2019

IGNITIS UAB

THE COMPANY'S ANNUAL FINANCIAL STATEMENTS

COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION, ANNUAL REPORT AND INDEPENDENT AUDITOR'S REPORT

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Company code 303383884

CONTENT

The financial statements were approved on 22 April 2020 by Chief Executive Officer, Director of Finance and Operational Support Department and Head of Accounting Department of Ignitis Grupės Paslaugų Centras UAB (acting under Order No IS-88-20 of 106/04/2020):

Darius Montvila	**Artūras Bortkevičius**	**Giedruolė Guobienė**
Chief Executive Officer	Director of Finance and Business Support Department	Ignitis Grupės Paslaugų Centras UAB, Head of Accounting Department acting under Order No IS-88-20 of 10/04/2020

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VAT payer code LT108784411
Register of Legal Entities

INDEPENDENT AUDITOR'S REPORT

To the shareholder of Ignitis UAB

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019 and 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.

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 are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of the financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the financial statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

Financial statements of the Company for the year ended 31 December 2018 were audited by other auditor, who on 25 March 2019 issued an unmodified opinion on financial statements mentioned above.

Other information

Other information consists of the information included in the Company's 2019 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information presentation.

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

In connection to our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

- The financial information included in the Company's Annual Report corresponds to the financial information included in the financial statements for the year then ended; and
- The Company's Annual Report was prepared in accordance with the requirements of the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

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

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

In preparing the financial statements, management is responsible for assessing the Company's 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.

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

Kęstutis Juozaitis
Auditor's licence
No. 000550

22 April 2020

STATEMENT OF FINANCIAL POSITION

all amounts are in EUR thousand unless otherwise stated

	Notes	As at 31/12/2019	As at 31/12/2018 (restated)*
ASSETS			
Non-current assets			
Intangible asset	6	35,905	23,832
Property, plant, and equipment	7	2,446	-
Right-of-use assets	8	485	-
Investments into subsidiaries	9	5,374	-
Loans granted	11	9,200	
Investments in associated entities and other investments	10	103	82
Other receivables	16	3,043	-
Deferred tax assets	32	3,396	5,983
Total non-current assets		**59,952**	**29,897**
Current assets			
Inventories	12	43,372	19,835
Prepayments	13	32,033	11,284
Advance income tax		479	144
Amounts receivable under contracts with customers	14	60,986	57,014
Loans receivable and interest		6	-
Derivatives	15	5,269	412
Other current financial assets	16	6,831	198
Cash and cash equivalents	17	23,409	11,438
Total current assets		**172,385**	**100,325**
TOTAL ASSETS		**232,337**	**130,222**
EQUITY AND LIABILITIES			
Equity			
Share Capital	18	40,140	8,370
Reserves	19	468	468
Retained earnings		(254)	1,811
Total equity		**40,354**	**10,649**
Liabilities			
Non-current liabilities			
Interest-bearing loans and other borrowings	20	30,737	-
Provisions	22	93	4
Lease liabilities	21	326	-
Other non-current financial liabilities		14	-
Total non-current liabilities		**31,170**	**4**
Current liabilities			
Interest-bearing loans and other borrowings	20	79,577	22,451
Lease liabilities	21	160	-
Trade payables	23	40,055	75,301
Contract liabilities	24	20,097	18,517
Income tax payable	32	62	31
Provisions	22	21	-
Derivatives	15	2,528	17
Other current amounts payable and liabilities	25	18,313	3,251
Total current liabilities		**160,813**	**119,569**
Total liabilities		**191,983**	**119,573**
TOTAL EQUITY AND LIABILITIES		**232,337**	**130,222**

** Amounts presented do not match the Financial Statements of 2018 and related adjustments are disclosed in Note 4.*

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

STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

All amounts are in EUR thousand unless otherwise stated

	Notes	2019	2018 * (restated)
Revenue and other income			
Revenue from contracts with customers	26	433,358	208,754
Other income	27, 28	4,002	-
		437,360	**208,754**
Cost of sales	29	(416,044)	(212,153)
GROSS PROFIT (LOSS)		**21,316**	**(3,399)**
Operating expenses		**(25,103)**	**(7,537)**
Business support services		(7,539)	(3,180)
Amortization and depreciation	6, 7	(5,312)	(826)
Wages and associated taxes		(3,115)	(953)
Impairment of investments in subsidiaries	9	(2,500)	-
Cost of collecting payments and processing information from the private customers		(1,602)	(729)
Telecommunication and information technology services		(1,847)	(575)
Change in impairment of receivables and write-offs		(1,191)	(252)
Consulting services		(512)	(226)
Change in provision for employee benefits		(217)	(77)
Short term and low value rental costs		(69)	(81)
Change in vacation reserve		(43)	(15)
Other costs		(1,156)	(623)
OPERATING PROFIT (LOSS)		**(3,787)**	**(10,936)**
Finance income	30	438	217
Finance expenses	31	(1,439)	(143)
		(1,001)	**74**
PROFIT (LOSS) BEFORE TAX		**(4,788)**	**(10,862)**
Income tax gain (expenses)	32	(547)	4,941
NET PROFIT (LOSS)		**(5,335)**	**(5,921)**
Other comprehensive income (loss) which will not be reclassified to profit or loss in subsequent period		-	-
Other comprehensive income (loss) which may be reclassified to profit or loss in subsequent period		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(5,335)**	**(5,921)**

** Amounts presented do not match the Financial Statements of 2018 and related adjustments are disclosed in Note 4.*

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

STATEMENT OF CHANGES IN EQUITY

All amounts are in EUR thousand unless otherwise stated

	Notes	Share capital	Legal reserve	Retained earnings (restated)*	Total equity (restated)*
Balance as at 1 January 2018		**8,370**	**87**	**12,803**	**21,260**
Effect of change in accounting policies following the adoption of new 9 IFRS	14	-	-	(117)	(117)
Restated balance as at 1 January 2018		**8,370**	**87**	**12,686**	**21,143**
Net profit (loss) for the reporting period (restated)*	4	-	-	(5,921)	(5,921)
Total comprehensive income for the period (restated)*		**-**	**-**	**(5,921)**	**(5,921)**
Transfer to legal reserve		-	381	(381)	-
Dividends declared	18	-	-	(4,572)	(4,572)
Balance as at 31 December 2018		**8,370**	**468**	**1,811**	**10,649**
Balance as at 01 January 2019		**8,370**	**468**	**1,811**	**10,649**
Net profit (loss) for the reporting period		-	-	(5,335)	(5,335)
Total comprehensive income for the period		**-**	**-**	**(5,335)**	**(5,335)**
Effect of business combinations under common control	34	31,770	-	3,270	35,040
Balance at 31 December 2019		**40,140**	**468**	**(254)**	**40,354**

** Amounts presented do not match the Financial Statements of 2018 and related adjustments are disclosed in Note 4.*

The accompanying notes are an integral part of this financial information.

STATEMENT OF CASH FLOWS

All amounts are in EUR thousand unless otherwise stated

	Notes	2019	2018 (restated)*
Net profit (loss)		(5,335)	(5,921)
Adjustments to reconcile net profit (loss) to net cash flows			
Depreciation and amortisation expenses	6, 7, 8	5,312	827
Change in impairment of receivables		535	146
Fair Value change of derivatives	28	(2,288)	(185)
(Increase) decrease in deferred income tax	32	174	(4,968)
Income tax expenses	32	373	27
Impairment of investments in subsidiaries	9	2,500	-
Increase (decrease) in provisions		69	-
Elimination of results of financing and investing activities:			
- Interest income	30	(426)	(206)
- Interest expenses	31	1,411	143
- Other finance (income)/costs	31	28	-
- Dividend (income)	10, 30	(12)	(11)
Working capital adjustment:			
(Increase) decrease in trade receivables		26,819	(21,182)
(Increase) decrease in inventories and other current assets		(5,584)	4,555
(Increase) decrease in prepayments and accrued income		(20,668)	18,372
Increase/(decrease) in payables and contract liabilities		(45,446)	24,985
Increase (decrease) in prepayments		1,756	3,920
Increase (decrease) in other payables		14,018	(694)
Income tax (paid)		-	(88)
Net cash flows from (to) operating activities		**(26,764)**	**19,720**
Cash flows from / (used in) investing activities			
(Purchase) of property, plant and equipment and intangible assets	6, 7	(2,306)	(320)
Loans granted	11	(3,700)	(176)
Loan repayments received	11	6,998	-
Interest and interest on late payment received		236	206
Dividends received	10, 30	12	11
Financial lease payments received		465	-
Change cash flows from investing activities due to business combinations	34	(22,117)	-
Net cash flows from investing activities		**(20,412)**	**(279)**
Cash flows from/ (used in) financing activities			
Loans received		83,821	-
Repayments of borrowings		(23,296)	(8,887)
Lease payments	21	(142)	-
Interest and commission (paid)		(1,236)	(143)
Dividends (paid)		-	(4,572)
Net cash flows from/ (used in) financing activities		**59,147**	**(13,602)**
Net increase/(decrease) in cash and cash equivalents		**11,971**	**5,839**
Cash and cash equivalents at the beginning of the period	17	**11,438**	**5,599**
Cash and cash equivalents at the end of the period	17	**23,409**	**11,438**

** Amounts presented do not match the Financial Statements of 2018 and related adjustments are disclosed in Note 4.*

The accompanying notes are an integral part of this financial information.

NOTES TO THE FINANCIAL STATEMENTS

All amounts are in EUR thousand unless otherwise stated

1 General

Ignitis UAB is a public limited liability company registered in the Republic of Lithuania. Ignitis UAB (hereinafter – the Company) is a limited liability profit-oriented entity registered with the Register of Legal Entities managed by the public institution the Centre of Registers. The Company was registered on 2 September 2014. The company code 303383884, VAT payer's code LT100008860617. The Company has been founded for an indefinite period. The Company's registered office address is Žvejų g. 14, LT-09310, Vilnius, Lithuania.

The Company's core line of business is the supply, purchase (import), planning and sale of natural gas and electricity to consumers. The Company supplies natural gas to corporate customers operating in the sectors of energy, industry and small commercial businesses, and to private customers – overall 594 thousand customers, including supply of liquefied natural gas (hereinafter – LNG) through the Klaipėda LNG Terminal. The Company started the activity of public electricity supply with effect from 1 October 2018. Ignitis UAB supplies electricity to more than 1.64 million private customers and more than 6.9 thousand commercial customers in Lithuania. From 1 June 2019 the Company is also engaged in balancing of electricity consumption, issuing of energy origin certificates, and wholesale trade in electricity futures. In addition, the Company carries out the projects for the designing and construction of solar power plants, implementation of energy efficiency solutions, and development of electric car charging stations.

The Company commenced the natural gas supply activity on 1 November 2014. Lietuvos Dujų Tiekimas UAB was established to implement the requirements of the legal acts of the Republic of Lithuania aimed at the legal, functional and organisational separation of the natural gas supply and distribution activities. The separation of the distribution activity was affected through the sale of the natural gas supply activity with the assets, rights and obligations, attributable to it by Lietuvos Dujos AB, to newly established company Lietuvos dujų tiekimas UAB under the agreement on the purchase-sale of a part of business dated 15 October 2014. As at 1 October 2018, the name of Lietuvos Dujų Tiekimas UAB was changed to Lietuvos Energijos Tiekimas UAB, and as at 6 September 2019, the name of the Company was changed to Ignitis UAB.

The company Ignitis UAB is a company ultimately controlled by the state and one of the largest state-owned groups of energy companies in the Baltic countries. Ignitis Grupė UAB (company code 301844044, registered address Žvejų st. 14, 09310 Vilnius, Lithuania) is the parent company that owns 100% shares of the Company as at 31 December 2019 and 2018.

As at 31 December 2019, the Company's subsidiaries were as follows:

Subsidiary	Registered office address	The Company's ownership interest, %	The Company's investment value and share capital of subsidiary, (EUR '000) As at 31 December 2019	Profile of activities
Ignitis Eesti OÜ*	Narva st. 5, 10117 Tallinn, Estonia	100	35	Retail trade in electricity
Ignitis Latvija SIA**	Cēsu iela 31, k-2 2LV-1012 Ryga, Latvia	100	5,500	Retail trade in electricity
Ignitis Polska Sp.z.o.o***	Puławska g. 2B, Warsaw, 02-566, Poland	100	2,339	Wholesale trade in electricity
Impairment****			(2,500)	
			5,374	

* Geton Energy OÜ before the change of the name on 6 September 2019.
** Geton Energy SIA before the change of the name on 6 September 2019.
*** Geton Energy S.p.z.o.o before the change of the name on 6 September 2019.
**** The Company tested for impairment its investments in subsidiaries, the information of which is given in Note 5.

As at 31 December 2018, the Company had no subsidiaries. These subsidiaries were acquired under the terms of reorganization of 4th September 2018. Upon consolidation of electricity and natural gas trading and supply activities Litgas UAB was merged, reorganization was completed as at 1 January 2019, and the merger of Energijos Tiekimas UAB was carried out on 1 June 2019, during which the shareholdings of Ignitis Eesti OÜ, Ignitis Latvija SIA and Ignitis Polska Sp. z o.o were transferred to the Company. See Note 34 for more details about these business combinations. Financial statements of the Company and its subsidiaries are included in the consolidated financial statements of the parent Ignitis Group UAB, therefore, the Company does not prepare consolidated financial statements in line with the provisions of Paragraph 2.1 of Article 5 of the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings and the relevant exemption provided by the IFRS 10.4.

As at 31 December 2019, the number of the Company's employees were 108 (as at 31 December 2018 – 38).

The Company's management authorized these financial statements on 22 April 2020.

The Company's shareholder has a statutory right to request the amendment of these financial statements after their approval in accordance with the laws and regulations of the Republic of Lithuania.

2 Accounting policies

2.1 Basis of preparation of the financial statements

These financial statements for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB"), as endorsed by the European Union ("EU"), and present the financial position, results of operations and cash flows of the Company on a going concern basis. Management has concluded that the going concern basis of preparation of the accounts is appropriate. The financial statements have been prepared on an acquisition cost basis, except for financial assets held for sale (derivatives), and measured at fair value through profit or loss.

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

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

2.2 Accounting policy

The accounting policies adopted in preparing the Company's financial statements are the same as those applied in preparing the annual financial statements for the year 2018, except for the new effective standards as of 1 January 2019 described below.

a) *New standards, amendments and interpretations*

- ***IFRS 16 Leases*** *(effective 1 January 2019)***:**

The Company adopted IFRS 16 Leases for the first time in the financial year ended 31 December 2019, which had an impact on the Company's financial statements.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees are required to 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 statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The value of assets received under the lease agreement and related lease liabilities will be stated in the Company's statement of financial position.

The Company accounted for the impact of the first-time adoption of IFRS 16 starting from 1 January 2019 using the modified retrospective approach. The Company recognised assets and liabilities managed under the right of use, 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 statement of the financial position as at 1 January 2019 is shown in the table below:

(EUR'000)

	As at 31 December 2018 (recognised prior to the adoption of IFRS 16)	IFRS 16	As at 01 January 2019
ASSETS			
Non-current assets			
Right-of-use assets	-	290	290
In total		**290**	**290**
EQUITY AND LIABILITIES			
Non-current liabilities			
Lease liabilities	-	(217)	(217)
Current liabilities			
Lease liabilities	-	(73)	(73)
In total	**-**	**(290)**	**(290)**

All amounts are in EUR thousand unless otherwise stated

The lease liabilities as at 1 January 2019 can be reconciled to non-cancelable operating lease commitments as at 31 December 2018 as follows:

	As at 1 January 2019
The future minimum lease payments under irrevocable operating lease agreements as at 31 December 2018:	**1,250**
The weighted average incremental borrowing rate as at 1 January 2019.	2,29 %
The lease liability recognised on 1 January 2019 by applying the incremental borrowing rate	1,097
Add: Financial lease obligations recognised on 31 December 2018	-
Less: Contracts not subject to IFRS 16 following final assessment	(678)
Less: Commitments relating to short-term leases	-
Less: Commitments relating to leases of low-value assets	(129)
Lease liabilities as at 1 January 2019	**290**
Of which:	
Current lease liabilities	217
Non-current lease liabilities	73
	290

For the year ended 31 December 2019:

- Depreciation expense increased because of the depreciation of additional assets recognised (i.e., right-of-use assets). This resulted in increases in Operating expenses of 120 thousand Eur.
- Rent expense included in Operating expenses, relating to previous operating leases, decreased by 53 thaousand Eur.
- Finance expenses increased by 7 thousand Eur relating to the interest expense on additional lease liabilities recognised.
- Cash outflows from operating activities decreased by 142 thousand Eur and cash outflows from financing activities increased by the same amount, relating to decrease in operating lease payments and increases in principal and interest payments of lease liabilities.

Practical expedient when the Company is a lessee

When the Company is a lessee, the following practical expedients were applied on a case-by-case basis during the transitional to IFRS 16.

The Company:

1. Applies a single discount rate to a portfolio of leases with reasonably similar characteristics (i.e. leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

2. Elects not to apply any transitional adjustments for leases for which the underlying asset is of low value (assets with a value of 4,000 euro or less when new). The Company accounts for these leases in accordance with IFRS 16 from the date of initial application.

3. Excludes initial direct costs on leases previously classified as operating leases from the measurement of the right-of-use assets by applying the Standard at the commencement date.

4. Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease. Consistent with IAS 8, hindsight is applied only to matters of accounting estimates and judgements and therefore would not apply to matters of fact such as changes in an index or rate.

5. The Company has elected to apply practical expedient to account for a lease and associated non-lease components as a single lease component consistently with the Company's accounting policies.

- ***Prepayment features with negative compensation - amendments to IFRS 9*** *(issued 12 October 2017, effective 1 January 2019)***:**

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

- ***Long-term Interests in Associates and Joint Ventures - amendments to IFRS 28 "Investments in Associates and Joint Ventures"*** *(issued 12 October 2017, effective 1 January 2019)***:**

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

- ***IFRIC 23 "Uncertainty over Income Tax Treatments"*** *(issued 7 June 2017, effective 1 January 2019):*

The interpretation clarifies how the recognition and measurement requirements of IAS 12 Income taxes, are applied where there is uncertainty over income tax treatments. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by taxation authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. According to the Company's management, the first-time adoption of the interpretation did not have any significant impact on the Company's financial statements.

- ***"Plan Amendment, Curtailment or Settlement" - amendments to IAS 19 "Employee benefits"*** *(issued 7 February 2018, effective 1 January 2019)*:

Effective for annual periods beginning on or after 1 January 2019. The amendments relate to a defined benefit plan, under which an entity pays benefits to an employee at the end of service. When the plan is amended, curtailed or settled, an entity shall restate its net defined benefit liability or asset at the present fair value of the plan assets and current actuarial assumptions (including current market interest rates and other current market prices). The amendments require entity to use the updated revaluation assumptions for the planned defined benefits (i.e. benefits payable to the employee at the end of service) to determine the current service cost (increase in the present value of a defined benefit plan liability) and the amount of interest for the remaining period after the plan change. These assumptions are included in current actuarial assumptions (demographic, financial). Previously IAS 19 had not provided guidance on how to determine these costs for a period after the change in plan. The requirement to use the updated assumptions is expected to provide useful information to users of financial statements. Amendments have been approved by the European Commission. The first time application of the amendment did not have a significant impact on the Company's financial statements.

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

Effective for annual periods beginning on or after 1 January 2019. Minor revisions affected four standards:

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

According to the Company's management, the first-time adoption of the annual standard improvements did not have any significant impact on the Company's financial statements.

b) Standards, amendments and interpretations issued but not yet effective

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged 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 recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Management of the Company is in the process an assessment of the impact of the amendments to the financial statements of the Company.

- **Conceptual Framework in IFRS Standards** (issued 29 March 2018, effective 1 January 2020)

On 29 March 2018, the IASB issued a revised version of its Conceptual Framework for Financial Reporting. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The IASB has also issued a separate accompanying document, *Amendments to References to the Conceptual Framework in IFRS Standards*, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its purpose is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For companies who develop accounting policies based on a conceptual framework, it is applicable to annual periods beginning on or after 1 January 2020. Document approved by European Commission. The Company's management has made an assessment that implementation of change in Conceptual Framework does not have significant impact on the financial statements of the Company.

- **Amendments to IFRS 3 Business Combinations** (issued 31 October 2018, effective 1 January 2020)

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

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors** (issued October 31 2018, effective 1 January 2020)

Amendments to these standards are intended to help the entities to identify material information which should be disclosed in the financial statements. Thus the definition of 'material' was improved in IAS 1 and IAS 8. The amendments were made in response to the finding that some entities had difficulties in deciding which information is material under old definition. New materiality definition: information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Company's management has made an assessment that implementation of the amendments does not have significant impact on the financial statements of the Company.

Interest Rate Benchmark Reform - amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" (issued 26 December 2019, effective 1 January 2020)

Amendments to these standards were made in response to the report of the Financial Stability Board setting out recommendations to reform some major benchmarks such as interbank offered rates (IBOR). The reform replaces the IBOR with an alternative risk free rate (RFR), which would provide more security to insurance hedges that will not include the credit risk premium currently included in IBOR. The Reform was initiated in response to emerging global systemic risk caused by the dependence of the efficiency of financial operations on IBOR. There is also a concern about how these rates are set in adverse market conditions. The reform process is subject to considerable uncertainty over application of the interest rate benchmark in the long run. For this reason, adjustments have been made to address the issues that arise during the transfer from IBOR to RFR. The adjustments seek to amend specific hedge accounting requirements in IFRS 9 and IAS 39 to provide exemptions for entities that already apply RFRs to hedges during the period of uncertainty caused by reform:

- in determining whether a forecast transaction is highly probable, the entity assumes that the interest rate benchmark underlying the hedge cash flows will not be changed due to the reform of the interest rate benchmark;

- in its prospective assessment, an entity assumes that the interest rate benchmark underlying the hedged item, hedging risk and/or hedging instrument remains unchanged due to the reform of the interest rate benchmark;

- IAS 39 has been amended so that an entity is not required to make a retrospective assessment of hedge relationships that are directly affected by the interest rate benchmark reform, as long as the entity complies with all other accounting requirements of IAS 39 hedge accounting, including the expected measurement;

- the interest rate benchmark must be individually identified as a risk component that is only measured/set at inception of the hedging relationship.

The exceptions will become void once the uncertainty surrounding the Interest Rate Benchmark Reform disappears. It is announced that further changes to the standards will be made in the future to establish accounting requirements when the reform is implemented. Amendments have been endorsed by the European Commission. The Company is currently assessing the impact of these amendments on its financial statements.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

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

2.3. Foreign currency

Foreign currency transactions are accounted for at the exchange rates prevailing at the date 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. These balances are translated at the exchange rates prevailing at the end of the reporting period.

2.4. Intangible assets

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

The following useful lives are applied to different categories of assets:

Category of intangible assets	Average useful life (in years)
Intangible assets identified during business combination	
Provision of the balancing service	20
Trading of derivatives	20
Customer relation assets	5-15
Licenses	3*–4
Computer software	3*–4

* For intangible assets taken over by Energijos tiekimas UAB (see Note 34).

2.5. Property, plant and equipment

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

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

The residual values and useful lives of property, plant and equipment are reviewed regularly and adjusted, if appropriate, according to the procedure established at the Company.

When assets are written off or otherwise disposed, the acquisition cost and related accumulated depreciation charges are derecognised from the financial statements, and gain or loss on such disposal is recognised in profit or loss. Gain or loss on disposal of property, plant and equipment is determined as the difference between proceeds and the net book value of assets disposed.

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

Category of property, plant and equipment	Average useful life (in years)
Solar power plants	10
Electric vehicles charging stations	5
Computer hardware and communication equipment	3*–4
Other tangible assets	4

* For property, plant and equipment taken over by Energijos Tiekimas UAB.

2.6. Impairment of property, plant and equipment, intangible assets and other non-current assets

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment, intangible assets and other non-current assets to determine whether there are any indications that those assets have suffered an impairment loss. If any such indication exists, the Company makes estimate of the recoverable amount of such property, plant and equipment and non-current assets to assess impairment, if any. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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. The impairment loss is recognised immediately in profit or loss, unless such an asset was previously revalued. In that case, the impairment loss is accounted for as decrease in revaluation reserve.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years, net of depreciation. A reversal of an impairment loss is recognised immediately in profit or loss.

2.7 Right-of-use assets

Right-of-use asset is the asset that reflects the right of the Company to use the leased asset over the life of a lease. Since 1 January 2019, the Company recognises right-of-use assets for all leases, including the subleases of right-of-use assets short-term leases and low-value leases.

Initial measurement of right-of-use assets

At the commencement date, a lessee measures the right-of-use asset at cost. The cost of the right-of-use asset shall comprise of the following: the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received.

Subsequent measurement of right-of-use assets

Subsequent to initial recognition, the Company measures the right-of-use asset at cost. Under the cost model, the Company measures a right-of-use asset at cost less any depreciation and any accumulated impairment losses adjusted for any remeasurement of the lease liability.

The right-of-use assets are depreciated by the Company under the depreciation requirements of IAS 16, Property, Plant and Equipment.

If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets as follows:

- Buildings: 3 to 5 years
- Structures and machinery: 4 to 5 years

The right-of-use assets are also subject to impairment. Refer to the accounting policy in section 2.6 Impairment of non-financial assets.

The Company presents rights-of-use assets separately from intangible and property, plant and equipment assets in the statement of financial position.

2.8. Investments in subsidiaries and associates in the Company's separate financial statements

Subsidiary is an entity directly or indirectly controlled by a parent company and in which a parent company usually has a shareholding of more than one half of the voting rights. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

In the Company's statement of financial position investments in associates are stated at cost less impairment, where the investment's carrying amount in the Company's statement of financial position exceeds its estimated recoverable amount. Cost also includes directly attributable expenditure.

2.9. Financial asset

The Company classifies its financial assets into the following categories:

(i) financial assets subsequently measured at amortised cost;

(ii) financial assets subsequently measured at fair value through other comprehensive income;

(iii) financial assets subsequently measured at fair value through profit or loss.

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

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

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

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

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

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

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

Financial assets measured at amortised cost

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

Loans and amounts receivable are non-derivatives 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 is trading in derivatives which are accounted for at fair value through profit or loss.

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.

Hedge accounting

The Company enters into derivative transactions, such as futures, to hedge against the risk of fluctuations in purchase and sale prices. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The fair values are estimated based on quoted market prices (Level 1) and the Company's price forecasts if quoted market prices are not available (Level 2). The estimated fair values of these contracts are reported on a gross basis as financial assets for instruments having a positive fair value, and financial liabilities for instruments with a negative fair value. Other derivatives that are not used to hedge against the risk of fluctuations in purchase and sale prices are measured at fair value (Level 1 and 2, a disclosed in Note 2.22). Gains and losses arising from changes in the fair value of derivatives are recognized in the statement of profit or loss and other comprehensive income. For hedge accounting purposes, a fair value hedge, which hedge the exposure to changes in the fair value of a recognized asset or liability or in the fair value of an unrecognized firm commitment.
As from 2019, the Company has applied a hedging policy for gas purchase transactions, the documentation of which includes the identification of the derivative, the hedged item, the nature of the hedged risk and how the Company will assess whether the hedging relationship meets hedging effectiveness requirements (including hedging ineffectiveness analysis and hedging ratio calculation). Hedge accounting may be applied to a hedging relationship if all of the following conditions are met in accordance to IFRS 9:

- There is an economic relationship between the hedged item and the hedging instrument;
- The effect of credit risk does not dominate the value changes that result from the above economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

As from 1 June 2019, after the merger with Energijos Tiekimas UAB, the Company took over its hedge activity and did not apply hedge accounting for electricity purchase transactions.

For the purpose of a fair value hedge that qualifies for hedge accounting, any gain or loss arising on the re-measurement of the hedging instrument to fair value is recognised in the statement of profit (loss) and comprehensive income as incurred. The hedged item is accounted for as an asset or liability based on changes in fair value associated with the hedged risk with difference recognised in the statement of profit (loss) and comprehensive income.

When an unrecognised firm commitment is designated as hedged item, the cumulative change in the fair value of the hedged item subsequent to its designation is recognised as an asset or a liability with a corresponding gain or loss recognised in the statement of profit (loss) and comprehensive income.

For gas purchase transaction hedges, which do not qualify for hedge accounting, including all the electricity purchase transactions, any gains or losses arising from changes in the fair value of the hedging instrument are recognised directly in the statement of profit (loss) and comprehensive income for the period.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting.

2.10. Impairment of financial 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 judgement on the recognition of lifetime expected credit losses in respect of that particular borrower. In the absence of reliable sources of information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information, the Company measures 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 measurement date. If it is determined that the financial position of the debtor has significantly deteriorated compared to the position prevailing at the time of the loan issue, the Company accounts for all the ECLs over the remaining life of the loan. The latest point at which the Company recognises all lifetime expected credit losses of the loan granted is identified when the borrower is late to pay a periodic amount or the total debt for more than 30 days. In case of other evidence available, the Company accounts for all lifetime expected credit losses of the loan granted regardless of the more than 30 days past due presumption. Loans for which lifetime expected credit losses were calculated are considered credit-impaired financial assets.

Credit-impaired financial assets

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

(a) significant financial difficulty of the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(e) the disappearance of an active market for that financial asset because of financial difficulties;
(f) financial assets are purchased or granted at a deep discount that reflects the incurred credit losses.

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

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

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

2.11 Inventories

The Company's inventories, which include natural gas in the storage facility and liquefied natural gas terminal (hereinafter – the LNGT) remaining at the year-end, and other inventories are stated at the lower of cost and net realisable value. The cost of the remaining amount of natural gas is established using the weighted average cost method. The Company's inventories, which consist of liquefied natural gas at the LNG terminal and Klaipėda distribution station, are stated at acquisition cost. The value of natural gas in storage and the cost price of natural gas shall be calculated using a weighted average cost method. The weighted average price is calculated as the weighted average of the stock at the beginning of the month and the purchases during the month. Other inventories are recognized at cost using the FIFO method.

2.12 Cash and cash equivalents

Cash consists of 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.

2.13 Financial liabilities

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

Derivative financial instruments traded by the Company are the only financial liabilities measured at fair value through profit or loss.

Other financial liabilities.

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

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

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

2.14 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.

Non-current employee benefits

Under the laws of the Republic of Lithuania, each employee of retirement age who terminates his/her employment with the Company is entitled to receive a one-off payment. Employee benefits are recognised in the statement of financial position and they reflect the present value of future benefits at the date of the statement of financial position. The aforementioned non-current liability for pension benefits to employees at the date of the statement of financial position is estimated with reference to actuary valuations using the projected relative unit method. The present value of the defined non-current liability for pension benefits to employees is determined by discounting the estimated future cash flows using the effective interest rates as set for government bonds denominated in a currency in which the benefits will be paid to employees and that have maturity term similar to that of the related liability.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees under a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Non-current benefits are recognised at present value discounted using market interest rate.

Actuarial gains or losses arising from adjustments based on experience or from changes in actuarial assumptions are recognised immediately within the Company's other comprehensive income in the Statement of Profit or loss and other comprehensive income. All past service costs are recognised immediately.

Other employee benefits

The Company's employees receive long-service benefits. Long-term employee benefit obligation is recognised in the statement of financial position and reflects the present value of defined benefit obligation at the date of the statement of financial position. The present value of defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates as set for government bonds denominated in a currency in which the benefits will be paid to employees and that have maturity term similar to that of the related liability. Actuarial gains or losses are recognised immediately in profit or loss.

2.15 Lease liabilities

Accounting policies applied from 1 January 2019 (based on IFRS 16):

Initial measurement of lease liability

At the commencement date, the Company measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If the interest rate implicit in the lease cannot be readily determined, the Company applies incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date: fixed payments, less any lease incentives receivable; variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; amounts expected to be payable by the lessee under residual value guarantees; the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; payments of penalties for terminating the lease, if the lease term reflects the Company exercising an option to terminate the lease. Variable lease payments that depend on an index or a rate include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as LIBOR) or payments that vary to reflect changes in market rental rates.

Subsequent measurement of lease liability

After the commencement date, a lessee shall measure the lease liability by: increasing the carrying amount to reflect interest on the lease liability; reducing the carrying amount to reflect the lease payments made; and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The periodic rate of interest is the discount rate or if applicable the revised discount rate.

After the commencement date, the Company shall recognise in profit or loss, unless the costs are included in the carrying amount of another asset applying other applicable Standards, both: interest on the lease liability; and variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

Remeasurement of lease liability

After the commencement date, the lease liability is remeasured to reflect changes to the lease payments. The Company recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

Revised discount rate

The Company remeasures the lease liability by discounting the revised lease payments using a revised discount rate, if there is a change in the lease term. The Company determines the revised lease payments on the basis of the revised lease term or when there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances. The Company determines the revised lease payments to reflect the change in amounts payable under the purchase option.

If there is a change in the lease term or in the assessment of an option to purchase, the Company shall determine the revised discount rate as the interest rate implicit in the lease for the of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined.

Unchanged discount rate

The Company remeasures the lease liability by discounting the revised lease payments, if either:

- there is a change in the amounts expected to be payable under a residual value guarantee. The Company determines the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.

- there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The Company remeasures the lease liability to reflect those revised lease payments only when there is a change in the cash flows (i.e. when the adjustment to the lease payments takes effect).

The Company determines the revised lease payments for the remainder of the lease term based on the revised contractual payments.

The Company uses an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In that case, the lessee shall use a revised discount rate that reflects changes in the interest rate.

Lease modifications

A lessee shall account for a lease modification as a separate lease if both:

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

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

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

For a lease modification that is not accounted for as a separate lease, the Company accounts for the remeasurement of the lease liability by:

- decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The Company recognises in profit or loss any gain or loss relating to the partial or full termination of the lease.
- making a corresponding adjustment to the right-of-use asset for all other lease modifications.

The Company presents lease liabilities in the statement of financial position separately from other liabilities. Interest expense on the lease liability are presented separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs, which is presented in the Statement of Profit or loss and other comprehensive income.

Lease accounting policies applied before 1 January 2019:

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

The Company is a lessee

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

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

Energy saving solutions – Finance lease –– the Company is a lessor. *(applicable until 2019. January 1 and subsequent periods)*

The Company provides energy saving services by preparing an energy saving project, for the implementation of which it is necessary to install special equipment and carry out construction works in the client's facilities. Based on the contract with the client, acquisition of special equipment can be financed by the client or the Company. For the contracts where acquisition of equipment and construction works is financed by the Company, the recognised sales revenue of the system correspond to the minimum payments accumulated by the Company and allocated to cover the value of the installed system. The acquisition cost of the installed system, net of the present value of unguaranteed residual value, is expensed. The costs incurred in relation to negotiation and finance lease organisation at the inception of lease are expensed.

Amounts receivable are accounted for at amortised cost. On initial recognition, amounts receivable are estimated by discounting all future payments of the client for the installed energy saving system. Subsequently, amounts receivable are estimated using the annual interest rate, which was used on initial recognition when discounting the future payments of clients, and by recognising interest income from financing activities.

Interest income from financing activities is recognised over the period of lease using the effective interest rate, which was used when discounting the future payments of clients on initial recognition. Interest income from financing activities is accounted for irrespective of whether such interest is stipulated in the contract with the client.

The installed systems are transferred into the ownership of a client at no extra pay following the receipt of a full payment under the contract.

Operating lease – the Company is a lessee

Leases of property, plant and equipment where a significant portion of risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

Any costs (including depreciation) that were incurred while earning income from operating lease are recognised as expenses.

2.16 Income tax

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

In 2019, an income tax at a rate of 15 per cent was applicable in the Republic of Lithuania (in 2018 – 15 per cent).

Current year income tax

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

Tax losses can be carried forward for an indefinite period, except for losses incurred as a result of disposal of securities and/or derivatives. The losses from disposal of securities and/or derivatives can be carried forward for 5 consecutive years and can only be used to reduce the taxable income earned from the transactions of the same nature.

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

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

Deferred income tax

Deferred income tax is recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax liabilities are recognised for all temporary differences, whereas deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are not recognised when temporary differences arise from goodwill or from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit.

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

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

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

Current and deferred income tax for the period

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

Transfer of accrued tax losses

Upon transfer of the accumulated tax losses to Group companies, The Company derecognises deferred tax asset on the tax losses carried forward and recognizes the consideration receivable in the Statement of Profit or loss and other comprehensive income under ‘Deferred income tax expense’.

The consideration received is presented in the cash flow statement under ‘Income tax (paid)’.

2.17 Revenue recognition and related significant management judgment applied

The Company recognises revenue at the time and to the extent that the transfer of goods or services to customers would show the amount which would correspond to a consideration, the right to which is expected to be obtained by the Company in exchange for those goods or services. When recognising revenue, the Company takes into consideration terms of contracts signed with customers and all significant facts and circumstances, including the nature, amount, timing and uncertainty relating to cash flows arising from the contract with the customer.

a) *Revenue from supply of natural gas*

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

The Company does not recognise revenue from LNGT fee (not related to dedicated LNG supply function described bellow) and gas distribution with respect to those transactions in which it acts as an agent because:

a) The Company is not responsible for the LNGT projects/initiatives and development and maintenance of gas distribution networks, accordingly not responsible that the LNGT and gas distribution service funds are used for their intended purpose.

b) The Company is not exposed to any inventory risk.

c) The Company has no legal power to establish the LNGT security component and pricing of gas distribution services.

For these reasons, the Company accounts for the collected and paid LNGT funds and gas distribution component (with exception to bellow described dedicated LNG supply component) by offsetting. Accordingly, the amounts are accounted at net basis.

b) *Revenue from natural gas balancing services*

The transaction of the balancing of natural gas provides two parts: the transmission of liquefied natural gas at the fixed value of natural gas as established in the agreement with an obligation to repurchase it, and the balancing service, which comprises the supplied/accepted quantity of natural gas at the fee established in the agreement. The recipient of the service assumes the natural gas price risk.

Revenue from sale of services for the quantity of natural gas supplied/accepted, i.e. the balancing service, is recognised as sales revenue in the Statement of Profit or loss and other comprehensive income each month with reference to the data on the quantity of natural gas accepted/supplied each month submitted on a monthly basis.

(c) Revenue from the LNGT security component

Since 2019, UAB Ignitis has been providing the designated LNG supply function. The company took over these activities after the UAB Ignitis Grupė group company LITGAS was merged with it. Profitability of designated supply activities is regulated by the National Energy Regulatory Council (hereinafter "the Council"). The Company generates a portion of its revenue from the sale of designated LNG supply quantities to commercial customers, with the remainder covered through the LNG terminal security component. The security component of the LNG Terminal depends on the projected gas prices and other costs for the upcoming year, the forecasted gas supply volumes, the deviation of the profit earned in previous periods from the regulated amount and other things. Actual costs incurred by the Company during the year may differ from those estimated when approving prices and the actual amount of supply may differ from the forecast. As a result, the Company's actual profit may deviate from the regulated level and the difference will affect the future LNG terminal security component and thus future revenue. The Company does not recognize a regulated asset or liability that is intended to equalize current year profits to a regulated level if the difference affects future supply prices and is recovered / refunded in the future provision of services.

Revenue from security component (for designated LNG supply function) is recognised with reference to the reports received from natural gas transmission system operator (hereinafter – TSO) who administers collection and distribution of these payments. The Company issues invoices to TSO based on the reports received.

Revenue from security component forms part of regulated revenue from the designated supply 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 is transferred to the Company.

(d) Reloading and storage services

The Company, acting as an intermediary in the provision of LNG reloading and storage services, is not exposed to the risk of stock price fluctuations, and therefore does not register LNG gas purchased for reloading purposes as its own inventory, and recognizes the service income (on the net basis in the statement of profit or loss and other comprehensive income.

(e) Revenue from supply of electricity

Revenue from supply of electricity to household customers and entities is recognised in each reporting period under presented invoices, in which the volume of electricity consumed is calculated. The volume of electricity consumed is calculated on the basis of declared amounts or actual meter readings. The Company does not recognise revenue and expenses from electricity trading in the power exchange with respect to those transactions in which it acts as an agent. The Company acts as an agent for PSO service and electricity distribution (including transfer) fee components and does not recognise revenue from it because:

a) The Company is not responsible for the PSO projects/initiatives and development and maintenance of electricity distribution and transmission networks, accordingly not responsible that the PSO and electricity distribution (including transmission) service funds are used for their intended purpose.

b) The Company is not exposed to any inventory risk.

c) The Company has no legal power to establish the PSO component and pricing of electricity distribution services.

For this reason, the Company accounts for the collected PSO and electricity distribution (including transmission) funds on the net basis.

(f) Revenue from electricity balancing

Revenue from electricity balancing services is recognized when the services are provided.

In order to balance the electricity supply schedule, the Company sells the electricity balancing service. Electricity balancing service is providing of the missing electricity or acceptance of excess electricity, thus ensuring the optimal amount of electricity in the distribution systems.

Service for the amount of electricity supplied / received i.e. balancing services is recognized as income in the Statement of Profit or loss and other comprehensive income on a monthly basis based on monthly reported amounts of electricity received / supplied.

(g) Revenue from guaranteed energy savings

Performance obligations arising from contracts on energy saving solutions (for example, to upgrade existing street lighting) concluded with customers are considered to be satisfied over a period of time and revenue is recognized over the period if at least one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits provided by the Company's performance as the entity performs; (b) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Company's performance does not create an asset with an alternative use to the Company, and the Company has an enforceable right to payment for performance completed to date. When the final outcome of this kind of a contract can be measured reliably, revenue and expenses for each contract are recognised on the basis of the stage of completion of the contract. The Company applies the cost method to measure progress because there is a direct relationship between the Company's efforts (i.e. based on hours spent and materials consumed) and the outcome achieved, which gives a fair view. The stage of completion is assessed based on the proportion of the costs incurred in fulfilling the contract up to date over to the total estimated costs of the contract. When the outcome of a contract cannot be measured reliably (for example, in the early stages of a contract), revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. When contract costs are likely to exceed contract revenue, a loss is recognized immediately in profit or loss.

(h) Interest income

Interest income is recognised using effective interest rate method for financial assets accounted at amortised cost method. Interest received (excl. VAT) is recorded in the statement of cash flows as cash flows from investing activities.

2.18 Expense recognition

Expenses are recognised on an accrual basis during the reporting period in which they are incurred, regardless of the moment of cash payments made. Expenditure incurred during the reporting period, which cannot be attributed directly to income earned and which will not generate any income in future reporting periods, are recognised as expenses when incurred.

The amount of costs is usually estimated by the amount of money paid or payable, excluding VAT.

Borrowing costs are recognised as expenses in profit or loss for that period in which they are incurred since the Company does not have assets qualifying for borrowing costs capitalisation.

2.19 Offsetting

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

2.20 Contingencies

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

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

2.21 Related parties

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

The Company has chosen to apply the exemption provided for in IAS 24, Related Party Disclosures, regarding disclosure of transactions with, or under the control of, public authorities. The Company discloses all significant transactions with the Republic of Lithuania represented by the Ministry of Finance of the Republic of Lithuania or entities controlled by the Republic of Lithuania.

2.22 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 measurement is based on the assumption that selling an asset or settling a liability occurs either in the primary market for a given asset or liability, or in the absence of a primary market in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when acquiring the asset or liability, assuming that market participants act in their economic best interest. There are three levels in the fair value hierarchy: The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, provided below. The hierarchy is based on the lowest level input that is significant to the fair value measurement as a whole

Level 1: fair value of assets is based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair value of assets is based on other observable market data, directly or indirectly.

Level 3: fair value of assets is based on non-observable market data.

2.23 Business combination

Business combination applying IFRS 3 (entities not under common control)

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (which cannot exceed one year from the acquisition date) , or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill

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

Contingent consideration

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

Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' about facts and circumstances that existed at the acquisition date.

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

Business combination is achieved in stages

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

Business combination of entities under common control

For a business combination of entities under common control the following methods are applied:

(a) the acquisition method set out in IFRS 3; or

(b) the pooling of interests' method.

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

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

Accordingly, if the analysis of such criteria doesn't show that the transaction has a commercial substance to the merging parties, the Company applies the pooling of interest' method in such transaction and the Company is consistent with the method applied. By applying the pooling of interests' method, the business combination of entities under common control is accounted according to the following procedures:

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

Considerations and assessments performed by the management of the Company for the determination whether the business combination of entities under common control has a commercial substance are disclosed in the Note 34.

2.24 Events after the end of the reporting period

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

3 Financial assets and financial liabilities and risk management

As at 31 December 2019 and 2018, the Company's financial assets comprised investments into subsidiaries and associates, lease receivables, derivatives, trade and other receivables, cash and cash equivalents and financial liabilities included trade payables for acquired natural gas and services related to the natural gas supply and for other goods and services, derivatives, borrowings and other current amounts payable and liabilities.

Credit risk

Amounts receivable from the Company's largest debtor represent 11% (31 December 2018: 4%) of the Company's total trade receivables. Five major debtors of the Company represent 25% (31 December 2018: 12%) of the Company's total trade receivables. The largest customers of the Company are large regulated energy producers or large industrial companies. The Company's debtors are powerful and stable companies.

The Company has the Risk Management Committee responsible for assessing the risk level of potential customers based on available information and expert conclusions, in view of which it reaches an optimal decision as to the possibilities of entering into electricity or gas sale and purchase contract. The Committee defines criteria for the assessment of solvency of customers and arranges a financial/expert verification with competent authorities. Based on information obtained, the Committee makes decisions as to the existence/absence of risk in respect of the relevant customers. The agreements on purchase and sale of electricity or gas are concluded with customers in view of the customer solvency risk assessment by applying customised settlement terms: longer settlement periods are applied to customers with a lower risk and customers with a higher risk are subject to more stringent settlement terms and (or) additional collaterals, including funds deposited in the Company's account, sureties, bills of exchange, etc. To manage the risk of counterparty default, the Company applies an approved Procedure for the Assessment and Management of Customer Solvency.

The Company measures receivables from Group entities on an individual basis, where the financial position and credit risk of each borrower are measured individually by analysing the borrower's financial statements, settlement discipline and other publicly available information about the debtor that may be affected by the debtor's credit assessment. The Company applies 0 per cent of the expected credit loss ratio to receivables from related companies due to immaterial credit risk.

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

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

Interest rate risk

All amounts are in EUR thousand unless otherwise stated

3 Financial assets and financial liabilities and risk management (continued)

Interest rate risk mainly arises from current borrowings (that may be necessary to balance out the working capital) and from guarantees issued that are necessary to secure the fulfilment of liabilities arising from trading activities. As at 31 December 2019, the Company paid due interest for the part of the credit line of OP Corporate Bank plc which was used to secure the issuing of guarantees and letters of credit, SC SEB bankas and Luminor Bank AS under guarantee limit agreements, Ignitis group for long-term financing agreements and for the limit of the credit which was used to balance the working capital under the group account (cashpool). The Company did not use any derivatives to hedge against any interest rate risk.

As at 31 December 2019, the loans with fixed interest amounted to EUR 3,916 thousand (there were no such loans as at 31 December 2018), and all the remaining loans (Note 20) were subject to a variable interest rate related to EURIBOR.

The table below discloses the sensitivity of the Company's pre-tax profit to possible changes in interest rates, with all other variables held constant (changing the interest rate). Except for the current year's profit, there is no impact on the equity of the Company.

	Increase/decrease, percentage points	Impact on profit before tax
2019		
EUR	0,15	(146)
EUR	-0,15	146
2018		
EUR	0,15	(34)
EUR	-0,15	34

Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding of committed credit facilities to meet its commitments at a given date. The Company's liquidity (total current assets/total amounts payable within one year and current liabilities) and quick ratios ((total current assets – inventories) / total amounts payable within one year and current liabilities) as at 31 December 2019 were 1.07 and 0.80, respectively (31 December 2018: 0.83 and 0.67, respectively).

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

	On demand	Past due from 1 to 30 days	Past due from 31 to 90 days	Up to 90 days	In total
Lease liabilities	-	13	26	447	486
Loans and interest payable	-	6,758	13,514	94,386	114,658
Derivatives	-	-	2,528	-	2,528
Trade payables	-	-	40,055	-	40,055
Balance as at 31 December 2019	**-**	**6,771**	**56,123**	**94,833**	**157,727**
Lease liabilities	-	-	-	-	
Loans and interest payable	-	-	22,497	-	22,497
Derivatives	-	-	-	17	17
Trade payables	-	-	75,301	-	75,301
Balance as at 31 December 2018	**-**	**-**	**97,798**	**17**	**97,815**

Derivatives are realised on net basis, therefore derivatives presented in the above table on the net basis as well.

All amounts are in EUR thousand unless otherwise stated

3 Financial assets and financial liabilities and risk management (continued)

Foreign exchange risk

To avoid foreign exchange risk, the Company seeks to conclude the natural gas purchase and supply agreements in the same currency.

Financial assets and financial liabilities are denominated in EUR.

Risk of fluctuations in purchase prices of natural gas and electricity

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

Disclosure of financial instruments subsequently measured at fair value

The Company keeps records of derivatives at fair value. On 31 December 2019, the Company accounted for EUR 5,269 thousand unrealised derivative gain in Derivative assets and EUR 2,528 thousand unrealised derivative loss in Derivative liabilities captions. On 31 December 2019, the breakdown of derivative assets and liabilities by levels of the fair value hierarchy was as follows:

Company	1 level	2 level	3 level	In total
	Quotes in active markets	Other indicators published directly or indirectly	Unpublished indicators	
Derivative assets	-	5,269	-	5,269
Derivatives liabilities	-	2,528	-	2,528

On 31 December 2018, the breakdown of derivatives assets and liabilities by levels of the fair value hierarchy was as follows:

Company	1 level	2 level	3 level	In total
	Quotes in active markets	Other indicators published directly or indirectly	Unpublished indicators	
Derivative assets	-	412	-	412
Derivatives liabilities	-	17	-	17

Disclosure of fair value of financial instruments subsequently not measured at fair value

The Company's principal financial assets and liabilities not measured at fair value are finance lease receivables, issued loans, trade and other receivables, trade and other payables, long-term borrowings. Fair value is defined as the amount for which an asset or service could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of financial assets and financial liabilities is based on quoted market prices, discounted cash flow models or option pricing models, as appropriate.

The following methods and assumptions are used to measure each type of financial asset and liability:

- The amount of cash and cash equivalents, short-term trade and other receivables, short-term borrowings, short-term trade payables and other payables and short-term borrowings approximates their fair value and is therefore attributed to the first level of the hierarchy.

- The fair value of non-current receivables (finance lease and loans issued and payables is determined by reference to the market price of the same or similar loans or to the interest rate applicable on the same maturity date. Their fair value approximates their carrying amount where the discount rates on these accounts payable correspond to current market rates and are therefore attributed to the second level of the hierarchy.

The Company's financial assets and financial liabilities are considered to approximate their fair value.

3 Financial assets and financial liabilities and risk management (continued)

Capital management

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

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

Pursuant to the Lithuanian Republic Law on Companies, the share capital of a private limited liability company must be not less than EUR 2.5 thousand, and the shareholders' equity must be not lower than 50% of the Company's authorised share capital. As at 31 December 2019 and 31 December 2018, the Company complied with these requirements.

The Board of Ignitis Group UAB approved a common dividend policy, which sets uniform principles for the payment of dividends for all the group companies. The dividend policy is one of capital risk management tools. Based on the newly approved policy, distribution of dividends proposed by the Company will depend on the ratio of return on equity and net profit earned. In accordance with the dividend policy, appropriation of profit for the payment of dividends for the financial year or a period shorter than the financial year will depend on the ratio of return on equity, the Company's availability of financial resources for payment of dividends, implementation of economic projects important for the State and other significant circumstances. Between 60% and 85% of net profit is appropriated for the payment of dividends, depending on the ratio of return on equity at the end of the reporting period.

- A company is not obliged to distribute dividends only when it incurs net loss. A company will not pay any dividends when its financial debts at the end of the reporting period are equal to or exceed four times EBITDA amount for the last twelve months as from the end of the reporting period.

- Dividends will not be paid if the Company's equity (after the payment of dividends) becomes lower than the sum of its share capital, legal reserve, revaluation reserve and reserve for acquisition of own shares, and also if a company becomes insolvent or would become insolvent upon payment of dividends. The Company will also be able not to pay dividends if its ratio of financial debts to equity becomes equal to or exceeds 1.0.

4 Change in management judgment on applying accounting methods and finalisation of fair value measurement of assets acquired during the business combination completed in previous period

PSO and Electricity Distribution (including transmission)

Public service obligations (PSO) and electricity distribution (including transmission) (further – transfer) funds are an integral part of the electricity tariff to the consumer. The Company collects the PSO and electricity transfer funds from electricity customers. Collected PSO and electricity transfer funds are transferred to Energijos Skirstymo Operatorius AB (hereinafter – ESO), which then transfers PSO funds to the PSO fund administrator. The PSO funds are used to support and promote local production from renewable energy sources, to secure reserves of the electricity system at designated power plants ensuring system reserves and the state's energy security, as well as to provide other services related to public interest. The list of services supported by the PSO is determined by the Government of the Republic of Lithuania. ESO is responsible for operation of electricity distribution system and thus electricity transfer service.

The PSO and electricity transfer funds as integral part of electricity tariff were not identified as a separate performance obligations. The provision of electricity as a whole, including electricity transfer and PSO was treated as one performance obligation (neither PSO nor transfer components cannot be separated) having considered that customer cannot benefit alone from electricity without transfer or PSO component and vice versa. Following the above, the Management treated the Company as Principal in relation to the PSO and electricity transfer service.

During 2019, the Company changed the method of accounting for the PSO and electricity transfer service by treating the Company as an Agent. Such decision has been taken after extensive analysis of relevant industry practice and taking into consideration the facts, that the Company is not responsible for the PSO projects/initiatives and development and maintenance of electricity distribution system, accordingly not responsible that the PSO and electricity transfer funds are used for their intended purpose. Moreover, the Company is not exposed to any inventory risk, as well as the Company has no legal power to establish pricing of the PSO and electricity transfer service.

A change in accounting treatment allows a better comparison of the Company's performance with that of similar entities (especially when the PSO and electricity transfer funds are excluded from the tariff). This change in accounting treatment is applied retrospectively with corrections in comparative information presented in the table below.

All amounts are in EUR thousand unless otherwise stated

4 Change in management judgment on applying accounting methods and finalisation of fair value measurement of assets acquired during the business combination completed in previous period (continued)

LNGT and Gas Distribution

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. The payments are collected by the transmission system operator (hereinafter "the TSO") directly from the customers or from natural gas suppliers in case the customers have no direct contracts with the TSO. Ignitis UAB acts as a natural gas supplier that collects the LNGT security component from customers.

The LNGT security component from these customers was recognised by the Company in the Statement of Profit or Loss and Other Comprehensive Income under the caption "Revenue", and after transfer of these funds to the TSO, under the caption "Expense".

In the course of its gas trading activities, the Company also collects funds from customers for the gas distribution service and transfers these funds to the gas distribution system operator. The Company recognised these funds in the Statement of Profit or Loss and Other Comprehensive Income under the caption "Revenue", and after transfer of these funds to the operator, under the caption "Expense".

In 2019, the Company changed the method of accounting for the LNGT and gas distribution services by treating the Company as an Agent in relation to these services. Such decision has been taken after extensive analysis of relevant industry practice and taking into consideration the facts, that the Company is not responsible for the LNGT projects/initiatives and development and maintenance of gas distribution networks, accordingly not responsible that the LNGT and gas distribution service funds are used for their intended purpose. The Company is not exposed to any inventory risk, as well as the Company has no legal power to establish the LNGT security component and pricing of gas distribution services.

The change in accounting treatment allows a better comparison of the Company's performance with that of similar entities. The change in accounting treatment is applied retrospectively with correction of comparative information shown in the table below.

	2018 (before correction)	Net presentation of PSO	Net presentation of electricity transfer	Net presentation of gas distribution	Net presentation of LNGT	2018 (restated)
Revenue and other revenue						
Revenue from contracts with customers	311,659	(11,799)	(36,345)	(34,858)	(19,903)	208,754
Other revenue	-	-	-	-	-	-
	311,659	**(11,799)**	**(36,345)**	**(34,858)**	**(19,903)**	**208,754**
Cost of sales	(311,659)	11,799	36,345	34,858	19,903	**(208,754)**
NET PROFIT (LOSS)	**-**	**-**	**-**	**-**	**-**	**-**

The change in accounting treatment did not affect the Company's Statement of Financial Position, statements of cash flows and changes in equity for the year ended 31 December 2018.

Finalisation of the fair value measurement for a business combination (PPA)

In 2019, at the end of measurement period of the business combination, the management completed the fair value measurement of the public supply business acquired from ESO on 1 October 2018 in accordance with paragraph 45 of IFRS 3. As a result of finalization of purchase price allocation the following corrections in fair value of assets and liabilities assumed were recorded:

	Provisional PPA of business acquired as at 1 October 2018 as previously reported	Finalisation of PPA	Final PPA of business acquired as at 1 October 2018
Fair value of purchase price	27,441	-	27,441
Less: fair value of net assets (except for intangible assets) acquired, out of which:	*(2,337)*	*(858)*	*(3,195)*
Trade and other receivables	*(11,712)*	-	*(11,712)*
Trade and other payables	*1,499*	-	*1,499*
Advances received and deferred income	7,876	(858)	7,018
Less: fair value of client contracts and relationships* intangible assets identified during a business combination		(24,185)	(24,185)
Less: write-off of immaterial goodwill recognised in a business combination	-	(61)	(61)
Provisional goodwill recognised in a business combination	25,104	(25,104)	**-**

All amounts are in EUR thousand unless otherwise stated

4 Change in management judgment on applying accounting methods and finalisation of fair value measurement of assets acquired during the business combination completed in previous period (continued)

* Upon finalisation of PPA an intangible asset of client contracts and relationships was recognised as at the date of a business combination. The identified intangible asset comprise of two components for which the management of the Company identified different useful lives as disclosed below:

Components of client contracts and relationships	Acquisition cost	Amortisation period (in years)
Client contracts and relationships (excess profit from client contracts)	21,045	5
Client contracts and relationships	3,140	15
Total	**24,185**	

Due to above, the Company has corrected the Statement of profit or loss and other comprehensive income for 2018 by increased amortisation expenses by EUR 736 thousand and recognising goodwill impairment of EUR 61 thousand at the date of business combination. The above finalisation of PPA also decreased deferred tax asset caption by EUR 70 thousand as at 31 December 2018 with corresponding entry to the statement of profit or loss and other comprehensive income. Net impact of the mentioned adjustments to the statement of profit or loss and other comprehensive income for 2018 amounts to EUR 867 thousand.

For the purpose of income tax, the Company has recognized tax goodwill of EUR 26,246 thousand, with amortization period of 15 years.

5 Critical accounting estimates and judgements

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

Overdeclaration of electricity and gas revenues and expenses

Based on the Company's historical data, it was identified that household consumers tend to declare a higher electricity consumption in the last months of the year than was actually consumed when electricity prices increase. Since the Company's revenue from electricity sales depends on the electricity consumption data declared, overdeclaration results in increase of the Company's revenue, therefore, the Company needs to estimate the amount of the overdeclared consumption to estimate the amount of deferred income. The estimate is based on historical consumption data. All the assumptions are reviewed at each reporting date. For more information, see Note 24.

Based on the reports submitted by the gas distribution operator, the Company accounts for the difference between the amount of gas distributed by the operators and the amount of gas consumed and declared by household customers on a monthly basis. For more information, see Note 24.

Deferred income tax assets

Deferred income tax assets are recognised for all unused tax losses carried forward in the statement of the financial position when it is probable that future taxable profit will be available against which the temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred income tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies (Note 32).

Assessment of impairment of investments in subsidiaries

Based on significant management judgement and analysis performed there is no indication of impairment of investment in Ignitis Polska Sp. zo.o. The actual result for 2019 is a profit before tax of EUR 421 thousand. The management estimate that the subsidiary do not have impairment indications, therefore no recoverable value assessment was performed and no impairment was recognized for the investment into above mentioned subsidiary (Note 9).

Taking into account Ignitis Latvija SIA operating results (loss-making activity), the investment was tested for impairment. Management has made an assessment of recoverable value by calculating value-in-use (VIU) of the mentioned subsidiary by using the discounted cash flows method. Assessment of VIU has been based on significant management estimates:

- Discounted Cash Flows (DCF) method has been used with cash flows forecasted over 10-year period of 2020-2029;
- Average revenue growth has been estimated at 11.6% YoY taking as a baseline budget for 2020, with average EBITDA margin of 1.1% and NWC of EUR 3.6 million;
- WACC of 17,6% (pre-tax discount rate) and terminal growth rate of 2% has been applied to the model;

5 Critical accounting estimates and judgements (continued)

Based on assumptions used and calculations made by management, the recoverable value of Ignitis Latvija SIA was assessed to be lower than the book value of investment by EUR 2.5 million which was accounted for as impairment of investment into subsidiary. The total investment in Ignitis Latvija SIA before impairment was EUR 5.5 million, carrying value of the investment after the impairment of EUR 2.5 million is EUR 3 million (Note 9).

Since the management estimate of recoverable value of investment into subsidiary includes significant assumptions, the below sensitivity of valuation to changes in key valuation inputs has been provided:

- Drop of average EBITDA margin by 10% to 1% would further lower the recoverable value by EUR 0.9 million;
- Increase of average NWC by 70% would further lower the recoverable value by EUR 3 million;
- Increase of WACC to 23.5% would further lower the recoverable value by EUR 2.3 million.

ECL for accounts receivable and finance lease receivable

Impairment loss of amounts receivable was determined based on the management's estimates on recoverability and timing relating to the amounts that will not be collectable under the original terms of receivables. Judgement is exercised based on financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (Note 14).

Determining the fair value of derivatives

The Company attributes derivatives purchased on the Nasdaq Commodities Exchange to Level 2 of the Fair Value Hierarchy, since they are valued based on calculations made by management which are supported with published prices of relevant products on the Nasdaq Commodities Exchange (active market).

The management of the Company attributes derivatives linked to the price zone of Lithuania / Latvia and Estonia / Finland to level 2 of the fair value hierarchy. Derivatives purchased directly from other market participants (Over-The-Counter Contracts) and PTRs (Physical Transmission Rights) are valued on the basis of Nasdaq Commodities stock exchange quotations, with the addition of expertly assessed differences in price zones (potential risks). Similarly, the Company's management attributes derivatives related to gas price indices to level 2 of the fair value hierarchy. Derivatives are purchased directly from the best-priced brokers that meet the credit rating requirements of the Company's Treasury Management Policy.

Application of IFRS 3 by the Company's management to account for mergers and acquisitions performed during 2018-2019

A number of mergers and acquisitions have been completed during 2018-2019. Accounting policy of Ignitis Group UAB states that business combinations should be accounted for under IFRS3 acquisition accounting as a standard method, therefore acquired assets and liabilities are valued at fair values at the date of the acquisition.

On 1 October 2018, public supply activities have been acquired from ESO. Management concluded that this transaction is subject to IFRS 3 definition of acquisition, because Company gained full control and benefits over the assets acquired and because payment has been settled in money. As described in note 34, intangible asset has been recognized as part of the acquisition. For fair value valuation, Company's management has used following assumptions:

1) The amount of EUR 21,045,000 rising from contracts with customers is equal to accumulated difference between regulated electricity acquisition price as part of electricity tariff and actual price paid in electricity spot markets, calculated at the moment of acquisition (note 34) and has been deemed to be collectable over the next regulatory period after the date of acquisition, therefore no discount rate has been applied.

2) Valuation of customer relationships at EUR 3,140,000 (note 34), is based on following assumptions:

    (a) DCF modelling over the period 2019–2033;
    (b) Deregulation of public supply from 2021, assuming all public supply customers are able to choose their electricity supplier. This assumption was valid at the date of acquisition and was applied to the business case and DCF modelling. Any delays or changes to the deregulation model may increase value of the asset due to lower competition and better customer retention.
    (c) Double-digit loss of customers in 2021 and a further continuous single-digit customer base deterioration due to competition and demographics in the following years;
    (d) WACC of 13.6% (pre-tax discount rate), assuming cost of equity at 14.6% with 91% weight, and cost of debt at 3.15% percent with 9% weight.
    (e) Stable supply margin, comparable to that set in 2019 by the regulator;
    (f) NWC stable at 1.1% to revenue.

Sensitivities of this modelling are following (assuming no other changes to the model):

(a) Decrease of supply margin by 30% would lower fair value to 0 (zero) EUR;
(b) Decrease of volumes by 10% in every year would lower fair value by EUR 1.6 million;
(c) WACC at 17.6 % (pre-tax discount rate) would further lower fair value by EUR 0.8 million.

5 Critical accounting estimates and judgements (continued)

Prepayment for natural gas

According to the provisions in agreement signed in 2018 with the gas supplier Gazprom, Company did not withdraw all the dedicated quantity of natural gas under the take-or-pay (hereinafter - TOP) condition. Following the requirements of the TOP condition, at the beginning of 2019 Company made a prepayment to Gazprom, which was calculated as 75% of the not withdrawn gas quantity for 2018 multiplied by average gas price of 2018, a total of EUR 7 576 thousand. The prepayment was recorded in the Company's statement of financial position under the prepayments caption. The remaining 25% part of the TOP condition quantity will be paid during the delivery period at market price. The Company is obliged to purchase the TOP quantity within 3 years - until the end of 2021.

Since the realization of 75% part of the TOP contract is subject to variable price risk, Company's management have been using derivative financial instruments to hedge the fair value of the contract. The Company has applied fair value hedge accounting and recognized an unrealised firm commitment offsetting the prepayment in amount of 2 465 EUR thousand with revaluation loss accounted in the statement of comprehensive income under the caption Cost of sales, while 2 465 EUR gain from derivatives designated to hedging were accounted under the same caption. Company plans to withdraw the 2018 TOP quantity by December 2020.

All amounts are in EUR thousand unless otherwise stated

6 Intangible assets

Dynamics of the Company's intangible assets during 2019 and 2018 provided below:

	Intangible assets identified during business combination (restated)*	Computer software	Patents and licences.	Software projects in progress	In total (restated)*
As at 31 December 2018					
Acquisition cost (restated)*	24,185	580	13	-	24,778
Accumulated amortisation (restated)*	(736)	(206)	(4)	-	(946)
Net book value as at 31 December 2018 (restated)*	**23,449**	**374**	**9**	-	**23,832**
As at 31 December 2018					
Opening net book value	-	148	1	-	149
Additions	-	311	10	-	321
Additions related to business combination (Note 4) (restated)*	24,185	-	-	-	24,185
Amortisation charge (restated)*	(736)	(85)	(2)	-	(823)
Net book value as at 31 December 2018 (restated)*	**23,449**	**374**	**9**	**-**	**23,832**
As at 31 December 2019					
Opening net book value	23,449	374	9	-	23,832
Additions	-	131	-	365	496
Increase related to business combinations under common control (Note 34)	16,395	187	-	167	16,749
Reclassification between categories	-	532	-	(532)	-
Amortisation charge	(4,996)	(173)	(3)	-	(5,172)
Net book value as at 31 December 2019	**34,848**	**1,051**	**6**	**-**	**35,905**
As at 31 December 2019					
Acquisition cost	24,185	1,243	14	-	25,442
Acquisition cost of assets taken over at business combination under common control (Note 34)	19,773	430	-	-	20,203
Accumulated amortisation	(5,732)	(379)	(8)	-	(6,119)
Accumulated amortisation of assets taken over at business combination under common control (Note 34)	(3,378)	(243)	-		(3,621)
Net book value as at 31 December 2019	**34,848**	**1,051**	**6**	**-**	**35,905**
As at 31 December 2019					
Acquisition cost in total	43,958	1,673	14	-	45,645
Accumulated amortisation in total	(9,110)	(622)	(8)	-	(9,740)
Net book value as at 31 December 2019	**34,848**	**1,051**	**6**	**-**	**35,905**

** Some of the amounts listed above differ from the amounts within the financial statements for the year ended 31 December 2018 and reflect the adjustments to intangible assets acquired in a business combination valuation disclosed in Note 4.*

In 2015, UAB Energijos Tiekimas (ET) (as the entity was called at the time) acquired two activities from Lietuvos Energijos Gamyba AB (now AB Ignitis Gamyba): a balancing activity and a derivative trading activity. Intangible assets related to these activities were included in the balance sheet of Ignitis on 1 June 2019 after the merger of ET. Assets are depreciated 1/20 a year. The value of the balancing intangible assets as of 31 December 2019 is EUR 9.2 million (EUR 11.5 million at the time of acquisition). Operating profit from balancing activities was EUR 5.4 million in 2018 (at ET) and EUR 2.9 million in 2019. The value of intangible assets related to derivatives trading at 31 January 2019 is EUR 6.6 million (EUR 8.3 million at the time of acquisition).

Since 2019, speculative trading in derivatives is conducted only through the subsidiary Ignitis Polska Sp.z.o.o. Derivatives hedge trading is continued by the Company to ensure the cost of electricity and gas for fixed price contracts in the retail market. The financial hedge result for derivatives trading is aggregated in the financial statements with the retail result. Electricity and gas retail sales at fixed price earned EUR 4.6 million in 2019. Therefore the Company has not identified any evidence of impairment of intangible assets, and no impairment tests have been performed.

All amounts are in EUR thousand unless otherwise stated

6 Intangible assets (continued)

The Company uses fully amortised intangible assets, the acquisition cost of which consists of the following:

Category of assets	As at 31/12/2019	As at 31/12/2018
Patents, licences, etc.	5	3
Computer software	27	27
Cost of amortised assets, total	**32**	**30**

7 Property, plant, and equipment

Changes in the Company's property, plant, and equipment during 2019 and 2018 are provided below:

	Solar power plants, electric car charging stations	Construction-in-progress	Computer hardware	Other PP&E	In total
Net book value at 1 January 2018			**3**	**1**	**4**
Depreciation	-	-	(3)	(1)	(4)
Net book value at 31 December 2018	**-**	**-**	**-**	**-**	**-**
Cost	-	-	19	5	24
Accumulated depreciation	-	-	(19)	(5)	(24)
Net book value at 31 December 2018	**-**	**-**	**-**	**-**	**-**
Net book value at 1 January 2019	**-**	**-**	**-**	**-**	**-**
Acquisitions	-	1,847	-	1	1,848
Reclassifications between classes	499	(499)	-	-	-
Acquired during the business combinations under common control (Note 34)	156	423	-	41	620
Write-offs	-	(2)	-	-	(2)
Depreciation charge for the year	(14)	-	-	(6)	(20)
Net book value as at 31 December 2019	**641**	**1,769**	**-**	**36**	**2,446**
As at 31 December 2019					
Acquisition cost	499	1,346	-	6	1,851
Acquisition cost of assets taken over at business combination under common control (Note 34)	160	423	-	53	636
Accumulated depreciation	(14)	-	-	(11)	(25)
Accumulated depreciation of assets taken over at business combination under common control (Note 34)	(4)	-	-	(12)	(16)
Net book value as at 31 December 2019	**641**	**1,769**	**-**	**36**	**2,446**
As at 31 December 2019					
Acquisition cost in total	659	1,769	4	59	2,491
Accumulated depreciation in total	(18)	-	(4)	(23)	(45)
Net book value as at 31 December 2019	**641**	**1,769**	**-**	**36**	**2,446**

The Company uses fully depreciated property, plant and equipment, the acquisition cost of which consists of the following:

Category of assets	As at 31/12/2019	As at 31/12/2018
Computer hardware, communication and other office equipment	4	18
Other PP&E	5	4
Cost of depreciated assets, total	**9**	**22**

As at 31 December 2019, the Company did not have any commitments for the acquisition of property, plant and equipment.

All amounts are in EUR thousand unless otherwise stated

8 Right-of-use assets

Dynamics of the Company's right-of-use assets as at 31 December 2019 provided below:

	Buildings	Structures and machinery	In total
As at 31 December 2019			
Opening net book value	-	-	-
Additions:			
Whereof: recognition as right-of-use asset as at 01/01/2019 (Note 2.2)	290	-	**290**
Whereof: lease contracts signed from 02/01/2019 to 31/12/2019.	512	-	**512**
Assets acquired in business combinations under common control	241	34	275
Write-offs and disposals	(440)	(32)	(472)
Depreciation	(118)	(2)	(120)
Net book value as at 31 December 2019	**485**	**-**	**485**
As at 31 December 2019			
Acquisition cost	603	-	**603**
Accumulated depreciation	(118)	-	**(118)**
Net book value as at 31 December 2019	**485**	**-**	**485**

9 Subsidiaries

The Company's investments in subsidiaries as at 31 December 2019 included:

	Acquisition cost	Impairment	Carrying amount	Ownership interest (%)
Ignitis Latvija SIA	5,500	(2,500)	3,000	100
Ignitis Polska Sp. z o.o.	2,339	-	2,339	100
Ignitis Eesti OÜ	35	-	35	100
Total	**7,874**	**(2,500)**	**5,374**	

The impairment of investments in subsidiaries accounted for by the Company was determined by performing an impairment test, the description of which is given in Note 5.

Performance of subsidiaries in 2019 was as follows:

	Equity	Total assets	Profit before tax
Ignitis Polska Sp. z o.o.	1,738	3,810	427
Ignitis Latvija SIA	535	11,998	(734)
Ignitis Eesti OÜ	42	78	(5)

In 2019, the Company did not receive dividends from its subsidiaries.

As at 31 December 2019, the Company had no significant contingent liabilities associated with its subsidiaries.

All amounts are in EUR thousand unless otherwise stated

10 Investment in associated entities and other investment

As at 31 December 2019, the Company's other financial assets comprised investments in other companies as follows:

	Acquisition cost	Impairment losses	Carrying amount	Ownership interest (%)
Verslo aptarnavimo centras, UAB	43	-	43	7.50
Ignitis grupės paslaugų centras, UAB*	60	-	60	0.84
In total	**103**	**-**	**103**	

* Technologijų ir inovacijų centras UAB until the change of the name on 6 September 2019.

As at 31 December 2019, the Company's other financial assets comprised as follows:

	Acquisition cost	Impairment losses	Carrying amount	Ownership interest (%)
Verslo aptarnavimo centras, UAB	22	-	22	3.75
Ignitis grupės paslaugų centras UAB	60	-	60	0.91
In total	**82**	**-**	**82**	

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

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

Information on dividends received from Verslo aptarnavimo centras UAB and Grupės paslaugų centras UAB for the year 2019 and 2018 is provided in Note 30.

As at 31 December 2019, the Company had no significant contingent liabilities associated with Verslo aptarnavimo centras UAB ir Ignitis grupės paslaugų centras UAB.

11 Loans granted

	As at 31/12/2019	As at 31/12/2018
Loans granted to subsidiaries	9,200	-
Balance at 31 December	**9,200**	**-**

As at 31 December 2019, the Company had granted a credit of EUR 7.7 million to its subsidiary Ignitis Latvia SIA. The credit was granted to finance the working capital and is repayable upon demand and the Company has no plans to demand its early repayment in 2020, and therefore, the loan granted was classified within 'Non-current loan granted' as at 31 December 2019. The Company considers that there are no indications that the loans will not be repaid when needed. The management has decided not to recognize impairment of loans, based on improved profitability and future cash flows modelling of Ignitis Latvija SIA. The loan is subject to a variable interest rate, where the rate at 31 December 2019 was 0.8% per annum.

On 27 June 2017, UAB Energijos tiekimas (which was merged into the Company in year 2019 as disclosed in note 34) signed the credit line agreement with its subsidiary Geton Energy Sp. z o.o. for the amount of EUR 5,750 thousand. On 17 July 2017 the credit line limit was reduced to EUR 3,600 thousand. As at 31 December 2019, the Company had granted a credit of EUR 1,500 thousand to finance the working capital. The credit has to be repaid by 27 June 2021. Based on solid financial performance of Ignitis Polska Sp. z o.o., management has decided not to recognize impairment of loans. The loan is subject to a variable interest rate, where the rate at 31 December 2019 was 0.63% per annum.

All amounts are in EUR thousand unless otherwise stated

11 Loans granted (continued)

Movement of loans granted during 2019 and reconciliation with Cash Flow Satetement:

	2019
Balance at 1 January	-
Lons granted	3,700
Loans taken over in business combinations (Note 34)	12,498
Loans recovered	(6,998)
Balance at 31 December	**9,200**

12 Inventories

	As at 31/12/2019	As at 31/12/2018
Natural gas	40,797	19,835
Other inventories	2,575	-
Carrying amount	**43,372**	**19,835**

Under the Lithuanian legislation the Company is required to store a quantity of natural gas in the underground storage facility as a reserve for the smallest (the most sensitive) consumers of the Company. As at 31 December 2019, the latter quantity comprised 394 GWh or EUR 6,906 thousand (31 December 2018: 421 GWh or EUR 10,409 thousand). The Company recorded no impairment in the available natural gas and other reserves related to the implementation of energy saving solutions (disclosed as Other inventories in the above table), because the comparison of their book value and market values showed no signs of impairment.

13 Prepayments

	As at 31/12/2019	As at 31/12/2018
Prepayments for natural gas	8,880	5,806
Prepayments for electricity due to over-declaration by customers	5,194	4,439
Deposits on the electricity exchange*	15,973	-
Other	1,986	1,039
In total	**32,033**	**11,284**

* Following the merger of Energijos Tiekimas UAB (Note 34), the Company continued trading in electricity on the NordPool power exchange through its wholesale and retail electricity sales activities. Under the regulations of the Power Exchange, the power purchase transactions need to be secured by depositing the collaterals in the amount of the transactions, which the Company has accounted for under prepayments.

Under the provisions of the natural gas supply agreement with Gazprom OAO, in 2018 the Company did not use 46.9 million m3 of gas, out of 400 million m3 of the minimum natural gas quantity to be used. Under the provisions of the mentioned agreement, the Company can utilise the unused quantity over the course of 3 coming years upon the fulfilment of advance payment and natural gas consumption obligations laid down in the agreement. The unused quantity of natural gas had no impact on the Company's financial position of 2018, however in 2019 the Company made a prepayment of EUR 7.6 million for a part of natural gas not used in 2018, which were accounted for under natural gas prepayments. For more information on this transaction please refer to Notes 5 and 34.

All amounts are in EUR thousand unless otherwise stated

14 Amounts receivable under contracts with customers

	As at 31/12/2019	As at 31/12/2018
Amounts receivable from non-household customers for natural gas	31,586	30,676
Amounts receivable from household customers for natural gas	3,479	4,287
Amounts receivable from non-household electricity consumers	14,612	-
Amounts receivable from household customers for electricity	16,748	16,096
Other	387	10,908
	66,812	61,967
Expected credit losses	(5,826)	(4,953)
In total	**60,986**	**57,014**

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

The standard period of settlement of amounts receivable under contracts with clients is 15 to 30 days.

Impairment of amounts receivable – expected credit losses are recognised on a collective basis. The Company applies the loss ratio matrix to calculate these amounts. The loss ratio matrix is based on historical data on the settlement for trade receivables during the period of validity of trade receivables and is adjusted with respect to future forecasts. The loss ratios are updated during the preparation of the annual financial statements with respect to the impact of operational prospects where these prospects are indicative of any exacerbation of economic conditions during upcoming years.

After 1 June 2019 the management of the Company decided to apply a uniform matrix of loss coefficients to non-household customers of natural gas and electricity. The calculation methodology used by Energijos Tiekimas UAB until then was changed, i.e. receivables impairment is calculated on the basis of the internal ratings assigned to the borrower.

The valuation is based on external and internal information about the debtor, which may be material to determine the debtor's ability to settle with the Company. External sources of information include financial status, court involvement, debt to other entities, employee trends, arrests, and other information that is used as the basis for establishing a bankruptcy rating (bankruptcy probability model) or risk class. This external information is obtained through service agreements with third parties (Credit Agencies). Internal information is the profile of the debtor's actual settlement with the Company, which is the basis for the settlement rating. Based on the ratio of bankruptcy ratings or risk classes to settlement ratings, the borrower is assigned internal rating on a scale from A to E, where A is the lowest risk and E is the highest risk grade. In doing so, a loss rate is based on the internal ratings assigned to the borrowers.

Receivables from customers in the lowest risk class having an internal rating of A have zero ECL loss rate. Receivables from the customers with the second, third, fourth and fifth risk classes which have internal ratings of B, C, D and E, respectively, are subject to discount rates of 1.1%, 4.5%, 17% and 100% respectively.

In the Company's opinion, the effect of changing the accounting estimate for expected credit losses for non-household customers is insignificant.

All amounts are in EUR thousand unless otherwise stated

14 Amounts receivable under contracts with customers (continued)

In 2019, the Company continued to apply an overall assessment in 2019 to the following loss matrix:

	Household customers (natural gas)	Household customers (Electricity)
Not past due	1.00%	0.60%
Past due up to 1 month	1.80%	3.60%
Past due from 1 to 2 months	4.50%	8.70%
Past due from 2 to 3 months	8.90%	19.60%
Past due from 3 to 4 months	14.10%	29.30%
Past due from 4 to 5 months	19.90%	37.20%
Past due from 5 to 6 months	26.10%	44.50%
Past due from 6 to 7 months	32.30%	50.80%
Past due from 7 to 8 months	38.40%	56.70%
Past due from 8 to 9 months	44.30%	62.20%
Past due from 9 to 10 months	50.50%	66.40%
Past due from 10 to 11 months	55.90%	70.20%
Past due from 11 to 12 months	61.30%	73.70%
Past due over 1 year	78.30%	85.90%

The following loss ratio matrix was applied by the Company to all the customers of electricity and gas as at 31 December 2018:

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

As at 31 December 2019, the Company's trade receivables under contracts with household customers were assessed using the loss ratio matrix:

	Carrying amount before credit losses	Impairment losses
Not past due	12,763	(86)
Past due up to 1 month	1,721	(56)
Past due from 1 to 2 months	531	(43)
Past due from 2 to 3 months	253	(44)
Past due from 3 to 4 months	121	(31)
Past due from 4 to 5 months	131	(43)
Past due from 5 to 6 months	100	(41)
Past due from 6 to 7 months	98	(46)
Past due from 7 to 8 months	91	(49)
Past due from 8 to 9 months	105	(61)
Past due from 9 to 10 months	67	(42)
Past due from 10 to 11 months	95	(65)
Past due from 11 to 12 months	107	(73)
Past due over 1 year	4,044	(3,530)
Total receivables under contracts with customers	**20,227**	**(4,210)**

All amounts are in EUR thousand unless otherwise stated

14 Amounts receivable under contracts with customers (continued)

As at 31 December 2018, the Company's trade receivables under contracts with household and non-household (natural gas) customers were assessed using the loss ratio matrix:

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

Trade receivables of the Company under contracts with non-household customers on 31 December 2019 shall be assessed by means of an internal rating system:

Internal Ratings	Carrying amount before credit loss	Impairment losses
A	35,341	-
B	4,258	(47)
C	4,892	(220)
D	898	(153)
E	1,196	(1,196)
Total receivables from contracts with non-household customers	**46,585**	**(1,616)**

Dynamics of expected credit losses of receivables under contracts with customers in 2019 and 2018:

	2019	2018
At beginning of the reporting period	**4,953**	**2,083**
Change in impairment in retained earnings due to first-time adoption of IFRS 9	-	117
Restated balance at the beginning of the reporting period	**4,953**	**2,200**
Increase in impairment recognised during the year	694	663
Impairment of public supply activities taken over from ESO	179	2,607
Reversal of impairment allowance unutilised	-	(517)
At the end of the reporting period	**5,826**	**4,953**

Changes in the impairment provision for amounts receivable under contracts with customers for the year 2019 recognised in the statement of profit or loss and other comprehensive income.

Carrying amount of credit-impaired receivables under contracts with customers as at 31 December 2019 was EUR 5,826 thousand (as at 31 December 2018 – EUR 4,953 thousand).

All amounts are in EUR thousand unless otherwise stated

15 Derivatives

The Company's balances of derivatives as at 31 December 2019 and 2018 were as follows:

	As at 31/12/2019	As at 31/12/2018
Derivative assets		
Gas transactions	5,036	412
Electricity transactions	233	-
Total derivatives	**5,269**	**412**
Derivative liabilities		
Gas transactions	1,120	17
Electricity transactions	1,408	-
Total derivative liabilities	**2,528**	**17**

16 Other receivables

	As at 31/12/2019	As at 31/12/2018
Other current amounts receivable		
Finance lease receivables	520	-
Other receivables	6,311	198
Total other current amounts receivable	**6,831**	**198**
Other non-current amounts receivable		
Finance lease receivables	3,043	-
Total other non-current amounts receivable	**3,043**	**-**
Balance at 31 December	**9,874**	**198**

One of the reasons for the increase in other current receivables is the electricity balancing service taken over from Energijos Tiekimas UAB, where other receivables include amounts receivable in future periods from companies purchasing these services. The increase in other receivables was also determined by the activities of energy saving solutions taken over from Energijos Tiekimas UAB. By fulfilling its contractual obligations, the Company provides the buyers with the right to acquire equipment under financial lease contracts, when at the end of the contract and after the buyer has paid the full amount specified in the contract within this time the title of the installed equipment is transferred to the buyer.

Payment deadlines under financial leasing contracts:

	As at 31/12/2019	As at 31/12/2018
Through 2020	595	-
During the years 2021-2024	1,919	-
During 2025 and beyond	1,388	-
Total payments	**3,902**	**-**
Future interest		
Through 2020	(75)	-
During the years 2021-2024	(192)	-
During 2025 and beyond	(72)	-
Total	**(339)**	**-**
Current value of financial leasing payments	**3,563**	**-**

All amounts are in EUR thousand unless otherwise stated

17 Cash and cash equivalents

	As at 31/12/2019	As at 31/12/2018
Cash at bank	22,267	11,438
Cash in transit	1,142	-
Total other current amounts receivable	**23,409**	**11,438**

The Company holds its cash only in the highest rated credit institutions. The management has not identified any indications of impairment for cash and has not recognized them in the statement of profit or loss and other comprehensive income.

As at 31 December 2019, the Company had pledged to the banks funds in the amount of EUR 6 thousand as a collateral under the proposal and performance guarantees issued by the banks (no funds were pledged as of 31 December 2018).

As at 31 December 2019, the Company had an overdraft agreement with the bank for the limit of EUR 10 thousand. As at 31 December 2019 and 31 December 2018, no amount was withdrawn by the Company.

As at 31 December 2019, the Company had a guarantee limit agreement with OP Corporate Bank plc for the amount of EUR 55 million. As at 31 December 2019, the limit of the guarantees was utilised in the amount of EUR 42.755 thousand (as at 31 December 2018, the withdrawn balance of the limit amounted to EUR 1.924 thousand).

Following the merger of Energijos Tiekimas UAB and Litgas UAB (Note 34), the Company took over financing services (guarantee limit) agreements with AB SEB bankas in the amount of EUR 15,000 thousand and EUR 84,700 thousand. On 31 December 2019, the amount of the used guarantee limit of SEB bankas AB amounted to EUR 10,963 thousand and EUR 44,100 thousand respectively.

Following the merger of Energijos Tiekimas with the Company, Luminor Bank AS also took over the guarantee limit agreement of EUR 450 thousand and EUR 735 thousand long term credit agreement. On 31 December 2019, Luminor Bank AS used a guarantee limit of EUR 77 thousand.

In order to balance its working capital, the Company has concluded cash-pool agreements with the companies of the Ignitis Group.

18 Share capital

As at 31 December 2019, the Company's share capital amounted to EUR 40,140,000 and was divided into 138,413,794 ordinary registered shares with par value of EUR 0.29 each. As at 31 December 2018, the Company's share capital was divided into 28,862,070 ordinary registered shares with par value of EUR 0.29 each. The merger of Litgas UAB in January 1 2019 increased the authorized capital of 45,000,000 ordinary registered shares with the nominal value of EUR 0.29 each, for a total of EUR 13,050,000 thousand. Following the merger of UAB Energijos Tiekimas on 1 June 2019, the authorized capital was increased by 18 720 000 ordinary registered shares with the par value of EUR 1 each, totalling EUR 18 720 000. All the shares are fully paid.

The Company did not pay dividends in 2019 (4.6 million dividends were paid in 2018). Dividends paid by the Company are not subject to corporation tax.

19 Reserves

The legal reserve is a compulsory reserve under the Lithuanian legislation. Companies in Lithuania are required to transfer 5% of net profit from distributable profit until the total reserve reaches 10% of the share capital. The legal reserve shall not be used for payment of dividends and is formed to cover future losses only. The legal reserve was not fully formed on 31 December 2019 and 2018 and transfers to the legal reserve will be made by the decision of the shareholders at the next ordinary shareholders meeting.

As at 31 December 2019, the Company's legal reserve amounted to EUR 468 thousand (31 December 2018: EUR 468 thousand).

All amounts are in EUR thousand unless otherwise stated

20 Loans received

Aiming to reduce costs incurred for the funding of its working capital, on 18 May 2016 the Company signed the Ignitis Group UAB Group account (cashpool) agreement of an unlimited validity, under which the Company may obtain current loans from other companies of the Group. As at 31 December 2019, the borrowing limit set until 1 March 2020 was EUR 130,000 thousand. Intragroup borrowing transactions have to be concluded in accordance with market terms and with interest rates, which would be set in the market. The market interest rate is established for the period of one calendar year, therefore, the carrying amount of borrowings approximates their fair value within Level 2 of the fair value hierarchy. As at 31 December 2019, the Company's borrowings amounted to EUR 79,272 thousand. No pledges or other collaterals as security of loan repayment were made.

To finance the acquisition of public supply activities from Energijos Skirstymo Operatorius AB (Note 34), the company entered into an agreement with Ignitis Group UAB for the amount of EUR 27,000 thousand, with repayment term of 29 March 2024. The annual interest rate is calculated using the formula EURIBOR 3M + 2.5%.

After the reorganisation, the Company took over the agreement entered by Energijos Tiekimas UAB with Ignitis Group UAB on 5 December 2018 on the (proportional) transfer of the obligations arising from the Green Bonds issue, which is intended to finance the projects for investments in energy consumption reduction, energy consumption reduction, energy consumption efficiency and renewable energy resources (photovoltaic solar power plants). The credit amount is EUR 3,500 thousand, the repayment deadline is 10 July 2028, and annual interest rate is 2.41%, which is calculated on the outstanding balance of the loan.

As at 31 December 2019, the Company's current borrowings amounted to EUR 79,577 thousand, and non-current borrowings amounted to EUR 30,737 thousand. The Company's borrowings were received from related parties (Note 33).

The Company does not have any foreign currency loans.

The weighted average interest rates on the Company's borrowings payable are 1,28% (2018 – 0,45%).

Non-current borrowings by maturity:

	As at 31/12/2019	As at 31/12/2018
Between 1 and 2 years	237	-
Between 2 and 5 years	27,000	-
After 5 years	3,500	-
In total	**30,737**	**-**

All amounts are in EUR thousand unless otherwise stated

21 Lease liabilities

Lease liabilities and their dynamics:

	As at 31/12/2019	As at 31/12/2018
Opening book value	-	-
Recognition of lease liabilities under IFRS 16	290	-
Additions of lease contracts	512	-
Taken over in a business combination under common control (Note 34)	276	-
Termination of lease (write-off of debt and accrued interest)	(442)	-
Interest charges	7	-
Lease payments (principal portion and interest)	(142)	-
Reclassified to other payables	(15)	-
Carrying amount at 31 December	**486**	**-**
Non-current lease liabilities	326	-
Current lease liabilities	160	-

The total amount of payments under lease and finance leases in 2019 amounted to EUR 142 thousand (in 2018: EUR 7 thousand). Payments related to leases of 12 months or less and leases of low-value assets are classified as cash flows from operating activities and in 2019 amounted to EUR 72 thousand.

The Company's future payments under leases were as follows:

	As at 31/12/2019	As at 31/12/2018
Minimum payments		
Within one year	167	-
Two to five years	331	-
More than five years	-	-
In total	**498**	**-**
Future finance costs		
Within one year	(7)	-
Two to five years	(5)	-
More than five years	-	-
In total	**(12)**	**-**
Carrying amount	**486**	**-**

All amounts are in EUR thousand unless otherwise stated

22 Provisions

The Company classifies provisions into long-term and short-term. In 2019 and 2018 the amounts of provisions are disclosed below:

	2019	2018
Long-term	93	4
Short-term	21	-
Balance at 31 December	**114**	**4**

Dynamics of provisions during 2019 and 2018 were as follows:

	2019	2018
Balance at 1 January	**4**	**4**
Provision for warranty obligations	106	-
Provision for pensions and similar liabilities	4	-
Balance at 31 December	**114**	**4**

Provisions for employee benefits include a statutory retirement benefit payable to the Company's employees. The balance of provisions at the reporting date is reviewed with reference to actuarial calculations to ensure that estimation of retirement benefit liabilities is as much accurate as possible. The liabilities are recognised at discounted value at a market interest rate of 3.2%.

23 Trade payables

The Company's trade payables:

	2019	2018
To electricity system operators	26,934	25,198
To electricity suppliers	4,863	12,123
To natural gas system operators	4,189	9,406
To natural gas suppliers	3,428	62
For acquisition of a electricity public supply business (Note 34)	-	27,441
Other	641	1,071
In total	**40,055**	**75,301**

Terms and conditions applicable to current trade payables:

- Trade payables are non-interest bearing and are normally settled within the term of 10 to 45 days.
- Terms and conditions applicable to amounts payable to related parties are described in Note 33.

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

All amounts are in EUR thousand unless otherwise stated

24 Contract liabilities

The Company's contract liabilities as at 31 December 2019 and 2018 consisted of:

	2019	2018
Under other contracts	15	-
Customer contracts (IFRS 15)	20.082	18,517
In total	**20.097**	**18,517**

In September 2019, the Company launched an online platform for remote solar parks to bring together solar park developers with potential buyers. In this case the Company acts as an intermediary and represents developers (under the contracts signed) them in concluding contracts with buyers, manages billing process and collects payments from buyers on their behalf, which are transferred to the developers' current accounts within the contractual deadlines. As at December 31, 2019, the Company collected EUR 15 thousand of payments from buyers on behalf developers and accounted for under other contract liabilities.

Dynamics of the Company's contract liabilities during 2019 and 2018 were as follows:

	2019	2018
Opening book value	**18,517**	**7,579**
Recognised as income	(18,517)	(7,579)
Acquired during business combinations	273	-
Customer payments received	19,824	18,517
In total	**20,097**	**18,517**

25 Other current amounts payable and liabilities

Other current amounts payable and liabilities of the Company consisted of:

	2019	2018
Accrued costs and deferred income for electricity and gas and related services	6,496	-
VAT payable to the budget	10,173	2,641
Other payables	1,644	610
In total	**18,313**	**3,251**

Accrued expenses and deferred income for electricity and gas supply, and related services increased due to the electricity trading and balancing services taken over from Energijos Tiekimas UAB (Note 34) and the late receipt of suppliers' invoices for the electricity and gas purchased.

The growth in the amount of tax payable to the budget was predetermined by the expansion of the Company's operations and increase in sales at the end of 2019.

All amounts are in EUR thousand unless otherwise stated

26 Revenue from contracts with customers

Revenue recognised from contracts with customers:

	Non-household customers	Household customers	In total
Sales revenue of natural gas	155,336	59,517	214,853
Revenue from public supply of electricity	-	137,190	137,190
Retail trade in electricity	50,568	-	50,568
LNGT revenue	29,371	-	29,371
Revenue from project activities	612	764	1,376
Total for 2019	**235,887**	**197,471**	**433,358**

	Non-household customers	Household customers	In total
Sales revenue of natural gas	135,633	51,524	187,157
Revenue from public supply of electricity	-	21,254	21,254
Revenue from project activities	-	343	343
Total for 2018 *(restated)	**135,633**	**73,121**	**208,754**

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 within 15–30 days after the delivery of goods or services. In rare cases, the terms of delayed payment might be agreed upon, however, any delay of payments cannot exceed 12 months, and therefore, the transaction price is not adjusted in view of the financing impact on revenue recognition. Revenue for the above streams is recognized over time.

The Company's performance obligations are summarized below:

By signing an agreement with a customer to sell electricity, the Company assumes performance obligation to sell electricity to the customer at the price specified in the agreement or announced publically in company's website (for households). This performance obligation is satisfied over a period of time and the customer receives benefits as and when required. Customers are billed for their electricity use on a monthly basis based on their declared electricity consumption. Bills are due within 15 to 30 days. Customers do not have the possibility to recover money paid for goods previously provided to them. In some cases, the Company may require a deposit to be made prior to the provision of electricity by reference to the customer's credit rating.

By signing an agreement with a customer to sell natural gas, the Company assumes performance obligation to sell natural gas to the customer at the price specified in the agreement or announced publically in company's website (for households). This performance obligation is satisfied over a period of time and the customer receives benefits as and when required. Customers are billed for their natural gas use on a monthly basis based on their declared natural gas consumption. Bills are due within 15 to 30 days. Customers do not have the possibility to recover money paid for goods previously provided to them.

Transaction price allocation to remaining performance obligations

All the Company's performance obligations entitle the Company to receive from the customer such amount that corresponds directly with the value of the Company's performance completed to date, therefore, the Company applies the practical expedient in paragraph 121 of IFRS 15 and elects not to disclose the allocation of transaction price to the remaining operating liabilities.

All amounts are in EUR thousand unless otherwise stated

27 Other income

Other revenue for 2019 and 2018 included:

	2019	2018
Result of derivatives (Note 28)	3,948	-
Other income	54	-
Other income, total	**4,002**	**-**

Following the expansion of the Company's operations and the provision of new services to its customers, they were reclassified to other income in 2019. It consisted of a solar power plant installation service.

28 Result of derivatives trading

During 2019 the result of realized and unrealized derivatives is presented in the statement of profit or loss and other comprehensive income as follows:

	2019	2018
Other income		
Gain on derivatives	3,653	-
Cost of sales		
Loss on derivatives	(6,287)	862
Result of realised derivatives	**(2,634)**	**862**
Other income		
Income from unrealised derivatives	295	-
Cost of sales		
Cost of unrealised derivatives	(2,583)	185
Result of unrealised derivatives	**(2,288)**	**185**
Total accounted for in other income	**3,948**	**-**
Total accounted for in cost of sales	**(8,870)**	**1,047**
Total derivative result	**(4,922)**	**1,047**

29 Cost of sales

Cost of sales for 2019 and 2018 included:

	2019	2018 *(restated)
Purchase of electricity for supply purposes	199,005	38,267
Cost of natural gas acquisition	198,669	159,718
Expenses of natural gas transmission services	16,055	13,780
Expenses of natural gas storage	2,315	388
In total	**416,044**	**212,153**

All amounts are in EUR thousand unless otherwise stated

30 Finance income

The Company's finance income for 2019 and 2018 included the following:

	2019	2018
Interest income	426	206
Dividends received	12	11
In total	**438**	**217**

The Company received dividends from:

	2019	2018
UAB Verslo aptarnavimo centras	9	10
UAB Ignitis grupės paslaugų centras	3	1
In total	**12**	**11**

31 Finance expenses

The Company's finance expenses for 2019 and 2018 included the following:

	2019	2018
Interest expense on loans payable	1,337	143
Guarantee and surety fees	69	-
Interest and discount expense on lease liabilities	5	-
Other financial costs	28	-
In total	**1,439**	**143**

All amounts are in EUR thousand unless otherwise stated

32 Income tax

The Company's components of tax expense (income) on 31 December were as follows:

	As at 31/12/2019	As at 31/12/2018 (restated)*
Current year income tax (expenses)	(373)	(28)
Transfer of tax losses to Ignitis Group companies for consideration	1,554	790
Deferred income tax gain/(expenses)	(1,728)	4,179
Income tax gain/(expenses) accounted for in the statement of Profit or loss and other comprehensive income	**(547)**	**4,941**

*Amounts presented do not match the Financial Statements of 2018 and related adjustments are disclosed in Note 4.

Deferred income tax assets and liabilities are calculated using the income tax rate of 15%.

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profit of the Company as follows:

	As at 31/12/2019	As at 31/12/2018 (restated)*
Profit (loss) before tax	(4,788)	(10,862)
Income tax calculated at a rate of 15%	718	1,629
Expenses not deductible for tax purposes - permanent differences	(402)	(9)
Non-taxable income for income tax purposes	24	38
Utilised tax loss	729	-
Disposed tax losses	(1,554)	(790)
Income tax of the permanent establishment in Latvia	(62)	(31)
Impact of change in net realisable value	-	4,104
Income tax benefit (expenses)	**(547)**	**4,941**

*Amounts presented do not match the Financial Statements of 2018 and related adjustments are disclosed in Note 4.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Dynamics of deferred income tax assets and liabilities during the reporting period were as follows:

	As at 31/12/2017	Recognised in profit or loss	Tax loss carryforward	As at 31 December 2018 (restated)*	Recognised in profit or loss	Tax loss carryforward	Taken over during the business combination under common control (Note 34)	As at 31 December 2019
Provisions for doubtful debts	312	429	-	741	108	-	50	899
Accruals for employee benefits termination benefits	20	16	-	36	34	-	18	88
Vacation reserve	3	(2)	-	1	-	-	-	1
Accrued expenses	-	-	-	-	745	-	-	745
Impact of 16 IFRS application	-	-	-	-	4	-	-	4
Tax loss carry-forward	4,638	1,454	(887)	5,205	(729)	(1,554)	1,187	4,109
Deferred income tax asset before valuation allowance	4,973	1,897	(887)	5,983	162	(1,554)	1,255	5,846
Reversal of impairment (impairment) of net realisable value	(3,169)	3,169	-	-	-	-	-	-
Deferred income tax asset, net	**1,804**	**5,066**	**(887)**	**5,983**	**162**	**(1,554)**	**1,255**	**5,846**
Differences in depreciation rates	-	-	-	-	(166)	-	(152)	(318)
Unrealized value of derivatives	-	-	-	-	(19)	-	(2,113)	(2,132)
Deferred income tax (liabilities)	**-**	**-**	**-**	**-**	**(185)**	**-**	**(2,265)**	**(2,450)**
Deferred income tax, net	**1,804**	**5,066**	**(887)**	**5,983**	**(23)**	**(1,554)**	**(1,010)**	**3,396**

*Amounts presented do not match the Financial Statements of 2018 and related adjustments are disclosed in Note 4.

In 2019, the Company transferred EUR 1,554 thousand of tax losses and derecognised EUR 233 thousand deferred tax assets in the amount of EUR 1,536 thousand. The Company accounted for the derecognised deferred tax assets and the consideration received in the Statement of Profit or loss and comprehensive income under "Income tax income (loss)".

All amounts are in EUR thousand unless otherwise stated

33 Related party transactions

As at 31 December 2019 and 2018, the parent company was Ignitis Group UAB. The disclosures comprise transactions and balances of these transactions with the parent company, its subsidiaries (directly and indirectly controlled), entities controlled by or under significant influence of the state (transactions with these entities are disclosed only if they are material), and management.

In 2019, the Company did not have any significant transactions with the Republic of Lithuania represented by the Ministry of Finance of the Republic of Lithuania or entities controlled by the Republic of Lithuania. Other related parties of the Company are EPSO-G UAB Group companies controlled by the Republic of Lithuania.

The Company's transactions with related parties conducted during the period from January to December 2019 and balances arising on these transactions as at 31 December 2019 are presented below:

Related parties	Loans granted	Accounts Receivable	Loans received	Accounts Payable	Purchases	Sales
Subsidiaries of the Company	9,200	209	-	1	871	625
Associates of the Company	-	567	511	963	9,772	-
Group companies of Ignitis Group UAB	-	4,717	18,517	28,550	58,230	59,245
Parent company Ignitis Group UAB	-	-	90,755	51	1,343	-
EPSO G UAB Group companies controlled by the state	-	5,036	-	4,205	44,714	58,442
In total	**9,200**	**10,529**	**109,783**	**33,770**	**114,930**	**118,312**

The Company purchases electricity, transmission and distribution of electricity and gas, accounting, procurement, customer service, transport leasing and other services from related parties.

Information on dividends received from/paid to related parties is provided in Note 30.

Terms of transactions with related parties

The payment terms set range from 30 to 90 days. Closing debt balances are not secured by pledges, they do not yield interest, and settlements occur in cash. There were no guarantees given or received in respect of the related party payables and receivables. For the year ended 31 December 2019, the Company did not recognise a bad debt allowance for expected credit losses for receivables from related parties due to low credit risk.

Related party guarantees

The parent company has signed a surety agreement to secure the guarantee issued by AB Swedbank.

Doubtful receivables

As at 31 December 2019, the Company had no doubtful receivable from related parties.

The Company's transactions with related parties conducted during the period from January to December 2018 and balances arising on these transactions as at 31 December 2018 are presented below:

Related parties	Accounts Receivable	Loans received	Accounts Payable	Purchases	Sales
Associates of the Company	17	-	891	3,960	-
Group companies of Ignitis Group UAB	1,574	2,778	76,142	161,403	26,834
Parent company Ignitis Group UAB	-		14,130	209	-
State-controlled EPSO G UAB Group companies	1,386		3,611	34,022	7,201
In total	**2,977**	**2,778**	**94,774**	**199,594**	**34,035**

All amounts are in EUR thousand unless otherwise stated

33 Related party transactions (continued)

Compensation to key management personnel:

	As at 31 December 2019	As at 31/12/2018
Wages and salaries and other benefits to management	583	176
Whereof: termination benefits and benefits to Board Members	91	-
Number of key management personnel	5	3

The Company's Chief Executive Officer, senior management and members of the Board are considered to be management.

34 Business combinations

Acquisition of electricity public supply business in year 2018

As a part of implementation of the provisions of the European Union's Third Energy Package, under the Business Share Purchase and Sale Agreement of 21 September 2018, starting from 1 October 2018 Energijos Skirstymo Operatorius AB transferred to the Company the business part of public electricity supply service. An independent evaluation of the public supply business was carried out to determine the acquisition price.

The Company applied the acquisition method for accounting for this business combination in accordance with IFRS 3. Under the acquisition method, the acquisition cost is the total fair value, which is the fair value at the date of exchange of assets, liabilities and equity instruments issued by the Company in exchange for control of the business.

The purchase price of the business unit was paid in cash (EUR 27.441 thousand) in accordance with the contract by 29 March 2019.

In the course of a business combination, the Company took over assets – receivables for electricity from customers and liabilities – payables to suppliers and prepayments related to the acquired portion of operations, which it recognized in its financial statements (Note 4).

In this business combination the Company has also identified an intangible assets that was acquired. Intangible assets were carried in the statement of financial position of the Company at acquisition cost, which was the fair value of it at the time of acquisition. The fair value of intangible assets arising from a business combination was determined on the basis of management valuation performed in year 2019 as disclosed in Note 5.

By 31 December 2018 management has not yet completed the initial assessment of accounting for the business combination because the period provided in paragraph 45 of IFRS 3 for the combination has not yet expired and valuation of intangible asset acquired took more time than initially expected.

During 2019 The Company has assessed the progress of the planned state deregulation of the supply of electricity to household customers and conducted the necessary analysis and completed the initial recognition of the acquired intangible asset by identifying and allocating it and setting amortization terms for it. As a result, at the end of the initial recognition accounting, the Company has reviewed comparative information presented in its financial statements and made a depreciation adjustment, as presented in Note 4. Namely, one intangible asset comprising of two components of different useful life has been identified:

1) Client contracts and relationships (exceeds profit from client contracts) valued at EUR 21,045,000, amortization rate is set to 5 years. Value of this asset is equal to the accumulated difference between regulated electricity acquisition price as part of electricity tariff and actual price paid in electricity spot markets, calculated at the moment of business acquisition. Depreciation period represents management judgement as to the period over which this difference can reasonably be collected through future electricity tariff adjustments.

2) Client contracts and relationships, valued at EUR 3,140,000, amortization rate is set to 15 years. Valuation of the asset has been performed using DCF and MEEM methods. Valuation is based on the assumption that deregulation of public supply starts in 2021. Useful life of the asset is based on the best management judgement. DCF modelling supports management view, as terminal cash flow beyond year 15 is negligible.

34 Business combinations (continued)

Under the provisions of the agreement for the transfer of public supply activities concluded with Ignitis UAB of 21 September 2018, the Company is obliged to compensate Ignitis UAB a half of the difference generated until 21 September 2018 between the revenue determined by the National Energy Regulatory Council (hereinafter 'NERC') and the actual (regulated) revenue, if NERC is not going to compensate this difference to Ignitis UAB when setting electricity tariff for the period from 2019 to 2021. Difference occurred between the purchase price of electricity determined by NERC and the actual price paid.

At the conclusion of the agreement for the transfer of public supply activities, the difference of EUR 23,927 thousand was identified between the revenue determined by the NERC and the actual (regulated) revenue earned. Part of the aforementioned difference of EUR 2,500 thousand was repaid to UAB Ignitis when determining the prices for the public supply service for the year 2020. Management expects that the remainder of the difference will be repaid when determining the price caps for Ignitis UAB for the year 2021. The exact repayment date and amount will become clear in October 2020, when the NERC approves the price cap for the public electricity supply service of Ignitis UAB for the year 2021.

Based on the management estimates, the risk that part of the residual difference will not be compensated to the public supplier is minimal, because even if part of the difference will not be compensated to Ignitis UAB through the price of the regulated service set for the year of 2021, Ignitis UAB will recover all the amounts received under the agreement for the transfer of public supply activities of 21 September 2018 according to the revenue compensation mechanism established during the stages of the electricity market liberalization under Article 22 clause 9 of the draft Law on Electricity of the Republic of Lithuania.

Business combinations under common control in year 2019

In 2019, Ignitis Group UAB carried out two reorganizations, thus implementing the new strategy and gradually consolidating electricity and natural gas trading and supply activities: on 1 January 2019 UAB LITGAS was merged with UAB Ignitis; 1 June 2019 UAB Energijos Tiekimas (ET) was also merged.

Although the Ignitis Group applies the acquisition method to business combinations in accordance with IFRS 3, the management of the Company, having considered all circumstances related to both reorganisations, namely:

1. IFRS 2(c) specifies that the requirements of the standard are not applicable to merges of jointly controlled entities or business entities. Paragraph B1 of the Standard clarifies that the Standard does not apply to combination of entities or businesses that are jointly controlled. A jointly controlled entity or business combination is a business combination in which all the combining entities or business units are controlled by the same party or parties before and after the business combination and that control is not temporary. Prior to the merger, the major and sole shareholder of LITGAS and ET was Ignitis Group, therefore the acquisition of these entities is considered the "Combination of jointly controlled entities or businesses" as defined in IFRS 3 paragraph B1.

2. No cash payment was made in the transaction and there was no borrowing from third parties for the purpose of the merger.

(a) After the first merger, the share capital of the UAB Ignitis increased by an amount equal to the share capital of LITGAS, i.e. EUR 13,050,000 (thirteen million and fifty thousand euro) to EUR 21,420,000.30 (twenty-one million and four hundred and twenty thousand euro and thirty cents). During the reorganization there was no difference in the price of the shares exchanged and no payment was made to the shareholder as the shares were exchanged at par. The shareholder structure has not changed since the reorganization, the 100 percent stake in the reorganized company remains under the control of UAB Ignitis Group.

(b) After the second merger, the share capital of UAB Ignitis increased by an amount equal to the share capital of ET, i.e. EUR 18,720,000 (eighteen million seven hundred and twenty thousand euro) to EUR 40,140,000,266 (forty million one hundred and forty thousand euro, twenty-six cents). During the reorganization there was a difference of 0.04 EUR exchangeable shares, which, in line with the legislation of Republic of Lithuania, was paid to the UAB Ignitis group as the shareholder of the company that will be closed after the reorganization. The shareholder structure has not changed since the reorganization, the 100 percent stake in the reorganized company remains under the control of UAB Ignitis Group.

(c) In both cases, valuation of real values of shares exchanged has been performed based on financial statements as of 31 December 2018, i.e. not at fair value. Significant difference in potential fair value of shares exchanged further supports management decision not to apply acquisition method.

(d) from the perspective of UAB Ignitis Group and the Company, the merger has no commercial basis as it does not create new assets, the shareholder structure after reorganization (both in case of UAB LITGAS and UAB Energijos Tiekimas) remains unchanged, 100% of shares in companies remains under UAB Ignitis Group's control.

Based on the above considerations, the Company has decided to apply the IFRS 3 exception foreseen in paragraph 2c to accounting for business combinations of: UAB LITGAS and the Company (reorganization on 1 January 2019) and the Company and UAB Energijos Tiekimas (reorganization on 1 June 2019) and apply the method of pooling of interest according which assets and liabilities of combined business are added to the Company based on their accounting values as at the date of combination. Any difference between share capital given to the shareholder for the businesses acquired and the net assets acquired under business combination is recorded as adjustment to retain earnings in the statement of changes in equity.

All amounts are in EUR thousand unless otherwise stated

34 Business combinations (continued)

Following the reorganisation of LITGAS UAB, the Company took over the activities of its designated LNG supplier, which includes the supply of liquefied natural gas to the LNG terminal. The table below shows assets and liabilities of the combined entity as at 1 January 2019.

	LITGAS UAB
Non-current assets	
Investments in associates and other investments	22
Deferred tax assets	628
Total non-current assets	**650**
Current assets	
Inventories	17,564
Prepayments	81
Prepaid income tax	778
Accounts receivable under contracts with customers	18,917
Loans and interest receivable	6,998
Other receivables	4
Cash and cash equivalents	287
Total current assets	**44,629**
Total assets	**45,279**
Liabilities	
Current liabilities	
Trade payables	30,045
Other current amounts payable and liabilities	4,033
Total liabilities	**34,078**
Identifiable net assets on combination	**11,201**
Increase in issued capital due to reorganisation	**13,050**
Difference between the identifiable net assets merged and increase in issued capital, accounted for within retained earnings	**(1,849)**
Changes in equity items on combination	
Issued capital	13,050
Difference between the new share issue and net assets acquired recorded in Retained earnings	(1,849)

All amounts are in EUR thousand unless otherwise stated

34 Business combinations (continued)

After the reorganisation of Energijos Tiekimas UAB by way of merger, the Company took over the following activities: Electricity supply to commercial customers, balancing of electricity consumption, issue of guarantee certificates of origin of energy, wholesale trade in electricity futures, implementation of projects for the designing and construction of solar power plants, implementation of energy efficiency solutions, and development of electric car charging stations. The table below presents assets and liabilities of the merged company as at 1 June 2019.

	Energijos Tiekimas UAB
Non-current assets	
Intangible assets	16,749
Property, plant and equipment	620
Right-of-use assets	276
Investments into subsidiaries	7,874
Other receivables	1,744
Deferred tax assets	141
Total non-current assets	**27,404**
Current assets	
Inventories	389
Prepaid income tax	487
Accounts receivable under contracts with customers	6,377
Loans and interest receivable	5,500
Derivatives	175
Other receivables	13,958
Cash and cash equivalents	5,037
Total current assets	**31,923**
Total assets	**59,327**
Liabilities	
Long-term loans	3,838
Provisions	34
Lease liabilities	200
Deferred income tax liability	1,621
Total non-current liabilities	**5,693**
Current liabilities	
Short-term loans	23,324
Lease liabilities	76
Trade payables	2,041
Contract liabilities	273
Income tax payable	359
Provisions	7
Derivatives	117
Other current amounts payable and liabilities	3,598
Total current liabilities	**29,795**
Total liabilities	**35,488**
Identifiable net assets on combination	**23,839**
Increase in issued capital due to reorganisation	**18,720**
Difference between the identifiable net assets merged and increase in issued capital, accounted for within retained earnings	**5,119**
Changes in equity items on combination	
Issued capital	18,720
Difference between the new share issue and net assets acquired recorded in Retained earnings	5,119

All amounts are in EUR thousand unless otherwise stated

35 Net debt reconciliation

This note sets out an analysis of net debt and dynamics of net debt for each of the periods presented.

Net debt balances as at 31 December 2019 and 31 December 2018:

	As at 31/12/2019	As at 31/12/2018
Cash and cash equivalents	23,409	11,438
Short-term investments, term deposits and other financial assets	6	-
Borrowings payable after one year	(30,737)	-
Borrowings* payable within one financial year (including overdraft)	(79,577)	(22,451)
Net debt	**(86,899)**	**(11,013)**

*For the purpose of net debt calculation, borrowings comprise only debts to financial institutions and other debts relating to financing.

The Accounting Standards do not provide a definition of net debt ratio, because, when considering the amendment to IAS 7, the standard-setting body did not gain consensus on the definition of that term and what should or should not be included in the calculation of net debt.

Reconciliation of net debt balances to cash flows from financing activities in 2019 and 2018:

Liabilities arising from financing activities	Other assets		Liabilities arising from financing activities	In total
	Cash/overdraft	Short-term investments, term deposits and other financial assets	Non-current and current borrowings	
Net debt as at 1 January 2018	**5,599**	**-**	**(31,338)**	**(25,739)**
Cash flows	5,839	-	8,887	14,726
Other non-cash changes	-	-	-	-
Net debt as at 31 December 2018	**11,438**	**-**	**(22,451)**	**(11,013)**
Cash flows	11,971	-	-	11,971
Loans received	-		(83,821)	(83,821)
Repayments of borrowings	-		23,296	23,296
Interest expenses	-	-	1,237	1,237
Loans and interests taken over in a business combination	-		(27,162)	(27,162)
Other non-cash changes	-	6	(1,413)	(1,407)
Net debt as at 31 December 2019	**23,409**	**6**	**(110,314)**	**(86,899)**

36 Contingent liabilities and assets

Guarantees issued and received

Between January and December of 2019, the Company did not sign any new guarantee agreements.

As at 31 December 2019, no other guarantees were received by the Company from other entities.

Litigations

On 17 December 2018, the Company applied to the Vilnius Court of Commercial Arbitration for damages of EUR 1,676,989.06 due to the defendant's failure to purchase all the required amount of liquefied natural gas assigned in 2015 and payment of default interest of EUR 122,755.60. On July 4 preliminary hearing of Vilnius Commercial Arbitration took place. The case is not yet closed.

Tax audits

The State Tax Inspectorate has the right to inspect records and documents for the last three tax years at any time and to calculate additional taxes and penalties. The Company's management is not aware of any circumstances that could result in potential significant liabilities in this respect.

Prepayment for gas

In December 2019, the Company and PAO Gazprom agreed on supply of natural gas in 2020. The agreement contains 'take-or-pay' clause under which the Company has a commitment to purchase the agreed minimum quantity of natural gas. Based on forecast consumption data, the Company plans to purchase all agreed quantity of natural gas during 2020.

All amounts are in EUR thousand unless otherwise stated

37 Events after the Reporting Period

COVID-19 Pandemic.

Description of non-adjusting event

The World Health Organization (WHO) declared the outbreak of COVID-19 a public health emergency of international concern on 30 January 2020, and on 11 March 2020, characterized the spread of the disease as a pandemic. On 18 March 2020, more than 215,000 cases of COVID-19 infection have been confirmed in 152 countries and territories. The COVID-19 pandemic originated in the capital of China's Hubei province in early December, but until 27 December 2019 the outbreak went unnoticed until the origin of the disease was observed on 27 December 2019. The source of outbreak of the disease was identified on 31 December 2019, and COVID-19 was detected as the cause of the disease on 8 January 2020. The outbreak of COVID-19 was reported in the European Union, Italy, on 31 January 2020. On 26 February 2020, the Government of the Republic of Lithuania declared a national level emergency in the whole country due to the threat of the spread of the coronavirus, and on 14 March 2020 it adopted the resolution No 152 "On the declaration of a national level emergency", on the basis of which quarantine was announced in the entire territory of the Republic of Lithuania from 16 March 2020 until 27 April 2020 with the possibility of being extended. The following measures have been applied during the quarantine period:

- Restriction of movement of citizens across the border and inside the country (movement of goods in unrestricted).
- Restriction of public and private sector activities: work at state and municipal institutions of the public sector, in state-owned and municipal enterprises and servicing of customers is organised remotely, certain private sector activities (shops, trading and/or entertainment centres, except spaces where food and pharmaceutical products are sold, cultural, sports events, etc.) are prohibited.
- Education and childcare services and school education services in all educational establishments are suspended.
- The work of health care establishments has been established, etc.

After declaring a state of emergency and quarantine, the Parliament of the Republic of Lithuania adopted amendments aimed at preserving jobs and helping the citizens. On 16 March 2020, by the decision of the meeting of the Government of the Republic of Lithuania (minutes No 14), the plan for economy stimulation and reduction of consequences caused by COVID-19 was adopted, which provides for measures regarding the preservation of both private and business income, as well as preservation of liquidity and the promotion of the economy, where one of the measures is to allow for the deferral of payments to UAB Ignitis (hereinafter – the Company) for electricity and natural gas consumed or set the payment in instalments.

Company management considers this event non-adjusting, since it is evidence of conditions and events occurred after the reporting period.

Financial impact

The Company is one of the companies of Ignitis Group UAB (hereinafter – the Group). The financial impact on the Company due to the situation described above, which has occurred both in the world and in Lithuania and has directly and indirectly affected the activities of the Company and the Group, is presented below:

Activity	Events after the end of the reporting period as a result of COVID-19	Estimated financial impact after the date of issue of financial statements
Public supply	Payment delay under the support schemes of the Government of the Republic of Lithuania	Payment delays of EUR 2.5 million (maximum)
B2B electricity supply	Payment delay under the support schemes of the Government of the Republic of Lithuania	Payment delays of EUR 7 million (maximum)
Supply to residents (gas)	Payment delay under the support schemes of the Government of the Republic of Lithuania	Payment delays of EUR 2.5 million (maximum)
B2B gas supply	Payment delay under the support schemes of the Government of the Republic of Lithuania	Payment delays of EUR 8 million (maximum)
Dedicated supply	None	Reasonable assumptions for the assessment outstanding
Wholesale	None	Reasonable assumptions for the assessment outstanding
Export	None	Reasonable assumptions for the assessment outstanding
B2B and B2C projects	None	Reasonable assumptions for the assessment outstanding

B2B – sales to business customers.

B2C – sales to individual customers.

Going Concern

There are no significant risks on the Company's ability to continue as going concern. There is nothing to suggest that electricity and gas supply could be disrupted by COVID 19. The negative impact of consumption may be potentially observed in the business segment, but this must not pose a threat to the Company's ability to continue as a going concern

Fair value measurement

Fair value was measured based on market data available at the reporting date, therefore, it was estimated using the assumptions that market participants would use when pricing the asset or the liability under current market conditions, including assumptions about risk. The Company made the assumptions using all available information, including information that might be obtained through due diligence efforts that are usual and customary. Unobservable inputs should be used to measure fair value to the extent that relevant observable inputs are not available.

The fair value measurement objective is to convey the fair value of the asset or liability that reflects conditions as of the measurement date and not a future date. Although events occurring after the measurement date may provide insight into the assumptions used in estimating fair value as of the measurement date (especially those that are unobservable), they are only adjusted to the extent where they provide additional evidence of conditions that existed at the measurement date and these conditions were known or knowable by market participants When making the assessments for measuring fair value, the Company considered what conditions and the corresponding assumptions were known or knowable to market participants at the measurement date, i.e. as at 31 December 2019. The COVID-19 outbreak and associated risks were not taken into account when measuring the fair value at the measurement date, because there were no such observable or unobserved data on the conditions for the assessment of risk of COVID-19 that existed as at 31 December 2019.

Expected credit loss assessment

The Company has to incorporate reasonable information into the assessment of expected credit losses at the reporting date (i.e. 31 December 2019). Given that the COVID-19 was identified only in January 2020, and a "Public Health Emergency of International Concern" was declared on 20 January 2020, The Company did not include the COVID-19 factor in its assessment of expected credit loss. When making the assessment of expected credit losses at the reporting date, the management has reasonably taken into account past events, current conditions and the forecast of future economic conditions that were present and known as at 31 December 2019.

On 16 March 2020, by the decision of the meeting of the Government of the Republic of Lithuania (minutes No 14), the plan for economy stimulation and reduction of consequences caused by COVID-19 was adopted, recommending that the Company supports residents and companies by deferring payments for electricity and gas consumed.

The Company has reviewed its internal credit management procedures and established internal procedures for administering deferred payments.

In assessing the impact on cash flows, the Company uses the following assumptions:

- Deferrals will only be granted for the quarantine period, assuming the quarantine lasts for three months.
- Total receivables will increase by EUR 35 million, including deferred and late payments.
- The management expects to compensate up to EUR 15 million by extending the payment terms to distribution and transmission operators, as well as to the State Tax Inspectorate.
- The necessary funds to cover the amounts deferred will be withdrawn from the Company's cash pool.

Impairment assessment

The Company assessed the impairment of non-financial assets for all indications of impairment at the reporting date. Events after the reporting period and information received after the reporting period should be considered in the impairment indicator assessment only if they provide additional evidence of conditions that existed at the end of the reporting period. Similarly, the determination of the recoverable amounts of an asset should only consider the information obtained after the reporting date if such conditions existed as of the reporting period end. Given that the COVID-19 was identified only in January 2020, and a "Public Health Emergency of International Concern" was declared on 20 January 2020, the Company did not include the COVID-19 factor in its impairment assessment. In assessing the impairment of assets at the reporting date, the management has reasonably taken into account all indications that were present and known as at 31 December 2019.

Other financial statement disclosure requirements

Impact of COVID-19 on value of derivatives portfolio

The Company trades in Nasdaq Derivatives Market for the purpose of hedging its B2B electricity portfolio. Electricity prices in the Nordpool area dropped significantly for reasons unrelated to COVID-19. This was caused by the warm winter and the excess water in Scandinavia. At the moment, we cannot estimate exactly what additional impact COVID-19 will have, but it is very likely that this crisis will temporarily reduce electricity demand for businesses, which, together with surplus generation, is likely to keep prices low for quite some time.

Since the Company does not speculate in derivatives (uses only for hedging purposes), the risk arises from the impairment of derivatives, and the loss from derivatives is covered at the time of supply by purchasing at market price and selling to the customer at a previously agreed price (fixed-price contracts). If the crisis were to continue, customers would consume less and the loss from derivatives would not be fully covered. At the time of reporting, there were no reasonable assumptions for estimating the potential loss.

There were no other significant events after 31 December 2019 and until the date of approval of the financial statements.

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ANNUAL REPORT OF IGNITIS UAB FOR THE FINANCIAL YEAR 2019

The annual report of Ignitis UAB was prepared in accordance with the requirements set in the Law of the Republic of Lithuania on Financial Reporting by Undertakings and the Republic of Lithuania 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 Law of the Republic of Lithuania on Financial Reporting by Undertakings. Further in this report Ignitis UAB is referred to as Ignitis or the Company.

Basic data about the Company

Company name:	Ignitis UAB*
Legal form:	Private Limited Liability Company
Issued capital	EUR 40,140,000.26**
Date of registration:	2 September 2014
Place of registration:	Register of Legal Entities
Company code:	303383884
Registered office address:	Žvejų st. 14, LT-09310 Vilnius
Register name:	Register of Legal Entities
Telephone:	+370 611 21802
Fax:	+370 5 232 7706
E-mail:	info@ignitis.lt
Website:	www.ignitis.lt

* As from 6 September 2019, the name of Lietuvos Energijos Tiekimas UAB was changed to Ignitis UAB.
** As from 1 January 2019, the Company completed the reorganisation by way of merger, i.e. Ignitis UAB, which is continues its activities, was merged with LITGAS UAB, which ceased its activities after the reorganisation. All the assets, rights and obligations, including issued capital, of LITGAS UAB were taken over by Ignitis UAB that continues its activities.
As from 1 June 2019, the Company completed the reorganisation by way of merger, i.e. Ignitis UAB, which is continues its activities, was merged with Energijos Tiekimas UAB, which ceased its activities after the reorganisation. All the assets, rights and obligations, including issued capital, of Energijos Tiekimas UAB were taken over by Ignitis UAB that continues its activities.

Description of the Company's activities and service market

The Company's core line of business is the supply of electricity and natural gas. The Company also develops a wide range of smart services, offers the market innovative energy saving, electric car charging, solar power generation solutions and other products based on technological innovations. The Company is also engaged in planning and/ balancing of electricity consumption, trading of guarantees of origin and derivatives.

The Company supplies electricity and natural gas to corporate customers operating in the sectors of energy, small commercial businesses, and to private customers The Company has a total of around 594 thousand customers. The Company supplies electricity to more than 1.6 million private customers and more than 7.5 thousand business customers. The Company has a natural gas supply permission and a licence for supply of electricity issued by the National Energy Regulatory Council (hereinafter "the NERC"). The Company also operates as a designated supplier at the Klaipėda Liquefied Natural Gas Terminal.

Ignitis UAB is part of Ignitis Group of energy companies controlled by the State.

In 2019, the Company further developed small-scale liquefied natural gas (LNG) operations by reloading LNG from the floating storage unit Independence to small-scale LNG carriers.

In 2019, the Company continued to successfully supply gas to consumers in Latvia.

In 2019, the Company further increased the volumes of trade in gas-fired condensing boilers, heat pumps and key components, as well as their installation services.

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

<u>Significant events during the reporting period</u>

- On 1 January 2019, LITGAS UAB was merged into Lietuvos Energijos Tiekimas UAB.
- **On 1 June 2019** Energijos Tiekimas UAB was merged in to the Company which resulted in a new corporate structure.
- **On 2 September 2019,** the NERC approved Terms and reference on verification of reports on regulated activities by the Resolution No O3E-386 of 2 September 2019. On the basis of these Terms and reference the verifications of the reports on regulated activities will be carried out for the reporting period (financial year) of 2019.
- **As of 6 September 2019** the legal name of Lietuvos Energijos Tiekimas UAB was changed to Ignitis UAB.
- **On 10 October 2019,** 50 fast charging stations for electric vehicles *Ignitis ON* were launched in Vilnius, thereby complementing the biggest fast charging network for electric vehicles in Lithuania**.** Additional 59 stations were installed in 2019.

- **On 10 October 2019,** the Methodology for Setting Power Transmission, Distribution and Public Supply Services and Public Price Cap, has been changed and which is effective as from 1 January 2020. This Methodology provides for a higher return on activity from public supply activities.

- **17 October 2019.** The price cap for the public electricity supply service for the year 2020 was set. The NERC set the price cap for the public electricity supply service for the year 2020 to 0.370 ct/kWh. Compared to the price cap set for 2019 (0.281 ct/kWh, excl. VAT), the public power supply service price cap increased by 31.7%.

- **On 22 October 2019,** an on-line platform *Ignitis Saulės Parkai* was launched. It is the first platform of national significance in the world which offers the opportunity to generate electricity from solar energy for both residents of single and multi-family homes. At the same time, this platform is open to all solar power plant developers who can submit their projects for sale. It is expected that the first power plant offered on the platform *Ignitis Saulės Parkai* will start generating electricity already in May 2020.

- **On 28 November 2019,** the prices of natural gas for household customers for the first half of 2020 were agreed with the NERC.

- **On 28 November 2019,** the NERC approved electricity prices for household customers for 2020 applicable as of 1 January 2020. On average, electricity prices for household consumers are growing by about 14.7%.

- **On 2 December 2019,** a second projects for remote solar power plants was offered on the platform *Ignitis Saulės Parkai*. The energy will be generated by a total of 4,774 solar modules with a total power of 1,599.2 kW.

- **On 30 December 2019,** the NERC set 38.55% lower natural gas security component, which comes in to effect as from 1 January 2020.

<u>Business environment</u>

In 2019, natural gas was imported into Lithuania from the Russian company Gazprom PAO, and part of the gas was delivered to Lithuania by LNG carriers from various countries of the world.

Active investments in renewable energy projects and implementation of innovative ideas continued in the third quarter of this year based on the goals set in the Company's strategy for 2030. However, perhaps the most important event for the Group during this period was the consolidation of the trademarks of different the Group companies into a single international trademark *Ignitis*, which will contribute to an even faster transformation of the Company into a modern energy company.

The Company was actively operating in the wholesale market, purchased and sold gas in the Gas Exchange, and conducted trading with other players of the wholesale market, i.e. provided gas stream balancing services.

In 2016, the quantity of natural gas sold in Lithuania declined, i.e. the market had shrunk. The biggest impact on the decline in natural gas consumption was the uncompetitive gas prices applied until 2014 and the lack of alternative gas supply. High natural gas prices made the new investments possible to other alternative energy sources (the use of biofuels for heat and electricity production). Only after an alternative supply of liquefied natural gas emerged and after reaching agreement with PAO Gazprom on a significant price reduction of imported natural gas from Russia, the decline in natural gas consumption in Lithuania has stopped. As the natural gas prices regained competitiveness, the natural gas market became more active in 2017. This was the first year for natural gas consumption to increase by nearly 4%. In 2018, excluding the quantity of Achema AB, the consumption of natural gas in Lithuania continued on the upward trend. During 2019, a total of 23.5 terawatt hours (TWh) of the natural gas was consumed in Lithuania last year, i.e. the consumption increased by 1.2 TWh or 5%. Due to the growing supply of LNG, the prices for LNG reached historic lows in 2019. This also led to increasing gas consumption in Lithuania. In 2019, Lithuania's natural gas market was followed by slightly lower LNG imports compared to 2018, when low LNG prices stimulated greater activity of domestic natural gas suppliers in the international LNG market.

In 2019, following merger with ET, the Company continued its retail and wholesale electricity trade in Lithuania by further acquiring its electricity portfolio on the power exchange of the Northern European countries Nord Pool (hereinafter "NP") or through bilateral contracts. On 1 June 2019 the Company took over and continued the trading in electricity derivatives on the Stock Exchange NASDAQ Commodities. Trading of derivatives serves to mitigate electricity price fluctuation risks.

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

The most important foreseeable events and trends in 2020 that might have impact on the Lithuanian natural gas and electricity markets are the following:

- The LNG prices are expected to remain competitive (save for certain exceptions), thereby leading to the likelihood of further competition in terms of LNG and natural gas across the region.

- In 2020, the Ministry of Energy of the Republic of Lithuania plans to announce the plan on the deregulation of the electricity market for household customers (or part thereof) applicable as from 2021.

Description of key risks and uncertainties faced by the Company

Information about financial risk management, hedging instruments in respect of its main categories of transactions qualifying for hedge accounting, and exposure to price risk, credit risk, liquidity risk and cash flow risk, in relation to the use by the Company of financial instruments and, where material for the assessment of assets, equity, liabilities, revenue and expenses

Financial risks

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

Credit risk

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

The Company's exposure to credit risk arises from defaulting customers. Principles of managing this risk, control processes, accountable persons and monitoring procedures are set out in internal legislation. The Company manages this risk by ensuring that natural gas is sold only to business customers with positive credit history and not in excess of the acceptable credit risk exposure limit. The level of trade receivables is monitored, the changes in trade receivables are analysed, and the debt limits of customers are reviewed on a regular basis.

Liquidity risk

Liquidity risk is managed by planning the movement of cash flows of the Company. Cash flow forecasts are made to minimize liquidity risk. Short-term financing (credit lines, cashpool of Ignitis Group) from both the financial institutions and the shareholders is used to manage short-term mismatches of cash flows (inflows and outflows).

Interest rate risk

Interest rate risk mainly arises from current borrowings (that may be necessary to balance out the working capital) and from guarantees issued that are necessary to secure the fulfilment of liabilities arising from trading activities. All loans granted are subject to variable rates, the Company does not use any instruments to manage the exposure to the risk of variations of interest rates.

Foreign exchange risk

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

Natural gas and electricity price risk

The purchase prices of natural gas and electricity depend on the prices of these resources in the exchanges. In the opinion of the Company, this risk is managed effectively by determining the natural gas price for business customers on the basis of the same variable component values, and by including the developments in the prices of electricity and gas into the mechanism for the establishment of regulated prices for private customers.
Part of the gas and electricity is supplied to business customers under long-term fixed-price contracts. The electricity and gas price risk under these contracts is hedged through derivative transactions.

Analysis of financial and non-financial performance

During January-December 2019, Ignitis supplied 9,822 thousand MWh of natural gas to its customers. Of which 4,636 thousand MWh of natural gas was supplied to business customers and 2,077 thousand MWh of natural gas was supplied to private customers in Lithuania. 1,259 thousand MWh of natural gas was supplied to customers in the Latvian market. The volume of LNG reloaded totalled 542 thousand MWh of natural gas. The total volume of gas supplied declined by 13% compared to the total sales made by former Lietuvos Energijos Tiekimas and Litgas in 2018 mainly as a result of decline in gas sales to business customers in Lithuania and a change in regulation of the designated supply model. LNG congestion increased by nearly 84% and sales in Latvia grew by 85%.

During 2019, the Company supplied EUR 2,884.0 million kWh of electricity to public supply customers. The Company started this activity on 1 October 2018. A decrease of 4% was also recorded in the activity of supplying electricity to business customers in 2019, which the Company took over from ET as from 1 June 2019.

In 2019, the Company's revenue totalled EUR 433.358 million, i.e. 48% more compared to 2018. Revenue growth resulted from the mergers of new activities in 2019. The accounting principles were changed and sales revenue was adjusted (EUR -103 million) in 2019, as part of the Company's main activities was identified as agent activities in the price components of PSO and electricity transmission, gas distribution and LNG in electricity and gas tariff components, respectively, as further described in Note 4.

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In 2019, the Company incurred loss of EUR 5.3 million (net loss in 2018 amounted to EUR 5.9 million). The Company's operations were loss-making due to higher purchase prices of electricity compared to established prices for the public electricity supply service. These losses in 2019 amounted to EUR 9.2 million and should be compensated through the regulatory mechanism in the upcoming regulatory periods.

In 2019, the Company did not pay any dividends.

The tables below presents the Company's financial performance:

Financial indicators, (EUR '000)	2019	2018 (restated)*	Change
Sales	437,360	208,754	228,606
Net profit (loss)	-5,335	-5,921	586
Assets	232,337	130,222	102,115
Equity	40,354	10,649	29,705
Liabilities	191,983	119,573	72,410
Borrowings	110,314	22,451	87,863

* Due to changes in accounting policies, the amounts indicated do not correspond to the financial statements for the year ended 31 December 2018.

EBITDA (EUR '000)	**2019**	**2018**	**Change**
Profit/(loss) before tax	-4,788	-10,862	6,074
Finance income	426	205	221
Finance costs	-1,439	-142	-1,297
Depreciation and amortisation (including depreciation under IFRS 16)	-5,312	-825	-4,486
Impairment and write-offs of non-current assets	-2,500	-	-2,500
EBITDA	**4,037**	**-10,100**	**15,137**

EBITDA = Profit (loss) before tax + finance costs – finance income + depreciation and amortisation (including depreciation under IFRS 16) + impairment and write-offs of non-current assets

In 2019, the Company's adjusted EBITDA (earnings before interest, taxes, depreciation and amortisation), i.e. EBITDA after elimination mismatches between the expenses and revenue included in the gas and electricity prices for household customers and those actually incurred, between the projected and actual LNG acquisition and realisation prices and quantities, and change in the market value of open financial derivative instruments, amounted to EUR 7.3 million The decrease in operating profit was influenced by the acquisition of the public supply activities on 1 October 2018, and intangible asset recognised upon acquisition, including amortisation thereof, as well as the higher costs incurred in writing-off of receivables and impairment loss related to those activities.

Adjusted financial performance results:

	For the period from 1 January 2019 to 31 December 2019	For the period from 01 January 2018 to 31 December 2018
EBITDA	4,037	-10,100
Mismatches between the expenses and revenue included in the gas prices for household customers and those actually incurred	-10,526	4,372
Mismatches between the projected and actual LNG acquisition and realisation prices and quantities	939	-
Mismatches between the expenses and revenue included in the electricity prices for household customers	9,209	22,287
Adjustments of revenue and expenses of the supply of electricity due to overdeclaration and accrual	943	-3,312

Change in market value of open financial derivative instruments	2,219	-167
Total adjustment effects	2,784	23,181
Adjusted EBITDA	6,821	13,081

More details about the Company's financial performance results are disclosed in the notes to the financial statements of Ignitis for the year 2019.

Information on environmental and personnel-related topics

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

In 2019, the Company used a system of variable remuneration and employee performance management. Remuneration of the Company's employees consists of a fixed and a variable component. The fixed component of remuneration is established based on the job position and the competence level, which is attributed after an assessment of the competences necessary for the position, education, responsibilities and the significance of decisions for the Company. The variable component of the remuneration is paid for measurable performance results, i.e. with respect to each position for the achievement of set objectives.

As at 31 December 2019, the Company had 104 employees, whereof 11 employees were on child care leave (31 December 2018 – the Company had 38 employees, whereof 6 employees were on child care leave).

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

All financial data presented in this annual report is consistent with the Company's audited financial statements.

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

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

Information on the Company's branches and representative offices

The Company has no branches and representative offices.

The Company has three subsidiaries:

Company	Registered office address	The Company's ownership interest as at 31 December 2019	Issued capital	Profile of activities
Ignitis Eesti OÜ	Narva g. 5, 10117 Tallinn, Estonia	100%	EUR 35,000	Retail trade in electricity
Ignitis Latvija SIA	Darzciema st. 60, LV-1048, Riga	100%	EUR 5,500,000	Retail trade in electricity
Ignitis Polska Sp. z o.o.	Pulawska g. 2B, Warsaw, 02-566, Poland	100%	EUR 2,339,216.23 (PLN 10,000,000)	Wholesale trade in electricity

Significant events after the end of the reporting period

- As from 1 January 2020, the Company supplies gas to the Finnish market through the gas pipeline connection *Balticconnector*. The Company has already entered into a gas supply agreement with a number of Finland's largest business customers.
- On 1 January 2020, the change of the Company's structure takes place. The customer service function is transferred from the external service provider to the Company.
- The World Health Organization (WHO) declared the outbreak of COVID-19 a public health emergency of international concern on 30 January 2020, and on 11 March 2020, characterized the spread of the disease as a pandemic. On 26 February 2020, the Government of the Republic of Lithuania declared a national level emergency in the whole country due to the threat of the spread of the coronavirus, and on 14 March 2020 it adopted the resolution No 207 "On the declaration of a national level emergency", on the basis of which quarantine was announced in the entire territory of the Republic of Lithuania from 16 March 2020 until 27 April 2020 with the possibility of being extended. There are no significant risks on the Company's ability to continue as going concern. The supply of electricity and gas should not be disrupted by COVID-19, for which there are no preconditions. The negative impact of consumption may be

potentially observed in the business segment, but this must not pose a threat to the Company's ability to continue as a going concern

The Company's operation plans and forecasts

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

Information on the Company's research & development activities

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

Financial instruments in use

Fair value accounting is applied to all the financial and hedging instruments used by the Company.

Information on the other executive positions held by the Company's Manager, members of the Board, and members of the Supervisory Board and the most significant information on their principal workplace

Based on the Articles of Association effective at 31 December 2019, the management bodies of the Company include as follows:

- the General Meeting of Shareholders;
- the Supervisory Board
- the Board;
- CEO.

The General Meeting of Shareholders

The General Meeting of Shareholders is the supreme management body of the Company. The scope of competence and the procedure for its convention and adoption of decisions by the meeting are established by the laws, other legal acts and the Company's Articles of Association.

Supervisory Board

The Company's Supervisory Board is a collegial supervisory body. Its competence, procedures of decision making, election and recalling of the members are established in laws, other legal acts and the Company's Articles of Association. The Company's Supervisory Board has three members elected for the term of office of four years by the General Meeting of Shareholders. At least one third of the Supervisory Board should be formed from independent members. The Supervisory Board elects its Chairman from its members.

Members of the Supervisory Board (during the reporting period)

Full name	Participation of Board members in other activities	Beginning of the term of office	End of the term of office
Vidmantas Salietis Member of the Supervisory Board	Principle workplace: Ignitis Group UAB (company code 301844044, address: Žvejų st. 14, LT-09310 Vilnius), Member of the Board, Director for Commerce and Services Gamybos Optimizavimas UAB (company code 304972024, address: Žvejų g. 14, LT-09310 Vilnius), Member of the Board Elektroninių Mokėjimų Agentūra UAB (company code 136031358, address: Žvejų st. 14, LT-09310 Vilnius) Member of the Board NT Valdos UAB (company code 300634954, address: Smolensko	1 June 2019	31 May 2023

	st. 5, LT-03202 Vilnius), Chairman of the Board Nord Pool AS (company code address: P.O. Box 121, 1325 Lysaker, Norway) Member of the Customer Advisory Board		
Dominykas Tučkus Member of the Supervisory Board	Principle workplace: Ignitis Group UAB (company code 301844044, address: Žvejų st. 14, LT-09310 Vilnius), Member of the Board, Director for Infrastructure and Development Other executive positions: Ignitis Gamyba AB (company code 302648707, address: Elektrinės st. 21, LT-26108 Elektrėnai), Chairman of the Supervisory Board Ignitis Renewables UAB (company code 304988904, address: Žvejų g. 14, LT-09310 Vilnius), Member of the Board Vilniaus Kogeneracinė Jėgainė UAB (company code 303782367, address: Žvejų st. 14, LT-09310 Vilnius), Chairman of the Board	1 June 2019	31 May 2023
Paulius Dambrauskas, Independent member	Girteka Logistics UAB (company code 300569015, address: Račių st. 1, LT-03154 Vilnius), Executive Director	1 June 2019	31 May 2023

The Board

The Board is a collegial management body provided for in the Articles of Association of the Company. Board members are elected for the term of office of four years and removed from office by the Supervisory Board. The Board consists of 5 members and elects the Chairman, the CEO of the Company, from among its members. The Board members have to ensure the appropriate performance of the Company activities.

Members of the Board (during the reporting period)

Full name	Participation of Board members in other activities	Beginning of the term of office	End of the term of office
Darius Montvila Chairman of the Board	Principle workplace: Ignitis UAB (company code 303383884, address: Žvejų st. 14, LT-09310 Vilnius), CEO, Chairman of the Board Other executive positions: Ignitis Grupės Paslaugų Centras UAB (company code 303200016, address: A. Juozapavičius st. 13, Vilnius), Member of the Board Ignitis Latvija SIA (company code 40103642991, address: Cēsu st. 31, LV-1012, Riga, Latvia), Chairman of the Supervisory Board Ignitis Polska sp. z o.o. (company code 0000681577, address: Puławska st. 2, Building B, Warsaw,	1 June 2019	31 May 2023

	02-566, Poland), Member of the Supervisory Board Vilniaus Perkūno Rotary Klubas (company code 125078659, address Jogailos st. 4, LT-01116 Vilnius), Member the Board, president Honorary Consul of the Federal Democratic Republic of Nepal in Vilnius		
Haroldas Nausėda	Principle workplace: Ignitis UAB (company code 303383884, address: Žvejų st. 14, LT-09310 Vilnius), Director for B2B Clients and Expansion, Member of the Board Other executive positions: Ignitis Eesti OÜ (company code 12433862, address: Narva st. 5, 10117 Tallinn, Estonia), Member of the Board.	1 June 2019	31 May 2023
Andrius Kavaliauskas	Principle workplace: Ignitis UAB (company code 303383884, address: Žvejų st. 14, LT-09310 Vilnius), Head of B2C at Ignitis, Member of the Board	1 June 2019	31 May 2023
Artūras Bortkevičius	Principle workplace: Ignitis UAB (company code 303383884, address: Žvejų st. 14, LT-09310 Vilnius), Director of Finance and Business Support Department, Member of the Board Other executive positions: Ignitis Latvija SIA (company code 40103642991, address: Cēsu st. 31, LV-1012, Riga, Latvia), Member of the Supervisory Board Ignitis Polska sp. z o.o. (company code 0000681577, address: Puławska st. 2, Building B, Warsaw, 02-566, Poland), Member of the Supervisory Board	1 June 2019	31 May 2023
Tadas Adomaitis	Principle workplace: Ignitis UAB (company code 303383884, address: Žvejų st. 14, LT-09310 Vilnius), Head of wholesale trading, Member of the Board	1 June 2019	31 May 2023

Changes in the structure of the Company's Board during the reporting period: The Board, as appointed by the decision of the sole shareholder, acted in the period from January to May 2018 with the term of office from 1 November 2018 until 31 May 2019. During the specified period, the composition of the Board consisted of: Vidmantas Salietis (Chairman of the Board, Member of the Board of Ignitis Group UAB, Director of Commerce and Services), Dominykas Tučkus (Member of the Board, Member of the Board of Ignitis Group UAB, Director for Infrastructure and Development), Paulius Dambrauskas (Independent member of the Board, Executive Director of Girteka Logistics UAB).

Chief Executive Officer

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

Full name	Position Start of term of office	Position End of term of office	Number of shares held at the Company
Darius Montvila	2 April 2019	1 April 2024	-
Mantas Mikalajūnas	4 November 2014	1 April 2019	-

Chief Executive Officer Darius Montvila