LIETUVOS ENERGIJOS TIEKIMAS UAB

THE COMPANY'S ANNUAL FINANCIAL STATEMENTS

2018

FINANCIAL STATEMENTS OF THE COMPANY FOR THE YEAR 2018, PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION, ANNUAL REPORT AND THE INDEPENDENT AUDITOR'S REPORT

Lietuvos energija TIEKIMAS

Lietuvos energija

Group of energy companies

www.le.lt

Translation note:

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

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ANNUAL FINANCIAL STATEMENTS

The financial statements were approved on 25 March 2019 by Lietuvos Energijos Tiekimas UAB Chief Executive Officer, Finance and Operational Support Department Director, and Head of Accounting Centre of Verslo Aptarnavimo Centras UAB (acting under Order No IS18-77 of 13 August 2018):

Mantas Mikalajūnas Chief Executive Officer	**Virgilijus Motiejūnas** Finance and Operational Support Department Director	**Giedruolė Guobienė** Verslo Aptarnavimo Centras UAB, Head of Accounting Centre acting under Order No IS18-77 of 13/08/2018

Independent auditor's report

To the shareholders of Lietuvos energijos tiekimas UAB

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Lietuvos energijos tiekimas UAB ("the Company") as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited
The Company's financial statements comprise:

- the balance sheet as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

Reporting on other information including the annual report

Management is responsible for the other information. The other information comprises the annual report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

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

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

PricewaterhouseCoopers UAB, J. Jasinskio g. 16B, LT-03163 Vilnius, Lithuania
T: +370 (5) 239 2300, F:+370 (5) 239 2301, Email: vilnius@lt.pwc.com, www.pwc.com/lt

annual report includes the disclosures required by the Law of the Republic of Lithuania on Financial Reporting by Undertakings implementing Article 19 of Directive 2013/34/EU.

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

- the information given in the annual report for the financial year ended 31 December 2018, for which the financial statements are prepared, is consistent with the financial statements; and

- the annual report has been prepared in accordance with the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

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

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

Management is responsible for the preparation 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 the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania
25 March 2019

(All amounts in EUR thousands unless otherwise stated)

STATEMENT OF FINANCIAL POSITION

	Note	Company	
		At 31 December 2018	At 31 December 2017
ASSETS			
Non-current assets			
Intangible assets	5	25,487	149
Property, plant, and equipment	6	0	4
Investments in other companies	7	82	82
Deferred income tax assets	24	6,053	1,804
Total non-current assets		**31,622**	**2,039**
Current assets			
Inventories	8	19,835	24,389
Prepayments, deferred expenses and accrued income	9	11,284	29,656
Amounts receivable under contracts with customers	10	57,014	23,597
Loans granted		-	-
Other amounts receivable		198	23
Derivative financial instruments assets		412	228
Prepaid income tax		144	102
Cash and cash equivalents	11	11,438	5,599
Total current assets		**100,325**	**83,594**
TOTAL ASSETS		**131,947**	**85,633**
EQUITY AND LIABILITIES			
Equity			
Authorised share capital	12	8,370	8,370
Legal reserve	13	468	87
Retained earnings (deficit)		2,679	12,803
Total equity		**11,517**	**21,260**
Liabilities			
Non-current liabilities			
Employee benefits		4	4
Total non-current liabilities		**4**	**4**
Current liabilities			
Current borrowings	14	22,451	31,338
Income tax payable		31	78
Trade payables	15	75,301	21,376
Employment-related liabilities		355	221
Advance amounts received, accrued charges and deferred income	16	19,375	7,579
Provisions		-	-
Other current amounts payable and liabilities	17	2,913	3,777
Total current liabilities		**120,426**	**64,368**
Total liabilities		**120,430**	**64,372**
TOTAL EQUITY AND LIABILITIES		**131,947**	**85,633**

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

(All amounts in EUR thousands unless otherwise stated)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Company	
		2018	2017
Revenue from contracts with customers	18	311,656	239,924
Cost of sales	19	(315,055)	(230,911)
Gross profit (loss)		**(3,399)**	**9,013**
Operating expenses	20	(6,740)	(4,423)
Operating profit (loss)		**(10,139)**	**4,590**
Finance income	21	217	188
Finance costs	22	(143)	(98)
Profit (loss) before income tax		**(10,065)**	**4,680**
Income tax benefit (expenses)	23	5,011	2,938
Net profit/(loss) for the period		**(5,054)**	**7,618**
Other comprehensive income (expenses)		**-**	**-**
Total comprehensive income (loss) for the period		**(5,054)**	**7,618**

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

(All amounts in EUR thousands unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY

Company	Note	Share capital	Legal reserve	Retained earnings (deficit)	Total
Balance at 1 January 2017		**8,370**	**87**	**5,185**	**13,642**
Net profit (loss) for the reporting period		-	-	7,618	7,618
Balance at 31 December 2017		**8,370**	**87**	**12,803**	**21,260**
Effect of change in accounting policies (first-time adoption of new IFRS)		-	-	(117)	(117)
Balance at 1 January 2018		**8,370**	**87**	**12,686**	**21,143**
Transfer to reserves and changes in reserves		-	381	(381)	-
Total transactions with owners					
Net profit (loss) for the reporting period		-	-	(5,054)	(5,054)
Dividends		-	-	(4,572)	(4,572)
Balance at 31 December 2018		**8,370**	**468**	**2,679**	**11,517**

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

(All amounts in EUR thousands unless otherwise stated)

STATEMENT OF CASH FLOWS

	Note	Company	
		At 31 December 2018	At 31 December 2017
Cash flows from operating activities			
Net profit (loss) for the period		(5,054)	7,618
Adjustments for non-cash items:			
Depreciation and amortisation expenses	5,6	91	63
Increase (decrease) in provisions for bad debts	10	146	(7)
Revaluation of derivatives		(185)	-
(Increase) decrease in deferred income tax		(5,038)	(3,016)
Income tax expenses		27	78
Increase (decrease) in employee benefit accruals (accrual for pensions and vacation reserve)		-	(30)
Increase (decrease) in provisions		-	(10,292)
Gains/(loss) on disposal/write-off of non-current assets		-	-
Elimination of financing activities		(74)	(90)
Changes in working capital:			
(Increase) decrease in trade receivables		(21,182)	(4,149)
(Increase) decrease in inventories and other current assets		4,555	(18,290)
(Increase) decrease in other amounts receivable		-	(315)
(Increase) decrease in prepayments and accrued income		18,372	(27,615)
Increase (decrease) in trade payables		24,985	174
Increase (decrease) in advance amounts received		3,920	(551)
Increase (decrease) in other payables		(755)	2,445
Income tax paid		(88)	34
Net cash generated from (used in) operating activities		**19,720**	**(53,943)**
Cash flows from investing activities			
(Purchase) of property, plant and equipment and intangible assets		(320)	(85)
Disposal of property, plant and equipment and intangible assets		-	-
Interest and interest on late payment received		206	118
Dividends received		11	6
Loans (granted)		(176)	-
Loan repayments received		-	8,161
Net cash generated from (used in) investing activities		**(279)**	**8,200**
Cash flows from financing activities			
Loans received		-	31,338
Repayments of borrowings		(8,887)	-
Contribution to share capital		-	-
Interest and commissions paid		(143)	87
Dividends paid		(4,572)	-
Net cash generated from (used in) financing activities		**(13,602)**	**31,425**
Increase (decrease) in cash and cash equivalents (including overdraft)		**5,839**	**(14,318)**
Cash and cash equivalents (including overdraft) at the beginning of the period		**5,599**	**19,916**
Cash and cash equivalents (including overdraft) at the end of period		**11,438**	**5,599**

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

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Lietuvos Energijos Tiekimas UAB ("the Company") is a private limited liability company registered in the Republic of Lithuania on 2 September 2014. The address of its registered office and head office is Žvejų g. 14, LT-09310, Vilnius.

The Company's core line of business is the supply, purchase (import), planning and sale of natural gas to consumers. The Company started the activity of public electricity supply with effect from 1 October 2018. The Company supplies natural gas to the energy, industrial, small commercial sector companies and household customers. The Company has more than 594 thousand customers. The company supplies electricity to more than 1.64 million private customers.

The Company commenced the natural gas supply activity on 1 November 2014. Lietuvos Dujų Tiekimas UAB was established to implement the requirements of the legal acts of the Republic of Lithuania aimed at the legal, functional and organisational separation of the natural gas supply and distribution activities. The separation of the distribution activity was effected through the sale of the natural gas supply activity with the assets, rights and obligations attributable to it by Lietuvos Dujos AB to newly established company Lietuvos Dujų Tiekimas UAB according to the agreement on the purchase-sale of a part of business dated 15 October 2014.

As of 1 October 2018, the name of Lietuvos Dujų Tiekimas UAB was changed to Lietuvos Energijos Tiekimas UAB.

As at 31 December 2018, the main shareholders of the Company were as follows:

	At 31 December 2018		At 31 December 2017	
	Share capital, (EUR '000)	%	Share capital, (EUR '000)	%
Lietuvos Energija UAB	8,370	100	8,370	100

In 2018 and 2017, the Company's ultimate controlling party was the Government of the Republic of Lithuania represented by the Lithuanian Ministry of Finance.

As of 1 October 2018, Energijos Skirstymo Operatorius AB transferred to the Company a part of public electricity supply activities, which comprise the provision of public supply services. The business combination is described in greater detail in Note 27.

All shares of the Company with the nominal value of EUR 0.29 each are ordinary shares and they have been fully paid as at 31 December 2018.

As at 31 December 2018, the Company had no subsidiaries or branches. As at 31 December 2018, the Company had a 0.91% ownership interest in Technologijų ir Inovacijų Centras UAB and a 3.75% ownership interest in Verslo Aptarnavimo Centras UAB. As at 31 December 2018, the amount of the above-mentioned investments was equal to EUR 82 thousand. The Company accounted for these investments as investments in other companies.

As at 31 December 2018, the Company had the natural gas supply permission issued by the National Commission for Energy Control and Prices (hereinafter "the Commission") on 13 October 2014.
As at 31 December 2018, the Company held the licence for public electricity supply operations, granted by the Commission on 3 July 2018.

As at 31 December 2018, the Company had 38 (insured) employees (31 December 2017: 32).

These financial statements were approved by the Company's management on 25 March 2019.

2 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out 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 and the Lithuanian regulatory legislation on accounting and financial reporting.

The financial statements have been prepared on a historical cost basis.

These financial statements are presented in the national currency the euro (EUR), which is the Company's functional and presentation currency.

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

The following IFRSs and amendments thereto were adopted by the Company for the first time for the financial year ended 31 December 2018:

(All amounts in EUR thousands unless otherwise stated)

IFRS 15, Revenue from Contracts with Customers and *Amendments to IFRS 15, Revenue from Contracts with Customers* (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the commitment to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.
The Company's management assessed the impact of the adoption of IFRS 15, *Revenue from Contracts with Customers* and amendments thereto on the Company's financial statements and established that the new standard and amendments thereto have no impact on the timing and scope of revenue recognition by the Company. Revenue from contracts with customers is recognised upon fulfilment of performance obligations. The Company's performance obligations are fulfilled at a certain time, i.e. when the customer acquired the control of the asset promised and the Company has fulfilled its performance obligations. The adoption of IFRS 15 has no impact on the moment of revenue recognition and the volumes existing until the enactment of the standard.

IFRS 9, Financial Instruments (effective for annual periods beginning on or after 1 January 2018). The main features of the new standard are as follows:

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Company accounted for the impact of the first-time adoption of IFRS 9 starting from 1 January 2018 using the modified retrospective approach. The Company applied *IFRS 9, Financial Instruments* for the first time during the financial year ended 31 December 2018 and the standard did not have any significant impact on the Company's financial statements. The Company assessed the effect of the adoption of the standard, which was equal to EUR 117 thousand and was presented in retained earnings (loss) in the financial statements for 2018. During the reporting year, trade receivables were assessed on a collective basis. The adoption of IFRS 9 has no significant impact on the method of assessment of the balances of trade receivables existing until the enactment of the standard.

The table below presents the old measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 January 2018:

Financial assets	**Classification under IAS 39**	**New classification under IFRS 9**
Trade receivables Other amounts receivable Cash and cash equivalents*	Loans and amounts receivable	Amortised cost
Other financial assets	Financial assets at fair value through profit or loss	Measured at fair value through profit or loss

Financial liabilities	**Classification under IAS 39**	**New classification under IFRS 9**
Trade payables Borrowings Finance lease liabilities Other amounts payable	Other financial liabilities	Financial liabilities measured at amortised cost
Derivative financial instruments	Financial liabilities at fair value through profit or loss	Measured at fair value through profit or loss

Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2; on 26 February 2018, the European Commission approved the application of the amendment in the European Union for annual periods beginning on or after 1 January 2018). The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety. Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows: (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. The Company did not conduct any share-based payment transactions during 2018. According to the Company's management, the first-time adoption of the amendment did not have any significant impact on the Company's financial statements.

Annual Improvements to IFRSs 2014–2016 Cycle (effective for annual periods beginning on or after 1 January 2017 (changes to IFRS 12) or on or after 1 January 2018 (changes to IFRS 1 and IAS 28)). On 7 February 2018, the European Commission, ensuring compliance with other accounting standards, approved the application of the improvements in the European Union retrospectively). The improvements impact three standards. The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. IFRS 1 was amended to delete some of the short-term exemptions from IFRSs after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that venture capital organisations or similar entities have an investment-by- investment choice for measuring investees at fair value. Additionally, the amendment clarifies that if an investor that is not an investment entity has an associate or joint venture that is an investment entity, the investor can choose on an investment-by-investment basis to retain or reverse the fair value measurements used by that investment entity associate or joint venture when applying the equity method. According to the Company's management, the first-time adoption of the improvements did not have any significant impact on the Company's financial statements.

Transfers of Investment Property – Amendments to IAS 40 (effective for annual periods beginning on or after 1 January 2018; on 14 March 2018, the European Commission approved the application of the amendment in the European Union for annual periods beginning on or after 1 January 2018). The amendment clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence; a change in intention, in isolation, is not enough to support a transfer. According to the Company's management, the first-time adoption of the amendment did not have any significant impact on the Company's financial statements.

IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018; on 28 March 2018, the European Commission approved the application of the interpretation in the European Union for annual periods beginning on or after 1 January 2018). The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The interpretation clarifies that the date of transaction, i.e the date when the exchange rate is determined, is the date on which the entity initially recognises the non-monetary asset or liability from advance consideration. However, the entity needs to apply judgement in determining whether the prepayment is monetary or non-monetary asset or liability based on guidance in IAS 21, IAS 32 and the Conceptual Framework. The Company does not conduct settlements in foreign currencies, therefore the amendment to the interpretation has no impact on the Company's financial statements. According to the Company's management, the first-time adoption of the interpretation did not have any significant impact on the Company's financial statements.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply the temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply overlay approach). The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches. (1) The amended standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued ('overlay approach'). In addition, the amended standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39. The amendments to IFRS 4 supplement existing options in the standard that can already be used to address the temporary volatility. This standard will have no impact on the Company's financial position or results of operations as insurance services are not provided.

Other standards, amendments and interpretations that became effective for the financial year beginning on 1 January 2018 are not relevant to the Company.

b) New standards, amendments and interpretations that are not yet effective

Other new standards, amendments and interpretations that are mandatory for annual periods beginning on 1 January 2019 or later and that have not been adopted when preparing these financial statements:

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (effective date to be determined by the IASB; not yet adopted by the EU). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary and the shares of the subsidiary are transferred during the transaction. The Company is currently assessing the impact of these amendments on its financial statements.

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019). 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 will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months,

(All amounts in EUR thousands unless otherwise stated)

unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. 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.
The Company plans to adopt IFRS 16 *Leases* starting from 1 January 2019. The value of assets being transferred under the lease agreement and related lease liabilities will be stated in the Company's statement of financial position. The effect of the first-time adoption of the standard will be presented using the modified retrospective approach which required adjustment to the balance of retained earnings in the statement of financial position.

The impact of the first-time adoption of TFAS 16 on the items of the statement of financial position

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

	Note	At 31 December 2018	IFRS 16	At 1 January 2019
ASSETS				
Non-current assets				
Non-current assets managed on the basis of lease		-	290	290
EQUITY AND LIABILITIES				
Non-current liabilities				
Non-current financial liabilities		-	220	220
Current liabilities				
Current financial liabilities		-	70	70

IFRS 17, Insurance Contracts (effective for annual periods beginning on or after 1 January 2021; not yet adopted by the EU). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare the financial performance of similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. This standard will have no impact on the Company's financial position or results of operations as insurance services are not provided.

IFRIC 23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019; on 23 October 2018, the European Commission approved the application of the interpretation in the European Union for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the Interpretation. The Company is currently assessing the impact of the amendment to the interpretation on its financial statements.

Prepayment Features with Negative Compensation – Amendments to IFRS 9 (effective for annual periods beginning on or after 1 January 2019; on 22 March 2018, the European Commission approved the application of the amendment in the European Union for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Company is currently assessing the impact of the amendment to the standard on its financial statements.

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in the investee. The Company is currently assessing the impact of the amendment to the standard on its financial statements.

Annual Improvements to the IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 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. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Company is currently assessing the impact of these amendments on its financial statements.

Conceptual Framework for Financial Reporting (published on 29 March 2018; effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). The Framework sets out the fundamental concepts for the preparation of financial statements that guide the publisher of the standards in developing the International Financial Reporting Standards. The Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction and helps stakeholders to understand and interpret the Standards. The revised Framework establishes the definitions of assets and liabilities as well as criteria for recognising assets and liabilities in financial statements. The Framework sets out the following improvements:
a) Measurement. Revisions have been made to the concepts on the measurement of the elements constituting financial statements, including factors to be considered when selecting a measurement basis;
b) Presentation and disclosure. Revisions have been made to the concepts on presentation and disclosure, including when to classify income and expenses in comprehensive income;
c) Derecognition. Revisions have been made to the guidance on when assets and liabilities are to be removed from financial statements.

The revised Framework provides additional explanations related to the principles of prudence and substance over form, measurement uncertainty, and management's stewardship of the entity's economic resources.

The Company is currently assessing the impact of the new standards on its financial statements.

2.2 Foreign currency

Foreign currency transactions are accounted for using the official exchange rates prevailing at the dates of the transactions. Gains and losses resulting from such transactions and from the translation of balances of assets and liabilities denominated in foreign currencies at the balance sheet date are recognised in the statement of comprehensive income. Such balances are translated using the exchange rate prevailing at the end of the reporting period.

2.3 Intangible assets

Intangible assets are stated at acquisition (production) cost less accumulated amortisation and impairment losses, if any. Amortisation is calculated on a straight-line basis over the useful lives established for intangible assets.

The following useful lives are applied to different categories of property, plant and equipment:

Category of intangible assets	Average useful life (in years)
Licences	4
Computer software	4

2.4 Property, plant and equipment

Property, plant and equipment are such items of assets, which are under the Company's ownership and control; which are reasonably expected to bring economic benefits in future periods; which are going to be used longer than one year; the acquisition cost of which can be reliably measured.

Property, plant and equipment is stated at acquisition (production) cost less accumulated depreciation and impairment losses, if any. Depreciation of property, plant and equipment is calculated on a straight-line basis over the entire useful life established for property, plant and equipment.

The following useful lives are applied to different categories of property, plant and equipment:

Category of property, plant and equipment	Average useful life (in years)
Computer hardware	4
Other PP&E	4–6

Gains and losses on disposals of property, plant and equipment are included in profit or loss of the year in which the assets were disposed.

2.5 Financial assets

Following the adoption of **IFRS 9**, ***Financial Instruments***, the Company classifies its financial assets into the following 3 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 through profit or loss.

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

The business model for managing financial assets is a matter of fact and not merely an assertion. It is typically observable through the activities that the Company undertakes to achieve the objective of the business model. In determining the business model applicable for managing financial assets, the Company justifies its decision not by a single factor or activity, but in view of all relevant evidence that is available at the date of the assessment.

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

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

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

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

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

Financial assets measured at amortised cost

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

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

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

Financial assets at fair value through profit or loss

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

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

Effective interest method

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

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

Derecognition of financial assets

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

- if the Company has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

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

2.6 Derivative financial instruments

Derivative financial instruments are classified as instruments held for trading. On initial recognition and subsequently they are stated at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivative financial instruments are classified as assets when their fair value is positive, and they are classified as liabilities when their fair value is negative. The Company has an approved hedging policy as regards derivative financial instruments. If fair value hedge is effective, any gain or loss of the effective hedging instrument is accounted for in the Company's statement of comprehensive income. Any gain or loss of the ineffective part (over 100%) arising from the use of the effective hedging instrument shall be recognised within the Company’s finance income and costs. If the hedge accounting is discontinued, the accumulated gain or loss previously reported in revaluation reserve (equity) for the period when such hedging was effective remains as a separate component in the revaluation reserve (equity) throughout the performance of the transaction.

2.7 Impairment of assets

<u>Impairment of financial assets – expected credit losses</u>

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

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

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

The Company seeks for lifetime expected credit losses to be recognised before a financial instrument becomes past due. Typically, credit risk increases significantly before a financial instrument becomes past due or other lagging borrower-specific factors (for example, a modification or restructuring) are observed. Consequently when reasonable and supportable information that is more forward-looking than past due information is available without undue cost or effort, it must be used to assess changes in credit risk.
Expected credit losses are recognised by taking into consideration individually or collectively assessed credit risk of loans granted and trade receivables. Credit risk is assessed based on all reasonable and verifiable information including future oriented information.

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

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

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

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;
c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties;

f) financial assets are purchased or granted at a deep discount that reflects the incurred credit losses.

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

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

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

Other assets
Other assets are assessed for impairment when events and circumstances indicate that the value of assets may not be recoverable. Where the carrying amount of an asset exceeds its recoverable amount, impairment loss is accounted for in profit or loss in the statement of comprehensive income. The previously recognised impairment loss is reversed when there are indications that recognised loss on impairment of an asset no longer exists or has reduced significantly. Reversal is accounted for in the statement of comprehensive income under the same line item as impairment loss.

2.8 Inventories

The Company's inventories, which include natural gas in the storage facility remaining at the year-end, and other inventories are stated at the lower of cost and net realisable value. The cost of the remaining amount of natural gas is established using the weighted average.

2.9 Cash and cash equivalents

Cash comprises cash held in the Company's bank accounts. Cash equivalents represent short-term investments (with original maturities of three months or less) that are easily convertible into known cash amounts, the price risk of which is insignificant. For the purpose of the statement of cash flows, cash and cash equivalents comprise deposits in current bank accounts and other highly liquid short-term investments.

2.10 Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss and other financial liabilities.

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

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Interest expenses are recognised using the effective interest method.

Effective interest rate method is used to calculate amortised cost of financial liabilities and allocate interest expenses over a relevant period. The effective interest rate exactly discounts estimated future cash flows through the expected life of the financial liability or though the relevant shorter period.

2.11 Employee benefits

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

Long-term employee benefits
Under the laws of the Republic of Lithuania, each employee of retirement age who terminates his/her employment with the Company is entitled to receive a one-off payment. Employee benefits are recognised in the statement of financial position and they reflect the present value of future benefits at the date of the statement of financial position. The aforementioned non-current liability for pension benefits to employees at the date of the statement of financial position is estimated with reference to actuary 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.

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 recognises 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 Company's other comprehensive income in the statement of comprehensive income. All past service costs are recognised immediately.

Other employee benefits
The Company's employees receive long-service benefits. Long-term employee benefit obligation is recognised in the statement of financial position and reflects the present value of defined benefit obligation at the date of the statement of financial position. The present value of defined benefit obligation is determined by discounting the estimated future cash flows using the 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. Actuarial gains or losses are recognised immediately in profit or loss.

2.12 Provisions

Provisions are recognised when: the Company has a present legal or constructive obligation 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. Provisions are reviewed at each reporting date and adjusted to reflect the most accurate recent assessments. When the impact of time value of money is significant, the amount of provision represents the present value of costs expected to be incurred for the settlement of the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as interest expense.

Provisions for onerous contracts
Provisions for onerous contracts are recognised when expenses incurred in implementing obligations assumed under the agreement signed exceed the economic benefit to be received under the agreement. The difference between the contract value and its selling cost at the date of the statement of financial position is included in the cost of goods sold in the statement of comprehensive income.

2.13 Income tax

Income tax charge is based on profit for the year and considers deferred taxation. Tax rates and tax laws used to compute income tax expense are those applicable as of the date of the statement of financial position.

In 2018, an income tax at a rate of 15 per cent was applicable in Lithuania (2017: 15 per cent).

Current year income tax
The current income tax charge is calculated on the basis of taxable profit for the year. Taxable profit differs from profit recorded in the statement of comprehensive income since it does not encompass items of revenue or expenses that are subject to tax or deductible for income tax purposes in the next year and also does not encompass items that are never subject to tax or never deductible for income tax purposes. A tax rate used to compute income tax is that applicable at the beginning of the financial year.

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. 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.

The carrying forward of tax losses is discontinued if the Company ceases the activities that gave rise to these losses, except when the Company ceases the activities for reasons that are beyond its control.

Tax losses can be carried forward between the group companies that meet the requirements laid down in the Lithuanian Law on Corporate Income Tax. With effect from 1 January 2014, tax losses available for carry forward can be used to reduce taxable income of the current tax year by maximum 70%.

Deferred income tax
Deferred income tax is recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax liabilities are recognised for all temporary differences, whereas deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax 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.

The Company reviews the carrying amount of a deferred tax asset at each reporting date and reduces it to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available in future.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred income tax liabilities and deferred income tax assets reflects the tax consequences that follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset the current year income tax assets against liabilities and when they are related to income taxes levied by the same taxation authorities, and when the Company intends to settle current year income tax assets and the current year income tax liabilities on a net basis

Current and deferred income tax for the period
Current and deferred income tax is charged or credited to profit or loss, except to the extent it relates to items recognised not in profit or loss (in other comprehensive income or directly in equity). In this case income tax is also recognised in other comprehensive income or directly in equity.

2.14 Revenue recognition

The Company recognises revenue at the time and to the extent that the transfer of goods or services to customers would show the amount which would correspond to a consideration, the right to which is expected to be obtained by the Company in exchange for those goods or services. When recognising revenue 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.

a) 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). Revenue from supply of natural gas to household customers is recognised on a monthly basis referring to the readings of measuring devices provided by them and adjustments to estimated mismatches between quantities of gas declared by household customers and quantities of gas used by them (an accrual basis).

b) Revenue from natural 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 Company 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 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 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.

c) Revenue from supply of electricity

Revenue from supply of electricity to household customers is recognised in each reporting period according to presented VAT invoices, in which the volume of electricity consumed is calculated. The volume of electricity consumed is calculated on the basis of declared or actual readings.

2.15 Expense recognition

Expenses are recognised on an accrual basis and matching principle during the reporting period when expenses are incurred, regardless of the timing of the cash payments. The Company recognises the expenses related to the storage of gas held for trading as the cost in the statement of comprehensive income. The gas storage facility is deemed a significant and essential technological solution for ensuring the continuity of natural gas supply activities.

The transaction of the balancing of liquefied natural gas at the Klaipėda LNG Terminal provides two parts: the transmission/acceptance of liquefied natural gas at the fixed value of liquefied natural gas as established in the agreement and the balancing service, which comprises the supplied/accepted quantity of liquefied natural gas at the fee established in the agreement.
The transmission of liquefied natural gas is not regarded as purchase of liquefied natural gas, since the agreement provides a mandatory return of the liquefied natural gas and this transaction, in essence, is a service (a balancing fee is paid) and it is not exposed to price risk. The transaction also includes non-monetary exchanges, which include the transmission of liquefied natural gas with the obligation of returning the same quantity of gas at the same value, and monetary exchanges, which include the balancing service fee. In its entirety, the transaction is regarded as non-monetary exchange transaction, since the part of monetary exchanges is not significant.
The value of the transmitted/accepted liquefied natural gas is accounted for as current assets under the line item ‘Other amounts receivable’ and liabilities under the line item ‘Trade payables’ in the statement of financial position during the period when the liquefied natural gas is actually accepted/transmitted.
In circumstances where the quantity of liquefied natural gas actually bought is lower than the quantity of liquefied natural gas actually sold/consumed at a particular reporting date, a liability for accrued future expenses is accounted for in the statement of financial position and the acquisition cost of liquefied natural gas is recorded in the statement of comprehensive income.
The service of the quantity of liquefied natural gas supplied/accepted, i.e. the balancing service, is recognised at cost in the statement of comprehensive income each month with reference to the data on the quantity of liquefied natural gas accepted/supplied each month submitted on a monthly basis.

2.16 Leases

Lease is recognised as finance lease when substantially all risks and rewards incidental to ownership of the leased item are transferred under the lease terms and conditions. All other leases are classified as operating lease.

<u>Operating lease</u>
Operating lease payments are recognised as expenses on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the earnings process contained in the lease. Contingent operating lease payments are recognised as expenses as incurred.

If lease incentives are received for the conclusion of operating lease agreements, such incentives are recognised as a liability. Lease expenses are reduced by the amount of accumulated incentives on a straight-line basis, unless another systematic basis is more representative of the time pattern of the earnings process contained in the lease.

2.17 Offsetting

For the purpose of the financial statements, assets and liabilities, income and expenses are not offset, unless such offsetting is required by IFRS.

2.18 Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed in the financial statements, save for the cases when probability of resources generating economic benefits will be lost is very low.

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

2.19 Related parties

Related parties are defined as shareholders, Board members, their close family members, state-owned enterprises (for disclosure purposes only those companies under the control of the Lithuanian Ministry of Finance with whom significant transactions were conducted or with significant outstanding balances) and companies that directly or indirectly (through the intermediary) control the Company or are controlled by, or are under common control with the Company, provided such relationship empowers one of the parties to exercise control or significant influence over the other party in making financial and operating decisions.

2.20 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.

2.21 Events after the end of the reporting period

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

3 Financial assets and financial liabilities and risk management

As at 31 December 2018, the Company's financial assets comprised trade and other receivables, cash and cash equivalents and financial liabilities included trade payables for acquired natural gas and services related to the natural gas supply and for other goods and services, and other current amounts payable and liabilities.

Credit risk

Amounts receivable from the Company's largest debtor represent 4% (31 December 2017: 4%) of the Company's total trade receivables. Five major debtors of the Company represent 12% (31 December 2017: 14%) of the Company's total trade receivables. The largest customers of the Company are large regulated energy producers or large industrial companies. The Company's debtors are powerful and stable companies.

The Company manages credit risk by ensuring that natural gas is sold only to corporate customers with positive credit history, not in excess of the established limits on the amount of credit exposure. The amount of trade receivables is monitored, changes in this amount are analysed and the established debt limits are reviewed on a regular basis. Analysis of ageing of trade receivables is provided in Note 10.

The Company diversifies its free monetary funds in banks, transacts only with those financial institutions which or whose controlling banks have been assigned 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).

Following the prudence criterion, the Company aims that not more than one-third of available monetary funds are held in the accounts of one financial institution for the period longer than 90 days. In a short period, not longer than 90 calendar days, due to objective reasons the Company may deviate from the latter limit, yet it aims that in any period not more than a half of available monetary funds are held in the accounts of one financial institution.

Interest rate risk

Interest rate risk is mainly related to non-current borrowings that might be necessary to balance out free liquid funds, as well as to issuance of guarantees that are necessary to secure the fulfilment of trade liabilities. As at 31 December 2018, the Company paid due interest for the part of the credit line of OP Corporate Bank plc which was used to secure the issuing of guarantees and for the limit of the credit which was used to balance the working capital under the group account (cashpool).

(All amounts in EUR thousands unless otherwise stated)

Liquidity risk
The Company's policy is to maintain sufficient cash and cash equivalents or have available funding of committed credit facilities to meet its commitments at a given date. The Company's liquidity (total current assets / total amounts payable within one year and current liabilities) and quick ratios ((total current assets – inventories) / total amounts payable within one year and current liabilities) as at 31 December 2018 were 0.83 and 0.67, respectively (31 December 2017: 1.31 and 0.92, respectively).

The table below analyses the Company's financial liabilities into relevant maturity groupings based on undiscounted contractual payments.

	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	After 5 years	Total
Trade payables and other current amounts payable	75,301	-	-	-	75,301
Borrowings	22,451	-	-	-	22,451
Balance at 31 December 2018	**97,752**	**-**	**-**	**-**	**97,752**

	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	After 5 years	Total
Trade payables and other current amounts payable	21,376	-	-	-	21,376
Borrowings	31,338	-	-	-	31,338
Balance at 31 December 2017	**52,714**	**-**	**-**	**-**	**52,714**

Foreign exchange risk

To avoid foreign exchange risk, the Company seeks to conclude the natural gas purchase and supply agreements in the same currency. Where natural gas is acquired in a foreign currency, the Company manages foreign exchange risk by concluding transactions involving derivative financial instruments.

Financial assets and financial liabilities are denominated in EUR.

Risk of fluctuations in purchase prices of natural gas and electricity
The purchase prices of natural gas and electricity depend on the prices of these resources in the global market. In the opinion of the Company's management, this risk is effectively managed in the following manner: the price of natural gas to non-household consumers is established on the basis of the same values of variable components, whereas the price to household consumers is established by including the developments in the prices of electricity and gas into the mechanism for the establishment of regulated prices. A fixed gas price was established for a small portion of non-household customers. In this case, natural gas price risk is managed through derivative financial instruments.

Fair value of financial assets and financial liabilities
The Company's financial assets comprise trade receivables, other amounts receivable and cash and cash equivalents whose carrying amount approximates their fair (market) value. The Company's financial liabilities comprise trade payables to be settled over the term of 7–30 days. The carrying amount of the Company's financial liabilities approximates their fair value.

Capital management
For capital management purposes the Company's capital consists of share capital, legal reserve and retained earnings. The primary objective of the Company's capital management is to ensure that the Company complies with externally imposed capital requirements, requiring to keep respective capital ratios in order to preserve its business and maximise return to the shareholders.

The Company manages the capital structure and make adjustments to it in the light of changes in economic conditions and the operating risks. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, repay capital to shareholders or issue new shares.

The Company is obliged to keep its shareholders' equity ratio not less than 50% of its authorised share capital, as imposed by the Law on Companies of Republic of Lithuania. As at 31 December 2018, the Company complied with this requirement.

4 Critical accounting estimates and judgements

The preparation of financial information in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and costs and contingencies. Future events may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements when determinable.

Deferred income tax assets
Deferred income tax assets are recognised for all unused tax losses in the balance sheet when it is probable that future taxable profit will be available against which the temporary differences can be utilised. Significant management judgement is required to determine

the amount of deferred income tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. In 2018, the Company for a certain consideration transferred EUR 5.9 million to a related company for tax losses for 2017.

Impairment of amounts receivable
Impairment loss of amounts receivable was determined based on the management's estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. Judgement is exercised based on financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments.

Trade receivables by overdue periods	Company				
	Total trade receivables by ageing	Total irrecoverability rate	Impairment	Effect of change in irrecoverability rate (+10 p.p.) on impairment	Effect of change in irrecoverability rate (-10 p.p.) on impairment
Not past due	50,534	0.3%	131	5,053	-
Past due up to 1 month	3,906	2.9%	115	391	-
Past due from 1 to 2 months	1,149	11.1%	128	115	(115)
Past due from 2 to 3 months	260	14.60%	38	26	(26)
Past due from 3 to 4 months	171	20.5%	35	17	(17)
Past due from 4 to 5 months	106	25.5%	27	11	(11)
Past due from 5 to 6 months	137	29.9%	41	14	(14)
Past due from 6 to 7 months	247	53.0%	131	25	(25)
Past due from 7 to 8 months	190	58.4%	111	19	(19)
Past due from 8 to 9 months	107	47.7%	51	11	(11)
Past due from 9 to 10 months	86	48.81%	42	9	(9)
Past due from 10 to 11 months	41	63.4%	26	4	(4)
Past due from 11 to 12 months	67	56.7%	38	7	(7)
Past due over 1 year	4,966	81.4%	4,040	497	(497)
Total	**61,967**		**4,953**	**6,199**	**(753)**

Revenue from contracts with customers

During the preparation of the Company's financial statements for 2018, the decisions in assessing revenue recognition and adopting IFRS 15 *Revenue from Contracts with Customers* for the first time, which have a material impact on the determination of the amount and time of revenue from contracts with customers, were reviewed. All performance obligations of the Company are executed at a certain moment, which is the moment the control of services promised to customers is transferred and the performance obligation is executed, i.e. upon the actual transmission of the quantity of gas/electricity to household and non-household customers based on actual readings of the meters declared by the customers as at the end of each month.

The price of the transaction of household customers is determined in a simple manner, as it is a fixed amount that does not comprise the variable or non-monetary consideration. The price of the transaction of non-household customers comprises the fixed and variable consideration and does not comprise non-monetary consideration. The amount of the consideration is not adjusted according to the effect of the time value of money. The transactions do not involve non-contingent liabilities to return services of funds.
Revenue received from household customers is adjusted by additionally calculated amounts for electricity consumed but not declared by customers. Accrued sales revenue is calculated as one third of revenue from sale of electricity to household customers earned in the last month of the reporting period, as determined based on the most frequent date of declaration by customers. The calculation does not include revenue recognised according to average invoices formed for household customers.

With changes in electricity prices for household customers and unusual developments in the declared quantity of electricity, the Company measures the actually consumed quantity, determining the overdeclared or underdeclared quantity. In December 2018, the overdeclared quantity of electricity amounted to 39.9 GWh. For the purpose of the assessment of the overdeclared quantity of electricity, the following assumptions were used:

1. In December 2018, compared to November 2018, growth in consumption of automated household customers applied to all household customers, was equal to growth in consumption of 14.1%;
2. In December 2018, compared to November 2018, actual growth in declarations determined comprised 356 thousand declarations. The increase in the quantity of declarations relates to the fact that customers had declared the consumption of previous months. Growth in declarations is multiplied by the estimated consumption of prior periods, equal to the consumption of one average month by one customer (145 KWh), assuming that such behaviour is characteristic of the customers of smaller objects and reflects their consumption of 2–3 months. The resulting quantity is recognised as consumption for 2018;
3. The difference between the declared quantity and the quantity assessed in points 1–2 is recognised as the overdeclared quantity.

The sensitivity analysis of the main assumptions of the assessment of overdeclaration:

Growth in consumption of automated household customers at 14.1%	If actual growth in consumption was 5%, i.e. 9.1 p. p., lower	If actual growth in consumption was 15%, i.e. 0.9 p. p., higher
Effect on revenue for 2018 (EUR '000)	(1,991)	197

Effect on expenses for 2018 (EUR '000)	(2,476)	245
Effect on pre-tax profit for 2018 (EUR '000)	485	(48)

Average consumption by an object, related to the consumption of previous months of 2018 (up to December) and determined through growth of declarations (145 KWh)	72 KWh, or 0.5 month average consumption by one object	217 KWh, or 1.5 month average consumption by one object
Effect on revenue for 2018 (EUR '000)	(2,308)	2,308
Effect on expenses for 2018 (EUR '000)	(2,869)	2,869
Effect on pre-tax profit for 2018 (EUR '000)	562	(562)

5 Intangible assets

	Intangible assets identified during business combination	Computer equipment	Patents, licences, etc.	Total
At 31 December 2017				
Net book amount at 1 January 2017	**-**	**117**	**2**	**119**
- Additions	-	85	-	85
- Amortisation charge	-	(54)	(1)	(55)
Net book amount at 31 December 2017	**-**	**148**	**1**	**149**
At 31 December 2017				
- Cost	-	269	3	272
- Amortisation charge	-	(121)	(2)	(123)
Net book amount at 31 December 2017	**-**	**148**	**1**	**149**
At 31 December 2018				
Net book amount at 1 January 2018	**-**	**148**	**1**	**149**
- Additions	-	311	10	321
- Increase on acquisition of a part of business (Note 27)	25,104	-	-	25,104
- Amortisation charge	-	(85)	(2)	(87)
Net book amount at 31 December 2018	**25,104**	**374**	**9**	**25,487**
- Cost	25,104	580	13	25,697
- Amortisation charge	-	(206)	(4)	(210)
Net book amount at 31 December 2018	**25,104**	**374**	**9**	**25,487**

6 Property, plant, and equipment

	Computer hardware	Other tangible fixed assets	Total
Net book amount at 1 January 2017	**10**	**2**	**12**
- Depreciation charge	**(7)**	**(1)**	**(8)**
Net book amount at 31 December 2017	**3**	**1**	**4**
- Cost	19	5	24
- Accumulated depreciation	(16)	(4)	(20)
Net book amount at 31 December 2017	**3**	**1**	**4**
Net book amount at 1 January 2018	**3**	**1**	**4**
- Depreciation charge	(3)	(1)	(4)
Net book amount at 31 December 2018	**-**	**-**	**-**
- Cost	19	5	24
- Accumulated depreciation	(19)	(5)	(24)
Net book amount at 31 December 2018	**-**	**-**	**-**

(All amounts in EUR thousands unless otherwise stated)

7 Investments in other companies

The Company's investments in other companies as at 31 December 2018 included:

	Cost	Impairment	Carrying amount	Ownership interest (%)
Verslo Aptarnavimo Centras UAB	22	-	22	3.75
Technologijų ir Inovacijų Centras UAB	60	-	60	0.91
Total	**82**	**-**	**82**	

The Company's investments in other companies as at 31 December 2017 included:

	Cost	Impairment	Carrying amount	Ownership interest (%)
Verslo Aptarnavimo Centras UAB	22	-	22	3.75
Technologijų ir Inovacijų Centras UAB	60	-	60	0.91
Total	**82**	**-**	**82**	

On 16 December 2014, the Company signed the share purchase agreements regarding the participation in the share capital of Verslo Aptarnavimo Centras UAB and Technologijų ir Inovacijų Centras UAB. Pursuant to the signed shareholder agreements, the Company delegates its representatives to the management bodies, i.e. the Boards, of Verslo Aptarnavimo Centras UAB and Technologijų ir Inovacijų Centras UAB.

The Company accounted for the investments in these companies as investments in other companies. The shares of the latter companies were acquired as a result of the concentration of certain competences of the companies belonging to Lietuvos Energija UAB Group in special service companies.

8 Inventories

	Company	
	At 31 December 2018	At 31 December 2017
Natural gas	19,835	24,389
Carrying amount	**19,835**	**24,389**

As at 31 December 2018, the inventories of natural gas significantly declined as a result of the lower quantity of gas stored in the underground storage facility.
Under the Lithuanian legislation the Company is required to store a quantity of natural gas in the underground storage facility as a reserve for the smallest (the most sensitive) consumers of the Company. As at 31 December 2018, the latter quantity comprised 421 GWh (31 December 2017: 334 GWh).

9 Prepayments, deferred expenses and accrued income

	Company	
	At 31 December 2018	At 31 December 2017
Prepayments for natural gas	5,806	27,881
Prepayments for electricity due to overdeclaration by customers	4,439	-
Other deferred expenses	88	6
Accrued income from non-household customers for excess of capacities	951	1,769
Total	**11,284**	**29,656**

As at 31 December 2018, prepayments for natural gas for the gas supplier significantly declined.

10 Amounts receivable under contracts with customers

	Company	
	At 31 December 2018	At 31 December 2017
Amounts receivable from non-household customers for natural gas	30,676	23,062
Amounts receivable from household customers for natural gas	4,287	2,618
Amounts receivable from electricity consumers	16,096	-
Amounts receivable from payment collectors for natural gas and electricity	10,908	-
Less: impairment of amounts receivable	(4,953)	(2,083)
Total	**57,014**	**23,597**

(All amounts in EUR thousands unless otherwise stated)

Amounts receivable under contracts with customers significantly increased due to the overtaken amounts receivable from electricity consumers after the acquisition of a part of the public supply business. The business combination is described in greater detail in Note 27.

The standard term for the payment of amounts receivable under contracts with customers is 30 days.

As at 31 December 2018, the Company also had trade receivables past due over 1 year amounting to EUR 4,966 thousand, for which an impairment was formed at 81.36% as at 31 December (31 December 2017: EUR 910 thousand).
Impairment of amounts receivable – expected credit losses are recognised as amounts receivable which are assessed for credit risk on a collective basis. The Company uses the loss coefficient matrix. The loss coefficient 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 coefficients 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. In this regard, the following loss coefficient matrix was applied by the Company as at 31 December 2018:

	Loss coefficients		
	Household customers (natural gas)	Household customers (electricity)	Non-household customers (natural gas)
Not past due	1.60%	0.50%	0.13%
Past due up to 1 month	2.60%	3.00%	2.94%
Past due from 1 to 2 months	6.30%	6.90%	16.00%
Past due from 2 to 3 months	12.30%	13.80%	31.05%
Past due from 3 to 4 months	19.40%	19.60%	45.50%
Past due from 4 to 5 months	27.10%	23.80%	52.10%
Past due from 5 to 6 months	35.20%	27.90%	61.10%
Past due from 6 to 7 months	43.30%	31.30%	67.05%
Past due from 7 to 8 months	51.30%	34.80%	76.10%
Past due from 8 to 9 months	59.20%	37.50%	83.80%
Past due from 9 to 10 months	67.50%	40.00%	90.90%
Past due from 10 to 11 months	74.50%	42.20%	92.00%
Past due from 11 to 12 months	81.60%	44.30%	98.25%
Past due over 1 month	100.00%	69.00%	99.81%

As at 31 December 2018, the Company's trade receivables under contracts with customers were assessed using the loss coefficient matrix:

	Carrying amount before credit losses	Impairment
Not past due	46,095	131
Past due up to 1 month	3,906	115
Past due from 1 to 2 months	1,149	128
Past due from 2 to 3 months	260	38
Past due from 3 to 4 months	171	35
Past due from 4 to 5 months	106	27
Past due from 5 to 6 months	137	41
Past due from 6 to 7 months	247	131
Past due from 7 to 8 months	190	111
Past due from 8 to 9 months	107	51
Past due from 9 to 10 months	86	42
Past due from 10 to 11 months	41	26
Past due from 11 to 12 months	67	38
Past due over 1 year	4,966	4,039
Total amounts receivable under contracts with customers	**57,528**	**4,953**

As at 1 January 2018, the Company's trade receivables under contracts with customers were assessed using the loss coefficient matrix:

	Carrying amount before credit losses	Impairment
Not past due	20,681	41
Past due up to 30 days	2,134	61
Past due from 31 to 90 days	794	151
Past due from 91 to 180 days	108	32
Past due from 181 to 360 days	146	100
Past due from 361 days and longer	1,817	1,815
Total amounts receivable under contracts with customers	**25,680**	**2,200**

(All amounts in EUR thousands unless otherwise stated)

Change in impairment of amounts receivable during the financial year under contracts with customers:

	2018	2017
At beginning of the reporting period	**2,083**	**2,090**
Change in impairment in retained earnings upon first-time adoption of IFRS 9	117	-
Restated balance at the beginning of the reporting period	**2,200**	**2,090**
Increase in impairment recognised during the year	663	289
Impairment of public supply activities taken over from ESO	2,607	-
Reversal of impairment allowance unutilised	(517)	(296)
At end of the reporting period	**4,953**	**2,083**

Changes in the impairment provision for amounts receivable under contracts with customers for the year 2018 were included in operating expenses.

11 Cash and cash equivalents

	Company	
	At 31 December 2018	At 31 December 2017
Cash balances in bank accounts	11,438	4,535
Cash in transit	-	1,064
Total	**11,438**	**5,599**

As at 31 December 2018, the Company had pledged to the banks funds in the amount of EUR 75 thousand as a collateral under the proposal and performance guarantees issued by the banks (31 December 2017: the Company had no funds pledged to the banks).

As at 31 December 2018, the Company had an overdraft agreement with the bank for the limit of EUR 10 thousand. As at 31 December 2018 and 31 December 2017, no amount was withdrawn by the Company.

As at 31 December 2018, the Company had a guarantee limit agreement with OP Corporate Bank plc for the amount of EUR 40 million. As at 31 December 2018, the limit of the guarantees was utilised in the amount of EUR 1,924 thousand.

12 Authorised share capital

As at 31 December 2018, the Company's share capital was divided into 28,862,070 million ordinary registered shares with par value of EUR 0.29 each. All the shares are fully paid.

13 Reserves

The legal reserve is compulsory under the laws of the Republic of Lithuania. In Lithuania, annual transfers of 5% of net profit are required until the reserve reaches 10% of the authorised share capital of a company. The legal reserve shall not be used for payment of dividends and is formed to cover future losses only.

As at 31 December 2018, the Company's legal reserve amounted to EUR 468 thousand.

14 Borrowings

Borrowings from the group companies

Aiming to reduce costs incurred for the funding of its working capital, on 18 May 2016 the Company signed the Lietuvos Energija UAB Group account (cashpool) agreement of an unlimited validity, under which the Company may obtain current loans from other companies of the Group. As at 31 December 2018, the borrowing limit set until 02 April 2019 was EUR 70,000 thousand. Intragroup borrowing transactions have to be concluded in accordance with market terms and with interest rates, which would be set in the market. The market interest rate is established for the period of one calendar year, therefore, the carrying amount of borrowings approximates their fair value within Level 2 of the fair value hierarchy. As at 31 December 2018, the Company's borrowings amounted to EUR 22,451 thousand. No pledges or other collaterals as security of loan repayment were made.

Net debt balances as at 31 December 2018 and 31 December 2017:

	2018	2017
Cash and cash equivalents	11,438	5,599
Borrowings* payable within one financial year (including overdraft)	(22,451)	(31,338)
Borrowings payable after one year	-	-
Net debt	**(11,013)**	**(25,739)**

(All amounts in EUR thousands unless otherwise stated)

	Other assets	Liabilities arising from financing activities	
	Cash/overdraft	Current borrowings	Total
Net debt as at 1 January 2017	**19,916**	**-**	**19,916**
Cash flows	(14,317)	(31,338)	(45,655)
Other non-cash changes	-	-	-
Net debt as at 31 December 2017	**5,599**	**(31,338)**	**(25,739)**
Cash flows	5,839	8,887	14,726
Other non-cash changes	-	-	-
Net debt as at 31 December 2018	**11,438**	**(22,451)**	**(11,013)**

15 Trade payables

	Company	
	At 31 December 2018	At 31 December 2017
Trade payables to natural gas suppliers	62	5,110
Trade payables to natural gas system operators	9,406	10,636
Trade payables to electricity system operators	25,198	-
Trade payables to electricity suppliers	12,123	-
Trade payables for acquisition of a part of business	27,441	-
Other	1,071	5,630
Total	**75,301**	**21,376**

Terms and conditions applicable to current trade payables:
- Trade payables are non-interest bearing and are normally settled within the term of 10 to 45 days.
- Terms and conditions applicable to amounts payable to related parties are described in Note 26.

The carrying amount of amounts payable approximates their fair value within Level 3 of the fair value hierarchy.

16 Advance amounts received, deferred income and accrued expenses

As at 31 December 2018 and 31 December 2017, the Company's advance amounts received comprised amounts overpaid by non-household and household customers for natural gas and electricity consumed.

	Company	
	At 31 December 2018	At 31 December 2017
Advance amounts received	2,737	3,641
Advance amounts received for electricity	5,767	-
Deferred income from natural gas (according to overdeclared consumption estimates)	5,979	1,889
Deferred income from electricity (according to overdeclared consumption estimates)	3,570	-
Accrued expenses	1,322	2,049
Total	**19,375**	**7,579**

As at 31 December 2018, advance amounts received significantly increased as a result of the acquisition of the public electricity supply business.

17 Other current amounts payable and liabilities

	Company	
	At 31 December 2018	At 31 December 2017
VAT payable to the budget	2,641	3,549
Other amounts payable	272	228
Total	**2,913**	**3,777**

(All amounts in EUR thousands unless otherwise stated)

18 Revenue from contracts with customers

The Company's sales revenue under contracts with customers is accounted for by category of both household and non-household customers.

	Non-household customers	Household customers	Total
Sales revenue of natural gas	143,277	34,701	177,978
Resale of natural gas transmission services (including liquefied natural gas terminal fee) and distribution services	27,319	34,627	61,946
Total for 2017	**170,596**	**69,328**	**239,924**

	Non-household customers	Household customers	Total
Revenue from public supply of electricity	-	21,254	21,254
Other revenue from electricity transmission and PSO services	-	48,144	48,144
Sales revenue of natural gas	129,062	45,985	175,047
Resale of natural gas transmission services (including liquefied natural gas terminal fee) and distribution services	36,510	30,701	67,211
Total for 2018	**165,572**	**146,084**	**311,656**

All revenue from agreements concluded with customers is calculated with regard to the price of the transaction as defined in the agreement. The Company usually receives payments immediately after rendering respective services or within 30 days.

19 Cost of sales

	Company	
	2018	**2017**
Purchase of electricity for supply purposes	38,491	-
Expenses of electricity transmission and PSO services	47,920	-
Cost of natural gas acquisition	159,718	148,275
Whereof: provisions for onerous contracts	-	*10,292*
Expenses of natural gas transmission and distribution services	67,972	81,718
Expenses of natural gas storage	954	918
Total	**315,055**	**230,911**

20 Operating expenses

	Company	
	2018	**2017**
Business maintenance services	3,179	1,804
Wages and salaries and related contributions	952	774
Expenses of payment collection from household customers and information processing	753	446
Telecommunications and IT services	575	305
Consultation services	227	180
Change in impairment of amounts receivable and amounts written off	252	128
Rent of premises and utility services	74	74
Amortisation and depreciation	89	63
Change in vacation reserve	15	15
Change in provision for employee benefits	77	(30)
Other expenses	547	664
Total	**6,740**	**4,423**

21 Finance income

	Company	
	2018	**2017**
Interest income	206	118
Foreign exchange gain	-	62
Dividends received	11	8
Total	**217**	**188**

(All amounts in EUR thousands unless otherwise stated)

22 Finance costs

	Company	
	2018	**2017**
Interest expenses	143	87
Foreign exchange loss	-	11
Total	**143**	**98**

23 Income tax expenses

In accordance with the Lithuanian regulatory legislation on taxation, the income tax rate of 15% was assessed on profit in 2018 and 2017.

Income tax expenses for the period comprise current year income tax and deferred income tax:

	Company	
	2018	**2017**
Current year income tax (expenses)/income	(28)	(78)
Deferred income tax (expenses) income	4249	(78)
Income from tax losses disposed	790	3,094
Income tax benefit recognised in profit or loss	**5,011**	**2,938**

24 Deferred income tax assets

	At 31 December 2016	Recognised in profit or loss	Disposal of tax losses	At 31 December 2017	Recognised in profit or loss	Disposal of tax losses	At 31 December 2018
Accruals for onerous contracts	1,543	(1,543)		-	-		-
Provisions for doubtful debts	313	(1)		312	429		741
Accruals for employee benefits (including termination benefits)	23	(3)		20	16		36
Vacation reserve	3			3	(2)		1
Tax loss carry-forward	7,549	905	(3,816)	4,638	1,524	(887)	5,275
Deferred income tax assets before impairment of net realisable value	9,431	(642)	(3,816)	4,973	1,967	(887)	6,053
Reversal of impairment (impairment) of net realisable value	(7,549)	564	3,816	(3,169)	3,169	-	-
Deferred income tax assets, net	**1882**	**(78)**		**1,804**	**5,136**	**(887)**	**6,053**
Deferred income tax (liabilities)	**-**			**-**			**-**
Deferred income tax, net	**1,882**	**(78)**		**1,804**	**5,136**	**(887)**	**6,053**

With a view of the expected time of realisation of temporary differences, deferred income tax assets and liabilities as at 31 December 2018 were calculated using the income tax rate of 15%. Deferred income tax assets were recognised to the extent that realisation of the related tax benefit is probable. As at 31 December 2018, deferred income tax assets were recognised to the full extent.

The amount of income tax expenses reported in the financial statements can be reconciled to the amount of income tax expenses that would result from applying the statutory income tax rate to pre-tax income as follows:

	Company	
	2018	**2017**
Profit (loss) for the year before tax	(10,065)	4,680
Income tax expenses using the effective income tax rate (15%)	1,510	(702)
Expenses not deductible for tax purposes - permanent differences	(9)	(1,621)
Non-taxable income for income tax purposes	38	1,603
Disposed tax losses	790	3,094
Deferred income tax not recognised on tax losses	-	-
Impairment of trade receivables of public supply activities taken over	398	-
Income tax of the permanent establishment in Latvia	31	-
Impact of change in net realisable value	2,253	564
Income tax (expenses) income recognised in profit or loss	**5,011**	**2,938**

Intangible assets identified during business combination disclosed in Notes 5 and 27 are treated as goodwill for income tax calculation purposes, the acquisition cost of which is equal to EUR 25,104 as at 31 December 2018.

(All amounts in EUR thousands unless otherwise stated)

25 Commitments and contingencies

Contractual obligations

Under the provisions of the natural gas supply agreement with Gazprom OAO, in 2018 the Company did not use 46.9 million m3 of gas, out of 400 million m3 of the minimum natural gas quantity to be used. Under the provisions of the mentioned agreement, the Company can "remove" the unused quantity over the course of 3 coming years upon the fulfilment of advance payment and natural gas consumption obligations laid down in the agreement. The unused quantity of natural gas had no impact on the Company's financial position of 2018, however in 2019 the Company will have to make a prepayment of EUR 7.6 million for a part of natural gas not used in 2018.

In December 2018, the Company and PAO Gazprom agreed on supply of natural gas in 2019. The agreement contains 'take-or-pay' clause under which the Company has a commitment to purchase the agreed minimum quantity of natural gas. Based on forecast consumption data, the Company plans to purchase all agreed quantity of natural gas during 2019.

Guarantees

As at 31 December 2018, on behalf of the Company, SEB Bankas AB and OP Corporate Bank issued guarantees for the fulfilment of contractual obligations amounting to EUR 1,999 thousand.

Operating lease

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2018	2017
Within the first year	250	89
From two to five years	1,000	114
After five years	-	99
Total	**1,250**	**302**

26 Related-party transactions

Transactions with related parties are presented below:

Sales of goods and services during January-December 2018 and 2017:

	Company	
	2018	2017
Parent company:		
Lietuvos Energija UAB	-	4
Parent company's subsidiaries:		
Lietuvos Energijos Gamyba AB	548	2,279
LITGAS UAB	2,050	16,203
Energijos Skirstymo Operatorius AB	3,792	2,544
NT Valdos UAB	187	188
Energetikos Paslaugų ir Rangos Organizacija UAB	32	50
Technologijų ir Inovacijų Centras UAB	1	3
Verslo Aptarnavimo Centras UAB	10	4
Energijos Tiekimas UAB	-	1
Total	**6,620**	**21,276**

Purchases of goods and services during January-December 2018 and 2017:

	Company	
	2018	2017
Parent company:		
Lietuvos Energija UAB	209	185
Parent company's subsidiaries:		
Energijos Skirstymo Operatorius AB	82,293	43,518
Energijos Tiekimas UAB	51,093	-
Lietuvos Energijos Gamyba AB	-	194
LITGAS UAB	7,963	14,919
Verslo Aptarnavimo Centras UAB	3,223	1,864
Technologijų ir Inovacijų Centras UAB	737	354
NT Valdos UAB	46	89
Lietuvos Energija Support Fund	-	56

(All amounts in EUR thousands unless otherwise stated)

	Company	
	2018	2017
Elektroninių Mokėjimų Agentūra UAB	158	64
Transporto Valdymas UAB	23	-
Total	**145,745**	**61,243**

Amounts receivable from related parties:

	Company	
	At 31 December 2018	At 31 December 2017
Parent company:		
Lietuvos Energija UAB	-	-
Subsidiaries of the parent company:		
Energetikos Paslaugų ir Rangos Organizacija UAB	-	14
Lietuvos Energijos Gamyba AB	24	-
Energijos Tiekimas UAB	-	-
Elektroninių Mokėjimų Agentūra UAB*	5,494	-
Energijos Skirstymo Operatorius AB	715	421
NT Valdos UAB	36	32
LITGAS UAB	823	1,132
Verslo Aptarnavimo Centras UAB	17	22
Total	**7,109**	**1,621**

** Elektroninių Mokėjimų Agentūra UAB acts as the collector of the funds of the Company's customers*

Loans and payables to related parties

	Company	
	At 31 December 2018	At 31 December 2017
Parent company:		
Lietuvos Energija UAB	14,130*	24,913*
Parent company's subsidiaries:		
Lietuvos Energijos Gamyba AB	5,577*	5,234*
Energijos Skirstymo Operatorius AB	58,334	6,281
Energijos Tiekimas UAB	12,123	-
LITGAS UAB	837	550
Verslo Aptarnavimo Centras UAB	665	233
Technologijų ir Inovacijų Centras UAB	226	78
Elektroninių Mokėjimų Agentūra UAB	48	8
NT Valdos UAB	871	5
Vilniaus Kogeneracinė Jėgainė UAB	846*	981*
Eurakras UAB	281*	211*
Transporto Valdymas UAB	3	-
Total	**93,941**	**38,494**

** Loan balances under cashpool agreements.*

Compensation to key management personnel:

	Company	
	2018	2017
Wages and salaries and other benefits to management	176	158
Whereof: termination benefits, benefits for unused vacation days and benefits to Board Members	-	-
Number of key management personnel	3	3

27 Business combinations

Acquisition of a part of business

During the optimisation of the activities of the distribution network operator ESO, a decision was made to discontinue the public electricity supply activities and transfer them to another group company, i.e. Lietuvos Energijos Tiekimas, thus consistently implementing the provisions of the Third Energy Package of the European Union. Under the agreement on the sale-purchase of a part of business dated 21 September 2018, the implementation of this project involved the transfer of a part of public electricity supply activities, which covers the provision of the public electricity supply service, by Energijos Skirstymo Operatorius AB to the Company on 1 October 2018. The sale price was determined by performing an independent valuation of a part of the public supply business.

(All amounts in EUR thousands unless otherwise stated)

The Company applied the purchase method to account for this business combinations according to the provisions of IFRS 3. Under the latter method, the acquisition cost is measured as the sum of fair values of assets given, liabilities incurred and equity instruments issued by the Company in exchange for the control of the part of the business being acquired.

Based on the agreement, the purchase price of a part of business, to be settled in cash, is to be paid by 31 March 2019.

During business combination, the Company took over the assets – amounts receivable for electricity and liabilities, trade payables, and advances received in relation to the acquired part of business, which were accounted for in the Company's financial statements. During the same business combination, the Company has identified that the difference between the purchase price of a part of business and the fair value of the net assets acquired lies in goodwill and that one and/or several intangible assets were potentially acquired. These intangible assets were presented at acquisition cost in the Company's statement of financial position, which was equal to their fair value at the time of acquisition. The fair value of intangible assets arising during business combination was established on the basis of the data of the business valuation report prepared by the independent valuers.
As at 31 December 2018, the management had not yet finalised the assessment of the initial business combination accounting, as the period for the assessment of business combination indicated in paragraph 45 of IFRS 3, which will end only upon obtaining the necessary information about facts and circumstances that existed at the acquisition date and which cannot be longer than one year after the acquisition date, had not ended yet.
As at 31 December 2018, the temporary amounts of assets and liabilities the assessment of which had not been completed yet comprised the fair value of net assets, as well as the value of intangible assets identified during business combination and goodwill. During the assessment period, the Company will recognise adjustments of temporary amounts as if the business combination accounting had been finalised at the acquisition date. Therefore, where necessary, the Company will review the comparative information of prior reporting periods reported in the financial statements and will also, where necessary, perform any adjustments for depreciation, amortisation or any other effect of income recognised during the finalisation of the initial accounting.

Net assets identified during business combination:

	Part of business acquired At 1 October 2018
Purchase price	27,441
Less: fair value of net assets acquired:	**(2,337)**
Trade and other receivables	(11,712)
Trade and other payables	1,499
Advances received and deferred income	7,876
Less: fair value of intangible assets identified during business combination	-
Goodwill	25,104

28 Events after the end of the reporting period

In implementing its new strategy and gradually consolidating the activities of trade and supply of electricity and natural gas, Lietuvos Energija UAB made a decision to merge the natural gas supply and trade companies Lietuvos Energijos Tiekimas UAB and LITGAS UAB. On 4 September 2018, Lietuvos Energija approved the terms and conditions of the reorganisation of Lietuvos Energijos Tiekimas UAB and LITGAS UAB. The decision was agreed with the owner of the shares of Lietuvos Energija, i.e. the Ministry of Finance of the Republic of Lithuania. The companies are to be reorganised by way of merger, i.e. by merging Lietuvos Dujų Tiekimas UAB, which will continue its activities (as of 1 October 2018: Lietuvos Energijos Tiekimas UAB), with LITGAS UAB, which will cease its activities after the reorganisation. All the assets, rights and obligations of LITGAS UAB will be transferred to Lietuvos Energijos Tiekimas UAB, which will continue the activities. As of 1 January 2019, the reorganisation was completed.

On 13 February 2019, the terms and conditions of the reorganisation of Lietuvos Energijos Tiekimas UAB and the independent supplier of electricity Energijos Tiekimas UAB were announced.

There were no significant events after 31 December 2018 and until the date of approval of the financial information.

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ANNUAL REPORT OF LIETUVOS ENERGIJOS TIEKIMAS UAB FOR THE FINANCIAL YEAR 2018

The annual report of Lietuvos Energijos Tiekimas UAB was prepared in accordance with the requirements set in the Lithuanian Law on Financial Reporting by Undertakings and the Lithuanian Law on Companies. The Company's securities are neither listed nor traded in the regulated market. The Company's Articles of Association do not establish other requirements for the contents of the annual report in addition to those stipulated in the Lithuanian Law on Financial Statements of Entities. For the purpose of the Annual Report, Lietuvos Energijos Tiekimas UAB is further referred to as Lietuvos Energijos Tiekimas, LET or the Company.

Basic details about the Company

Company name:	Lietuvos Energijos Tiekimas UAB*
Legal form:	Private limited liability company
Authorised share capital:	EUR 8,370,000.30**
Date of registration:	2 September 2014
Place of registration:	Register of Legal Entities
Company code:	303383884
Registered office address:	Žvejų g. 14, LT-09310 Vilnius
Register name:	Register of Legal Entities
Telephone:	+370 611 21802
Fax:	+370 5 232 7706
E-mail:	info@letiekimas.lt
Website:	www.letiekimas.lt

* As of 1 October 2018, the name of Lietuvos Dujų Tiekimas UAB was changed to Lietuvos Energijos Tiekimas UAB.
** As of 1 January 2019, the Company completed the reorganisation by way of merger, i.e. Lietuvos Energijos Tiekimas UAB, which is continues its activities, was merged with LITGAS UAB, which ceased its activities after the reorganisation. All the assets, rights and obligations of LITGAS UAB, including the authorised share capital, were transferred to Lietuvos Energijos Tiekimas UAB, which continues the activities. After the reorganisation, the Company's authorised share capital amounts to EUR 21,420,000.30.

Description of the Company's activities and service market

The Company's main activity is purchase (import) and sale of natural gas to consumers. The Company started the activity of public electricity supply with effect from 1 October 2018.

The company supplies natural gas to corporate customers operating in the sectors of energy, industry and small commercial businesses, and to private customers – overall 594 thousand customers. The company supplies electricity to more than 1.64 million private customers. The Company has a natural gas supply permission and a licence for supply of electricity issued by the National Commission for Energy Control and Prices (hereinafter "the Commission").

Lietuvos Energijos Tiekimas is part of Lietuvos Energija group of energy companies controlled by the State.

In 2018, the Company continued small-scale LNG operations by reloading LNG from the floating storage unit *Independence* to small-scale LNG carriers.

In 2018, the Company continued to successfully supply gas to consumers in Latvia.

At the end of 2017, the Company started to supply liquefied natural gas to consumers in Druskininkai and continued to do so in 2018, thus ensuring equally favourable prices of natural gas to consumers in this city as elsewhere in Lithuanian towns.

In 2018, the Company further increased the volumes of trade in gas-fired condensing boilers, water heaters, and key components, as well as their installation services.

Objective overview of the Company's financial position, performance and development

Most important events during the reporting period

- On **1 January 2018**, the Company started performing the market maker functions in the Latvian and Lithuanian bidding areas of the natural gas exchange of the Baltic countries. The signing of the agreement on market maker functions obligates the Company to ensure liquidity and uninterrupted trade in the Latvian and Lithuanian bidding areas.
- On **12 February 2018**, the Company created an automated self-service system for corporate customers, which provides efficient information on the volume of gas consumption and usage of systemic services.
- On **3 April 2018**, in the United States, the Company signed a memorandum of understanding with the US company Freeport LNG, which is building a liquefied natural gas (LNG) terminal in Quintana, Texas, USA. The signing of the agreement has opened the way to import American gas from the terminal in the future.
- On **31 May 2018**, the National Commission for Energy Control and Prices (hereinafter "the Commission") agreed prices of natural gas for private customers for the second half of 2018.
- On **31 July 2018**, the Commission granted to the Company the licence for public electricity supply operations, which came into force as of 1 October 2018.
- On **30 August 2018**, the Supervisory Board of Energijos Skirstymo Operatorius (ESO) approved the terms and conditions of the transaction on the transfer of the operations of public electricity supply to household customers to the group company Lietuvos Energijos Tiekimas and the conclusion of an agreement. The Audit Committee of the Supervisory Board of Lietuvos Energija has also expressed its positive opinion on the transaction.

- On **5 September 2018**, an information campaign was launched in relation to Lietuvos Dujų Tiekimas taking over public electricity supply operations from ESO as of 1 October and becoming Lietuvos Energijos Tiekimas.
- On **6 September 2018**, the terms and conditions of the reorganisation of the Company and LITGAS were announced.
- On **1 October 2018**, Lietuvos Dujų Tiekimas started supplying electricity to household customers and became Lietuvos Energijos Tiekimas.
- On **30 November 2018**, the prices for household customers for the first half of 2019 were agreed with the Commission.
- On **30 November 2018**, the Commission announced public electricity prices for 2019.
- On **11 December 2018**, the Board of Lietuvos Energija and the Group's shareholder the Ministry of Finance gave their final confirmation for the merger of Lietuvos Energijos Tiekimas with the gas trading company LITGAS.
- On **20 December 2018**, ORLEN Lietuva, the country's only oil processing company, became one of the largest customers of Lietuvos Energijos Tiekimas. The plant established in Mažeikiai region started buying gas from Lietuvos Energijos Tiekimas as of 1 January.

<u>Business environment</u>

In 2018, natural gas was imported into Lithuania from the Russian company Gazprom PAO, Norwegian company Equinor, as well as from Latvia.

The Company was actively operating in the wholesale market, purchased and sold gas in gas exchange, and conducted trading with other players of the wholesale market, i.e. provided gas stream balancing services. The Company also rendered gas reserve services to Conexus Baltic Grid AS in the Inčukalns underground gas storage facility.

In 2016, the quantity of natural gas sold in Lithuania declined, i.e. the market had shrunk. The decline in the consumption of natural gas was influenced by uncompetitive gas prices applied until 2014 and the absence of an alternative gas supply. High prices of natural gas laid the conditions for new investments in other alternative energy sources (using biofuel for the generation of heat and electricity). Upon occurrence of an alternative supply of liquefied natural gas and upon reaching the agreement with Gazprom PAO in relation to a significant reduction of prices of natural gas imported from Russia, the decline in consumption of natural gas in Lithuania stalled. As gas prices regained competitiveness, the natural gas market became more active in 2017. This was the first year for natural gas consumption to increase by nearly 4%. In 2018, excluding the quantity of Achema, the consumption of natural gas in Lithuania continued on the upward trend. Growing Lithuanian economy, in particular the construction sector, contributed to the growth of the market, as the number of newly connected private customers surged.

In 2018, the Lithuanian natural gas market saw slightly lower LNG imports as compared to 2017, when low LNG prices stimulated greater activity of the country's natural gas suppliers in the international LNG market.

Seeking to meet the requirements in terms of the quality of services, the Company continuously focuses on enhancing the compliance of its sales and services with customer needs, improvement of customer service, and consistent optimisation of business processes and development of services.

In its operations, the Company follows the principles of transparency and fair competition. The customer satisfaction survey carried out with reference to the methodology of the *Global Customer Satisfactory Index* showed favourable results for the Company as the index reached 81 points.

Most important events and trends projected in 2018 that might have impact on the Lithuanian natural gas and electricity markets:

- A co-generation power plant in Vilnius, which will launch its operations in 2019, will significantly reduce the consumption of natural gas in Lithuania.
- The LNG prices are expected to remain competitive (save for certain exceptions), thereby leading to the likelihood of further competition in terms of LNG and natural gas across the region.
- As a result of nearly four-time increase in the tariffs of Amber Grid on the transportation of gas to Latvia from 1 January 2019, the competitiveness of the Company in the market significantly declined, along with the access to the Inčukalns underground gas storage facility.
- In 2019, the Ministry of Energy of the Republic of Lithuania plans to announce the plan on the deregulation of the electricity market for household customers (or part thereof) starting from 2020.

As of 1 October 2018, the Company, having acquired the activity of public electricity supply from Energijos Skirstymo Operatorius AB, started supplying electricity. It is planned that the Company will supply 2.9 TWh of electricity to customers in 2019. The Company purchases electricity at electricity exchange prices.

Description of key risks and uncertainties faced by the Company

In performing its activities, the Company is exposed to credit risk, liquidity risk, interest rate risk, foreign exchange risk, and natural gas and electricity price risk In managing these risks, the Company seeks to mitigate the effects of factors that might affect the Company's financial performance.

Credit risk

The Company diversifies its free liquid funds held at banks and enters into transactions only with those financial institutions that have assigned to themselves or have been assigned by their controlling banks a long-term credit rating of not lower than 'A-' according to the rating agency Fitch Ratings or equivalent rating of other rating agencies.

The Company's exposure to credit risk arises from defaulting customers. The Company manages this risk by ensuring that natural gas is sold only to corporate customers with positive credit history and not in excess of the acceptable credit risk exposure limit. The level of trade receivables is monitored, the changes in trade receivables are analysed, and the debt limits of customers are reviewed regularly.

Liquidity risk

Liquidity risk is managed by planning the cash flows of the Company. To mitigate the liquidity risk, cash flow forecasts are prepared. Short-term financing (credit lines) from both the financial institutions and the shareholders is used to manage short-term mismatches of cash flows (inflows and outflows).

Interest rate risk

Interest rate risk mainly arises from current borrowings (that may be necessary to balance out the working capital) and from guarantees issued that are necessary to secure the fulfilment of liabilities arising from trading activities.

Foreign exchange risk

Purchase/sale contracts of the Company are denominated mostly in the euro, rarely in some other currencies. As a result, changes in exchange rates of foreign currencies do not have a significant impact on the Company's equity.

Natural gas and electricity price risk

The purchase prices of natural gas and electricity depend on the prices of these resources in the exchanges. In the opinion of the Company, this risk is managed effectively by determining the natural gas price for corporate customers on the basis of the same variable component values, and by including the developments in the prices of electricity and gas into the mechanism for the establishment of regulated prices for private customers.

Analysis of financial and non-financial performance

During January-December 2018, the supplies natural gas to customers totalled 7,409 thousand MWh, excluding gas supplied under the transactions on natural gas schedule balancing services. Overall 4,276 thousand MWh of natural gas was supplied to corporate customers and 2,127 thousand MWh of natural gas was supplied to private customers in Lithuania. 711 thousand MWh of natural gas was supplied to customers in the Latvian market. The volume of LNG reloaded totalled 295 thousand MWh of natural gas. The total volume of gas supplied declined by 10% compared to 2017 mainly as a result of decline in gas sales to commercial customers in Latvia and Lithuania. LNG congestion increased by nearly 60% and sales to residents grew by 7%.

As of 1 October 2018, the Company, having acquired the activity of public electricity supply from Energijos Skirstymo Operatorius AB, started supplying electricity at public prices to more than 1.64 million electricity consumers in Lithuania. During the last three months of the new activity in 2018, the Company supplied 876.1 million kWh of electricity to customers, 17.4% up as compared to the same period in 2017. Growth in sales, especially in December, was significantly stimulated by the Company's customer information campaign on the declaration of the readings of electricity meters.

In 2018, the Company's revenue totalled EUR 311.7 million, i.e. 30% more compared to 2017. Revenue growth resulted from the acquisition of the public electricity supply business.

In 2018, the company incurred losses of EUR 5.1 million (2017: net profit of EUR 7.6 million was earned). The company's operations were loss-making due to higher purchase prices of electricity compared to established prices for the public electricity supply service. These losses for the fourth quarter of 2018, i.e. during the period of execution of the public electricity supply activity, total EUR 21 million and should be compensated through the regulatory mechanism in the upcoming regulatory periods.

In 2018, the Company's adjusted EBITDA (earnings before interest, taxes, depreciation and amortisation), i.e. EBITDA after elimination of (i) a discount applied to customers in 2017 (due to retrospective reduction of the import price for the period between 1 January 2013 and 30 April 2014), (ii) provisions for the latter discount, (iii) mismatches between the expenses and revenue included in the gas and electricity prices for household customers and those actually incurred, (iv) adjustments of revenue and expenses of the supply of electricity due to overdeclaration and accrual, and (v) the change in the market value of open financial derivative instruments, amounted to EUR 13.4 million. Accordingly, the Company's adjusted operating profit amounted to EUR 13.0 million.

In 2018, the Company paid dividends in the amount of EUR 4.6 million.

The table below presents the Company's financial performance results:

Financial indicators, EUR '000	2018	2017	Change	
Sales revenue	311,656	239,924	71,732	29.90%
Net profit (loss)	-5,054	7,618	-12,672	166.34%
Assets	131,947	85,633	46,314	54.08%
Equity	11,517	21,260	-9,743	-45.83%
Liabilities	120,430	64,372	56,058	87.08%
Borrowings	22,451	31,338	-8,887	-28.36%

The table below presents the Company's adjusted financial performance results after elimination of effects of reduction in natural gas import price:

	For the period from 1 January 2018 to 31 December 2018	For the period from 1 January 2017 to 31 December 2017
EBITDA	-9,787	4,775
Operating profit (loss)	-10,139	4,590
Adjustments		
Elimination of effects of reduction in natural gas import price (adjustment), whereof:	0	8,712
Change in onerous agreements with corporate customers	*0*	*-7,575*
Change in onerous agreements with private customers	*0*	*-2,716*
Part of reduction of import price passed on to corporate customers	*0*	*15,102*
Part of reduction of import price passed on to private customers	*0*	*3,902*
Mismatches between the expenses and revenue included in the gas prices for household customers and those actually incurred	4,372	1,024
Mismatches between the expenses and revenue included in the electricity prices for household customers and those actually incurred	22,287	0
Adjustments of revenue and expenses of the supply of electricity due to overdeclaration and accrual	-3,312	0
Change in market value of open financial derivative instruments	-167	-215
Total adjustment effects	**23,181**	**9,521**
Adjusted EBITDA	**13,393**	**14,296**
Adjusted operating profit	13,041	14,111

More details about the Company's financial performance results are disclosed in the notes to the financial statements of Lietuvos Energijos Tiekimas for the year 2018.

Information on environmental and personnel-related issues

The Company's activities comply with the requirements stipulated in the environmental legislation.

In 2018, the Company used a system of variable remuneration and employee performance management. Remuneration of the Company's employees consists of a fixed and a variable component. The fixed component of remuneration is established based on the job position and the competence level, which is attributed after an assessment of the competences necessary for the position, education, responsibilities and the significance of decisions for the Company. The variable component of the remuneration is paid for measurable performance results, i.e. with respect to each position for the achievement of set objectives.

As at 31 December 2018, the Company had 38 employees, whereof 6 employees were on child care leave (31 December 2017: the Company had 32 employees, whereof 7 employees were on child care leave).

Management bodies of the Company

In accordance with the Company's Articles of Association, the Company's management bodies include as follows:

- the General Meeting of Shareholders;
- the Board;
- the General Manager.

The General Meeting of Shareholders is the supreme management body of the Company. The powers of the General Meeting of Shareholders, the procedure of its convocation and decision-making are established by laws and other legal acts and in the Company's Articles of Association.

The Board is a collegial management body of the Company. The powers of the Board, the procedure of decision-making, election and removal of its members are established by laws, other legal acts and the Articles of Association.

The Company's Board consists of 3 (three) members, one of them being an independent member.

As at 31 December 2018, the Company's Board comprised as follows:

Full name	Participation of Board members in other activities	Start date of the term of office at the Company's Board	End date of the term of office at the Company's Board
Vidmantas Salietis Chairman of the Board	Lietuvos Energija UAB (company code 301844044, address: Žvejų g. 14, LT-09310 Vilnius), Member of the Board, Director for Commerce and Services Energijos Tiekimas UAB (company code 302449388, address: Žvejų g. 14, LT-09310 Vilnius), Chairman of the Board Gamybos Optimizavimas UAB (company code 304972024, address: Žvejų g. 14, LT-09310 Vilnius), Member of the Board Elektroninių Mokėjimų Agentūra UAB (company code 136031358, address: Žvejų g. 14, LT-09310 Vilnius), Member of the Board NT Valdos UAB (company code 300634954, address: Smolensko g. 5, LT-03202 Vilnius), Chairman of the Board GetOn Energy SIA (company code 40103642991, address: Cēsu iela 31, LV-1012, Riga, Latvia), Member of the Board Geton Energy OU (company code 12433862, address: Harjumaa, Tallinn, Narva mnt 5, 10117 Estonia), Chairman of the Board	1 November 2018	31 October 2022
Dominykas Tučkus	Lietuvos Energija UAB (company code 301844044, address: Žvejų g. 14, LT-09310 Vilnius), Member of the Board, Director for Infrastructure and Development Lietuvos Energijos Gamyba AB (company code 302648707, address: Elektrinės g. 21, LT-26108 Elektrėnai), Chairman of the Supervisory Board Energijos Tiekimas UAB (company code 302449388, address: Žvejų g. 14, LT-09310 Vilnius), Member of the Board Vilniaus Kogeneracinė Jėgainė UAB (company code 303782367, address: Žvejų g. 14, LT-09310 Vilnius), Member of the Board Lietuvos Energija Renewables UAB (company code 304988904, address: P. Lukšio g. 5B, LT-08221 Vilnius), Member of the Board EURAKRAS UAB (company code 300576942, address: Žvejų g. 14,	1 November 2018	31 October 2022

	LT-09310 Vilnius), Chairman of the Board		
Paulius Dambrauskas, Independent member	TUULEENERGIA OU (company code 10470014, address: Pärnumaa, Varbla vald, Keskus, 88208 Estonia), Chairman of the Board Girteka Logistics UAB (company code 300569015, address: Račių g. 1, LT-03154 Vilnius), Executive Director	1 November 2018	31 October 2022

The General Manager acts as a single-person management body of the Company. The General Manager organises and controls the operations of the Company, acts on behalf of the Company and enters into agreements at his/her own discretion, except for the cases stipulated in the Articles of Association and legal acts. The powers of the General Manager, the procedure of his/her election and removal are established by laws, other legal acts and the Company's Articles of Association. Information on the Company's General Manager is presented below:

Full name	Start of term of office	End of term of office	Number of shares held at the Company
Mantas Mikalajūnas	4 November 2014	1 January 2023	-

The Company's Chief Executive Officer Mantas Mikalajūnas also serves as Member of the Board of Verslo Aptarnavimo Centras UAB (company code: 303359627, address: P. Lukšio g. 5B, 08221 Vilnius).

Information on the audit

The Company's auditor is PricewaterhouseCoopers UAB
J. Jasinskio 16B, LT-03163 Vilnius, Lithuania

References to or additional explanations of data reported in the annual financial statements

All financial data presented in the Annual Report have been calculated in accordance with International Financial Reporting Standards and they are consistent with the Company's unaudited financial statements.

Information on own shares held or acquired by the Company, the number of own shares acquired or disposed of during the reporting period, their nominal value and percentage of authorised share capital they represent, and information on payment for own shares, provided they are acquired or disposed of in return for a consideration.

In the beginning of the reporting period the Company had no own shares, nor acquired any during the reporting period.

Information on the Company's branches and representative offices

The Company has no branches and representative offices.

Significant events after the end of the reporting period

- **On 1 January 2019**, Lietuvos Energijos Tiekimas was merged with the gas trading company LITGAS. After the reorganisation, LET took over the long-term liquefied natural gas agreement with Norway's Equinor and the designated supply activity.
- On **1 January 2019**, Lietuvos Energijos Tiekimas reloaded a small-scale LNG cargo to the international commodity trading and logistics company Trafigura.
- On **23 January 2019**, Lietuvos Energijos Tiekimas sold two small-scale LNG cargoes to the Finnish gas company Gasum.
- On **31 January 2019**, Total, one of the largest global energy market players, became a new supplier of liquefied natural gas (LNG) to Lithuania. Lietuvos Energijos Tiekimas signed an agreement on the purchase of gas with the international group company Total Gas & Power Limited.
- **13 February 2019** The terms and conditions of the reorganisation of the natural gas and electricity supplier Lietuvos Energijos Tiekimas UAB, which is a part of Lietuvos Energija group of companies of state-owned capital, and the independent electricity supplier Energijos Tiekimas UAB have been announced.
- **12 March 2019** The group of companies Lietuvos Energija completed the selection of the head of the future commercial organisation, which will be established after the merger of Lietuvos Energijos Tiekimas with Energijos Tiekimas, and appointed Darius Montvilas to the position of the General Manager.

The Company's operation plans and forecasts

Given the constant changes in business environment, the Company seeks to diversify its activities in terms of both geographical coverage and development of its products and services to ensure that it meets the needs of customers and offers the best possible solutions.

Information on the Company’s research & development activities

The Company plans to continue a sustainable development of its current activities aimed at improving profitability and efficient use of assets in a long run. Research will be conducted on as-needed basis.

Financial instruments in use

Mark-to-market accounting is applied to all the financial and hedging instruments used by the Company.

Chief Executive Officer Mantas Mikalajūnas