

2018

LITGAS UAB

THE COMPANY'S ANNUAL FINANCIAL STATEMENTS

THE COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION, PRESENTED TOGETHER WITH THE ANNUAL REPORT AND INDEPENDENT AUDITOR'S REPORT



(All amounts in EUR thousands unless otherwise stated)

Translation note:

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

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The financial statements were approved on 14 March 2019 by Lietuvos Energijos Tiekimas UAB Chief Executive Officer, Finance and Operational Support Department Director, and Head of Accounting Services Centre of Verslo Aptarnavimo Centras UAB (acting under Order No IS18-77 of 13 August 2018):

Mantas Mikalajūnas
Acting CEO

Virgilijus Motiejūnas
Finance and Operational Support
Department Director

Giedruolė Guobienė
Verslo Aptarnavimo Centras UAB,
Head of Accounting Services Centre
acting under Order No IS18-77 of 13
August 2018



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.

Independent auditor's report

To the shareholders of Litgas UAB

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Litgas 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 statement of financial position as at 31 December 2019;
- the statement of 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.

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In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the annual report, we considered whether the annual report includes the disclosures required by the Law of the Republic of Lithuania on Financial Reporting by Undertakings 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
14 March 2019

LITGAS UAB, company code 302937277, Žvejų g. 14, LT-09310 Vilnius, Lithuania
STATEMENT OF FINANCIAL POSITION
At 31 December 2018

(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		-	-
Financial assets	5	22	22
Deferred income tax assets	22	628	1,070
Total non-current assets		650	1,092
Current assets			
Inventories	6	17,564	21,534
Prepayments, deferred expenses and accrued income	7	80	62
Amounts receivable under contracts with customers	8	18,920	12,711
Prepaid income tax		778	1,315
Other amounts receivable	9	1	536
Loans granted		6,999	-
Cash and cash equivalents	10	287	5,623
Total current assets		44,629	41,781
TOTAL ASSETS		45,279	42,873
EQUITY AND LIABILITIES			
Equity			
Share capital	11	13,050	13,050
Legal reserve	12	689	689
Retained earnings (loss)		(2,538)	1,990
Total equity		11,201	15,729
Liabilities			
Income tax payable		-	-
Trade payables		29,624	24,701
Advance amounts received, accrued expenses and deferred income	13	200	87
Other amounts payable	14	4,254	2,356
Total liabilities		34,078	27,144
TOTAL EQUITY AND LIABILITIES		45,279	42,873

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

LITGAS UAB, company code 302937277, Žvejų g. 14, LT-09310 Vilnius, Lithuania
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018
 (All amounts in EUR thousands unless otherwise stated)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Company	
		2018	2017
Revenue			
Revenue from contracts with customers	15	110,131	88,144
Other income		143	1
Operating expenses			
Cost of sales of gas	16	(112,721)	(93,955)
Depreciation and amortisation		-	(1)
Remuneration and related expenses	17	(390)	(319)
Other operating expenses	18	(575)	(500)
Total operating expenses		(113,686)	(94,775)
Operating profit (loss)		(3,412)	(6,630)
Finance income	19	72	56
Finance costs	20	(463)	(490)
Profit (loss) before income tax		(3,803)	(7,064)
Income tax for the year	21	-	-
Deferred income tax benefit (expenses)	22	469	1,063
Net profit (loss)		(3,334)	(6,001)
Other comprehensive income (loss)		-	-
Total comprehensive income (loss) for the period		(3,334)	(6,001)

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

STATEMENT OF CHANGES IN EQUITY

Company	Note	Share capital	Legal reserve	Retained earnings	Total
Balance at 1 January 2017		13,050	246	11,434	24,730
Transfer to reserves and changes in reserves	12	-	443	(443)	-
Dividends		-	-	(3,000)	(3,000)
Net profit (loss) for the period		-	-	(6,001)	(6,001)
Balance at 31 December 2017		13,050	689	1,990	15,729
Balance at 1 January 2018		13,050	689	1,990	15,729
Transfer to reserves and changes in reserves		-	-	-	-
Dividends		-	-	(1,194)	(1,194)
Net profit (loss) for the period		-	-	(3,334)	(3,334)
Balance at 31 December 2018		13,050	689	(2,538)	11,201

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

STATEMENT OF CASH FLOWS

	Company	
	2018	2017
Cash flows from operating activities		
Net profit (loss)	(3,334)	(6,001)
Adjustments for non-cash items and changes in working capital:		
Depreciation and amortisation expenses	-	1
Change in deferred income tax	442	(1,063)
Income tax expenses		-
Elimination of result of financing activities	391	434
Change in vacation reserve accrual	(17)	10
Changes in working capital:		
(Increase) decrease in trade receivables and other amounts receivable	(5,641)	2,885
(Increase) decrease in deferred expenses	(9)	7
Increase (decrease) in amounts payable	8,267	4,794
(Increase) decrease in inventories and prepayments	3,960	881
Income tax paid	(778)	(2,689)
Net cash generated from (used in) operating activities	3,281	(741)
Cash flows from investing activities		
Loans (granted)	(6,999)	-
Interest received	28	22
Dividends received	11	4
Net cash flows from (used in) investing activities	(6,960)	26
Cash flows from financing activities		
Credit line received		-
Credit line repaid		-
Interest paid	(463)	(473)
Dividends paid	(1,194)	(3,000)
Net cash flows from (used in) financing activities	(1,657)	(3,473)
Increase (decrease) in cash and cash equivalents (including overdraft)	(5,336)	(4,188)
Cash and cash equivalents (including overdraft) at the beginning of the period	5,623	9,811
Cash and cash equivalents (including overdraft) at the end of period	287	5,623

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

NOTES TO THE FINANCIAL STATEMENTS

1 General information

LITGAS UAB (hereinafter "the Company") is a private limited liability company registered on 17 December 2012 in the Republic of Lithuania. Its registered office address is at: Žveju g. 14, Vilnius.

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

	At 31 December 2018		At 31 December 2017	
	Number of shares held	Ownership interest	Number of shares held	Ownership interest
Lietuvos Energija UAB	45,000	100%	45,000	100%
Total	45,000	100%	45,000	100%

All the shares of the Company are ordinary registered shares with the nominal value of EUR 0.29 each, which were fully paid up at 31 December 2018.

The Company is engaged in supply of liquefied natural gas (LNG) via LNG Terminal located in Klaipėda, and trade in natural gas. The prices for liquefied natural gas supplied to energy producers and profit margins are regulated, whereas other gas supplies are not regulated.

The Company has a licence for supply of natural gas issued by the National Commission for Energy Control and Prices (hereinafter "the Commission").

As at 31 December 2018, the Company had no subsidiaries, branches or representative offices.

As at 31 December 2018, the Company had 14 (31 December 2017: 16) employees.

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 the 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 going concern basis and under the historical cost convention.

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:

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 significant 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 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.

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 2018 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 to the standards 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, 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. On 1 January 2019, the Company recognised assets and liabilities managed under the right of use in the amount of EUR 82 thousand, which indicates the impact of the first-time adoption of IFRS 16 on the Company's financial statements.

The impact of the first-time adoption of IFRS 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				
Property, plant and equipment		-	82	82
EQUITY AND LIABILITIES				
Non-current liabilities				
Other non-current amounts payable and liabilities		-	61	61
Current liabilities				
Other current amounts payable and liabilities		-	21	21

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 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 a 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:

- 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;
- Presentation and disclosure. Revisions have been made to the concepts on presentation and disclosure, including when to classify income and expenses in comprehensive income;
- 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 Intangible assets

Intangible assets are recognised at acquisition (production) cost less accumulated amortisation and impairment losses, if any. Intangible assets are amortised on a straight-line basis over their useful lives.

The following useful lives have been determined for individual categories of intangible assets:

Category of intangible assets	Average useful life (number of years)
Licences	3
Software	3

2.3 Property, plant and equipment

Property, plant and equipment is deemed to include assets operated and controlled by the Company, from which the Company expects future economic benefits, and which will be used for longer than one year, and the cost of which can be measured reliably.

Property, plant and equipment is recognised 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.

The following useful lives have been determined for individual categories of property, plant and equipment:

Category of property, plant and equipment	Average useful life (number of years)
Computer hardware	3–6
Other PP&E	4

Any gain or loss arising on the disposal of property, plant and equipment is recognised as profit or loss for the year.

2.4 Financial assets

All purchases and sales of financial assets are recognised on the trade date. Financial assets are initially recognised at fair value. The subsequent accounting for financial assets depends on their classification as follows:

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 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. 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 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.

2.5 Impairment of assets

Impairment of financial assets

Expected credit losses

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

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

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

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

Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset,

the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, otherwise they are allocated to the smallest groups of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at each reporting date, and whenever there is an indication that the asset may be impaired.

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

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

2.6 Inventories

The Company's inventories comprise liquefied natural gas in the LNG Terminal and the ground LNG distribution station, and they are carried at acquisition cost. The acquisition cost of inventories comprises the purchase price and related taxes plus overheads incurred during transportation of inventories to their current location. The cost is estimated using the periodic weighted average method, i.e. the cost is determined on the last day of a month and estimated as a weighted average of the opening balance of inventories in that month and all purchases of inventories made during that month.

2.7 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.

2.8 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 through the relevant shorter period.

2.9 Lease

The Company is a lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

2.10 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.

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. Benefits falling due more than 12 months after balance sheet date are discounted to their present value.

2.11 Income tax expense

Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated in accordance with the requirements set forth in the Lithuanian tax legislation.

Current year income tax

Current income tax assets and liabilities are recognised at amounts that are expected to be recovered from or paid to the tax administration authority. Income tax is calculated based on the tax laws and tax rates effective at the reporting date. The standard income tax rate applied in the Republic of Lithuania in 2018 was 15%. (2017: 15 per cent).

Deferred tax

Deferred income tax is accounted for using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised on all temporary differences that will increase the taxable profit in future, whereas deferred tax assets are recognised to the extent it is probable that they will reduce the taxable profit in future. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from initial recognition of goodwill (or negative goodwill); or if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax assets are reviewed at the date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available for the Company to realise all or part of deferred income tax assets. Deferred income tax assets are reduced to an amount which is likely to reduce the taxable profit in future. Deferred income tax assets and liabilities are estimated using the tax rate that has been applied when calculating income tax for the year when the related temporary differences are to be realised or settled.

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

Current and deferred income tax for the period

Current and deferred income tax are recognised as income or expenses and included in net profit or loss for the reporting period, except for the cases when tax arises from a transaction or event that is recognised directly in equity in the same or subsequent period or on business combination.

2.12 Revenue recognition

The Company recognises revenue under contracts with customers at the time and to the extent that the transfer of goods or services promised to customers would show the amount which corresponds 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.

Sales revenue

Natural gas is sold to regulated energy producers at the market price set and approved by the Commission. As from 2016, the market price is set once per year, with a possibility to revise it on a quarterly basis if the adjusted projected market price differs from the effective price by more than 10%. The Company sold natural gas to regulated energy producers at a price of 19.60 EUR/MWh in the first quarter of 2018 (under the Commission's Resolution No O3E-473 of 30 October 2017 *On the approval of the projected market price for natural gas*), at a price of 18.97 EUR/MWh in the second quarter of 2018 (under the Commission's Resolution No O3E-53 of 28 February 2018 *On the approval of the target price for natural gas*), at a price of 22.71 EUR/MWh in the third quarter of 2018 (under the Commission's Resolution No O3E-159 of 17 May 2018 *On the approval of the target price for natural gas*), and at a price of 22.88 EUR/MWh in the fourth quarter of 2018 (under the Commission's Resolution No O3E-269 of 31 August 2018 *On the approval of the target price for natural gas*).

Non-regulated sales of natural gas are conducted at the prices agreed between the parties.

Revenue from agreements on the purchase and sale of natural gas concluded with energy producers are recognised on the basis of invoices issued for the gas actually supplied to customers. The price of gas sold to energy producers is set by the Commission, and the quantities of gas actually supplied to customers are accounted for by both the seller and the buyer by concluding a deed of sale and purchase of natural gas.

Revenue from the LNGT security component

Revenue from the LNGT security component is recognised with reference to the reports received from natural gas transmission system operator (TSO) who administers collection and distribution of these payments. Based on the reports received, the Company issued VAT invoices to the TSO.

Revenue from the LNGT security component is considered to be part of the revenue of designated supply regulated activity. Pursuant to Article 5.2 of the Law on LNG Terminal, all users of natural gas transmission system (including the end users) are required to pay additional security component together with other fees payable for natural gas transmission services. The payments are collected by the TSO directly from the consumers or from natural gas suppliers in case the consumers have no direct contracts with the TSO. The Commission decides annually on the amount of the security component in proportion to the quantities of natural gas consumed by the users (either through direct consumption or resale). Based on the Commission's Resolution, part of the collected TSO funds are transferred to the Company.

Congestion and storage services

In view of the fact that the Company acts as an intermediary in rendering LNG congestion and storage services and does not incur any inventory price risk, the Company does not account for LNG acquired for congestion purposes as its inventory, but rather accounts for revenue from provision of congestion services in the income statement upon the completion of these services.

Balancing services

For the purpose of ensuring balancing of the liquefied natural gas supply schedule, the Company sells the liquefied natural gas supply balancing services. 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 sale 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 the risk of fluctuations in prices. 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.

The service of the quantity of liquefied natural gas supplied/accepted, i.e. the balancing service, is recognised as revenue 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.

2.13 Expense recognition

Expenses are recognised on an accrual basis during the reporting period in which they are incurred, regardless of the timing of the cash payments.

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 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.

The transaction also includes non-monetary exchanges, which include the transmission of 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 and income (expenses) from the effect of fluctuations in the natural gas price. In its entirety, the transaction is regarded as monetary exchange transaction, since the part of monetary exchanges is significant.

The value of the accepted natural gas is accounted for as current assets under the line item 'Inventories' and liabilities under the line item 'Trade payables' in the statement of financial position during the period in which natural gas is actually accepted.

The value of the transmitted natural gas is recognised as revenue in the statement of comprehensive income at the moment natural gas is actually accepted/transmitted.

The amount of service of the quantity of natural gas supplied/accepted, i.e. the balancing service, is recognised as expenses 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.

The risk of fluctuations in the natural gas price 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.

Income or expenses related to the sale of natural gas, income or expenses related to the risk of fluctuations in the natural gas price, and the balancing service are deemed as one joint performance obligation. The overall result of the transaction is presented by excluding respective expenses from the income attributed to the transaction.

2.14 Provisions

Provisions are recognised when the Company has a current legal obligation or irrevocable commitment as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be reliably estimated.

2.15 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.

2.16 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.

2.17 Related parties

Related parties include the shareholder, heads of administration and their deputies, their close family members, state-owned companies and entities that directly or indirectly (through an intermediary) exercise control over Lietuvos Energija UAB are controlled individually or jointly with another party, which is also treated as a related party, provided that such relation empowers one of the

parties to exercise control or make significant influence over the other party in making decisions related to financial and operating policies.

2.18 Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Legally enforceable right must not be contingent on future events, and must be legally enforceable by an entity and all counterparties in all of the following circumstances: the normal course of business, the event of default, the event of insolvency or bankruptcy.

2.19 Subsequent events

Subsequent events 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. Subsequent events that are not adjusting events are disclosed in the notes when material.

2.20 Regulated activities

The Company is engaged in the designated supply regulated activities and non-regulated activities. Profit margins of designated supply regulated activities are regulated by the Commission. The Company earns a portion of revenue by selling natural gas to regulated energy producers at the projected market price of natural gas as established by the Commission. The remaining portion of expenses is compensated via the LNG Terminal security component. The amount of the LNG Terminal security component depends on the gas prices projected in the upcoming year, projected gas supply volumes, deviation of the previous year profit from the regulated amount, and other factors. The Company's costs actually incurred during a year may differ from projected costs used in determining the prices, as well as the actual supply volume may differ from the projected one. Accordingly, the Company's actual profit may be at variance with the regulated level, and the difference will have impact on the amount of the LNG Terminal security component attributable to LITGAS. The Company does not recognise assets or liabilities from regulated activities, the purpose of which would be to match current year profit with the regulated level in case the difference had impact on the future supply prices and would be recovered/refunded on provision of services in the future.

3 Financial assets and financial liabilities and risk management

3.1 Financial assets and financial liabilities

As at 31 December 2018, the Company's financial assets comprised cash and cash equivalents, amounts receivable and available-for-sale securities, whereas financial liabilities comprised current liabilities to banks and trade payables for the services received.

Financial instruments by category:

Company	Loans and receivables	Available-for-sale financial assets
At 31 December 2017		
Trade receivables and other amounts receivable	13,247	-
Equity securities	-	22
Cash and cash equivalents	5,623	-
Financial assets measured at amortised cost	18,870	22
At 31 December 2018		
Trade receivables and other amounts receivable	18,921	-
Equity securities	-	22
Cash and cash equivalents	287	-
Financial assets measured at amortised cost	19,208	22
Company	Other financial liabilities carried at amortised cost	Financial liabilities at fair value through profit or loss
At 31 December 2017		
Trade payables and other amounts payable	25,468	-
At 31 December 2018		
Trade payables and other amounts payable	29,903	-

3.2 Financial risk management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk (interest rate risk) and capital management risks. In managing these risks, the Company seeks to mitigate the negative effects of factors on the Company's financial performance. The Company is not exposed to the foreign exchange risk since all assets and liabilities of the Company are denominated in the euro.

Credit risk

The Company's exposure to credit risk arises from both the Company's main activity (trade receivables and other amounts receivable), and from financing activity (cash and cash equivalents).

Credit risk arising from cash at bank balances is limited because the Company conducts transactions with the banks with high credit ratings assigned by international credit rating agencies. The Company holds cash balances in the accounts of banks in Lithuania assigned with a long-term credit rating not lower than 'A-' according to the Standard & Poor's rating agency. As at 31 December 2018, the Company's free liquid funds were held in bank accounts, the Company had no investment in money market debt security instruments, i.e. time deposits, bonds of creditworthy financial institutions, debt securities issued by the Government of the Republic of Lithuania.

As at 31 December 2018, the Company trade receivables past due but not impaired amounted to EUR 844 thousand, whereof amounts past due up to 30 days amounted to EUR 769 and amounts past due more than 30 days amounted to EUR 75 thousand. Based on the standard agreements, the invoices related to the designated supplier's activity must be paid by energy producers within 10 calendar days. No security measures are used for the designated supplier's activity. The natural gas supplied by the Company is bought by energy producers the activity and pricing of which are regulated by the Commission. Credit risk related to these past due amounts is limited as this group of customers generates guaranteed regulated revenue.

As at 31 December 2017, the Company's trade receivables past due but not impaired amounted EUR 484 thousand, whereof amounts past due up to 30 days amounted to EUR 441 thousand and amounts past due more than 30 days amounted to EUR 43 thousand.

Liquidity risk

Liquidity risk is managed by planning future net cash flows of the Company. To mitigate liquidity risk, the Company makes cash flow forecasts. A cashpool agreement is used to manage the risk of overdue receivables and mismatches in short-term cash flows (inflows and outflows). Also the credit line agreement with Swedbank AB and the Lietuvos Energija UAB Group account (cashpool) agreement could be used to finance the amounts payable in relation to the acquisition of LNG and supply of natural gas (Note 22).

The Company's current ratio (total current assets / total amounts payable within one year and liabilities) and quick ratio ((total current assets – inventory) / total amounts payable within one year and liabilities) were 1.31 and 0.79, respectively, as at 31 December 2018 (31 December 2017: 1.54 and 0.75, respectively).

Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates.

The credit and guarantee agreement of the Company with Swedbank AB and a cashpool agreement, which are used to finance the working capital, bear a variable interest rate linked with EURIBOR-1M, thereby leading to exposure to interest rate risk.

A fixed interest rate is applied in respect of guarantees and letters of credits issued with Swedbank AB and AB SEB Bank.

As at 31 December 2018, the Company used its financing agreements only for issuing letters of credit and guarantees that are subject to fixed interest rates.

To manage interest rate risk, the Company does not enter into interest rate swap contracts, nor uses any other derivative financial instruments.

Fair value of financial assets and liabilities

The Company's financial assets consist of trade receivables, other amounts receivable and cash and cash equivalents, the carrying amount of which approximate their fair value. The Company's financial liabilities consist of trade payables to be settled within 30 days. The carrying amount of these financial liabilities approximates their 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. The fair value of financial assets and financial liabilities is based on quoted prices in an active market or a discounted cash model, depending on the circumstances.

Capital management

For the purpose of capital management, capital includes share capital and retained earnings. The Company's main objective when managing capital is to safeguard compliance with external capital requirements.

The Company manages its capital structure and adjusts it in view of changes in economic circumstances and its operational risks. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, or issue new shares.

Pursuant to the Lithuanian Law on Companies, the Company's equity must be not less than 50% of its authorised share capital. As at 31 December 2018 and 31 December 2017, the Company complied with these requirements.

4 Critical accounting estimates and uncertainties

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by the EU, requires management to use certain assumptions and make accounting estimates that affect the reported amounts of assets, liabilities, income and expenses, and disclosure of contingencies. Future events may cause assumptions used in arriving at the accounting estimates to change. The effect of any changes in accounting estimates will be recorded in the financial statements, when determinable. Critical accounting estimates and uncertainties applied in the preparation of this financial information are set out below.

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 accumulated loss can be utilised. Significant judgement by the management is required in determining the extent to which the deferred income tax asset could be recognised based on the timing and the level of the future

taxable profit, and on future tax structuring strategies. In 2018, the Company sold its accumulated tax losses for 2016–2017 to a Lietuvos Energija UAB group company. After the completion of the reorganisation, the tax losses of 2018 will be transferred to Lietuvos Energijos Tiekimas UAB, therefore, the Management accounted for deferred income tax assets.

Inventory write-down

As at 31 December 2018, the Company's inventories consisted of liquefied natural gas held in the LNG Terminal 'Independence' and the ground LNG distribution station in Klaipėda. At the end of each reporting period, the Company assesses the net realisable value of the inventories. The Company accounts for the inventories at a lower of weighted cost and net realisable value inside or outside the local market. The net realisable value of LNG is measured on the basis of the prices of LNG cargoes traded in the SPOT market during the relevant period. As at 31 December 2018, the Company's management assessed whether the carrying amount of inventories was not higher than the net realisable value, and concluded that there was no impairment.

Revenue from contracts with customers

During the preparation of the Company's financial statements for 2018, significant decisions were made with respect to the application of IFRS 15 Revenue from Contracts with Customers, which have a material impact on the determination of the amount and time of revenue from contracts with customers.

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 to the customer based on actual readings of the meters as at the end of each month.

The price of the transaction is determined in a simple manner, as it is a fixed amount that does not comprise the variable or 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 obligation to return services or funds.

5 Financial assets

	Company	
	At 31 December 2018	At 31 December 2017
Available-for-sale financial assets	22	22
Carrying amount	22	22

As at 31 December 2018, the Company's available-for-sale financial assets consisted of the shares of Verslo Aptamavimo Centras UAB, which account for 3.75% of authorised share capital of Verslo Aptamavimo Centras UAB.

6 Inventories

	Company	
	At 31 December 2018	At 31 December 2017
Liquefied natural gas at LNG Terminal	17,308	21,225
Liquefied natural gas in the ground LNG distribution station	256	309
Carrying amount	17,564	21,534

7 Prepayments, deferred expenses and accrued income

	Company	
	At 31 December 2018	At 31 December 2017
Prepayments	30	21
Deferred expenses	50	41
Carrying amount	80	62

8 Amounts receivable under contracts with customers

	Company	
	At 31 December 2018	At 31 December 2017
Amounts due from regulated energy producers for natural gas sold	15,874	10,347
Amounts due from other consumers for natural gas sold	442	404
Amounts receivable for LNGT security component	2,604	1,960
Carrying amount	18,920	12,711

9 Other amounts receivable

	Company	
	At 31 December 2018	At 31 December 2017
Amounts receivable from related companies	1	536
Carrying amount	1	536

In 2018, other amounts receivable comprised the amount receivable from Lietuvos Energijos Tiekimas UAB for consulting services equal to EUR 1 thousand. In 2017, other amounts receivable comprised the amount to be received from Lietuvos Dujų Tiekimas UAB for the natural gas supply balancing services equal to EUR 536 thousand (Note 25).

10 Cash and cash equivalents

	Company	
	At 31 December 2018	At 31 December 2017
Cash and cash equivalents	287	5,623
Carrying amount	287	5,623

11 Share capital

As at 31 December 2018, the Company's share capital consisted of 45 million ordinary registered shares with the nominal value of EUR 0.29 each, EUR 13,050 thousand in total. All the shares were fully paid up.

12 Reserves

The legal reserve is compulsory under the Lithuanian laws. Annual transfers of 5% of net profit are required until the reserve reaches 10% of the authorised share capital. The legal reserve cannot be used for the payment of dividends, and it is formed to cover the Company's future losses only.

As at 31 December 2018, the Company's legal reserve amounted to EUR 689 thousand (2017: EUR 689 thousand).

13 Advance amounts received, accrued expenses and deferred income

	Company	
	At 31 December 2018	At 31 December 2017
Advance amounts received	-	1
Vacation reserve accrual	14	31
Other accrued expenses	186	55
Total	200	87

As at 31 December 2018, accruals of expenses included accrued expenses for the storage of gas owed to Conexus Baltic Grid AS in the amount of EUR 143 thousand, legal expenses owed to Vilnius Court of Commercial Arbitration in the amount of EUR 24 thousand, and other accrued expenses in the amount of EUR 19 thousand.

14 Other amounts payable

	Company	
	At 31 December 2018	At 31 December 2017
Taxes other than income tax	3,955	1,581
Trade payables	279	768
Payroll-related liabilities	20	7
Total	4,254	2,356

The terms of current financial liabilities are as follows:

- Trade payables are interest-free, with the settlement term of 15 to 30 days;
- The terms of amounts payable to related parties are disclosed in Note 24.

15 Revenue from contracts with customers and other operating income

	Company	
	2018	2017
Revenue from sale of natural gas to regulated energy producers	80,774	53,794
Revenue from sale of natural gas to non-regulated energy producers	1,109	428
Revenue from natural gas supply balancing services	5,443	14,919
Revenue from LNGT security component	22,805	18,821
Revenue from LNG congestion	-	182
Other revenue	143	1
Total	110,274	88,145

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. In rare cases, an agreement on deferred payment conditions might be made but payment deferral would not exceed twelve months in any case; therefore, the price of the transaction is not based on the impact of financing relationship on the recognition of revenue. The Company had no revenue from performance obligations fulfilled (or partially fulfilled) in prior periods (e.g. changes in the price of the transaction) and recognised during the reporting period. As at 31 December 2018, the Company assessed the potential liabilities to return funds to the customers and determined no balances of such liabilities.

16 Cost of sales

	Company	
	2018	2017
Expenses of purchase of natural gas from regulated energy producers for trade purposes	107,918	76,441
Expenses of purchase of natural gas from non-regulated energy producers for trade purposes	987	373
Expenses of natural gas supply balancing services	1,784	15,860
Expenses of purchase of services related to gas from regulated energy producers	1,980	1,161
Expenses of purchase of services related to gas from non-regulated energy producers	52	120
Total	112,721	93,955

17 Remuneration and related expenses

	Company	
	2018	2017
Remuneration and related expenses	310	236
Social security contributions	96	73
Change in vacation reserve	(17)	10
Other expenses related to remuneration	1	-
Total	390	319

18 Other expenses

	Company	
	2018	2017
Insurance expenses	177	172
Business support services	64	48
Consultation expenses	84	79
Legal services	110	66
IT expenses	53	39
Rent of premises and utility services	29	29
Business trip expenses	13	14
Transportation expenses	7	8
Marketing and advertising expenses	4	1
Representation expenses	1	2
Other expenses	33	42
Total	575	500

19 Finance income

	Company	
	2018	2017
Other finance income	33	30
Interest income	28	22
Dividends received	11	4
Total	72	56

20 Finance costs

	Company	
	2018	2017
Interest expenses	463	473
Other finance costs	-	17
Total	463	490

21 Income tax expenses

Income tax expenses reported in the financial statements can be reconciled to income tax expenses calculated by applying an income tax rate stipulated in legal acts to profit before tax:

	Company	
	2018	2017
Profit (loss) before income tax	(3,803)	(7,063)
Current income tax expenses, using an effective income tax rate (15%)	570	1,059
Non-deductible expenses for income tax purposes – permanent differences	(25)	(1)
Non-taxable income for income tax purposes	23	5
Effect of transferred tax losses	(99)	-
Income tax (expenses) benefit reported in (profit)/loss	469	1,063

22 Deferred income tax assets

As at 31 December 2018, deferred income tax assets and liabilities were recognised at income tax rate of 15%.

As at 31 December 2018, deferred income tax comprised as follows:

	Company	
	At 31 December 2018	At 31 December 2017
Deferred income tax assets		
Accrued expenses and accrued social security contributions on vacation reserve	2	8
Tax loss carry-forward	626	1,062
Deferred income tax assets before write-down to net realisable value	628	1,070
Less: write-down to net realisable value	-	-
Deferred income tax assets – net	628	1,070
Deferred income tax liabilities	-	-
Deferred income tax assets (liabilities) – net	628	1,070

23 Financial liabilities

On 15 April 2016, a credit line agreement was signed with Swedbank AB for the issuance of letters of credit and guarantees and for financing of transactions related to the activities of liquefied natural gas and natural gas supply. The maximum credit line amount was EUR 70 million. The agreement expired on 31 December 2018.

As at 31 December 2018, the bank had issued a guarantee for the amount of EUR 61.3 million and expiry date of 31 December 2024. Amount of EUR 61.3 million from the credit line was reserved to secure the guarantee.

On 15 November 2016, a cashpool agreement was signed with Lietuvos Energija UAB allowing for inter-company loan transactions. Based on the cashpool agreement, the Company's lending and borrowing limit was EUR 30 million. As at 31 December 2018, the limit had not been used.

24 Off-balance sheet commitments and contingencies

Guarantees issued and guarantees receivable

Information on bank guarantees and letters of credit issued as at 31 December 2018 is disclosed in Note 23. As at 31 December 2018, no guarantees or sureties were issued by the Company in its own name.

Operating lease

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

	2017	
Within the first year	23	25
From two to five years	64	87
After 5 years		-
Total	87	112

The Company leases administrative premises and a car used for the Company's activities. The leases agreements in effect as at 31 December 2018 expire on 31 December 2022 and 09 May 2019, respectively.

25 Related-party transactions

Related parties are deemed to include the Company's shareholders who directly or indirectly control the Company and its management members.

The following transactions were conducted with related parties:

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

	Company	
	2018	2017
Parent company:		
Lietuvos Energija UAB	-	2
Parent company's subsidiaries:		
Lietuvos Energijos Gamyba AB	1,798	1,916
Lietuvos Energijos Tiekimas UAB	28,738	14,919
Verslo Aptamavimo Centras UAB	9	4
Energetikos Paslaugų ir Rangos Organizacija UAB	4	1
Energijos Tiekimas UAB	4	-
Energijos Skirstymo Operatorius AB	9	-
Total	30,562	16,842

The Company sells natural gas to Lietuvos Energijos Gamyba AB. The Company sells gas to Lietuvos Energijos Tiekimas UAB for the rebalancing of the supply schedule.

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

	Company	
	2018	2017
Parent company:		
Lietuvos Energija UAB	113	101
Parent company's subsidiaries:		
NT Valdos UAB	19	36
Verslo Aptarnavimo Centras UAB	101	67
Technologijų ir Inovacijų Centras UAB	53	39
Lietuvos Energijos Tiekimas UAB	22,823	16,203
Lietuvos Energija Support Fund	-	3
Transporto Valdymas UAB	5	-
Lietuvos Energijos Gamyba AB	2	1
Total	23,116	16,450

The Company purchases management services from parent company Lietuvos Energija UAB.

The Company purchases natural gas supply schedule balancing services from Lietuvos Dujų Tiekimas UAB.

The Company paid dividends of EUR 1,194 thousand for the year 2018 to the parent company Lietuvos Energija UAB (2017: EUR 3,000 thousand).

Amounts receivable from related parties:

	Company	
	At 31 December 2018	At 31 December 2017
Parent company's subsidiaries:		
Lietuvos Energijos Gamyba AB	189	134
Lietuvos Energijos Tiekimas UAB	836	550
Technologijų ir Inovacijų Centras UAB	92	-
Energijos Skirstymo Operatorius AB	4,229	-
Energijos Tiekimas UAB	1,829	-
Energetikos Paslaugų ir Rangos Organizacija UAB	68	-
Verslo Aptarnavimo Centras UAB	3	5
Total	7,246	689

Energetikos Paslaugų ir Rangos Organizacija UAB is under liquidation. As at 31 December 2018, no provision of doubtful debts was formed with regard to Energetikos Paslaugų ir Rangos Organizacija UAB, as the current loan had been repaid as at 31 January 2019.

Amounts payable to related parties:

	Company	
	At 31 December 2018	At 31 December 2017
Parent company:		
Lietuvos Energija UAB	11	10
Parent company's subsidiaries:		
NT Valdos UAB	-	2
Technologijų ir Inovacijų Centras UAB	3	10
Lietuvos Energijos Tiekimas UAB	823	1,132
Transporto Valdymas UAB	1	-
Verslo Aptarnavimo Centras UAB	10	8
Total	848	1,162

Compensation to management:

	Company	
	2018	2017
Salaries and other payments to management	99*	66
Whereof: Termination benefits, benefits to Board Members	-	-
Number of management members	2	2

* including benefits for unused vacation days in the amount of EUR 17 thousand.

Until 31 May 2018, the Company's management included its general manager and one department director. From 1 June 2018, following the changes in the Company's structure, the top-level management includes the general manager. As at 31 December 2018, no loans, guarantees or any other benefits were paid or calculated, nor were any assets transferred to the Company's management.

26 Events after the end of the reporting period

On 4 September 2018, the Company's sole shareholder approved the terms and conditions of the reorganisation, according to which LITGAS UAB is to cease its activities without the liquidation procedures and is to be merged with Lietuvos Energijos Tiekimas UAB as of 1 January 2019, which will take over all the assets, rights and obligations of LITGAS UAB and will continue to carry out the activities after the reorganisation.

The Amendments to the Law on the Liquefied Natural Gas Terminal, regulating the new model of the designated supply activity, came into force from 2019. The main changes relate to the revocation of the obligation for energy producers to acquire gas via the LNG Terminal. The model of the realisation of the required LNG Terminal quantity by the designated supplier has also been changed by simultaneously detailing the designated supplier's substantiated expenses of the supply of the required LNG Terminal quantity. The company carrying out the designated supply activity will operate in the competitive natural gas market under market conditions and will assume the responsibility of realising the required LNG Terminal quantity in the most efficient way.

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

ANNUAL REPORT OF LITGAS UAB FOR THE FINANCIAL YEAR 2018

The annual report of LITGAS UAB (hereinafter "the Company" or "LITGAS") 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.

LITGAS UAB was reorganised by way of merger. As of 1 January 2019, Litgas UAB, which ceased its activities as a legal entity following the reorganisation, was merged with Lietuvos Energijos Tiekimas UAB, which continues the activities and which took over all the assets, rights and obligations of LITGAS UAB following the reorganisation.

Details of the Company

Company name	LITGAS UAB
Legal form	Private limited liability company
Authorised share capital	EUR 13 050 000
Date of registration	17 December 2012
Place of registration	state enterprise Centre of Registers
Company code	302937277
Registered office address	Žvejų g. 14, Vilnius
Register of the Company	state enterprise Centre of Registers
Telephone	+370 5 278 2010
Fax	+370 5 278 2115
E-mail	info@letiekimas.lt
Website	www.letiekimas.lt

Description of the Company's activities and service market

The Company's core lines of business include liquefied natural gas (hereinafter "LNG") supply via the LNG Terminal in Klaipėda, natural gas trading, and LNG congestion activities. The Company has been issued a licence for natural gas supply activity by the National Commission for Energy Control and Prices (hereinafter "the NCECP" OR "the Commission"). LITGAS is part of the group of energy companies in Lithuania – the Lietuvos Energija group.

Based on the Lithuanian Energy Minister's Order of 10 February 2014, LITGAS was approved as a designated supplier. The Company, as a designated supplier, is acknowledged as an undertaking of significant importance for national security. The designated supplier is responsible for securing the required volume of natural gas supplied via the LNG Terminal in Klaipėda in accordance with the procedure and terms prescribed by laws. In addition, this contributes to attainment of Lithuania's strategic goals, namely: creates and maintains open access to world natural gas market and provides possibility for the suppliers to take advantage of its benefits; secures supply safety and encourages real competition in the Lithuanian market of natural gas supply services.

The Company's main customers are regulated energy producers. In 2018, the major customers included Vilniaus Šilumos Tinklai AB, Klaipėdos Energija AB, Panevėžio Energija AB, Kauno Energija AB, Šiaulių Energija AB.

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

Major events of 2018:

- **In March 2018**, LITGAS took advantage of the situation in the market, i.e. a temporary increase in liquefied natural gas (LNG) prices, and, by optimising the schedule of LNG cargoes of the designated supply, reduced the costs of the designated supply of the Klaipėda LNG Terminal by approx. EUR 1 million. The LNG Terminal's maintenance costs (the so-called 'LNG Terminal component'), as well as expenses incurred by natural gas consumers, will be reduced by the same amount in 2020. Nearly one third of the March LNG cargo to be delivered was redirected to the markets paying higher prices. The redirected part of the cargo was brought in July. LITGAS achieved the EUR 1 million-worth savings for gas consumers as a result of the discounts granted for the changed schedule of LNG cargoes and compensations for gas exchange transactions.
- **In July 2018**, LITGAS for the first time organised the auction of the excess of the minimum quantity of natural gas, selling 110 GWh of natural gas. The auction helped to ensure transparency and efficiency of the sale of natural gas, as well as the best price. The auction sold part of the cargo brought to the LNG Terminal in July. The excess of the required LNG quantity resulted from the lower gas consumption of the state-regulated energy producers and lower technological expenses of the LNG Terminal than estimated.
- **On 17 August 2018**, a decision was made to reorganise LITGAS by merging it with Lietuvos Energijos Tiekimas as of 1 January 2019. This is in line with the strategy of Lietuvos Energija to gradually consolidate the activities of trade and supply of electricity and natural gas.
- **In September 2018**, LITGAS signed four agreements on the LNG supply by land: two of them were signed with Poland companies, and the remaining two were signed with Estonian companies. Until the end of the year, the Company sold 15 thousand MWh, or around 120 LNG carriers. Gas was supplied from the LNG distribution station managed by Klaipėdos Nafta AB.

- **On 31 October 2018**, the European Commission, under EU state aid rules, approved both the currently effective state aid scheme, according to which LITGAS receives compensations for the supply of the required LNG quantity to the LNG Terminal, and the changed state aid scheme, which is applicable from 2019 to the end of 2024.
- **On 22 November 2018**, the Commission approved the operating expenses of LITGAS which amounted to EUR 3.3 million (2018: EUR 3.3 million) and will be included in the security component of 2019. Although operating expenses remained at the same level, costs of the designated supply increased by more than EUR 17 million due to the record growth in gas prices, compared to the costs estimated for the second half of 2018.
- **On 18 December 2018**, the Seimas of the Republic of Lithuania, seeking to set forth the conditions for competitive and integrate development of the natural gas market, providing additional opportunities to trade in natural gas in the wholesale and retail markets not only in Lithuania but also abroad, adopted amendments to the Law on Liquefied Natural Gas (LNG) Terminal, which replaced the regulation of the supply of the required LNG quantity to the LNG Terminal.
- **On 28 December 2018**, the National Commission for Energy Control and Prices, having regard to the adopted amendments to the Law on the LNG Terminal, made changes to the Methodology of Setting Regulated Prices in the Natural Gas Sector and recalculated the additional natural gas supply security component to be included in the natural gas transmission price, reducing it by 10% from the one approved on 22 November 2018.

Business environment

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. Last year, the development of small-scale business continued to be successful in both the marine sector and inland sector.

- LNG prices were higher by one third in the international LNG market, as compared to 2017, which resulted in the decrease in LNG imports to the LNG Terminal. In 2018, LNG imports increased by over 9 TWh, which accounted for 39% of Lithuania's entire demand of natural gas.
- After the operator of the LNG Terminal established additional ground infrastructure, commercial companies started to use it. The main customer of this station last year included LITGAS UAB, which brought 30 thousand MWh of LNG to the station during 2018. The major share of this quantity was transported by gas carriers to Estonia and Poland.
- Natural gas exchange created opportunities for trade in the exchange in all three Baltic countries.

Description of key risks and uncertainties faced by the Company

Political/regulatory risks

The Company's operations are regulated by the Lithuanian Laws on Natural Gas and the Liquefied Natural Gas Terminal and the implementing legal acts. Amendments to these laws may have impact on the Company's operations and performance. Resolutions on the pricing of natural gas supplies are adopted by the Commission. The Commission's resolutions may have impact on the Company's performance.

The LNG Terminal technological risks

Klaipėdos Nafta AB operating the LNG Terminal in Klaipėda is responsible for accepting LNG supplied by the Company from the gas carriers, also for gas storage and gasification to the Lithuanian natural gas network. Any interruptions in the operations of the Terminal may affect the Company's gas supplies and performance.

Financial risks

The Company is exposed to financial risks in its operations, i.e. credit risk, liquidity risk, interest rate risk. In managing these risks the Company seeks to mitigate the effect of factors which could make a negative impact on the financial performance of the Company.

Credit risk

Credit risk arising from funds held at banks is minimal because accounts are held with those banks which have been assigned with high credit ratings by foreign rating agencies.

Liquidity risk

The liquidity risk is managed by planning movements in net 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 Company's 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 might be necessary for the balancing of the working capital. The Company's operations will be financed using both the share capital and borrowed

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.

Analysis of financial and non-financial performance

In 2018, the Company's sales revenue reached EUR 110.3 million, cost of sales amounted to EUR 112.7 million, other operating expenses totalled EUR 1.0 million, and the result of financing activities amounted to EUR 0.4 million. LITGAS loss before tax was EUR 3.8 million, and loss after tax was EUR 3.3 million. In 2018, the company continued its operations as a designated supplier under the regulatory model adopted in 2016 and received revenue as a designated supplier not only from the energy producers, but also from the quantity of gas required for sale at the exchange and auction, as well as all the users of the natural gas transmission system via the LNG security component. Revenue, as compared to 2017, increased as a result of the larger LNG quantity sold to energy producers and the execution of sales in the exchange. Due to the record growth in the prices of natural gas in the market, the Company suffered a loss in 2018, which will be compensated via the LNG security component in 2020. Major operating expenses incurred in 2018 are related to wages and salaries and related tax, legal and other expenses. 2018 was the last year to compensate and include the Company's incurred operating expenses via the LNG security component, The Company's results of operations and operating expenses are summarised below:

STATEMENT OF COMPREHENSIVE INCOME (EUR thousands)	2018	2017	OTHER OPERATING EXPENSES (EUR thousands)	2018	2017
Sales revenue	110 274	88 145	Wages and salaries and related tax expenses	390	319
Cost of gas sold	-112 721	-93 955	Legal services	110	66
Other operating expenses	-965	-820	ITT services	53	39
Finance costs	-391	-434	Rent of premises, utility, transport	36	38
EBITDA	-3 412	-6 630	Business trip expenses	13	14
Adjusted EBITDA*	1094	1 200	Consultation expenses	84	79
Profit (loss) before income tax	-3 803	-7 064	Other expenses	279	265
Income tax	469	1 063	Total	965	820
Net profit (loss)	-3 334	-6 001			

* The Company's adjusted EBITDA is calculated by eliminating deviations arising from the difference between the projected and actual LNG acquisition and realisation prices and quantities, and other variances that occurred during the year between expenses included in the security component and actually incurred expenses and revenue. EBITDA of non-regulated activities was included as per actual data. The indicator is calculated on the basis of the management's adjustments which are not provided in the financial statements.

Information related to environmental and personnel-related matters

The Company complies with the requirements set forth in environmental legal acts.

At the end of 2018, the Company had 14 employees (whereof 3 were on child care leave). At the end of 2017, the Company had 16 employees (whereof 3 were on child care leave).

Management bodies of the Company

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

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

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

The Board is a collegial management body of the Company accountable to the General Meeting of Shareholders. 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 Company's Articles of Association. The Company's Board consists of 3 (three) members, one of them being an independent member. Members of the Board are elected for a term of 4 (four) years. On 23 November 2017, the Company's single shareholder adopted a decision to elect 2 (two) out of 3 (three) members of the Board for a position of member of the Board and to postpone a decision on the selection of the independent member of the Board and the approval of the candidate. On 19 March 2018, the sole shareholder of the Company made a decision on the selection of the independent member of the Board. By the decision of the very same sole

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shareholder, Vidmantas Salielis was appointed Member of the Company's Board, replacing Vitalij Rakovskij, who resigned as of 9 February 2018.

Full name	Participation of the members of the Board in the governance of other entities	Start date of the term of office	End date of the term of office	Number of the Company's shares held
Dominykas Tučkus (Chairman of the Board)	<p>Main workplace: Lietuvos Energija UAB (company code 301844044, address: Žvejų g. 14, LT-09310 Vilnius), Member of the Board, Director for Infrastructure and Development</p> <p>Other executive positions:</p> <p>Lietuvos Energijos Gamyba AB (company code 302648707, address: Elektrinės g. 21, LT-26108 Elektrėnai), Chairman of the Supervisory Board</p> <p>Lietuvos Energijos Tiekimas UAB (company code 303383884, address: Žvejų g. 14, LT-09310 Vilnius), Member of the Board</p> <p>Energijos Tiekimas UAB (company code 302449388, address: Žvejų g. 14, LT-09310 Vilnius), Member of the Board</p> <p>Lietuvos Energija Renewables UAB (company code 304988904, address: P. Lukšio g. 5B, LT-08221 Vilnius), Member of the Board</p> <p>EURAKRAS UAB (company code 300576942, address: Žvejų g. 14, LT-09310 Vilnius), Chairman of the Board</p> <p>TUULEENERGIA OU (company code 10470014, address: Pärnumaa, Varbla vald, Keskus, 88208 Estonia), Chairman of the Board</p>	23 November 2017	1 January 2019	-
Vidmantas Salielis	<p>Main workplace: Lietuvos Energija UAB (company code 301844044, address: Žvejų g. 14, LT-09310 Vilnius), Member of the Board, Director for Commerce and Services</p> <p>Other executive positions:</p> <p>Energijos Tiekimas UAB (company code 302449388, address: Žvejų g. 14, LT-09310 Vilnius), Chairman of the Board</p> <p>Gamybos Optimizavimas UAB (company code 304972024, address: Žvejų g. 14, LT-09310 Vilnius), Member of the Board</p> <p>Lietuvos Energijos Tiekimas UAB (company code 303383884,</p>	19 March 2018	1 January 2019	-

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	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			
Vitalij Rakovski	Lietuvos Energija UAB (company code 301844044, address: Žvejų g. 14, LT-09310 Vilnius), Director at Finance and Investment Management Department	23 November 2017	9 February 2018	-
	EURAKRAS UAB (company code 300576942, address: Žvejų g. 14, LT-09310 Vilnius), Member of the Board			
	Energetikos Paslaugų Ir Rangos Organizacija UAB (company code 304132956, address: Motorų g. 2, LT-02190 Vilnius), Member of the Board			
	NT Valdos UAB (company code 300634954, address: Smolensko g. 5, LT-03202 Vilnius), Member of the Board			
Agnia Grigas	Energy and geopolitical risk expert	19 March 2018	1 January 2019	-

The General Manager acts as a single-person management body of the Company accountable to the Board. The General Manager organises and controls the operations of the Company, acts on behalf of the Company and enters into agreements at his own discretion, except for the cases stipulated in the Articles of Association and legal acts. The competence of the General Manager, decision-making, the procedure of his election and revocation, as well as the duration and number of the terms of office, are defined 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 date of the term of office	End date of the term of office	Number of the Company's shares held
Vytautas Čekanaivičius (Acting General Manager)	1 January 2016	9 March 2018	-
Asta Virbickienė (Acting General Manager)	10 March 2018	15 April 2018	-
Tadas Adomaitis	16 April 2018	1 January 2019	-

Tadas Adomaitis, the Company's General Manager, also acts as Member of the Board at GetOn Energy SIA (company code 40103642991, address Cēsu iela 31, LV-1012, Riga, Latvia).

References to and additional explanations of data reported in the 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 audited financial statements.

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

In the beginning and during the reporting period the Company did not hold nor acquired any own shares.

Information about the Company's branches and representative offices

The Company has no branches and representative offices.

Significant events after the end of financial year

As of 1 January 2019, Litgas was merged with Lietuvos Energijos Tiekimas UAB following the reorganisation, which took over all the assets, rights and obligations of the Company and is continuing the activities.

The Company's operation plans and prospects

The activities of LITGAS were taken over by Lietuvos Energijos Tiekimas UAB as of 1 January 2019.

Information about the Company's research & development activities

LITGAS ceased its activities without the liquidation procedure as of 1 January 2019.

Financial instruments in use

The Company did not use financial or hedging instruments qualifying for hedge accounting that could affect the assessment of the Company's assets, equity, liabilities, financial position, and results of operations.

Litigations

The Company is a third interested party to the administrative cases in which Achema AB:

- on 22 January 2016 filed a complaint against the Commission's Resolution No O3-683, dated 23 December 2015;
- on 18 April 2016 filed a complaint against the Commission's Resolution No O3-83, dated 25 March 2016;
- on 08 December 2016 filed a complaint against the Commission's Resolution No O3-369, dated 17 November 2016;
- on 16 June 2017 filed a complaint against the Commission's Resolution No. O3E-145, dated 15 May 2017;
- on 28 December 2017 filed a complaint against the Commission's Resolution No O3-527, dated 24 November 2017, and the Commission's Resolution No O3E-583, dated 7 December 2017;
- on 26 June 2018 filed a complaint against the Commission's Resolution No O3E-168, dated 24 May 2018;
- on 21 December 2018 filed a complaint against the Commission's Resolution No O3E-405, dated 22 November 2018.

The filed complaints contest the Commission's resolutions on the determination of the additional natural gas supply security component to be included in the natural gas transmission price. For each period, the Commission establishes the amount of the additional natural gas supply security component to be included in the natural gas transmission price, which includes the difference between the costs the Company incurs when acquiring the quantity of gas required for the LNG Terminal and the revenue the Company generates from the sale of that quantity of gas required for the LNG Terminal for energy producers at the projected market price of natural gas approved by the Commission's respective resolution.

The investigation of the cases (except for the case in which Achema AB has filed a complaint against the Commission's Resolution No O3E-405, dated 22 November 2018: the parties only exchange procedural documents) at Vilnius Regional Administrative Court has been suspended until the resolution of the claim of Achema AB on the Decision of the European Commission of 20 November 2013 filed with the General Court of the European Union in case No T-417/16.

The Company is a third interested party to the administrative case in which LITESKO UAB filed a complaint with the request to annul the Commission's Resolution No O3-379, dated 18 November 2016, *On the obligation of LITESKO UAB to acquire part of the carried forward quantity of gas required for the LNG Terminal of 2015*. The complaint contests the obligation the Commission imposed on LITESKO UAB to acquire the entire quantity of gas required for the LNG Terminal attributed to it in 2015 in full, i.e. to acquire the quantity of gas required for the LNG Terminal that was not acquired in 2015 and was carried forward to 2016. The case was investigated by the court of first instance. On 21 March 2017, the court rejected the complaint of LITESKO UAB as ungrounded. On 21 April 2017, LITESKO UAB filed an appeal, in relation to which the Company presented a response to the court on 22 May 2017. By its ruling dated 14 February 2019, the Supreme Administrative Court annulled the decision of the court of the first instance and satisfied the appeal of LITESKO UAB by finding that in passing the resolution under appeal the Commission acted in excess of the boundaries of competence. The proceedings are expected to be resumed in the near future.

The Company is a third interested party to the administrative case in which LITESKO UAB filed a complaint with the request to annul the Commission's Resolution No O3E-267, dated 19 June 2017, *On the violation of LITESKO UAB relating to the execution of the activities regulated by the National Commission for Energy Control and Prices*. The complaint contests the fine of 207,903.91 imposed

on LITESKO UAB by the Commission for the failure to fulfil the obligation to acquire the entire quantity of gas required for the LNG Terminal attributed to it in 2015 in full by acquiring the quantity of gas required for the LNG Terminal that was not acquired in 2015 and was carried forward to 2016 and the obligation to acquire the quantity of gas required for the LNG Terminal that was carried forward to 2016.

By the ruling of Vilnius Regional Administrative Court of 26 October 2017, the investigation of the case has been suspended until the Supreme Administrative Court of Lithuania adopts the final ruling in administrative case No eA-1669-822/2018.

The Company was the claimant in a commercial arbitration case in Lithuania concerning the reward of an amount of EUR 415,306.14 to be refunded, EUR 26,081.23 of late payment interest, and arbitration fees from the debtor. The Company's claim was satisfied in part by reducing the requested amount to be refunded and awarding for the benefit of the Company EUR 137,051.00, 6% annual interest on the EUR 137,051.00 amount awarded for the benefit of the Company as calculated from the day of arbitral judgment until the day of payment of the entire amount, arbitration fees of EUR 11,072.63, and legal expenses of EUR 4,893.66. The Company had to refund the debtor for arbitration fees in the amount of EUR 4,313.55 and legal expenses in the amount of EUR 11,311.74. All the settlements under the judgement of the Court of Commercial Arbitration had been executed.

The Company is involved as a defendant in a case on the recognition of the arbitration clause as invalid. Kauno Termofikacinė Elektrinė UAB filed a claim with Vilnius City District Court regarding the recognition as invalid of the arbitration clause set forth in the agreement on the purchase and sale of natural gas signed between Kauno Termofikacinė Elektrinė UAB and LITGAS UAB. The hearing *in camera* is scheduled to take place on 19 February 2019. The second preliminary hearing in this case is scheduled for 26 March 2019.

In 2018, the Company, as a claimant, initiated the commercial arbitration case in Lithuania regarding the refunding of losses in the amount of EUR 1,676,989.06 and late interest fees in the amount of EUR 122,755.60.