



# AB AMBER GRID CORPORATE STRATEGY 2016-2021

A CONDENSED VERSION

Vilnius  
2016

# CONTENT

STATEMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS	3
SUMMARY	4
<b>1. DESCRIPTION OF ACTIVITIES</b>	<b>5</b>
1.1. Company Activities	5
1.2. The Company's Shareholder Structure	6
1.3. The Company's Services and Clients	6
<b>2. ANALYSIS OF ENVIRONMENTAL FACTORS</b>	<b>9</b>
2.1. Analysis of the Company's Internal Environment	9
2.2. Analysis of the Company's External Environment	11
2.2.1. An Overview of the Most Important Events in the Region	11
2.2.2. Political, Economic, Social, Technological, Environmental and Legal Impact Factors	12
2.2.3. Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis	13
<b>3. STRATEGY OF AB AMBER GRID</b>	<b>13</b>
3.1. Mission, Vision, Strategic Directions and Values	13
3.2. Strategic Objectives and Performance Measurement Indicators	16
3.3. Strategic Tasks and Actions/Programmes	16
<b>4. RISKS AND RISK MANAGEMENT</b>	<b>16</b>
<b>5. FINANCIAL OBJECTIVES AND TARGET INDICATORS</b>	<b>17</b>
<b>6. IMPLEMENTATION OF THE STRATEGY</b>	<b>18</b>

# STATEMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

The year 2015 has been successful to AB Amber Grid, which, in the pursuit of its strategic objectives, has either already fully completed the implementation or is still in the process of implementation of more than one project of considerable importance both to the Republic of Lithuania and to the entire the Baltic States Region.

The Company has managed to complete the implementation the EU Project of Common Interest „Capacity enhancement of Klaipėda–Kiemėnai gas pipeline“ ahead of schedule. The output of the aforesaid Project is a new 110-km-long section of Klaipėda–Kuršėnai gas pipeline, which has significantly enhanced the gas pipeline intake capacity from the Klaipėda Liquefied Natural Gas Terminal, thus creating a possibility of satisfying approximately 90% of the annual demand of all the Baltic States from alternative gas supply sources via the Klaipėda LNG Terminal.

In 2015, upon the achievement of full compliance with the third energy package of the EU regarding the unbundling of the operations and control, by a decision of the National Commission for Energy Control and Prices AB Amber Grid was designated a Certified Operator of the Transmission System.

On 1 November 2015, AB Amber Grid, the first amongst the transmission system operators the Baltic States– became a full member of the European Natural Gas Transmission System Operators’ Network (ENTSOG). This status provides the Company with an opportunity of making an active contribution to the European gas market development and participation in various joint projects with its counterparts – the gas transmission system operators of other countries.

A significant breakthrough has been achieved also in the implementation of the Gas Interconnection Poland-Lithuania (GIPL) Project. In October 2015, the EU Support Administration Agency, AB Amber Grid, and the Polish Natural Gas Transmission System Operator, GAZ-SYSTEM S.A., concluded an agreement on the financing of the GIPL Project, under which the GIPL Project was granted a significant financial assistance of the European Union.

In 2016, the Company intends to continue with the implementation of the strategic directions that were approved back in 2015: to develop a common Baltic Region’s natural gas market, to start the construction of the GIPL pipeline, to increase the Company’s operating efficiency. The Company’s priority is as follows: from 2020 on, to carry out its natural gas transmission activities in an integrated European gas network and operate in an effectively functioning Regional Gas Market.

AB Amber Grid intends to further increase the efficiency of its operational and technological processes. With a view to achieving these goals, we are working on the enhancement of integrated systems for project management and comprehensive cost-benefit analysis, and we are in the process of the implementation of an innovative management system.

In 2015, AB Amber Grid received a high award in the category of gas transmission system operators at the European Gas Awards of Excellence. In the future, the Company will seek to further maintain its high standards and retain the leadership position in the region.

In the implementation of the strategic objectives, in its operations the Company consistently follows its main corporate principles – a socially responsible and transparent business model, effective implementation of infrastructure projects and retaining and continuous training of competent staff.

Sincerely,



**Dr Aleksandras Spruogis**

Chairman of the Board of Directors of AB Amber Grid

## SUMMARY

The present document aims to set AB Amber Grid’s (hereinafter – Amber Grid, the Company) strategic directions, objectives, goals, action plans (programmes) for 2016–2021, to develop specific performance measurement target indicators, based on which the Company will evaluate its performance both in the short term and in the long term. A long-term strategy of Amber Grid (which started operating as an independent Transmission System Operator on 1 August 2013) was approved back in 2015. The present Strategy paper for 2016–2021 presents updated data, forecasts, objective assessment of the business environment developments and changes in the market situation with a potential impact on the Company’s long-term strategy.

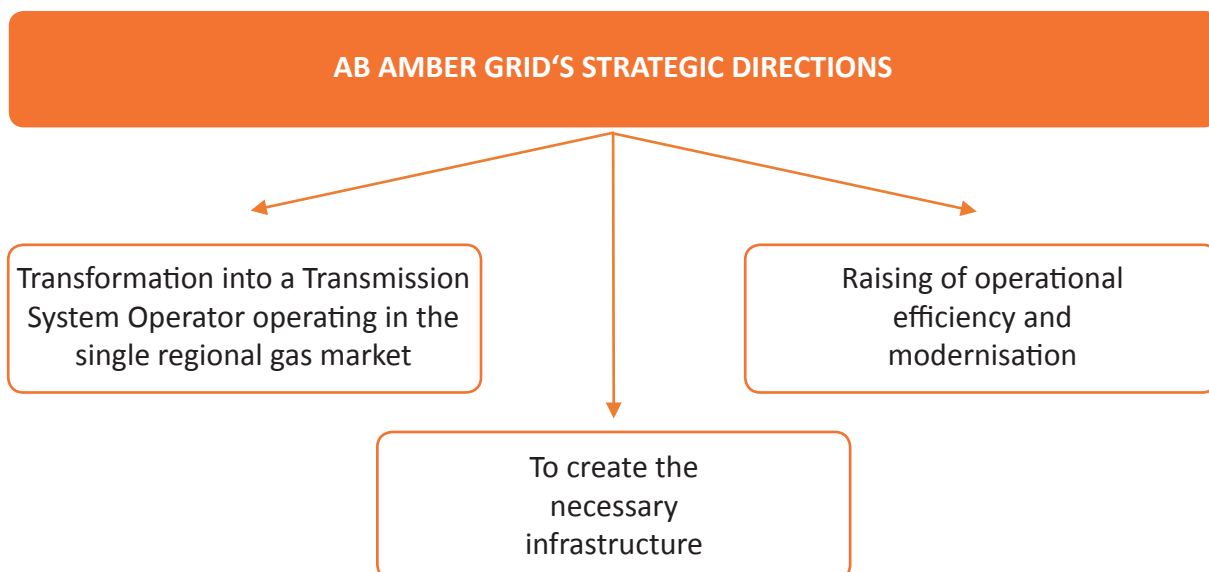
Amber Grid’s Strategy is based on the integration into a single natural gas market of the Region, on efficiency, modernisation and fostering of the infrastructure.

**AB Amber Grid’s mission is safeguarding national strategic interests by efficient development of gas transmission system, assurance of reliable gas transportation, active contribution to the development of an integrated European gas transmission system and creation of conditions for the development of a competitive gas market.**

Amber Grid is Lithuania’s gas transmission system operator. The Company owns, operates and develops natural gas infrastructure – Lithuania’s gas transmission pipelines and ancillary facilities. The purpose of the Company is to connect gas systems, to grant a non-discriminatory access to the System, to transport gas supplies in a safe and reliable way, to create conditions for competition on the gas market, to facilitate contribution of gas, as an energy source, as an economic growth trigger.

**AB Amber Grid’s vision is acting actively and in cooperation with the region’s gas transmission system operators create a favourable conditions for the functioning regional gas market within the integrated European gas network.**

In the perspective of 2016-2021, Amber Grid sees the gas market of the three Baltic States – Lithuania, Latvia and Estonia (and in a longer-term perspective, should the prospective Estonian-Finnish gas interconnection project be implemented, the gas market also of Finland) – as a single gas market, i.e. operating in accordance with harmonised rules, belonging a single zone that will be formed in terms of gas trading, balancing and entry-exit points. Upon the integration of the gas transmission pipelines of Amber Grid and GAZ-SYSTEM SA (upon the completion of the implementation of the GIPL Project), the Region’s gas market will be effectively interconnected with the gas market of the European Union (hereinafter – EU).



Amber Grid's Corporate Strategy is based on the integration into a single natural gas market of the Region, on efficiency, modernisation and fostering of the infrastructure. These elements are essential for the attainment of the financial and strategic objectives set out by the State of Lithuania.

Acting in pursuit of the corporate vision and the strategic objective set out by the State – to increase the corporate value and ensure strategic interests of the State – Amber Grid will mainly focus on the following three strategic directions:

- ▶ transformation into a Transmission System Operator operating in the single gas market;
- ▶ the creation of the necessary infrastructure;
- ▶ increasing the efficiency and modernisation.

With a view to the implementation of the strategic directions, Amber Grid is forming an appropriate organisational culture, based on the corporate values. Amber Grid is guided by common human values, national values, and professional values. Amber Grid's values – form the basis for corporate behaviour, for corporate activities and organisation culture.

The Company has identified six key values of the organisation:

- ▶ mutual trust;
- ▶ competence;
- ▶ cooperation;
- ▶ openness;
- ▶ responsibility;
- ▶ result-orientation.

Each of the corporate strategic directions was later specified through the elaboration of respective programmes containing strategic objectives, tasks, measures, the desired outcomes and the deadlines.

Some of the corporate strategic objectives have concrete measurable indicators that were developed, based on which the Company will evaluate its performance both in the short term and in the long term.

The present long-term strategy paper also analyses the current situation, presents the Company's internal and external impact factors and the analysis of strengths, weaknesses, opportunities and threats (SWOT), and a description of the Risk Management measures, financial targets and target indicators, principles of Strategy evaluation, improvement and maintenance.

# 1. DESCRIPTION OF ACTIVITIES

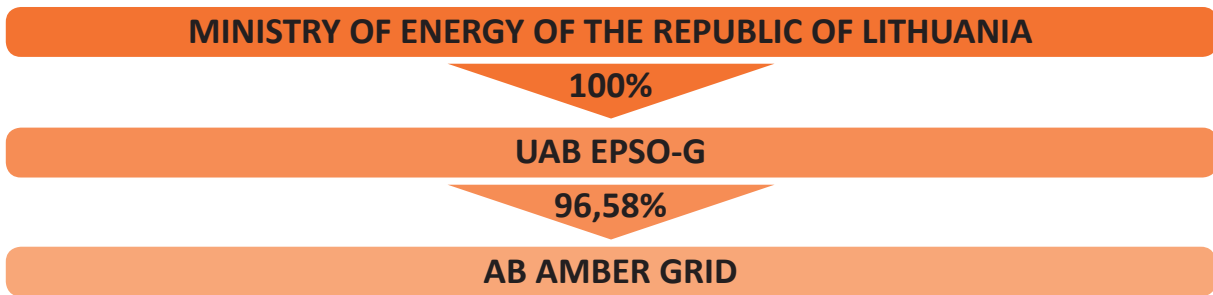
## 1.1. Company Activities

Amber Grid is Lithuania's Natural Gas Transmission System Operator responsible for the transmission of natural gas (transportation via high-pressure pipelines) to system users, for the operation, maintenance and development of the natural gas transmission infrastructure. Amber Grid was registered on 25 June 2013, when the natural gas transmission activity (including the assets, rights and obligation attributed to this activity) was unbundled from AB Lietuvos Dujos. The Company launched operations on 1 August 2013 with the entering into force of an interim natural gas transmission licence issued to the Company by the National Commission for Energy Control and Prices (hereinafter – the NCC).

The new legal entity was established in implementation of the Third Energy Package of the EU and of the applicable provisions of the Republic of Lithuania Law on Natural Gas. The incorporation of AB Amber Grid resulted in the implementation of the legal, functional and organisational unbundling of the natural gas transmission activity.

When on 21 May 2014 E.ON Ruhrgas International GmbH and on 19 June 2014 OAO Gazprom transferred the Company's shares in favour of UAB EPSO-G (controlled by the Ministry of Energy of the Republic of Lithuania), and when on 30 June 2014 the composition of the Board of Directors of the Company was changed by respective decisions of the Extraordinary General Meeting of Shareholders, Amber Grid's activities and ownership control were fully unbundled from the natural gas companies engaged in gas production and supply activities. On 10 April 2015, the NCC issued in respect of the Company an open-ended Transmission System Operator's license and thus the Company, in accordance with the applicable EU requirements, was designated a Certified Transmission System Operator.

In pursuit of the strategic goal of the Company: development of a regional natural gas market – on 6 November 2015, Amber Grid acquired from AB Lietuvos Dujos a 34% stake in UAB GET Baltic. With this transaction, AB Amber Grid became a major shareholder of UAB GET Baltic controlling 66% of the authorised share capital of the Gas Exchange. The remaining 34% stake is owned by the Finnish natural gas company, Gasum Oy. UAB GET Baltic is a licensed natural gas market operator, whose main function is to organise and develop trade on an electronic Natural Gas Exchange. Currently, the gas trade is organised only on



**Figure 1.** Structure of parties related to Amber Grid

the Lithuanian market, but in a longer term, the aim is to upgrade UAB GET Baltic to a Regional Gas Exchange, i.e. to a Natural Gas Exchange with operations covering all the Baltic States, and a Natural Gas Exchange whose governance would be shared with other gas transmission system operators of the Baltic Region.

Since 1 November 2015, Amber Grid is a member of the European Network of Natural Gas Transmission System Operators (ENTSOG).

### 1.2. The Company’s Shareholder Structure

As of 30 June 2015, the Company’s shareholding structure was as follows: approx. 2,300 natural and legal persons from Lithuania and abroad, of which one shareholder, UAB EPSO-G, had a controlling block of shares (96.58%). The remainder of the Company’s shares (3.42%) are listed on the Stock Exchange NASDAQ Vilnius Baltic Secondary List (the acronym of the Company at the Exchange is AMG1L).

The main shareholder of the Company, UAB EPSO-G, is 100%-owned by the Ministry of Energy of the Republic of Lithuania (Figure 1); UAB EPSO-G also has the controlling interest in Lithuania’s electricity transmission system operator, Litgrid AB.

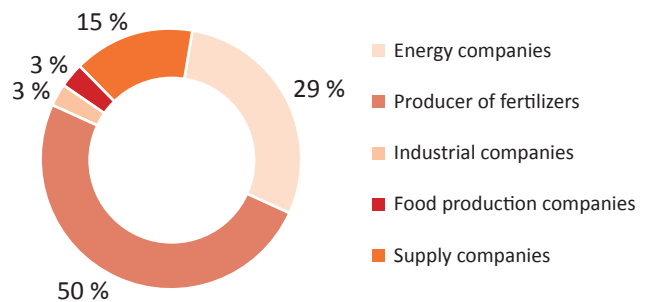
### 1.3. The Company’s Services and Clients

As a natural gas transmission system operator, the Company provides to system users, to other operators and natural gas market participants the following services:

- ▶ transmission and transit of natural gas via gas transmission pipelines;
- ▶ balancing of natural gas flows in the transmission system;

- ▶ administration of funds intended to compensate for the costs of the construction, operation and maintenance of the Liquefied Natural Gas (hereinafter – LNG) terminal, its infrastructure and connector.

The Company’s customers are Lithuania’s large producers of electricity, district heating, industrial companies and medium-sized businesses, natural gas supply companies, to which the Company renders natural gas transmission services. The structure of the Natural Gas Transmission System users (based on natural gas transmission quantities) is presented in Figure 2.



**Figure 2.** The structure of natural gas transmission quantities (%) for the needs of system users, 2014

- ▶ 2,117 km of gas transmission pipelines;
- ▶ 67 points of connection with distribution systems and system users;
- ▶ 2 Border Metering Stations;
- ▶ 2 Gas Compressor Stations.

Below (Figure 3) we present a map featuring Lithuania’s Natural Gas Transmission System and highlighting the main infrastructure facilities operated by Amber Grid.



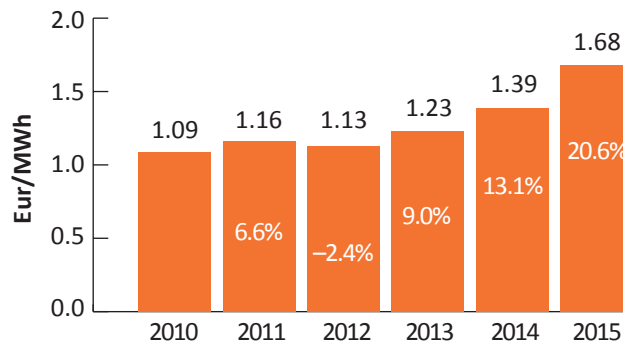
Figure 3. A map of Lithuania’s Natural Gas Transmission System

**Pricing of the Natural Gas Transmission System Activity**

„Amber Grid’s natural gas transmission and balancing service prices are regulated by the NCC. In addition to that, the NCC is also in charge of the setting of the size of the so-called *security of supply-related additional natural gas price component* aimed to compensate for the costs of the construction and the operating costs of the new LNG Terminal, its infrastructure and connector and the costs of the administration of the aforesaid *security-of-supply funds*. In October of 2013, the NCC set in respect of the Company a natural gas transmission price cap for the new five-year regulation term (from 1 January 2014 to 31 December 2018), which will be subject to annual adjustments in accordance with the procedure established by law. The main income of the Company currently comes from the natural gas trans-

mission services, the price dynamics for 2010–2015 is shown in Figure 4.

It should be noted that in implementation of the applicable legislative provisions of the EU, in the beginning of 2015, Lithuania introduced a brand new capacity allocation and pricing model based on the natural gas transmission system Entry and Exit Points, which replaced the formerly employed gas transmission service pricing model based on the so-called “postage stamp” principle. 1 January 2015 marked the coming into effect of new natural gas transmission service price caps (TSPCs) (as set by the NCC) and new gas transmission prices (as approved by the NCC) for the cross-border transmission system Entry and Exit Points as well as the Domestic Exit Point, including the point of connection to the distribution systems and points of connection with any directly connected consumers.



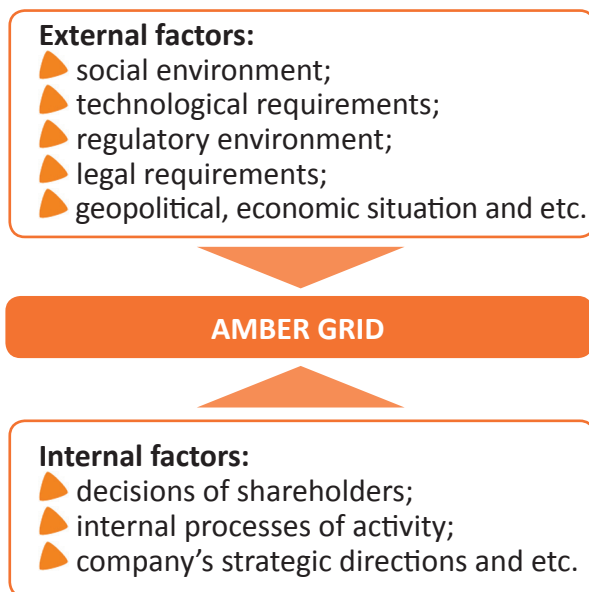
**Figure 4.** Dynamics of the average natural gas transmission service prices<sup>1</sup> for 2010–2015.

Key gas transmission service pricing changes from the second year of the current regulatory period	until 31 December 2014	from 1 January 2015
Pricing model	Based on the „postage stamp“ principle	Based on Entry and Exit Points
Units of accounting of the transmission service	Normal cubic meters (m <sup>3</sup> )	Energy units (MWh)
Price Cap units (Calculation of price cap’s)	In LTL per transported gas unit – LTL/m <sup>3</sup>	In EUR per booked long-term capacity unit at Entry and Exit Points – EUR/MWh per day per year

<sup>1</sup> Average gas transmission prices (without taking into consideration any indicators attributed to the gas transit service). The average prices for the period 2010-2015, that are comprised of the prices for the gas transmission capacity and the prices for the gas transmission quantities, are expressed in units of energy (MWh) ( energy units for pricing have been used only from 2015, until 2015 the prices used to be denominated in volume units (thousand m<sup>3</sup>)).

## 2. ANALYSIS OF ENVIRONMENTAL FACTORS

The remaining part of this paper analyses the internal and external factors that have the greatest impact on the Company’s operations. According to the Strategic Planning and Strategic Management Guidelines that were developed by the Ministry of Economy of the Republic of Lithuania, Amber Grid Operating Strategy sees the environmental impact as a combination of external environmental factors (political, economic, social, legal, environmental and technological), internal strengths and weaknesses and the opportunities and threats arising from the outside. All this has an impact on strategic directions selected by the Company. The figure below shows the main internal and external impact factors affecting the business of Amber Grid.



**Figure 5.** A matrix of internal and external factors impacting Amber Grid.

The environment in which Amber Grid operates is constantly influenced by:

- ▶ the volatile legal frameworks of the EU and of Lithuania;
- ▶ energy policy and environmental policy;
- ▶ changes in the regulatory environment;
- ▶ development of technologies in the energy sector.

For these reasons, the Company’s development and strategic directions were in part based on assumptions.

While the Company cannot control the external factors that are analysed by the Strategy below, they are nevertheless continually evaluated and monitored. Thus, the Company in the light of changing circumstances, aims to timely predict any pending risks, to avoid threats and take advantage of any growth and business development opportunities available.

Upon the consideration of the above-mentioned circumstances it is possible to determine with a sufficient degree of objectivity as which specific direction Amber Grid should choose and as to what results it can achieve during the strategy’s implementation period.

### 2.1. Analysis of the Company’s Internal Environment

Amber Grid was created through the spin off from AB Lietuvos Dujos, the natural gas transmission system operator’s activity, the natural gas transmission system infrastructure, other assets, as well as the human and other resources related to the activity in question. The Company, which was formed as a result of the unbundling, engages in a single core activity – the Transmission System Operator’s activity – and has its clearly defined functions and has no activities that are unrelated to its core business. One of the key points in order to carry out the natural gas transmission operations effective manner consists in the management of internal processes, their efficiency and expediency.

The Company has sufficient technological, managerial and financial capacity to carry out its core activities.

The natural gas infrastructure used for the Company’s operations has been developed since 1961. More than half of the pipelines were constructed more than 25 years ago.

The Company operates 66 Gas Distribution Stations (GDS), 3 Gas Metering Stations (GMS) and 2 Gas Compressor Stations (CS)

The Company’s investment and operating policies support maintaining the infrastructure in an adequate condition and meeting the applicable reliability standards. Before 2015, the infrastructure used to cater exclusively for the natural gas transportation from a single source. Since the end of 2014, with the construction of a LNG terminal in Klaipėda, gas supplies to Lithuania have started being imported already from two sources, in addition to that, gas supplies also started being transported in the direction of Latvia. Works for the implementation of the Project Gas Interconnection Poland-Lithuania (GIPL) are going as planned. The GIPL

Construction Project is scheduled for completion by the end of 2019.

At present, the technologies that are used by the Company meet the Company’s minimum business needs, the technologies are modernised in accordance with plans that have been adopted. From 2015 on, the Company’s information systems are adapted to the developments related to natural gas supply diversification, and changes in accounting of the sales of gas transportation capacities and natural gas quantities. During the course of the five-year period, the information technology systems used by the Company will be harmonised with the technological information systems used in the fields of capacity management and marketing of other Gas Transmission Operators operating in the Region. However, the information systems used for the Company’s internal processes have no common database, have different data structures, which aggravates the integration of the systems.

Upon the unbundling of the natural gas transmission activities, only these staff responsibilities and functions that are needed for natural gas transmission activities proper were transferred from AB Lietuvos Dujos to Amber Grid thereby eliminating any non-core activities and staff responsibilities that were unrelated to the natural gas transmission activities. In the process of the creation of the Company, out of a group of employees that were transferred from Lietuvos Dujos and a number of additionally recruited new employees a team of was formed of experienced and highly skilled employees boasting high managerial capacity, which can successfully run the Company’s business and ensure the implementation of the Company’s Strategy. A survey of Company’s internal climate revealed that the dominant values prevailing at AB Amber Grid include responsibility, integrity, mutual trust and result-orientation and, in

general, the internal situation is better than the average situation for companies of Lithuania.

The Company’s financial status is good and stable. The business nature and the regulation allow the Company to receive revenues covering the necessary costs and to receive regulated returns on investment. The Company’s leverage ratio enables efficient execution of investment projects.

**Amber Grid’s Structure and Management Principles**

The Company’s Bylaws stipulate that the Company’s Board of Directors shall consist of five (5) members elected for a three-year period in accordance with the procedure provided for by the Law on Companies. Members of the Board of Directors shall elect the Chairperson. Members of the Board of Directors may be re-elected for another term. Powers of the members of the Board of Directors and the activities are as defined in the Law on Companies and the Company’s Bylaws. The General Manager (the CEO) is appointed and dismissed from office by the Board of Directors.

In 2014, Amber Grid became a company belonging to the UAB EPSO-G Group of Companies and, simultaneously, it became a state-controlled company. The Company’s management structure is broadly consistent with the applicable regulations on state policies established in respect of state-controlled enterprises. In 2016 on the basis of the recommendations for good governance of state-owned enterprises, there are plans to reform the governance processes of the entire EPSO-G Group, including the governance processes of the Company.

The good governance practices and corporate governance policies of state-controlled companies are being introduced in the Company’s corporate governance principles.

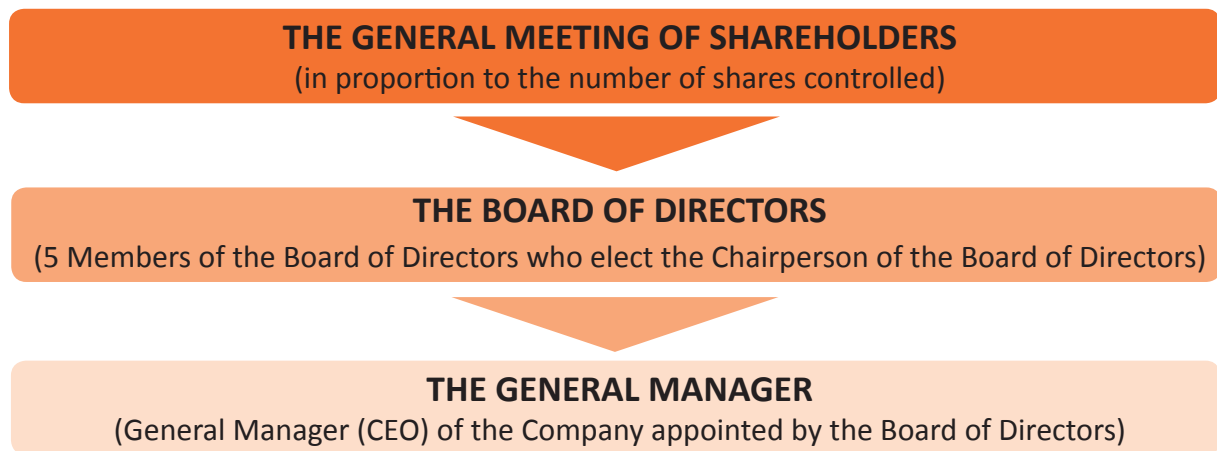


Figure 6. Amber Grid’s Management Principles

## 2.2. Analysis of the Company's External Environment

The gas transmission activity is subject to licensing. The license grants exclusive rights to render gas transmission services throughout the entire territory of the Republic of Lithuania. The Company operates in a strictly regulated environment that is constantly changing and is dependent on any applicable legislative provisions of the EU and Lithuania's national legislation and various natural gas transmission sector regulatory policy requirements as well as on the actions of the regulatory authorities in charge of the implementation of these policies.

### 2.2.1. An Overview of the Most Important Events in the Region

In recent years, both the Natural Gas Sector of the Baltic Region and the Global Natural Gas Sector, have been living through an eventful period abounding in significant developments. Even though the global natural gas consumption has been on the increase, by contrast, in Europe, natural gas consumption has been consistently declining over the recent years.

We are also witnessing a significant drop in natural gas demand in the Eastern Baltic Region, which includes Finland, Estonia, Latvia and Lithuania. The largest quantities of natural gas are consumed in Finland (3.12 billion m<sup>3</sup> or 32.4 TWh). Lithuania consumes the largest quantities of natural gas among the three Baltic States – almost 2.56 billion m<sup>3</sup> or 26.7 TWh, which is two times more than the quantities consumed in Latvia (1.29 billion m<sup>3</sup> or 13.5 TWh) and almost five times more than the quantities consumed in Estonia (0.54 billion m<sup>3</sup>, or 5.6 TWh). The main factors behind the drop in demand are the conversion to other fuels in the electricity and heat production sectors, the conversion to energy production from biomass, and the decline in gas consumption by various industrial enterprises, for instance, by the shrinking paper production in Finland.

By December of 2014, the only option open for the countries of the Region as regards the imports of natural gas by gas pipelines, was gas imports from Russia, and the Region's natural gas the market had no alternative suppliers whatsoever. However, the situation turned around in December of 2014 with the launch in Klaipėda of a new Liquefied Natural Gas Import Terminal. This LNG Terminal opened up the possibility for the market players to import LNG supplies from the global markets. In addition to that, October of 2015 marked the completion of the construction of the Klaipėda-Kuršėnai gas transmission pipeline. The gas pipeline

with an enhanced throughput capacity enables making use of the full potential the LNG Imports Terminal's capacity and facilitates transportation of gas supplies both within the territory of Lithuania and in the direction of other Baltic States. The LNG Terminal can cater for over 80% of the demand of all the three Baltic States, it ensures diversification and security of natural gas supplies.

The European Natural Gas Sector is being rapidly changed by the implementation of the third energy package of the EU. This legislative package is aimed at the liberalisation of the natural gas market and at the promotion of competition among different natural gas suppliers. Legislation relevant to the Gas Sector is as follows:

#### The Directive:

- ▶ **Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC**

#### The Regulations:

- ▶ **Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005**
- ▶ **Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators**

In implementation of the regulations and directives of the third energy package of the EU, the European countries are unbundling their natural gas transmission businesses from the gas supply and distribution businesses of their vertically integrated natural gas companies. The aim is to create an integrated natural gas market of the European countries, thus creating preconditions for greater market liquidity, for a competitive pricing, for a more efficient use of the infrastructure and for an improved security of supply situation.

The most important current developments faced by the Eastern Baltic Sea Region are related to the natural gas transmission system operators' activities, in particular, to the unbundling of gas companies' activities and transfer of their shares to new legal entities, and the Gas Sector representatives' cooperation in the development of a liberal and integrated gas market.

Lithuania and Estonia have already established their separate companies engaged exclusively in the gas transmission activity: Amber Grid and Elering Gaas AS

(formerly AS EG Vörguteenus). Latvia intends to unbundle its gas transmission business from other gas businesses in 2017. The unbundling of the gas transmission business is also pending in Finland.

A well-functioning Regional Gas Market requires putting in place an adequate infrastructure and implementation of organisational measures. Therefore new investments are being planned seeking mutual integration of the Region's natural gas transmission systems. The Region is intended to be integrated with the European natural gas market through the construction of the Gas Interconnector Poland-Lithuania. Finland's integration into the single EU gas market is planned to be effected through the construction of a gas pipeline link between Finland and Estonia (Balticconnector). There are also plans for new investments in the already existing cross-border interconnections between Estonia and Latvia and between Latvia and Lithuania, which are aimed at ensuring adequate levels of capacities in both the directions, and in the Incukalns Underground Gas Storage Facility in Latvia, in order to enhance its capacity to supply gas in the winter season. Klaipėda LNG Terminal's services are intended to be developed through the provision of LNG bunkering services, i.e. supplying ships with fuel and delivering LNG supplies to smaller terminals, as well as through the construction of an over ground LNG distribution station.

For the purposes of the coordination of the development of a Regional Market, at the beginning of the year 2015, a special working group was set up, comprising the Eastern Baltic Region's transmission system operators, ministries in charge of the energy sector and the national regulatory authorities. During the course of the past year, the aforesaid Group agreed on a short-term and a medium-term action plans for the development of a Regional Gas Market, and the transmission system operators take part in the preparation of a study funded by the BASREC (Baltic Sea Region Energy Cooperation Organization), which will effectively come up with recommendations on the most advantageous markets integration model.

### 2.2.2. Political, Economic, Social, Technological, Environmental and Legal Impact Factors

The greatest factor impacting the Company's plans will be Lithuania's national authorities' decision on the National Independence Energy Strategy, which will set Lithuania's national energy strategic directions and specific energy sectors' development priorities, also decisions relating to the promotion and development of biofuel and other energy resources, decisions on the energy efficiency improvement, on

any developments in the setting of state-regulated prices in the natural gas transmission sector, implementation on provisions of Network Codes as adopted by the EU regarding gas pipeline safety, reliability, interoperability and access conditions, trade, pricing and other fields.

The legal environment, which has a significant impact on the Company's business decisions, in particular the ones in the fields of the national energy policy, the EU's assistance policies, is highly dependent on any political developments and manifests itself in frequent changes in the gas transmission sector legislation, which may in turn negatively affect the long-term sustainability of the Company's strategic decisions.

The most important economic factors affecting the natural gas transmission sector include the promotion and development of the use of biofuel and other renewable resources in the energy sector as well as a more efficient use of energy and energy resources. Due to the large subsidies that are provided in various forms: through incentive tariffs in buying up energy, through direct grants or through a catalytic regulatory regime of the national economy unequal conditions are being created that hinder competition, which all result in a rapid growth in the use of biofuels, both in the electricity and district heating sectors, and which reduce the demand for natural gas and undermine its competitiveness in the market, and, with infrastructure costs being largely stable, causes an increase in gas transmission and distribution service prices and the LNG Terminal operating costs (natural gas supply security-related additional price component) for the market participants. In addition to that, in the state-regulated energy fields, whose investments must be approved by the regulatory authorities, any decisions to invest in the use of alternative fuels for combined heat and power production so far have been accepted without having previously made a comprehensive socio-economic assessment, which promotes overinvestment and creates a risk of the implementation of economically unfeasible investment projects.

Other important economic factors that can affect the Company's business decisions include the Company's customer structure, which determines a strong dependence of the Company's operating income on a small number of large gas system users (10 of the largest system users generate about 90% of the Company's revenue); and the access to the EU support funds for the development and modernisation of the gas transmission system.

Technological factors affecting the Company's operating decisions are linked to the keeping of the natural gas infrastructure facilities used in the Company's

operations in good working order. It is necessary to take into account the fact that 57% of the gas pipelines were constructed more than 25 years ago. The condition of the existing pipelines is being inspected using various advanced techniques such as the intelligent pigging (internal diagnostics), the external diagnostics based on electromagnetic field measurements, aerial pipeline inspection with the help of a helicopter carrying a laser-based highly sensitive gas leak detection equipment, etc.. The findings of the inspections serve as a basis for carrying out any essential repairs of individual sections of the Company's gas transmission pipelines, thus ensuring security and reliability of the Transmission System.

An indirect impact on the gas transmission business is exerted also by various social factors that determine consumers' behaviour – inciting them to consume less gas and to choose a different type of fuel instead – include the relatively low purchasing power of Lithuania's population, the high emigration rate and the negative demographic trends. Having said that, last year, the gas prices decreased significantly and the gas quality parameters improved (there was a significant improvement in the gas supply security situation and the possibility to choose their suppliers or procure gas supplies at the Gas Exchange).

The Company's operations are also impacted by the environmental policies of the EU – the stricter environmental requirements may result in the need for additional investments, in addition to that, in implementation of the environmental provisions, a priority is given to renewable energy development policies, which all have a significant impact on the decline in the consumption of natural gas.

### 2.2.3. Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis

In view of the Strategic Planning and Strategic Management Guidelines prepared by the Ministry of Economy, in order to summarise the analysis of the environmental factors, an Analysis of Strengths, Weaknesses, Opportunities and Threats (hereinafter – the SWOT) was carried out. The analysis identified Amber Grid's strengths and weaknesses depending on the Company's internal factors. The analysis also identified the opportunities and threats – the external factors that are beyond the Company's control.

The internal and external environment analysis identified the essential strengths and weaknesses of Amber Grid and identified the most significant external threats and opportunities.

The results of the SWOT analysis constitute a basis for the formulation of operational scenarios, strategic di-

rections and targets. The results of the Analysis must be taken into account when setting the strategic objectives, when drawing up action plans, which are used for the attainment of the Company's strategic objectives. The following sections describe the strategic directions, objectives, specify in detail the strategic objectives and programs, which are formulated in the light of the findings of the SWOT Analysis.

## 3. STRATEGY OF AB AMBER GRID

### 3.1. Mission, Vision, Strategic Directions and Values

The Transmission System Operator's activity carried out by Amber Grid is regulated in detail by the EU law and the national law of the Republic of Lithuania. Therefore, the fundamental points of the Company's strategy stem from the legislation governing the activity in question – from the Third Energy Package of the EU, the Republic of Lithuania Law on Natural Gas and its implementing legislation, and the National Energy (Independence) Strategy (as approved by the Seimas of the Republic of Lithuania). The Company's strategy is impacted by the energy policy of the EU and the national energy policy of the Republic of Lithuania and the regulatory policies implemented by the national regulatory authorities. The regulatory policies pursued by the regulatory authority directly affects the Company's strategic plans as far as the financial prospects are concerned. Amber Grid's Strategic Action Plan (Natural Gas Transmission System Operator's Ten-year Network Development Plan) is subject to review and approval of by the NCC. The Company's Strategy is influenced by the fact that the Company's activity is essentially related to the activities of Transmission System Operators of other countries and on their strategies. In addition to that, the Company is an enterprise subject to the control of the State of Lithuania, which is impacted by the policies set in respect of state-owned enterprises by the state of Lithuania, which establish the expected rate of return, the strategic planning guidelines and management principles.

**The Mission.** Amber Grid is Lithuania's Gas Transmission System Operator. The Company owns, operates and develops natural gas infrastructure – Lithuania's gas transmission pipelines and related facilities. The Company's purpose is to connect gas systems, to grant a non-discriminatory access to the system, to safely and reliably transport gas, to facilitate competition

in the gas market, to help gas, as a source of energy, contribute to the growth of the economy. Amber Grid articulated all this in brief in its mission statement:

---

**AB Amber Grid's mission is safeguarding national strategic interests by efficient development of gas transmission system, assurance of reliable gas transportation, active contribution to the development of an integrated European gas transmission system and creation conditions for the development of a competitive gas market.**

---

**The Vision.** In the perspective of 2015-2020 Amber Grid sees the gas markets of the three Baltic States, Lithuania, Latvia and Estonia (and in longer term, should the Estonian-Finnish gas interconnection project be implemented, also the gas market of Finland) as a single integrated gas market, i.e. as the one operating in accordance with harmonized rules, sharing a single area in terms of gas trade, balancing and the Entry-Exit points. Upon the interconnection pipelines of the gas pipelines of Amber Grid and GAZ-SYSTEM S.A. (upon the implementation of the GIPL project), the Region's gas market will be interconnected with the gas market of the EU. During the planning period in question, through the implementation of the strategic programs for Transformation, New Infrastructure Development and Operational Excellence, Amber Grid's Vision is as follows:

---

**AB Amber Grid's vision is acting actively and in cooperation with the region's gas transmission system operators create a favourable conditions for the functioning regional gas market within the integrated European gas network.**

---

### Strategic Directions

The highest level of the system of the strategic objectives of Amber Grid consists of the financial and social objectives raised in respect of the Company by the State of Lithuania.

The State, in implementation of the control of Amber Grid, seeks growth of the value of the Company, seeks dividends, and seeks to secure the national strategic interests: national economic security, implementation of strategic projects and adequate quality infrastructure facilities.

The National Energy Independence Strategy sets out the objectives which are being implemented by the Company:

- ▶ to secure gas supply alternatives;
- ▶ to promote competition in the gas market.

According to the Strategic Planning and Strategic Management Guidelines, one of the Company's strategic directions is its efficiency raising.

Amber Grid's Strategy is based on the integration into a single regional natural gas market, on efficiency and modernisation and fostering of the infrastructure. These elements are essential for the attainment of the financial and strategic objectives set out by the State of Lithuania. The following diagram summarises the Strategy of Amber Grid.

In the pursuit of the Company's vision and aiming at the strategic goals – to increase shareholder value, and to ensure the country's strategic interests – Amber Grid will focus on three strategic directions: (i) transformation into a TSO that would operate in an integrated gas market; (ii) putting in place of any necessary infrastructure and (iii) increasing of efficiency and modernisation.

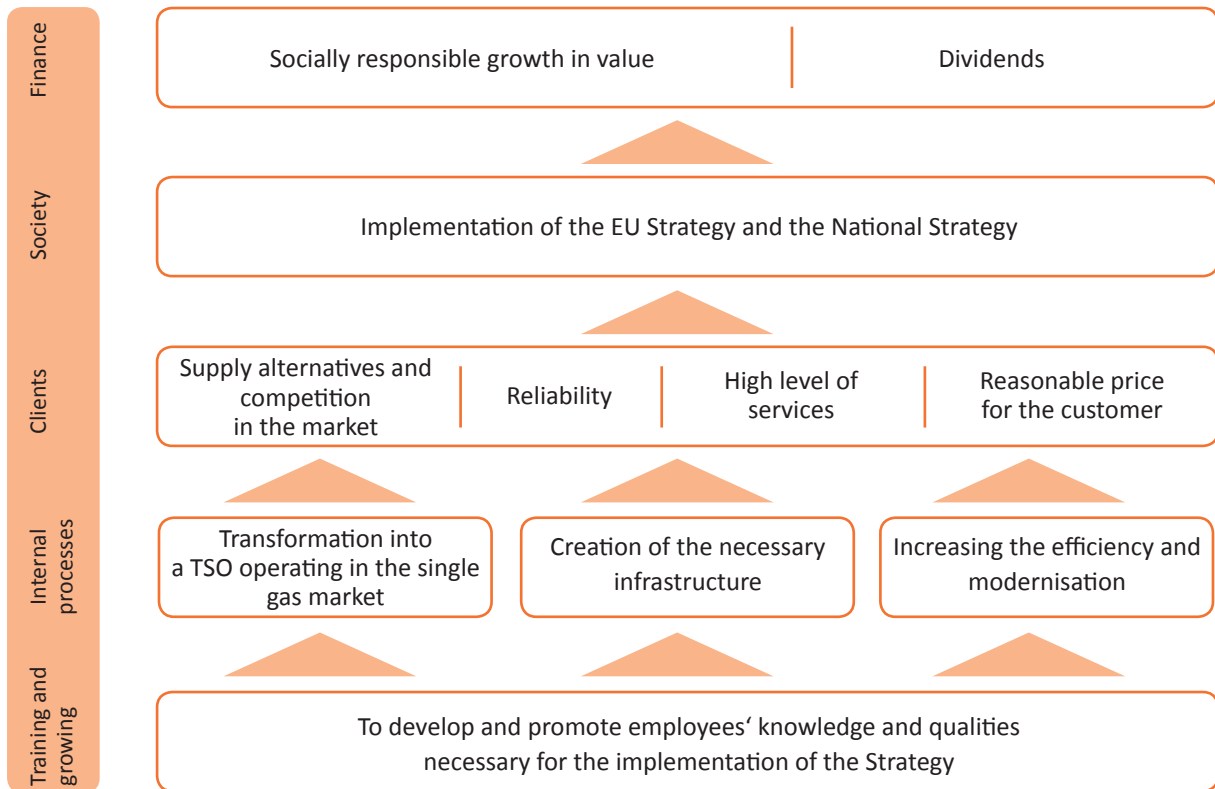


Figure 7. Amber Grid's Strategy Fact Sheet

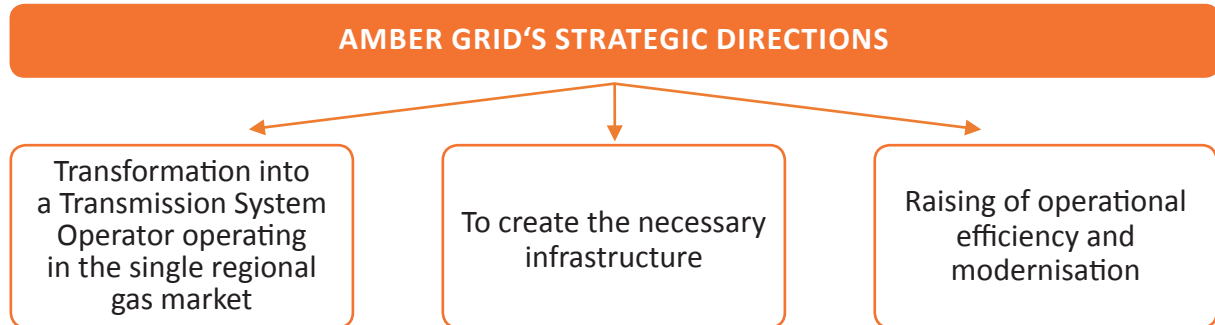


Figure 8. Amber Grid strategic directions

For each of the Company's strategic directions we have developed programmes containing strategic objectives, tasks, measures, the desired outcomes and deadlines.

**Values**

With a view to the implementation of the Strategic Directions, Amber Grid is forming an appropriate organisational culture based on the Company's values. In

2014, the Company identified six key corporate values: mutual trust, competence, cooperation, openness, responsibility, result-orientation and successfully implemented the project for the communication of the values to the Company's staff.

Amber Grid is guided by common human values, by national values and by professional values. Amber Grid's values form a basis for the Company's behaviour, activities, and corporate culture.

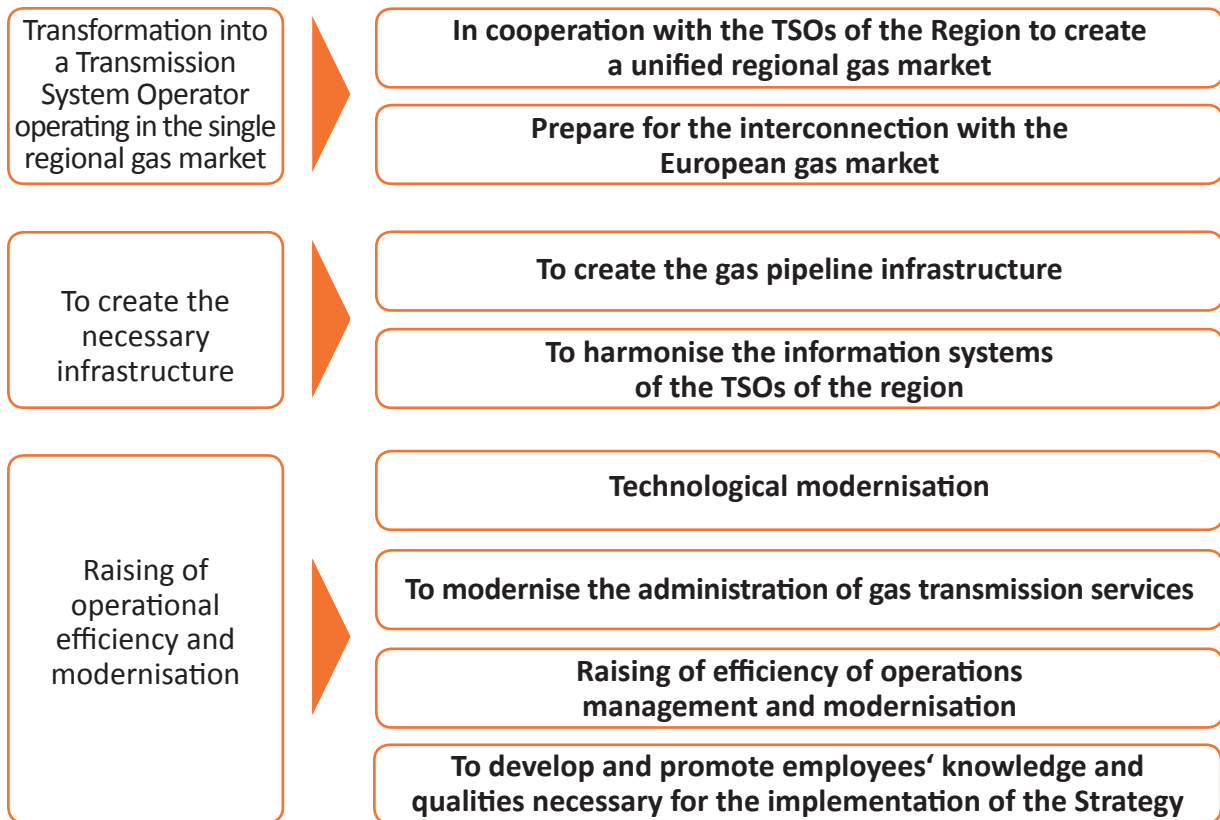


Figure 9. Interface of Amber Grid’s strategic directions and objectives

### 3.2. Strategic Objectives and Performance Measurement Indicators

For each of the corporate strategic directions Amber Grid has set out specific strategic objectives, which will be sought by the Company within the Strategy implementation period (until the year 2021).

In respect of some of the corporate strategic objectives specific measurement indicators have been set out based on which the Company will evaluate its performance in the short term and in the long term.

### 3.3. Strategic Tasks and Actions/Programmes

The strategic tasks set out in respect of Amber Grid are aimed at the attainment of each of the aforesaid corporate strategic objectives. In order to implement these tasks, the Company for each of the strategic directions has formed Action Programs, which guide the Company in its activities.

## 4. RISKS AND RISK MANAGEMENT

Risk management constitutes an integral part of Amber Grid’s activities. The Company’s risks are identified, analysed and evaluated in the context of the Company’s objectives, activities and environment. At present, the risk management process is carried out according to the inherited risk management system components that were adopted by AB Lietuvos Dujos. From 2016 on, the Company will fully implement a Risk Management System of its own, comprising risk identification, analysis, evaluation, provision for any control measures, preparation of a risk management action plan and implementation of the measures of the plan, monitoring and supervision of the risk management process.

The risk management aims to maintain a sufficient level of control of the Company’s business processes, to minimise the occurrence of any events that may cause risks and any possible adverse effects and to ensure that risks do not exceed the risk levels that are acceptable

to Amber Grid and that the Company's objectives are duly implemented.

The Company's risks fall into four broad categories: strategic, operational, compliance-related and financial risks, which in turn may be further subdivided into smaller sub-categories.

## 5. FINANCIAL OBJECTIVES AND TARGET INDICATORS

The Company's financial objectives and indicators are focused on the execution of the Mission and the Vision. The target indicators were set in view of the fact that the Company's activity is subject to regulation, therefore the achievement one or another target indicator depends not only on the performance of the Company itself, but also on the provisions of the Methodology for Natural Gas Transmission Service Price Regulation.

For the Regulation Period 2014-2018, it has been set that the natural gas transmission price cap shall be calculated as the ratio of sum total of the basic costs of the gas transmission activity and the return on investments and the natural gas transmission quantity. For the year 2014, the NCC calculated the value of return on investments as a product of multiplication of the normative rate of return on investments and the value of regulated assets attributed to the gas transmission services (RAB). The normative rate of return on investments was set as the weighted cost of capital (WACC) equal to 7.09%. The Company will seek to achieve that the actual rate of return of the regulated gas transmission activity (ROI) based on the value of regulated assets is not less than the normative rate that has been set, i.e. 7.09%.

The size of the Company's profitability indicators (profit margins, return on equity, return on assets, etc.) and the growth in the Company's value is in essence impacted by the value of the ROI as authorised by the NCC and the increase of the efficiency of the Company's operations.

As the Target Indicator summarising the execution of the Company's financial targets the Company has selected the indicator of the Company's Earnings Before Interest, Taxes Depreciation and Amortisation (EBITDA),

which can be defined as the Company's ability to repay its debts, to duly settle its corporate income tax obligations and to run the core business activities. In the general case, the EBITDA is calculated by adding to the earnings from normal business operations the result of the financial activities and the depreciation and amortisation of the non-current assets. The larger the value of the Company's non-current tangible assets and depreciation indicator, the larger is the EBITDA relative to the operating profit earned by the Company. Therefore, the aforesaid target indicator is particularly suitable for the comparison and evaluation of the performance of such companies that, just as AB Amber Grid, are carrying out large-scale capital investments. This indicator lends itself to comparison and evaluation of results of various companies regardless of their financing sources used to finance the activities or their structure. The target EBITDA of the Company – every year at least EUR 30 million. In addition to that, the Company will seek to achieve the ratio Return on Equity (ROE) (which shows net profit in euro per one euro of equity) of 4.8% in 2020.

One of the strategic directions of the Company – the creation of the necessary infrastructure – will be implemented in accordance with the following investment and financial management solutions:

- ▶ For project financing, any and all possible financing instruments (subsidies, grants, bank loans, etc.) will be considered.
- ▶ The implementation of the Infrastructure Development Programme financing will be ensured through the optimisation of the Company's capital structure and thus increasing its capital efficiency. In the implementation of the investment programme, the financial debt will not exceed the comparable debt level averages of companies operating in the European Gas Sector. The Company's financial debt will not exceed the amount of EBITDA x 6.
- ▶ Any decisions on investments in assets reconstruction, modernisation and development will be taken exclusively upon the assessment of their compliance with the Company's Strategy.
- ▶ When making any investment decisions, any such decisions will be subjected to the application of the assessment of their compliance with the required level of return on investments, risk and strategy principles.
- ▶ In implementation of the shareholder's return on capital expectations it is planned that the dividend policy will be moderate.

The Company contributes to the implementation of the national strategic priorities through the implementation of strategic projects that meet the aforesaid requirements.

In view of the National Energy Independence Strategy priority projects, the Company in 2014–2023 plans the implementation of a number of major investment projects aimed at the diversification of gas supply sources and ensuring gas supply reliability for Lithuania's consumers.

For the integration of Lithuania's Gas Transmission System into a common gas system of the EU there are plans to construct a Gas Interconnection Poland-Lithuania. AB Amber Grid has been granted a financial assistance of the EU covering 42.6% of the eligible costs of the Project in the Lithuanian territory, as well as a financial assistance for the covering of 50% of the Company's contribution to cover the CBCA payments.

In order to make an effective use of Klaipėda LNG Terminal, in 2015 we completed the implementation of the Klaipėda-Kuršėnai Gas Pipeline Construction Project. This Project has received an EU grant covering 42.45% of the project costs, while part of the investments was co-financed by the Latvian Natural Gas Transmission System Operator.

There are also plans to carry out a joint project of the Lithuanian and Latvian natural gas companies aimed at the enhancement of the throughput capacity of the natural gas link between the two countries, aimed at achieving a higher level of integration between the gas systems of the Baltic States and at facilitating the development of the natural gas markets of the Baltic States.

For the implementation of the Company's strategic directions and programs a variety of funding sources will be used: the Company's operating income, borrowed capital and the EU grants.

## 6. IMPLEMENTATION OF THE STRATEGY

In order to carry out the programs outlined in the Strategy, in order to achieve the objectives and thus advance in the implementation of the Company's Vision and Mission, Amber Grid continuously assesses and monitors the progress made in the Strategy implementation process. On the basis of the information amassed we identify the problem areas of the Company's activity calling for improvement. Where in the assessment process any new external impact factors or any profound changes in economic, political and/or social, environments or any changes in other essential Strategy assumptions are identified, the Company's Strategy may be subject to improvement, and the original values of the target indicators may be subject to adjustment.

The assessment of the implementation of the Strategy will be based on representative indicators that were set in respect of each strategic objective and/or programme. A list of specific target indicators was presented in the text above.

The monitoring of the achievement of the target indicators shall be performed periodically. In case of any discrepancies, the Company's activities shall be subject to improvement, e.g. the Company's organisational structure, processes, actions shall be improved or new employees shall be recruited. Where necessary, the values of the original target indicators shall be subject to adjustment. The Company's medium-term plans shall be subject to amendment and, where necessary, the Long-term Strategy shall be amended as well. The Company aims to be ambitious, while simultaneously making an objective assessment and taking into account any changes in its business environment and the market situation.

The monitoring of the Strategy shall be carried out on a systematic and regular basis, and the information on the results of the monitoring shall be used in the Company's management/governance process and/or presented to other interested parties, which will not just ensure the availability of information relevant to the needs of the management, but will also facilitate the implementation of one of the Company's values – openness.