatment is applied retrospectively with corrections in comparative information presented in the tables below.

Liquefied natural gas terminal (hereinafter "LNGT") security component

The Group acts (i) as a natural gas supplier which collects LNGT security component from the users and (ii) as a designated liquefied natural gas supplier, which ensures the operation of LNGT. In relation to provision of designated supplier's function the Group's costs due to the nature of its activities are exclusively borne whereas other natural gas suppliers don't incur. These costs are compensated by gas transmission system operator paying LNGT funds from the budget of collected LNGT security component by suppliers that supply natural gas to end customers.

LNGT security component is an integral part of natural gas tariff to the customer. Final natural gas tariff to end customers comprise of the following components:
(a) Cost of gas import
(b) Natural gas transfer cost, which includes transmission over high-pressure and distribution over medium and low-pressure grids costs
(c) LNGT security component

Pursuant to Article 5.2 of the Law on the LNGT, all users of the natural gas distribution system, including end-users, have to pay an additional security component along with other payments for natural gas distribution services. As a natural gas supplier to end users the Group collects payments for LNGT security component directly from customers or natural gas suppliers, if the customers don't have a direct contract with the transmission system operator. The Group acting as a natural gas supplier collects LNGT security component from the end users and transfers it to transmission system operator.

In 2018, LNGT security component as integral part of natural gas tariff was not identified as a separate performance obligation. The gas distribution service as a whole, including transmission, distribution and LNGT security component was treated as one performance obligation (LNGT security component cannot be separated). LNGT security component generally is treated as a tax collected from customers, however this tax cannot be treated as sales tax, or value-added tax (VAT), since: (1) LNGT security component is charged based on production or distributed energy unit, rather than sales amount, as is applied in VAT case; (2) the Group cannot claim a refund of the tax in the event the related the customer fails to pay for the services being sold (i.e. the volume of gas consumption); (3) the Group is exposed to price risk - in case of illegal consumption, the Group's settlement amount as LNGT security component to Amber Grid UAB will be determined based on current period's prices, however, the customer will be charged based on historical prices. Following the above, the Group acting as a natural gas supplier to end users was treated by Management as a Principal in relation to LNGT security component. LNGT security component collected from end users was recognised by the Group in the statement of profit or loss and other comprehensive income under the caption "Revenue from contracts with customers", and after transfer to the gas transmission system operator – under the caption "Expense".

In year 2019, the Group changed the method of accounting for the LNGT security component by treating the Group as an Agent in relation to the LNGT security component. Such decision has been taken after extensive analysis of relevant industry practice and taking into consideration the fact, that the Group is not responsible for LNGT projects/initiatives and is not responsible that LNGT security component is used for its intended purpose. The Group is not exposed to any inventory risk, as well as the Group has no legal power to establish the price of LNGT security component.

The change in accounting treatment allows the Group to be better comparable to its peers within the gas industry (especially, where LNGT security component is excluded from the final gas tariff). The change in accounting treatment is applied retrospectively with correction of comparative information shown in the tables below.

Electricity transfer, which includes both transmission and distribution, and gas distribution services in Latvia

In Latvia electricity transfer, which includes transmission and distribution, and gas distribution services are provided by the company which is not a part of the Group. Electricity transmission and distribution services are an integral part of electricity tariff to end users. Gas distribution services are an integral part of gas tariff to end users. Providing the provision of electricity and gas services as a whole to end users in Latvia, the Group in 2018 did not identify electricity transfer and gas distribution services as a separate performance obligations. The Group considered itself as a Principal which provides one performance obligation by treating that customer cannot benefit alone from supplied electricity without transfer and gas without distribution and vice versa. As well as, the Group considered itself as providing a significant service of integrating the electricity transfer and gas distribution services promised in the contract with customers into a bundle of services that represent the combined output for which the customer has contracted.

In the course of its electricity and gas sales activities in Latvia the Group collects funds from customers for the electricity transfer and gas distribution services and transfers these funds to the operator of electricity transfer network and operator of gas distribution system. The Group recognised these funds in the statement of profit or loss and other comprehensive income under the caption "Revenue", and after transfer of these funds to the operator, under the caption "Expense".

In year 2019, in relation of collected funds for electricity transfer, which includes both transmission and distribution, and gas distribution service in Latvia the Group changed the method of these funds' accounting by treating itself as an Agent. Such decision has been taken after extensive analysis of relevant industry practice and taking into consideration the fact, that the Group is not responsible for development/maintenance of electricity transfer and gas distribution network in Latvia, accordingly not responsible that these funds are used for their intended purpose. Moreover, the Group is not exposed to any inventory risk, as well as the Group has no legal power to establish the pricing of electricity transfer and gas distribution services provided in Latvia.

A change in accounting treatment allows a better comparison of the Group's performance with that of similar entities (especially when the electricity transfer and natural gas distribution components are excluded from the tariff). This change in accounting treatment is applied retrospectively with corrections in comparative information presented in the tables below.

Impact of correction of errors and change of management judgement on the Cash flows item "Increase (decrease) in provisions" and item "Increase (decrease) in amounts payable, deferred income and advance amounts received" for 2018

Cash flows for 2018 before applying correction of errors and change of management judgement showed following items:
1. Increase (decrease) in provisions, EUR 404 thousand and
2. Increase (decrease) in amounts payable, deferred income and advance amounts received, EUR 44.722 thousand.

Impact of correction of error on Increase (decrease) in provisions arise with:
1. Reclassification of EUR 5.474 thousand at 31 December 2017 increasing balance of Provisions and decreasing balance of Other non-current amounts payable and liabilities;
2. Reclassification at 31 December 2018 of EUR 4,784 thousand from Other non-current amounts payable and liabilities to Provisions and reclassification of EUR 2,770 thousand to current Provisions from Other non-current amounts payable and liabilities. Total reclassification is Eur 7.554 thousand.

Summarizing, impact of correction of errors and change in management judgement, amount to EUR 2080 thousand. Cash flows item “Increase (decrease) in provisions” after correction of errors and applying change in management judgement amounts to EUR 2,484 thousand that is calculated as sum of beginning balance of EUR 404 thousand and total impact of adjustments of EIR 2.080 thousands,

Impact of correction of error “Increase (decrease) in amounts payable, deferred income and advance” arise with:
1. Decrease of Other non-current amounts payable at 31 December 2018 by EUR 9,387 thousand due to correction of error in Regulated activities;
2. Decrease of current Contract liabilities at 31 December 2018 by EUR 5,559 thousand due to correction of error in Regulated activities;
3. Decrease of Other non-current amounts payable and liabilities at 31 December 2017 by EUR 5.474 thousand;
4. Increase of Deferred income as at 1 January 2018 by EUR 10,961 thousand due to change in management judgement on connection fees
5. Increase of current Deferred income as at 31 December 2018 by of EUR 334 thousand due to change in management judgement on connection fees;
6. Recognition of EUR 736 thousand reduce of revenue due to change in management judgement on connection fees;

Summarizing, impact of correction of errors and change in management judgement, amount to EUR 2,559 thousand (– 9,387 – 5,559 + 5,474 + 10,961 + 334 + 736). Cash flows item “Increase (decrease) in amounts payable, deferred income and advance” after correction of errors and applying change in management judgement amounts to EUR 47,281 thousand that is calculated as sum of beginning balance of EUR 44.722 thousand and total impact of adjustments of EUR 2,559 thousands.

All amounts are in EUR thousand unless otherwise stated

Retrospectively restated captions of Group's Statement of Financial Position

Restatement of year 2018

Group	1 January 2018 after corrections of errors and adoption of IFRS 9 and IFRS 15 adjustments (note 4.26)	Amendments of fair value of gas pipelines related to new connection fees	1 January 2018 (restated*)"
ASSETS			
Non-current assets			
Intangible assets	36,360	-	36,360
Property, plant, and equipment	1,750,726	10,356	1,761,082
Prepayments for non-current assets	21,911	-	21,911
Investment property	14,878	-	14,878
Non-current receivables	170,488	-	170,488
Other financial assets	426	-	426
Other non-current assets	3,239	-	3,239
Deferred tax assets	18,081	-	18,081
Total non-current assets	**2,016,109**	**10,356**	**2,026,465**
Current assets			
Inventories	56,866	-	56,866
Prepayments and deferred expenses	38,119	-	38,119
Trade receivables	112,092	-	112,092
Other receivables	27,800	-	27,800
Other current assets	1,093	-	1,093
Prepaid income tax	2,102	-	2,102
Cash and cash equivalents	171,756	-	171,756
	409,828	**-**	**409,828**
Assets held-for-sale	79,301	-	79,301
Total current assets	**489,129**	**-**	**489,129**
TOTAL ASSETS	**2,505,238**	**10,356**	**2,515,594**

Group	1 January 2018 after corrections of errors and adoption of IFRS 9 and IFRS 15 adjustments (note 4.26)	Amendments of fair value of gas pipelines related to new connection fees	1 January 2018 (restated*)"
EQUITY AND LIABILITIES			
Equity			
Issued capital	1,212,156	-	1,212,156
Reserves	99,380	-	99,380
Retained earnings	(73,353)	-	(73,353)
Equity attributable to equity holders of the parent	**1,238,183**	**-**	**1,238,183**
Non-controlling interests	42,651	-	42,651
Total equity	**1,280,834**	**-**	**1,280,834**
Liabilities			
Non-current liabilities			
Non-current loans and bonds	480,068	-	480,068
Lease liabilities	187	-	187
Grants and subsidies	200,311	-	200,311
Deferred corporate income tax liabilities	36,049	-	36,049
Provisions	7,367	-	7,367
Deferred income	118,348	10,356	128,704
Other non-current amounts payable and liabilities	1,832	-	1,832
Total non-current liabilities	**844,162**	**10,356**	**854,518**
Current liabilities		**-**	
Current portion of non-current loans	119,599	-	119,599
Current loans	14,082	-	14,082
Current portion of finance lease liabilities	145	-	145
Trade payables	98,338	-	98,338
Contract liabilities	27,765	-	27,765
Corporate income tax payable	3,695	-	3,695
Provisions	2,498	-	2,498
Deferred income	4,365	-	4,365
Other current amounts payable and liabilities	109,421	-	109,421
	379,908	**-**	**379,908**
Liabilities directly associated with the assets held for sale	334	-	334
Total current liabilities	**380,242**	**-**	**380,242**
Total liabilities	**1,224,404**	**10,356**	**1,234,760**
TOTAL EQUITY AND LIABILITIES	**2,505,238**	**10,356**	**2,515,594**

**Restatement affect Financial statements of year 2018 (see above for the disclosures of the reasons of restatements provided by the Group)*

All amounts are in EUR thousand unless otherwise stated

Retrospectively restated captions of Group's Statement of Financial Position

Restatement of year 2018

Group	31 December 2018 after corrections of errors (note 4.27)	New connection fees deferral.	Amendments of fair value of gas pipelines related to new connection fees	Amendments impact to non-controlling interests	31 December 2018 restated *
ASSETS					
Non-current assets					
Intangible assets	106,330	-	-	-	106,330
Property, plant, and equipment	2,091,590	-	(204)	-	2,091,386
Prepayments for non-current assets	23,621	-	-	-	23,621
Investment property	6,494	-	-	-	6,494
Non-current receivables	160,606	-	-	-	160,606
Other financial assets	2,008	-	-	-	2,008
Other non-current assets	6,094	-	-	-	6,094
Deferred tax assets	14,468	-	-	-	14,468
Total non-current assets	**2,411,211**	**-**	**(204)**	**-**	**2,411,007**
Current assets					
Inventories	43,137	-	-	-	43,137
Prepayments and deferred expenses	30,655	-	-	-	30,655
Trade receivables	143,120	-	-	-	143,120
Other receivables	25,436	-	-	-	25,436
Other current assets	2,147	-	-	-	2,147
Prepaid income tax	4,192	-	-	-	4,192
Other financial assets	656	-	-	-	656
Cash and cash equivalents	127,835	-	-	-	127,835
	377,178	**-**	**-**	**-**	**377,178**
Assets held-for-sale	65,706	-	-	-	65,706
Total current assets	**442,884**	**-**	**-**	**-**	**442,884**
TOTAL ASSETS	**2,854,095**	**-**	**(204)**	**-**	**2,853,891**

Group	31 December 2018 after corrections of errors (note 4.27)	New connection fees deferral.	Amendments of fair value of gas pipelines related to new connection fees	Amendments impact to non-controlling interests	31 December 2018 restated *
EQUITY AND LIABILITIES					
Equity					
Issued capital	1,212,156	-	-	-	1,212,156
Reserves	212,802	-	-	-	212,802
Retained earnings	(147,554)	-	-	-	(147,554)
Result for financial year 2018	(4,200)	(9,460)	(9,743)	963	(22,440)
Equity attributable to equity holders of the parent	**1,273,204**	**(9,460)**	**(9,743)**	**963**	**1,254,964**
Non-controlling interests	48,521	-	-	(963)	47,558
Total equity	**1,321,725**	**(9,460)**	**(9,743)**	**-**	**1,302,522**
Liabilities					
Non-current liabilities					
Non-current loans and bonds	735,410	-	-	-	735,410
Lease liabilities	14,334	-	-	-	14,334
Grants and subsidies	208,874	-	-	-	208,874
Deferred corporate income tax liabilities	39,797	(1,835)	(1,553)	-	36,409
Provisions	35,355	-	-	-	35,355
Deferred income	115,261	10,961	10,216	-	136,438
Other non-current amounts payable and liabilities	1,887	-	-	-	1,887
Total non-current liabilities	**1,150,918**	**9,126**	**8,663**	**-**	**1,168,707**
Current liabilities					
Current portion of non-current loans	61,819	-	-	-	61,819
Current loans	47,727	-	-	-	47,727
Current portion of finance lease liabilities	5,220	-	-	-	5,220
Trade payables	93,237	-	-	-	93,237
Contract liabilities	49,766	-	-	-	49,766
Corporate income tax payable	4,545	-	-	-	4,545
Provisions	5,558	-	-	-	5,558
Deferred income	7,912	334	876	-	9,122
Other current amounts payable and liabilities	102,682	-	-	-	102,682
	378,466	**334**	**876**	**-**	**379,676**
Liabilities directly associated with the assets held for sale	2,986	-	-	-	2,986
Total current liabilities	**381,452**	**334**	**876**	**-**	**382,662**
Total liabilities	**1,532,370**	**9,460**	**9,539**	**-**	**1,551,369**
TOTAL EQUITY AND LIABILITIES	**2,854,095**	**-**	**(204)**	**-**	**2,853,891**

**Restatement affect Financial statements of year 2018 (see above for the disclosures of the reasons of corrections provided by the Group)*

All amounts are in EUR thousand unless otherwise stated

Retrospectively restated captions of Statement of Profit or Loss and other Comprehensive Income:

Restatement of year 2018

Group	2018 after corrections of errors (note 4.27)	New connection fees deferral.	Amendments of fair value of gas pipelines related to new connection fess	Amendments impact to non-controlling interests	Netting of income and expenses related to PSO fees	Netting of income and expenses related to electricity transfer and gas distribution in Latvia	Netting of of income and expenses related to LNGT security component	2018 restated*
		1	2	3	4	5	6	
Revenue from contracts with customers	1,179,584	(11,295)	(736)	-	(118,530)	(4,841)	(19,904)	1,024,278
Other income	45,782	-	-	-	-	-	-	45,782
	1,225,366	**(11,295)**	**(736)**		**(118,530)**	**(4,841)**	**(19,904)**	**1,070,060**
Operating expenses								
Purchases of electricity, gas for trade and related services	(911,737)	-	-	-	118,530	4,841	19,904	(768,462)
Purchases of gas and heavy fuel oil	(26,545)	-	-	-	-	-	-	(26,545)
Depreciation and amortisation	(87,460)	-	(204)	-	-	-	-	(87,664)
Salaries and related expenses	(79,741)	-	-	-	-	-	-	(79,741)
Repair and maintenance expenses	(21,200)	-	-	-	-	-	-	(21,200)
Result of revaluation of non-current assets	(67,671)	-	-	-	-	-	-	(67,671)
Reversal of (impairment) of amounts receivable and loans	(9,876)	-	-	-	-	-	-	(9,876)
Impairment of property, plant and equipment	7,205	-	(10,356)	-	-	-	-	(3,151)
Other expenses	(26,143)	-	-	-	-	-	-	(26,143)
Total operating expenses	**(1,223,168)**	**-**	**(10,560)**	**-**	**118,530**	**4,841**	**19,904**	**(1,090,453)**
Profit (loss) from operations	**2,198**	**(11,295)**	**(11,296)**	**-**	**-**	**-**	**-**	**(20,393)**
Finance income	1,621	-	-	-	-	-	-	1,621
Finance costs	(14,899)	-	-	-	-	-	-	(14,899)
Results of the revaluation and closing of derivative financial instruments	(573)	-	-	-	-	-	-	(573)
Profit (loss) before tax	**(11,653)**	**(11,295)**	**(11,296)**	-	-	-	-	**(34,244)**
Current year corporate income tax (expenses)/benefit	(4,604)	-	-	-	-	-	-	(4,604)
Deferred corporate income tax (expenses)/benefit	13,489	1,835	1,553	-	-	-	-	16,877
Net profit (loss) from continuing operations	**(2,768)**	**(9,460)**	**(9,743)**	-	-	-	-	**(21,971)**
Net profit (loss) from discontinued operations	-	-	-	-	-	-	-	-
Net profit (loss)	**(2,768)**	**(9,460)**	**(9,743)**	**-**	**-**	**-**	**-**	**(21,971)**
Attributable to:								
Equity holders of the parent	(4,200)	-	-	(18,240)	-	-	-	(22,440)
Non-controlling interests	1,432	-	-	(963)	-	-	-	469
Other comprehensive income (loss)								
Items that will not be reclassified to profit or loss								
Gain/(loss) on revaluation of property, plant and equipment	123,139	-	-	-	-	-	-	123,139
Recalculation of the defined benefit plan obligation, net of deferred income tax	77	-	-	-	-	-	-	77
Items that will not be reclassified to profit or loss in subsequent periods, total	**123,216**	**-**	**-**	**-**	**-**	**-**	**-**	**123,216**
Items that may be reclassified to profit or loss in subsequent periods, total								
Exchange differences on translation of foreign operations into the Group's presentation currency	(26)	-	-	-	-	-	-	(26)
Items that may be reclassified to profit or loss in subsequent periods, total	**(26)**	**-**	**-**	**-**	**-**	**-**	**-**	**(26)**
Total other comprehensive income (loss)	**123,190**	**-**	**-**	**-**	**-**	**-**	**-**	**123,190**
Total comprehensive income (loss) for the period	**120,422**	**(9,460)**	**(9,743)**	**-**	**-**	**-**	**-**	**101,219**
Attributable to:								
Equity holders of the parent	113,204	-	-	(18,240)	-	-	-	94,964
Non-controlling interests	7,218	-	-	(963)	-	-	-	6,255

**Restatement affect Financial statements of year 2018 (see above for the disclosures of the reasons of restatements provided by the Group)*

All amounts are in EUR thousand unless otherwise stated

Retrospectively restated captions of Group's Statement of Cash Flow

Restatement of year 2018

Group	2018 after corrections of errors (note 4.27)	Restatements	2018 restated*
Cash flows from (to) operating activities			
Net profit (loss)	(2,768)	(19,203)	(21,971)
Adjustments to non-cash items:			
Depreciation and amortisation expenses	96,730	204	96,934
Impairment of property, plant and equipment	(7,205)	10,356	3,151
Grants designated for property, plant and equipment in respect of which impairment and/or revaluation was recognised	(10,003)	-	(10,003)
Revaluation of property, plant and equipment	76,617	-	76,617
Revaluation of investment property	(18)	-	(18)
Revaluation of derivatives	(354)	-	(354)
Impairment/(reversal of impairment) of financial assets	9,876	-	9,876
Corporate income tax expenses	(8,885)	(3,388)	(12,273)
(Depreciation) of grants	(9,270)	-	(9,270)
Increase (decrease) in provisions	2.484	-	2.484
Inventory write-down allowance/(reversal)	(718)	-	(718)
Expenses/(income) of revaluation of emission allowances	(8,933)	-	(8,933)
Emission allowances utilised	908	-	908
Elimination of results of investing activities:			
- (Gain)/loss on disposal and/or write-off of property, plant and equipment	477	-	477
Other (income)/expenses of investing activities	82	-	82
Elimination of results of financing activities:			
- Interest received	(1,427)	-	(1,427)
- Interest paid	12,442	-	12,442
- Other (income)/expenses of financing activities	2,263	-	2,263
Changes in working capital:			
(Increase) decrease in trade receivables and other amounts receivable	(21,603)	-	(21,603)
(Increase) decrease in inventories, prepayments and other current assets	18,896	-	18,896
Increase (decrease) in amounts payable, deferred income and advance amounts received	35,250	12,031	47,281
Corporate income tax (paid)	(6,309)	-	(6,309)
Net cash flows from (to) operating activities	**178,532**	**-**	**178,532**

Group	2018 after corrections of errors (note 4.27)	Restatements	2018 restated*
Cash flows from/(used in) financing activities			
(Purchase) of property, plant and equipment and intangible assets	(416,205)	-	(416,205)
Proceeds from sale of property, plant and equipment and intangible assets	48,162	-	48,162
Acquisition of investments in subsidiaries	(23,509)	-	(23,509)
Grants received	25,523	-	25,523
Interest received	1,105	-	1,105
Other increases (decreases) in cash flows from investing activities	(1,582)	-	(1,582)
Net cash flows used in investing activities	**(366,506)**	**-**	**(366,506)**
Cash flows from/(used in) financing activities			
Loans received	57,810	-	57,810
Issue of bonds	294,346	-	294,346
Repayments of borrowings	(155,421)	-	(155,421)
Lease payments	(544)	-	(544)
Interest paid	(10,402)	-	(10,402)
Dividends paid	(80,608)	-	(80,608)
Increase in issued capital of Kauno Kogeneracinė Jėgainė UAB	7,840	-	7,840
Result of the closing of derivative financial instruments	(573)	-	(573)
Net cash flows from (used in) financing activities	**112,448**	**-**	**112,448**
Increase (decrease) in cash and cash equivalents (including overdraft)	**(75,526)**	**-**	**(75,526)**
Cash and cash equivalents (including overdraft) at the beginning of the period	161,101	-	161,101
Cash and cash equivalents (including overdraft) at the end of period	**85,575**	**-**	**85,575**

**Restatement affect Financial statements of year 2018 (see above for the disclosures of the reasons of restatements provided by the Group)*

All amounts are in EUR thousand unless otherwise stated

5 Intangible assets

Movements in Group's intangible assets during the year 2019 and 2018:

Group	Patents and licences	Computer software	Emission allowances	Other intangible assets	Goodwill	In total
As at 31 December 2017						
Acquisition cost	19,370	17,002	14,838	2,773	1,461	55,444
Accumulated amortisation	(5,312)	(13,276)	-	(496)	-	(19,084)
Net book amount	**14,058**	**3,726**	**14,838**	**2,277**	**1,461**	**36,360**
Net book value at 1 January 2018	**14,058**	**3,726**	**14,838**	**2,277**	**1,461**	**36,360**
Additions	1,889	429	-	5,431	5,370	13,119
Revaluation	-	-	31,816	-	-	31,816
Recognition of statutory servitudes	-	-	-	28,564	-	28,564
Reclassified to/from property plant and equipment	36	3,517	-	(3,163)	-	390
Write-offs	-	(5)	-	(8)	-	(13)
Reclassifications between categories	-	737	-	(737)	-	-
Emission allowances utilised	-	-	(908)	-	-	(908)
Sales	-	(2)	-	-	-	(2)
Grant received on emission allowances	-	-	2,555	-	-	2,555
Reclassified to/from assets held for sale	-	(5)	-	(5)	-	(10)
Amortisation charge	(1,506)	(3,989)	-	(46)	-	(5,541)
Net book value at 31 December 2018	**14,477**	**4,408**	**48,301**	**32,313**	**6,831**	**106,330**
As at 31 December 2018						
Acquisition cost	21,295	21,523	48,301	32,845	6,831	130,795
Accumulated amortisation	(6,818)	(17,115)	-	(532)	-	(24,465)
Net book amount	**14,477**	**4,408**	**48,301**	**32,313**	**6,831**	**106,330**
Net book value at 1 January 2019	**14,477**	**4,408**	**48,301**	**32,313**	**6,831**	**106,330**
Additions	90	621	-	30,508	-	31,219
Revaluation	-	-	354	-	-	354
Recognition of statutory servitudes	-	-	-	(35)	-	(35)
Reclassified to/from property plant and equipment	9	160	-	-	-	169
Reclassified to/from assets held for sale	-	(11)	-	(4)	-	(15)
Reclassifications between categories	(10,890)	5,906	(8)	8,212	(3,220)	-
Emission allowances utilised	-	-	(973)	-	-	(973)
Additions to Rights to servitudes and security zones	-	-	-	9,890	-	9,890
Re-measurement of provision related to Rights to servitudes and security zones	-	-	-	(464)	-	(464)
Grant received on emission allowances	-	-	4,131	-	-	4,131
Amortisation charge	(1,456)	(5,333)	-	(1,080)	-	(7,869)
Net book value at 31 December 2019	**2,230**	**5,751**	**51,805**	**79,340**	**3,611**	**142,737**
As at 31 December 2019						
Acquisition cost	4,665	25,958	51,805	89,164	3,611	175,203
Accumulated amortisation	(2,435)	(20,207)	-	(9,824)	-	(32,466)
Net book amount	**2,230**	**5,751**	**51,805**	**79,340**	**3,611**	**142,737**

Emission allowances

If the Group's Emission allowances had not been revalued, the net book values of the assets as at 31 December 2019 and 2018 would have been following:

	Emission allowances
As at 31 December 2018	24,757
As at 31 December 2019	28,713

The fair value of emission allowances is determined using the prices quoted in an active market, therefore, it is attributable to Level 1 in the fair value hierarchy. At the end of each reporting period, emission allowances are measured with reference to year-end market prices. No amortisation is recorded in respect of the emissions allowances.

All amounts are in EUR thousand unless otherwise stated

During the year 2019, the Group used grants in the amount of EUR 4,131 thousand EUR (2018 - EUR 2,555 thousand) for the purchase of emission allowances.

The table below includes information on the results of revaluation of emission allowances conducted in 2019:

Group	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit or loss	Total revaluation effect
Increase (decrease) in carrying amount	721	(367)	354
	721	**(367)**	**354**

Results of revaluation of emission allowances conducted in 2018:

Group	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit or loss	Total revaluation effect
Increase (decrease) in carrying amount	22,883	8,933	31,816
	22,883	**8,933**	**31,816**

Other intangible assets

As at 31 December 2019 the Group Other intangible assets comprise following significant items:
- Rights to servitudes and security zones of EUR 38,303 thousand (31 December 2018: EUR 28,877 thousand);
- The subsidiary's Eurakras UAB right to produce electricity with an incentive rate with carrying amount EUR 10,036 thousand. As at 31 December 2018 the Eurakras UAB right to produce electricity with an incentive rate was classified as "Patents and licences" and amounted to EUR 11,278 thousand. During 2019 EUR 10,036 thousand amount was reclassified from "Patents and licences" to "Other intangible assets" as right to produce electricity with an incentive rate differs with common meaning of patens and licences;
- The subsidiary's Vėjo Gūsis UAB right to produce electricity with an incentive rate with carrying amount EUR 1,156 thousand;
- The subsidiary's Vėjo Vatas UAB right to produce electricity with an incentive rate with carrying amount EUR 1,509 thousand;
- The subsidiary's Pomerania Invall Sp. z o. o. right to produce electricity with an incentive rate with carrying amount EUR 24,390 thousand;

Goodwill

As at 31 December 2018 the Group accounted for goodwill related to acquisition of subsidiaries Vėjo gūsis UAB EUR 1.487 thousand and Vėjo vatas UAB EUR 1.733 thousand. During 2019 the Group review fair values of of assets and liabilities acquired in business combination (note 43) and recognized Other intangible assets that comprise right to produce electricity with an incentive rate. Other intangible assets related to acquisition of Vėjo gūsis UAB and and Vėjo vatas was recognized reclassifying EUR 3.220 thousand of Goodwill to Other intangible assets and recognizing EUR 260 thousand addition to Other intangible assets.

The Company's intangible assets

Company	Other intangible assets	In total
As at 31 December 2017		
Acquisition cost	-	-
Accumulated amortisation	-	-
Net book amount	-	-
Net book value at 1 January 2018	-	-
Reclassified to/from assets held for sale	1,874	1,874
Amortisation charge	-	-
Net book value at 31 December 2018	**1,874**	**1,874**
As at 31 December 2018		
Acquisition cost	1,874	1,874
Accumulated amortisation	-	-
Net book amount	**1,874**	**1,874**
Net book value at 1 January 2019	**1,874**	**1,874**
Reclassified to/from assets held for sale	-	-
Amortisation charge	-	-
Net book value at 31 December 2019	**1,874**	**1,874**
As at 31 December 2019		
Acquisition cost	1,874	1,874
Accumulated amortisation	-	-
Net book amount	**1,874**	**1,874**

On 3 December 2018, the Company accounted for assets of EUR 1,874 thousand in the intangible assets category 'Other intangible assets', where these assets indicate future synergies that were identified on the acquisition of assets of TE-3 from Vilniaus Šilumos Tinklai AB on 12 October 2017. The benefit of synergies will be realised by ensuring the connection of Vilnius co-generation power plant, which is constructed by the Group, and other objects of the Group to the heat distribution infrastructure of Vilnius city.

Fully amortised intangible assets

As at 31 December 2019, the cost of acquisition of fully amortized intangible assets used by the Group and the Company was as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Patents and licences	1,948	1,146	-	-
Computer software	6,894	2,644	-	-
Other intangible assets	377	375	83	83
Cost of fully amortised assets, total	**9,219**	**4,165**	**83**	**83**

All amounts are in EUR thousand unless otherwise stated

6 Property, plant, and equipment

The Group's property, plant and equipment:

Group	Land	Buildings	Structures and machinery	Gas distribution pipelines, gas technological equipment and installations	Assets of Hydro Power Plant, Pumped Storage Power Plant	Wind power plants and their installations	Structures and machinery of Thermal Power Plant	Vehicles	IT and telecommunication equipment	Other property, plant and equipment:	Construction-in-progress	In total
As at 31 December 2017												
Cost	2,324	41,432	1,037,447	167,712	207,279	64,229	779,526	7,605	37,051	14,130	68,804	2,427,539
Accumulated depreciation	-	(9,824)	(108,890)	(18,019)	(94,489)	(5,195)	(293,722)	(4,212)	(17,644)	(5,774)	(1,108)	(558,877)
Accumulated impairment	-	-	-	(575)	-	-	(106,670)	-	-	-	(335)	(107,580)
Net book value	**2,324**	**31,608**	**928,557**	**149,118**	**112,790**	**59,034**	**379,134**	**3,393**	**19,407**	**8,356**	**67,361**	**1,761,082**
Net book amount at 1 January 2018	**2,324**	**31,608**	**928,557**	**149,118**	**112,790**	**59,034**	**379,134**	**3,393**	**19,407**	**8,356**	**67,361**	**1,761,082**
Additions	-	1	710	-	10	-	804	2,100	1,823	971	360,030	366,449
Sales	-	(31)	(361)	-	-	-	(829)	(32)	(15)	(1)	(427)	(1,696)
Write-offs	-	(6)	(4,575)	(112)	(5)	(1)	(38)	(30)	(83)	(16)	(35)	(4,901)
Revaluation	(35)	10,306	36,587	-	-	-	(96)	8	(1,149)	48	-	45,669
Impairment losses	-	(15)	(17)	-	-	-	(195)	(56)	-	(16)	(1,066)	(1,365)
Reversal of impairment	-	25	388	575	-	-	-	-	-	-	-	988
Reclassifications between categories	-	1,717	195,023	57,009	3,666	14	1,766	-	3,825	585	(263,605)	-
Reclassified from (to) assets, intangible assets	-	-	-	-	-	-	-	-	(71)	(2)	(317)	(390)
Reclassified from (to) finance lease	-	-	-	-	-	-	-	(824)	-	(1,086)	-	(1,910)
Reclassified from (to) assets held for sale	-	(9,166)	(3,764)	-	-	-	-	(548)	(1,693)	(2,196)	-	(17,367)
Reclassified from (to) investment property	-	(4,502)	183	-	-	-	-	-	-	-	-	(4,319)
Reclassified from (to) inventories	-	-	2	-	(116)	-	(192)	-	(4)	(60)	1,960	1,590
Depreciation charge	-	(1,868)	(45,868)	(5,341)	(7,130)	(2,061)	(20,071)	(984)	(4,336)	(1,892)	-	(89,552)
Acquisition of subsidiaries	1,089	-	7,316	-	-	27,653	-	-	-	1,050	-	37,108
Net book value at 31 December 2018	**3,378**	**28,069**	**1,114,181**	**201,249**	**109,215**	**84,639**	**360,283**	**3,027**	**17,704**	**5,741**	**163,901**	**2,091,386**
As at 31 December 2018												
Cost or revalued amount	3,378	28,504	1,274,877	238,940	210,834	92,922	774,145	5,643	29,611	7,955	165,302	2,832,111
Accumulated depreciation	-	(435)	(160,696)	(37,691)	(101,619)	(8,283)	(307,550)	(2,616)	(11,907)	(2,215)	-	(633,012)
Accumulated impairment	-	-	-	-	-	-	(106,312)	-	-	-	(1,401)	(107,713)
Net book amount	**3,378**	**28,069**	**1,114,181**	**201,249**	**109,215**	**84,639**	**360,283**	**3,027**	**17,704**	**5,740**	**163,901**	**2,091,386**

(Cont'd on the next page)

All amounts are in EUR thousand unless otherwise stated

(continued)

Group	Land	Buildings	Structures and machinery	Gas distribution pipelines, gas technological equipment and installations	Assets of Hydro Power Plant, Pumped Storage Power Plant and	Wind power plants and their installations	Structures and machinery of Thermal Power Plant	Vehicles	IT and telecommunication equipment	Other property, plant and equipment:	Construction-in-progress	In total
Net book value at 31 December 2018	3,378	28,069	1,114,181	201,249	109,215	84,639	360,283	3,027	17,704	5,740	163,901	2,091,386
Reclassified to right-of-use assets	-	-	(7,209)	-	-	(27,290)	(446)	-	-	(1,024)	-	(35,969)
Net book value at 1 January 2019	**3,378**	**28,069**	**1,106,972**	**201,249**	**109,215**	**57,349**	**359,837**	**3,027**	**17,704**	**4,716**	**163,901**	**2,055,417**
Additions	-	7	267	-	152	-	255	11,916	2,288	1,188	398,049	414,122
Sales	-	(75)	(89)	-	-	-	-	(850)	(7)	(62)	(328)	(1,411)
Write-offs	-	(20)	(3,971)	(358)	(220)	-	(11)	(1)	(36)	(67)	468	(4,216)
Revaluation	-	-	(2)	-	-	-	-	-	-	-	-	(2)
Impairment losses	-	-	-	-	-	-	-	-	-	-	(3,985)	(3,985)
Reversal of impairment	-	-	-	-	-	-	4	-	-	-	-	4
Reclassifications between categories	(7)	3,252	133,799	50,144	244	(4,144)	3,202	20	(3,691)	5,850	(188,669)	-
Reclassified from (to) assets, intangible assets	-	-	-	-	-	-	-	-	(169)	-	-	(169)
Reclassified from (to) finance lease	-	-	-	-	-	-	-	(10,531)	-	-	-	(10,531)
Reclassified from (to)assets held for sale	-	-	(625)	-	-	-	-	(187)	(569)	319	-	(1,062)
Reclassified from (to) investment property	-	(339)	-	-	-	-	-	-	-	-	-	(339)
Reclassified from (to) inventories	-	-	-	-	43	-	20	-	(6)	-	-	57
Reclassified from (to) right-of-use assets	-	-	-	-	-	-	-	-	-	-	(1,196)	(1,196)
Depreciation charge	-	(4,474)	(55,397)	(8,747)	(6,225)	(3,290)	(19,963)	(955)	(4,028)	(1,465)	-	(104,544)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	5,672	5,672
Net book value at 31 December 2019	**3,371**	**26,420**	**1,180,954**	**242,288**	**103,209**	**49,915**	**343,344**	**2,439**	**11,486**	**10,479**	**373,912**	**2,347,817**
As at 31 December 2019												
Cost or revalued amount	3,371	30,981	1,390,318	293,373	210,729	65,234	776,583	3,618	22,827	12,574	374,247	3,180,928
Accumulated depreciation	-	(4,561)	(209,364)	(51,085)	(107,520)	(15,319)	(326,962)	(1,179)	(11,341)	(2,095)	-	(726,499)
Accumulated impairment	-	-	-	-	-	-	(106,277)	-	-	-	(335)	(106,612)
Net book amount	**3,371**	**26,420**	**1,180,954**	**242,288**	**103,209**	**49,915**	**343,344**	**2,439**	**11,486**	**10,479**	**373,912**	**2,347,817**

In year 2019, the Group's property, plant and equipment (excluding Assets of Hydro Power Plant, Pumped Storage Power Plant, 'Structures and machinery of Thermal Power Plant' (Thermal Power Plant includes Combined Cycle Unit, Reserve Power Plant), 'Gas distribution pipelines, gas technological equipment and installations', 'Wind power plants and their installations' and 'IT and telecommunication equipment') was accounted for at revalued amount.

If tangible assets had not been revalued, the net book values of the Group's assets as at 31 December 2019 and 2018 would have been following:

Group	Land	Buildings	Structures and machinery	Vehicles	Other property, plant and equipment:	Construction-in-progress	In total
As at 31 December 2018	2,990	29,544	1,089,887	2,106	3,723	163,901	1,292,150
As at 31 December 2019	2,990	28,124	1,278,314	2,535	10,286	373,913	1,696,162

All amounts are in EUR thousand unless otherwise stated

Results of the revaluation conducted in year 2019 are presented below:

Group	Recognized in other comprehensive income and revaluation reserve in equity	Recognised in profit or loss	Total revaluation effect
Increase (decrease) in carrying amount	-	(2)	(2)
	-	**(2)**	**(2)**

Results of the revaluation conducted in year 2018 are presented below:

Group	Recognized in other comprehensive income and revaluation reserve in equity	Recognised in profit or loss	Total revaluation effect
Increase (decrease) in carrying amount	122,286	(76,617)	45,669
	122,286	**(76,617)**	**45,669**

During 2018 the Group accounted for EUR 36,587 thousand revaluation of "Structures and machinery". Revaluation of EUR 37,125 thousand increase of carrying balance arise on revaluation of assets attributed to the electricity business segment (note 4.3), and EUR 538 thousand decrease of carrying balance arise on revaluation of Ignitis gamyba AB subsidiary's assets.

As at 31 December 2019, the cost of acquisition of fully depreciated property, plant and equipment, but still in use by the Group and the Company was as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Buildings	-	-	-	-
Structures and machinery	1,395	2,005	-	-
Gas distribution pipelines, gas technological equipment and installations	16,882	12,506	-	-
Assets of Hydro Power Plant and Pumped Storage Power Plant	19,945	4,901	-	-
Wind power plants and their installations	-	-	-	-
Structures and machinery of Thermal Power Plant	85,735	78,875	-	-
Vehicles	690	1,196	-	-
IT and telecommunication equipment	5,328	567	-	-
Other property, plant and equipment:	431	140	28	25
Cost of fully amortised assets, total	**130,406**	**100,190**	**28**	**25**

During 2019, the Group disposed the property, plant and equipment with a carrying amount of EUR 1,411 thousand for consideration of EUR 2,027 thousand. The net result was recognised in the statement of profit or loss and other comprehensive income item 'Other income' (Note 33).

In the opinion of the Group's management, the carrying amount of substantially all assets stated at revalued amount as at 31 December 2019 did not differ significantly from their fair value. The table below presents allocation between the fair value hierarchy levels of the Group's property, plant and equipment that was subject to revaluation as at 31 December 2019 (refer to Note 2.30 for the description of the fair value hierarchy levels).

Group	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	In total
Land	-	1,845	1,526	3,371
Buildings	-	582	25,838	26,420
Structures and machinery	-	1,792	1,205,398	1,207,190
Vehicles	-	61	6,392	6,453
Other property, plant and equipment	-	231	11,532	11,763
Construction-in-progress	-	-	373,913	373,913
In total	**-**	**4,511**	**1,624,599**	**1,629,110**

The table below presents allocation between the fair value hierarchy levels of the Group's property, plant and equipment that was subject to revaluation as at 31 December 2018 (refer to Note 2.30 for the description of the fair value hierarchy levels).

Group	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	In total
Land	-	1,845	1,533	3,378
Buildings	-	596	27,473	28,069
Structures and machinery	-	1,890	1,112,291	1,114,181
Vehicles	-	66	2,961	3,027
Other property, plant and equipment	-	42	5,698	5,740
Construction-in-progress	-	-	163,901	163,901
In total	**-**	**4,439**	**1,313,857**	**1,318,296**

Land was largely attributed to Level 2 of the fair value hierarchy. The valuation was based on the comparative value approach.

Buildings were attributed to Levels 2 and 3 of fair value hierarchy. The valuation of buildings attributed to Level 2 was based on the comparative value approach. The valuation of assets attributed to Level 3 was based on the income approach, comparative value approach, the cost approach or mix of these approaches.

Structures and machinery were attributed to Levels 2 and 3 of fair value hierarchy. The valuation of assets within Level 2 was based on the comparative value and the cost approach. The valuation of assets attributed to Level 3 was based on the income approach, comparative value approach, the cost approach or mix of these approaches. The valuation was based on data and information available to the valuer for making accurate forecasts of future cash flows.

Motor vehicles were attributed to Levels 2 and 3 of fair value hierarchy. The measurement was performed using the comparative value and the cost approach.

Construction in progress and other PP&E were mostly attributed to Level 3 of fair value hierarchy, valuation was based on income or depreciated replacement cost approach. The management considers, that cost of these assets approximates its fair value.

All amounts are in EUR thousand unless otherwise stated

During 2019, the Group companies capitalised EUR 653 thousand of interest expenses on borrowings intended to finance development of non-current assets (2018: EUR 776 thousand). The average capitalised interest rate was 1.97% in year 2019 and 1.42% in 2018.

The Group has significant commitments to purchase property, plant and equipment to be fulfilled in later periods. As at 31 December 2019, the Group's commitments to purchase and construct property, plant and equipment amounted to EUR 128,504 thousand (31 December 2018: EUR 490,432 thousand).

As at 31 December 2019, the Group had pledged to the banks its property, plant and equipment in amount of EUR 21,033 thousand (31 December 2018: EUR 58,583 thousand) (Note 23).

The Company's property, plant and equipment

Company	Other property, plant and equipment:	Construction-in-progress	In total
As at 31 December 2017			
Cost or revalued amount	69	381	450
Accumulated depreciation	(29)	-	(29)
Net book amount	**40**	**381**	**421**
Net book value at 1 January 2018	**40**	**381**	**421**
Additions	13	-	13
Depreciation charge	(7)	-	(7)
Net book value at 31 December 2018	**46**	**381**	**427**
As at 31 December 2018			
Cost or revalued amount	82	381	463
Accumulated depreciation	(36)	-	(36)
Net book amount	**46**	**381**	**427**
Net book value at 1 January 2019	**46**	**381**	**427**
Additions	36	-	36
Contribution in kind to the authorized capital of the subsidiary Ignitis grupės paslaugų centras UAB	-	(364)	(364)
Depreciation charge	(13)	-	(13)
Net book value at 31 December 2019	**69**	**17**	**86**
As at 31 December 2019			
Cost or revalued amount	117	17	134
Accumulated depreciation	(48)	-	(48)
Net book amount	**69**	**17**	**86**

All amounts are in EUR thousand unless otherwise stated

7 Right-of-use assets

The Group's Right-of-Use Assets

Dynamics of the Group's right-of-use assets in year 2019:

	Land	Buildings	Structures and machinery	Wind power plants and their installations	Vehicles	IT and telecommunication equipment	Other property, plant and equipment:	In total
Period ended 31 December 2019								
Opening net book value	-	-	-	-	-		-	**-**
IFRS 16 adoption impact – reclassification from property, plant and equipment*	1,196	-	8,233	27,290	446	-	-	**37,165**
Additions:		-		-		-		**-**
Whereof: recognition as right-of-use asset	5,719	5,612	123	-	303	2,580	229	**14,566**
Whereof: lease contracts signed	9,248	10,263	191	-	162	77	104	**20,045**
Write-offs and disposals	-	(930)	(140)	-	(283)	-	(16)	**(1,369)**
Reclassified from (to) assets held for sale	-	(441)	(96)	-	-	(2,342)	-	**(2,879)**
Depreciation charge	(143)	(2,744)	(805)	(2,246)	(150)	(315)	(81)	**(6,484)**
Net book amount at 31 December 2019	**16,020**	**11,760**	**7,506**	**25,044**	**478**	**-**	**236**	**61,044**
31 December 2019								
Acquisition cost	16,143	13,874	8,232	27,290	823	-	317	66,679
Accumulated depreciation	(123)	(2,114)	(726)	(2,246)	(345)	-	(81)	(5,634)
Net book value as at 31 December 2019	**16,020**	**11,760**	**7,506**	**25,044**	**478**	**-**	**236**	**61,044**

** Reclassified following the coming into effect of IFRS 16 from 01/01/2019 (Note 2.1).*

The Company Right-of-Use Assets

Dynamics of the Company's right-of-use assets in year 2019:

	Buildings	Vehicles	In total
Period ended 31 December 2019			
Opening net book value	-	-	**-**
Additions:	-	-	**-**
Whereof: recognition as right-of-use asset	847	177	**1,024**
Whereof: lease contracts signed	53	21	**74**
Depreciation charge	(215)	(45)	**(260)**
Net book amount at 31 December 2019	**685**	**153**	**838**
31 December 2019			
Acquisition cost	829	198	**1,027**
Accumulated depreciation	(144)	(45)	**(189)**
Net book value as at 31 December 2019	**685**	**153**	**838**

The Group has lease contracts for various items:

Wind power plants and their installations and Structures and machinery. The Group's companies engaged in the production of electricity from renewable sources have lease agreements for 31 wind power plants with towers, infrastructure and other installation components. The lease agreement for 5 wind farms is until 28 February 2021, the others - until 20 February 2022 February 2022. The discount rate on 31 December 2019 was 1.050 percent.

Buildings. The Group has lease contracts for office and warehouse premises with the term of 3 to 10 year and as well as contracts with lease term of 12 months or less.

Land. The Group has lease agreements of land whereas major one of them entered into by subsidiary Ignitis gamyba UAB is concluded until the year 2095 with the discount rate 4.070 percent and carrying amount as at 31 December 2019 of EUR 4,468 thousand., other significant land lease contracts entered into by subsidiary Pomerania s.p. z o.o.are valid until 2049 with discount rate from 3 to 3.3 percent and carrying amount of EUR 7.167 thousand. Maturity date of other land lease agreements vary from the year of 2073 till 2112.

Lease expenses recognized in the statement of profit or loss and other comprehensive income

The Group and the Company's lease expenses are recognised in the statement of profit or loss and other comprehensive income as follows:

	2019	
	Group	Company
Depreciation charge	6,483	215
Interest charges	551	2
Expenses related to short-term leases (other expenses)	201	-
Expenses related to leases of low value assets (other expenses)	261	-
Write-off of assets and liabilities	950	-
Lease expenses, total	**8,446**	**217**

All amounts are in EUR thousand unless otherwise stated

8 Investment property

Group	2019	2018
Carrying amount at 1 January	**6,494**	**14,878**
Revaluation	(179)	18
Reclassification from property, plant and equipment	339	4,319
Reclassification to assets held for sale	(1,124)	(12,721)
Carrying amount at 31 December	**5,530**	**6,494**

In year 2019, the Group's income from lease of investment property amounted to EUR 1,372 thousand (31 December 2018 – EUR 3,258 thousand).

The Company had no investment property in year 2019 and 2018.

The Group has leases on all investment property consisting of buildings, structures and equipment. The terms of the leases are from 1 to 10 years.

The Group has no restrictions on the disposal of its investment properties by earning rental income and no contractual obligations to construct, develop or repair it. The lease term for every single contract does not constitute the major part of the economic life of the asset, and the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the leased asset, therefore, the Group retains substantially all the risks and rewards incidental to ownership of an underlying asset and accounts for as an operating lease

Valuation of investment property

The fair value of investment property as at 31 December 2019 and 31 December 2018 was determined in April – July 2019 and July 2018, respectively by independent property valuer Apus turtas UAB.

Valuation of investment property of EUR 1,712 thousand was carried out using the market approach and income approach. Investment property is attributed to Level 3 of fair value hierarchy.

The valuation of investment property of EUR 3,818 thousand was carried out by independent property valuer Apus turtas UAB and was based on cost method, which was chosen on the basis that the property being valued has special purpose and has no analogous comparative transactions. The valuators have chosen the most conservative, transparent and easily verifiable asset valuation method, as in this case the method has the most objectively verifiable data and the price determined by this method is the least doubtful. The cost of restoration of assets has been determined using a calculation model for the creation of the property being valued, since the valuators have all data about total acquisition costs of property being valued. Valuator determined the value of physical depreciation of the property being valued. The calculations are indexed using the consumer annual price index.

Real estate valuation was done by applying a comparative method using information about past transactions. To determine the base of comparable transactions, valuators have taken into consideration the type, purpose, location and physical characteristics of the property. To determine market value of real estate, valuator applied weightings to adjust base of comparable transactions. Locality weightings (Approved by the Order No 495 of the Director of the State Enterprise Centre of Registers on 27 September 2018 'REGARDING MASS VALUATION OF REAL ESTATE 2018 DATA AND LOCALITY WEIGHTINGS IN ACCORDANCE WITH 1 JANUARY 2019 APPROVAL OF ASSET PURPOSE AND LOCATIONS'), physical condition weightings and area weightings were applied.

The table below presents allocation of the Group's investment property based on fair value hierarchy levels as at 31 December 2019 (Note 2.30).

Group	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	In total
Buildings	-	-	5,201	5,201
Structures	-	-	329	329
In total	**-**	**-**	**5,530**	**5,530**

The table below presents allocation of the Group's investment property based on fair value hierarchy levels as at 31 December 2018 (refer to Note 2.30 for the description of the fair value hierarchy levels).

Group	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	In total
Buildings	-	-	5,978	5,978
Structures	-	-	516	516
In total	**-**	**-**	**6,494**	**6,494**

9 Investments in subsidiaries and associates

Dynamics of the Company's investments during the year 2019 and 2018 were as follows:

Company	2019	2018
Net book value at 1 January	**1,206,921**	**1,148,917**
Increase in issued capital of subsidiaries	15,960	41,038
Establishment of subsidiaries	44,700	-
Decrease in issued capital of subsidiaries	(36,386)	-
Acquisition of subsidiaries	-	21,016
Disposal of investments	(39,747)	-
Coverage of losses	-	5,142
Liquidation of subsidiaries	-	(17)
Reclassification to assets held for sale	-	(2,359)
(Impairment) / reversal of impairment of investments in subsidiaries	13,046	(6,815)
Net book value at 31 December	**1,204,494**	**1,206,921**

Reorganisation of subsidiaries

On 1 January 2019, the reorganisation of the Group companies of Ignitis UAB (former Lietuvos Energijos tiekimas UAB) and Litgas UAB was finalised. The companies are reorganised by way of merger – Litgas UAB, which cease its activities after the reorganisation, is merged with Ignitis UAB, which continues its activities. All the assets, rights and obligations of Litgas UAB were taken over by Ignitis UAB that continues its activities. The Company's carrying amount of investment to Ignitis UAB increased by EUR 8,631 thousand and the investment to Litgas UAB was written off by the same carrying amount.

On 1 June 2019, the reorganisation of the Group companies of Ignitis UAB and Energijos tiekimas UAB was finalised. The companies are reorganised by way of merger – Energijos tiekimas UAB, which cease its activities after the reorganisation, is merged with Ignitis UAB, which continues its activities. All the assets, rights and obligations of Energijos tiekimas UAB were taken over by Ignitis UAB that continues its activities. The Company's carrying amount of investment to Ignitis UAB increased by EUR 26,126 thousand and the investment to Energijos tiekimas UAB was written off by the same carrying amount.

All amounts are in EUR thousand unless otherwise stated

Increase in issued capital of subsidiaries

During the year 2019 the authorized capital of the following Group's companies was increased:

Subsidiary	Issue date	Amount of shares, pcs*	Nominal value per share, EUR	Total issue price	Paid amount	Amount outstanding	Date of articles amendment
Vilniaus kogeneracinė jėgainė UAB	22/1/2019	54,137,931	0.29	15,700	4,386	11,314	2019-01-30
Ignitis grupės paslaugų centras UAB	13/6/2019	897,149	0.29	260	260	-	2019-06-28
Total				**15,960**	**4,646**	**11,314**	

** there is stated amount of shares that belong to the Company*

On 14 January 2019, a decision was passed to increase the share capital of the Group's company Vilniaus Kogeneracinė Jėgainė UAB up to EUR 52,300 thousand. The initial contribution of EUR 4,000 thousand was paid by the Company in cash and was made a non-cash contribution amounting to EUR 386 thousand (business consultations relating to engineering and construction preparatory works for Vilnius co-generation power plant). At 6 January 2020 the Company paid EUR 11,314 thousand for shares of the subsidiary. On 30 January 2019, the new version of the Articles of Association of the Group's company Vilniaus Kogeneracinė Jėgainė UAB related to increase in share capital was registered with the Register of Legal Entities.

On 13 June 2019 the Company and its subsidiary Ignitis gamyba AB decided to increase the authorized capital of another subsidiary Ignitis paslaugų paslaugų centras to EUR 6,960,000 by issuing 1,794,475 units of shares the par value of each is EUR 0.29. Ignitis gamyba AB acquired 897,326 units of shares, the issue price is equal to EUR 260 thousand by paying for these shares with a non-monetary contribution, long-term intangible assets, the value of which was determined EUR 260 thousand by the independent property valuator UAB APUS TURTAS for the date 31 January 2019. The Company acquired 897,149 units of shares, the issue price is equal to EUR 260 thousand by paying for these shares with a cash contribution.

On 28 February 2019, a decision of general meeting of shareholders was passed to increase the share capital of the Group's company Ignitis grupės paslaugų centras UAB from EUR 6,440 to EUR 6,960 thousand. The right to acquire 897,149 shares par value of EUR 0.29 (total emission value – EUR 260.2 thousand) per share is granted to Ignitis gamyba AB. On 28 June 2019, the new version of the Articles of Association of the Group's company Ignitis grupės paslaugų centras UAB related to increase in share capital was registered with the Register of Legal Entities.

Increase in issued capital of the Group companies in 2018:

Subsidiary	Issue date	Number of newly issued shares	Issue price per share, EUR	Total issue price	Amount paid up	Amount not paid up	Date of amendment to Articles of Association
Kauno kogeneracinė jėgainė UAB	As at 19/01/2018	8,160,000	1.00	8,160	8,160	-	As at 19/01/2018
Vilniaus kogeneracinė jėgainė UAB	As at 21/12/2017	53,781,379	0.29	15,596	15,596	-	As at 05/01/2018
Energetikos paslaugų ir rangos organizacija UAB	As at 30/01/2018	345,600	4.34	1,500	1,500	-	As at 08/02/2018
Energijos sprendimų centras UAB	As at 29/01/2018	600,000	1.50	900	900	-	As at 10/04/2018
Elektroninių mokėjimų agentūra UAB	As at 21/02/2018	370,000	1.00	370	370	-	As at 27/02/2018
Increase in authorised share capital by way of in-kind contribution							
Ignitis gamyba AB	As at 30/03/2018	12,919,014	0.62	8,062	8,062	-	As at 31/03/2018
NT Valdos UAB	As at 01/08/2018	222,725	28.96	6,450	6,450	-	As at 17/08/2018
Total:				**41,038**	**41,038**	**-**	

Offset prepayments made in 2017 for the increase of authorised share capital during the year 2018:

Subsidiary	Issue date	Number of newly issued shares	Issue price per share, EUR	Total issue price	Amount paid up	Amount not paid up	Date of amendment to Articles of Association
Vilniaus kogeneracinė jėgainė UAB	As at 21/12/2017	53,781,379	0.29	15,596	3,898	11,698	As at 05/01/2018
Total:				**15,596**	**3,898**	**11,698**	

Decrease in share capital

On 15 April 2019, the Company decided to reduce the authorized capital of the subsidiary NT Valdos UAB from EUR 41,385 thousand to EUR 5,000 thousand by cancelling 1,256,400 ordinary registered intangible shares of NT Valdos UAB, each with a nominal value of EUR 28.96, the total amount of cancellation is EUR 36,385 thousand. The purpose of the reduction of the authorized capital is the disbursement of funds to shareholders of NT Valdos UAB. The subsidiary disbursed the share capital reduction to the Company during July–September of 2019 and the Company accounted for EUR 9,035 thousand reversal of investments in subsidiaries impairment. On 5 July 2019, a new version of the Articles of Association of the Subsidiary Company related to the reduction of the authorized capital was registered with the Register of Legal Entities.

Decrease in share capital of the Group companies in 2019:

Subsidiary	Carrying amount As at 31 December 2018	Decrease in share capital	Coverage of losses	(Impairment) / reversal of impairment	Carrying amount at 31 December 2019
NT valdos, UAB	36,173	(36,385)	-	9,035	8,823
UAB "Ignitis"	43,125	-	-	4,011	47,136
Total:	**79,298**	**(36,385)**	**-**	**13,046**	**55,959**

There were no decreases in share capital of the Group companies during the year 2018.

All amounts are in EUR thousand unless otherwise stated

Establishment and acquisition of subsidiaries

On 31 December 2018, the Company announced that in developing the green energy activity and aiming to optimise operations of the controlled companies engaged in renewable energy production it approved the establishment of a new company Ignitis Renewables UAB (former Lietuvos Energija Renewables UAB), which will become a transferee of shares of all already controlled and developed wind power parks. This decision was approved by the holder of the Company's shares – the Ministry of Finance of the Republic of Lithuania. The Articles of Association of Ignitis Renewables UAB were registered with the Register of Legal Entities on 14 January 2019.

In year 2019, the following subsidiaries were established:

Subsidiary	Issue date	Number of newly issued shares	Nominal value per share, EUR	Total nominal values of the issue	Share premium	Amount paid up	Amount not paid up	Date of amendment to Articles of Association
Ignitis renewables UAB	As at 14/01/2019	3,000	1	3	44,697	44,700	-	As at 14/01/2019
Total:				**3**	**44,697**	**44,700**	**-**	

Acquisitions of new subsidiaries made in year 2018 were accounted for within investments in subsidiaries:

Subsidiary	Date of acquisition of shares	Number of shares acquired	Nominal value per share, EUR	Total issue price	Paid up amount of the acquisition cost of shares	Unpaid amount of the acquisition cost of shares
Verslo aptarnavimo centras UAB	As at 01/10/2018	9,987	0.29	3	3	
Acquisition of subsidiaries						
Vėjo vatas UAB	As at 31/10/2018	100,000	28.96	2,896	6,132	
Vėjo gūsis UAB	As at 31/10/2018	257,000	28.96	7,443	12,919	
VVP Investment UAB	As at 27/12/2018	8,640	28.96	250	1,237	725
Total:				**10,592**	**20,291**	**725**

Disposal of subsidiaries

On 28 March 2019, the share purchase and sale agreements were signed regarding the transfer of 100% of shares of the Company's subsidiaries developing projects on renewable energy resources to Ignitis renewables UAB. Upon the transfer of shares of the renewable energy companies within the Group, the Company's ownership interest in the companies remains unchanged. The shares of the renewable energy companies are transferred for the carrying amount of investments in shares and the related liabilities, therefore the impact of the transfer of shares on the financial performance of the Company and the Group is neutral.

The following investments of the Company were divested during the first three quarters of year 2019:

Subsidiary	Disposal date	Number of shares disposed	Investment value, Eur	Amount paid up*	Amount not paid up
Eurakras UAB	As at 28/03/2019	159,549	18,735	18,735	-
Vėjo vatas UAB	As at 28/03/2019	100,000	6,132	6,132	-
Vėjo gūsis UAB	As at 28/03/2019	257,000	12,918	12,918	-
VVP Investment UAB	As at 28/03/2019	8,640	1,962	1,962	-
Total:			**39,747**	**39,747**	**-**

Acquisition of shares from non-controlling interest

There were no acquisitions of shares from non-controlling interest during 2019.

On 26 March 2018, the Company increased the authorised share capital of Ignitis gamyba AB by EUR 3,747 thousand through the additional issue of 12,919,014 shares with the nominal value of EUR 0.29 each. Ignitis Grupė UAB committed to pay for the acquired shares by way of an in-kind contribution, i.e. Vilnius Thermal Power Plant No 3, as a whole complex of technological equipment and territories, the value of which was EUR 8,061,465. Following the change in the number of shares of Ignitis gamyba AB non-controlling interest decreased from 3.25% to 3.18%. The change in the number of shares of Ignitis gamyba AB resulted in the change in non-controlling interest in Verslo aptarnavimo centras UAB, which decreased from 1.60% to 1.59%. The non-controlling interest in Technologijų ir inovacijų centras UAB has also changed decreasing from 2.11% to 2.09%.

Contributions against losses and impairment

In year 2019, the Company accounted for EUR 9035 thousand reversal of impairment of investments in subsidiary NT Valdos UAB (see Note 9 'Decrease in share capital') and reversal of impairment of investments in subsidiary Ignitis UAB EUR 4,011 thousand.

Contributions against losses of the Group companies and impairment of investments in the subsidiaries in year 2018:

Subsidiary	Carrying amount at 31 December 2017	Increase in share capital	Coverage of losses	(Impairment) / reversal of impairment	Carrying amount at 31 December 2018
Energetikos paslaugų ir rangos organizacija UAB	191	1,500	5,072	(6,763)	-
VAE SPB UAB	-	-	70	(70)	-
Cash received upon liquidation of VAE SPB UAB	-	-	-	15	15
Shares of Verslo aptarnavimo centras UAB received upon liquidation of VAE SPB UAB	-	-	-	3	3
	191	**1,500**	**5,142**	**(6,815)**	**18**

On 28 September 2018, the Company passed a decision to cover retained deficit of subsidiary Energetikos paslaugų ir rangos organizacija UAB through the shareholder's contribution of EUR 3,237 thousand by offsetting loans payable by the subsidiary to the Company and accrued interest payable. The carrying amount of loans offset, net of impairment of EUR 2,700 thousand recognised in year 2017, is equal to EUR 535 thousand.

On 21 December 2018, the Company passed a decision to cover retained deficit of subsidiary Energetikos paslaugų ir rangos organizacija UAB through the shareholder's contribution of EUR 4,537 thousand by offsetting loans payable by the subsidiary to the Company and accrued interest payable.

Prepayments for investments

According to the decisions of the Company's Board of 11 October 2018 and 2 November 2018 and the approval of the Company's shareholder of 19 October 2018, on 2 November 2018 the Company concluded the conditional share purchase and sale agreement regarding the acquisition of 100% shareholding in and shareholder's claim rights of the company engaged in the development of the project on the wind power park from the Polish company that develops wind and solar power plant parks. On 31 December 2018, the Company accounted for a partial payment of EUR 671 thousand for newly acquired shares and the transaction fee of EUR 144 thousand paid under the Polish civil law in the statement of financial position within prepayments for non-current assets (Note 15).

All amounts are in EUR thousand unless otherwise stated

Cash flows from investments in subsidiaries

Reconciliation of the factors that had impact on cash flows from the Group's and the Company's investments into subsidiaries to data reported in the statement of cash flows:

	Group		Company	
	2019	2018	2019	2018
Acquisition of subsidiaries, including loans repayments	(27,679)	(22,741)	-	(22,741)
Sale of subsidiaries			39,023	
Increase in issued capital of subsidiaries	-	-	(12,575)	(22,627)
Prepayments for shares	-	(816)	-	(816)
Proceeds on disposal of shares of VšĮ Energetikų mokymų centras	-	48	-	-
Coverage of losses	-	-	-	(70)
Other payments related to acquisition of subsidiaries	(286)	-	-	-
Carrying amount	**(27,965)**	**(23,509)**	**26,448**	**(46,254)**

During 2019 reported "Acquisition of subsidiaries, including loans repayments" amount EUR 27,679 thousand comprise payments for shares of EUR 20,470 thousand and loans repaid to former shareholders of EUR 7,209 thousand.

Names of the Group companies

During the year 2019, some of the Group companies changed their names:

Company name	Company name as at 31 December 2018
Ignitis grupė UAB	Lietuvos energija, UAB
Ignitis gamyba, AB	Lietuvos energijos gamyba AB
Ignitis Eesti, OÜ	Geton Energy OÜ
Ignitis Latvija SIA	Geton Energy SIA
Ignitis Polska sp. z o.o.	Geton Energy Sp. z o.o.
Ignitis grupės paslaugų centras, UAB	Technologijų ir inovacijų centras UAB
Ignitis UAB	Lietuvos Energijos tiekimas UAB (former Lietuvos dujų tiekimas UAB)
Ignitis paramos fondas	Lietuvos energijos paramos fondas

All amounts are in EUR thousand unless otherwise stated

The Group's structure as at 31 December 2019:

Company name	Country of business	Company type	Group's effective ownership interest, %	Non-controlling interest's effective ownership interest, %	Profile of activities
Ignitis grupė UAB	Lithuania	Parent company	-	-	Parent company
Subsidiaries of the Group:					
Energijos skirstymo operatorius AB	Lithuania	Subsidiary	94.9827	5.0173	Supply and distribution of electricity to the consumers; distribution of natural gas
Ignitis gamyba, AB	Lithuania	Subsidiary	96.8164	3.1836	Electricity generation, supply, import, export and trade
NT Valdos UAB	Lithuania	Subsidiary	100.0000	-	Disposal of real estate, other related activities and provision of services
Duomenų logistikos centras, UAB	Lithuania	Subsidiary	79.6360	20.3640	Information technology and telecommunication services
Energetikos paslaugų ir rangos organizacija UAB	Lithuania	Subsidiary	100.0000	-	Construction, repair, technical maintenance of electricity networks and related equipment, connection of users to the electricity networks, repair of energy equipment
Elektroninių mokėjimų agentūra UAB	Lithuania	Subsidiary	100.0000	-	Provision of collection services
Ignitis Eesti, OÜ	Estonia	Indirectly controlled subsidiary	100.0000	-	Supply of electricity
Ignitis Latvija SIA	Latvia	Indirectly controlled subsidiary	100.0000	-	Supply of electricity
Ignitis Polska sp. z o.o.	Poland	Indirectly controlled subsidiary	100.0000	-	Supply of electricity
Ignitis grupės paslaugų centras, UAB	Lithuania	Subsidiary	97.9447	2.0553	Provision of information technology and telecommunications and other services
Verslo aptarnavimo centras, UAB	Lithuania	Subsidiary	98.4061	1.5939	Organisation and execution of public procurement, accounting, legal, personnel administration services
Ignitis UAB	Lithuania	Subsidiary	100.0000	-	Supply of electricity and gas
Ignitis paramos fondas	Lithuania	Subsidiary	100.0000	-	Provision of support to projects, initiatives and activities, relevant to the society
Vilniaus Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	100.0000	-	Modernization of the provision of centralized supply of heat in Vilnius city
Kauno Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	51.0000	49.0000	Modernization of the provision of centralized supply of heat in Kaunas city
Tuuleenergia OÜ	Lithuania	Subsidiary	100.0000	-	Production of renewable electricity
Eurakras UAB	Lithuania	Indirectly controlled subsidiary	100.0000	-	Production of renewable electricity
Transporto valdymas UAB	Lithuania	Subsidiary	100.0000	-	Transport management activity
Vėjo Vatas UAB	Lithuania	Indirectly controlled subsidiary	100.0000	-	Production of renewable electricity
Vėjo Gūsis UAB	Lithuania	Indirectly controlled subsidiary	100.0000	-	Production of renewable electricity
Gamybos optimizavimas UAB	Lithuania	Subsidiary	100.0000	-	Supply of electricity and natural gas
VVP Investment UAB	Lithuania	Indirectly controlled subsidiary	100.0000	-	Production of renewable electricity
Ignitis renewables, UAB	Lithuania	Subsidiary	100.0000	-	Production of renewable electricity
Pomerania Invall Sp. z o. o.	Poland	Indirectly controlled subsidiary	100.0000	-	Production of renewable electricity

All amounts are in EUR thousand unless otherwise stated

The Group's structure as at 31 December 2018:

Company name	Country of business	Company type	Group's effective ownership interest, %	Non-controlling interest's effective ownership interest, %	Profile of activities
Ignitis grupė UAB	Lithuania	Parent company	-	-	Parent company
Subsidiaries of the Group:					
Energijos skirstymo operatorius AB	Lithuania	Subsidiary	94.9827	5.0173	Supply and distribution of electricity to the consumers; distribution of natural gas
Ignitis gamyba, AB	Lithuania	Subsidiary	96.8164	3.1836	Electricity generation, supply, import, export and trade
NT Valdos UAB	Lithuania	Subsidiary	100.0000	-	Disposal of real estate, other related activities and provision of services
Duomenų logistikos centras, UAB	Lithuania	Subsidiary	79.6360	20.3640	Information technology and telecommunication services
Energetikos paslaugų ir rangos organizacija UAB	Lithuania	Subsidiary	100.0000	-	Construction, repair, technical maintenance of electricity networks and related equipment, connection of users to the electricity networks, repair of energy equipment
LITGAS UAB	Lithuania	Subsidiary	100.0000	-	Supply of liquefied natural gas via the terminal and trade in natural gas (100% of votes)
Elektroninių mokėjimų agentūra UAB	Lithuania	Subsidiary	100.0000	-	Provision of collection services
Energijos tiekimas UAB	Lithuania	Subsidiary	100.0000	-	Supply of electricity and natural gas
Ignitis Eesti, OÜ	Estonia	Indirectly controlled subsidiary	100.0000	-	Supply of electricity
Ignitis Latvija SIA	Latvia	Indirectly controlled subsidiary	100.0000	-	Supply of electricity
Ignitis Polska sp. z o.o.	Poland	Indirectly controlled subsidiary	100.0000	-	Supply of electricity
Ignitis grupės paslaugų centras, UAB	Lithuania	Subsidiary	97.9072	2.0928	Provision of information technology and telecommunications and other services
Verslo aptarnavimo centras, UAB	Lithuania	Subsidiary	98.4061	1.5939	Organisation and execution of public procurement, accounting, legal, personnel administration services
Ignitis UAB	Lithuania	Subsidiary	100.0000	-	Supply of electricity and gas
Ignitis paramos fondas	Lithuania	Subsidiary	100.0000	-	Provision of support to projects, initiatives and activities, relevant to the society
Vilniaus Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	100.0000	-	Modernization of the provision of centralized supply of heat in Vilnius city
Kauno Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	51.0000	49.0000	Modernization of the provision of centralized supply of heat in Kaunas city
Tuuleenergia OÜ	Lithuania	Subsidiary	100.0000	-	Production of renewable electricity
Eurakras UAB	Lithuania	Subsidiary	100.0000	-	Production of renewable electricity
Transporto valdymas UAB	Lithuania	Subsidiary	100.0000	-	Transport management activity
Vėjo Vatas UAB	Lithuania	Subsidiary	100.0000	-	Production of renewable electricity
Vėjo Gūsis UAB	Lithuania	Subsidiary	100.0000	-	Production of renewable electricity
Gamybos optimizavimas UAB	Lithuania	Subsidiary	100.0000	-	Supply of electricity and natural gas
VVP Investment UAB	Lithuania	Subsidiary	100.0000	-	Production of renewable electricity

Indirectly controlled companies

On 27 May 2019, the Company's subsidiary Ignitis renewables UAB entered into the share purchase and sale agreement regarding the acquisition of 100% of shares of Pomerania Invall Sp. z o. o.and the shareholder's claim rights. By signing this share purchase agreement, the Company acquired 100% indirect shareholding in Pomerania Invall Sp. z o.o., because Ignitis renewables UAB owns 100% shareholding in Pomerania Invall Sp. z o.o., and the Company owns 100% shareholding in Ignitis renewables UAB. Pomerania Invall Sp.z o.o. develops a wind farm project in Poland with a planned capacity of 94 megawatts (MW). The construction work on the project was launched in the 2nd quarter of 2019, whereas the commercial operations should commence in year 2021. In November 2018, Pomerania Invall Sp. z o.o. won a promotional tariff of 214.98 PLN/MWh (app. 50 EUR/MWh) for a period of 15 years. Pomerania Invall Sp.z o.o. acquisition costs amounted to EUR 292 thousand are accounted for in the Group's statement of profit or loss and other comprehensive income under the item "Other expenses". During the year 2019, the net loss of Pomerania Invall Sp. z o.o. recognised in the Group's statement of profit or loss and other comprehensive income amounted to EUR (116) thousand.

On 6 June 2017, the Company's subsidiary Ignitis UAB (former Energijos tiekimas UAB) established a subsidiary Ignitis Polska Sp. z o.o. the share capital of which amounted to PLN 1,000 thousand. On 18 September 2017, Ignitis UAB increased the share capital of the subsidiary Polska Sp. z o.o. As at 31 December 2019 and 2018, the share capital of Polska Sp. z o.o. amounted to PLN 10,000 thousand. The Company holds 100% of the voting rights at the shareholders' meeting of Ignitis UAB, therefore the Group's effective ownership interest is equal to 100% as at 31 December 2018 and 31 December 2019. During the year 2019, the net profit of Polska Sp. z o.o. recognised in the Group's statement of profit or loss and other comprehensive income amounted to EUR 352 thousand.

On 31 December 2017, the Company's subsidiary Ignitis UAB (former Energijos tiekimas UAB) established the subsidiary Ignitis Latvija SIA, the share capital of which amounted to EUR 500 thousand. As at 31 December 2019 and 31 December 2018, the share capital of Geton Energy SIA amounted to EUR 5,500 thousand. The Company holds 100% of the voting rights at the shareholders' meeting of Ignitis UAB, therefore the Group's effective ownership interest is equal to 100% as at 31 December 2019 and 2018. During the year 2019, the net loss of Latvija SIA recognised in the Group's statement of profit or loss and other comprehensive income amounted to EUR 737 thousand.

As at 31 December 2018 and 31 December 2019, the Company's subsidiary Ignitis UAB (former Energijos tiekimas UAB) controlled the subsidiary Ignitis Eesti OÜ, the share capital of which amounted to EUR 35 thousand. The Company holds 100% of the voting rights at the shareholders' meeting of Ignitis UAB, therefore the Group's effective ownership interest is equal to 100% as at 31 December 2018 and 31 December 2019. During 2019, the net loss of Ignitis Eesti OÜ recognised in the Group's statement of profit or loss and other comprehensive income amounted to EUR 5 thousand.

All amounts are in EUR thousand unless otherwise stated

As at 31 December 2019 the Company's investments in subsidiaries comprised:

At 31 December 2019	Acquisition cost	Impairment	Contributions against losses	Carrying amount	Company's ownership interest, %	Group's effective ownership interest, %
Subsidiaries:						
Energijos skirstymo operatorius AB	710,921	-	-	710,921	94.98	94.98
Ignitis gamyba AB	307,997	-	-	307,997	96.82	96.82
Vilniaus kogeneracinė jėgainė UAB	52,300	-	-	52,300	100.00	100.00
Ignitis UAB	47,136	-	-	47,136	51.00	51.00
Ignitis renewables UAB	44,700	-	-	44,700	100.00	100.00
Kauno kogeneracinė jėgainė UAB	20,400	-	-	20,400	100.00	100.00
NT Valdos UAB	8,823	-	-	8,823	100.00	100.00
Tuuleenergia OÜ	6,659	-	-	6,659	100.00	100.00
Ignitis grupės paslaugų centras UAB	3,479	-	-	3,479	50.00	97.94
Elektroninių mokėjimų agentūra UAB	1,428	-	-	1,428	100.00	100.00
Gamybos optimizavimas UAB	350	-	-	350	100.00	100.00
Verslo aptarnavimo centras UAB	298	-	-	298	100.00	100.00
Ignitis paramos fondas	3	-	-	3	100.00	100.00
Energetikos paslaugų ir rangos organizacija UAB	10,638	(22,711)	12,073	-	51.00	98.41
	1,215,132	**(22,711)**	**12,073**	**1,204,494**		

As at 31 December 2018 the Company's investments in subsidiaries comprised:

At 31 December 2018	Acquisition cost	Impairment	Contributions against losses	Carrying amount	Company's ownership interest, %	Group's effective ownership interest, %
Subsidiaries:						
Energijos skirstymo operatorius AB	710,921	-	-	710,921	94.98	94.98
Ignitis gamyba AB	307,997	-	-	307,997	96.82	96.82
Vilniaus kogeneracinė jėgainė UAB	36,600	-	-	36,600	100.00	100.00
NT Valdos UAB	45,209	(9,036)	-	36,173	100.00	100.00
Ignitis UAB	26,126	-	-	26,126	100.00	100.00
Kauno kogeneracinė jėgainė UAB	20,400	-	-	20,400	51.00	51.00
Eurakras UAB	18,734	-	-	18,734	100.00	100.00
Vėjo gūsis UAB	12,919	-	-	12,919	100.00	100.00
Litgas UAB	12,641	(4,010)	-	8,631	100.00	100.00
Ignitis UAB	8,369	-	-	8,369	100.00	100.00
Tuuleenergia OÜ	6,659	-	-	6,659	100.00	100.00
Vėjo vatas UAB	6,132	-	-	6,132	100.00	100.00
Ignitis grupės paslaugų centras UAB	3,219	-	-	3,219	50.00	97.91
VVP investment UAB	1,962	-	-	1,962	100.00	100.00
Elektroninių mokėjimų agentūra UAB	1,428	-	-	1,428	100.00	100.00
Gamybos optimizavimas UAB	350	-	-	350	100.00	100.00
Verslo aptarnavimo centras UAB	298	-	-	298	51.00	98.41
Ignitis paramos fondas	3	-	-	3	100.00	100.00
Energetikos paslaugų ir rangos organizacija UAB	10,637	(22,710)	12,073	-	100.00	100.00
	1,230,604	**(35,756)**	**12,073**	**1,206,921**		

All amounts are in EUR thousand unless otherwise stated

Investments in associates

The Group's investments in associates and joint ventures as at 31 December 2019 and 31 December 2018 were as follows:

Group	As at 31 December 2019		As at 31 December 2018	
	Carrying amount	Group's ownership interest, %	Carrying amount	Group's ownership interest, %
Geoterma UAB (Bankrupt)	2,142	23.44	2,142	23.44
In total	**2,142**		**2,142**	
Group's share of losses of associates	(2,142)		(2,142)	
Carrying amount	**-**		**-**	

As at 31 December 2019 and 31 December 2018, the Group did not account for its share of losses of associate Geoterma UAB for 2019 and 2018, because the total amount of losses accumulated as at 31 December 2016 exceeded the Group's cost of investment and the Group did not have a commitment to cover these losses. As at 31 December 2016, the share of losses not recognised amounted to EUR 438 thousand.

No data is available about associate's Geoterma UAB financial position as at 31 December 2019 and 2018 financial performance results for the year 2019 and 2018 due to Geoterma UAB went bankrupt and failed to report for three consecutive years.

On 23 August 2019 Klaipėda Regional Court approved decision to declare that Geoterma UAB is bankrupt and liquidated due to bankruptcy. Movable and real estate owned by Geoterma UAB since 20 November 2019 are sold through auction.

All amounts are in EUR thousand unless otherwise stated

Summarised statement of financial position of the Group companies with non-controlling interest as at 31 December 2019 and 31 December 2018:

Company name	Current assets and liabilities			Non-current assets and liabilities				
Year	Assets	Liabilities	Total net current assets	Assets	Liabilities	Total net non-current assets	Net assets	Non-controlling interest
Energijos skirstymo operatorius AB								
As at 31 December 2019	74,789	(308,328)	(233,539)	1,568,396	(678,433)	889,963	656,424	32,933
As at 31 December 2018 (restated)*	124,690	(312,453)	(187,763)	1,445,193	(632,548)	812,645	624,882	31,352
Ignitis gamyba AB								
As at 31 December 2019	158,421	(39,404)	119,017	519,691	(228,655)	291,036	410,053	13,054
As at 31 December 2018 (restated)*	120,727	(28,897)	91,830	535,987	(236,005)	299,982	391,812	12,474
Duomenų logistikos centras UAB								
As at 31 December 2019	2,487	(1,054)	1,433	6,771	(2,783)	3,988	5,421	1,104
As at 31 December 2018	1,736	(487)	1,249	4,271	(297)	3,974	5,223	1,064
Ignitis grupės paslaugų centras UAB								
As at 31 December 2019	5,186	(5,543)	(357)	9,472	(1,033)	8,439	8,082	166
As at 31 December 2018	5,294	(5,977)	(683)	7,951	(157)	7,794	7,111	149
Verslo aptarnavimo centras UAB								
As at 31 December 2019	4,332	(4,027)	305	2,254	(1,380)	874	1,179	19
As at 31 December 2018	3,598	(2,764)	834	134	-	134	968	15
Kauno kogeneracinė jėgainė UAB								
As at 31 December 2019	8,621	(13,223)	(4,602)	103,199	(61,077)	42,122	37,520	1,725
As at 31 December 2018	10,148	(3,030)	7,118	42,092	(10,100)	31,992	39,110	2,504

**Part of amounts do not agree with the financial statements of 2018 due to correction of errors and changes in accounting methods as disclosed in the Note 4.26 and Note 4.27*

The table above has been prepared on the basis of the financial statements of subsidiaries adjusted for consolidation purposes and presents data before intercompany eliminations.

Summarised statement of profit or loss and other comprehensive income of the Group companies with non-controlling interests for the year 2019 and 2018:

Company name / Year	Revenue	Profit (loss) before tax	Income tax (expense)/benefit	Net profit (loss) from continuing operations	Other comprehensive income (loss)	Total comprehensive income (loss) for the year	Profit (loss) attributable to non-controlling interest	Dividends paid to non-controlling interest
Energijos skirstymo operatorius AB								
2019	418,848	31,076	494	31,570	(30)	31,540	1,584	-
2018 (restated)*	482,021	(25,979)	14,845	(11,134)	114,583	103,449	(559)	1,766
Ignitis gamyba AB								
2019	145,504	50,650	(7,858)	42,792	722	43,514	1,362	805
2018 (restated)*	137,820	42,376	(7,715)	34,661	18,872	53,533	1,103	763
Duomenų logistikos centras UAB								
2019	3,764	720	(118)	602	-	602	123	82
2018	3,818	740	(118)	622	-	622	127	62
Ignitis grupės paslaugų centras UAB								
2019	17,163	941	(164)	777	-	777	16	7
2018	16,170	576	(108)	468	-	468	10	2
Verslo aptarnavimo centras UAB								
2019	14,203	411	(86)	325	-	325	5	2
2018	11,324	255	(61)	194	-	194	3	3
Kauno kogeneracinė jėgainė UAB								
2019	-	(1,590)	-	(1,590)	-	(1,590)	(779)	-
2018	-	(451)	-	(451)	-	(451)	(221)	-

**Part of amounts do not agree with the financial statements of 2018 due to correction of errors and changes in accounting methods as disclosed in the Note 4.26 and Note 4.27*

The table above has been prepared on the basis of the financial statements of subsidiaries adjusted for consolidation purposes and presents data before intercompany eliminations.

All amounts are in EUR thousand unless otherwise stated

Summarised Statement of Cash Flows of the Group companies with non-controlling interest for the years 2019 and 2018:

Company name / Year	Cash flows from (to) operating activities	Income tax (paid) recovered	Net cash flows from (to) operating activities	Net cash flows from (to) investing activities	Net cash flows from (to) financing activities	Net increase (decrease) in cash flows	Cash and cash equivalents at beginning of the year	Cash and cash equivalents at end of year
Energijos skirstymo operatorius AB								
2019	163,286	-	163,286	(156,482)	(4,295)	2,509	2,266	4,775
2018 (restated)*	72,383	(1,128)	71,255	(292,714)	227,931	6,472	(4,206)	2,266
Ignitis gamyba AB								
2019	51,914	(2,015)	49,899	(779)	(38,505)	10,616	47,885	58,501
2018 (restated)*	64,257	(3,117)	61,140	(32,402)	(41,553)	(12,815)	60,700	47,885
Duomenų logistikos centras UAB								
2019	2,250	(135)	2,115	(248)	(1,052)	815	1,130	1,945
2018	1,598	(40)	1,559	(479)	(305)	775	356	1,130
Ignitis grupės paslaugų centras UAB								
2019	3,111	(163)	2,948	(2,870)	(813)	(735)	1,156	421
2018	3,525	(15)	3,510	(2,412)	(48)	1,050	106	1,156
Verslo aptarnavimo centras UAB								
2019	650	-	650	(1,418)	(860)	(1,628)	1,837	209
2018	1,641	(167)	1,474	(4)	(260)	1,210	627	1,837
Kauno kogeneracinė jėgainė UAB								
2019	(1,218)	-	(1,218)	(50,942)	50,161	(2,000)	9,777	7,777
2018	(4,921)	-	(4,921)	(20,969)	25,906	16	9,761	9,777

**Part of amounts do not agree with the financial statements of 2018 due to correction of errors and changes in accounting methods as disclosed in the Note 4.26 and Note 4.27*

The table above has been prepared on the basis of the financial statements of subsidiaries adjusted for consolidation purposes and presents data before intercompany eliminations.

All amounts are in EUR thousand unless otherwise stated

10 Non-current receivables

Amounts receivable after one year comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Non-current receivables				
Amount receivable on disposal of LitGrid AB (Notes 3.1, 4.9)	158,658	158,658	158,658	158,658
Finance lease	3,043	1,459	-	-
Accrued Kaunas cogeneration plant infrastructure installation cost compensation	606	-	-	-
Accrued revenue related to the capacity reserve (note 4.24)	475	-	-	-
Amounts receivable on emission allowances lent	-	52		
Loans granted	211	293	564,543	520,893
Other non-current amounts receivable	2,126	144	88	42
Total:	**165,119**	**160,606**	**723,289**	**679,593**
Less: allowance	(88)	-	(88)	-
Carrying amount	**165,031**	**160,606**	**723,201**	**679,593**

Information on the fair value of amount receivable from EPSO-G on disposal of Litgrid AB is presented in Notes 3.1 and 4.9. The key contractual terms in relation to repayment terms of the amount receivable and the interest rate applied were reviewed in 2016. Interest rate is based on 1 year EURIBOR.

Under the valid agreement between the Company and EPSO-G, during the period until year 2022 EPSO-G will have to cover the debt for the shares of Litgrid AB acquired in year 2012. The amount receivable for shares is stated at fair value through profit or loss, because the final amount payable by EPSO-G for shares depends on the recalculation of the final price premium. The amount of the price premium depends on return for year 2014–2018 of regulated assets of the electricity transmission activity conducted by LitGrid AB. As at 31 December 2019, the fair value of the amount receivable that comprises the amount receivable for shares and final price premium, is equal to EUR 158,658 thousand. As at 31 December 2019, the amount of the price premium was negative and was equal to EUR 15,877 thousand (31 December 2018: EUR 15,877 thousand). The amount receivable for EPSO-G shares is classified as financial assets at fair value through profit or loss.

Expected credit losses of loans granted

As at 31 December 2019, the Company assessed whether credit risk of recipients of non-current and current loans has increased significantly and did not establish any indications and has no information indicating that credit risk of loan recipients on a collective and individual basis has increased significantly. Assumptions used in calculating 12-month expected credit losses related to loans receivable were as follows:

– The credit rating of all borrowers is equivalent to the Company's credit rating (BBB+);
– Loss event probability of 0.13% is consistent with the S&P's One-Year Global Corporate Default Rates presented in the publication announced by S&P the 2017 Annual Global Corporate Default Study;
– The coefficient of losses recovered in case of a loss event is equal to 90% in the energy sector according to the data of Moody's studies;
– Changes in the country's macroeconomic conditions and/or business environment will have no significant impact on the increase in credit risk of borrowers over the next twelve months.

As at 31 December 2019, the Company calculated 12-month expected credit losses of EUR 130 thousand (31 December 2018: EUR 92 thousand) related to non-current and current loans receivable. The calculated expected credit losses were assessed as insignificant, therefore they were not accounted for in the Company's statement of financial position as at 31 December 2019.

Movements on the impairment account during the years ended 31 December 2019 and 31 December 2018:

	Group		Company	
	2019	2018	2019	2018
As at 1 January	**-**	**678**	**-**	**2,701**
Impairment losses	88	-	88	-
Coverage of subsidiaries' losses by loans granted	-	-	-	(2,701)
Reversal of impairment	-	(678)	-	-
At the end of the reporting period	**88**	**-**	**88**	**-**

In year 2018, the impairment of loans of Energetikos paslaugų ir rangos organizacija UAB amounting to EUR 2,701 thousand was reclassified to 'Investments in subsidiaries' in the statement of financial position after the decision was made to cover the subsidiary's operational losses by offsetting against loans receivable.

Loans granted

The Company's loans granted as at 31 December 2019 comprised loans granted to the following subsidiaries:

Company	Interest rate type	Company: Within one year (Note 18)	After one year	In total
Energijos skirstymo operatorius AB green bonds	Fixed interest	-	416,288	416,288
Energijos skirstymo operatorius AB taken over loans	Variable interest	32,902	49,345	82,247
Tuuleenergia OÜ	Fixed interest	-	19,119	19,119
Eurakras UAB	Fixed interest	-	24,355	24,355
Ignitis UAB	Variable interest	60,255	30,500	90,755
Transporto valdymas UAB	Variable interest	-	24,936	24,936
Vėjo vatas UAB	Fixed interest	2,547	-	2,547
Energetikos paslaugų ir rangos organizacija UAB	Variable interest	1,480	-	1,480
Ignitis grupės paslaugų centras UAB	Variable interest	1,473	-	1,473
Ignitis renewables UAB	Fixed interest	56,922	-	56,922
VVP Investment UAB	Variable interest	400	-	400
Energijos skirstymo operatorius AB	Variable interest	105,164	-	105,164
Vilniaus kogeneracinė jėgainė UAB	Variable interest	3,336	-	3,336
Carrying amount		**264,479**	**564,543**	**829,022**

On 28 May 2019, the Company signed a loan agreement with Ignitis renewables UAB, under which Ignitis renewables UAB was granted a loan of EUR 44 million to finance investments in green energy production projects and to purchase a 100% shareholding in Pomerania Invall Sp. z o.o.

On 28 February 2018, the Company and Energijos skirstymo operatorius AB signed an additional arrangement to the Proportional Transfer Agreement for Green Bonds of 13 October 2017, under which Energijos skirstymo operatorius AB assumed additional green bonds based commitments amounting to EUR 66,288 thousand.

On 3 July 2018, the Company placed EUR 300 million worth 10 years' duration green bond issue (hereinafter "the Issue"). Annual interest of 1.875% is payable for bonds and they have been issued

All amounts are in EUR thousand unless otherwise stated

with the yield of 2.066%. Net cash inflows comprise 98.290% of the nominal value of the bond issue or EUR 294,345,619.

On 29 August 2018, the Company and its subsidiary Energijos skirstymo operatorius AB signed the Proportional Transfer Agreement for Green Bonds, under which the Company assumed a commitment to grant to the subsidiary a loan of up to EUR 250,000 thousand. The loan is granted for the financing of investments in the renewal of the electricity network according to the Green Bonds Description. Liabilities assumed under the agreement are to be fulfilled by 10 July 2028. The fixed interest rate under the agreement coincides with the effective interest rate on the green bonds issue and is set as 2.11%. The essential terms and conditions of the agreement coincides with the terms and conditions of the green bonds issue. The agreement does not provide for any other additional obligations (guarantees, suretyship, pledges, etc.) to enforce obligations.

The Company's loans granted as at 31 December 2018 comprised loans granted to the following subsidiaries:

Company	Company			
	Interest rate type	Within one year (Note 18)	After one year	In total
Energijos skirstymo operatorius AB green bonds	Fixed interest	-	366,288	366,288
Energijos skirstymo operatorius AB loans taken over	Variable interest	57,402	82,246	139,649
Tuuleenergia OÜ	Fixed interest	300	20,446	20,746
Eurakras UAB	Fixed interest	-	24,355	24,355
Energijos tiekimas UAB	Variable interest	32,998	3,500	36,498
Transporto valdymas UAB	Variable interest	-	21,336	21,336
Vėjo Gūsis UAB	Fixed interest	-	167	167
Vėjo Vatas UAB	Fixed interest	-	2,555	2,555
Energetikos paslaugų ir rangos organizacija UAB	Variable interest	1,221	-	1,221
Energijos skirstymo operatorius AB	Variable interest	76,320		76,320
Lietuvos Energijos tiekimas UAB	Variable interest	14,098	-	14,098
Ignitis grupės paslaugų centras UAB	Variable interest	1,668	-	1,668
Carrying amount		**184,006**	**520,893**	**704,899**

Non-current borrowings by maturity:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
1 and 2 years	30	37	7,049	35,177
2 and 5 years	90	110	73,084	42,703
After 5 years	91	146	484,410	443,013
Carrying amount	**211**	**293**	**564,543**	**520,893**

The weighted average interest rates (%) on non-current loans granted with fixed and variable interest rates:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Fixed interest rate	1,952	1,952	2,346	2,227
Variable interest rate	-	-	1,746	0,934

11 Finance lease receivables

The Group's finance lease receivables were reported in the following line items in the statement of financial position as at 31 December 2019:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Non-current receivables	3,043	1,459	-	-
Other receivables	520	377	-	-
Assets held-for-sale	22,076	12,097	-	-
Carrying amount	**25,639**	**13,933**	**-**	**-**

Finance lease receivables of subsidiary Transporto valdymas UAB for the lease of motor vehicles are reported within non-current assets held-for-sale. Amounts receivable under the energy saving services agreements are included in the line items 'Amounts receivable after one year' and 'Other amounts receivable'.

The Group's finance lease receivables comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Minimum payments				
Within the first year	5,666	3,697	-	-
From two to five years	20,449	9,620	-	-
More than five years	3,124	3,048	-	-
In total	**29,239**	**16,365**	**-**	**-**
Unearned finance income				
Within the first year	(1,084)	(668)	-	-
From two to five years	(2,303)	(1,449)	-	-
More than five years	(213)	(315)	-	-
In total	**(3,600)**	**(2,432)**	**-**	**-**
Carrying amount	**25,639**	**13,933**	**-**	**-**

The Group's finance lease receivables reported within amounts receivable after one year, non-current assets held for sale and other amounts receivable amounted to EUR 25,639 thousand as at 31 December 2019 (31 December 2018: EUR 13,933 thousand).

During the year 2015–2018, the Group signed repurchase agreements for motor vehicles. These agreements stipulated particular repurchase amounts for motor vehicles used in long-term lease. The repurchase amount of motor vehicles stipulated in all repurchase agreements totalled EUR 7,512 thousand as at 31 December 2019 (31 December 2018: EUR 5,402 thousand). The repurchase term ranges from 1 to 5 years.

In view of (1) income received from long-term lease, (2) net book values of leased assets at the end of the lease term and (3) amounts for which these motor vehicles will be (or will not be) sold, in 2019 the reclassification of EUR 10,531 thousand (31 December 2018: EUR 1,910 thousand) from property, plant and equipment to non-current finance lease was made.

The Group does not earn contingent finance income related to finance lease arrangements.

Impairment of finance lease receivables (lifetime expected credit losses)

As at 31 December 2019, the Group assessed whether credit risk of finance lease clients has increased significantly and did not establish a significant increase in credit risk.

All amounts are in EUR thousand unless otherwise stated

12 Other financial assets

Non-current financial assets

The Group and the Company other non-current financial assets comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Convertible bonds of Contrarian Ventures UAB	500	500	500	500
Innovation Fund Smart Energy Fund powered by Ignitis Group KŪB	3,474	1,508	3,474	1,508
Platform for Financing Energy Efficiency	261	-	-	-
In total	**4,235**	**2,008**	**3,974**	**2,008**
Less: impairment of convertible bonds	(500)	-	(500)	-
Carrying amount	**3,735**	**2,008**	**3,474**	**2,008**

Innovation Fund Smart Energy Fund powered by Ignitis Group KŪB

On 26 July 2017 the Company signed the establishment agreement of the limited partnership "Smart Energy Fund powered by Ignitis Group" (hereinafter – the Partnership) with UAB Contrarian Ventures (hereinafter "CV"). Innovation Fund Smart Energy Fund powered by Ignitis Group KŪB (hereinafter – "SEF") invests in start-ups that are developing new technologies in the energy technology field. According to the Partnership there is one full member - UAB Contrarian Ventures, which acts on behalf of the SEF, has the right to manage SEF, makes decisions on the management of SEF affairs, concludes transactions on behalf of the SEF. All other SEF members (including the Company) acts under the Partnership Participant Agreement. Investment decisions are made and approved by the Investment Committee, which is made up solely of Key-men that are shareholders of Contrarian Ventures UAB.

By the management's judgment the Company does not have control over the Partnership because, under the terms of the Partnership, the Company does not have the power to manage the activities of the SEF as the Company is not a partner of SEF, investment decisions are made in accordance with SEF investment strategy or approved by the Investment Committee, where the Company has only observer.

Investments to SEF includes expenses and payments for the following: SEF formation fee, management fee and payments for investments purposes (for acquiring shares or investing). The Company is committed to provide financial and technical assistance to SEF.

SEF also manages AcceleratorOne Program which invests in start-ups and helps them grow. The program tests pilot products and services in the local market, providing further opportunity to grow internationally. On 11 August 2017 the Company, Contrarian Ventures UAB and Accelerator UAB have entered into an agreement under which the Company undertook to acquire EUR 700,000 convertible bonds, which entitle the Company, at the maturity of the bond, to (1) demand a cash payment or (2) receive shares of UAB Accelerator. Accelerator UAB is a SEF support company attracting start-ups. As at 31 December 2019 the Company's paid amount for convertible bonds and subsequently recognized impairment is EUR 500 thousand (according to schedule the rest amount shall be paid in 2020 September).

Platform for Financing Energy Efficiency

The Company subsidiary Energijos skirstymo operatorius AB signed the establishment agreement of the limited partnership "Platform for Financing Energy Efficiency" (hereinafter – the Partnership) with Public Investment Development Agency (hereinafter "VIPA") on 3 July 2018.The Partnership shall allocate funds for implementation of various projects and measures contributing to reduction of climate change and final energy consumption and increase of generating consumers. The Subsidiary participates in the Partnership as a limited partner, i.e., is liable for a contribution of EUR 10 million to be paid, if necessary, for a period of 10 years. VIPA, as a general partner of unlimited liability, is in charge of all the activities of the Partnership: search for funded projects, assessment of applications, administration, etc. It is also foreseen that the Partnership is open to contributions of other partners that strive for changes in increasing energy consumption efficiency.

By the management's judgment the Subsidiary does not have control over the Partnership because, under the terms of the Partnership Participants Agreement, the Company does not hold the majority of the votes in the Partnership participants meeting – a body that takes major decisions of the Partnership's activities. The only subject that requires the unanimous agreement of the participants is the modification of the Partnership participants agreement.

The main liability of the Partnership – to declare energy savings of at least 40 GWh by the end of year 2020, using funded energy efficiency measures. The Subsidiary shall have the right to cease the membership in the Partnership on its own initiative, if the Partnership fails to declare required energy savings by the end of year 2020. The investment policy of the Partnership includes certain qualitative criteria for investment effectiveness.

To ensure the financing of the Partnership activities in October 2019 VIPA signed an agreement with European Investment Bank (EIB) to provide a loan of EUR 12.5 million to the Partnership. The loan shall be for a minimum of 4 and a maximum of 10 years. Under the terms of the Partnership Participants Agreement, the Subsidiary is liable, within the limits of its Contributions, to this Loan Agreement. As of 31 December 2019 the loan limit was not utilised. As of 31 December 2019 the Subsidiary has contributed EUR 261 thousand to the Partnership. Part of the funds has been used to finance energy efficiency projects and the other part to cover operating costs of the Partnership.

Current financial assets

The Group and the Company other current financial assets comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Term deposits	-	656	-	-
Carrying amount	**-**	**656**	**-**	**-**

13 Other non-current assets

Other non-current assets comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Accrued sales revenue from energy saving schemes	-	1,007	-	-
Emission allowances to be received in future	9,702	9,702	-	-
Emission allowances returned	(4,615)	(4,615)	-	-
Less: allowance	-	-	-	-
Carrying amount	**5,087**	**6,094**	**-**	**-**

As at 31 December 2011, 400,000 units of emission allowances were lent under the provisions of the lending agreement signed with STX Services BV on 1 December 2009. The agreement is valid until 2021. Additional 650,000 units of emission allowances were lent on 16 April 2012 under the provisions of the lending agreement signed with CF Partners (UK) LLP on 13 April 2012. On 7 April 2015, CF Partners (UK) LLP returned 650,000 units of emission allowances. There were no changes in 2019 and 2018.

All amounts are in EUR thousand unless otherwise stated

14 Inventories

The Group and the Company inventories comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Natural gas	40,923	37,350	-	-
Consumables, raw materials and spare parts	4,946	5,529	-	-
Heavy fuel oil	204	2,350	-	-
Biofuel	342	264	-	-
Other	2,872	191	-	-
In total	**49,287**	**45,684**	**-**	**-**
Less: allowance	(2,666)	(2,547)	-	-
Carrying amount	**46,621**	**43,137**	**-**	**-**

The Group inventories expensed during the year ended 31 December 2019 were as follows:

	Group		Company	
	2019	2018	2019	2018
Natural gas	224,071	305,520	-	-
Biofuel	1,299	1,645	-	-
Other inventories	1,151	10,535	-	-
In total	**226,521**	**317,700**	**-**	**-**

Movements on the account of inventory write-down to net realisable value during 2019 and 2018 were as follows:

	Group		Company	
	2019	2018	2019	2018
Carrying amount at 1 January	**2,547**	**3,253**	**-**	**-**
Additional impairment	260	685	-	-
Reversal of impairment	(141)	(1,391)	-	-
Carrying amount at 31 December	**2,666**	**2,547**	**-**	**-**

The acquisition cost of the Group's inventories carried at net realisable value as at 31 December 2019 amounted to EUR 2,359 thousand (31 December 2018: EUR 2,645 thousand). Movements on the account of inventory write-down to net realisable value were recognised in the statement of profit or loss and other comprehensive income within 'Other expenses'.

15 Prepayments and deferred expenses

The Group's and the Company's non-current prepayments as at 31 December 2019 and 2018 were as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Prepayments for property, plant, equipment	27,809	23,621	-	-
Prepayments for investments (Note 9)	-	-	144	816
Carrying amount	**27,809**	**23,621**	**144**	**816**

The Group and the Company's current prepayments as at 31 December 2019 and 2018 were as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Prepayments for natural gas	8,880	5,806	-	-
Deposits related to Power Exchange	19,195	14,783	-	-
Deferred expenses	1,306	1,030	-	-
Prepayments for other goods and services	13,693	2,154	32	62
Prepayments for electricity due to over-declaration by customers	5,194	4,439	-	-
Other prepayments	2,280	922	-	-
Assets under contracts with customers	-	1,521	-	-
Carrying amount	**50,548**	**30,655**	**32**	**62**

16 Trade receivables

The Group and the Company trade receivables comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Amounts receivable under contracts with customers				
Receivables for electricity	77,439	76,265	-	-
Receivables for gas from non-household customers	31,990	49,180	-	-
Receivables for gas from household customers	3,479	4,287	-	-
Receivables for contractual works	593	1,206	-	-
Receivables for sale of heat	545	657	-	-
Receivables for exported electricity and electricity produced abroad	621	430	-	-
Receivables for IT and telecommunications services	173	768	-	-
Other trade receivables	11,082	19,450	-	-
Amounts receivable under other contracts				
Receivables for lease of assets	722	464	-	-
In total	**126,644**	**152,707**	**-**	**-**
Less: impairment of trade receivables	(8,777)	(9,587)	-	-
Carrying amount	**117,867**	**143,120**	**-**	**-**

As at 31 December 2019 and 2018, the Group had not pledged the claim rights to trade receivables.

Under the contracts with customer, no interest is charged on trade receivables and the settlement period is usually between 15 and 30 days. For terms and conditions on settlement between related parties see Note 41.

All amounts are in EUR thousand unless otherwise stated

Impairment of amounts receivable (lifetime expected credit losses)

The Company/Group assesses material amounts receivable individually, and all immaterial amounts collectively.

The Company's/Group's management decides on the performance of the assessment on an individual basis reflecting the possibility of obtaining information on a particular debtor and a significant increase in the credit risk of that particular debtor.

For the purpose of determining the lifetime expected credit losses of amounts receivable in case of a collective assessment, the Company/Group uses the loss ratio matrix. A different loss ratio matrix is established in different subsidiaries of the Company and in each separate group of consumers.

The table below presents information on the Group's trade receivables under contracts with customers as at 31 December 2019 that are assessed on a collective basis using the loss ratio matrix.

Group	Loss ratio	Trade receivables	Decrease in value
Not past due	0,19	46,329	86
Up to 30 days	4,22	8,337	352
30–60 days	7,44	833	62
60-90 days	17,24	609	105
90-120 days	23,16	354	82
More than 120 days	49,88	13,018	6,494
As at 31 December 2019	**10,34**	**69,480**	**7,181**

The table below presents information on the Group's trade receivables under contracts with customers as at 31 December 2018 that are assessed on a collective basis using the loss ratio matrix.

Group	Loss ratio	Trade receivables	Decrease in value
Not past due	0,60	115,118	692
Up to 30 days	2,36	6,147	145
30–60 days	8,07	1,958	158
60-90 days	9,95	643	64
90-120 days	16,71	802	134
More than 120 days	55,71	12,862	7,166
As at 31 December 2018	**6,08**	**137,530**	**8,359**

The table below presents information on the Group's trade receivables under contracts with customers that are assessed on an individual basis:

Group	31 December 2019		31 December 2018	
	Trade receivables	Decrease in value	Trade receivables	Decrease in value
Not past due	53,824	437	13,573	151
Up to 30 days	550	35	486	-
30–60 days	214	28	18	1
60-90 days	78	21	4	-
90-120 days	109	7	20	-
More than 120 days	2,389	1,068	1,076	1,076
Carrying value	**57,164**	**1,596**	**15,177**	**1,228**

Movements on the account of impairment of trade receivables during the year 2019 and 2018 were as follows:

	Group		Company	
	2019	2018	2019	2018
Balance as at 1 January	**9,587**	**10,156**	**-**	**-**
Effect of first-time adoption of IFRS 9	-	526	-	-
Restated balance at 1 January	**9,587**	**10,682**	**-**	**-**
Charge of the year	1,010	2,316	-	-
Write-down of doubtful receivables	-	(544)	-	-
Impairment/(reversal of impairment)	(1,820)	(2,867)	-	-
Balance as at 31 December	**8,777**	**9,587**	**-**	**-**

Impairment of receivables was recognised in the profit and loss section of the statement of profit or loss and other comprehensive income.

The fair values of trade receivables as at 31 December 2019 and 2018 approximated their carrying amounts.

17 Other receivables

The Group and the Company other receivables comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Value added tax	6,402	13,245	-	2
Unbilled accrued revenue from electricity sales (including related VAT)	4,943	5,296	-	-
Accrued amounts receivable for natural gas	73	-	-	-
Accrued revenue related to the capacity reserve and PSO services (Notes 4.22, 4.23)	15,566	-	-	-
Current portion of finance lease relating to energy saving services (Note 11)	520	377	-	-
Amount receivable on disposal of Energetikų mokymų centras VšĮ	-	-	-	36
Amounts receivable on disposal of property, plant and equipment	-	4,424	-	-
Management fee receivable	-	-	355	573
Other receivables	4,349	2,193	25	20
In total	**31,853**	**25,535**	**380**	**631**
Less: impairment of other receivables	(73)	(99)	-	-
Carrying amount	**31,780**	**25,436**	**380**	**631**

The fair values of other receivables as at 31 December 2019 and 2018 approximated their carrying amounts.

All amounts are in EUR thousand unless otherwise stated

18 Current loans

The Group and the Company's current loans as at 31 December 2019 and 2018 comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Current portion of non-current loans	-	-	35,449	57,702
Current loans	-	-	229,030	126,304
Interest receivable	-	-	7,276	5,318
In total	**-**	**-**	**271,755**	**189,324**
Less: impairment of loans	-	-	(806)	-
Carrying amount	**-**	**-**	**270,949**	**189,324**

As at 31 December 2019, the Company calculated 12-month expected credit losses related to non-current and current loans receivable. The calculated expected credit losses were assessed as insignificant, therefore they were not accounted for in the Company's statement of financial position as at 31 December 2019 (Note 10).

All current loans of the Company accounted for as at 31 December 2019 and 31 December 2018 have been issued to the subsidiaries with a variable interest rate, which is set by adding an interest margin to the basic interest rates linked with EURIBOR. The weighted average interest rates (%) on current loans:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Variable interest rate	-	-	0.943	0.538

19 Cash and cash equivalents

The Group and the Company cash and cash equivalents as at 31 December 2019 and 2018 comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Cash balances in bank accounts	131,837	127,835	144	231
	131,837	**127,835**	**144**	**231**

Cash, cash equivalents and a bank overdraft include the following for the purposes of the cash flow statement:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Cash and cash equivalents	131,837	127,835	144	231
Bank overdraft	(191,291)	(42,260)	(191,291)	(42,260)
Carrying amount	**(59,454)**	**85,575**	**(191,147)**	**(42,029)**

The fair values of cash and cash equivalents as at 31 December 2019 and 2018 approximated their carrying amounts.

Customer cash held in the Group's subsidiary Elektroninių mokėjimų agentūra UAB depository accounts (Note 4.26), which is not recognized in the Group statement of financial position amounted to EUR 2,752 thousand as at 31 December 2019 (31 December 2018: EUR 6,428 thousand).

Under the loan agreements signed with the banks, the Group has pledged current and future cash inflows (Note 1). As at 31 December 2019, the balance of cash pledged amounted to EUR 18,607 thousand (31 December 2018: EUR 15,455 thousand).

20 Assets held-for-sale

Non-current assets held-for-sale comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Property, plant and equipment and investment property	4,753	35,589	77	77
Disposal group	35,890	30,117	-	-
Investments in subsidiaries	-	-	7,064	7,064
	40,643	**65,706**	**7,141**	**7,141**

Movements of non-current assets held-for-sale during the year 2019 and 2018 were as follows:

	Group		Company	
	2019	2018	2019	2018
Net book value at 1 January	**65,706**	**79,301**	**7,141**	**14,717**
Disposals	(33,392)	(45,520)	-	-
Write-offs	(19)	(91)	-	-
Purchase of non-current assets for sale purposes	-	30	-	-
In-kind contribution for increase of issued capital of Ignitis gamyba AB	-	-	-	(8,061)
Result of revaluation of non-current assets	(608)	-		
Change of other assets attributed to disposal group	11,394	6,503	-	-
Depreciation of property, plant and equipment accounted for in disposal group	-	(1,841)	-	-
Increase (decrease) in property, plant and equipment and investment property	(572)	(2,774)	-	-
Impairment loss recognised on the remeasurement to fair value less costs to sell	(4,067)	-		
Reclassified (to) from:				
Intangible assets	*15*	*10*	-	*(1,874)*
Property, plant, and equipment	*1,062*	*17,367*	-	-
incl. impairment	-	-	-	-
Investment property	*1,124*	*12,721*	-	-
Investments in subsidiaries	-	-	-	*2,359*
Net book amount as at 31 December	**40,643**	**65,706**	**7,141**	**7,141**

Within the line item of the disposal group the Company recognised investment of subsidiary Transporto valdymas UAB of EUR 2,359 thousand, which is intended to be disposed by the Company.

The Company's line item of the disposal group also includes investment of subsidiary Duomenų logistikos centras UAB of EUR 4,705 thousand, which is intended to be disposed by the Company.

The Group's line item of the disposal group includes assets of subsidiaries Transporto valdymas UAB and Duomenų logistikos centras UAB amounting to EUR 35,890 thousand (31 December 2018: EUR 30,117 thousand), which is intended to be disposed by the Group. Liabilities of EUR 5,322 thousand being disposed along with these assets were reported under the line item 'Liabilities related to non-current assets held for sale' (31 December 2018: EUR 2,986 thousand).

All amounts are in EUR thousand unless otherwise stated

During 2019 the Group sold property classified as held for sale of EUR 33,392 thousand carrying value for EUR 33,673 thousand consideration.

Major classes of assets and liabilities classified as held for sale

Major classes of the Group assets classified as held for sale:

	Group	
	At 31 December 2019	At 31 December 2018
ASSETS		
Non-current assets		
Intangible assets	12	12
Property, plant and equipment	7,650	13,392
Right-of-use assets	3,079	-
Non-current receivables	18,013	11,518
Total non-current assets	**28,754**	**24,922**
Current assets		
Inventories	20	52
Prepayments and deferred expenses	155	192
Trade receivables	1,180	1,067
Other receivables	4,055	3,884
Prepaid income tax	23	-
	5,433	**5,195**
Assets held for sale	1,703	-
Total current assets	**7,136**	**5,195**
TOTAL ASSETS	**35,890**	**30,117**

Major classes of the Group liabilities attributable to assets classified as held for sale:

	Group	
	At 31 December 2019	At 31 December 2018
LIABILITIES		
Non-current liabilities		
Non-current lease liabilities	2,503	-
Deferred income tax liabilities	1,002	882
Provisions	8	20
Other non-current amounts payable and liabilities	230	257
Total non-current liabilities	**3,743**	**1,159**
Current liabilities		
Lease liabilities	593	-
Trade payables	139	314
Advances received	174	277
Income tax payable	132	125
Other current amounts payable and liabilities	541	1,111
Total current liabilities	**1,579**	**1,827**
TOTAL LIABILITIES	**5,322**	**2,986**

21 Equity

As at 31 December 2019 and 2018, the Company's share capital amounted to EUR 1,212,156,294. As at 31 December 2019 and 2018, the Company's share capital was divided into 4,179,849,289 ordinary registered shares with the nominal value of EUR 0.29 each.

As at 31 December 2019 and 31 December 2018, all shares were fully paid.

22 Reserves

Legal reserve

The legal reserve is a compulsory reserve under the Lithuanian legislation. Companies in Lithuania are required to transfer 5% of net profit from distributable profit until the total reserve reaches 10% of the issued capital. The legal reserve shall not be used for payment of dividends and is formed to cover future losses only.

As at 31 December 2019, the Group's legal reserve amounted to EUR 112,647 thousand (31 December 2018: EUR 49,851 thousand). In 2019 the Group transferred EUR 62,796 thousand (2018: EUR 3,339 thousand) to the legal reserve.

In 2019, the Company transferred EUR 60,909 thousand (2018: EUR 5,295 thousand) to the legal reserve. The Company's legal reserve as at 31 December 2019 was not fully formed.

Revaluation reserve

The revaluation reserve arises from revaluation of property, plant and equipment and emission allowances due to increase in value. The revaluation cannot be used to cover losses.

As at 31 December 2019, the Group's revaluation reserve amounted to EUR 146,993 thousand (31 December 2018: EUR 162,935 thousand).

This reserve was not formed by the Company as its property, plant and equipment is carried at cost.

Other reserves

Other reserves are formed based on the decision of shareholders and can be redistributed on the appropriation of the next year's profit. As at 31 December 2019, the Group accounted for the result of the translation of the Group's net investments (31 December 2018: EUR 16 thousand) in Ignitis Polska Sp. z o.o. and Pomerania Invall Sp. z o.o., a Poland-based companies indirectly controlled by the Company, in the amount of EUR 11 thousand into the Group's presentation currency within the item of other reserves. No other reserves were formed by the Company as at 31 December 2019 and 2018.

All amounts are in EUR thousand unless otherwise stated

23 Loans and bonds

Borrowings

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Non-current				
Bonds issued	590,120	588,999	590,120	588,999
Bank borrowings	231,809	146,411	49,345	82,246
Current				
Current portion of non-current loans	37,454	61,819	32,901	57,401
Bank overdraft	191,291	42,260	191,291	42,260
Accrued interest	5,446	5,467	5,446	5,461
Total borrowings	**1,056,120**	**844,956**	**869,103**	**776,367**

Non-current borrowings by maturity:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
1 and 2 years	32,104	61,987	7,049	32,156
2 and 5 years	95,719	84,424	21,148	21,467
After 5 years	694,106	588,999	611,268	617,622
In total	**821,929**	**735,410**	**639,465**	**671,245**

All borrowings of the Group and the Company are denominated in euros.

On 29 January 2019, the Company signed the new credit agreement with AB "SEB bankas", based on which the Company is able to borrow EUR 100 million. The repayment term is before 29 January 2021.

On 16 September 2019, the Company signed the new credit agreement with SEB bankas AB, based on which the Company is able to borrow EUR 70 million and the due date of which is before 16 September 2020.

The loan agreements provide for financial and non-financial covenants that the individual Group entities are obliged to comply with. All Group companies complied with the covenants as at 31 December 2019 and 2018.

As at 31 December 2019, the Group unwithdrawn balance of loans and bank overdrafts amounted to EUR 283,593 thousand (31 December 2018: EUR 469,939 thousand).

As at 31 December 2019, the Company's unwithdrawn balance of loans and bank overdrafts amounted to EUR 108,709 thousand (31 December 2018: EUR 157,740 thousand).

Under the agreement with later amendments for the loan of EUR 190 million designated for the funding of the construction of a co-generation power plant in Vilnius signed between Vilniaus kogeneracinė jėgainė UAB and the European Investment Bank (EIB) on 5 December 2016, Vilniaus kogeneracinė jėgainė UAB and the Group have to comply with the requirements related to equity and other financial indicators. Vilniaus kogeneracinė jėgainė UAB has assumed the following commitments:

a) The State of Lithuania, directly or indirectly, will retain control over Vilniaus kogeneracinė jėgainė UAB;
b) Vilniaus kogeneracinė jėgainė UAB financial commitments that are not secured with collateral (a pledge or guarantee) will not exceed EUR 30,000 thousand.

The Group has assumed the following commitments:

a) The Group's net debt-to-equity ratio will not exceed one;
b) The ratio of net debt to EBITDA adjusted for one-off items will not exceed 4, except the December in 2018, 2019 and 2020 when the ratio will not exceed 4.5, 5.4 and 4.5;
c) The Group's subsidiaries borrowings, secured by guarantees or other fulfilment measures, of all current and future obligation and Group's property, plant and equipment ratio will not exceed the rate of 0.16.

As at 31 December 2019 and 2018, the Group and the Company complied with the requirements defined in the loan agreement with the European Investment Bank.

On 14 July 2017, the Company issued bonds worth of EUR 300 million at the stock exchange. The Company pays 2.000% annual interest on bonds issued. Net cash inflows from the issue of bonds amount to EUR 293,834 thousand. Bonds will be redeemed on 14 July 2027.

On 3 July 2018, the Company placed EUR 300 million worth 10 years' duration green bond issue (hereinafter "the Issue"). Annual interest of 1.875% will be payable for bonds and they have been issued with the yield of 2.066%. Net cash inflows from the issue of bonds amount to EUR 294,345,619 and comprise 98.290% of the nominal value of the bond issue.

In the statement of financial position as at 31 December 2019 and 31 December 2018, the Company accounted for the bond issue debt of EUR 590,120 thousand and EUR 588,999 thousand, respectively. In year 2019, expenses related to interest on the issued bonds totalled EUR 12,731 thousand (in 2018: EUR 9,471 thousand). The accrued amount of coupon payable as at 31 December 2019 amounted to EUR 5,446 thousand (31 December 2018: EUR 5,461 thousand).

On 4 July 2018, the Company signed additional arrangement amending and supplementing the terms of the overdraft agreement signed with Swedbank, whereby the overdraft amount was increased from EUR 100,000 thousand to EUR 130,000 thousand. The Group's and the Company's withdrawn part of the overdraft amounted to EUR 71,524 thousand as at 31 December 2019 (31 December 2018: EUR 42,260 thousand).

As at 31 December 2019, the Company's non-current borrowings of EUR 49,345 thousand (31 December 2018: EUR 82,247 thousand) comprised debts to SEB Bankas AB and OP Corporate bank plc under the loan refinancing agreement of Energijos skirstymo operatorius AB. The current portion of non-current borrowings relating to the loan refinancing of Energijos skirstymo operatorius AB amounted to EUR 32,902 thousand (31 December 2018: EUR 57,401 thousand).

In year 2018, the Company's subsidiary Ignitis gamyba AB repaid a part of the non-current loan to SEB Bankas AB prior to maturity, which was granted on 21 February 2014. On 2 July 2017, the credit agreement for the amount of EUR 60,000 thousand was signed with SEB Bankas AB.

The weighted average interest rates (%) on the Group's and the Company's borrowings payable with fixed and variable interest rates:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Non-current borrowings				
Fixed interest rate	2.069	2.128	2.054	2.147
Variable interest rate	0.958	1.027	0.911	0.877
Current loans				
Variable interest rate	0.446	0.410	0.446	0.410

The Group and the Company cannot identify the final beneficiaries that acquired the placed issues of bonds, thus according to a separate interpretation of the State Tax Inspectorate current coupon payments are subject to the tax at a rate of 15% by the Group and the Company. In 2019, the Group and the Company paid income tax of individuals of EUR 900 thousand on a EUR 6,000 thousand coupon paid to investors.

All amounts are in EUR thousand unless otherwise stated

Net debt reconciliation

This note sets out an analysis of net debt, a non-IFRS measure for the purposes of these financial statements presentation defined by management as presented below.

Net debt balances as at 31 December 2019 and 31 December 2018:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Cash and cash equivalents	(131,837)	(127,835)	(144)	(231)
Term deposits	-	(656)	-	-
Borrowings payable after one year	821,929	735,410	639,465	671,245
Borrowings payable within one financial year (including overdraft and accrued interest)	234,191	109,546	229,638	105,122
Lease liabilities	42,218	19,554	840	-
Net debt	**966,501**	**736,019**	**869,799**	**776,136**
Cash and cash equivalents	(131,837)	(128,491)	(144)	(231)
Borrowings – fixed interest rate	723,784	614,600	596,406	594,459
Borrowings – variable interest rate	374,554	249,910	273,537	181,908
Net debt	**966,501**	**736,019**	**869,799**	**776,136**

For the purpose of net debt calculation, borrowings comprise only debts to financial institutions institutions and other debts relating to financing.

All amounts are in EUR thousand unless otherwise stated

Reconciliation of the Group's net debt balances and cash flows from financing activities:

	Assets		Lease liabilities		Borrowings			
Group	**Cash**	**Term deposits**	**Non-current lease liabilities**	**Current lease liabilities**	**Non-current portion of non-current borrowings**	**Current portion of non-current borrowings**	**Current borrowings**	**Total**
Net debt at 1 January 2018	**(171,756)**	**-**	**187**	**145**	**480,068**	**119,599**	**14,082**	**442,325**
Cash changes								
Increase (decrease) in cash and cash equivalents (including overdraft)	43,921	-	-	-	-	-	31,605	75,526
Proceeds from borrowings	-	-	-	-	29,888	27,922	-	57,810
Issue of bonds	-	-	-	-	294,346	-	-	294,346
(Repayments) of borrowings	-	-	-	-	(11,857)	(143,564)	-	(155,421)
Lease payments (principal portion)	-	-	-	(544)	-	-	-	(544)
Interest paid	-	-	-	(5)	-	(3,633)	(6,764)	(10,402)
Non-cash changes								
Accrual of interest payable	-	-	-	5	805	2,836	8,796	12,442
Reclassification of interest payable from trade payables	-	-	-	-	-	797	-	797
Acquisition of subsidiaries	-	(656)	18,960	806	153	-	8	19,271
Expenses of issue of bonds	-	-	-	-	(131)	-	-	(131)
Reclassifications between items	-	-	(4,813)	4,813	(57,862)	57,862	-	-
Net debt at 31 December 2018	**(127,835)**	**(656)**	**14,334**	**5,220**	**735,410**	**61,819**	**47,727**	**736,019**
Net debt at 1 January 2019	**(127,835)**	**(656)**	**14,334**	**5,220**	**735,410**	**61,819**	**47,727**	**736,019**
Cash changes								
Increase (decrease) in cash and cash equivalents (including overdraft)	(4,002)	-	-	-	-	-	149,031	145,029
Proceeds from borrowings	-	-	-	-	130,937	-	-	130,937
(Repayments) of borrowings	-	-	-	-	-	(70,394)	-	(70,394)
(Repayments) of borrowings related to investments in subsidiaries	-	-	-	-	-	(7,209)	-	(7,209)
Lease payments (principal portion)	-	-	-	(7,379)				(7,379)
Interest paid	-	-	-	(444)	-	(13,000)	(702)	(14,146)
Redemption of term deposits	-	656	-	-	-	-	-	656
Non-cash changes								
Accrual of interest payable	-	-	-	551	-	14,618	772	15,941
Recognition of lease liabilities under IFRS 16	-	-	8,292	6,274	-	-	-	14,566
Lease contracts concluded	-	-	12,188	6,592	-	-	-	18,780
Reclassification of interest payable from (to) trade payables	-	-	-	-	-	-	(91)	(91)
Acquisition of subsidiaries	-	-	-	-	7,202	-	-	7,202
Reclassifications between items	-	-	1,674	(1,674)	(51,620)	51,620	-	-
Reclassifications to liabilities attributable to assets held for sale	-	-	(2,670)	(740)	-	-	-	(3,410)
Net debt at 31 December 2019	**(131,837)**	**-**	**33,818**	**8,400**	**821,929**	**37,454**	**196,737**	**966,501**

All amounts are in EUR thousand unless otherwise stated

Reconciliation of the Company's net debt balances and cash flows from financing activities for the year 2019:

Company	Assets	Lease liabilities		Borrowings			
	Cash	Non-current lease liabilities	Current lease liabilities	Non-current portion of non-current borrowings	Current portion of non-current borrowings	Current borrowings	Total
Net debt as at 1 January 2018	**(52,517)**	**-**	**-**	**433,668**	**95,013**	**2,794**	**478,958**
Cash changes							
Increase (decrease) in cash and cash equivalents (including overdraft)	52,286			-	-	42,260	94,546
Issue of bonds	-	-	-	294,346	-	-	294,346
(Repayments) of borrowings	-	-	-	-	(95,052)	-	(95,052)
Interest paid	-	-	-	-	*(1,615)*	*(6,131)*	(7,746)
Non-cash changes							
Accrual of interest payable	-	-	-	805	1,614	8,798	11,217
Expenses of issue of bonds	-	-	-	(133)	-	-	(133)
Reclassifications between items	-	-	-	(57,441)	57,441	-	-
Net debt as at 31 December 2018	**(231)**	**-**	**-**	**671,245**	**57,401**	**47,721**	**776,136**
Net debt as at 1 January 2019	**(231)**	**-**	**-**	**671,245**	**57,401**	**47,721**	**776,136**
Cash changes							
Increase (decrease) in cash and cash equivalents (including overdraft)	87	-	-	-	-	149,031	149,118
(Repayments) of borrowings	-	-	-	-	(57,401)	-	(57,401)
Lease payments (principal portion)	-	-	(239)	-	-	-	(239)
Interest paid	-	-	*(3)*	-	*(12,593)*	*(710)*	(13,306)
Non-cash changes							
Accrual of interest payable	-	-	3	12,731	983	695	14,412
Recognition of lease liabilities under IFRS 16	-	253	771	-	-	-	1,024
Lease contracts concluded	-	33	41	-	-	-	74
Reclassification of interest payable from (to) trade payables	-	-	(19)	-	-	-	(19)
Reclassifications between items	-	277	(277)	(44,511)	44,511	-	-
Net debt as at 31 December 2019	**(144)**	**563**	**277**	**639,465**	**32,901**	**196,737**	**869,799**

All amounts are in EUR thousand unless otherwise stated

24 Lease liabilities

Movements in the Group lease liabilities during the year 2019 and 2018:

Group	Non-current lease liabilities		Current lease liabilities		Total
	Lease liabilities	Financial lease liabilities	Lease liabilities	Financial lease liabilities	
Opening book value as at 1 January 2018	**-**	**187**	**-**	**145**	**332**
Cash changes					
Lease payments (principal portion)	-	-	-	(544)	(544)
Interest paid	-	-	-	(5)	(5)
Non-cash changes					
Interest charges	-	-	-	5	5
Acquisition of subsidiaries	-	18,960	-	806	19,766
Reclassifications between items	-	(4,813)	-	4,813	-
Carrying amount at 31 December 2018	**-**	**14,334**	**-**	**5,220**	**19,554**
Opening book value as at 1 January 2019	**-**	**14,334**	**-**	**5,220**	**19,554**
Cash changes					
Lease payments (principal portion)	-	-	(1,976)	(5,403)	(7,379)
Interest paid	-	-	(346)	(98)	(444)
Non-cash changes					
Recognition of lease liabilities under IFRS 16	8,292	-	6,274	-	14,566
Lease contracts concluded	12,188	-	6,592	-	18,780
Interest charges	-	-	350	201	551
Reclassifications between items	6,550	(4,876)	(6,550)	4,876	-
Reclassifications to liabilities attributable to assets held-for-sale	(2,670)	-	(740)	-	(3,410)
Carrying amount at 31 December 2019	**24,360**	**9,458**	**3,604**	**4,796**	**42,218**

Movements in the Company lease liabilities during the year 2019 and 2018:

Company	Non-current lease liabilities	Current lease liabilities	Total
Opening book value as at 1 January 2019	**-**	**-**	**-**
Cash changes			
Lease payments (principal portion)	-	(239)	(239)
Interest paid	-	(3)	(3)
Non-cash changes			
Recognition of lease liabilities under IFRS 16	253	771	1,024
Lease contracts concluded	33	41	74
Interest charges	-	3	3
Reclassifications between items	277	(277)	-
Reclassifications to trade and other payables	-	(19)	(19)
Carrying amount at 31 December 2019	**563**	**277**	**840**

The Group and the Company minimum payments under leases are as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Minimum payments				
Within the first year	8,927	5,421	280	-
From two to five years	19,466	5,011	565	-
More than five years	29,497	9,477	-	-
In total	**57,889**	**19,909**	**845**	**-**
Future finance costs			-	-
Within the first year	(527)	(201)	(3)	-
From two to five years	(1,348)	(129)	(2)	-
More than five years	(13,797)	(25)	-	-
In total	**(15,672)**	**(355)**	**(5)**	**-**
Carrying amount	**42,218**	**19,554**	**840**	**-**

The Group's finance lease liabilities related to the development of the wind power parks amounted to EUR 14,220 thousand as at 31 December 2019 (31 December 2018: EUR 19,367 thousand). Average interest rates paid for finance lease of the equipment of the wind power parks is 1.05% as at 31 December 2019 (31 December 2018: 1.05%). As at 31 December 2019, the validity terms of the effective finance lease contracts for the equipment of the wind power parks expire in the period from the year 2021 to 2022.

All amounts are in EUR thousand unless otherwise stated

25 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Dynamics of deferred income tax assets and liabilities during the reporting period were as follows:

Group	As at 31 December 2017	Recognised in profit or loss	IFRS 15 adoption impact	Recognised in other comprehensive income	Reclassifications to liabilities attributable to assets held-for-sale	As at 31 December 2018 (restated)	Recognised in profit or loss	Deferred taxes recognized in business combination	Reclassifications to liabilities attributable to assets held-for-sale	As at 31 December 2019
Deferred tax assets										
Deferred income	3,647	(1,405)	-	-	-	2,242	(948)	-	-	1,294
Accrued expenses	2,217	(579)	-	-	(4)	1,634	315	-	-	1,949
Impairment of assets	5,849	212	-	-	(5)	6,056	763	-	-	6,819
Tax losses carry forward	8,754	1,543	-	-	-	10,297	(1,801)	-	-	8,496
Difference of financial and tax value of assets identified on business combination	2,587	2,807	-	-	-	5,394	1,001	-	-	6,395
Other	1,789	760	-	-	-	2,549	(421)	-	15	2,143
Deferred income tax asset before valuation allowance	**24,843**	**3,338**	**-**	**-**	**(9)**	**28,172**	**(1,091)**	**-**	**15**	**27,096**
Less: decrease in realized value	(4,721)	2,416	-	-	-	(2,305)	(1,689)	-	-	(3,994)
Deferred income tax asset, net	**20,122**	**5,754**	**-**	**-**	**(9)**	**25,867**	**(2,780)**	**-**	**15**	**23,102**
Deferred income tax liabilities										
Valuation of PP&E (increase/decrease in value)	21,035	(14,606)	-	21,732	(891)	27,270	130	-	(138)	27,262
Differences in depreciation rates	19,434	1,376	-	-	-	20,810	4,780		28	25,618
Tax relief on acquisition of PP&E	4,156	(6,985)	-	-	-	(2,829)	(5,419)	-	-	(8,248)
Difference on recognition of income from new customer connection services	2,504	6,860	(10,997)	-	-	(1,633)	335	-	-	(1,298)
Result of valuation of financial assets	80	(129)	-	-	-	(49)		-	-	(49)
Difference of financial and tax value of assets identified on business combination	1,878	(271)	-	-	-	1,607		4,384	-	5,991
Derivative financial instruments	-	2,632	-	-	-	2,632	(2,626)			6
Other	-	-	-	-	-	-	458	-	-	458
Deferred income tax liability, net	**49,087**	**(11,123)**	**(10,997)**	**21,732**	**(891)**	**47,808**	**(2,342)**	**4,384**	**(110)**	**49,740**
Deferred income tax, net	**(28,965)**	**16,877**	**10,997**	**(21,732)**	**882**	**(21,941)**	**(438)**	**(4,384)**	**125**	**(26,638)**

The Group's statement of financial position presents separately deferred tax assets (EUR 11,770 thousand) and deferred tax liabilities (EUR 38,408 thousand) related to different subsidiaries. The net balance of deferred tax is liability of EUR 26,639 thousand.

All amounts are in EUR thousand unless otherwise stated

Dynamics of the Company's deferred income tax assets and liabilities during the reporting period were as follows:

Company	As at 31 December 2017	Recognised in profit or loss	Recognised in other comprehensive income	As at 31 December 2018	Recognised in profit or loss	Recognised in other comprehensive income	As at 31 December 2019
Deferred tax assets							
Accrued expenses	112	57	-	169	(6)	-	163
Tax losses carry forward	437	471		908	589	(897)	600
Deferred income tax asset, net	**549**	**528**	**-**	**1,077**	**583**	**(897)**	**763**
Deferred income tax liabilities							
Result of valuation of financial assets	-	-	-	-	-	-	-
Deferred income tax liability, net	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Deferred income tax, net	**549**	**528**	**-**	**1,077**	**583**	**(897)**	**763**

As at 31 December 2019, the Group did not recognise deferred income tax assets on accumulated tax loss from operations of EUR 14,961 thousand (31 December 2018: EUR 15,369 thousand).

26 Grants and subsidies

The balance of grants comprises grants to finance acquisition of assets, funds received from the EU structural funds, plant and equipment and intangible assets received in return for no consideration. Movements on the account of grants in year 2019 and 2018 were as follows:

Group	Asset-related grants		Grants for emission allowances	In total
	Asset-related grants and other projects of the Group	Projects for renovation, improvement of environmental and safety standards		
Balance at 31 December 2017	**49,543**	**149,569**	**1,199**	**200,311**
Depreciation of property, plant and equipment	(1,450)	(7,820)	-	(9,270)
Grants received	25,523	-	2,555	28,078
Emission allowances utilised	-	-	(175)	(175)
Grants attributable to revaluation of property plant and equipment	(8,928)	(768)	-	(9,696)
Grants reversed due to recognised impairment of PP&E and other reasons	(1)	-	-	(1)
Grants transferred to short term liabilities	-	(373)	-	(373)
Balance at 31 December 2018	**64,687**	**140,608**	**3,579**	**208,874**
Balance at 1 January 2019	**64,687**	**140,608**	**3,579**	**208,874**
Depreciation of property, plant and equipment	(1,250)	(7,761)	-	(9,011)
Grants received	64,032	16	4,131	68,179
Emission allowances utilised	-	-	(93)	(93)
Balance at 31 December 2019	**127,469**	**132,863**	**7,617**	**267,949**

Amortisation of grants is accounted for under depreciation and amortisation in the statement of profit or loss and other comprehensive income and reduces depreciation expenses of related property, plant and equipment. Grants reversed are reported within revaluation/impairment of assets and reduce these expenses.

Grants reversed due to recognised impairment of property, plant, and equipment of subsidiary Energijos skirstymo operatorius AB in year 2018 amounted to EUR 8,928 thousand.

All amounts are in EUR thousand unless otherwise stated

27 Contract liabilities and other prepayments

Deferred income

Movements in the Group and the Company's deferred income during the year 2019 and 2018:

Group	2019		2018	
	Current portion	Non-current portion	Current portion	Non-current portion
Balance as at 1 January	**9,122**	**136,438**	**5,242**	**54,509**
Impact of first-time adoption of IFRS 15 on the electricity distribution activity	-	-	(877)	74,195
Restated balance at 1 January	**9,122**	**136,438**	**4,365**	**128,704**
Received during the period	-	21,654	-	19,052
Recognised as income	(5,555)	-	(6,561)	-
Reclassifications between items	6,182	(6,182)	11,318	(11,318)
Balance as at 31 December	**9,749**	**151,910**	**9,122**	**136,438**

Deferred income are the Group liabilities under contracts with customers and represents income from connection of new customers to natural gas system and to the electricity grid.

Income from connection of new customers to natural gas system is recognised over the average useful life of related items of property, plant and equipment.

Amortisation of deferred income from connection of customers is included in the revenue line item in profit or loss.

Advances received

The Group and the Company's advances received as at 31 December 2019 and 2018 were as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Current prepayments under contracts with customers (contract liabilities)	51,665	44,912	-	-
Current prepayments under other agreements:	80	4,854	52	51
In total	**51,745**	**49,766**	**52**	**51**

28 Provisions

The Group and the Company's provisions as at 31 December 2019 and 2018 were as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Non-current	35,564	35,355	-	-
Current	19,818	5,558	-	806
Total amount of provisions	**55,382**	**40,913**	**-**	**806**

All amounts are in EUR thousand unless otherwise stated

Dynamics of the Group's provisions during the year 2019 and 2018 were as follows:

	Emission allowance liabilities	Provisions for employee benefits	PSO provision	Decommissioning provision	Provisions for servitudes	Provisions for registration of protection zones	Provisions for onerous contracts	Provision for capacity reserve and system services	Total
Balance as at 1 January 2018	**529**	**3,862**	**5,474**	**-**	**-**	**-**	**-**	**-**	**9,374**
Increase during the period	894	1,222	2,730	1,573	28,649	-	-	-	35,068
Utilised during the period	(908)	(2,270)	(159)	-	(743)	-	-	-	(4,080)
Revaluation of emission allowances utilised	380	-	-	-	-	-	-	-	380
Result of change in actuarial assumptions	-	54	-	-	117	-	-	-	171
Balance as at 31 December 2018	**895**	**2,868**	**7,554**	**1,573**	**28,023**	**-**	**-**	**-**	**40,913**
Balance as at 1 January 2019	**895**	**2,868**	**7,554**	**1,573**	**28,023**	**-**	**-**	**-**	**40,913**
Increase during the period	478	209	-	1,431	324	8,328	675	12,718	24,163
Utilised during the period	(987)	(1,013)	(7,554)	-	(931)	-	(314)	-	(10,799)
Revaluation of emission allowances utilised	93	-	-	-	-	-	-	-	93
Result of change in actuarial assumptions	-	877	-	-	(464)	-	-	-	413
Balance as at 31 December 2019	**479**	**2,941**	**-**	**3,004**	**26,952**	**8,328**	**361**	**12,718**	**54,783**

Provisions for employee benefits include a statutory retirement benefit payable to the Group's employees. The balance of provisions at the reporting date is reviewed with reference to actuarial calculations to ensure that estimation of retirement benefit liabilities is as much accurate as possible. The liabilities are recognised at discounted value using the market interest rate.

As at 31 December 2019, the provision for one-off compensations to third parties for damages related to the establishment of statutory servitudes (effective until 10 July 2004) amounted to EUR 26,952 thousand (31 December 2018: EUR 28,023).

As at 31 December 2019 the Company had not accounted for any provision. As at 2018, the Company's provisions consisted of the guarantee issued to the subsidiaries for the loans granted to subsidiary Energetikos paslaugų ir rangos organizacija UAB under cash-pool agreements.

Provision for capacity reserve and system services

According to regulation applicable to providing of capacity reserve services companies that discontinue capacity reserve services shall reimburse any discrepancies between the projected and actual costs of providing these services to the transmission system operator if the costs actually incurred by the Group were less than the revenues received from the transmission system operator. If the actual costs incurred by the Group were higher than the income of the transmission system operator, the transmission system operator shall reimburse this amount to the Group.

With regard to the resolution above, the Group recognises assets and liabilities of the regulated activities that are intended to eliminate the mismatches between the current year earnings and the regulated level, regardless of the difference under the of provision of services in the future. As at 31 December 2019, EUR 12,718 thousand of provision was recognized in the Group statement of financial position (Note 4.21).

29 Other non-current amounts payable and liabilities

The Group and the Company's Other non-current amounts payable and liabilities as at 31 December 2019 and 2018 were as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018 (restated)	As at 31/12/2019	As at 31/12/2018
Non-current trade payables	550	729	-	-
Other payables	333	1,158	-	378
Carrying amount	**883**	**1,887**	**-**	**378**

30 Trade payables

The Group and the Company's Other trade payables as at 31 December 2019 and 2018 were as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Amounts payable for electricity and heavy fuel oil	49,847	47,324	-	-
Amounts payable for contractual works, services	1,841	5,683	-	-
Amounts payable for gas	7,718	28,406	-	-
Other payables	19,161	11,824	259	947
Carrying amount	**78,567**	**93,237**	**259**	**947**

All amounts are in EUR thousand unless otherwise stated

31 Other current amounts payable and liabilities

The Group and the Company's other current amounts payable and liabilities as at 31 December 2019 and 2018 were as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Payroll related liabilities	6,942	5,048	80	127
Amounts payable for property, plant and equipment	26,056	41,293	-	-
Taxes (other than income tax)	15,357	15,795	1,155	201
Accrued expenses	9,710	7,847	1,316	1,032
Derivative financial instruments	3,047	35	-	-
Put option redemption liability (Note 4.8)	16,660	16,660	-	-
Non-controlling interest dividends	2,947	2,874	-	-
Unpaid shares of Vilniaus kogeneracinė jėgainė UAB	-		11,314	-
Other amounts payable and liabilities	4,324	13,130	-	13
Carrying amount	**85,043**	**102,682**	**13,865**	**1,373**

Derivative financial instruments

As at 31 December 2019 and 2018, assets and liabilities related to the Group and the Company's agreements on derivative financial instruments were as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Other current assets				
Derivative financial instruments linked to the market prices of electricity	752	1634	-	-
Derivative financial instruments linked to the market price of gas	5,036	412	-	-
In total	**5,788**	**2,046**	**-**	**-**
Other non-current amounts payable and liabilities				
Derivative financial instruments linked to the market prices of electricity	1,408	18	-	-
Derivative financial instruments linked to the market price of gas	1,639	17	-	
In total	**3,047**	**35**	**-**	**-**

Trading of derivatives linked to electricity market prices is carried out by the subsidiary Ignitis UAB (until 1 June 2019 – Energijos tiekimas UAB) on the NASDAQ Commodities trading platform. Ignitis UAB is currently the only Lithuanian electricity provider, active in the stock market. Trading of derivatives can reduce electricity price fluctuation risks, as well as to carry out commercial activities, making use of fluctuations in market prices. At the NASDAQ Commodities exchange, Ignitis UAB performs the market maker functions in respect of financial instruments linked to Latvian electricity market prices (EPAD Riga).

Measurement of fair value of derivative financial instruments

The Group and the Company recognise derivative financial instruments at fair value. The table below presents information on assets and liabilities of derivative financial instruments by the fair value hierarchy level as at 31 December 2019:

Group	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	In total
Assets:				
Derivatives linked to the market prices of electricity	13	739	-	752
Derivatives linked to the market price of gas	-	5,036	-	5,036
Liabilities:				
Derivatives linked to the market prices of electricity	(500)	(908)	-	(1,408)
Derivatives linked to the market price of gas	-	(1,639)	-	(1,639)
In total	**(487)**	**3,228**	**-**	**2,741**

The table below presents information on assets and liabilities of derivative financial instruments by the fair value hierarchy level as at 31 December 2018:

Group	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	In total
Assets:				
Derivatives linked to the market prices of electricity	76	1,558	-	1,634
Derivatives linked to the market price of gas	412	-	-	412
Liabilities:				
Derivatives linked to the market prices of electricity	-	(18)	-	(18)
Derivatives linked to the market price of gas	-	(17)	-	(17)
In total	**488**	**1,523**	**-**	**2,011**

Derivatives linked to the market price of electricity acquired at the Nasdaq Commodities exchange are attributed to Level 1 of the fair value hierarchy. These instruments are measured according to the prices of products announced by the Nasdaq Commodities exchange.

The Group attributes to Level 2 of the fair value hierarchy derivative financial instruments linked with the Lithuanian/Latvian and Estonian/Finish electricity price areas. Derivatives acquired directly from other market participants (over-the-counter contracts) and physical transmission rights acquired are estimated based on the prices of the NASDAQ Commodities exchange by additionally adding price area differences (a potential risk) that are evaluated using the expert method.

All amounts are in EUR thousand unless otherwise stated

32 Revenue from contracts with customers

Disaggregated revenue information

The Group and the Company's revenue from contracts with customers during 2019 and 2018 were as follows:

	Group		Company	
	2019	2018	2019	2018
Electricity related revenue				
Revenue from the sale of electricity	127,445	120,607	-	-
Revenue from public electricity supply	137,190	95,066	-	-
Revenue from sale of produced electricity	69,290	68,438	-	-
Income from capacity reserve services	62,258	53,072	-	-
Electricity distribution	359,579	325,877	-	-
Gas related revenue				
Revenue from gas sales	210,857	256,608	-	-
Gas security component income	29,372	22,805	-	-
Gas distribution	34,870	41,632	-	-
Other revenue				
Revenue from Public service obligation services	13,855	16,261	-	-
Sales of inventories and scrap	6,340	-	-	-
Connection fees	5,294	7,385	-	-
Proceeds from the sale of heat energy	3,631	3,911	-	-
Management fee income	-	-	3,283	3,188
Other revenue from contracts with customers	19,365	12,616	-	-
Total	**1,079,347**	**1,024,278**	**3,283**	**3,188**

The Group and the Company's revenue based on the timing of transfer of goods or services

	Group		Company	
	2019	2018	2019	2018
Performance obligation settled during the period	1,073,007	1,024,278	3,283	3,188
Performance obligation settled at a specific point in time	6,340	-	-	-
In total	**1,079,347**	**1,024,278**	**3,283**	**3,188**

Contract balances

Balances arising from contracts with customers as at the end of the year 2019 and 2018 are as follows:

	Note	Group		Company	
		2019	2018	2019	2018
Contracts' with clients assets					
Trade receivables*	16	117,145	142,656	-	-
Other receivables	17	-	-	380	631
Prepayments and deferred expenses	15	-	1,521	-	-
Contracts' with clients liabilities					
Advances received	27	51,665	44,912	-	-
Deferred income	27	161,659	145,559	-	-

** Accounts receivables related to lease contracts are excluded*

Contract assets

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for the amounts due from customers under the contracts. Recognised expected credit losses if any are disclosed in the Notes 15-17.

Contract liabilities

	Note	Group		
		31/12/2019	31/12/2018	01/01/2018
Prepayments under contracts with customers	27	51,665	44,912	24,801
Deferred income from new customers' connection fees	27	161,659	145,559	133,069
Total				
Current		61,414	54,034	29,166
Non-current		151,910	136,437	128,704

Deferred income: revenue relating to new customers connection fees services is recognised over time although the customer pays up-front in full for these services. The revenue of these services is recognised over the period which is the average useful life of related items of property, plant and equipment (Note 2.22).

Rights to returned goods assets and refund liabilities

Under the Group's contracts related to sales presented below the customers have no rights to return the electricity/gas that was consumed and therefore no refund liabilities and corresponding adjustments to revenue is recognised for those goods:

- Revenue from the sale of electricity
- Revenue from public electricity supply
- Revenue from sale of produced electricity
- Income from capacity reserve services
- Electricity distribution
- Revenue from gas sales
- Gas distribution
- Connection fees
- Proceeds from the sale of heat energy

Public service obligations and liquefied natural gas terminal security components are funds that are received as compensations regarding the electricity capacity reserve services, electricity production from renewable sources and services of gas supply as designated gas supplier.

The Group does not have any significant contracts with the customers' right to return goods.

All amounts are in EUR thousand unless otherwise stated

Performance obligations

Revenue from the gas and electricity sale, supply, distribution and sale of thermal energy is recognized monthly upon the transfer of gas/electricity/thermal energy based on the actual consumption by customers which is determined according to the readings of gas/electricity/thermal energy meters. Payment terms are defined 30 days. There are no warranties specified in the contracts.

Revenue from connection fees is deferred and recognized as revenue over the estimated average useful life of assets providing the connection service, being 27 years for electricity grid and 46-55 years on for gas grid. Connection fees received from customers which are deferred are accounted as liabilities under connection contracts with customers in the statement of financial position.

Sales of inventory and scrap are recognized as revenue upon delivery of goods on the basis of invoices to customers, which are issued immediately after the sale of goods recognised. Payment terms are defined 30 days.

The remaining performance obligations expected to be recognised after the end of the financial year relate to new customers connection fees:

	Group		
	31/12/2019	31/12/2018	01/01/2018
More than one year	151,910	136,437	128,704
Within one year	9,749	9,122	4,365
Total liability under connection contracts	**161,659**	**145,559**	**133,069**

33 Other income

The Group and the Company's other income during the year 2019 and 2018 were as follows:

	Group		Company	
	2019	2018	2019	2018
Rent income	1,923	8,440	2	170
Compensation for alleged damage of Alstom Power Ltd.	9,276			
Derivatives (commodities)	(7,437)	28,693	-	-
Interest on late payments equivalent to interest	890	69	-	-
Gain/(loss) on disposal of non-current assets	1,213	4,527	-	-
Other income	5,415	4,053	23	533
In total	**11,280**	**45,782**	**25**	**703**

The Group provides motor vehicle and real estate lease services under operating lease contracts concluded for definite period, which may be extended for additional period ranging from several hours to several years. Income from lease of motor vehicles and real estate is recognised as income in profit or loss on a proportionate basis over the entire lease term.

34 Purchases of electricity, gas for trade and related services

The Group and the Company's purchases of electricity, gas for trade and related services during the year 2019 and 2018 were as follows:

	Group		Company	
	2019	2018	2019	2018
Costs of purchases of gas for trade	218,096	258,434	-	-
Purchases of electricity and related services	488,746	499,493	-	-
Purchases of sub-contractual services	4,827	10,535	-	-
In total	**711,669**	**768,462**	**-**	**-**

35 Other expenses

The Group and the Company's other expenses during the year 2019 and 2018 were as follows:

	Group		Company	
	2019	2018	2019	2018
Taxes	6,177	6,329	27	246
Write-offs of property, plant and equipment	4,235	5,005	-	-
Customer service	4,561	4,367	-	-
Telecommunications and IT services	4,216	4,041	409	401
Transport	4,032	3,065	112	155
Utilities	2,683	2,351	104	770
Write-offs of non-current and current amounts receivable (bad debts)	1,507	2,012	-	-
Short-term and low-value lease (Note 7)	208	1,159	-	193
Consultation services	1,443	1,538	444	720
Expenses of low-value inventories	1,671	1,179	-	-
Personnel development	903	1,003	120	189
Business trips	619	408	44	59
Business support services	-	-	717	318
Expenses related to emission allowances, their revaluation and provisions	367	(8,933)	-	-
Inventory write-down/(reversal)	(27)	(718)	-	-
Provision for guarantees for the fulfilment of obligations of the subsidiaries	-	-	(806)	(2,097)
Other expenses	4,613	3,337	720	403
Carrying amount	**37,208**	**26,144**	**1,891**	**1,357**

Following are the services rendered by the audit firm to the Group and the Company during the year 2019 and 2018:

	Group		Company	
	2019	2018	2019	2018
Audit of the financial statements under the agreements	390	186	27	11
Assurance and other related services	22	93	19	67
Tax consultation services	52	44	52	7
Expenses of other services	55	10	21	22
Carrying amount	**519**	**333**	**119**	**107**

All amounts are in EUR thousand unless otherwise stated

36 Finance income

The Group and the Company's finance income during the year 2019 and 2018 were as follows:

	Group		Company	
	2019	2018	2019	2018
Interest income at the effective interest rate	1,547	1,427	15,500	10,040
Other income from financing activities	646	194	2	29
In total	**2,193**	**1,621**	**15,502**	**10,069**

The Company's interest income

The Company earns interest income from long-term and short-term loans, the majority of which is granted to the Group companies (Note 10, 18). In 2019, the Company received EUR 14 017 thousand (in 2018: EUR 5,389 thousand) interest income, which is presented in the cash flow statement under 'Interest received'.

The Group's interest income

The Group's interest on disposal of LitGrid AB (Note 10) in year 2019 amounted to EUR 1,017 thousand (in 2018: EUR 1,102 thousand). In 2019, the Group received EUR 1,017 thousand (in 2018: EUR 1,105 thousand) interest income, which is presented in the cash flow statement under 'Interest received'.

37 Finance expenses

The Group and the Company's finance expenses during the year 2019 and 2018 were as follows:

	Group		Company	
	2019	2018	2019	2018
Interest expenses	14,737	12,442	14,411	11,217
Interest and discount expense on lease liabilities	551	-	2	-
Negative effect of changes in exchange rates	146	21	16	18
Other expenses of financing activities	3,399	2,436	2,586	934
In total	**18,833**	**14,899**	**17,015**	**12,169**

The Company's interest expenses

The Company incurs interest expense on long-term and short-term loans payable and bonds issued (Note 23). In year 2019, the Company paid interest in the amount of EUR 13,306 thousand (in 2018: EUR 7,746 thousand), which are presented in the cash flow statement under 'Interest paid'.

The Group's interest expense

The Group incurs interest expense on long-term and short-term loans payable and bonds issued (Note 23). In 2019, the Group paid interest in the amount of EUR 14,146 thousand (in 2018: EUR 10,402 thousand), which are presented in the cash flow statement under 'Interest paid'.

38 Income tax expenses

Income tax expenses for the period comprise current year income tax and deferred income tax. Under the Republic of Lithuania Law on Corporate Income Tax, the income tax rate of 15% was assessed on profit in year 2019 and 2018. The Group and the Company's income tax expenses during the year 2019 and 2018 were as follows:

	Group		Company	
	2019	2018	2019	2018
Income tax expenses (benefit) for the reporting period	6,739	4,604	-	(7)
Deferred income tax expenses (benefit)	438	(16,877)	(583)	(528)
Income tax expenses (benefit) recognised in profit or loss	**7,177**	**(12,273)**	**(583)**	**(535)**

Income tax on the Group and the Company's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profit of the Company:

	Group		Company	
	2019	2018	2019	2018
Profit (loss) before tax	66,153	(34,244)	31,620	44,153
Income tax expenses (benefit) at tax rate of 15%	9,923	(5,137)	4,743	6,623
Expenses not deductible for tax purposes	4,202	10,199	519	3,275
Income not subject to tax	(2,434)	(1,135)	(3,888)	(10,426)
Reversal of impairment of investments in subsidiaries	-	-	(1,957)	
Income tax relief for the investment project	(5,057)	(12,692)	-	-
Adjustments in respect of prior years	12	(425)	-	(7)
Tax losses utilised	(1,544)	(790)	-	-
Realisation of unrecognised tax losses	1,689	(2,416)	-	-
Unrecognised deferred income tax on tax losses	386	123	-	-
Income tax expenses (benefit)	**7,177**	**(12,273)**	**(583)**	**(535)**

Dynamics of the Group current income tax liabilities during the year 2019 and 2018 were as follows:

	2019		2018	
	Prepaid income tax	Income tax payable	Prepaid income tax	Income tax payable
Balance as at 1 January	**4,192**	**(4,544)**	**2,102**	**(3,695)**
Income tax expenses	-	(6,739)	-	(4,604)
Income tax and Advance income tax payments	762	3,789	2,463	3,862
Offset of advance income tax	(1,186)	1,186	990	(990)
Offset with other taxes	(1,334)	178	(1,444)	1,293
Adjustments for prior periods	-	(40)	81	(411)
Balance as at 31 December	**2,434**	**(6,171)**	**4,192**	**(4,545)**

Dynamics of the Company's income tax liabilities during the year 2019 and 2018 were as follows:

	2019		2018	
	Prepaid income tax	Income tax payable	Prepaid income tax	Income tax payable
Balance as at 1 January	**15**	**-**	**147**	**-**
Income tax expenses	-	-	-	7
Offset of advance income tax	(15)	-	(138)	-
Adjustments for prior periods	-	-	6	(7)
Balance as at 31 December	**-**	**-**	**15**	**-**

39 Dividends

Dividends declared by the Company in year 2019 and 2018:

	2019		2018	
	(EUR'000) EUR	Dividends per share	(EUR'000) EUR	Dividends per share
Ignitis grupė UAB	13,000	0.0031	78,265	0.0187
Number of shares	4,179,849,289		4,179,849,289	

Dividends declared by the Group companies in year 2019:

Declared at	Dividends declared by	Period for which dividends are allocated	Dividends per share, in EUR	Amount of dividends declared	Dividend income attributable to the Company	Non-controlling interest dividends
05/03/2019	Duomenų logistikos centras UAB	2018	0.0290	405	324	82
30/04/2019	Ignitis grupės paslaugų centras, UAB	2018	0.0150	327	164	7
30/04/2019	Verslo aptarnavimo centras UAB	2018	0.2100	123	63	2
30/04/2019	Tuuleenergia OÜ	2018	1.8000	899	899	-
29/04/2019	Eurakras UAB	2018	11.7200	1,870	-	-
12/04/2019	Ignitis gamyba AB	2nd half of 2018	0.0100	6,480	6,274	206
27/09/2019	Ignitis gamyba AB	1st half of 2018	0.0290	18,792	18,194	599
				28,896	**25,918**	**896**

Dividends declared by the Group companies in year 2018:

Declared at	Dividends declared by	Period for which dividends are allocated	Dividends per share, in EUR	Amount of dividends declared	Dividend income attributable to the Company	Non-controlling interest dividends
13/03/2018	EurakrasUAB	2017	10.5900	1,690	1,690	-
20/03/2018	Ignitis UAB	2017	0.17401	3,000	3,000	-
26/03/2018	Ignitis gamyba AB	2nd half of 2017	0.01400	8,891	8,602	289
30/03/2018	Energijos skirstymo operatorius AB	2nd half of 2017	0.02535	22,679	21,541	1,138
04/04/2018	Ignitis UAB	2017	0.15837	4,571	4,571	-
05/04/2018	Verslo aptarnavimo centras UAB	2017	0.00026	268	137	3
11/04/2018	Technologijų ir inovacijų centras UAB	2017	0.00666	148	74	2
17/04/2018	Litgas UAB	2017	0.02654	1,194	1,194	-
27/04/2018	Duomenų logistikos centras UAB	2017	0.02200	306	243	62
28/09/2018	Energijos skirstymo operatorius AB	1st half of 2018	0.01400	12,525	11,896	628
27/09/2018	Ignitis gamyba AB	1st half of 2018	0.02300	14,904	14,430	474
				70,176	**67,378**	**2,596**

40 Contingent liabilities and commitments

Guarantees issued and received by the Company

The Company's guarantees issued as at 31 December 2019 and 2018 were as follows:

Name of the subsidiary	Beneficiary of the guarantee	Issue at	Maturity	Maximum amount of the guarantee	As at 31/12/2019	As at 31/12/2018
Vilniaus kogeneracinė jėgainė UAB	European Investment Bank	30/12/2016	06/12/2033	190,000	99,881	19,796
Kauno kogeneracinė jėgainė UAB	Swedbank AB	18/10/2017	18/10/2022	61,200	31,125	5,147
Vėjo gūsis UAB	Swedbank lizingas, UAB	29/1/2019	28/2/2022	9,258	6,797	-
Vėjo vatas UAB	Swedbank lizingas, UAB	29/1/2019	28/2/2021	9,687	7,413	-
Ignitis grupė UAB Group companies	Ignitis grupė UAB Group companies	2016	30/06/2019	-	54,106	73,902
				270,145	**199,322**	**98,845**

The Group companies can lend each other their funds by virtually transferring them to the Group's corporate account (cashpool) opened at the bank Swedbank AB. The Company guarantees that funds borrowed by the Group companies at the cashpool account are timely repaid to the Group companies that have lent funds. As at 31 December 2019, the amount lent and borrowed by the Group companies at the Group's cashpool account totalled EUR 225,783 thousand (31 December 2018: EUR 201,012 thousand), including the amount of EUR 171,708 thousand (31 December 2018: EUR 126,304 thousand) lent by the Company (Note 18). As at 31 December 2019, the total amount of the Company's guarantees was EUR 199,322 thousand (31 December 2018: EUR 98,845 thousand).

On 5 December 2016, the Company and the European Investment Bank (Luxembourg) signed a guarantee and indemnity agreement under which the Company secured fulfilment of all current and future obligations of subsidiary Vilniaus kogeneracinė jėgainė UAB in the amount of EUR 190,000 thousand under the credit agreement signed on 5 December 2016 with the European Investment Bank for the term of 17 years. The guarantee covers the repayment of all types of amounts payable related to the usage of the provided loan to the European Investment Bank. The maximum amount of the guarantee has not been established. As at 31 December 2019, amounts withdrawn by Vilniaus kogeneracinė jėgainė UAB from the loan provided by the European Investment Bank totalled EUR 99,881 thousand (31 December 2018: EUR 19,796 thousand).

On 31 May 2017, the Group's subsidiary Kauno kogeneracinė jėgainė UAB and Swedbank AB signed the credit agreement for the amount of EUR 120,000,000 (one hundred twenty million). The loan is designated for the financing of construction works of the co-generation power plant complex in Kaunas and the financing of the following construction-related expenses of the project being implemented: financing of payments under the agreements on construction, supply of equipment, electrification, general construction works, general systems, installation of automation systems, insurance, management of the construction site, project management, as well as the financing of advance payments (credit funds cannot be used for the financing of interest and unforeseen expenditure), excl. VAT. As at 31 December 2019, amounts withdrawn from the loan provided totalled EUR 61,029 thousand (31 December 2018: EUR 10,092 thousand). Monetary liabilities of Kauno kogeneracinė jėgainė UAB to the bank under the credit agreement are secured by the guarantees issued by the Company and Fortum OYJ (Finland) in proportion to the number of shares of Kauno kogeneracinė jėgainė UAB held, i.e. 51% of shares is held by the Company and 49% is held by FORTUM HEAT LIETUVA UAB.

Contract liabilities

According to the provisions of the natural gas supply agreement with Gazprom OAO, the subsidiary Ignitis UAB did not purchase 46.9 million. m^3 out of agreed minimum quantity of 400 million m^3 of natural gas in 2018. Shortage of consumption according to the provisions of the said contract is allowed to be "withdraw" within the next 3 years upon fulfilment of the contractual advance payments and consumption of natural gas. Unused natural gas had no impact on the Company's 2018 year financial position, however, in year 2019 the subsidiary paid EUR 7.6 million, i.e. made an advance payment for part of 2018 year for amount of natural gas not consumed.

In December 2019 the subsidiary has agreed supply of natural gas for the year 2020 with Gazprom OAO. This agreement contains a take-or-pay clause under which the Company has committed to purchase a minimum amount of natural gas. According to the current consumption forecasts, the Group plans to purchase the entire quantity planned for the year 2020.

Capital expenditure commitments

The Group has significant commitments to purchase property, plant and equipment to be fulfilled in later periods. As at 31 December 2019, the Group commitments to purchase or construct property, plant and equipment amounted to EUR 128,504 thousand (31 December 2018: EUR 490,432 thousand).

Rate adjustments due to profit earned in preceding periods exceeding the return on investment permitted by NERC (2019 year)

Electricity distribution

Based on its Resolution No O3E-569 of 17 October 2019 *On recalculating the price caps for electricity distribution services provided by Energijos skirstymo operatorius AB through medium and low voltage networks for the year 2020*, NERC set the price cap for the distribution service for the year 2020 and, based on its Certificate No O5E-517 of 16 October 2019 *On recalculating the price caps for electricity distribution services provided by Energijos skirstymo operatorius AB through medium and low voltage networks for the year 2020*, NERC stated that the level of expected revenue from electricity distribution activities carried out by the Group in year 2020 is reduced by EUR 41,875 thousand, including the impact of time value of money of EUR 1,388 thousand. The amount is the remaining part of the return on investments in year 2016-2017 that was earned by the Group in excess of the level set by NERC for these years.

In establishing the price caps for year 2019 - 2020, NERC determined the amount of investments (i.e. the asset base) on the basis of the historical cost of the asset base rather than the asset base determined using the LRAIC (long-run average incremental cost) model approved by NERC. In its certificate No O5E-517 of 16 October 2019 *On recalculating the price caps for electricity distribution services provided by Energijos skirstymo operatorius AB through medium and low voltage networks for the year 2020*, NERC stated the following: *<… in order to maintain an integral financing of required and supported investments into assets optimized according to the LRAIC model the impact of said correction will be evaluated in further regulatory period while establishing the price cap (new regulatory period) according to the LRAIC model used for setting the price for distribution services …>.*
In year 2018, the Group revalued its property, plant and equipment of electricity business segment to fair value. As an input to the fair value measurement, the independent property valuator used the assumption that going forward, NERC will use LRAIC model in its full extent (i.e. not adjusted) in determining the amount of the asset base.

Gas distribution

Based on its Resolution No O3E-365 on 31 October 2019 *On the correction of the price caps for natural gas distribution services provided by Energijos skirstymo operatorius AB for the year 2020*, NERC set the price cap for the natural gas distribution service to be effective for the year 2020 and, based on its Certificate No O5E-538 of 21 October 2019 *On the correction of price caps for natural gas distribution services provided by Energijos skirstymo operatorius AB for the year 2020*, NERC stated that the level of revenue from natural gas distribution activities carried out by the Group in year 2020 is reduced by EUR 9,791 thousand, including the impact of time value of money of EUR 264 thousand. The amount of the remaining part of the return on investments in year 2014-2018 that was earned by the Group in excess of the level set by NERC (EUR 19,054 thousand) will be assessed when establishing the natural gas distribution price for the upcoming periods.

Litigations

The plaintiff Vilniaus energija UAB has filed a claim with the Vilnius Regional Court regarding the award of EUR 9,284 thousand from Energijos skirstymo operatorius AB. The plaintiff claims to have incurred EUR 9,284 thousand losses due to the fact that Energijos skirstymo operatorius AB during the year 2014 purchased only the electricity produced by the Plaintiff's cogeneration plants in the technical minimum regime. Energijos skirstymo operatorius AB has not recognised any provision related to the claim, because the description for PSO service provisions and other applicable legislation do not impose any obligation on the Defendant to purchase all electricity generated by the Plaintiff. On 17 March 2017, the Plaintiff updated the subject-matter of the claim and requested the court to award damages in the amount of EUR 10,712 thousand. On 18 September 2017, the court of first instance passed the ruling whereby the claim was rejected in full. The claimant appealed against the court ruling. By the ruling of 6 November 2018, the Court of Appeal of Lithuania rejected the ruling of Vilnius Regional Court of 18 September 2017 in part and remitted the case back to the court of first instance. On 22 January 2019, the claimant filed an appeal in cassation regarding the part of the ruling of the Court of Appeal of Lithuania dated 6 November 2018 that was left unchanged and the Supreme Court of Lithuania accepted the appeal. The investigation of the case has been suspended in the court of first instance by the request of the claimant until part of the case is reviewed under the cassation procedure.

All amounts are in EUR thousand unless otherwise stated

By the ruling of 6 May 2019, the Vilnius Regional Court resumed proceedings following the ruling of the Supreme Court of Lithuania of 17 April 2019 to terminate the appeal proceedings. Vilnius Regional Court passed a judgement in the civil case on 28 January 2020, where it satisfied partially the claim of plaintiff Vilniaus energija UAB against the Company and recognized that Vilniaus energija UAB had been discriminated with regard to other combined heat and power plants. The court adjudged losses of EUR 2,2 million from the subsidiary Energijos skirstymo operatorius AB for behalf of Vilniaus energija UAB and 6 percent annual interest from the adjudged amount calculated from the day when the civil case was lodged in the court until complete execution of the judgement. Vilniaus energija UAB asked in another part to recognize that it had been discriminated with regard to supply of balancing energy and to adjudge reimbursement of losses from the subsidiary Energijos skirstymo operatorius AB. This part of the civil claim of Vilniaus energija UAB was rejected. The judgement of Vilnius Regional Court has not yet become effective. Due to the uncertainty of the outcome of the case Energijos skirstymo operatorius AB has not recognised any provision related to the claim.

On 27 February 2020, the subsidiary Energijos skirstymo operatorius AB filed an appeal regarding the part of the judgement of Vilnius Regional Court dated 28 January 2020 that satisfied the claim of UAB Vilniaus energija. The subsidiary Energijos skirstymo operatorius AB contents Vilnius Regional Court's conclusions that the subsidiary Energijos skirstymo operatorius AB discriminated Vilniaus energija UAB with regard to other combined heat and power plants when purchasing eligible electricity. Based on the management estimates, the amount of energy purchased by the subsidiary Energijos skirstymo operatorius AB beyond the technical minimum amount of the producers has been distributed to all producers on a pro-rata basis, so that there is no breach of competition law. In the absence of unlawful actions by the subsidiary Energijos skirstymo operatorius AB, there is no obligation on the subsidiary Energijos skirstymo operatorius AB to compensate for the loss which Vilniaus energija UAB alleges it has suffered. In accordance of this management's estimate Energijos skirstymo operatorius AB has not recognised any provision related to the claim.

Dispute over resolutions adopted by NERC relating to revenue from the regulated activities is disclosed in Note 4.25.

On 16 May 2019, the plaintiff JUMPS UAB brought an action before the court of first instance against subsidiary Ignitis gamyba UAB with a view to obtaining a declaration that the plaintiff cannot be, or should be, subject to excessive damages under the contract for the sale of property. The amount of the claim is EUR 392,854. In the subsidiary's view, the claim is unfounded and the penalties are properly imposed under the penalty clause in the contract with the plaintiff. According to the mangemen's assessment the subsidiary Ignitis gamyba UAB recognized the amount received as income in the statement of profit or loss and other comprehensive income under 'Other income'.

Based on a press release of the European Commission, the Group informs that on 3 June 2019, the European Commission has opened an in-depth investigation to assess whether EU State aid rules were respected when allocating public interest service monies to the Group in the context of a strategic reserve measure. The Group's management is not aware of any circumstances that could result in potential significant liabilities for the Group in this respect, so therefore no provisions are recognized.

41 Related-party transactions

As at 31 December 2019 and 2018, the parent company was the Republic of Lithuania represented by the Lithuanian Ministry of Finance. For the purposes of disclosure of related parties, the Republic of Lithuania excludes central and local government authorities. The disclosures comprise transactions and balances of these transactions with the shareholder, subsidiaries (the Company's transactions), associates and all entities controlled by or under significant influence of the state (transactions with these entities are disclosed only if they are material), and management and their close family members.

The Group transactions with related parties during 2019 and year-end balances arising on these transactions as at 31 December 2019 are presented below:

Related parties	Accounts Receivable	Accounts Payable	Sales	Purchases	Finance income (costs)
	As at 31/12/2019	As at 31/12/2019	2019	2019	2019
EPSO-G UAB	158,943	-	32	-	1,017
LitGrid AB	10,297	14,749	75,474	134,833	-
Amber Grid AB	4,203	6,329	32,575	62,409	1
Baltpool UAB	11,682	10,177	39,300	36,980	-
TETAS UAB	84	869	555	6,115	6
GET Baltic	754	-	26,050	2,110	-
Associates and other related parties of the Group	116	217	62	1,217	-
Total	**186,079**	**32,341**	**174,048**	**243,664**	**1,024**

The Group transactions with related parties during the year 2018 and year-end balances arising on these transactions as at 31 December 2018 are presented below:

Related parties	Accounts Receivable	Accounts Payable	Sales	Purchases	Finance income (costs)
	As at 31/12/2018	As at 31/12/2018	2018	2018	2018
EPSO-G UAB	158,693	-	35	-	1,102
Litgrid AB	7,106	15,049	63,838	129,627	-
Amber Grid AB	3,730	6,019	38,153	1,811	-
Baltpool UAB	8,265	15,962	59,654	54,324	-
TETAS UAB	1,381	4,421	1,387	91,711	-
LITGRID Power Link Service UAB	36	-	60	-	-
GET Baltic UAB	724	12	11,436	6,103	-
Associates and other related parties of the Group	279	120	380	394	-
Total	**180,214**	**41,583**	**174,943**	**283,970**	**1,102**

The major sale and purchase transactions with related parties in 2019 and 2018 comprised transactions with the companies controlled by the Lithuanian Ministry of Energy: Litgrid AB and BALTPOOL UAB. The Group's purchases from these entities mainly included purchases of electricity, capacity, transmission, PSO services and gas. Sales transactions included sales of electricity, capacity and PSO services

All amounts are in EUR thousand unless otherwise stated

Amount receivable from EPSO-G UAB represents unpaid amount on disposal of Litgrid AB, the outstanding balance of the loan granted and interest accrued thereon. Finance costs include interest charged during the year.

Transactions with other state-owned entities included regular business transactions and therefore they were not disclosed.

The Company transactions with related parties during the year 2019 and year-end balances arising on these transactions as at 31 December 2019 are presented below:

Related parties	Accounts Receivable As at 31/12/2019	Accounts Payable As at 31/12/2019	Sales 2019	Purchases 2019	Finance income 2019	Finance costs 2019
Subsidiaries						
Energijos skirstymo operatorius AB	608,849	-	1,446	-	9,708	-
Ignitis gamyba AB	42	-	478	-	-	-
Energetikos paslaugų ir rangos organizacija UAB	1,484	-	4	-	45	-
Elektroninių mokėjimų agentūra UAB	4	-	21	-	-	-
Energijos tiekimas UAB	-	-	96	-	91	-
Duomenų logistikos centras UAB	-	1	5	-	-	-
NT valdos UAB	-	-	30	-	3	-
Transporto valdymas UAB	25,539	10	-	100	358	1
Ignitis grupės paslaugų centras UAB	1,482	41	126	407	10	-
Ignitis UAB	90,964	-	424	-	911	-
Verslo aptarnavimo centras UAB	49	166	228	971	2	-
Vilniaus kogeneracinė jėgainė UAB	3,484	11,314	125	20	683	-
Eurakras UAB	24,754	-	10	-	709	-
Tuuleenergia OÜ	19,403	-	1	-	655	-
Kauno kogeneracinė jėgainė UAB	125	-	166	-	236	-
Vėjo gūsis UAB	7	-	-	-	75	-
Vėjo vatas UAB	2,766	-	-	1	133	-
Gamybos optimizavimas UAB	1	-	7	-	-	-
VVP investment UAB	403	-	-	-	14	-
Ignitis renewables UAB	57,096	-	59	-	805	-
Other related parties						
EPSO-G UAB	158,940	-	-	-	1,017	-
Total	**995,392**	**11,532**	**3,226**	**1,499**	**15,455**	**1**

The Company transactions with related parties during the year 2018 and year-end balances arising on these transactions as at 31 December 2018 are presented below:

Related parties	Accounts Receivable As at 31/12/2018	Accounts Payable As at 31/12/2018	Sales 2018	Purchases 2018	Finance income 2018	Finance costs 2018
Subsidiaries						
Energijos skirstymo operatorius AB	586,559	-	1,388	-	6,655	-
Ignitis gamyba AB	60	-	542	-	-	-
Energetikos paslaugų ir rangos organizacija UAB	1,250	-	74	-	151	-
Elektroninių mokėjimų agentūra UAB	3	-	33	-	-	-
Energijos tiekimas UAB	36,546	-	180	149	110	-
Litgas UAB	10	-	102	-	11	-
Duomenų logistikos centras, UAB	1	-	17	-	-	-
NT Valdos UAB	13	-	93	184	186	-
Transporto valdymas UAB	21,608	8	-	79	225	-
Ignitis grupės paslaugų centras UAB	1,684	107	99	390	10	-
Lietuvos dujų tiekimas UAB	14,130	-	187	-	75	-
Verslo aptarnavimo centras UAB	29	109	157	593	1	-
VAE SPB UAB	-	-	3	-	-	-
Vilniaus kogeneracinė jėgainė UAB	29	-	98	-	23	-
EurakrasUAB	24,756	-	11	-	709	-
Tuuleenergia OU	21,059	-	4	-	760	-
Energijos sprendimų centras UAB	-	-	31	-	-	-
Kauno kogeneracinė jėgainė UAB	69	-	155	-	5	-
Vėjo gūsis UAB	29	-	-	-	-	-
Vėjo vatas UAB	2,693	-	-	-	8	-
Other related parties						
EPSO-G UAB	158,658	-	-	-	1,102	-
Total	**869,186**	**224**	**3,174**	**1,395**	**10,031**	**-**

As at 31 December 2019, the Company accounted for EUR 806 thousand loan impairment related to EUR 1,480 thousand borrowings provided by the Company to the subsidiary Energetikos paslaugų ir rangos organizacija UAB at the Group's cash pool account.

As at 31 December 2018, the Company accounted for a provision amounting to EUR 806 thousand related to the guarantee issued to the subsidiaries for loans obtained by Energetikos paslaugų ir rangos organizacija UAB under the group account (cash pool).

The dividends declared in year 2019 and 2018 are disclosed in Note 39.

Terms of transactions with related parties

The payment terms set range from 15 to 90 days. Closing debt balances are not secured by pledges, they do not yield interest, and settlements occur in cash. There were no guarantees given or received in respect of the related party payables and receivable.

Compensation to key management personnel

	Group		Company	
	2019	2018	2019	2018
Wages and salaries and other short-term benefits to management personnel	4,578	3,681	1,170	815
Whereof: termination benefits and benefits to Board Members	433	402	118	118
Number of key management personnel	54	55	12	10

Management in the table above comprise heads of administration of all subsidiaries and their deputies.

42 Operating segments

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 of directors that makes strategic decisions.

In year 2018 a new strategy of the Group was approved. This strategy sets out four main lines of business for the Group - strategic generation, green generation, customers and solutions and distribution grid operator. Following the adoption of the new strategy, steps have been taken to refine the actions due. The scope of the operating segments has been modified following the changes as well as due to the changes in the Group's structure, which were completed in 2nd quarter of 2019, management now follows its performance by operating segments that are consistent with the line of business specified in the Group's strategy:

- electricity supply and distribution and gas distribution segment renamed Networks and now includes only the distribution of electricity and gas activities carried out by Energijos skirstymo operatorius AB. Electricity public supply activity transferred to customers and solutions segment following the transfer from Energijos skirstymo operatorius AB to Ignitis UAB of this business activity;
- electricity generation segment separated into two segments – Flexible generation and Green generation. Flexible generation segment includes activities carried out by Ignitis gamyba AB (except Kaunas Algirdas' Brazauskas Hydro Power Plant, Kruonis pumped storage power plant, Biofuel and Steam Boiler). Green generation segment includes activities carried out by Ignitis gamyba AB (Kaunas Algirdas' Brazauskas Hydro Power Plant, Kruonis pumped storage power plant, Biofuel and Steam Boiler), Vilniaus kogeneracinė jėgainė UAB, Kauno kogeneracinė jėgainė UAB, Eurakras UAB, Tuuleenergia OU, Vėjo gūsis UAB, Vėjo vatas UAB, VVP Investment UAB, Ignitis renewables UAB, Pomerania Invall Sp. z o.o.;
- Trade in gas and trade in electricity segments merged into one segment Customers and solutions. It includes activities carried out by Ignitis UAB, Energijos Tiekimas UAB (until 31 May 2019), Ignitis Eesti OÜ, Ignitis Latvija SIA, Ignitis Polska Sp. z o.o. Electricity public supply activity took over from networks segment following the transfer from Energijos skirstymo operatorius AB to Ignitis UAB of this business activity.

The following services and entities comprise the other segments:
- support services (Ignitis grupės paslaugų centras UAB, Verslo aptarnavimo centras UAB);
- non-core activities (Energetikos paslaugų ir rangos organizacija UAB, Duomenų logistikos centras UAB, NT Valdos UAB, Transporto valdymas UAB);
- service entities (Elektroninių mokėjimų agentūra UAB, Gamybos Optimizavimas UAB);
- as well as parent company Ignitis grupė UAB, which does not constitute a separate operating segment, however it is disclosed separately, as its net profit exceeds 10% of profit (before elimination adjustments) of all profit generating segments. The Group's support service entities and special purpose entities are aggregated to a single segment as none of them individually meet recognition criteria of an operating segment.

2018 comparative information has been restated and disclosed accordingly.

The Group has single geographical segment – the Republic of Lithuania, electricity sales in Latvia, Estonia and Poland are not significant for the Group. The chief operating decision-maker monitors the results with reference to the financial reports that have been prepared using the same accounting policies as those used for the preparation of the financial statements in accordance with IFRS, i.e. information on profit or loss, including the reported amounts of revenue and expenses. The primary performance measure is adjusted Earnings Before Interest, Taxes, Depreciation, and Amortization (EBIDTA – a non-IFRS alternative performance measure). Another performance measure is adjusted Earnings Before Interest and Taxes (EBIT – a non-IFRS alternative performance measure). Both measures are calculated starting from data presented in the financial statements prepared in accordance with IFRS as adjusted by management for selected items which are not defined by IFRS.

The Group management calculates EBITDA as follows:

Net revenue (Note 32, 33) -
Operating expenses +
Depreciation and amortisation expenses (Note 5, 6, 7, 26) +
Expenses on revaluation and provisions for emission allowances (Note 35) +
Impairment expenses of non-current assets (Note 6, 20) +
Write-off expenses of non-current assets (Note 35)

EBITDA

The Group management calculates EBIT as follows:

Net revenue (Note 32, 33) -
Operating expenses +
Expenses on revaluation and provisions for emission allowances (Note 35) +
Impairment expenses of non-current assets (Note 6, 20) +
Write-off expenses of non-current assets (Note 35)

EBIT

All amounts are in EUR thousand unless otherwise stated

Management's adjustments, adjusted EBITDA and EBIT

Management's adjustments used in calculating adjusted EBITDA and EBIT:

Segment / Management's adjustments	2019	2018
Networks		
Temporary regulatory differences of Energijos skirstymo operatorius AB	36,905	36,782
Cash effect restatement new connection points and upgrades of Energijos skirstymo operatorius AB	12,236	11,083
Compensation received for the previous periods	(2,613)	-
Result of disposal of non-current assets	(609)	-
Impairment and write-offs of current and non-current amounts receivables, loans, goods and others	502	(15)
Flexible generation		
Temporary regulatory differences of Ignitis gamyba AB	(6,279)	(4,449)
Received compensation related to carried out projects in previous periods	(9,276)	-
Temporary fluctuations in fair value of derivatives	431	-
Impairment and write-offs of current and non-current amounts receivables, loans, goods and others	(1,054)	370
Green generation		
Temporary regulatory differences of Ignitis gamyba AB	544	(2,721)
Impairment and write-offs of current and non-current amounts receivables, loans, goods and others	(3)	15
Customers and Solutions		
Temporary regulatory differences of Ignitis UAB	564	47,396
Temporary fluctuations in fair value of electricity and gas derivatives of Ignitis UAB and Energijos tiekimas", UAB (until 31 May 2019)	16,373	(14,869)
Temporary regulatory differences of Litgas UAB	-	4,496
Impairment and write-offs of current and non-current amounts receivables, loans, goods and others	3,808	869
Other segments and consolidation adjustment		
Result of disposal of non-current assets	(595)	(4,526)
Impairment and write-offs of current and non-current amounts receivables, loans, goods and others	(1,968)	169
Consolidation adjustment of cash effect restatement for new consumers connection of Energijos skirstymo operatorius AB	3,869	1,408
	52,835	**76,008**

Networks segment

Adjusted EBITDA and EBIT are calculated by adding management's adjustments that comprise the impact of the recalculation of regulated activity revenue of prior periods resulting from the National energy regulatory council's (NERC) resolutions and by deducting the current year difference arising between the return on investments permitted by the NERC and estimated by management. In management's opinion the adjusted EBITDA and EBIT more accurately present results of operations and enables to compare results between the periods as it indicates the amount that was actually earned by the Group in the reporting year by eliminating differences between the permitted return on investments set by the NERC and the actual return on investments of prior periods that may have both positive and negative impact on the current year results. During 2019 the recalculation for prior periods amounted to EUR 61,724 thousand (EUR 75,205 thousand during 2018). The amounts are based on resolutions published by the NERC. During 2019 the recalculation for current year amounted to EUR (24,819) thousand (during 2018 EUR (38,423) thousand). Amounts for current year are based on management's estimate arising from comparison between the return on investments permitted by the NERC and estimated by management using actual financial and operating data for the current period.

Adjusted EBITDA and EBIT include adjustment of the changes in revenue accounting principles (15 IFRS) of new customers (hereinafter – NC) connections and upgrades. Management calculates this adjustment by eliminating NC connections and upgrades deferred income and adding NC generated cash flow for the current year. It enables to reflect the result for the reporting period more accurately and to better compare the results between the periods. Such calculation of the indicator shows generated cash flow by the Company for the services provided to the NC during the reporting period when those services were provided, i.e. fulfilment of the contractual connection obligations to the customers. During 2019 Group received EUR 21,660 thousand cash for new customer connection (EUR 19,052 thousand during 2018) and the deferred income amounted to EUR 5,555 thousand for 2019 (EUR 6,561 thousand for 2018), which is calculated by adding a consolidation adjustment to the standalone figures of Energijos skirstymo operatorius AB related to gas distribution assets fair value adjustments in the consolidated financial statements.

For adjusted EBITDA and EBIT calculation one-time factors are eliminated as well as the result of disposal of non-current assets as it is not related to the core activities of the Group as well as impairment and write-offs of current and non-current amounts receivables, loans, goods and others. This is done to reflect the result for the reporting period more accurately and to better compare the results between the periods.

During 2019 Energijos skirstymo operatorius AB received compensation from Litgrid AB for transmission (including systemic) services (for January and February 2016) amounting EUR 2,613 thousand. During 2019 the result of disposal of non-current assets of Energijos skirstymo operatorius AB amounted to EUR 609 thousand. Impairment and write-offs of current and non-current amounts receivables, loans, goods and others for 2019 amounted to EUR 502 thousand (EUR (15) thousand for 2018).

Flexible generation segment

Adjusted EBITDA and EBIT results are reported after the adjustments made by the management, eliminating the impact of one-time factors, and by measuring the change in revenue (and, consequently, adjusted EBITDA and EBIT) from Elektrėnai Complex regulated services provided by AB Ignitis gamyba, if current revenue was recognized at the amount consistent with the allowable income amount, calculated using NERC methodologies, taking into account allowable return on investments and actual service costs incurred during the period. The adjustment is based on management's estimation using actual costs for the current period and amounted to EUR (6,279) thousand for 2019 (EUR (4,449) thousand for 2018). Also in 2019 AB Ignitis gamyba received compensation of EUR 9,276 thousand for the indemnification of potentially inflicted damage by Alstom Power Ltd during the implementation of the project of the public limited liability company Lietuvos Elektrinė in 2005–2009 which is eliminated as a one-time factor related to prior periods. In management's opinion the adjusted EBITDA and EBIT more accurately presents results of operations and enables to compare results between the periods as it indicates the amount that was actually earned by the Group in the reporting year by eliminating differences between the permitted return set by the NERC and the actual return as well as eliminating one-off factors that may have both positive and negative impact on the current year results.

Adjusted EBITDA and EBIT are calculated by eliminating the difference between derivatives, booked in the statement of the financial position, fair value (Mark to market) and acquisition price – unrealized profit. As to management's opinion the changes in the market value of open financial derivatives positions misrepresents the actual results of these financial instruments, therefore management evaluates only the results of closed positions – realized profit. This kind of activity in the segment started during 2019 and related eliminations amounted to EUR 431 thousand.

All amounts are in EUR thousand unless otherwise stated

Green generation segment

Adjusted EBITDA and EBIT results are reported after the adjustments made by the management by measuring the change in revenue (and, consequently, EBITDA and EBIT) from Kruonis PSHP regulated services provided by AB Ignitis gamyba, if current revenue was recognized at the amount consistent with the allowable income amount, calculated using NERC methodologies, taking into account allowable return on investments and actual service costs incurred during the period. The adjustment is based on management's estimation using actual costs for the current period and amounted to EUR 544 thousand for 2019 (EUR (2,721) thousand for 2018). In management's opinion the adjusted EBITDA and EBIT more accurately presents results of operations and enables to compare results between the periods as it indicates the amount that was actually earned by the Group in the reporting year by eliminating differences between the permitted return set by the NERC and the actual return as well as eliminating one-off factors that may have both positive and negative impact on the current year results.

Customer and Solutions segment

Adjusted EBITDA and EBIT are calculated by eliminating deviations arising in the regulated activities of gas and electricity supply due to the variance between actual and projected prices for the acquisition prices and other components established in the calculation methodology used by the NERC. These adjustments may have both positive and negative impact on the current year results and allow to reflect the result for the reporting period more accurately and better compare the results between the periods. During 2019 the effect was negative and according to management estimate amounted to EUR 564 thousand. During 2018 the effect was negative and amounted to EUR 47,396 thousand.

Adjusted EBITDA and EBIT results in 2018 were calculated by eliminating deviations arising from the difference between the projected and actual LNG acquisition and realisation prices and quantities, and other variances that occurred during the year between expenses included in the security component calculated by NERC methodology and actually incurred expenses and revenue. In 2018, these variances amounted to EUR 4,496 thousand.

Adjusted EBITDA and EBIT are adjusted for temporary fluctuations in the fair value of derivatives related to other periods (including contracts that are settled in the current period but are related to future periods). The Group uses derivatives for economic hedge of gas and electricity supply contracts, however does not fully apply hedge accounting, therefore the management eliminates them when analysing current period results. During 2019 related eliminations amounted to EUR 16,373 thousand (EUR (14,869) thousand during 2018).

Management's retrospective adjustments, adjusted EBITDA and EBIT for the previous financial period

During 2019 the Group amended financial statements issued for twelve month period ended 31 December 2018, accordingly the management revised management adjustments applied to segments for 2018 as follows:

Segment	2018 (revised)	2018 (reported)	Adjustment
Networks	47,865	79,807	**(31,942)**
Flexible generation	(4,449)	-	**(4,449)**
Green generation	(2,721)	-	**(2,721)**
Customers and Solutions	37,023	(5,805)	**42,828**
Other segments	(4,526)	-	**(4,526)**
Consolidation adjustments	1,408	-	**1,408**
Total	**74,600**	**74,002**	**598**

- Management adjustments applied to Networks segment are revised due to change in accounting treatment applied to new connection revenue recognition (Note 4.27) and recalculation of regulated income from electricity public supply activity transferred to customers and solutions segment;
- Management adjustments applied to Flexible generation and Green generation are revised due to correction of errors (note 4.26);
- Management adjustments applied to Customers and Solutions segment are revised due to recalculation of regulated income from electricity public supply activity transferred from networks segment;
- Management adjustments applied to Other segments segment are revised due to additional adjustment made by the management of eliminating result of disposal of non-current assets.

All amounts are in EUR thousand unless otherwise stated

The table below shows the Group information on segments for the year 2019:

2019	Networks	Flexible generation	Green generation	Customers and Solutions	Other segments		Elimination of inter-company transactions and consolidation eliminations	Management adjusted balances	Management adjustments	Unadjusted balances
					Parent Company	Other segments				
Sales revenue from external customers	459,712	64,575	83,813	519,865	25	10,318	3,869	**1,142,177**	(51,550)	**1,090,627**
Sales revenue from contracts with customers	*454,976*	*63,451*	*83,496*	*526,928*	*2*	*8,654*	*3,869*	***1,141,376***	*(62,029)*	***1,079,347***
Other income	*4,736*	*1,124*	*317*	*(7,063)*	*23*	*1,664*	-	***801***	*10,479*	***11,280***
from which is dividend income	-	-	-	-	-	-	-	**-**	-	**-**
Inter-segment revenue	5,056	689	1,636	9,858	29,201	36,906	(83,346)	**-**	-	**-**
Sales revenue from contracts with customers	*4,696*	*563*	*81*	*9,503*	*3,281*	*16,517*	*(34,641)*	**-**	-	**-**
Other income	*360*	*126*	*1,555*	*355*	*25,920*	*20,389*	*(48,705)*	**-**	-	**-**
from which is dividend income	-	-	*1,870*	*12*	*25,918*	*4*	*(27,804)*	**-**	-	**-**
Total revenue	**464,768**	**65,264**	**85,449**	**529,723**	**29,226**	**47,224**	**(79,477)**	**1,142,177**	**(51,550)**	**1,090,627**
Purchases of electricity, gas for trade, and related services, gas and heavy fuel oil	(183,335)	(28,391)	(27,698)	(500,494)	-	(3,980)	9,242	**(734,656)**	-	**(734,656)**
Wages and salaries and related expenses	(46,000)	(6,305)	(4,391)	(4,925)	(5,582)	(19,783)	-	**(86,986)**	-	**(86,986)**
Repair and maintenance expenses	(21,745)	(4,885)	(2,367)	(3)	-	(834)	36	**(29,798)**	-	**(29,798)**
Other expenses	*(33,200)*	*(3,651)*	*(5,681)*	*(13,632)*	*(1,890)*	*(13,770)*	*40,722*	***(31,102)***	*(1,285)*	**(32,387)**
EBITDA	**180,488**	**22,032**	**43,442**	**10,657**	**(4,164)**	**8,853**	**(1,673)**	**259,635**	**(52,835)**	**206,800**
from which:										
Depreciation and amortization	(81,620)	(11,592)	(12,693)	(6,884)	(273)	(3,408)	6,582	**(109,888)**	-	**(109,888)**
EBIT	**98,868**	**10,440**	**30,749**	**3,773**	**(4,437)**	**5,445**	**4,909**	**149,747**	**(52,835)**	**96,912**
Impairment and write-offs of property, plant and equipment	(8,210)	(275)	-	-	-	(5,163)	(41)	**(13,689)**	-	**(13,689)**
Impairment and write-offs of current and non-current amounts receivables, loans, goods and others	(502)	1,054	3	(3,808)	11,653	56	(9,741)	**(1,285)**	1,285	**-**
Revaluation of emission allowances	-	(431)	-	-	-	-	-	***(431)***	-	**(431)**
Operating profit (loss)	**90,156**	**10,788**	**32,622**	**(23)**	**33,134**	**342**	**(32,677)**	**134,342**	**(51,550)**	**82,792**
Finance income	27	373	589	825	15,502	99	(15,222)	**2,193**	-	**2,193**
Finance costs	(10,265)	(792)	(2,710)	(1,655)	(17,015)	(523)	14,127	***(18,833)***	-	**(18,833)**
Result of associates	292	215	-	-	-	-	(507)	**-**	-	**-**
Profit (loss) before tax	**80,210**	**10,584**	**30,501**	**(853)**	**31,621**	**(82)**	**(34,279)**	**117,702**	**(51,550)**	**66,152**
Income tax expense	(6,866)	42	(4,713)	(238)	(314)	91	267	**(11,731)**	4,554	**(7,177)**
Net profit (loss)	**73,344**	**10,626**	**25,788**	**(1,091)**	**31,307**	**9**	**(34,012)**	**105,971**	**(46,996)**	**58,975**
Property, plant and equipment, intangible and right-of-use assets	1,628,771	392,012	546,704	42,974	2,798	22,885	(84,546)	**2,551,598**	**-**	**2,551,598**
Investment assets	181,371	434	256,519	2,088	36	15,207	-	**455,655**	**-**	**455,655**
Net debt	657,710	(43,151)	278,479	91,188	869,799	27,447	(914,971)	**966,501**	**-**	**966,501**
Adjusted EBITDA	**180,488**	**22,032**	**43,442**	**10,657**	**(4,164)**	**8,853**	**(1,673)**	**259,635**		
Management adjustments (for revenues)	(45,919)	15,124	(544)	(16,937)	-	595	(3,869)	**(51,550)**		
Management adjustments for impairment and write-offs of current and non-current amounts receivables, loans, goods and others	(502)	1,054	3	(3,808)	11,653	56	(9,741)	**(1,285)**		
Total EBITDA adjustments	**(46,421)**	**16,178**	**(541)**	**(20,745)**	**11,653**	**651**	**(13,610)**	**(52,835)**		
EBITDA	**134,067**	**38,210**	**42,901**	**(10,088)**	**7,489**	**9,504**	**(15,283)**	**206,800**		

All amounts are in EUR thousand unless otherwise stated

The table below shows the Group information on segments for the year 2018:

2018	Networks	Flexible generation	Green generation	Customers and Solutions	Other segments		Elimination of inter-company transactions and consolidation eliminations	Management adjusted balances	Management adjustments	Unadjusted balances
					Parent Company	Other segments				
Sales revenue from external customers	429,066	63,585	75,611	562,368	703	11,919	1,408	**1,144,660**	(74,600)	**1,070,060**
Sales revenue from contracts with customers	*429,013*	*58,907*	*75,608*	*533,505*	-	*4,964*	*1,408*	***1,103,405***	*(79,127)*	***1,024,278***
Other income	*53*	*4,678*	*3*	*28,863*	*703*	*6,955*	-	***41,255***	*4,527*	***45,782***
from which is dividend income	-	-	-	-	-	-	-	**-**	-	**-**
Inter-segment revenue	11,073	(648)	946	67,371	70,566	53,087	(202,395)	**-**	-	**-**
Sales revenue from contracts with customers	*3,856*	*(216)*	*946*	*62,207*	*3,188*	*29,830*	*(99,811)*	**-**	-	**-**
Other income	*7,217*	*(432)*	-	*5,164*	*67,378*	*23,257*	*(102,584)*	**-**	-	**-**
from which is dividend income	-	-	-	*20*	*67,378*	*10*	*(67,408)*	**-**	-	**-**
Total revenue	**440,139**	**62,937**	**76,557**	**629,739**	**71,269**	**65,006**	**(200,987)**	**1,144,660**	**(74,600)**	**1,070,060**
Purchases of electricity, gas for trade, and related services, gas and heavy fuel oil	(184,564)	(34,444)	(29,951)	(608,668)	-	(13,715)	76,335	**(795,007)**	-	**(795,007)**
Wages and salaries and related expenses	(41,542)	(6,284)	(3,068)	(3,587)	(5,067)	(22,970)	2,777	**(79,741)**	-	**(79,741)**
Repair and maintenance expenses	(13,810)	(4,954)	(1,631)	-	-	(1,744)	941	**(21,198)**	-	**(21,198)**
Other expenses	(31,378)	(3,935)	(3,843)	(10,794)	(1,357)	(23,263)	47,142	**(27,428)**	(1,408)	**(28,836)**
EBITDA	**168,845**	**13,320**	**38,064**	**6,670**	**(2,533)**	**3,304**	**(6,384)**	**221,286**	**(76,008)**	**145,278**
from which:										
Depreciation and amortisation	(57,352)	(11,656)	(10,810)	(1,122)	(7)	(6,514)	(202)	**(87,663)**	-	**(87,663)**
EBIT	**111,493**	**1,664**	**27,254**	**5,548**	**(2,540)**	**(3,210)**	**(6,586)**	**133,623**	**(76,008)**	**57,615**
Impairment and write-offs of property, plant and equipment	(54,330)	(501)	-	(5)	(11,198)	(2,591)	(18,316)	**(86,941)**	-	**(86,941)**
Impairment and write-offs of current and non-current amounts receivables, loans, goods and others	15	(370)	(15)	(869)	(6,815)	(76)	6,722	**(1,408)**	1,408	**-**
Revaluation of emission allowances	-	8,933	-	-	-	-	-	***8,933***	-	**8,933**
Operating profit (loss)	**57,178**	**9,726**	**27,239**	**4,694**	**46,825**	**(5,867)**	**(85,588)**	**54,207**	**(74,600)**	**(20,393)**
Finance income	89	168	12	380	10,069	42	(9,139)	**1,621**	-	**1,621**
Finance costs	(6,627)	(1,568)	(1,452)	(880)	(12,169)	(999)	8,796	**(14,899)**	-	**(14,899)**
Result of associates	179	123	-	-	-	-	(302)	**-**	-	**-**
Results of the revaluation and closing of derivative financial instruments	-	-	-	-	(572)	(1)	-	***(573)***	-	**(573)**
Profit (loss) before tax	**50,819**	**8,449**	**25,799**	**4,194**	**44,153**	**(6,825)**	**(86,233)**	**40,356**	**(74,600)**	**(34,244)**
Income tax expense	32,303	(10,786)	(3,654)	(3,366)	10,053	(976)	35,038	**58,612**	(46,339)	**12,273**
Net profit (loss)	**83,122**	**(2,337)**	**22,145**	**828**	**54,206**	**(7,801)**	**(51,195)**	**98,968**	**(120,939)**	**(21,971)**
Property, plant and equipment, intangible and right-of-use assets	1,506,852	401,774	320,959	42,651	2,301	22,370	(99,192)	**2,197,715**	**-**	**2,197,715**
Investment assets	271,283	1,459	132,817	312	1,887	21,517	-	**429,275**	**-**	**429,275**
Net debt	625,213	(22,972)	94,770	38,838	776,137	15,385	(791,352)	**736,019**	**-**	**736,019**
Adjusted EBITDA	**168,845**	**13,320**	**38,064**	**6,670**	**(2,533)**	**3,304**	**(6,384)**	**221,286**		
Management adjustments (for revenues)	(47,865)	4,449	2,721	(37,023)	-	4,526	(1,408)	(74,600)		
Management adjustments for impairment and write-offs of current and non-current amounts receivables, loans, goods and others	15	(370)	(15)	(869)	(6,815)	(76)	6,722	(1,408)		
Total EBITDA adjustments	**(47,850)**	**4,079**	**2,706**	**(37,892)**	**(6,815)**	**4,450**	**5,314**	**(76,008)**		
EBITDA	**120,995**	**17,399**	**40,770**	**(31,222)**	**(9,348)**	**7,754**	**(1,070)**	**145,278**		

All amounts are in EUR thousand unless otherwise stated

43 Business combinations

In accordance with Company's Board of Directors and Company's subsidiary Ignitis renewables UAB decisions, Ignitis renewables UAB entered into share purchase agreement for 100% shares and shareholder's claim rights in Pomerania Invall Sp. z o.o. on 27 May 2019. Thereafter, the Company acquired indirect 100% shareholding in Pomerania Invall Sp. z o.o. because Company's subsidiary Ignitis renewables UAB owns 100% of shares in Pomerania Invall Sp. z o.o., and the Company owns 100% of shares in Ignitis renewables UAB. As at 30 September 2019, the ownership property right was fully owned by the Company's subsidiary Ignitis renewables UAB. The total amount of the investment to Pomerania Invall Sp. z o.o. is EUR 20,470 thousand. The investment was fully paid as at 31 December 2019.

The Group applied the purchase method to account for these business combinations according to the provisions of IFRS 3. Under the latter method, the acquisition cost is measured as the sum of the fair values, at the date of exchange, of assets given, liabilities incurred and equity instruments issued in exchange for control of the business being acquired.

During business combination the Group established that the difference between the acquisition cost of the businesses and the fair value of the net assets acquired represents goodwill and/or one and/or several items of assets have probably been acquired.

The Group's management finalized the assessment of the initial accounting for business combinations as at 31 December 2019.

On business combination, assets and liabilities of Pomerania Invall Sp. z o.o. were identified with the following fair values at the date of acquisition:

	Pomerania Invall Sp. z o.o.
Property, plant and equipment	7,314
Amount receivable within one year	92
Cash and cash equivalents	6
Borrowings, non-current liabilities	(7,385)
Current liabilities	(83)
Net assets	**(56)**
Other adjustments	36
Identified other intangible assets (Note 5)	24,390
Deferred corporate income tax liability	(3,900)
Purchase consideration paid	20,470
Net cash outflow on acquisition of subsidiaries:	
Cash paid to sellers of shares	(20,470)
Cash paid for loans of the sellers of shares	(7,209)
Cash and cash equivalents at acquired company	6
Cash paid for expenses related to purchase	(292)
Net cash flow	**(27,965)**

As at 10 October 2018 Competition Council of the Republic of Lithuania issued the permission to execute the concentration by acquiring 100% shares in Vėjo vatas UAB and 100% shares in Vėjo gūsis UAB and taking the control of the mentioned companies in accordance with the application of the concentration. As at 5 November 2018 the Company entered into share purchase agreement for acquisition of 100% of shares in Vėjo vatas UAB and Vėjo gūsis UAB and shareholder claim rights.

Company's investment in Vėjo vatas UAB comprised EUR 6,132 thousand, and investment in Vėjo gūsis UAB comprised EUR 12,919 thousand. Both investments were fully paid as at 31 December 2018.

The Group had 12 month period after purchase of Vėjo vatas UAB, Vėjo gūsis UAB ir VVP Investment UAB for review and recognition the fair value of assets and liabilities. The fair value of assets and liabilities were recognized during the business combination and disclosed below:

	Vėjo vatas UAB	Vėjo gūsis UAB	VVP Investment UAB	Total
Property, plant and equipment	16,488	20,117	7	36,612
Other non-current assets	267	389	2	658
Inventories and prepayments	53	22	48	123
Amounts receivable within one year	259	373	-	632
Cash and cash equivalents	172	357	-	529
Non-current liabilities	(10,130)	(9,258)	(157)	(19,545)
Current liabilities	(2,744)	(589)	(88)	(3,421)
Net assets	**4,365**	**11,411**	**(188)**	**15,588**
Recognised goodwill in Group financial statement	-	-	2,150	2,150
Other adjustments	42	244	-	286
Identified other intangible assets	1,990	1,490	-	3,480
Deferred corporate income tax liability	(265)	(226)	-	(491)
Liabilities for shares purchase	-	-	(725)	(725)
Purchase consideration paid	**6,132**	**12,919**	**1,237**	**20,288**
Net cash outflow on acquisition of subsidiaries:				
Cash paid to sellers of shares	(6,132)	(12,919)	(1,237)	(20,288)
Cash paid for loans of the sellers of shares	(2,547)	-	-	(2,547)
Cash and cash equivalents at acquired company	172	357	-	529
Net cash flow	**(8,507)**	**(12,562)**	**(1,237)**	**(22,306)**

Vėjo vatas UAB, Vėjo gūsis UAB ir VVP Investment UAB net result and income less inter-company transactions with Group companies are accounted in Group's financial statement in year 2019:

	Vėjo vatas UAB	Vėjo gūsis UAB	VVP Investment UAB	Total
Revenue from contracts with customers	1	-	-	1
Net profit (loss)	(2,097)	(2,658)	-	(4,755)

All amounts are in EUR thousand unless otherwise stated

44 Events after the reporting period

Business combination

On 31 December 2019 was completed the reorganisation of the Group companies Verslo aptarnavimo centras UAB and Ignitis grupės paslaugų centras UAB – Verslo aptarnavimo centras UAB was merged with Ignitis grupės paslaugų centras UAB. On 2 January 2020 Verslo aptarnavimo centras UAB was de-registered from the Register of Legal Entities.

Information on the company involved in the reorganization (Ignitis grupės paslaugų centras UAB) and the company being reorganized (Verslo aptarnavimo centras UAB) before and after the reorganisation on 1 January 2020:

	Before reorganisation		After reorganisation
	Ignitis grupės paslaugų centras UAB	Verslo aptarnavimo centras UAB	Ignitis grupės paslaugų centras UAB
Issued capital (EUR)	6,960,000	580,000	7,914,645
Number of shares (units)	24,000,000	2,000,000	27,291,878
Nominal value per share (EUR)	0.29	0.29	0.29

The list of shareholders of Ignitis grupės paslaugų centras UAB on 31 December 2019 and 1 January 2020 is presented below:

Shareholder	31 December 2019			1 January 2020		
	Number of shares	Share capital, Eur	%	Number of shares	Share capital, Eur	%
Ignitis grupė UAB	12,008,705	3,482,525	50.0363	13,772,749	3,994,097	50.4646
Energijos skirstymo operatorius AB	6,442,270	1,868,258	26.8428	7,204,405	2,089,277	26.3976
Ignitis gamyba AB	5,341,548	1,549,049	22.2565	5,855,347	1,698,051	21.4545
Ignitis UAB	202,477	58,718	0.8436	459,377	133,220	1.6832
Verslo aptarnavimo centras UAB	5,000	1,450	0.0208	-	-	-
Total	**24,000,000**	**6,960,000**	**100**	**27,291,878**	**7,914,645**	**100**

This reorganization of associates did not have impact nor on financial position nor operating results of the Group as only the legal composition of shareholders changed. Along with the reorganization, a part of Verslo aptarnavimo centras UAB customer service activities was transferred to Energijos skirstymo operatorius AB and Ignitis UAB.

Initial Public Offering

On 23 March 2020 the Company from the Ministry of Finance of the Republic of Lithuania ("the Ministry of Finance") has received a letter implementing its sole shareholder's requesting the Company to prepare for an Initial Public Offering (IPO) to choose the period of new shares' emission issue based on the capital market situation and to make other related actions and documents. The Company should have to prepare for IPO by September 2020.
The letter was submitted in accordance with decisions that were taken on 18 March 2020 by the Government of the Republic of Lithuania and the Commission for the Coordination of the Protection of National Security Objects to pass a resolution approving the transformation of the Company from a private limited liability company (UAB) into a public limited liability company (AB). For the purpose to implement an IPO by this resolution the Government also agreed that the Company's share capital would be increased by additional contributions through the issuance of new ordinary registered intangible shares. Share should be publicly distributed in such quantity that after the increase of the authorized capital at least 2/3 of the shares and votes in the general meeting of shareholders would belong to Republic of Lithuania.

Events related to litigation and claims

On 18 March 2020 Vilnius City District Court and Vilnius Regional District Court issued resolutions upholding the minority shareholders' statements regarding the waiver of their claims, that challenged the decisions of the Extraordinary General Meeting of Shareholders on the delisting of Energijos skirstymo operatorius AB (ESO) and Ignitis gamyba AB (GEN) (both the subsidiaries of the Company) shares, and closed the civil proceedings. Enactment of this resolution was reached after the 2020 March 17 when a peace agreement was signed between the Company and the Investors' Association representing minority shareholders. By this agreement, the Company has undertaken to: (i) make decisions on proposing to pay dividends for 2019 to ESO and / or GEN shareholders; (ii) each minority shareholder who has sold his shares to the Company will be able to acquire the Company's shares at an amount equal to the number of shares held by the shareholder multiplied by the price publicly offered by the Company plus the amount of dividends paid in year 2020 for the year 2019 in proportion to the number of shares held by the shareholder. In ESO and GEN tender circulars, that on 10 January 2020 were submitted to Bank of Lithuania, however not yet approved, there is specified that the price to be paid for one share of ESO amounts to EUR 0.880, for one share of GEN amounts to EUR 0.640.

COVID 19 pandemic

On 30 January 2020 the World Health Organization has declared a global emergency following the COVID-19 outbreak and on 11 March 2020 confirmed the spread of the disease as a pandemic. An outbreak of COVID-19 was reported in the European Union on 31 January 2020 in Italy. On 26 February 2020 due to the threat of COVID-19 the Government of the Republic of Lithuania (hereinafter "the Government") declared an emergency situation in the country and on 14 March 2020 adopted a resolution No. 207 Regarding the announcement of quarantine in the Republic of Lithuania, on the basis of which quarantine was announced in the entire territory of the country from 16 March 2020 until 27 April 2020 with the possibility of extension. During quarantine, the country has:

- Restricted movement of population across the border and within the country (movement of goods is not restricted)
- Restricted public and private sector activities
- The process of education and childcare and educational activities in all educational institutions are stopped
- The work organization of health care institutions, etc. has been established.

In relation to the emergency situation and quarantine the Parliament of the Republic of Lithuania adopted amendments aimed at preserving jobs and helping the population with special urgency. On 16 March 2020 the Government took the decision (Protocol No.14) and in respect of which concluded a Plan for the economic stimulation and the implementation of measures directed to mitigate the spread of COVID 19 (hereinafter "the Plan"). One of the measures for the implementation of the Plan is to make possible to defer or arrange in portions the payments for the consumed electricity and natural gas to the Group's subsidiary Ignitis UAB. This means that the company UAB Ignitis will directly experience delays in customers' payments for services.

Management of the Group from 16 March 2020 instructed all employees of the Group who have the ability to work remotely not to go to workplaces in offices, hold meetings through the teleconferencing IT programs. The company ensured that all conditions are in place for efficient remote work to employees. Employees do not experience any disruptions in the performance of direct functions. During the quarantine period, the Group strictly adheres to all recommendations issued by the Government regarding the possible threat of COVID 19.

All amounts are in EUR thousand unless otherwise stated

Financial impact

The potential financial impact on the Group's operations due to the situation (both in Lithuania and the world) described above and due to Plan adopted by the Government on the implementation of measures to reduce the consequences of COVID 19 are presented below:

Area affected	Potencial financial impact
Direct impact:	
Cash flows from electricity and gas payments: payment delays, arrangements on longer debt repayment terms	Following the recommendation of the Government of The Republic of Lithuania, we grand special deferrals for payments for electricity and gas distribution and supply. Decisions are made based on the requests of private and business customers for the quarantine period. Customer requests are analyzed case by case, not exceeding the predefined amount.
Indirect impact:	
Increase in the percentage of bad debts	Depending on the duration of the quarantine, the financial impact of the consequences will increase, but given the most likely scenarios for the spread of COVID-19 publicly discussed by experts, this should not jeopardize business continuity. Reasonable or significant assumptions as of the date of issue of the financial statements cannot be reasonably determined.
Cash flow from declining of electricity and gas consumption during the quarantine period and slower recovery of consumption after the period ended	The negative impact of electricity and gas consumption will potentially affect the business segment, however it partially will be offset by increased electricity consumption in the private clients' segment. This should not jeopardize business continuity. Reasonable or significant assumptions as of the date of issue of the financial statements cannot be reasonably determined.
Cash flows related to the risk of delays in the development of large infrastructure projects (construction and development of new power plants)	Depending on the duration of the quarantine, there could be a risk of project delays due to disruptions of supply chain or due to appeared risk of infection of critical personnel with COVID 19. The positive impact on cash flows could be due to subsequent investments, however accordingly the planned income earnings and cash flow from operations related to the ongoing project could be delayed. This should not jeopardize business continuity. Reasonable or significant assumptions as of the date of issue of the financial statements cannot be reasonably determined.

Other resolutions/decisions adopted by the Government regarding the implementation of the Plan did not have a direct impact on the Group's operations. The indirect financial impact cannot be reliably estimated due to the short period that has elapsed between the date of the Plan taken and the date of the issue of these financial statements.

Impact on business continuity

The Management in assessing the risks to the Group's going concern has taken into account the uncertainty caused by the COVID 19 outbreak regarding the potential future impact on the Group's operations. The Group's management has assessed the potential disruption of cash flows, supply of services or goods, attracting the financing sources, potential reductions in electricity and gas consumption due to the economic slowdown, the risk of contingency COVID 19 and delays in ongoing projects using all available information at the time of issuing these financial statements. During assessment the Group did not identify any circumstances that could cast doubt on the going concern of the Group as a whole or individual companies of the Group.
There is the risk and probability for prolongation of the quarantine for more than 3 months due to COVID 19 outbreak in the Republic of Lithuania and the duration of the most severe restrictive measures applied in foreign countries, therefore the results of the Management's assessment of the impact on the Group's financial results for 2020 may change, i.e. deteriorate. It is not possible to reasonably estimate the assumptions of the longer-term adverse effect scenario at the date of issue of the financial statements.

Impact on fair value measurements

At the end of the reporting period, i.e. as at 31 December 2019 fair value was determined based on market data at that date, based on assumptions that are similar to assumptions that market participants would accept under current market conditions in pricing an asset or liability, including risk assumptions. The Group made the assumptions using all available information, including information that could be obtained from due diligence activities that are routine. Unobservable inputs are used to estimate fair values to the extent that appropriate observable data is not available.

The objective of determining fair value is to present the fair value of an asset that reflects conditions at the measurement date, not a future date. Although events occurring after the measurement date may provide information about the assumptions used to determine fair value at the measurement date (particularly those that are not observable), they are adjusted only to the extent that information provides additional evidence about conditions that existed at the measurement date and market participants or the Group were aware of this information. In making fair value measurements, the Group has taken into account what market conditions and relevant assumptions were known or were known at the date of the valuation by market participants, i.e. 31 December 2019. The COVID 19 outbreak and the risks associated with it were not taken into account in determining the fair value as at 31 December 2019 as there was no observable and unobservable data on the conditions related to exposure to the risk of COVID 19. However, as the threat of COVID 19 has undoubtedly increased the risk that the carrying amounts of assets and liabilities will be adjusted in the next financial year, the Group has considered the extent of COVID 19's disruption to its operations and provides additional "disclosures" in the section "Disclosures of Other Circumstances".

Impact on the assessment of expected credit losses

In estimating expected credit losses, management is required to consider reasonable information at the reporting date, i.e. 31 December 2019 the Group estimating the expected credit losses as at 31 December 2019 did not take into account the COVID 19 outbreak and the risks associated with it because COVID 19 was identified in early January of 2020 and a global emergency was announced at 20 January 2020. In estimating expected credit losses at the reporting date, management has reasonably taken into account past events, current conditions and forecast of future economic conditions that were present and known at 31 December 2019. However, as the threat of COVID 19 clearly increased the risk that the carrying amounts of assets and liabilities might need to be adjusted in the next financial year, the Group considered the extent of COVID 19 disruption to its operations and discloses information about those assets with significant valuation uncertainties in the section "Disclosures of Other Circumstances".

Impact on the assessment of impairment of assets and on the assessment of fair value of assets carried at revalued amounts

The Group assessed the impairment of non-financial assets and fair value of assets, carried at revalued amounts taking into account all indications of impairment at the end of the reporting period. Events after the reporting period and information obtained after the reporting period are taken into account in assessing the impairment when they provide additional evidence of those conditions that existed at the end of the reporting period. Similarly, only that information is considered in determining the recoverable amount of an asset if such conditions existed at the end of the reporting period. The Group performed assessment of impairment of its assets as at 31 December 2019 and did not take into account the COVID 19 outbreak and the risks associated with it, as COVID 19 was identified in early January of 2020 and a global emergency was announced at 20 January 2020. In assessing the indications of impairment of assets at the end of the reporting period, management has reasonably taken into account all indications that were present and known as at 31 December 2019.

Disclosures of other circumstances

In the above-described paragraphs "Impact on the determination of fair value", "Impact on the assessment of probable credit losses", "Impact on the assessment of impairment of assets" and "the assessment of fair value of assets carried at revalued amounts", the Group disclosed that the impact of COVID 19 was not included in the determination of estimates as at 31 December 2019, when those assessments were carried out, because there were no observable conditions existing on that date that would indicate exposure to the possible future threat of COVID 19. However, as the threat of COVID 19 has undoubtedly increased the risk that the carrying amounts of assets and liabilities may need to be adjusted in the next financial year, the Group has considered the extent of the disruption caused by COVID 19 and discloses the following information about those assets and liabilities with significant valuation uncertainties:

- Sensitivity of fair value measurement methods after the inclusion of COVID 19 in the list of assumptions: Valuation of Property, plant and equipment recoverable value is sensitive to the assumptions in respect of the future cash flows and the rate used to discount them.
- Impact of COVID 19 on the assessment of expected credit losses: The calculation of impairment of receivables is sensitive to changes in loss ratios.

Other events

On 16 January 2020 the Company paid the remaining amount of EUR 11,313,819 of the unpaid share capital of Vilniaus kogeneracinė jėgainė UAB.

On 23 January 2020 occurred the auction of the real estate of the Company's subsidiary NT Valdos UAB, during which the last three properties were sold for a total of EUR 196 thousand, excluding VAT.

On 28 January 2020 the National Energy Regulatory Council (NERC) has approved the subsidiary Energijos skirstymo operatorius AB 2019 investment projects in the electricity sector submitted for a commonly agreed list of investments, with a total value of up to EUR 91.3 million. In year 2019 most of the investments in the electricity sector were for the renovation and / or modernization of the 35-6 kV power grid and 0.4 kV power grid, communication and control systems, software.

On 6 February 2020 Environmental Project Management Agency of the Ministry of Environment of the Republic of Lithuania extended the term of implementation of Vilnius kogeneracinė jėgainė UAB project until the 20 April 2021. The contract combined with Lietuvos verslo paramos agentūra VšĮ for the implementation of project activities was also extended until the 20 April 2021.

On 19 February 2020 the guarantee agreement of Vilniaus kogeneracinė jėgainė UAB and Swedbank AB was extended until 22 February 2021. The guarantee agreement is intended to ensure the fulfillment of Vilniaus kogeneracinė jėgainė UAB obligations related to Vilniaus šilumos tinklai UAB.

On 10 March 2020 as part of the construction project for the Pomerania wind farm in Poland the Group company Pomerania Wind Farm sp. z o.o. has entered into an agreement with the European Investment Bank (' EIB ') regarding the financing for carrying out the project for an amount of PLN 258 million (about EUR 60 million). The Company and the EIB have entered into a first call guarantee agreement to secure this loan. The Company's subsidiary Ignitis renewables UAB, which controls all of Pomerania Wind Farm sp. z o.o. shares, has signed an agreement with the EIB for pledging 100% shares of Pomerania Wind Farm sp. z o.o. in favor of the lender. Maturity date of the loan contract is 31 December 2035.

On 16 April 2020 the Company and bank Swedbank AB have concluded a contract regarding the overdraft for amount EUR 100 million. Maturity of contract is until 16 October 2020.

On 1 April 2020 the news announced that of the Company and EPSO-G UAB entered negotiation process regarding settlement of the EPSO-G debt for LitGrid AB shares the Company sold in 2012 (Note 10). Beginning of negotiation was supported by The Government of the Republic of Lithuania. An agreement between the Company and EPSO-G UAB on early repayment of the debt and the amount has not been signed as at the date of financial statement issue. Negotiations are still in the process and the amount of a premium to the final price of the contract re LitGrid AB shares' disposal is not yet agreed and known at the date of financial statements' issue.

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22/04/2020

CERTIFICATION STATEMENT

Referring to the provisions of the Article 12 of the Law on Securities of the Republic of Lithuania and the Rules of disclosure of information of the Bank of Lithuania, we, Darius Maikštėnas, Chief Executive Officer of UAB Ignitis grupė and, Darius Kašauskas, Finance and Treasury Director of UAB Ignitis grupė, and Giedruolė Guobienė Head of Accounting department UAB Ignitis grupės paslaugų centras acting under Order No IS-88-20 of 10 April 2020, hereby confirm that, to the best of our knowledge, UAB Ignitis grupė consolidated and Company's financial statements for the financial year 2019 prepared according to International financial reporting Standards adopted by the European Union, give a true and fair view of UAB Ignitis grupė assets, liabilities, financial position, profit or loss for the period and cash flows, the Annual Report for the financial year 2019 includes a fair review of the development and performance of the business as well as the condition of UAB Ignitis grupė together with the description of the principle risks and uncertainties it faces.

UAB Ignitis grupė Chief Executive Officer	Darius Maikštėnas
UAB Ignitis grupė Finance and Treasury Director	Darius Kašauskas
UAB Ignitis grupės paslaugų centras, Head of Accounting department, acting under Order No. IS-88-20 (signed 10 April 2020)	Giedruolė Guobienė

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