

CONFIRMATION OF RESPONSIBLE PERSONS

Referring to the provisions of the Article 14 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, the undersigned Mindaugas Keizeris, Chief Executive Officer of AB Energijos skirstymo operatorius, Augustas Dragūnas, Director of Finance and Administration, and Giedruolė Guobienė, Head of Accounting Department of UAB „Ignitis grupės paslaugų centras“ acting under Order No IS-73-20 of 26 February 2020, hereby confirm that, to the best of our knowledge, AB „Energijos skirstymo operatorius“ condensed interim financial information for the year ended 31 December 2019 are prepared according to International Accounting Standard 34 'Interim financial reporting' adopted by the European Union, give a true and fair view of AB „Energijos skirstymo operatorius“ assets, liabilities, financial position, profit or loss for the period and cash flows, the Interim Report for the twelve-month period includes a fair review of the activities business development as well as the condition of AB „Energijos skirstymo operatorius“ and with the description of the principle risk and uncertainties it faces.

AB Energijos skirstymo operatorius
Chief Executive Officer

Mindaugas Keizeris

AB Energijos skirstymo operatorius
Director of Finance and
Administration

Augustas Dragūnas

UAB „Ignitis grupės paslaugų centras“
Head of Accounting Department
acting under Order No IS-73-20 of 26
February 2020

Giedruolė Guobienė

Customer Service

Customer Service tel. 1802 or +370 697 61 852*

Free Electricity helpline 1852

Free Gas supply helpline 1804

Self-Service www.eso.lt

* this is based on telephone operator's plan and an additional tariff

Company Requisites

AB „Energijos skirstymo operatorius“

Aguonų str. 24, 03212 Vilnius, Lithuania

E-mail info@eso.lt

Company Code 304151376

PVM Code LT100009860612

Data collected and stored in the Register of Legal Entities

2019

ENERGIJOS SKIRSTYMO OPERATORIUS AB

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION FOR THE FORTH QUARTER OF 2019 AND TWELVE-MONTH PERIOD ENDED 31 DECEMBER 2019, PREPARED ACCORDING TO INTERNATIONAL ACCOUNTING STANDARD 34, 'INTERIM FINANCIAL REPORTING' AS ADOPTED BY THE EUROPEAN UNION (UNAUDITED)



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Company code 304151376



Translation note:

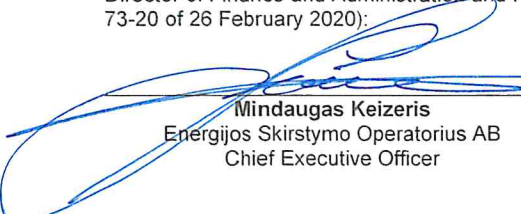
This version of the accompanying documents is a translation from the original, which was prepared in Lithuanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions,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

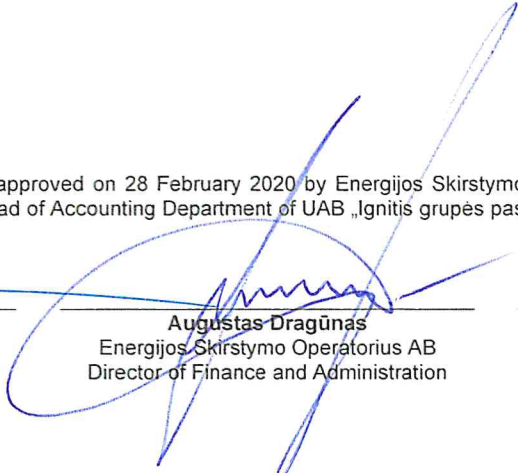
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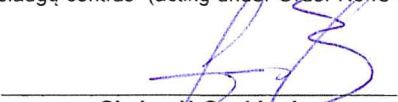
CONDENSED INTERIM FINANCIAL INFORMATION

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Condensed interim financial information was approved on 28 February 2020 by Energijos Skirstymo Operatorius AB Chief Executive Officer, Director of Finance and Administration and Head of Accounting Department of UAB „Ignitis grupės paslaugų centras” (acting under Order No IS-73-20 of 26 February 2020):


Mindaugas Keizeris
Energijos Skirstymo Operatorius AB
Chief Executive Officer


Augustas Dragūnas
Energijos Skirstymo Operatorius AB
Director of Finance and Administration


Giedruolė Guobienė
UAB „Ignitis grupės paslaugų centras”
Head of Accounting Department
(acting under Order No IS-73-20 of 26
February 2020)

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376, Aguonų g. 24, Vilnius, Lithuania
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

All amounts are presented in EUR thousand unless otherwise stated

	Notes	At 31 December 2019	At 31 December 2018 (restated*)	At 1 January 2018 (restated*)
ASSETS				
Non-current assets				
Property, plant and equipment	4	1,563,522	1,471,101	1,188,748
Intangible assets	4	44,819	35,751	5,451
Right-of-use assets		20,430	-	-
Prepayments for non-current assets		3	3	3
Investments in associates		2,628	2,459	2,382
Other financial assets	5	415	210	849
Total non-current assets		1,631,817	1,509,524	1,197,433
Current assets				
Inventories		1,892	1,992	2,135
Trade and other receivables		65,744	115,427	64,052
Prepayments, deferred expenses and assets under contracts with customers		917	2,226	7,224
Prepaid income tax		1,461	2,779	174
Cash and cash equivalents		4,775	2,266	6,449
Total current assets		74,789	124,690	80,034
TOTAL ASSETS		1,706,606	1,634,214	1,277,467
EQUITY AND LIABILITIES				
Equity				
Authorised share capital	6	259,443	259,443	259,443
Revaluation reserve		141,020	154,834	44,680
Legal reserve		25,944	25,944	25,910
Retained earnings		237,510	189,413	214,957
Total equity		663,917	629,634	544,990
LIABILITIES				
Non-current liabilities				
Borrowings		465,633	448,534	239,648
Lease liabilities	5	15,555	-	-
Deferred income tax liabilities		8,417	8,440	370
Liabilities under contracts with customers		205,332	193,737	186,520
Grants and subsidies		15,156	13,052	19,758
Long-term employee benefits		2,575	1,710	1,763
Other non-current liabilities		3	3	3
Provisions		23,018	27,982	-
Total non-current liabilities		735,689	693,458	448,062
Current liabilities				
Borrowings		176,268	182,930	133,040
Current portion of lease liabilities	5	5,029	-	-
Trade and other payables		67,351	77,044	116,529
Accrued expenses and contract liabilities		46,131	51,148	34,846
Provisions		12,221	-	-
Total current liabilities		307,000	311,122	284,415
Total liabilities		1,042,689	1,004,580	732,477
TOTAL EQUITY AND LIABILITIES		1,706,606	1,634,214	1,277,467

* Part of amounts does not agree with the financial statements of 2018 due to the changes in accounting methods as disclosed in Note 3.

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

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376, Aguonų g. 24, Vilnius, Lithuania
CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

All amounts are presented in EUR thousand unless otherwise stated

	Notes	Q1-4 2019	Q4 2019	Q1-4 2018 (restated*)	Q4 2018 (restated*)
Revenue from contracts with customers	8	413,144	109,541	463,048	110,692
Other income		5,706	1,588	20,367	16,246
Purchases of electricity and related services		(180,830)	(48,807)	(278,094)	(49,499)
Purchase (expenses) of natural gas and transmission services		(5,268)	(1,223)	(4,404)	(1,337)
Depreciation and amortisation		(81,621)	(20,828)	(57,353)	(15,090)
Employee benefits and related social security contributions		(45,999)	(13,651)	(41,542)	(10,172)
Repair and maintenance expenses		(21,745)	(5,282)	(13,810)	(3,235)
Transport		(3,874)	(971)	(4,823)	(1,242)
Telecommunications and IT services		(9,058)	(2,225)	(9,095)	(2,123)
Rent and utilities		(2,012)	(608)	(4,032)	(978)
Impairment and write-off expenses		(8,712)	(4,870)	24,068	27,682
Revaluation of property, plant and equipment		-	-	(78,382)	(78,382)
Other expenses		(15,494)	(4,502)	(16,483)	(3,563)
Operating profit		44,237	8,162	(535)	(11,001)
Finance income		27	8	89	25
Finance costs		(10,265)	(3,153)	(6,627)	(2,310)
Finance costs – net		(10,238)	(3,145)	(6,538)	(2,285)
Share of profit of associates and joint ventures		292	(180)	179	(89)
Profit before income tax		34,291	4,837	(6,894)	(13,375)
Income tax		22	1,534	12,159	12,024
Net profit for the period		34,313	6,371	5,265	(1,351)
Other comprehensive income (loss)					
Items that will not be reclassified to profit or loss:					
Gains (losses) on revaluation of property, plant and equipment		-	-	134,713	134,713
Effect of deferred income tax		-	-	(20,207)	(20,207)
Remeasurement of the defined benefit plan obligation, net of deferred income tax		(30)	(30)	77	77
Other comprehensive income (loss)		(30)	(30)	114,583	114,583
Total comprehensive income for the period		34,283	6,341	119,848	113,232
Weighted average number of shares		894,630,333	894,630,333	894,630,333	894,630,333
Basic and diluted earnings per share (in EUR) attributable to owners of the Company		0.038	0.007	0.006	(0.002)

* Part of amounts does not agree with the financial statements of 2018 due to the changes in accounting methods as disclosed in Note 3.

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

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376, Agonuų g. 24, Vilnius, Lithuania
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

All amounts are presented in EUR thousand unless otherwise stated

	Note	Authorised share capital	Revaluation reserve	Legal reserve	Retained earnings (restated*)	Total equity (restated*)
Balance at 1 January 2018 (restated*)		259,443	44,680	25,910	214,957	544,990
Net profit for the period (restated*)		-	-	-	5,265	5,265
Revaluation of property, plant and equipment, net of deferred income tax		-	114,506	-	-	114,506
Remeasurement of the defined benefit plan obligation, net of deferred income tax		-	-	-	77	77
Total comprehensive income for the period		-	114,506	-	5,342	119,848
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(4,352)	-	4,352	-
Transfer to the statutory reserve		-	-	34	(34)	-
Dividends	7	-	-	-	(35,204)	(35,204)
Balance at 31 December 2018 (restated*)		259,443	154,834	25,944	189,413	629,634
Restated balance as at 1 January 2019 (restated*)		259,443	154,834	25,944	189,413	629,634
Net profit for the period		-	-	-	34,313	34,313
Remeasurement of the defined benefit plan obligation, net of deferred income tax		-	-	-	(30)	(30)
Total comprehensive income		-	-	-	34,283	34,283
Transfer to retained earnings (transfer of depreciation, net of deferred income tax)		-	(13,814)	-	13,814	-
Balance as at 31 December 2019		259,443	141,020	25,944	237,510	663,917

* Part of amounts does not agree with the financial statements of 2018 due to the changes in accounting methods as disclosed in Note 3.

The accompanying notes form an integral part of this condensed interim financial information.

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376, Aguonų g. 24, Vilnius, Lithuania
CONDENSED INTERIM STATEMENT OF CASH FLOWS

All amounts are presented in EUR thousand unless otherwise stated

	Note	2019	2018 (restated*)
Cash flows from operating activities			
Net profit for the period		34,313	5,265
Adjustments for:			
Income tax expenses		(22)	(12,160)
Depreciation and amortisation	4,5,9	82,695	58,467
Result of revaluation of property, plant and equipment		-	78,382
Change in value of property, plant and equipment		4,020	(28,791)
Amortisation of grants		(1,074)	(1,114)
Gain on transfer of the public supply activities		-	(17,330)
Share of (profit) of associates and joint ventures		(292)	(179)
(Gain)/loss on disposal and write-off of assets		3,703	4,752
Finance (income)		(27)	(89)
Finance costs		10,265	6,627
Changes in working capital:			
Trade and other receivables		22,114	(40,581)
Inventories, prepayments, deferred expenses and assets under contracts with customers		1,598	(1,712)
Trade and other payables, advance amounts received and liabilities under contracts with customers		(3,295)	(18,549)
Amounts payable for property, plant and equipment		9,607	39,395
Cash generated from operations		163,605	72,383
(Paid)/Realized income tax paid		-	(1,128)
Net cash flows generated from operating activities		163,605	71,255
Cash flows from investing activities			
Purchase of property, plant and equipment, and intangible assets		(188,219)	(302,933)
Disposal of property, plant and equipment and intangible assets		910	146
Grants received		3,178	4,411
Dividends received		123	102
Interest received		27	-
Transfer of public electricity supply activities		27,441	-
Cash flows from other investing activity		(261)	5,560
Net cash flows used in investing activities		(156,801)	(292,714)
Cash flows from financing activities			
Proceeds from borrowings		50,000	266,287
Repayments of borrowings		(57,401)	(95,052)
Proceeds from cash-pool (net)		16,813	94,843
Lease payments		(4,745)	-
Dividends paid to the Company's shareholders		(26)	(35,105)
Interest paid		(8,936)	(3,042)
Net cash generated from (used in) financing activities		(4,295)	227,931
Net increase (decrease) in cash and cash equivalents		2,509	6,472
Cash and cash equivalents (including the overdraft balance) at the beginning of the period		2,266	(4,206)
Cash and cash equivalents (including the overdraft balance) at the end of the period		4,775	2,266

* Part of amounts does not agree with the financial statements of 2018 due to the changes in accounting methods as disclosed in Note 3.

The accompanying notes form an integral part of this condensed interim financial information.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

1 General information

Energijos skirstymo operatorius, AB (“the Company”) is a public limited liability company registered in the Republic of Lithuania. The Company was registered with the Register of Legal Entities on 11 December 2015. The Company started its activities with effect from 1 January 2016. The shares of the Company have been listed on the main list of NASDAQ OMX Vilnius Stock Exchange since 11 January 2016. The address of the Company’s registered office is as follows:

Aguonų str. 24,
 LT-03212 Vilnius,
 Lithuania.

The Company’s core line of business is electricity distribution and guarantee supply, distribution of natural gas.

As at 31 December 2019 and 31 December 2018, the Company’s shareholder structure was as follows:

	At 31 December 2019		At 31 December 2018	
	Number of shares held	Ownership interest	Number of shares held	Ownership interest
UAB “Ignitis grupė”	849,743,761	94,98%	849,743,761	94,98%
Other shareholders	44,886,572	5,02%	44,886,572	5,02%
Total	894,630,333	100%	894,630,333	100%

As at 31 December 2019 and 31 December 2018, UAB “Ignitis grupė”, previously named Lietuvos energija UAB (company code 301844044, registered address: Žvejų st. 14, Vilnius) was the parent of the Company. UAB „Ignitis grupė“ is wholly owned by the Lithuanian Government represented by the Lithuanian Ministry of Finance.

All the shares of the Company with the nominal value of EUR 0.29 each are ordinary registered shares.

As at 31 December 2019 and 31 December 2018, the Company’s investments in associates were as follows:

Associate	Country	Year of acquisition	Year of acquisition		Profile of activities
			31 December 2019	31 December 2018	
Ignitis grupės paslaugų centras UAB (previously named Technologijų ir Inovacijų Centras UAB)	Lithuania	2013 m.	29,012%	29,012%	Information technology and telecommunication, and other services provided to the shareholders
Verslo aptarnavimo centras, UAB	Lithuania	2014 m.	22,25%	22,25%	Public procurement organization and performance, accounting and personnel administration services, customer service

* The Company was established following the reorganisation of LESTO AB and Lietuvos Dujos AB by way of merger. The investments in associates were made by LESTO AB and Lietuvos Dujos AB.

2 Accounting principles

Company’s condensed interim financial information for the 12 month period ended 31 December 2019 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applicable to interim financial reporting (International Accounting Standard (IAS) 34, ‘Interim financial reporting’). This unaudited condensed interim financial information should be read together with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with IFRS as adopted by the European Union.

Financial year of Company coincides with the calendar year.

a) *New or amended standards, and interpretations*

During the financial year ended 31 December 2019, the Company has applied IFRS 16 Leases for the first time, which had significant impact on the Company’s financial statements.

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the statement of financial position. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Company has adopted IFRS 16 Leases using the modified retrospective approach of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard is recognized in retained earnings at the date of initial application and comparative information is not restated.

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376, Aguonų g. 24, Vilnius, Lithuania
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

All amounts are presented in EUR thousand unless otherwise stated

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

	At 31 December 2018	IFRS 16	EUR thousands At 1 January 2019
ASSETS			
Non-current assets			
Right-of-use asset	-	15,864	15,864
EQUITY AND LIABILITIES			
Non-current liabilities			
Finance lease liabilities	-	12,984	12,984
Current liabilities			
Current portion of finance lease liabilities	-	2,880	2,880

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

	1 January 2019
Future minimal payments for non-cancellable operating lease agreements as at 31 December 2018	32,028
To deduct: servicing costs of the lease contracts of vehicles*	(5,132)
To deduct: contracts unrenewed or terminated before 1 January 2019*	(147)
To deduct: differences between maximum and actual amounts of use or payments*	(9,805)
Adjusted future minimal payments for non-cancellable operating lease agreements as at 31 December 2018	16,944
Weighted average incremental borrowing rate as at 1 January 2019	1,05
Calculated lease liabilities with applied interest rate as at 1 January 2019	15,864
Lease liabilities recognized as at 1 January 2019	15,864
whereof:	
Short-term lease liabilities	2,880
Long-term lease liabilities	12,984

*In 2018, under IAS 17 leases were initially measured at possible maximum amount of use or maximum payments, since the actual need of usage was unknown. The initial valuation also included maintenance and servicing costs under the contracts. Moreover, initial valuation included agreements that were later scoped out from IFRS 16 Leases – in particular leases of assets for which the lessor has substantive substitution rights. Following the review of lease contracts due to IFRS 16 Leases implementation, future payments under non-cancellable leases were restated to actual contract utilisation amounts and payments, less maintenance and servicing costs and less agreements out of scope of IFRS 16 Leases.

The Company has lease contracts for various items of land, premises, vehicles and other assets. Before the adoption of IFRS 16 Leases, the Company classified each of its leases (as lessee) at the inception date as operating lease.

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

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics,
 - Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application,
 - Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application,
 - Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.
- IFRS 9: Prepayment features with negative compensation (Amendment)
The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. Management assessed that adoption of new standard amendment for the first time had no significant effect on financial statements of the Company.
 - IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)
The Amendments relate to whether the measurement, in particular impairment requirements, 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 Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. Management assessed that adoption of new standard amendment for the first time had no significant effect on financial statements of the Company.
 - IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the

All amounts are presented in EUR thousand unless otherwise stated

appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. Management has assessed that adoption of interpretation for the first time had no significant effect on financial statements of the Company

- IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)
The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. Management assessed that adoption of new standard amendment for the first time had no significant effect on financial statements of the Company.

The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs.

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 Income Taxes: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- IAS 23 Borrowing Costs: The amendments clarify paragraph 14 of the standard 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.

Management assessed that adoption of Annual improvements for the first time had no significant effect on financial statements of the Company.

b) Standards issued but not yet effective and not early adopted

- 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. Management has assessed that adoption of new standard will have no significant effect on financial statements of the Company.
- Conceptual Framework in IFRS standards
The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. 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. IASB 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 objective 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 preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.
- IFRS 3: Business Combinations (Amendments)
The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. At the moment Management is assessing the effect of new standard amendment on financial statements of the Company.
- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)
The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. At the moment Management is assessing the effect of new standard amendment on financial statements of the Company.
- Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)
The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. At the moment Management is assessing the effect of new standard amendment on financial statements of the Company.

- 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. At the moment Management is assessing the effect of new standard amendment on financial statements of the Company.

The management of the Company does not believe that other new and amended standards and their interpretations which the Company is required to apply from 1 January 2019 will have a material effect on financial statements of the Company.

3 Change in management judgment on applying accounting methods

Connection fees

On 1 January 2018, the Company adopted IFRS 15 Revenue from contracts with customers and its amendments for the first time and they had a significant impact on the Company's financial statements. The Company accounted for the impact of the first-time adoption of IFRS 15 starting from 1 January 2018 using the modified retrospective approach.

Following the initial application of IFRS 15 with respect to revenue from new customer connection the Company assessed the existence of separate performance obligation through the legal point of view, i.e. if the Company had a new connection contract with the client and the distribution as a service was provided to the end customer through the client's contract with supply company (not the Company itself), the new connection contract was treated as separate performance obligation, accordingly revenue received from the client was recognized as income, when the connection service was provided. In case the Company signed two separate agreements with the Client – one for connection service, another for distribution service, these two were treated as a single performance obligation, accordingly the connection fees paid by the clients were recognized as revenue through the useful life of new infrastructure created.

Following such judgment starting from 2018 the connection fees in gas segment were recognized when connection service were provided. In electricity segment from 1 January 2018 to 1 October 2018 connection fees were deferred over the period of estimated customer relationship, which is determined based on the useful life of the related newly created property, plant and equipment (the connection infrastructure).

Following the transfer of electricity public supply activities as of 1 October 2018, new customer connection in electricity segment was reconsidered as a separate performance obligation under IFRS 15, accordingly related revenue from 1 October 2018 was recognized when connection service was fully provided. The accumulated deferred connection fee revenue for electricity segment as at 1 October 2018 was further recognized over the time.

Management of the Company has extensively analysed IFRS 15 accounting methods, which were also reviewed by the Bank of Lithuania as an oversight body of listed entities, also auditors were involved in the discussions. The accounting methods applied upon initial adoption of IFRS 15 were assessed as appropriate after evaluating management judgement made in a number of areas. However following the review of relevant industry practice, more authoritative guidance on IFRS 15 application, analysis of relatively newly applied "implied contract" concept (as per IFRS 15 requirements), and consultations with incoming auditor, the Company has reconsidered its accounting treatment.

The Company changed the accounting treatment of new customer connection fees by deferring all gas and electricity fees over the useful lives of the related assets (which represents the best management estimate for customer relationship period). According to the management such accounting treatment would fairer reflect the Company's financial performance and continuing involvement in securing the connection to the customer, as well as will allow the Company to be better comparable to its peers within the industry. This change in accounting treatment is accounted for retrospectively and comparative information is restated (see below).

PSO Services

Public Service Obligations (PSO) funds are an integral part of electricity tariff to the customer. The Company collects PSO funds from business customers, connected to electricity distribution grid and electricity public supplier, who provides supply services to private individuals. Collected PSO funds are transferred to PSO fund administrator Baltpool. PSO funds are used to support and promote local production from renewable energy sources, to secure reserves of the electricity system at designated power plants, which is necessary for ensuring the state's energy security and to ensure other services related to public interest. The list of services supported by PSO is determined by the Government of the Republic of Lithuania.

PSO component as integral part of distribution service tariff was not identified as a separate performance obligation. The distribution service as a whole, including transmission, distribution and PSO was treated as one performance obligation (PSO component cannot be separated). PSO component generally is treated as a tax collected from customers, however this tax cannot be treated as sales tax, or value-added tax (VAT), since: (1) PSO is charged based on production or distributed energy unit, rather than sales amount, as is applied in VAT case; (2) the Company cannot claim a refund of the tax in the event the related customer fails to pay for the services being sold; (3) the Company is charged to price risk - in case of illegal consumption, the Company's settlement amount as PSO component to Baltpool will be determined based on current period's prices, however, the client will be charged based on historical prices. Following the above, the Management treated the Company as Principal in relation to PSO component.

During year 2019 the Company elected to change the method of accounting for PSO Services by treating the Company as an Agent in relation to the PSO 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 PSO projects / initiatives, accordingly not responsible that PSO funds are used for their intended purpose. The Company is not charged to any inventory risk, as well as the Company has no legal power to establish pricing of this component.

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The change in accounting methods does not mean the prior management's judgment is erroneous, however allows the Company to be better comparable to its peers within the industry (especially, where such PSO component is not included in the tariff). This change in accounting treatment is accounted for retrospectively and comparative information is restated (see below).

The table below represents restatement impact on the statement of financial position of the Company as at 1 January 2018:

	1 January 2018 after IFRS 15 adjustments (previously reported)	Deferral of connection fees in gas segment*	1 January 2018 (restated)
ASSETS			
Non-current assets	1,153,921	43,512	1,197,433
Property, plant and equipment	1,145,236	43,512	1,188,748
Current assets	80,034	-	80,034
Trade and other receivables	64,052	-	64,052
TOTAL ASSETS	1,233,955	43,512	1,277,467
Equity	544,990	-	544,990
Retained earnings (deficit)	214,957	-	214,957
Non-current liabilities	405,427	42,635	448,062
Deferred income tax liability	370	-	370
Liabilities under contracts with customers	143,885	42,635	186,520
Current liabilities	283,538	877	284,415
Liabilities under contracts with customers	4,366	877	5,243
EQUITY AND LIABILITIES	1,233,955	43,512	1,277,467

*Upon transition to IFRS 15 as at 1 January 2018 the Company increased retained earnings by EUR 44 million and reduced the deferred revenue by a respective amount due to reduction of deferred connection fee revenue for gas segment (as it was considered as one performance obligation). By reducing the deferred revenue balance, the carrying value of the gas cash generating unit for which impairment test was performed, increased. As a result, the carrying value exceeded the recoverable value by EUR 44 million and the resulting impairment loss was recognised in retained earnings as at 1 January 2018, as a part of the adjustments related to adoption of IFRS 15. The total amount of the impact of adopting IFRS 15 in the gas segment, including tax, was equal to zero. Due to the change in management judgment on application of accounting methods related to connection fees, IFRS 15 transition adjustment on gas segment was reversed back as at 1 January 2018.

The following corrections to year 2018 comparative information are provided below:

- Reversal of IFRS 15 transition impact on gas segment deferred connection fees together with reversal of impairment loss for gas cash generating (CGU) unit that were recognised upon initial transition to IFRS 15.
- Change in accumulated depreciation and depreciation expenses related to reversed impairment of gas CGU (see a) above).
- Correction of electricity grid connection fee income: deferral of connection fees initially recognised at the point-in-time during the period of 1 October 2018 till 31 December 2018. Also accounting for related deferred tax change.
- Correction of gas grid connection fee income: deferral of connection fees initially recognised at the point-in-time during the period of 1 January 2018 till 31 December 2018. Also accounting for related deferred tax change.
- Accounting for over-the-time connection fee income related to c) and d) restatements. Also accounting for related deferred tax change.
- Reclassification of short term portion of deferred revenue related to c), d) and e) adjustments.
- Netting of PSO revenue against expenses.

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Retrospectively restated captions of statement of financial position:

	2018.12.31 (previously reported)	a) Reversal of IFRS 15 initial recognition adjustment (gas segment)	b) Depreciation of reversed impairment	c) Deferral of electricity connection fees	d) Deferral of gas connection fees	e) Accounting for revenue from connection fee over-the- time	f) Reclassification of short term portion of deferred revenue	2018.12.31 (restated)
ASSETS								
Non-current assets								
Property, plant and equipment	1,428,529	43,512	(940)	-	-	-	-	1,471,101
Intangible assets	35,751							35,751
Prepayments for non-current assets	3							3
Investments in associates	2,459							2,459
Other non-current financial assets	210							210
Total non-current assets	1,466,952	43,512	(940)	-	-	-	-	1,509,524
Current assets								
Total current assets	124,690	-	-	-	-	-	-	124,690
Total assets	1,591,642	43,512	(940)	-	-	-	-	1,634,214
EQUITY AND LIABILITIES								
Authorised share capital	259,443							259,443
Revaluation reserve	154,834							154,834
Legal reserve	25,944							25,944
Retained earnings	69,565							69,565
Other comprehensive income	114,583							114,583
Current year profit	15,665	-	(940)	(4,193)	(6,265)	998	-	5,265
Total equity	640,034	-	(940)	(4,193)	(6,265)	998	-	629,634
LIABILITIES								
Non-current liabilities								
Borrowings	448,534							448,534
Deferred income tax liabilities	10,276	-	-	(740)	(1,106)	11	-	8,440
Liabilities under contracts with customers	140,139	42,635	-	4,933	7,371	(1,009)	(334)	193,735
Grants and subsidies	13,052							13,052
Long-term employee benefits	1,710							1,710
Other non-current liabilities	3							3
Provisions	27,982							27,982
	641,696	42,635	-	4,193	6,265	(998)	(334)	693,457
Current liabilities								
Borrowings	182,930							182,930
Trade and other payables	77,044							77,044
Accrued expenses and contract liabilities	49,937	877	-	-	-	-	334	51,148
	309,911	877	-	-	-	-	334	311,122
Total liabilities	951,608	43,512	-	4,193	6,265	(998)	-	1,004,579
Total equity and liabilities	1,591,642	43,512	(940)	-	-	-	-	1,634,214

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Retrospectively restated captions of statement of profit or loss and other comprehensive income:

	2018.12.31 (previously reported)	b) Depreciation of reversed impairment	c) Deferral of electricity connection fees	d) Deferral of gas connection fees	e) Accounting for revenue from connection fee over-the-time	g) netting of PSO revenue	2018.12.31 (restated)
Revenue from contracts with customers	603,677	-	(4,933)	(7,371)	1,009	(129,334)	463,048
Other income	20,367	-	-	-	-	-	20,367
Purchases of electricity and related services	(407,428)	-	-	-	-	129,334	(278,094)
Purchase (expenses) of natural gas and transmission services	(4,404)	-	-	-	-	-	(4,404)
Depreciation and amortisation	(56,413)	(940)	-	-	-	-	(57,353)
Employee benefits and related social security contributions	(41,542)	-	-	-	-	-	(41,542)
Repair and maintenance expenses	(13,810)	-	-	-	-	-	(13,810)
Transport	(4,823)	-	-	-	-	-	(4,823)
Telecommunications and IT services	(9,095)	-	-	-	-	-	(9,095)
Rent and utilities	(4,032)	-	-	-	-	-	(4,032)
Impairment and write-off expenses	24,068	-	-	-	-	-	24,068
Revaluation of property, plant and equipment	(78,382)	-	-	-	-	-	(78,382)
Other expenses	(16,483)	-	-	-	-	-	(16,483)
Operating profit	11,700	(940)	(4,933)	(7,371)	1,009	-	(535)
Finance income	89	-	-	-	-	-	89
Finance costs	(6,627)	-	-	-	-	-	(6,627)
Finance costs - net	(6,538)	-	-	-	-	-	(6,538)
Share of profit of associates and joint ventures	179	-	-	-	-	-	179
Profit before income tax	5,341	(940)	(4,933)	(7,371)	1,009	-	(6,894)
Income tax	10,324	-	740	1,106	(11)	-	12,159
Net profit for the period	15,665	(940)	(4,193)	(6,265)	998	-	5,265
Other comprehensive income (expenses)							
Items that will not be reclassified to profit or loss:							
Gains (losses) on revaluation of property, plant and equipment	134,713	-	-	-	-	-	134,713
Effect of deferred income tax	(20,207)	-	-	-	-	-	(20,207)
Recalculation of the defined benefit plan obligation, net of deferred income tax	77	-	-	-	-	-	77
Other comprehensive income (expenses)	114,583	-	-	-	-	-	114,583
Total comprehensive income for the period	130,248	(940)	(4,193)	(6,265)	998	-	119,848
Weighted average number of shares	894,630,333	-	-	-	-	-	894,630,333
Basic and diluted earnings per share (in EUR) attributable to owners of the Company	0.018	-	-	-	-	-	0.006

Retrospectively restated captions of statement of cash flows:

Correction of year 2018

	2018 (previously reported)	2018 (restated)	2018 difference
Cash flows from operating activities			
Net profit for the period	15,665	5,265	10,400
Adjustments for:			
Income tax expenses	(10,324)	(12,160)	1,836
Depreciation and amortisation	57,527	58,467	(940)
Result of revaluation of property, plant and equipment	78,382	78,382	-
Change in value of property, plant and equipment	(28,791)	(28,791)	-
Amortisation of grants	(1,114)	(1,114)	-
Gain on transfer of the public supply activities	(17,330)	(17,330)	-
Share of (profit) of associates and joint ventures	(179)	(179)	-
(Gain)/loss on disposal and write-off of assets	4,752	4,752	-
Finance (income)	(89)	(89)	-
Finance costs	6,627	6,627	-
Changes in working capital:			
Trade and other receivables	(40,581)	(40,581)	-
Inventories, prepayments, deferred expenses and assets under contracts with customers	(1,712)	(1,712)	-
Amounts payable for property, plant and equipment	39,395	39,395	-
Trade and other payables, advance amounts received and liabilities under contracts with customers	(29,845)	(18,549)	(11,296)
Cash generated from operations	72,383	72,383	-
(Paid)/Realized income tax paid	(1,128)	(1,128)	-
Net cash flows generated from operating activities	71,255	71,255	-
Net cash flows used in investing activities	(292,714)	(292,714)	-
Net cash generated from (used in) financing activities	227,931	227,931	-
Net increase (decrease) in cash and cash equivalents	6,472	6,472	-
Cash and cash equivalents (including the overdraft balance) at the beginning of the period	(4,206)	(4,206)	-
Cash and cash equivalents (including the overdraft balance) at the end of the period	2,266	2,266	-

4 Intangible assets and property, plant, and equipment

Movements in the Company's account of the intangible assets and property, plant and equipment are presented below:

Company	Intangible assets	Property, plant and equipment
The period ended at 31 December 2019		
Net book value at the beginning of the period (restated*)	35,751	1,471,101
Additions	14,017	174,566
Re-measurement of provision	(464)	-
Sales	-	(308)
Write-offs	-	(4,305)
Impairment	(35)	(3,985)
Amortisation /depreciation	(4,450)	(73,547)
Net book value at 31 December 2019	44,819	1,563,522

* Part of amounts does not agree with the financial statements of 2018 due to the changes in accounting methods as disclosed in Note 3.

5 Right-of-use asset

Movements in the Company's account of the right-of-use asset are presented below:

Company	Right-of-use asset
The period ended at 31 December 2019	
Balance as at the beginning of the period	-
Additions:	
Right of use assets as at 1 January 2019 (first time adoption of IFRS 16)	15,864
Signed lease contracts from 1 January 2019 to 31 December 2019	15,697
Write-offs and disposals	(6,434)
Depreciation	(4,697)
Net book value at 31 December 2019	20,430

6 Share capital

As at 31 December 2019 and at 31 December 2018, the Company's authorised share capital comprised 894,630,333 ordinary registered shares with par value of 0.29 Eur each. All the shares are fully paid.

7 Dividends

Approved dividends per share

	As at 31 December 2019	As at 31 December 2018
Approved dividends (thousands)	-	35,204
Weighted average number of shares (thousands)	894,630	894,630
Approved dividends per share (in EUR)	0.000	0.039

The ordinary general meeting of shareholders of the Company was held on 28 September 2018 where it was decided to approve the profit appropriation for January–June 2018 and to allocate EUR 0.014 per share in dividends, in total EUR 12,525 thousand in dividends.

The ordinary general meeting of shareholders of the Company was held on 30 March 2018 where it was decided to approve the profit appropriation for July–December 2017 and to allocate EUR 0.02535 per share in dividends, in total EUR 22,679 thousand in dividends.

8 Revenue from contracts with customers

	At 31 December 2019	At 31 December 2018 (restated*)
Electricity supply and distribution	363,952	408,396
Natural gas distribution	34,886	41,353
Revenue from connection of new customers	14,306	13,299
Total	413,144	463,048

* Part of amounts does not agree with the financial statements of 2018 due to the changes in accounting methods as disclosed in Note 3.

9 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

According to the management, the Company has two operating segments - supply and distribution of electric power and gas distribution. The Company has a single geographical segment – territory of Republic of Lithuania. The chief operating decision-maker monitors the results with reference to the financial reports that have been prepared using the same accounting policies as those used for the preparation of the financial statements in accordance with IFRS, i.e. information on profit or loss, including the reported amounts of income and expenses, assets and liabilities.

Company's information about operating segments for the 12 months period ended 31 December 2019 is presented below:

2019	Electricity supply and distribution	Gas distribution	Total
Revenue from contracts with customers	377,131	36,013	413,144
Other income	2,081	3,625	5,706
Expenses	(257,640)	(26,640)	(284,280)
EBITDA	121,572	12,998	134,570
Depreciation and amortisation	(68,635)	(12,986)	(81,621)
Impairment expenses and write-offs	(4,566)	(4,146)	(8,712)
Operating profit	48,371	(4,134)	44,237
Finance income	24	3	27
Finance (costs)	(8,465)	(1,800)	(10,265)
Share (of profit) in associates and joint ventures	263	29	292
Profit before income tax	40,193	(5,902)	34,291
Income tax	20	2	22
Net profit	40,213	(5,900)	34,313

Company's information about operating segments for the 12 month period ended 31 December 2018 (restated*) is presented below:

2018	Electricity supply and distribution	Gas distribution	Total
Revenue from contracts with customers	418,470	44,578	463,048
Other income	18,914	1,453	20,367
Expenses	(348,070)	(24,213)	(372,283)
EBITDA	89,314	21,818	111,132
Depreciation and amortisation	(49,481)	(7,872)	(57,353)
Impairment and write-offs	(83,080)	28,766	(54,314)
Operating profit	(43,247)	42,712	(535)
Finance income	74	15	89
Finance (costs)	(5,527)	(1,100)	(6,627)
Share (of profit) in associates and joint ventures	149	30	179
Profit before income tax	(48,551)	41,657	(6,894)
Income tax	16,837	(4,678)	12,159
Net profit	(31,714)	36,979	5,265

* Part of amounts does not agree with financial statements of 2018 due to the change in accounting methods disclosed in Note 3.

10 Related-party transactions

The Company's related parties are:

- UAB „Ignitis grupė“ (the main shareholder of the Company) and its subsidiaries and associates;
- Associates of the Company;
- Management of the Company including companies in which they hold executive positions or companies which are controlled by them or over which a significant influence is exercised;

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- All companies which are owned by the state or over which the state exercises a significant influence (transactions with these companies are disclosed when they are material).

Purchase and sale of goods and services:

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

Related parties	Borrowings	Amounts payable	Right-of-use assets	Accrued expenses	Amounts receivable	Prepayments and deferred charges	Purchases	Sales	Interest expense of borrowings
Parent company UAB „Ignitis grupė“	608,689	159	65	-	-	-	1,478	-	9,708
Associates	892	4,867	-	90	-	-	18,792	-	3
UAB „Ignitis grupė“ group companies	32,320	1,355	11,596	148	27,649	-	32,226	188,931	260
EPSO-G UAB group companies	-	24,945	-	-	7,097	401	167,923	1,355	-
Total	641,901	31,326	11,661	238	34,746	401	220,419	190,286	9,971

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

Related parties	Borrowings	Amounts payable	Accrued expenses	Amounts receivable	Prepayments and deferred charges	Purchases	Sales	Interest expense of borrowings
Parent company UAB „Ignitis grupė“	586,241	320	-	-	-	1,407	-	6,655
Associates	-	2,949	302	17	81	21,493	-	-
UAB „Ignitis grupė“ group companies	45,223	2,236	79	64,748	1,284	81,431	120,141	61
EPSO-G UAB group companies	-	33,800	-	2,815	292	209,654	11,906	-
Total	631,464	39,305	381	67,580	1,657	313,985	132,047	6,716

Compensation to key management personnel

Company	2019	2018
Wages and salaries and other short-term benefits to management personnel	589	494
Whereof: termination benefits	5	49
Number of key management personnel	6	5

The management includes heads of administration (including the board of the Company).

11 Events after the reporting period

On 3 October 2019, the Project Management Committee of Verslo Aptarnavimo Centras UAB and Ignitis Grupės Paslaugų Centras UAB, of which Ignitis Group UAB is a shareholder, by implementing strategic plan approved by the Board on 21 January 2019 to optimise the management and governance of Verslo Aptarnavimo Centras UAB and Ignitis Grupės Paslaugų Centras UAB has decided to approve a project plan which provides that these companies continue as one company as from 1 January 2020. During the reorganisation Verslo Aptarnavimo Centras UAB, which ceased its activities without the liquidation procedure, was merged with Ignitis Grupės Paslaugų Centras UAB which continues its activities. The assets, rights and obligations of Verslo Aptarnavimo Centras UAB are transferred to the company Ignitis Grupės Paslaugų Centras UAB, and the shareholders of the reorganised company, except for Ignitis Grupės Paslaugų Centras UAB, receive in return the shares of Ignitis Grupės Paslaugų Centras UAB for no consideration, and accordingly, the share capital of Ignitis Grupės Paslaugų Centras UAB is increased. Following cumulative conditions are satisfied, the reorganisation was finalised 31 December 2019. Verslo aptarnavimo centras UAB was removed from the Register of Legal Entities on 02 January 2020.

Information on the company involved in the reorganization (Ignitis Grupės Paslaugų Centras UAB) and the company being reorganized (Verslo aptarnavimo centras UAB) before and after the reorganisation:

	Before reorganisation		After reorganisation	
	Ignitis Grupės Paslaugų Centras UAB	Verslo Aptarnavimo Centras UAB	Ignitis Grupės Paslaugų Centras UAB	
Issued capital (EUR)	6 960 000	580 000	7 914 645	
Number of shares (units)	24 000 000	2 000 000	27 291 878	
Nominal value per share (EUR)	0,29	0,29	0,29	

2019

ENERGIJOS SKIRSTYMO
OPERATORIUS AB
INTERIM REPORT

REPORT FOR A TWELVE-MONTH PERIOD ENDED 31 DECEMBER 2019



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Reporting period covered by the Annual Report

The Annual Report provides information to shareholders, creditors, and other stakeholders of Energijos Skirstymo Operatorius AB ('ESO', 'the Company') about the Company's operations during 2019.

Legal basis for preparation of the Annual Report

The Annual Report of the Company has been prepared by the Company's Administration in accordance with the Lithuanian Law on Securities, the Law on Companies, the effective version of the Rules on the Disclosure of Information and the Guidelines on the Disclosure of Information approved by the Board of the Bank of Lithuania, as well as the Description of the Guidelines for Ensuring the Transparency of Activities of the State-owned Enterprises approved by the Government of the Republic of Lithuania and other legal acts.

Individuals responsible for information contained in the Annual Report

Job title	Full name	Telephone number
Chief Executive Officer	Mindaugas Keizeris	(8 5) 277 7524
Finance and Administration Service Director	Augustas Dragūnas	(8 5) 277 7524
Director of Finance Department	Artūras Paipolas	(8 5) 277 7524

Information on the availability of the report and the documents used in preparing the report, and on means of mass media in which the company's public reports are published

The report and the documents, on the basis of which it was prepared, are available at the head office of the Company (Aguonų g. 24, Vilnius), on working days from Mondays through Thursdays 7.30 a.m. – 4:30 p.m., on Fridays 7.30 a.m. – 3:15 p.m.

The report is also available on the website of the Company at www.eso.lt and the website of NASDAQ Vilnius stock exchange at www.nasdaqbaltic.com.

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

KEY OPERATING AND FINANCIAL INDICATORS OF THE COMPANY

Table 1. Key operating and financial indicators

Key operating indicators of ESO					
Operating indicators		2019	2018	Change	
				+/-	%
Distributed electricity via medium and low voltage networks	TWh	9.55	9.59	-0.04	-0.42
Public and guaranteed supply of electricity*	TWh	0.47	0.51	-0.04	-7.84
Distributed volume of natural gas	TWh	6.97	7.60	-0.63	-8.29
Supply quality indicators of the network					
Electricity	SAIDI (with force majeure)	minutes	91.8	81.37	10.43
	SAIFI (with force majeure)	times	1.31	1.14	0.17
Gas	SAIDI (with force majeure)	minutes	1.249	0.606	0.643
	SAIFI (with force majeure)	times	0.008	0.006	0.002
Key financial indicators of ESO ¹					
		2019	2018	Change	
				+/-	%
Revenue*	EUR '000	418,850	483,415	-64,565	-13.4
Purchase of electricity, gas and related services*	EUR '000	186,098	282,498	-96,400	-34.1
Operating expenses	EUR '000	98,182	89,785	8,397	9.4
EBITDA	EUR '000	134,570	111,132	23,438	21.1
EBITDA margin	%	32.13	22.99		
Adjusted EBITDA**	EUR '000	180,488	161,287	19,201	11.9
Net profit (loss)***	EUR '000	34,313	5,265	29,048	551.7
		As at 31/12/2019	As at 31/12/2018	Change	
				+/-	%
Total assets	EUR '000	1,706,606	1,634,214	72,392	4.4
Equity	EUR '000	663,917	629,634	34,283	5.4
Borrowings	EUR '000	641,901	631,464	10,437	1.7
Borrowings, net	EUR '000	637,126	629,198	7,928	1.3
Return on equity ratio (ROE)	%	5.31	0.85		
Return on assets (ROA)	%	2.05	0.36		
Turnover of assets	times	0.24	0.28		
Equity ratio	%	38.90	38.53		
Borrowings, net / 12-month EBITDA	times	4.73	5.66		
Borrowings, net / 12-month adjusted EBITDA	times	3.53	3.90		
Borrowings, net / Equity	%	95.96	99.93		
Free cash flow	EUR '000	6,622	-221,459	228,081	-103.0

¹ – Description of ESO's indicators is available at: <http://www.eso.lt/en/for-investors/alternative-performance-measures.html>

* As from 1 October 2018, ESO has discontinued the public electricity supply activity. Following elimination of the impact of discontinued public supply activities in the period January–December 2019 revenue amounted to EUR 409.6 million and the costs for the purchase of electricity, gas and related services – EUR 180.3 million.

** The Company adjusted the EBITDA by the difference between actual profit earned during the reporting and earlier periods and the allowable return on investments for the respective periods established by the National Energy Regulatory Council (hereinafter "the NERC") and eliminated the impact of other atypical, one-time factors that are not directly attributable to the current period. The difference resulted from the operational efficiency improved by the Company, as well as other factors.

*** The increase in the Company's net profit was driven by significantly lower prices for electricity, gas and related services as a result of discontinued public electricity supply activities as from 1 October 2018.

CEO's FOREWORD

ESO started year 2019 by renewing the Company's strategy. The actions planned until 2030 and provided in the document will allow safeguarding the best experience to the clients with regard to reliability and smartness of the infrastructure and quality and price of services. The infrastructure will create conditions for the market's participants to provide services in conformity with individual needs of each client.

In order to purify the activities of ESO as a distribution operator, we withdrew several commercial services in the 1st quarter of 2019. The purification of activities was continued when we started improving self-service system of the ESO clients in September 2019 and initiated development of remote servicing channels. After the reporting period had ended, we passed to remote servicing of clients in full scope. According to the initial evaluation, the clients accepted such servicing standard installed by ESO – they are contacting ESO regarding electricity or gas services by phone or via self-service. We gave big attention to connect the producing and remotely producing users to the distribution network – in 2019, the number of producing users, who joined the distribution network, was twice as big as in the last 3 years together.



In implementation of the installation programme of smart meters, the National Energy Regulatory Council (hereinafter – NERC) after public discussions, in September 2019 made an arrangement regarding investment of 147 million euros into smart meters planned by ESO. NERC confirmed that the analysis of the project's costs and benefits performed by ESO is positive. ESO plans to install up to 1,2 million smart meters until the end of 2023. They will be used to record 90 percent of electricity used in the country. While implementing the installation program of smart meters and after the procurement has been announced, not only numerous participants expressed their wish to take part in the project (so competition of potential suppliers could be expected), but also a complaint of one participant was received. It suspended the procurement process. Later the court rejected the claim and confirmed transparent and fair behaviour of ESO in the course of procurement process. The procurement procedures were resumed and 6 participants, who satisfy the qualification requirements the best, were selected from all the tenders in February 2020. The procurement procedures are continued with them.

Important results were reached while creating the network of smart solutions that enable the market. The neutral and open platform solution – data hub – started operating in the end of 2019 and its development is continued. We hope that it will push to creation of the service market that will create equivalent performance conditions for all the market participants – suppliers and clients.

Some events have to be highlighted in the area of transparent and sustainable activities: the practice popular in the Western countries was implanted after the initiative of the main shareholder ("Ignitis grupe") had been expressed in April 2019 and approved by the general meeting of shareholders of ESO in September – the representative of employees and one more independent member joined the Supervisory Council. This change is bringing new competences and even more balanced and wider approach.

The Lithuanian branch of "Transparency International" recognized ESO as one of the most transparent companies in Lithuania, while Lithuania improved its position again in the survey of the World Bank "Doing Business 2020". The biggest progress was made in the area of connection to electric networks. According to this index, Lithuania raised up even by 11 positions – to the 15th place and thus contributed to evaluation of the entire country: to the 11th place among 190 world countries (up by 3 positions).

In the last quarter, ESO's main shareholder Ignitis Group UAB made a decision, which was later approved by the general meeting of shareholders: to delist the shares of ESO from trading on the Nasdaq Vilnius Stock Exchange. The main ESO's shareholder aims to list the entire group by attracting international institutional investors, and this requires delisting of subsidiaries (including ESO). This process is currently subject to legal proceedings.

By the initiative of the main shareholder of ESO ("Ignitis grupe"), the general meeting of shareholders made the decision in the last quarter of the year to delist the shares of ESO by removing them from the securities exchange Nasdaq Vilnius. The aforementioned decision of the general meeting of shareholders was appealed by several minor shareholders and interim safeguards were imposed. The judicial proceedings regarding the GMD decision are still pending.

The operating and financial indicators: ESO income in January-December 2019 reached 418.8 million euros –13.4 percent less than in the same period in 2018. However, the comparative income remains stable: (after having eliminated effect of the public supply activities stopped in October 2018) it grew by 2.3% in 12 months in 2019 (the activities of public supply made 409.6 million euros in 12 months of 2018). The sources of growing ESO income is bigger income from connection of new users due to changed standards of international financial accounting: 23.9 thousand private clients and 16.2 thousand business clients were connected to the electricity distribution network (27 percent more of private and business clients than in 2018). 11.4 thousand private clients and 334 business clients were connected to the gas network in 2019 (20 percent less of private and business clients than in 2018). ESO earned 180.5 million euros of corrected earnings before interest, taxes, depreciation and amortization (corrected EBITDA) in January-December 2019 – 11.9 percent more than one year ago, when his index was 161.3 million euros. Such dynamics of the index is maintained by effective activities of the Company and growing base of regulatory assets.

The force majeure volumes remain an important challenge, as they determine a level of the network's reliability: the system average interruption duration index (SAIDI) in January-December 2019 reached 91,8 minutes for one client, and thus it increased by 10,4 minutes, when compared to the same period in 2018 (SAIDI was 81,37 min. in January-December 2018). Disconnections due to force majeure made 18,06 min. SAIDI in 12 months of 2019, while it was equal to 7,75 min. in 2018. Such a significant worsening of this index was mainly affected by bigger volumes of failures in the network caused by force majeure circumstances.

Yours sincerely,
Mindaugas Keizeris
ESO General Manager of the Company and the Chairman of the Board

MOST SIGNIFICANT COMPANY'S EVENTS DURING THE REPORTING PERIOD

Regarding approval of ESO's strategy for 2030

On 18 January 2019, the Supervisory Board of ESO approved ESO's strategy in line with the long-term goals and strategic directions of the strategy of Lietuvos Energija Group (from 6 September 2019 – Ignitis Group UAB) for 2018. The approved ESO strategy covers the period until 2030.

Regarding the convocation of the Extraordinary General Meeting of Shareholders of ESO

On 31 January 2019, the Management Board of ESO took the decision to convene the Extraordinary General Meeting of Shareholders of the Company on 22 February 2019 during which it is proposed to adopt the decisions regarding the approval of the remuneration of the independent member of the Supervisory Board and the election of the audit firm for the audit of financial statements of the Company and the terms of remuneration for the audit services.

Regarding the agreement on the investment plan for 2018

On 14 February 2019, the National Commission for Energy Control and Prices agreed on the ESO investment projects for 2018, submitted for a commonly agreed list of investments, the total value of which does not exceed EUR 240,1 million (EUR 226,2 million – for the electricity sector, EUR 13,9 million – for the natural gas sector).

Regarding the decisions of the Extraordinary General Meeting of Shareholders of ESO

The following decisions were made at the ESO Extraordinary General Meeting on 22 February 2019: to set an hourly pay (before taxes) in the amount of 54.43 EUR for the actual activity as an independent member of the Supervisory Board by limiting the monthly pay to a maximum amount of EUR 1,300. Ernst & Young Baltic UAB was elected as the audit firm for the audits of financial statements of the Company for the period of 2019–2021. The remuneration for the audit services shall not exceed EUR 246,350.00 (VAT excluded).

Preliminary results of ESO for 2018: record-high investments and crystallisation of activities

On 28 February 2019, electricity and gas distribution company ESO controlled by the group of energy companies Lietuvos Energija (from 6 September 2019, Ignitis Group UAB) made further investments into reliability enhancement of the distribution grid. ESO's investments into the electricity and distribution grids have exceeded EUR 271 million. The growth of investments resulted from a significant rise in prices of contract works and a one-sixth increase in the number of new customers using electricity or natural gas. ESO will further focus on the assurance of the grid's reliability, investments in the grid's modernisation, automation, implementation of a big scale project on smart metering. ESO will continue to work towards ensuring the best distribution price in the region by maintaining a rational level of costs.

On adopted Resolution of the Court

The Supreme Administrative Court of Lithuania passed the ruling on 6 March 2019 whereby rejected the claim of ESO regarding the resolution No O3-351 of the National Commission for Energy Control and Prices (as from 1 July 2019, the National Energy Regulatory Council (NERC)) of 4 June 2015 to impose a fine "Regarding violation of terms and conditions of the regulated activity by LESTO AB" The Court was requested to amend the ruling of Vilnius Regional Administrative Court of 7 July 2015, based on which a fine of EUR 300,000 was imposed on ESO. It was requested to reduce the fine to a reasonable amount, i.e. EUR 41,075.36. It was also requested to revoke the obligation stipulated in paragraph 3.2.2 of the NERC's resolution requiring ESO to correct reports on regulated expenses for 2011–2013. ESO notes that the ruling of the Supreme Administrative Court of Lithuania will have no impact on the Company's financial performance for 2019, because the effect of the fine has been already reflected in the Company's financial statements of the previous reporting periods.

Regarding discontinuation of commercial services of ESO

On 27 March 2019, the Management Board of ESO took a decision to discontinue the following commercial services as from 1 June 2019: sale of heat pumps and solar power plants, installation of electric car charging stations and gas cylinder terminals, as well as services "Electrician to the house", "Gasman to the house". New orders for these services were no longer accepted as from 1 June 2019. However, contracts with suppliers for orders received before the said date are completed within the deadlines set in the contracts. This decision continues the refinement of the activities of the Company as a distribution network operator. According to the ESO's estimates, the discontinuation of commercial services will have no significant impact on the Company's financial results.

Regarding the convocation, agenda and proposed draft resolutions of the Extraordinary General Meeting of Shareholders of ESO

On 29 March 2019, the Board of Directors of ESO took the decision to convene the annual General Meeting of Shareholders of the Company on 30 April 2019 with the following questions on the agenda: regarding the approval of ESO's Annual Report for 2018; approval of the audited ESO's Annual Financial Statements for 2018, allocation of the ESO's profit (loss) for 2018.

Regarding a decision dismissing the appeal filed with the administrative court regarding the decision of the National Commission for Energy Control and Prices (as from 1 July 2019, the National Energy Regulatory Council (NERC)) on the setting of electricity distribution price caps for 2019

On 19 November 2018, ESO filed an appeal with the Vilnius Regional Administrative Court regarding the repeal of clauses 1 and 1.7.3 of Resolution No O3E-334 of the National Commission for Energy Control and Prices (hereinafter – “the NCC”) of 17 October 2018 “On the Recalculation of Price Caps of Services of Distribution via Medium and Low Voltage Networks of Energijos Skirstymo Operatorius for 2019” (hereinafter – Resolution) and the NCC's obligation to take action. Given the facts that during the period from the filing of the appeal with the court, the NCC provided an explanation that the LRAIC accounting model (long run average incremental costs) will be applied in the future (regulatory environment has not changed), that the correction adapted during the setting of electricity distribution price caps for 2019 will be evaluated in near future regulatory period, and that an independent auditor's report was received on the Company's financial statements for 2018, the Board of the Company has adopted the decision to refuse the appeal.

Regarding the supplement of the agenda and proposed draft resolutions of the Ordinary General Meeting of Shareholders of ESO

At the initiative and decision of the Management Board of ESO, the Ordinary General Meeting of Shareholders of the Company is convened on 30 April 2019 with the following questions on its agenda: regarding the approval of ESO's Annual Report for 2018; approval of the audited ESO's Annual Financial Statements for 2018, allocation of the ESO's profit (loss) for 2018, approval of the new wording of the Articles of Association of ESO.

Regarding the resolutions of the Ordinary General Meeting of Shareholders of ESO

The Ordinary General Meeting of Shareholders of ESO, held on 30 April 2019, adopted the following resolutions: approve the Annual Report of ESO, approve the audited Annual Financial Statements of ESO for 2018, allocate the profit (loss) of ESO for the year 2018, approve a new version of the Articles of Association of ESO.

Results of ESO of Q1 2019: a stable increase in investments and a steady flow of new customers

ESO ended the first quarter of 2019 with continuously growing investments in the development and renovation of electricity and gas networks, which were 13.5% higher than last year. The growth of investments in the construction and reconstruction of gas distribution systems, which was nearly 90% compared to the same period of 2018, is noteworthy in particular. The Company also recorded the continuously increasing number of new customers connecting to the distribution networks.

Regarding the ESO Annual Information 2018

On 30 April 2019, the Ordinary General Meeting of Shareholders of the ESO approved the Annual Report of the Company for the year 2018 and the Annual Financial Statements of the Company for the year 2018, audited by PricewaterhouseCoopers, UAB, the Company's auditor.

Updated ESO's 10-year investment plan

On 31 July 2019, the Supervisory Board of ESO approved the updated ESO 10-year investment plan (hereinafter “10YIP”). The 10YIP provides that during the period 2019–2028 ESO plans to invest EUR 1,83 billion in increasing network resilience and security, deploying smart solutions, improving customer experience, and promoting the market of services providing a level playing field for all market participants.

Approved ESO investment projects for period 2020–2023

On 2 August 2019, the National Energy Regulatory Council approved the total investments of EUR 30,486 million which are planned to be implemented by ESO in the period 2020–2023. It is planned, that up to 50% (EUR 15,243 million) of the amount required for the implementation of the investments will be financed from the EU structural funds. The rest of the investment will be covered by the Company at its own expense. 13 transformer sub-stations and 27 electricity distribution points will be renewed through investments.

Regarding the nomination of the members of Supervisory Board of ESO

On 6 August 2019, ESO received a letter from Lietuvos Energija UAB informing that after the approval of the Supervisory Board of Lietuvos Energija (as from 6 September 2019 – Ignitis Group UAB), Dalia Jakutavičė and Žaneta Kovaliova have been nominated for the positions of the member of Supervisory Board of ESO. Ms Jakutavičė was nominated as a representative of ESO trade unions and Ms Kovaliova – as an independent member of Supervisory Board. The election of the members of the Supervisory Board will be decided by the ESO's General Meeting of Shareholders.

ESO's unaudited results of 6 months of 2019: growing number of new customers and improving connection times

ESO's results of Half 1 of 2019 of reflect the steadily growing activity of the Company, while electricity distribution remains the main source of ESO's income. Excluding one-off factors of regulated activity, the Company's profitability ratios improved: investments in the distribution network was in line with the planned level for 2019, however, were declining compared to the same period in 2018.

Regarding approval of the investment in smart meter project with the National Energy Regulatory Council

On 19 September 2019, the NERC approved the investment of ESO "Implementation of smart electricity metering in Lithuania". In its certificate, the Council notes that the project's cost-benefit analysis conducted by ESO was positive and this is the basis for approval of the ESO's EUR 147 million investment. The smart electricity metering implementation project covers the period 2020–2023. The NERC also obligated the Company to develop a benefit monitoring system to ensure monitoring over the effectiveness of the smart metering project being implemented.

Regarding non-routine inspection of Energijos Skirstymo Operatorius AB to be carried out by the National Energy Regulatory Council

On 19 September 2019, the NERC took a decision on non-routine inspection of the Company's regulated activities whereby it approved the report on non-routine inspection of regulated activities of ESO of 23 August 2019 drawn up by the Commission brought together by the NERC, and the conclusions laid down therein. The inspection report stated that ESO failed to comply with legal requirements when registering transmission reliability indicators and that the ESO procedure governing the qualification of power interruptions needs to be adjusted. ESO disagrees with the conclusions of the inspection report, which were drawn due to a different application of legal acts and will consider appealing the inspection report to court in accordance with the procedure established by laws.

Regarding the Extraordinary General Meeting of Shareholders of ESO

An Extraordinary General Meeting of Shareholders of ESO is to be convened on the initiative and by the decision of the Board of the Company on 23 September 2019. The following draft decisions proposed: (1) Regarding the approval of the new version of the Articles of Association of ESO. (2) Regarding the election of the independent member of the Supervisory board of ESO. 3. Regarding the terms and conditions of the activities of the independent member of the Supervisory Board.

Regarding approval of the investment plan for the natural gas sector for 2019

On 3 October 2019, the National Energy Regulatory Council approved the Company's investment projects in the natural gas sector for 2019 submitted in the list of jointly coordinated investments, the total value of which is not more than EUR 7,2 million. In 2019, major part of investments in the natural gas sector will be allocated to the installation and upgrading of gas distribution pipelines, metering equipment and software.

Regarding the decisions of the Extraordinary General Meeting of Shareholders of ESO

On 15 October 2019, the Extraordinary General Meeting of Shareholders of ESO took place. During this meeting a new wording of the Articles of Association of the ESO was approved, Žaneta Kovaliova was elected as an independent member of the Supervisory Board and Dalia Jakutavičė – as the employee representative on the Supervisory Board. The Meeting established the terms and conditions of the activities of new members of the Supervisory Board and their remuneration.

Regarding the price-setting for electricity distribution price caps for 2020

On 17 October 2019 the National Energy Regulatory Council established electricity distribution price caps for 2020: in medium - voltage networks 1,076 EUR ct/kWh (change 0,214 ct/kWh); in low - voltage networks 2,092 EUR ct/kWh (change 0,221 ct/kWh). An increase in the electricity distribution service price cap was determined by provisions of the Law on Special Conditions of Land Use, which will take effect as from 1 January 2020. The distribution service price cap is also affected by expenses of payment and administration of one-time compensations for land easements approved by the Government on 25 July 2018. Price caps have also been increasing due to the growing regulatory asset base, the increase of which has been significantly affected by increasing investments of connection of new customers in recent years and the model of financing of investments in network renovation applied by the regulator, as well as changes in macroeconomic indicators.

Regarding the initiation of reorganisation of Verslo aptarnavimo centras AB, and Ignitis Grupės Paslaugų Centras UAB

The Company announced that the General Meetings of Shareholders of Verslo aptarnavimo centras AB (hereinafter – VAC) and Ignitis grupės paslaugų centras UAB (hereinafter – GPC), of which the Company is a shareholder, have approved the initiation of reorganisation of VAC and GPC on 21 October 2019 by merging VAC to GPC and obligated the boards of both companies to draw up their reorganisation terms. The reorganisation of the companies is scheduled to be completed by the end of 2019.

VAC and GPC provide services for the companies of Ignitis Group therefore, the reorganisation of VAC and GPC enables the creation and development of higher quality services, and provision of them to customers faster and more efficiently.

ESO results of the three quarters: further growth in the number of new customers and stability of financial indicators

In the three quarters of this year, ESO continued refining its activities: updated its customer self-service system in September 2019, focusing therein on infrastructure activities and services of a distribution operator, and actions simplifying the procedure of connection of prosumers and remote prosumers to the distribution network. Financial indicators of ESO remained consistent and stable when it comes to the activities and the scope of investments provided for in strategic ESO plans. In January – September 2019, ESO earned EUR 135,2 million in adjusted profit before interest, tax, depreciation and amortization (adjusted EBITDA), which was 11.4% more than a year ago. A higher scope of force majeure events, which affect the network reliability level, have remained an important challenge. Unfavourable weather conditions in the first months of 2019 had a material impact on the deterioration of the indicator.

On Setting Revenue Cap for ESO's natural gas distribution services in 2020

On 31 October 2019, the National Energy Regulatory Council adopted a decision on the revenue cap for natural gas distribution services, effective in 2020: EUR 36,965,476 (in 2019 – EUR 36,465,031). The increase of the revenue cap for the natural gas

distribution service is caused by the provisions of the Law Special Conditions of Land Use, which will come into force on 1 January 2020. However, the increase of the revenue cap for the natural gas distribution services is moderate because a part of the return on investments made from 2014 to 2018 is repaid, if it exceeds the amount set by the regulator. A large part of the excess formed because of increased efficiency of the Company's activities.

Regarding the convocation, agenda and proposed draft resolutions of the Extraordinary General Meeting of Shareholders of ESO

On 11 November 2019, ESO received a written request from Ignitis Group UAB, holding 94,98% of votes in the Company's General Shareholders Meeting, proposing to convene the Extraordinary General Meeting of Shareholders. On 11 November 2019, the Board of the Company decided to convene the Extraordinary General Meeting of Shareholders, at which it is proposed to delist all shares of ESO from trading on the AB Nasdaq Vilnius Stock Exchange; to confirm the shareholder Ignitis Group UAB as a person who will make an official tender offer to buy shares of ESO listed on the AB Nasdaq Vilnius Stock Exchange; to authorize the CEO of ESO with the right to re-authorize to perform all necessary actions and to submit all necessary documents regarding the delisting of the shares of ESO from trading on the regulated market.

The National Energy Regulatory Council announced electricity network prices for 2020

On 15 November 2019, the National Energy Regulatory Council (hereinafter – the Council) announced electricity network prices which were approved by the Board of ESO on 4 November which will apply from 1 January 2020. Compared to 2019, for corporate customers, who receive electricity from medium voltage networks, average network service prices (including public service obligation) will increase by 11.0 % in 2020, for corporate customers, who receive electricity from the low voltage networks – by 10,0 %, for private customers – by 10,8 %.

The National Energy Regulatory Council approved Natural Gas Distribution Prices for 2020

On 15 November 2019, the National Energy Regulatory Council approved natural gas distribution prices set by the Board of ESO on 8 November 2019 which will apply from 1 January 2020. Natural gas distribution prices will change from -6.6% to 10.5% depending on consumer's price group, whilst average gas distribution price for 2020 will increase by 4.0 %, compared to the prices for 2019. Natural gas distribution price is one components of the final gas price.

Further explanation regarding the delisting of Ignitis Group's subsidiaries shares and the potential IPO

On 19 November 2019, Ignitis Group UAB, the main shareholder of ESO, announced that, considering the public interest about the planned delisting of its subsidiaries, it provides further clarification for investors and members of the public about the share buyback rationale. The main ESO's shareholder indicated that the only sustainable way that is being considered very carefully at the moment is listing the entire group, attracting international institutional investors, with the mandatory prerequisite being the delisting of its subsidiaries, ESO and Ignitis Gamyba, by purifying its capital structure.

Regarding the decisions of the Extraordinary General Meeting of Shareholders of ESO

On 4 December 2019, the following resolutions were adopted at the Extraordinary General Meeting of Shareholders: to approve the delisting of all shares of ESO from trading on the AB Nasdaq Vilnius Stock Exchange; to confirm the shareholder Ignitis Group UAB as a person who will make an official tender offer to buy shares of ESO listed on the AB Nasdaq Vilnius Stock Exchange; to authorize the CEO of ESO with the right to re-authorize to perform all necessary actions and to submit all necessary documents regarding the delisting of the shares of ESO from trading on the regulated market. Detailed information on the terms of the official tender offer, including the proposed price of the shares, will be disclosed in accordance with the legislation after the Bank of Lithuania will approve the tender offer circular.

Regarding completion of reorganisation of Verslo aptarnavimo centras UAB and Ignitis grupės paslaugų centras UAB

The Company informs that on 20 December 2019, the Extraordinary General Meetings of Shareholders of Verslo aptarnavimo centras UAB (hereinafter – VAC) and Ignitis grupės paslaugų centras UAB (hereinafter – GPC), of which the Company is a shareholder, approved the reorganisation of VAC and GPC by merging VAC to GPC and have approved reorganisation terms of both companies. The Company owns 22.25% of VAC and 26.84% of GPC shares. It is planned that from 2020, when reorganisation procedures completed, VAC and GPC will function as one company. The main activity of VAC and GPC is to provide services for the companies of Ignitis Group therefore, the reorganisation of VAC and GPC enables the creation and development of higher quality services and solutions by speeding and simplifying the process. Following completion of the reorganisation, the Company will hold 26.39% of GPC shares.

Regarding the decision of the Court

The Company informs that on 31 December 2019 the District Court of Vilnius City announced that it received the claim of the few minority shareholders of ESO asking to invalidate resolutions which were adopted at the Extraordinary General Meeting of Shareholders of ESO on 4 December 2019. The Court applied the temporary protection measures and suspended the resolutions of the Extraordinary General Meeting of Shareholders of ESO until final decision in this civil case becomes effective. ESO will analyse the decision of the Court and the reasoning and then will decide on further actions.

KEY EVENTS AFTER THE END OF THE REPORTING PERIOD

Regarding the decision to appeal the judgement

ESO informs that on 6 January 2020 appealed to District Court of Vilnius City regarding the 31 December 2019 decision to apply temporary protection measures and suspend the resolutions of the Extraordinary General Meeting of Shareholders of ESO adopted on 4 December 2019. In ESO view, the temporary protection measures and suspension of the delisting process

were unreasonable and the real reason of the initiated litigation is the aim to dispute the purchase price of ESO shares which is not the subject of the Extraordinary General Meeting of Shareholders.

Regarding the information submitted to the Bank of Lithuania about official tender circular

ESO informs that its parent company Ignitis Group UAB, based on the consultation with the Bank of Lithuania, published information that official tender circular of ESO was submitted to Bank of Lithuania. It is noteworthy that this circular and the specified prices in this circular are not approved by the Bank of Lithuania yet. In the official tender circular of ESO which was submitted to the Bank of Lithuania by the voluntary tender offer of Ignitis Group UAB, it is specified that the price to be paid for one share of ESO amounts to EUR 0.880. This price is equal to the 6-month weighted average, until the day of announcement about intention to delist shares from trading on a regulated market (from 9 May 2019 until 8 November 2019 inclusive), of the stock market price which is equal to EUR 0.703 and the bonus which is equal to EUR 0.177. This bonus is paid by taking into consideration that it is intended to initiate mandatory buyout of ESO's shares after implementing the official tender for smooth implementation of the official tender.

Regarding the alignment of investment plan in the electricity sector of 2019

On 28 January 2020, the National Energy Regulatory Council approved the Company's investment projects in the electricity sector for 2019 submitted in the list of jointly coordinated investments, the total value of which is not more than EUR 91,3 million. In 2019, most of the investments in the electricity sector were allocated to the renovation and/or modernization of the 35–6 kV power grid and 0.4 kV power grid, communication and control systems, software.

Regarding judgement of Vilnius Regional Court of 28 January 2020 in the civil case

Vilnius Regional Court passed a judgement in the civil case on 28 January 2020, where it satisfied partially the claim of plaintiff Vilniaus energija UAB against ESO and recognized that Vilniaus energija UAB had been discriminated with regard to other combined heat and power plants. The court adjudged losses of EUR 2,2 million from ESO for behalf of Vilniaus energija UAB and 6% annual interest from the adjudged amount calculated from the day when the civil case was lodged in the court until complete execution of the judgement. Vilniaus energija UAB asked in another part to recognize that it had been discriminated with regard to supplier of balancing energy and to adjudge reimbursement of losses from ESO. This part of the civil claim of Vilniaus energija UAB was rejected. ESO and Vilniaus energija UAB have a right in 30 days to appeal the judgement of Vilnius Regional Court in accordance with legal acts.

Planned investigation of the Supervision Service of the Bank of Lithuania completed with no infringements

27 January 2020 ESO have received the notification from by the Supervision Service of the Bank of Lithuania (hereinafter – "the SSBL") informing the Company that the SSBL completed 24 September – 16 December 2019 planned investigation. The SSBL informs the Company that no infringements have been found concerning ESO's accounting and financial statements: IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers, and annual Corporate Social Responsibility Report with the legislation. The SSBL identified quality deficiencies regarding disclosure in the Annual Report. As a consequence, ESO took action to address deficiencies in the calculation of alternative performance indicators and their disclosure by the date of completion of the investigation. Any remaining recommendations and guidance on regulatory compliance of the Corporate Social Responsibility Report will be implemented in the Annual Report 2019. SSBL will be informed by ESO on the recommendation implementation progress and status in accordance with the procedure established by law.

The Court upheld the decision to apply the temporary protection measures

The Company informs that Vilnius Regional Court (hereinafter – the Court) on 13 February 2020 issued a ruling that rejected the complaint by ESO and left in effect a decision of District Court of Vilnius City of 31 December 2019. The court ruled that there is no ground to state that the lawsuit of a few minority shareholders is a frivolous one until the case is heard and the evidence is considered by the court. Meantime, plausible validity of the lawsuit is enough to apply temporary protection measures.

As it was announced earlier, on January 6 2020 the Company appealed the decision of District Court of Vilnius City of 31 December 2019 regarding application of temporary protection measures - suspension of the 4 December 2019 resolutions of the Extraordinary General Meeting of Shareholders of ESO.

Delisting of shares of ESO from trading on the AB Nasdaq Vilnius Stock Exchange is halted until judgement in a civil case regarding the claim of the few minority shareholders of ESO asking to invalidate resolutions which were adopted at the Extraordinary General Meeting of Shareholders enters into force. The Company informs that further actions will be disclosed as required by law.

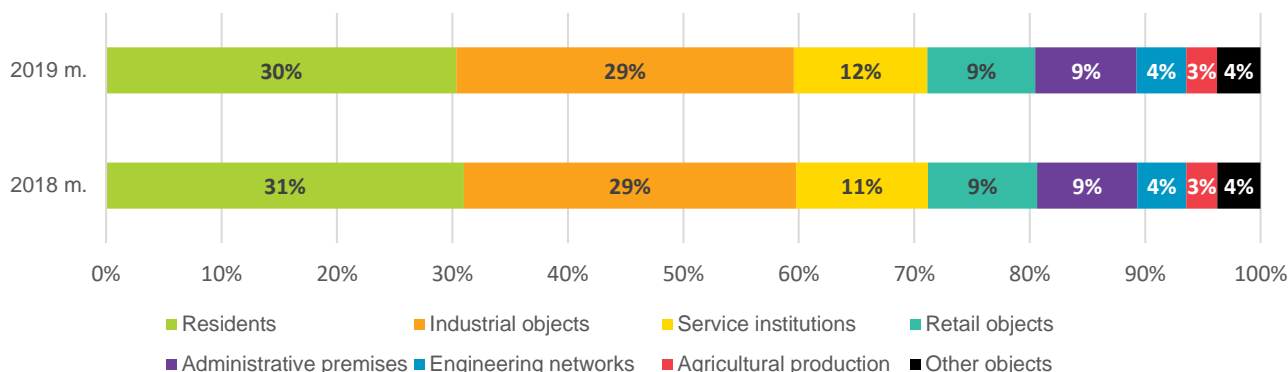
ANALYSIS OF THE OPERATING AND FINANCIAL INDICATORS

Electricity distribution

ESO owns and operates 125.498 thousand kilometres of electricity lines: 68.7% of them consist of overhead electricity lines, and 31.3% of electricity cables. In 2019, the Company distributed to customers 9.55 billion kWh of electricity (2018: 9.59 billion kWh). Guaranteed supply of electricity made up 5% of this amount. The remaining customers of the Company were provided only with the distribution service. Compared to the same period in 2018, the volume of electricity supplied decreased by 82% and the volume of electricity distributed decreased by 0.4% due to transfer of the public supply activity to Lietuvos Energijos Tiekimas (now Ignitis UAB) on 1 October 2018. Technological costs in distribution equipment incurred by the Company during 2019 amounted to 641.4 million kWh or 6.29% of the amount of electricity received. During the same period in 2018, technological costs totalled 5.96% (607,9 million kWh).

The electricity distributed by ESO during 2019 was consumed by residents at around 30.3%. Industrial sites and service institutions consumed 29.2% and 11.6%, respectively, of electricity distributed. There were no significant changes in the structure of electricity distribution volume by entities as compared to the data of 2018.

Figure 1. Electricity distribution volume by entities

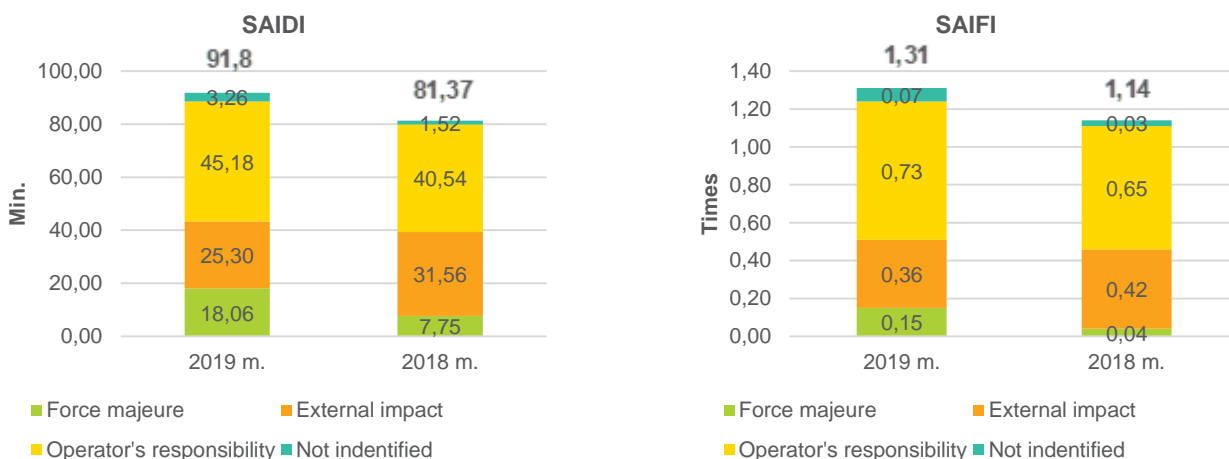


Electricity supply quality indices (SAIDI, SAIFI)

In 2019, The System Average Interruption Duration Index (SAIDI), including *force majeure*, per customer, was 91.8 minutes, and compared with the same period of 2018 increased by 10.4 minutes (in 2018 SAIDI amounted to 81.37 minutes). Such a significant worsening of the indicator was mainly affected by considerably larger extent of *force majeure* network failure volumes, which in 2019 amounted to 18.06 min minutes, meanwhile, in 2018 – 7.75 minutes. The duration of interruptions due to reasons attributable to the operator’s responsibility in 2019 amounted to 45.18 minutes, whilst in 2018 it was 40.54 minutes. Compared to 2018 (1 hour 36 minutes), the average failure resolution duration in 2019 was 1 hour 26 minutes.

In 2019, The System Average Interruption Frequency Index (SAIFI) including *force majeure*, per customer, reached 1.31 times and was by 0.17 times larger than in 2018 when this indicator amounted to 1.14 times. The negative change of this indicator was caused by unfavourable weather conditions in 2019 which caused overhead line failures in medium voltage network and supply disruptions due to fallen trees.

Figure 2. Electricity supply reliability indices



Natural gas distribution

The Company operates gas distribution pipelines with the length of nearly 9.48 thousand kilometres. In 2019, the network of gas distribution pipelines increased by almost 518 km, whilst in 2018 – by 653 km. In 2019, ESO supplied 6.97 billion kWh of natural gas via gas distribution pipelines, which is 8.3% less than in the same period in 2018.

Gas distribution volumes decreased in 2019 mostly due to higher average weather temperature, particularly in February, March and December, compared to the same period in 2018.

Natural gas supply quality indices (SAIDI, SAIFI)

In 2019, The System Average Interruption Duration Index (SAIDI with *force majeure*) for the gas network per customer reached 1.25 minutes (damage cases done by third parties was 1.03 minutes), which is 0.62 minute more compared to the same period in 2018 (in 2018 SAIDI was 0.61 minutes, damage cases done by third parties – 0.41 minutes). In 2019, The System Average Interruption Frequency Index (SAIFI), including *force majeure*, per customer, reached 0.008 times (in 2018 – 0.006 times).

The main reason of deteriorating ratios is supply disruptions for a larger number of customers (3,4 thousand customers) due to natural gas pipeline damage cases done by third parties comparing with the same period of 2018 (1,6 thousand customers), although the number of damages increased insignificantly.

Revenue

Table 2. Revenue structure by ESO's activity area, %

	2019	2018	2017
Revenue from electricity transmission	78	61	66
Revenue from public electricity supply services	0	15	18
Revenue from gas distribution	8	9	8
Revenue from guaranteed electricity supply	7	6	3
Connection of new customers	2	2	3
Other income	5	7	2

In 2019, ESO's revenue totalled EUR 418.9 million, which is 13.4% less than in 2018. Revenue decreased due to the transfer of the public energy supply business. Electricity transmission is the main source of the Company's revenue. After elimination of the impact of public supply activities revenue in 2018 would be EUR 409.6 million and revenue growth in 2019 would be 2.3%.

During 2019, electricity transmission revenue comprised 77.9% of the Company's total revenue. Revenue from natural gas distribution made up 8.3% of the Company's total revenue.

Expenses

In 2019, the costs of purchase of electricity, natural gas or related services amounted to EUR 186.1 million. Compared to 2018, these amounts reduced by 34.1%. This was mainly influenced by activities of public supply of electrical energy sold in 1 October 2018. During the reporting period, the costs of purchase of electricity, natural gas or related services and depreciation and amortisation costs accounted for EUR 267.7 million or for 71.5% of total costs incurred by ESO.

In 2019, operating expenses totalled EUR 98.2 million – were by 9.4% more than in 2018. The major increase of 57.5% was observed in repair and maintenance costs. Major part of repair and maintenance works were scheduled for fourth quarter of 2018, however, were finished in the first half of 2019, which caused the increase in repair and maintenance costs. Transport and rent costs decreased due to changed application of International Financial Reporting Standard (IFRS) 16, where leases (the right to use asset for a period of time in exchange for consideration) are recognized as an asset of the Company rather than costs. Further information on the application of the standard is available in section 2 of the financial statements of ESO.

Table 3. ESO's operating expenses, EUR '000

	2019	2018	Change 2018/2019	2017
Employee benefits and related social security contributions	45,999	41,542	10.7%	30,556
Other expenses	15,494	16,483	-6.0%	13,279
Repair and maintenance expenses	21,745	13,810	57.5%	11,161
Telecommunications and IT services	9,058	9,095	-0.4%	6,757
Transport	3,874	4,823	-19.7%	3,314
Rent and utilities	2,012	4,032	-50.1%	3,049
Total operating expenses	98,182	89,785	9.4%	68,116

EBITDA

Table 4. EBITDA indicator¹

	2019	2018	2017
EBITDA, EUR '000	134,570	111,132	140,080
<i>Recalculation of regulated income of the current period (will be implemented in the future periods) (1)</i>	<i>-24,817</i>	<i>-11,244</i>	<i>-41,282</i>
<i>Recalculation of regulated income from previous periods (will be implemented in the current period) (2)</i>	<i>61,724</i>	<i>75,205</i>	<i>52,110</i>

Other corrections (3)	9,011	-13,806	0
Adjusted EBITDA, EUR '000	180,488	161,287	150,908
EBITDA margin, %	32.13	22.99	22.88
Adjusted EBITDA margin, %	43.09	33.36	24.65

¹ – Description of ESO's indicators is available at: <http://www.eso.lt/lt/investuotojams/alternatyvus-veiklos-rodikliai.html>

- (1) Recalculation of regulated income of the current period for the adjustment of excess profit that may form according to estimates of the management Assessment of the difference between forecasted values of key income level components (OPEX, costs of purchase of electricity for own needs and consumption thereof in technological equipment, depreciation and amortisation expenses, return on investment, and other income) and values of price components approved by the regulator. Annual values of the price components approved by the regulator are published on the regulator's website (www.vert.lt), in the price approval certificates. Income components of regulated activity for 12 months are calculated in proportion to the Company's planned monthly amounts.
- (2) Recalculation of regulated income from previous periods, which is implemented in the current year's prices, is set by the regulator when approving regulated prices. Annual values of recalculations of income of the previous periods set by the regulator are published on the regulator's website (www.vert.lt), in the price approval certificates. Income components of regulated activity for 12 months are calculated in proportion to the Company's planned monthly amounts.
- (3) A one-off cost adjustment due to a compensation received from LITGRID AB for transmission (including system) services (in January and February of 2016) is eliminated.

Below are the certificates issued by the regulator and used as a basis for the recalculation of regulated income of 2019:

- "Regarding the Recalculation of Price Caps of Services of Distribution on Medium and Low Voltage Networks of AB Energijos Skirstymo Operatorius for 2019" No O5E-264 of 17 October 2018 (https://www.regula.lt/SiteAssets/posedziai/2018-10-17/1_eso_pazyma.pdf)
- "Regarding the setting of natural gas distribution price cap of AB Energijos Skirstymo Operatorius for 2019–2023" No O5E-279 of 25 October 2018 (https://www.regula.lt/SiteAssets/posedziai/2018-10-26/1_eso_kv_r_pazyma.pdf)
- "Regarding the Amendment of the Resolution No O3E-395 of the National Commission for Energy Control and Prices of 21 November 2018 "Regarding the Approval of Natural Gas Distribution Prices of the Private Limited Liability Company Energijos Skirstymo Operatorius"" No O5E-343 of 30 November 2018 (https://www.regula.lt/SiteAssets/posedziai/2018-11-30/1_eso_pazyma_1.pdf)

In 2019, the Company's earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to EUR 134.6 million, which is 21.1% more than in 2018. Such dynamics of the index was caused (i) by lower costs of purchase of electricity, natural gas and related services due to transferred public supply business segment from 1 October 2018.

The Company's adjusted EBITDA increased by 11.9 %. Such dynamics of the index was influenced by the efficiency activities of the Company and by the growing value of regulated assets.

Profit (loss) and profitability ratios

On 2019, ESO's net profit totalled EUR 34.3 million, which is 551.7% more than in 2018. Increase in net profit was caused by the same reasons as the growth of EBITDA. The increase in depreciation and amortization made negative impact for net profit due to higher non-current assets, the asset valuation and the impact of the adoption of IFRS 16. Decline in net profit 2018 was caused by a higher electricity purchase price and a one-off result of revaluation of the Company's non-current assets. Revaluation of non-current assets in the electricity segment, taking into account the impact of adjustment to grants related to assets, reduced the Company's profit by EUR 66.6 million, whereas, the natural gas segment saw the reversal of the impairment of non-current assets with the total impact of EUR 25.4 million.

Table 5. ESO's profitability ratios¹, %

	2019	2018	2017 ²
Net profit margin	8.19	1.09	12.67
Operating profit margin	10.56	-0.11	13.94

¹ Description of ESO's indicators is available at: <http://www.eso.lt/lt/investuotojams/alternatyvus-veiklos-rodikliai.html>

² Comparative indicators were not recalculated.

Investments

During January–December 2019, ESO's investments in the electricity and gas distribution networks amounted to EUR 181.171 million, which is 33.2% less than in the same period in 2018 where investments amounted to EUR 271.283 million.

Table 6. ESO investments¹, EUR '000

	2019	2018	2017
Renewal of the electricity distribution network	44,390	121,520	128,191
Expansion of the electricity distribution network	79,061	83,653	52,227
Construction of gas systems	44,972	47,677	34.931 ²
Reconstruction of gas systems	7,005	8,516	
Other (IT, management systems, etc.)	5,743	9,917	10,853
Total investments	181,171	271,283	226,202

¹ Description of ESO's indicators is available at: <http://www.eso.lt/lt/investuotojams/alternatyvus-veiklos-rodikliai.html>

² Comparative indicators were not recalculated.

In 2019, ESO's investments allocated for the renewal of the electricity distribution network amounted to EUR 44.39 million, which is 63.5% less than in 2018. Investments in the expansion of the electricity distribution network in 2019 amounted to EUR 79.061 million, which is 5.5% less than in 2018. In order not to significantly increase the Company's debt level due to the high demand for connecting new customers, the Company allocated less funds for network renewal projects as envisaged in the 10-year investment plan.

In 2019, ESO connected 40,151 new customers to the electricity distribution network, which is 18% more than in 2018, when 34,026 new customers were connected. In 2019, admissible electric power of newly connected customers was 446.1 thousand kW, which is 0.3% more than in 2018 (444.6 thousand kW).

In 2019, ESO's investments in the construction of gas systems amounted to EUR 44.972 million, which is 5.7% less than in 2018, when investments totalled EUR 47.677 million. ESO invested EUR 7.005 million in the reconstruction of gas systems, which is 17.7 % less than in 2018. In 2019, ESO constructed 504.9 km of the gas distribution pipeline (in 2018: 614.2 km). In 2019, ESO connected 11,793 new customers to the natural gas distribution network, which is 20% less than in the same period in 2018 (14,741 customers were connected).

Analysis of financial indicators

At the end of the reporting period, the Company's assets amounted to EUR 1.71 billion. Non-current assets accounted for 95.6% (EUR 1.63 billion) of the total assets, Whereas current asset – EUR 74.8 million. Cash and cash equivalents, i.e. the most liquid assets, amounted to EUR 4.8 million or 6.4% of the total current assets.

Table 7. ESO's financial leverage ratios¹

	As at 31/12/2019	As at 31/12/2018	As at 31/12/2017
Net borrowings, EUR million	637.13	629.20	366.24
Net borrowings to equity ratio	0.96	1.00	0.60
Share price to earnings ratio	20.91	36.89	9.92
Capitalisation, EUR million	717.49	579.72	769.38

¹ – Description of ESO's indicators is available at: <http://www.eso.lt/lt/investuotojams/alternatyvus-veiklos-rodikliai.html>

At the end of December 2019, ESO's liabilities totalled EUR 1,042.7 million, of which EUR 720.5 million were non-current liabilities, EUR 307 million current liabilities and EUR 15,2 million – grants. Borrowings amounted to EUR 641,9 million and accounted for 61.6% of total liabilities. Non-current borrowings amounted to EUR 465.6 million or 72.5% of total borrowings, current liabilities totalled EUR 176.3 million.

Table 8. ESO's liquidity ratios¹

	As at 31/12/2019	As at 31/12/2018	As at 31/12/2017
Current ratio	0.24	0.40	0.28
Working capital, EUR '000	-232,211	-186,432	-204,047
Working capital to total assets ratio	-0.55	-0.39	-0.33

¹ – Description of ESO's indicators is available at: <http://www.eso.lt/lt/investuotojams/alternatyvus-veiklos-rodikliai.html>

ESO's current liabilities exceeded its current assets by EUR 232.2 million. The current ratio is equal to 0.24. Borrowings, as reduced by the amount of short-term investments and cash and cash equivalents, are equal to EUR 637.1 million. The Company's net borrowings account for 96.0% of its equity (2018 – 99.9%).

References and additional explanations of disclosures in the financial statements and other significant events and their impact on the annual financial statements

Other information is presented in the condensed interim financial statements of ESO for 2019 ([link](#)).

FACTORS AFFECTING THE COMPANY'S FINANCIAL INDICATORS

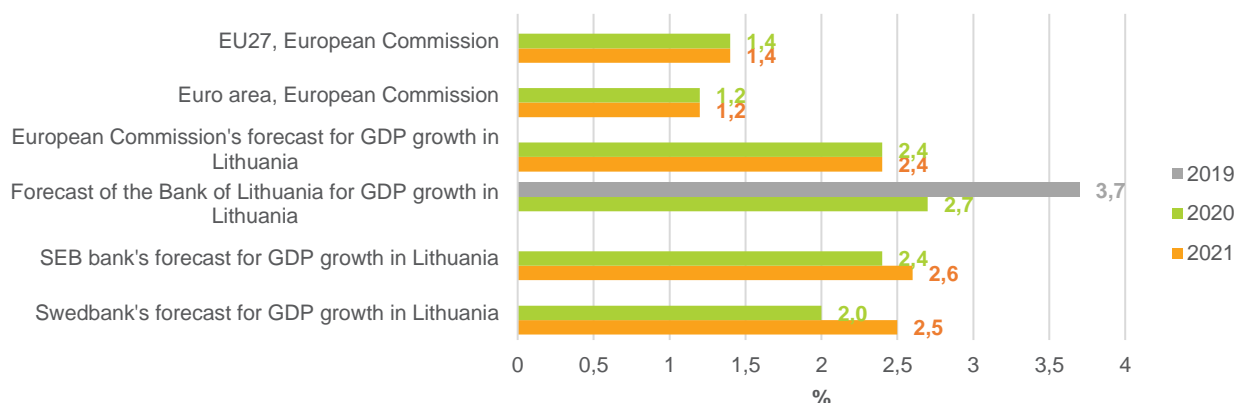
Business environment

Continued economic growth made the biggest influence on electricity consumption in Lithuania in 2019. According to the EC macroeconomic forecast¹, the European Union economic growth is forecast to slow down. The geopolitical environment poses the highest risks on growth.

According to the forecast of the European Commission published in November 2019¹, the gross domestic product is forecast to grow by 1.4% in the European Union (E27) in 2020, in 2021 – 1.4%. The economic growth in euro zone should be 1.2% in 2020, and 1.2% in 2021. The European Commission forecasts² that the growth of the Lithuanian economy is going to reach 2.4% in 2020 (in previous years – 2.7%), and 2.4% in 2021 (the same).

As indicated in the Lithuania's economic outlook published by the Lithuanian banks, Lithuania's economic prospects are considered to be positive. According to the forecasts presented by the analysts of SEB bank in September 2019³, Lithuanian economy will grow by 2.4% in 2020, and by 2.6% in 2021. The Swedbank analysts adjusted the Lithuania's economy outlook in November⁴: 2.0 % growth forecasted in 2020 and 2.5% in 2021. The survey of the Bank of Lithuania, made in December 2019, showed that Lithuania's GDP in 2019 was growing by 3.7%, and is expected to grow by 2.5% in 2020. Data for 2021 outstanding.

Figure 3. Gross Domestic Product (GDP) Growth Forecasts for the European Union, Euro Zone and Lithuania in 2019–2021, %



Electricity consumption is closely linked with the growth of a gross domestic product, therefore economic growth also impacts the performance of ESO. Given the macroeconomic forecasts presented by economists for a year, we hold the view that the volume of transmitted electricity will increase at a moderate pace in 2020.

Situation in the electricity market

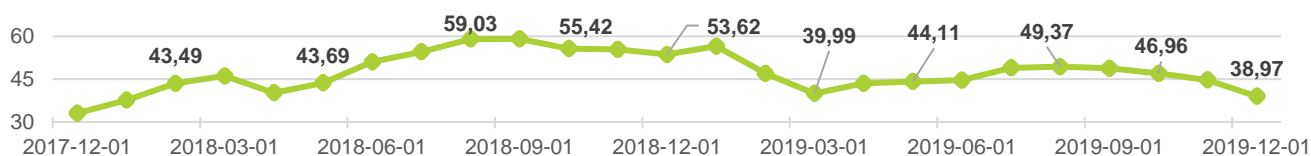
In 2019, the average price of electricity in the Nord Pool's Lithuanian trading zone decreased compared to the year of 2018. In 2019, the average price was 46.12 EUR/MWh, in 2018 it was equal to 50.00 EUR/MWh.⁵

Following the transfer of public supply activities, fluctuations in the purchase price of electricity have a less impact on the Company's results and affects the amount of technological losses and the result of guaranteed supply.

Table 9. Sensitivity analysis to the purchase price of electricity

	2019			2018		
	Factual information	-1 ct/kWh	+1 ct/kWh	Factual information	-1 ct/kWh	+1 ct/kWh
Impact (EUR'000)	0	-11,120	11,120	0	-32,210	32,210
Average electricity purchase price, ct/kWh	5.00	4.00	6.00	5.05	4.05	6.05

Figure 4. The average price of electricity in the Lithuanian trading zone on the Nord Pool power exchange⁶



Company's strategy and objectives

¹ Data source: https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin_forecast_autumn_2019_overview_en.pdf;

² Data source: https://ec.europa.eu/economy_finance/forecasts/2019/autumn/ecfin_forecast_autumn_2019_lt_en.pdf

³ Data source: <https://www.seb.lt/infobankas/ekonomine-aplinka/makroekonomika/makroekonomikos-prognozes>

⁴ Data source: <https://internetbank.swedbank.se/ConditionsEarchive/download?bankid=1111&id=WEBDOC-PRODE43036376>

⁵ Data source: <https://www.nordpoolgroup.com/Market-data1/Dayahead/Area-Prices/LT/Yearly/?view=table>

⁶ Data source: <https://www.nordpoolgroup.com/Market-data1/Dayahead/Area-Prices/LT/Monthly/?view=table>

As the group's parent company Lietuvos Energija UAB (as from 6 September 2019, Ignitis Group UAB) published its renewed strategy LE2030 on 23 May 2018, the Company's strategy was reviewed at the end of 2018 and renewed on 18 January 2019.

The Company's strategy includes the updated mission, vision of the Company, new strategic directions and revised existing ones as well as prospects and actions for their implementation (see Figure 4).

Figure 4. ESO 2030 operational strategy scheme



The renewed strategy outlines that the Company's principal activity is to develop a smart, reliable and effective electricity grid by 2030 that would empower the market and create the best customer experience. The ESO strategy by 2030 establishes the following main strategic directions for 2019–2030:

- **Reliability of the grid** – by rationally planning investments we will substantially improve the grid's resilience to weather conditions and ensure a speedy restoration of the grid's operation.
- **Introduction of smart grid technologies** – we will introduce smart solutions that will ensure operative actions in real time; we will develop systems that will autonomously (without a human intervention) restore the operation of the grid. We will increase cyber resilience of the grid and systems.
- **Empowerment of the market** – by adopting the best practices of the EU and the Northern countries, we will aim to empower the development of the electricity market through a public sharing platform; we will encourage the formation of a market of flexible services that will ensure equal operational conditions for all market participants.
- **Customer experience** – by implementing innovative solutions we will develop a customer experience management model across the entire value chain of ESO.
- **Operational efficiency** – by developing the coherence, accessibility and integrity of the systems we will ensure the aggregate of high-quality processes focused on customer needs.

The strategy also establishes that ESO will develop and implement advanced technological solutions, form a single organisational culture to enable a continuous performance improvement.

Actions provided for in the ESO strategy 2030 will allow us ensure the best experience to our customers both in terms of infrastructure reliability and smartness, and the range and price of services. The empowering infrastructure will then create conditions for the market participants/energy suppliers to develop and provide services that meet individual needs of each customer for the best price.

ESO will aim to standardise open, neutral infrastructural services, while the platforms being developed (Data Hub platform) will empower market participant to effectively compete when creating value to customers. These elements are considered to be the fundamental assumptions for the achievement of the best customer experience, reflection of expectations of stakeholders and growth of the company's value.

Intensive preparations are underway for the development of a smart metering system, which is expected to be completed in the second half of 2020. Customers and market participants are planned to be offered advanced solutions for distributed generation, load management, micro-grids, etc.

Strategic directions indicated in the ESO strategy 2030 are consistent with the objectives set in the ESO's ten-year investment plan and the National Energy Independence Strategy.

The Company will continue to maintain LEAN management system and a culture of continuous professional development, to digitalise, robotise processes, strengthen cyber security and focus on the development of employee competences relevant for the implementation of the Group 2030. ESO will aim to grow the value of the organisation in a sustainable and effective manner for it to become a company that is flexible, open to changes and integration of innovations.

The updated operational strategy of the Company for the period up to 2030 was approved and publicly announced on 18 January 2019. The document of the ESO operational strategy is available under 'About us' section on the Company's website www.eso.lt.

Investment plan: modernisation of the electricity and gas distribution networks

Given the updated strategy of the Company (ESO 2030), on 31 July 2019, ESO published the updated plan of investments made and planned in the electricity and gas distribution network (10 MIP) for 2019–2028, establishing that ESO will invest EUR 1,83 billion in developing the reliability, security and intelligence of the network and improving customer experiences in the upcoming 10 years.

The level of investments in ESO's investment plan for 2019–2028 was established with an aim to reduce quality indicators, i.e. the system average interruption duration index (SAIDI), the system average interruption frequency index (SAIFI), and the maximum duration of the removal of breakdowns. They were established with reference to stakeholders' expectations about the quality of services, as well as Western European countries' good practices.

The objectives of ESO's ten-year investment plan are consistent with the objectives set in the National Energy Independence Strategy. The investment plan focuses on ensuring the best customer experience, price and quality, as well as presents indicators established in the Group's new strategy LE2030 prepared by ESO's controlling company and the new ESO strategy 2030.

According to the ESO's ten-year investment plan ESO's investments in 2019–2028 will be targeted in three directions:

- **Network reliability** – to ensure uninterrupted and high-quality distribution of energy through a secure electricity and natural gas network;
- **Network smartification** – to speed-up the restoration of the energy supply after a disruption, create infrastructure that would enable to make network management decisions based on real-time information;
- **Customer experience and market empowerment** – leveraging the latest technology, digitalisation and process innovation to ensure every customer contact with ESO creates a good experience for the customer.

These investments will significantly improve network reliability during storms, make prerequisites for obtaining an accurate real-time information, improve network security, and increase customer satisfaction with ESO services. In addition, the energy infrastructure of the distribution network will become more attractive to local businesses and foreign investors.

In accordance with the Law on Electricity of the Republic of Lithuania, the ESO 10-year investment plan is updated annually.

Risk and uncertainty factors and their management

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

The main objectives of the risk management process at the Company are as follows:

- achievement of the Company's performance objectives with controllable, yet in principle acceptable deviations from these objectives;
- ensuring the provision of information of the highest possible accuracy to decision makers, shareholders and other stakeholders;
- defence of the Company's reputation;
- protection of interests of shareholders, employees, clients, stakeholders and the society;
- ensuring the stability (including financial) and sustainability of the Company's activities;

The risk management principles established by the Group are consistently applied across the entire Group of companies. The uniform risk management principles ensure that the management personnel of the Group of companies receive risk management information covering all areas of activities. To ensure the practicality of the risk management process, specific activity areas supplement information on their activities with detailed risk assessment, monitoring, and management principles.

Aiming to ensure that risk management information and decisions correspond to recent developments and changes in the Company's activities, the Company's risk level is re-assessed each year during a specified time period and risk management actions are established. In addition, the Company monitors risk management measures on monthly basis and foresees additional actions as needed.

Risk appetite and risk tolerance limits are established within the Group of companies. Risk appetite means the level and type of risk that the Group of companies is ready to accept aiming to implement strategic objectives. Risk appetite is determined by assessing financial impact of risk as well as impact on health and safety of persons. Tolerance limit means the level of risk the excess of which is not acceptable for the Group of companies and which is expressed in the results of operations or values of incidents. The risk appetite and risk tolerance limits of the Group companies are established by the Group's Board and reviewed once a year. Where risk appetite and risk tolerance limits are exceeded by the Company, action plans are prepared in order to meet the mentioned thresholds. The effectiveness of the management plans is assessed by the Company's Board, the Company's Supervisory Board and the Group's Risk Management Supervision and Business Ethics Committee under the Supervisory Board.

In order to effectively manage risks arising from its activities, the Company applies the three lines of defence principle by establishing a clear segregation of duties for risk management and control between the Company's management and supervisory bodies, structural departments or functions (see Figure 5).

Figure 5. Risk management and control model



* Risk management and other functions (prevention, compliance, occupational safety, financial control).

As every year, during the risk assessment for 2019 that the Company performed in 2018, certain areas were identified in which the Company concentrates and coordinates the main risk management measures and initiatives. When performing the risk and risk factors assessment in 2019, the Company assessed the impact of risk not only on financial and occupational health and safety outcomes, but also on other outcomes of strategy implementation, thus ensuring that the Company's risk management is associated with strategic planning and implementation of the new ESO 2030 strategy. The list of the main risk factors for 2019 and their management policies is presented in table 9 below:

Table 10. Risk factors for 2019 and their management policies

Risk factor	Sources of risk	Main risk management policies	Risk level
Health and safety of employees, contractors and residents	<p>With regard to the specific character of its business activity, the Company bears the risk of injury to the employees of ESO, its contractors, and residents.</p> <p>Every year this risk remains a priority area and the main causes of this risk include high-risk working environment, potentially dangerous equipment and lack of awareness or experience.</p>	<ul style="list-style-type: none"> Maintenance of the occupational health and safety management system (OHSAS 18001:2007). Implementation of the programme for the strengthening of safety culture. Regular control and supervision of safety of employees and contractors. Mobile application installed for the record of occupational safety violations to be comfortable. A base for management of preventive measures has been implemented to record measures after accidents, incidents, etc., ensuring timely implementation of the measures envisaged. 	Very high

		<ul style="list-style-type: none"> • Safety days are initiated jointly with the State Labour Inspectorate, which are held every six months. • The Practical Training Center provides training for employees under approved training programs by enhancing their practical experience in hazardous work; • Professional excellence competitions are held for both ESO and contractor staff on regular basis. • Information system for providing employees with security measures has been developed and implemented. • Unit managers are provided with breath analysers for employee testing.
<p>Risk of network reliability failure</p>	<p>According to information provided by the Hydrometeorological Service, during the period of 1981–2016, there were 190 natural phenomena in Lithuania or of 6–7 cases of storm, strong wind, hail per year, on average. Hydro-meteorologists predict that climate change in Lithuania will increase the number of cases of strong winds, heavy rainfalls and storms to which the existing electricity network of ESO is highly vulnerable: falling trees, snow and icing cut wires off, and falling branches cause short-circuits.</p> <p>As the number of customers increases along with the quality of electricity supplied, the technical parameters of the existing lines do not, in some cases, partially ensure the quality of electricity supply. Moreover, the rapid growth of distributed generation, electric vehicles and their charging equipment on the network, distribution system faces a profound challenge in terms of quality management.</p>	<ul style="list-style-type: none"> • Through the cooperation with the Meteorological Service, the information on forecasted meteorological events is obtained prior its occurrence which leads to resource mobilization. • 10-Year investment plan is updated annually (the planned investments for the replacement of overhead power lines with underground cables in wooded areas). • Investment rating models are regularly revised and updated. • As from 2019, voltage regulators are used in overhead electricity lines as an alternative to more expensive network reconstruction. • A voltage quality monitoring system is being implemented in the electricity distribution network.
<p>External regulation</p>	<p>The Company is exposed to regulatory risk due to following reasons: (1) Volatility and instability of the regulatory environment (frequent changes in legislation give rise to erroneous interpretations/misinterpretations). (2) reforms of the legal framework for the protection of personal data, the main act of which is the General Data Protection Regulation of the European Union (GDPR), which took effect on 25 May 2018. Changes in the regulation of personal data protection and the lack of clarifications of practical application thereof pose the risk of faulty implementation of rules provided for by the GDPR.</p>	<ul style="list-style-type: none"> • For the purpose of ensuring compliance with new requirements, the Group-level projects engaging the best specialists of the Group companies with regard to the issue concerned are organised. • Active contribution to the process of public coordination of legal acts. • Initiation of draft amendments to legal acts that are unfavourable to the Company; • Phase two of the project for the implementation of GDPR requirements has been in progress, implementing additional solutions in IT, legal and process areas, and organizational measures to ensure the compliance of the Company’s activities with GDPR.
<p>Information security</p>	<p>The changing geopolitical situation increases the risk of cyber incidents that can affect the reliability of the electricity distribution network. Based on global trends, cyber threats in the electricity transmission and distribution sectors are increasing every year. Cyber-attacks tend to target the companies of</p>	<ul style="list-style-type: none"> • Enhancement of cyber-attack detection/resistance systems. • Increasing the resilience of electricity distribution network management systems to cyber threats by expanding the cyber security network. • Cooperation with external establishments in the field of cyber security.

Very high

High

High

(cybersecurity)	strategic importance to the State. Today, we can name a few actors with sufficient resources and motivation, who are able to target cyber-attacks on the Company.	<ul style="list-style-type: none"> • Education of the Company's employees and training in the field of information security. • Preventive measures to tackle corruption and cases of potential spying. • Professional development of employees in charge of cyber security.
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INFORMATION ON THE COMPANY'S ISSUED CAPITAL AND SECURITIES

Structure of issued capital and securities

As at 31 December 2019, the Company's issued capital amounted to EUR 259,442,796.57. All shares of the Company were paid.

Table 11. Structure of issued capital

Type of shares	Number of shares, items	Nominal value, in EUR	Total nominal value, in EUR	Percentage of share capital
Ordinary registered shares	894,630,333	0.29	259,442,796.57	100.00

With effect from 11 January 2016, the shares of ESO have been listed on the main list of NASDAQ Vilnius AB stock exchange. The Company's shares are not traded on any other regulated markets.

Table 12. Information on the Issuer's securities

ISIN code	Trading list	Securities' abbreviation	Number of shares, items	Nominal value per share, in EUR	Industry under the ICB standard	Supersector under the ICB standard
LT0000130023	BALTIC MAIN LIST	ESO1L	894,630,333	0.29	7000 Utilities	7500 Utilities

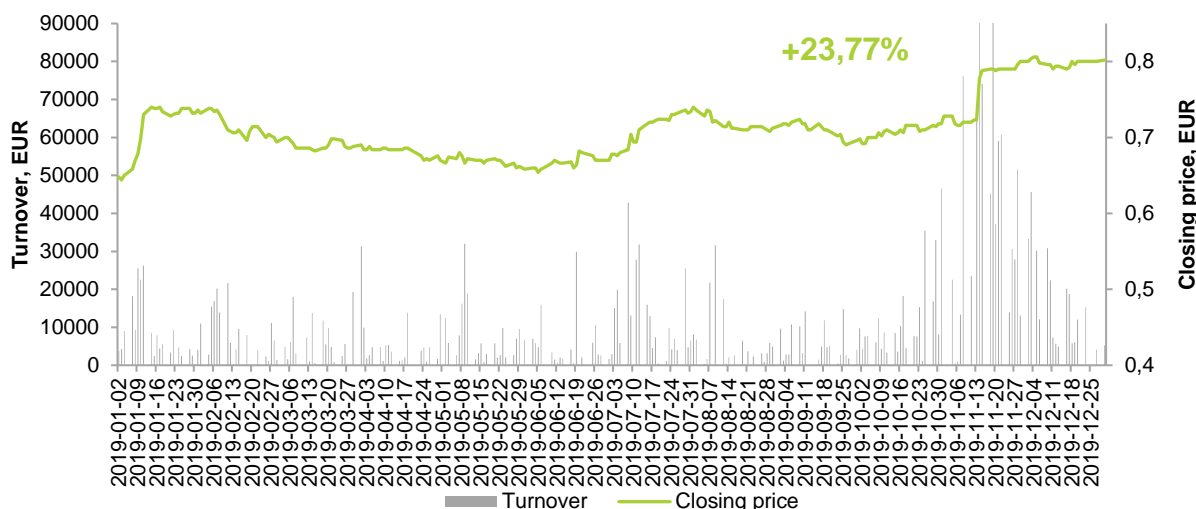
The Company did not acquire its own shares until the end of the reporting period and neither acquired nor disposed of its own shares during the reporting period.

Table 13. Statistics on trade in the Company's shares

	2016	2017	2018	2019	
Price of the last trading session, EUR	0.862	0.86	0.648	0.802	
Highest price, EUR	0.889	0.93	0.916	0.81	
Lowest price, EUR	0.831	0.854	0.638	0.644	
Average price, EUR	0.86	0.878	0.824	0.733	
Quantity, units	5,095,099	6,711,700	3,678,206	3,913,034	
Turnover, EUR million	4.38	5.89	3.03	2.87	
Capitalisation, EUR million	The Company	771.17	769.38	579.72	717.49
	Baltic Main List	5,043.31	5,853.81	5,281.28	5,932.68

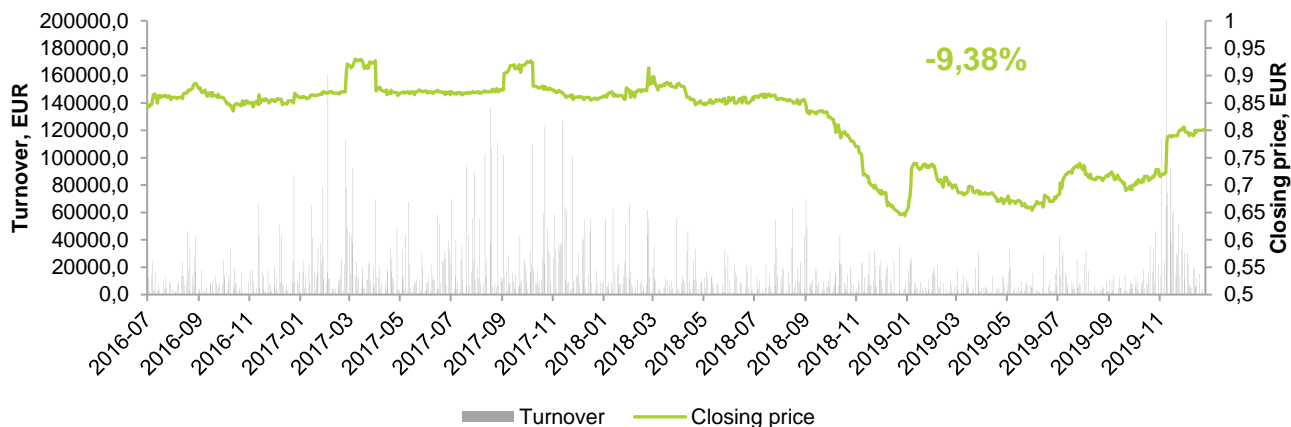
The Company's share price and turnover dynamics

Figure 6. ESO's share price and turnover dynamics during the reporting period



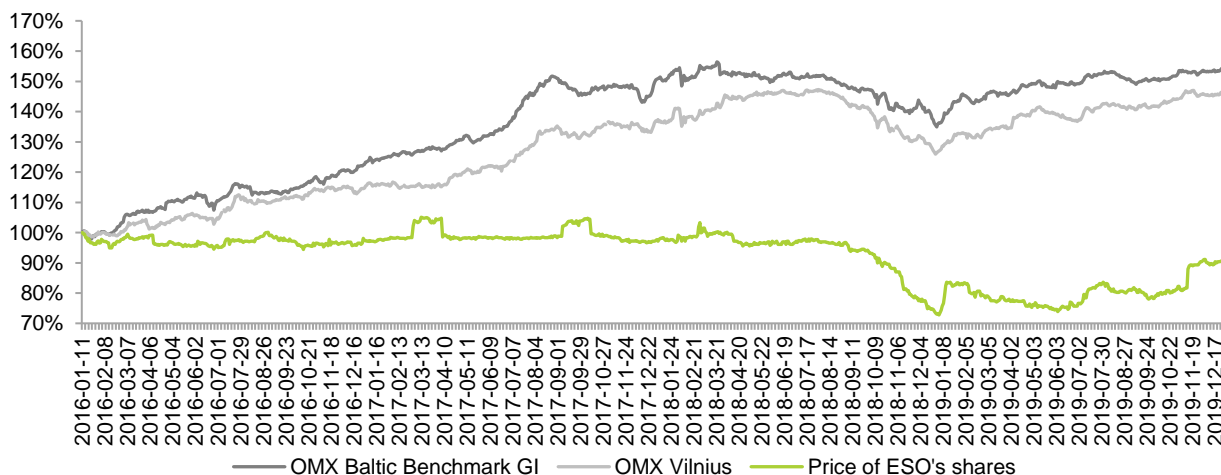
During the reporting period, the price of the Company's shares increased by 23.77%.

Figure 7. ESO's share price and turnover dynamics between the trading start date and end of the reporting period



Since the beginning of trading, the price of the Company's shares dropped by 9.38%.

Figure 8. Dynamics of ESO's share price, OMX Vilnius and OMX Baltic Benchmark Indices since the beginning of trade



Between the beginning of trading in ESO's shares and the end of December of 2019, the OMX Vilnius index increased by 46.23%, the OMX Baltic Benchmark index increased by 54.38 %, and the price of ESO's shares decreased by 9.38 % from its initial value.

Shareholder structure

All the persons who owned the shares of LESTO AB and Lietuvos Dujos AB on 11 December 2015, became shareholders of ESO, which took over all the assets, rights and obligations of LESTO AB and Lietuvos Dujos AB upon their reorganisation.

As of 31 December 2019, the Company had 8,794 shareholders in total.

Table 14. Shareholders owning more than 5% of ESO's issued capital as at 31 December 2019

Shareholder's full name (company name, legal form, registered office address, code)	Number of ordinary registered shares owned by the shareholder, units	Ownership interest in the issued capital, %	Percentage of voting rights conferred by shares owned
Ignitis Group UAB* Žvejų st. 14, LT-09310 Vilnius Company code 301844044	849,743.761	94.98	94.98

* On 6 September 2019, the amended Articles of Association of Lietuvos Energija UAB were registered and new name Ignitis Group UAB was introduced.

Table 15. Breakdown of the Company's shareholders by country as at 31 December 2019

Country	Number of shareholders, %	Country	Number of shareholders, %	Country	Number of shareholders, %
Lithuania	96.16	Russia	0.56	UK	0.17
Estonia	1.30	Belarus	0.44	Germany	0.13
Latvia	0.58	USA	0.19	Other countries	0.48

Rights of the shareholders, shareholders with special control rights and description of these rights

All rights conferred by ordinary registered shares are the same. The property and non-property rights granted by the shares are determined by the laws, other legal acts and the Articles of Association of the Company.

None of the shareholders of the Company had special control rights.

There were no restrictions on voting rights.

Restrictions on transfer of securities

According to the data of 31 December 2019, no restrictions on the transfer of securities were imposed during the reporting period.

Information on agreements with intermediaries of public trading in securities

The authorised manager of securities accounts of ESO is SEB Bankas AB.
The contact details of SEB Bankas AB are as follows:
Gedimino pr. 12, LT-01103 Vilnius;
T: 1528 or +370 5 268 2800.

Dividend policy and dividends

The dividend policy of Lietuvos energija (now – Ignitis Group UAB), which was approved in 2016, applies to ESO and is published on the Company's website under the section "For Investors". This policy establishes the uniform net profit appropriation principles to be applicable to all companies of the Group.

During the Ordinary General Meeting of Shareholders of the Company held on 30 March 2018, the Company's profit (loss) appropriation for 2017 was approved. It was decided to pay out dividends in the amount of EUR 22.7 million for the six-month period ended 31 December 2017. Dividends per share for this period amounted to EUR 0.02535. Dividends were received by those persons who were the Company's shareholders at the end of the tenth work day following the decision to pay out dividends made at the General Meeting of Shareholders, i.e. at the end of 16 April 2018.

Dividends were also paid out based on the decision made at the Extraordinary General Meeting of Shareholders held on 29 September 2017 regarding the pay-out of dividends to the Company's shareholders for the period shorter than the financial

year. Dividends allocated per share for the six-month period ended 31 December 2017 amounted to EUR 0.046 (EUR 41,2 million in total).

In 2017, the Company's net profit from continuing operations totalled EUR 77,6 million. The dividend/net profit ratio for this period was 0.82.

During the Extraordinary General Meeting of Shareholders held on **28 September 2018**, a decision was made to allocate dividends for the period shorter than the financial year. Dividends allocated per share to the Company's shareholders for the six-month period ended 30 June 2018 amounted to EUR 0.014 (EUR 11,9 million in total). Dividends were received by those persons who were the Company's shareholders at the end of the record day of the rights of the Company's shareholders, i.e. at the end of 12 October 2018.

During January–June 2018, the Company's net profit from continuing operations totalled EUR 17,8 million. The dividend/net profit ratio for this period was 0.67.

At the initiative and decision of the Management Board of the Company, the Ordinary General Meeting of Shareholders of the Company was convened on 30 April 2019. The Meeting decided not to allocate dividends for the reporting period of six months from 1 July 2018 until 31 December 2018.

CUSTOMER SERVICE, SERVICE ASSESSMENT

Number of customers being serviced

In 2019, ESO concluded 26,158 more contracts with private customers for connection to ESO's electricity distribution network or 51% more than in 2018, when 13,302 ESO's electricity distribution network service contracts were signed. Last year, 12,586 contracts with commercial customers were concluded or 29% more than in 2018, when 8,959 contracts with business customers were signed. In 2019, ESO connected 23,934 private customers to the electricity distribution network or 23% more than in 2018 (18,424 customers), and 16,217 commercial customers or 34% more commercial customers than in 2018 (10,742 customers).

In 2019, ESO concluded 7,928 contracts with private customers for connection to ESO's gas distribution network or 49% less than in 2018, when 15,448 contracts were signed. During January-December 2019, 324 contracts for gas network service were signed with commercial customers or 26% less than in 2018 (435 contracts). In 2019, 11,459 private gas consumers were connected – 20% less than in 2018 (14,340 private customers). In 2019, 334 commercial customers were connected to the ESO's gas distribution network or 17% less than in 2018 (401 customers).

Operation and development of electricity and gas metering devices

During a 12-month period in 2019, ESO replaced 58.6 thousand units of metering devices that no longer meet the meteorological requirements, whereof: 35 thousand units of electricity meters and 23.6 thousand units of natural gas meters. The Company installed 25.7 thousand electricity metering devices and 12.3 thousand natural gas metering devices for new customers.

By regularly renewing metering devices being operated, the Company and its authorised persons inspected more than 671 thousand electricity meters and more than 115 thousand natural gas meters during a 12-month period in 2019.

By investing in the modernisation and automation of the electricity metering equipment, during a 12-month period in 2019 ESO connected 4.4 thousand electricity metering devices to the existing automated data reading systems. As a result, the number of operated electricity meters that are scanned remotely reached nearly 44.2 thousand. The number of natural gas meters that are scanned remotely remained unchanged and is equal to 1.2 thousand. The automation of metering devices allows to automatically submit bills for electricity consumed to commercial customers and establish a precise amount of natural gas consumed by a commercial customer.

In order to improve quality of services, to create preconditions for the clients to follow their energy use accurately, to receive precise invoices, and to save energy by its rational use, the Company is implementing a program of installation of smart metering system in Lithuania. The investment project was coordinated with NERC on 19 September 2019, whereby it is planned to replace the current electricity meters by smart ones. It is planned in the first stage (until the end of 2023) to install smart meters for users, who use much electricity (preliminarily from 1000 kWh/year). The analysis of costs-benefits of installation of smart metering was presented to NERC in the end of 2019. 5 installation scenarios were analysed. The economic result of all the scenarios was negative. NERC assessed the submitted calculations on 16 January 2020 and confirmed that mass installation of gas smart metering is not reasonable in this stage. The analysis of costs-benefits will be renewed, when technological or economical preconditions change essentially, but, in any case, at least once in four years, as recommended by the European Commission.

The procurement of smart metering infrastructure was announced in the 1st half-year of 2019, whereby it is planned to acquire smart electricity meters (approx. 1,2 million units.) and IT system for meter management and secure data collection. The contract for the purchase of smart metering infrastructure is scheduled to be signed in 2020.

Court decision regarding the application of a tenderer in the smart meter procurement procedure

On 14 October 2019, the Vilnius Regional Court ruled that the *Energy Distribution Operator* (ESO) had reasonably rejected the tender of one of Suppliers in the procurement procedure of smart meters, which had been submitted belatedly. Having considered the actual circumstances of the Supplier's application, the court decided to dismiss the claim, to terminate the case and to cancel the interim measures - suspension of the procurement procedure.

Development of service channels

In order to improve customer service, ESO has increased the efficiency of its information processes, and has been promptly informing its customers in the event of faults and routine disconnections, which has reduced the need of customers to contact customer service channels and improved customer experience. In January–December 2019, information was provided to 493,461 ESO customers having called short customer service number 1802 (as from 7 September 2019, ESO has served its customers calling the toll-free service line 1852), compared to 417,155 customers served in January–December 2018 (excl. public supply-related issues, which Lietuvos Energijos Tiekimas, UAB (currently Ignitis UAB) took over from the Company on 1 October 2018).

As from 9 September 2019, ESO has served its customers in ESO service units and used the free service line 1852. During 2019, 69.2 thousand customers were serviced at the customer service centres (excl. public supply-related issues), whilst 69.3 thousand customers were served in 2018. Customers also use the free-of-charge telephone number 1804 of the gas emergency service. As from 2020, the customers for infrastructure related services may use only free-of-charge telephone number 1852 and self-service portal. For supply issues, customers are served by a public supplier or independent suppliers.

Management of customer settlements

At the end of December 2019, ESO had about 60 thousand customers who were provided with distribution and warranty supply service. An average of 53.6 thousand bills are generated per month, 93% of which, or about 50 thousand, are sent by electronic means (self-service + e-bills in banks). An average of about 7.2 thousand electronic bills, or 13%, which customers receive in their online banking, are generated per month, and about 6% of bills or 3.2 thousand pcs. per month are sent by regular mail.

Market liberalisation

As at 31 December 2019, independent suppliers supplied electricity to 66,055 (57 %) objects of commercial customers. The guaranteed provider ESO continued to supply electricity to the remaining objects.

Customer satisfaction

In August-September 2019, the market research company "Synopticom" conducted an ESO customer satisfaction survey. Customers were asked about their overall satisfaction with the Company and how likely they were to recommend ESO. 2,600 private and 400 business customers participated in the survey. The results of the ESO customer satisfaction survey revealed that currently the overall net promoter score (NPS) is 79%. The vast majority (8 out of 10) of customers are satisfied with the Company's services and service and would recommend ESO to other customers.

SOCIAL RESPONSIBILITY REPORT

ESO distributes electricity and gas, maintains distribution networks, installs smart solutions in them to ensure reliable and efficient networks, fixes malfunctions and connects new customers. By effectively managing its infrastructure, the Company aims to enable competition in the energy market.

The main functions of ESO include guaranteed electricity and gas supply, connection to electricity and gas networks, electricity and natural gas distribution, operation, maintenance, management and development of electricity and gas distribution networks by ensuring their safe and reliable operation.

By doing so responsibly, ESO seeks to contribute to the development of a cohesive society. ESO assumes the responsibility to contribute to the welfare of society through a secure continuous energy distribution and guaranteed supply, active participation in public education on the issues of safe and rational use of energy, installation of new, promising and efficient technologies, taking care of customers, employees, communities and promotion of awareness of contractors and suppliers.

Social Responsibility Policy

ESO's social responsibility activities are based on its values and are a manifestation of its attitude toward its operations, inclusion of social, environmental and transparency principles in its internal business processes, and in its relations with stakeholders.

Being engaged in its activities in a responsible manner, the Company follows the Social Responsibility Policy approved for the Ignitis Group ([link](#)). This document defines general responsible policies and provisions under which the business culture and practice of the socially responsible and sustainable group of companies is being developed. The Group of companies adheres

to its vision, mission, values and strategic objectives when implementing its social responsibility through focused activities in four key areas of environmental concerns, relationships with employees and society, market activities.

ESO identifies the following priorities for its responsible activities:

- Promotion of energy efficiency and reduction of environmental impact through energy conservation.
- Fostering of safe and responsible use of electricity and gas (both customers and employees).
- Safety and health at work.

All the companies of Ignitis Group, including ESO, comply with the ten Global Compacts principles which define corporate responsibility in the areas of human rights, employees' rights, environmental protection and anti-corruption, as well as seek to reduce the impact of their activities to environment, community and other businesses. Moreover, by joint efforts Ignitis Group tackles economic, social and environmental challenges, and contributes to the development of society and growth of economy.

Principles of the Global Compact:

Human rights

- Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights.
Principle 2. Make sure that they are not complicit in human rights abuses.

Employee rights

- Principle 3. Businesses should uphold the freedom of association and the effective recognition of the right to collect bargaining.
Principle 4. The elimination of all forms of forced and compulsory labour.
Principle 5. The effective abolition of child labour.

- Principle 6. The elimination of discrimination in respect of employment and occupation.

Environmental protection

- Principle 7. Businesses should support a precautionary approach to environmental challenges;
Principle 8. Undertake initiatives to promote greater environmental responsibility.
Principle 9. Encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

- Principle 10. Businesses should work against corruption in all its forms, including extortion and bribery.

These generally accepted and declared guidelines for responsible behaviour are a clear and strong reference to the Group of companies for the development of socially responsible business activities.

The Ignitis Group companies contribute to the Sustainable Development Goals as defined by the United Nations. The following principles of sustainable development are guided in ESO daily activities:

- Ensuring the sustainability of electricity and natural gas distribution and electricity supply, promoting economic and social development, while respecting the environment and meeting the interests of the target groups;
- Efficient use of natural resources for the ongoing activities;
- Smart and efficient use of energy and reduction of environmental impact during distribution and use of electricity and natural gas;
- Promoting a sustainable approach to the environment between employees, contractors, suppliers and the public.

Being a member of the Lithuanian Association for Responsible Business, ESO encourage other companies to join in the development of responsible, sustainable development-based activities leading to social and economic well-being.

Control over the implementation of these principles and management of related risks is an integral part of the Company's corporate control and risk management. This chapter and the following chapters of this Annual Report cover the main challenges and achievements in line with the above priorities and principles. The content is structured in accordance with the principles of the Global Compact and the requirements of the Law on Corporate Financial Reporting of the Republic of Lithuania.

Human rights

In carrying out its activities and providing services and acting in different communities, the Company follows the principles of human rights protection, supports and respects the international human rights protection within the area of its responsibility

and makes sure that it does not contribute to any human rights violations and speaks against any infringements on human rights.

In 2019, no violations in relation to discrimination or any other incidents in connection with human rights violations were identified in the Company.

Social and personnel issues

The Company respects the rights of its employees and comes out against child's work and against any discrimination both in the employee hiring process and among current employees. Trade unions are active and there is a valid collective agreement in the Company, which in 2019 January 9th was formed with all 7 trade unions operating in ESO. Also, a trade union representative was delegated to the ESO Supervisory Board in 2019.

Objective self-assessment by the employee and an assessment of the employee's competences by his/her supervisor is the only way in which employees are assessed in the Company. The Company is concerned about the improvement of its employees' competences. There is a transparent wage setting and payment procedures in place. The Company is also concerned about the employees' health, therefore, it organised informal events on its own initiative and invites all employees to them. The Company also tries to ensure that the organisational culture is favourable to its employees.

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

The Group Remuneration Policy was updated in 2019 ([link](#)), which also applies to its subsidiaries and sets out the cornerstone principles of remuneration management, was updated: internal justice, external competitiveness, clarity, transparency, flexibility, ensuring that employees all Group companies are rewarded in the same way for the same type of work, expertise and performance.

More information on the Company's staff composition, education, pay, competency development and employee representation is provided in this section "[The company and its governing bodies](#)".

Occupational Health and Safety

The Company adheres to the general provisions and principles of occupational health and safety at work and follows the main guidelines for their implementation and the standards of Occupational Health and Safety at Work Policy of the Ignitis Group and all requirements of the legal acts of the Republic of Lithuania related to occupational safety and health.

Potentially dangerous working environment. Employees and contractors of the Company conduct risk-posing activities in their daily work by using electricity distribution network and natural gas distribution system installations. In addition, potential risk might arise to employees who carry out specific tasks, e.g., work at height, in excavations, use of potentially hazardous devices, open fire sources – all this is attributed to the risk of failure to ensure health and safety at work for employees and contractors as well as residents.

Prevention of accidents. The greatest attention in the Company is devoted to the prevention of accidents:

- For the purpose of ensuring safety and health the OHSAS 18001:2007 certificate is continuously maintained;
- On an ongoing basis, workstations and the quality of work organisation of the Company's employees and contractors are checked and complex inspections of the Company's subdivisions are carried out;
- The Company continuously implements new and innovative measures to enhance the culture of security, increasing the involvement of the Company's employees and managers in occupational safety (conducting an analysis of violations found during inspections, making proposals for preventive measures, appointing responsible persons for their implementation, strengthening of the anti-sobriety system, which covers not only inspections of employees, but also healthy lifestyle education, enabling operational managers to use the smart workplace screening app on mobile phones to check workplaces).

In 2019, a number of initiatives on workplace safety have been implemented and the Safety and Health at Work campaign "Is it safe" has been launched. This campaign aims to highlight personal responsibility when making decisions about the person's own security.

Development of employees. In order to improve knowledge of employees, to grow their competences and responsibility for safe performance of works great attention is also paid to the development of employees. In 2019, periodic safety training of the Company's employees was conducted by using e-learning platform, and virtual training continued to be used to train employees on safe work. Two training sessions were created using virtual reality glasses. An e-shop app for employees "Eshopis" was also installed and launched. This program makes it easier for employees and their managers to order new and manage existing personal protective equipment.

In 2019, a new mobile application was launched to help technical security professionals verify ESO and contractor workstations for violations. The mobile applications simplify daily activities, communication and keeping statistics.

Staff training at the new Center for Practical Training in Panevėžys started. This centre provided training for 357 employees under 15 different training areas. The Center for Practical Training also hosted the excellence contest for contractors and ESO employees.

Health of employees. All employees, who must pass a medical check-up, can receive it for free. Employees working outdoors receive vaccines for tick-borne encephalitis at the Company's expense. Every year, all willing employees are vaccinated for flu at the workplace. Willing employees are covered by supplementary health insurance, which allows the insured employees to receive services provided by both public and private health care facilities, including treatment at selected clinics, visits to specialists, have various tests performed, purchase medication and use other wellness services. In the wake of the outbreak of measles, employees were offered a possibility to have their immunity to the disease tested at a lower price and, if necessary, were vaccinated for measles. In order to ensure first aid to employees, regional administrative buildings were supplied with defibrillators (8 units).

Table 16. Occupational safety and health indicators (during a 12-month period in 2019)

Incidents and accidents at work (minor, severe or fatal)	103 incidents, 94 of them – car accidents. 14 minor injuries: 4 of them on their way to/from work, 10 of them at work. The main reason for minor injuries is careless behaviour of employees at work place, when injured by slipping, tripping or falling. All injuries were investigated.
Occupational safety and health violations by contractors' employees in the Company's objects, and their nature	3,591 contractors' sites were inspected and 1,027 violations were identified. Operations were suspended 34 times due to complex or serious infringements. Nature: inappropriate registration of works, failure to use of personal protective equipment, improper working environment. 3 contractors' employees were involved in minor accidents.
Indicator of time lost as a result of OSH violations	2,582 hours or 323 working days were lost as a result of accidents at work

Environmental protection

In its activities, the Company seeks to preserve the environment, to use natural resources in an economic manner, to implement modern, effective and environmentally safe technologies in its production activity. The Company observes the requirements of legislation and standards which govern environmental protection and apply professional preventive measures which help reduce negative impact on the environment.

The Company's responsibilities and obligations in terms of the environmental impact of its activities are defined in its Environmental Policy ([link](#)).

In an effort to reduce ESO's overall environmental impact in the most efficient way, the Company is committed to focusing its efforts on the areas where impact is greatest and where action can deliver the best results. Each year, environmental objectives and targets are set based on these principles, which in turn are integrated into the Company's general business plans.

The Company complies with all environmental requirements and takes care of construction of new facilities and restoration of the old ones on its own initiative so that the Company's activities cause as little impact on the environment as possible. The Company organises environment management campaigns. Meetings of employees of different units are held using video conferences so as to reduce costs on transport and cause less emissions. The Company promotes the use of electronic devices, spare sheets of paper, sorting. The Company's employees tend to use less paper in their work activities, manage documents in an electronic way via the special document management system.

Landscape protection. To reduce the impact on landscape, new cables are being installed in place of old electricity overhead lines in areas where wires of existing overhead lines are thin and dangerously close to green spaces, outdated infrastructure has caused many breakdowns. Cable lines ensure a more reliable supply of electricity and are safer.

In order to safeguard reliable and safe electricity supply and to take care about animate nature, ESO has made arrangements with the Environmental Protection Agency under the Law on Protected Species of Animals, Plants and Mushrooms and is transferring the stork nests that cause hazard to electric network and human safety. In the course of repairing of unscheduled emergency failures of electricity lines, ESO is transferring the stork nest to close environment of birds – the stork nests are transferred within the distance of 100 meters from the original location of the wild bird's nest. ESO transferred 111 units of stork nests in 2019, while repairing the failures (96 units were transferred before 31 December 2019, the remaining – until 28 February 2020).

Protection of soil and groundwater. In order to prevent contamination of soil and groundwater, the collection and disposal of oil and other waste is always ensured in the areas where the construction, installation, operation and reconstruction of

electrical installations are envisaged. Oil collection tanks are installed in open switchyards and substations, where oil from the transformer stations and oil circuit breakers may leak into the ground and groundwater.

Saving of resources. The Company has implemented technological solutions to reduce paper costs and create a paperless office culture. The Company actively encourages its customers to choose electronic invoices. Around 93% of bills are sent by electronic means (self-service + e-bills in banks).

Waste management Contributing to environmental protection and pollution reduction in Lithuania, all waste generated from ESO activities is sorted by separating secondary raw materials, hazardous waste, accounted under GPAIS (Unified Product, Packaging and Waste Record Keeping System) and handed over to specialised waste management companies. The Company's partners (contractors) are subject to the same conduct of business standards. ESO has updated the principles for collecting 'reversible substances' resulting from contract work. During 2019, ESO generated in its activities and transferred 2,672.0462 tons of waste.

More environmentally friendly transport. At the end of 2019, the Company leased 17 electric cars. As the charging station network expands, the Company plans to increase its electric vehicle fleet. By replacing diesel and petrol vehicles with electric cars both operating costs and environmental pollution are reduced. At the end of 2019, the Company had 89 own and 833 leased cars. The Company also uses 194 special vehicles in its activities, of which 114 are trailers.

Public engagement. ESO implements large-scale, long-term social responsibility initiatives, which are combined with the active involvement of targeted public groups and ideas for security and energy efficiency. Through the media – television-radio, press and internet – the Company seeks to inform the public on safety principles that must be followed when performing field works. Special attention is devoted to reminding of an underground electricity and gas grid, also dissemination of advice on safe behaviour during storms. Much attention is given to the prevention of thefts that are a cause of disruption in operation of the electricity grid, as well as raising of public awareness.

Promoting energy efficiency

The Company is committed to continuously increase the efficiency of its distribution network. At the same time, the Company made agreement with the Ministry of Energy to invite companies and institutions operating in Lithuania to declare the energy savings they have achieved through the implementation of energy efficiency improvement solutions.

In order to increase the visibility and attractiveness of good examples in the field of energy efficiency, ESO founded Intelligent Energy Club (www.pazangienergija.lt) in 2019. This club brings together companies and organizations that have taken two steps forward more efficient consumption. The first step was made with introduction of energy efficiency measures. The second – with the energy savings achieved, enjoyed, and, most significantly, disclosed to the public by declaring on the ESO declaration platform.

Companies that are members of the Green Protocol have been also invited to become members of the Intelligent Energy Club. These are companies that have embraced and committed to green ideas: to implement energy efficiency measures, contribute to protecting the environment and reduce greenhouse gas (CO₂) emissions in Europe and around the world, encourage their employees, colleagues and relatives to contribute to an energy-efficient society.

By the end of 2019, 166 companies and institutions had already been members of the Intelligent Energy Club. During a year, the members of the club saved over 140 GWh of energy – the amount consumed by the whole Utena municipality.

In the autumn 2019, a traditional conference series "As **much as Industry Needs**" was held for the industry representatives. The project is designed to create the traditions of a rational living society, where solutions for rational use of electricity are sought, with a particular focus on business and industrial consumption. Over 300 business representatives from all over Lithuania attended the event. The potential and benefits of energy efficiency in five major Lithuanian cities were presented by ESO specialists, solution consultants, partners and service providers. Executives of energy-saving companies shared their experiences, and acknowledgements were awarded to the Intelligent Energy Club members who declared their energy savings to ESO.

In October 2019, the Company signed an agreement with the Ministry of Energy of the Republic of Lithuania on **Energy Consumers' Education and Counselling**, by which the Company undertook to educate and consult consumers of guaranteed supply on increasing energy efficiency issues, thus helping consumers to reduce their energy costs and increase energy efficiency. The Company is actively pursuing and continuing its energy efficiency initiatives by promoting energy efficiency in both household and industry consumers. In 2019, ESO published on its and Intelligent Energy Club's website guidelines on efficient energy use, as well as provided comparative analyses of energy use in households and published information on energy efficiency in different publications and media.

Anti-corruption

ESO does not tolerate any manifestations of corruption and are in favour of honest business and transparent communication with state institutions, supporting the Policy of Zero Tolerance of Corruption, valid throughout Group companies of Ignitis Group ([link](#)).

The Company pays all taxes in a transparent manner, ensures the transparency of procurements organised by it and requires that the potential and existing suppliers act by observing the principles of transparency and integrity. The Company trades in electricity on the electricity exchange by respecting the transparency principle, it does not take part in any transactions involving bribes or non-transparent behaviour. The Company provides to responsible institutions observations and proposals regarding new or amended relevant legal acts, assesses their transparency.

Risks are minimised by integrated internal control mechanisms intended to detect possible corruption risk factors. Prevention of corruption is one of the functions of the Company's Prevention Division. ESO carries out continuous operational control, improves business processes and takes measures to correct detected irregularities, and remove threats to the Company's reputation. The issues on the anti-corruption policy are regularly communicated to the Company's employees – meetings of executive personnel are held, lectures and discussions are initiated for employees.

An anonymous **trust line** is in place. It can be reached via the short number 1802 Both ESO employees and other persons can report breaches of ethics using email: pasitikejimolinija@eso.lt or by filling out a [trust line form provided](#) on the ESO website, under "Contacts".

Transparent public procurements. ESO is contracting authority. The centralized procurement function of Ignitis Group companies is carried out by the Ignitis Grupės Paslaugų Centras UAB (hereinafter "the GPC"). GPC carries out purchases and provides the services of the organisation and performance of public procurement of goods, services or works. The function of public procurement is centralised, procurement processes are standardised and concentrated on a single on-line platform.

In order to ensure transparent and open public procurement process and open dialogue, VAC invites suppliers to information meetings during which it informs them about high-value procurements planned by the contracting authorities.

ESO also publishes technical specification projects of all its procurements, except for low-value procurements, via the Central Public Procurement Information System (CVPIS) tools, additionally informs about respective publications in its webpages, and provides reports on procurement procedures and information on on-going procurements.

In 2019, as many as 1200 purchases were initiated by the Company. During the year, 192 claims with regard to procurements conducted by the Company were received, only 38 of them were recognised to be substantiated and were satisfied, and 32 claims were partially satisfied.

Provision of Support

In order to strengthen the implementation of the principle of transparency in the Group companies, including ESO, Ignitis Group and its companies do not provide any support as from 2018. Foundations used to provide support is going to be liquidated. New calls for proposals will not be accepted and applications will not be considered.

Awards

In October 2019, **ESO was recognized as one of the most transparent companies in Lithuania.** Transparency International Lithuanian branch assessed three key criteria: anti-corruption measures of the company, its organizational transparency and financial disclosure. Data were assessed by comparing domestic companies both nationally and in the context of international standards. According to TILS, ESO received the maximum score of 100%, and compared to similar evaluations carried out in previous years, it improved the indicator by more than 20%.

On 24 October 2019, according to the **Doing Business 2020** report published by the World Bank, **Lithuania has jumped to 15th place** in terms of the getting electricity indicator, i.e. **11 position higher** than in 2019 – 26th place (33rd place in 2018, 55th place in 2017). Getting electricity score is one of the 10 criteria, which is used to measure the country's overall Doing Business ranking. This year, the number of power grid connection procedures has been reduced from 4 to 3 by waiving the requirement to provide a certificate of the National Energy Regulatory Council on the inspection of the customer's internal electricity network by replacing it with the certificate provided by a contractor. ESO is also initiates other proposals to further simplify the electricity introduction process. One of the proposals is to waive the requirement for those seeking to connect to electricity distribution networks to complete an application Summing up all World Bank-rated indicators, Lithuania has raised the country's overall ranking by 3 positions to 11th place among 190 economies in the world.

THE COMPANY AND ITS MANAGEMENT BODIES

Table 17. Information about the Company and its contact details

Company name	Energijos Skirstymo Operatorius AB
Company code	304151376
Authorised share capital	EUR 259,442,796.57
Registered office address	Aguonų g. 24, LT-03212 Vilnius
Telephone	(8 5) 277 7524
Fax	(8 5) 277 7514
E-mail	info@eso.lt
Website	www.eso.lt
Legal-organisational form	Public limited liability company
Date and place of registration	11 December 2015, the Lithuanian Register of Legal Entities
Register accumulating and storing data about the Company	Register of Legal Entities
Registrar	State enterprise Centre of Registers

ESO started its operations on 1 January 2016 after the merger of LESTO AB and Lietuvos Dujos AB. ESO took over from LESTO and Lietuvos Dujos all their assets, rights and obligations as well as all non-current and current assets, non-current and current financial and other obligations, amounts receivable and payable under the agreements signed by LESTO and Lietuvos Dujos, including any other otherwise arising obligations.

The main functions of ESO include electricity and natural gas distribution, guaranteed electricity and gas supply, connection to electricity and gas networks, ensuring safe and reliable operation of electricity and gas distribution networks, their operation, maintenance, management and development.

The geographical market of ESO is the entire territory of Lithuania.

Information on the Company's branches and representative offices

The Company has no branches or representative offices.

Information about ownership interest in other entities

ESO is part of one of the biggest groups of energy companies in the Baltic countries – Ignitis Group UAB (until 6 September 2019, Lietuvos Energija UAB), which owns 94.98% of the Company's share capital.

As at 31 December 2019, ESO had no subsidiaries.

At the end of reporting period, ESO, jointly with other companies, controlled Verslo Aptarnavimo Centras UAB and Technologijų ir Inovacijų Centras UAB (until 6 September 2019, Technologijų ir inovacijų centras UAB).

Table 18. Main information about related companies

	Ignitis Grupės Paslaugų Centras UAB	Verslo Aptarnavimo Centras UAB
Address	A. Juozapavičius st. 13, Vilnius	P. Lukšio st. 5B, Vilnius
Registration date	As at 04 December 2013	As at 30 July 2014
Company code	303200016	303359627
Telephone	(8 5) 278 2272	(8 5) 259 4400
Fax	(8 5) 278 2299	(8 5) 259 4401
E-mail	gpc@ignitis.lt	vac@ignitis.lt
Website	www.ignitisgrupe.lt	www.ignitisgrupe.lt
Ownership interest held by ESO (at 31 December 2018)	26.84%**	22.25%
Principal activities	Provision of information technology and telecommunication services for the companies in the energy sector	Provision of services of organisation and performance of public procurements, accounting, administration of employment relationships, customer service, administration of human resources, legal

services, communication services, consultations and trainings on operational efficiency.

* Following completion of the reorganization proceedings of Ignitis Grupės Paslaugų Centras UAB and Verslo Aptarnavimo Centras UAB after the reporting period, Verslo aptarnavimo centras UAB was removed from the Register of Legal Entities on 2 January 2020. After the reorganization, Ignitis Grupės Paslaugų Centras UAB continues its activities and provides services.

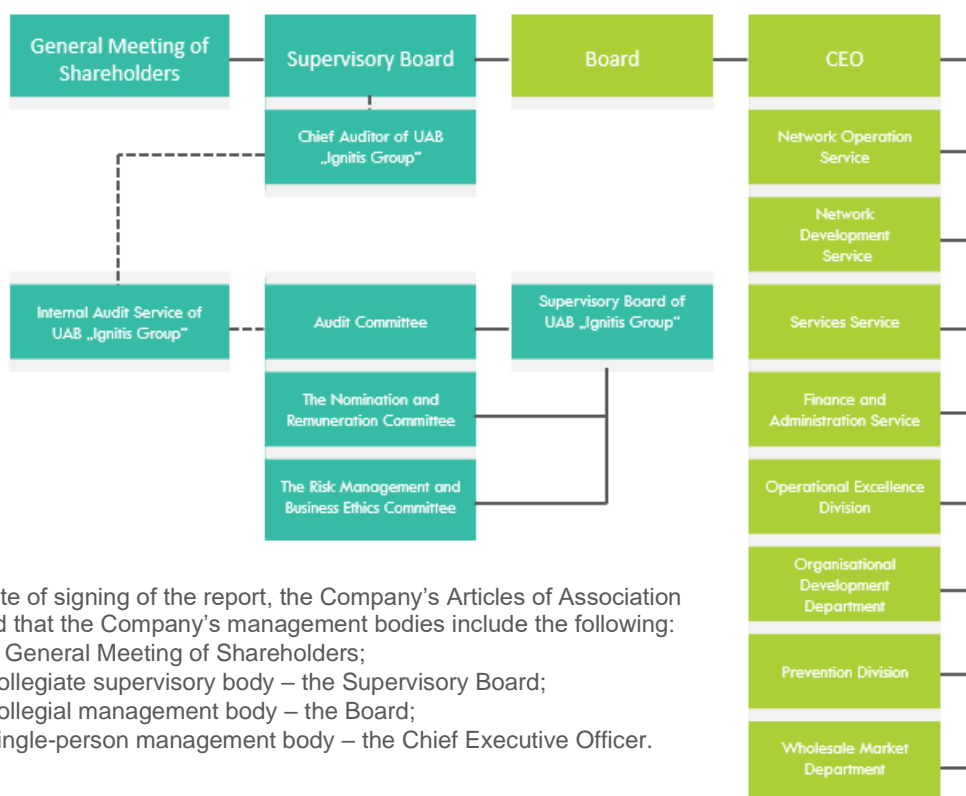
** Following completion of the reorganization proceedings of Ignitis Grupės Paslaugų Centras UAB and Verslo Aptarnavimo Centras UAB after the reporting period, as from 1 January 2020 the Company owns 26.3976% of Ignitis Grupės Paslaugų Centras UAB shares.

Information on major related party transactions

Information on related party transactions is available in the Notes to the Annual Financial Statements of January–December 2019.

Corporate Governance

Figure 9. The Company's organisational structure (as at 31 December 2019)



At the date of signing of the report, the Company's Articles of Association stipulated that the Company's management bodies include the following:

- the General Meeting of Shareholders;
- a collegiate supervisory body – the Supervisory Board;
- a collegial management body – the Board;
- a single-person management body – the Chief Executive Officer.

The Ignitis Group of companies abides by the equal opportunity policy of Lietuvos Energija UAB which regulates the principles of the implementation of equal opportunities and supervision of their performance, as well as the implementing measures of these principles at the companies of Ignitis Group. The principles of equal opportunities defined in this policy apply not only to the selection of all employees without distinction, but also to the selection of members of corporate management and supervisory bodies.

Amendment procedure of the Articles of Association

The General Meeting of Shareholders has the right to amend the Articles of Association of ESO.

General Meeting of Shareholders

The General Meeting of Shareholders is the supreme management body of the Company.

The competence of the General Meeting of Shareholders, the procedure of its convocation and decision-making are established by laws, other legal acts, and the Company's Articles of Association. During the reporting period, the Company's shareholders had equal rights (both property and non-property) established by laws, other legal acts, and the Company's Articles of Association. None of the shareholders of the Company had any special control rights; all shareholders have equal rights.

During the reporting period, the management bodies of the Company created proper conditions for the implementation of the rights of the Company's shareholders.

During the reporting period, one annual and three extraordinary general meeting of shareholders were held. 2 shareholders registered directly for participation at the annual general meeting of shareholders held on 30 April 2019, and no shareholders of the Company registered for participation at the extraordinary general meetings of shareholders of 22 February 2019 and 15 October 2019. 16 shareholders registered directly for participation at the extraordinary general meeting of shareholders held on 4 December 2019.

The Company's CEO (Chairman of the Board) and the Director of the Finance and Administration Service (Member of the Board) participated at the annual general meeting of shareholders of the Company held on 30 April 2019. The Company's CEO (Chairman of the Board) and the Director of the Finance and Administration Service (Member of the Board), and all members of the Board participated at the extraordinary general meeting of shareholders of the Company held on 4 December 2019.

Information on voting results of the Company's shareholders during the above-mentioned and previous General Meetings of Shareholders is available on the Company's website under "For Investors".

The Company's Supervisory Board

ESO'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. Following registration of the new wording of the Articles of Association on 3 July 2019, the Company's Supervisory Board has five members elected for the term of office of four years by the General Meeting of Shareholders.

The main competences of the Company's Supervisory Board are the following:

- to deliberate and approve the Company's operational strategy, analyse and assess information about the implementation of the Company's operational strategy, submit this information to the ordinary general meeting of shareholders;
- to elect the Board members and remove them from office;
- to supervise the activities of the Board and the General Manager;
- to submit its comments and proposals to the general meeting of shareholders on the Company's set of the annual financial statements, proposed profit (loss) appropriation and the Company's annual report as well as the activities of the Board and the General Manager;
- to submit its comments and proposals to the general meeting of shareholders on the decision regarding the proposed allocation of dividends for a period shorter than the financial year, prepared set of the interim financial statements and interim report;
- in consideration of the conclusion of the Company's Audit Committee, to provide opinion regarding transactions planned to be concluded between the Company and the related party (if they meet the criteria stipulated in the Company's Articles of Association);
- to submit proposals to the Board and the General Manager to revoke their decisions which are not in conformity with the laws and other legal acts, the Articles of Association of the Company or the decisions of the General Meeting of Shareholders;

to address other issues assigned within its powers by the Company's Articles of Association and by decisions of the General Meeting of Shareholders regarding the supervision of the activities of the Company's management bodies.

At the beginning of the reporting period (1 January 2019), Darius Maikštėnas, Darius Kašauskas and Kęstutis Betingis worked in the Supervisory Board of the Company. At the Extraordinary General Meeting of Shareholders of the Company held on 15 October 2019, Žaneta Kovaliova, as an independent member, and Dalia Jakutavičė, as the employee representative, were elected for the remainder of the term of the existing ESO's Supervisory Board.

The expected end of term of office of the current Supervisory Board of the Company is 30 March 2022.

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

Overall 13 meetings of the ESO's Supervisory Board were held during the reporting period, and all of them were attended by all members of the Supervisory Board.

Activities of the Supervisory Board in 2019 covered the following key areas:

- Provision of an opinion to the Company's Board on the change of the General Manager's remuneration;
- Assessment and provision of an opinion on the Company's related party transactions;
- Evaluation of the decisions made by the Company's Board regarding the approval of the Company's programming documents and provision of opinion;
- Evaluation of the Company's 10-year investment plan and provision of opinion;
- Approval of the Company's Strategy 2030;
- Periodic monitoring and evaluation of the Company's performance;
- Assessment of the achievement of the Company's annual performance targets (indicators);
- Submission to the General Meeting of Shareholders of the opinion on the Company's annual financial statements, the Company's profit (loss) allocation project, the Company's annual report, the draft decision on dividend distribution for less than a financial year, decision to approve the interim financial statements and the interim report.

• More details about the members of the Company's Supervisory Board are available in the table below. Description of their education and professional experience is available on the Company's website under section Company Management.

Table 19. The composition of the Supervisory Board of ESO (as at 31 December 2018)*

				
Darius Maikštėnas Chairman	Darius Kašauskas Member	Kęstutis Betingis Independent member	Žaneta Kovaliova Independent member	Dalia Jakutavičė Employee representative, Member
Elected from: 30 March 2018	Elected from: 30 March 2018	Elected from: 28 March 2018	Elected from: As at 15 October 2019	Elected from: As at 15 October 2019
End of term of office: 30 March 2022	End of term of office: 30 March 2022	End of term of office: 30 March 2022	End of term of office: As at 30 March 2022	End of term of office: As at 30 March 2022
Education				
Harvard Business School, General Management Program; Baltic Management Institute, Master's degree in Business Administration; Kaunas University of Technology, Bachelor's degree in Business Management	ISM University of Management and Economics, Doctoral studies of Social Sciences in the field of Economics; ISM University of Management and Economics, BI Norwegian Business School, Master's degree in Management; Vilnius University, Master's degree in Economics	Vilnius University, Master's degree in Law; Lithuanian Institute of Public Administration, the Organisation Leaders Training Programme for Heads of Public Prosecutors (OLYMP-38)	Vilnius University, Bachelor and Master's degree in Business Management and Administration	Kaunas School of Radio and Television Mechanics Kolping College, Law (Specialization - Public Administration) Professional competence of social dialogue mediator
Principal workplace and position held				
Ignitis Group UAB, Chairman of the Board, CEO	Ignitis Group UAB, member of the Board, Finance and Treasury Director	Betingio ir Ragaišio Lawyer Firm, lawyer	UP Consulting Group Ltd CEO	Lithuanian Energy Workers' Trade Union Federation Deputy Chairwoman, lawyer
Participation in the activities of other companies and organisations				
Name of a company, body, organisation, position held	Name of a company, body, organisation, position held	Name of a company, body, organisation, position held	Name of a company, body, organisation, position held	Name of a company, body, organisation, position held
WIDER COMMUNICATIONS INCORPORATED, DELAWARE CORPORATION, USA, shareholder, the member of the Board (until 21/05/2019); WIDER COMMUNICATIONS LIMITED PRIVATE LIMITED COMPANY, UK a sole member of the Board (until 21/05/2019)	Duomenų logistikos centras UAB, Chairman of the Board; Lithuanian Energy Support Foundation, Member of the Board; 288th DNSB Vingis, Member of the Revision Commission; Energetikos paslaugų ir rangos organizacija UAB, Chairman of the Board (until 24 October 2019).	–	Member of the Association of Chartered Accountants (ACCA) Certified auditor of Lithuania (inactive status) Būsto paskolų draudimas, UAB, independent member of the Board.	–

Percentage of share capital and voting rights of other companies held in excess of 5%				
-	-	-	-	-
Compensations calculated during January–December 2019, in EUR** (for activities in the Supervisory Board)				
-	-	10,559.69	2,062.02	2,503.78

* The Extraordinary General Meeting of Shareholders of the Company, held on 15 October 2019, elected Ms. Žaneta Kovaliova as independent member of the Supervisory board of ESO and Ms. Dalia Jakutavičė as representative of the employees of the Company in the Supervisory board of ESO. New members of the Supervisory board of ESO started their duties after the Extraordinary General Meeting of Shareholders who elected them.

** According to the ESO's Articles of Association, agreements may be concluded with the members of the Supervisory Board regarding the activity related to the Supervisory Board, which establish members' rights, obligations and responsibility. Remuneration for work at the Supervisory Board can be paid to the independent members of the Supervisory Board and upon the decision of the General Meeting of Shareholders. The terms and conditions of the agreements with the members of the Supervisory Board, including the independence criteria, are established at the General Meeting of Shareholders in accordance with the requirements set forth in the relevant legal acts and based on the best corporate governance practices."

The Company's Board

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

The Company's Board adopts decisions on the following matters:

- the Company becoming a founder, participant of legal entities;
- any transfer of shares (a part thereof, members' shares) held by the Company or rights granted by these shares to other persons or restrictions regarding such transfer;
- establishment of the Company's branches or representative offices and discontinuance of their activities;
- issuance of bonds;
- disposal of objects owned by the Company and stipulated in the Lithuanian Law on Enterprises and Facilities of Strategic Importance to National Security and Other Enterprises Important to Ensuring National Security;
- conclusion of certain agreements, the value of which exceed EUR 3 million;
- adopts other decisions stipulated in the Company's Articles of Association.

In certain cases, before adopting decisions, the Board is required to obtain comments from the Supervisory Board, approval from the General Meeting of Shareholders.

In view of the opinion of the Supervisory Board, the Board elects and recalls the Chief Executive Officer, decides on his/her remuneration and other terms of employment contract, approves his/her job regulations, provides incentives and imposes penalties.

The composition of the Board of the Company was not changed during the reporting period.

The expected end of term of office of the current Board is 27 December 2022.

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






Activities of the Company's Board in 2019 covered the following key areas:

- Evaluation of the most significant transactions planned by the Company, approval of their conclusion and approval of essential terms of transactions.
- Establishment of the General Manager's remuneration, taking into account the opinion of the Supervisory Board.
- Evaluation of the arrangement of the Company's activities and taking decisions related thereto.
- Establishment of the Company's organizational structure, staff job descriptions, and a list of the maximum establishments;
- Evaluation and approval of the Company's operational planning documents, taking into account the opinion of the Company's Supervisory Board;
- Convocation of general meetings of the Company;
- Approval of the Company's annual report and interim report adopted with a view to making a decision on allocation of dividends for the period shorter than the financial year and submission to the Supervisory Board and General Meeting of Shareholders;
- Evaluation of the Company's annual financial statements and profit (loss) distribution project, interim financial statements adopted with a view to making a decision on allocation of dividends for the period shorter than the financial year, the draft decision on dividend distribution for less than a financial year and provision of feedback to the Supervisory Board and the General Meeting of Shareholders.

Overall 34 meetings of the Board were held in the reporting period. All of them were attended by all elected members of the Board.

More details about the members of the Company's Board are available in the table below. Description of their education and professional experience is available on the Company's website under section „About Us→Management“.

Table 20. The composition of the Board of ESO (as at 31 December 2019)

				
Mindaugas Keizeris Chairman of the Board CEO	Augustas Dragūnas Board member	Renaldas Radvila Board member	Virgilijus Žukauskas Board member	Ovidijus Martinonis Board member
In the position of the CEO from: 8 October 2018 In the position of the Chairman of the Board from: 27 December 2018 End of term of office: 27 December 2022	In this position from: 27 December 2018 End of term of office: 27 December 2022	In this position from: 27 December 2018 End of term of office: 27 December 2022	In this position from: 27 December 2018 End of term of office: 27 December 2022	In this position from: 27 December 2018 End of term of office: 27 December 2022
Education				
Vilnius University, Bachelor's degree in Business Administration and Management; Vilnius University, Master's degree in International Business; Baltic Institute of Corporate Governance, Professional board member	Vilnius University, Master's degree in Business Management and Administration	ISM University of Management and Economics, Executive MBA degree Vilnius University, Bachelor's degree in Economics	Kaunas University of Technology, Master's degree in International Trade and Bachelor's degree in Electrical Engineering	Kaunas University of Technology, Bachelor's and Master's degrees in Telecommunication and Electronics
Principal workplace and position held				
ESO's Chief Executive Officer	ESO's Finance and Administration Service Director	ESO's Services Director	ESO's Networks Operation Service Director	ESO's Networks Development Service Director
Participation in the activities of other companies and organisations				
Ignitis Grupės Paslaugų Centras UAB (until 6 September 2019, Technologijų ir inovacijų centras UAB), Member of the Board (since 27/06/2019). Verslo Aptarnavimo Centras UAB, Member of the Board (since 17/06/2019). Representative to the European Association of Distribution System Operators (E.DSO) Member of the Council of the National Lithuanian Energy Association Lietuvos Energija Support Foundation, Chairman of the Board	Ignitis Grupės Paslaugų Centras UAB, Member of the Board (until 27/06/2019) Verslo aptarnavimo centras UAB (until 17/06/2019)			
Percentage of share capital and voting rights of other companies held in excess of 5%				
–	–	–	–	–
Compensations calculated during January–December 2019, in EUR (for activities in the Board) *				
21,780	15,600	15,600	15,600	15,600

* As from 1 December 2014, the accounting function has been moved from the Company to Verslo Aptarnavimo Centras UAB, and accordingly, the Company no longer has accounting employees, nor the Chief Financier. Verslo Aptarnavimo Centras UAB performs a complete set of accounting services for the Company, starting with the recording of the source documents into the accounting software and ending with the preparation of the financial statements.

The Company's Management

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

Table 21. Information on the remuneration calculated for the Chief Executive Officer and Chief Accountant of ESO

	Remuneration during January–December 2019, in EUR	The variable component of the remuneration paid for the results of the previous year during January–December 2019, in EUR	Total payment during January–December 2019, in EUR
Mindaugas Keizeris, CEO	74,298	25,189**	99,487

** of which EUR 19,862 is the deferred variable salary component (VSC) for 2017 and 2018: when holding the post of the Director for Strategy and Development of Lietuvos Energija UAB (since 6 September 2019 Ignitis Group UAB), from 1 January 2017 until 11 February 2018; when holding the post of the Acting CEO of Lietuvos Energija UAB (since 6 September 2019 Ignitis Group UAB) from 23 September 2017 until 11 February 2018; for holding the post of the Director for Corporate Management of Lietuvos Energija UAB (since 6 September 2019 Ignitis Group UAB) from 12 February 2018 until 7 October 2018; EUR 5,327 was the VSC for holding the post of the CEO of ESO from 8 October 2018 until 31 December 2018.

ESO has neither transferred management of assets nor issued guarantees to the members of the bodies. During January–December 2019, the Company did not grant any loans to the members of the management bodies, nor provided any guarantees or sureties to secure the fulfilment of their obligations.

Information about the Committees

The committees of the Supervisory Board of Ignitis Group (until 6 September 2019, Lietuvos Energija UAB) are formed in the Ignitis Group of companies. They have the competence to submit conclusions, opinions and suggestions to the Supervisory Board of Ignitis Group UAB. The committee must have at least three members, where at least one member has to be a member of the Supervisory Board and at least one member has to be independent. The members of the committees are elected for the period of four years. The activities of the committees apply to Ignitis Group UAB and its directly and indirectly controlled subsidiaries, including the Company, as well as other legal persons with different legal status, over which Ignitis Group UAB directly or indirectly may have significant influence.

The following committees of the Supervisory Board are operating in Ignitis Group UAB:

- **The Risk Management and Business Ethics Supervision Committee** is responsible for the submission of conclusions or proposals to the Supervisory Board on the functioning of the management and control system in the group of companies and (or) the most important risk factors and implementation of risk management or prevention measures; for the monitoring of the system of risks related to compliance with business ethics, bribery and corruption and provision of recommendations to the Supervisory Board;
- **The Audit Committee** is responsible for the submission of objective and impartial conclusions or proposals to the Supervisory Board on the functioning of the audit, transactions with related parties as stipulated in the Lithuanian Law on Companies, and the internal control system in the group of companies;
- **The Nomination and Remuneration Committee** is responsible for the submission of conclusions or proposals on the matters of appointment, removal or promotion of the members of management and supervisory bodies of the group of companies to the Supervisory Board, also for the assessment of activities of the Board and its members and for issuing the respective opinion. The functions of the Committee also cover the formation of the common remuneration policy at the group level, establishment of the amount and composition of remuneration, principles of promotion, etc.

If necessary, other committees may be formed according to the ad hoc principle (e.g., to solve special issues, to prepare, supervise or coordinate strategic projects, etc.).

On the date of publication of the report, the committees of Risk management and business ethics supervision, Audit and Nomination and remuneration were operating in *Ignitis Group*.

The Audit Committee

The main functions of the Committee are as follows:

- to supervise the financial reporting process of Lietuvos Energija and its group entities, with a special focus on the relevance and consistency of accounting methods used;
- to monitor the effectiveness of internal control and risk management systems of Lietuvos Energija and the companies of the Lietuvos Energija group affecting the financial statements of the audited entity;
- to observe compliance of the auditors or audit firm with the principles of independence and objectivity, to provide recommendations on the selection of an audit company;

- to monitor the audit processes of Lietuvos Energija and the companies of the Lietuvos Energija group, examine the audit effectiveness and the administration's response to the audit firm's recommendations to the management;
- to monitor the effectiveness of the internal audit function at Lietuvos Energija and the companies of the Lietuvos Energija group, to provide to the Supervisory Board recommendations on the selection, appointment and removal of the head of the Company's Internal Audit Service, to coordinate and regularly evaluate the activities of the Company's Internal Audit Service, to discuss the results of verifications regarding the removal of identified deficiencies, implementation of internal audit plans;
- to approve regulations of the Company's Internal Audit Service, internal audit plan;
- to monitor the compliance of activities of Lietuvos Energija and the companies of the Lietuvos Energija group with laws and other legal acts of the Republic of Lithuania, articles of association and operational strategy;
- to provide opinion to the entities of the Company who shares are traded in the regulated market on transactions with a related party as stipulated in Article 37(5) of the Lithuanian Law on Companies;
- to assess and analyse other issues attributed to the competence of the Committee by the decision of the Supervisory Board;
- to perform other functions related to the functions of the Committee set forth by legal acts of the Republic of Lithuania and the Corporate Governance Code of companies listed on the NASDAQ Vilnius Stock Exchange.

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

Table 22. Members of the Audit Committee at the end of the reporting period

Committee member	Number of shares held at the Company (%)	Term of office	Name of employer, job position
Irena Petruškevičienė Chairwoman of the Committee, Independent member	–	October 2017– October 2021	- ISM University of Management and Economics, Head of the executive Master's degree module 'Finance Strategy and Management' - The Authority of Audit, Accounting, Property Valuation and Insolvency Management under the Ministry of Finance of the Republic of Lithuania, Member of the Audit Supervision Committee European Stability Mechanism (ESM), Member of the Board of Auditors
Danielius Merkinas Independent member	–	October 2017– October 2021	- NNT Termo UAB, Director, Chairman of the Board - Nordnet UAB, Commerce Manager, Chairman of the Board - Mercado Prekyba UAB, Director - Litcargos UAB, Chairman of the Board Lietuvos Paštas AB, Member of the Board
Aušra Vičkačkienė Member	–	October 2017– October 2021	Lithuanian Ministry of Finance, Asset Management Department, Director
Ingrida Muckutė Member (from 23 March 2018)	–	March 2018– October 2021	The Ministry of Finance of the Republic of Lithuania, Accountability, Audit, Property Valuation and Insolvency Policy Department, Head
Šarūnas Radavičius Independent member (from 23 March 2018)	–	March 2018– October 2021	Rodl & Partner UAB, Director

The term of office of the current Audit Committee is from 13 October 2017 to 13 October 2021.

During the reporting period, 16 sittings of the Audit Committee were held.

The Risk Management and Business Ethics Supervision Committee

The main functions of the Committee as follows:

- to monitor the way the risks relevant for the achievement of the targets set for Lietuvos Energija UAB and the companies of the Lietuvos Energija group are identified, assessed and managed;
- to assess the adequacy of internal control procedures and risk management measures in view of the risks identified;
- to assess the progress achieved in the implementation of risk management measures;
- to monitor the process of risk management;
- to analyse the financial possibilities for the implementation of risk management measures;
- to assess the risks and the risk management plan for Lietuvos Energija and the companies of the Lietuvos Energija group;
- to assess the periodic cycle of risk identification and assessment;

- to monitor availability of risk registers, analyse their data, provide recommendations;
- to monitor the availability of internal documentation pertaining to risk management;
- to assess the sufficiency, adequacy of the internal documents regulating the group's fight against bribery and corruption and regularly perform supervision of their implementation/compliance;
- to regularly monitor information related to actions, events for managing the ensurance of business ethics and unresolved incidents (ensurance of transparency, prevention of bribery, management/prevention of the risk of corruption, etc.);
- to perform other functions assigned to the Committee based on the decision of the Supervisory Board of Lietuvos Energija.

Table 23. Members of the Risk Management and Business Ethics Supervision Committee at the end of the reporting period

Member of the Committee	Number of shares held at the Company (%)	Term of office	Name of employer, job position
Andrius Pranckevičius Chairman of the Committee	–	April 2018– April 2020	- Linas Agro Group AB, Deputy Chief Executive Officer, Member of the Board Kekava PF, Chief Executive Officer and Chairman of the Board
Darius Daubaras Independent member	–	April 2018– April 2020	Saudi Aramco (an oil and gas industry company), Finance and Development Projects Unit, Chief Advisor
Šarūnas Rameikis Member	–	April 2018– April 2020	R. Mištautas and T. Milickis law firm Konsus, Lawyer

The term of office of the incumbent Risk Management and Business Ethics Supervision Committee is from 24 April 2018 to 24 April 2022.

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

Nomination and Remuneration Committee

Main functions of the committee:

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

Table 24. Members of the Nomination and Remuneration Committee at the end of the reporting period

Committee member	Number of shares held at the Company (%)	Term of office	Name of employer, job position
Daiva Lubinskaitė-Trainauskienė Chairwoman of the Committee, Independent member	–	September 2017– September 2021	Thermo Fisher Scientific Baltics UAB, Human Resources Director. Association of Human Resource Management Professionals, Member of the Board
Aušra Vičkačkienė Member	–	September 2017– September 2021	Lithuanian Ministry of Finance, Asset Management Department, Director
Daiva Kamarauskienė Member	–	From March 2019 To September 2021.	Budget Department of the Ministry of Finance, Director
Lėda Turai – Petrauskienė Independent member (from 28 March 2018)	–	April 2018– September 2021	L-CON Global UAB, Leadership Development Partner, Shareholder Vilnius University of Management and Economics, Head of the Leadership Module of the Executive MBA programme

The term of office of the incumbent Nomination and Remuneration Committee is from 13 September 2017 to 31 September 2021.

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

Employees of the Company

The Company's personnel policy focuses on a continuous professional development of employees and formation of an organisational culture ensuring the creation of higher added value for customers, partners and society. As at 31 December 2019, the actual number of the Company's employees was 2,374*.

Table 25. Structure of the Company's employees by category

Category of employees	Number of employees As at 31/12/2019
Chief executive officer (CEO)	1
Top-level managers	5
Medium-level managers	197
Experts, specialists	1,563
Workers	608
Total number of employees	2,374*

* The actual number of the Company's employees, excluding employees on maternity leave and parental leave, as well as employees at the military service.

Table 26. Structure of the Company's employees by educational background

Education	Number of employees As at 31/12/2019
Higher education	58.90 %
Advanced vocational education	14.45 %
Secondary and vocational education	26.35 %
Other	0.30 %

Remuneration system

ESO applies the Ignitis Group UAB remuneration standard, which guarantees: internal justice, that is, equal pay for equal work or work of equal value; external competitiveness, where employees in a group of companies are paid a remuneration that is competitive in the country of employment; transparency, because we want employees and the public to know that the remuneration, paid within the group of companies, is based on objective and transparent criteria and that the remuneration policy is made public; clarity and flexibility. This standard facilitates the effective management of the Company's costs and ensures that strategic goals and business management logic of ESO are reflected in the remuneration system.

The employee remuneration package consists of financial, non-financial and emotional remuneration. The financial remuneration includes a fixed part of remuneration specified in the employment agreement and paid to the employee on a monthly basis, as well as a variable component of the remuneration paid when the set activity objectives are achieved, as well as additional payments stipulated in the collective employment agreement (for overtime, night work, etc.).

Non-financial rewards are an indirect form of employee remuneration resorted to by the Company for the encouragement of employees' efforts, engagement and loyalty, enhancement of employees' well-being and job enrichment. Such rewards include various events organised by the Company, recognition and rewarding of employees who demonstrated outstanding performance, promotion of a healthy way of living, staff development, health insurance and training.

Emotional remuneration is not easily measured, however it plays an important role in terms of employee engagement in the Company's activities. Emotional remuneration includes the Company's reputation, organisational culture and values, career opportunities, various internal communication programmes that give employees an opportunity to share their ideas, rise concerns, get acquainted with the daily activities of other units.

Table 27. Average salary of the Company's employees

Category of employees	Average salary, in EUR (before taxes) January–December 2019
Chief executive officer (CEO)	8,701
Top-level managers	6,597
Medium-level managers	2,967
Experts, specialists	1,750
Workers	1,508

Total number of employees	1,804*
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* The average salary consists of a fixed component (salary, annual leave, short-term sick pay, work on weekends and holidays in case of emergencies, etc.) and a variable component (proportionally calculated for 1 month).

Collective employment agreement

On 9 January 2019, ESO updated and signed a collective employment agreement with social partners which ensures greater protection and more additional benefits to the employees of ESO that are not provided for in the Labour Code of the Republic of Lithuania. The objective of the collective employment agreement is to ensure effective operations of the Company and represent rights and legitimate interests of all employees of the Company. The agreement lays down employment, remuneration, social, economic and professional conditions, and guarantees that are not regulated by laws or other normative legal acts. Employees are provided with additional guarantees, such as payments in case of accident, sickness, death of a close family member, childbirth grant, additional days of paid leave after the birth of a child, marriage payment and other payments.

Trade unions

ESO has been developing a high-quality social dialogue with employee representatives and developing a modern social partnership at European level for many years. On 15 April 2019, ESO was the first in Lithuania to sign an agreement with all 7 trade unions operating in the company, which provides for the involvement of a trade union delegated employee representative on the supervisory board, while pursuing objectives of mutual interest. As of September 2019, the employee representative is a member of the Supervisory Board of the Company and thus contributes to the sustainable development and growth of the Company by ensuring representation of the rights or legal interests of all employees of the Company. In addition, quarterly meetings are held at the Company to discuss strategic projects implemented by the Company. Trade union representatives always participate in working groups, where employee-related issues are addressed (working conditions, remuneration and social issues).

Development of competences

ESO gives particular attention to the development of employees' competences. Development plans are drawn up based on the development strategy of Ignitis Group, which delivers autonomous and engaging, business-driven, flexible, innovative, and fast development.

The Company creates a modern learning culture with the aim of enabling excellence to be developed everywhere, anytime, and quickly:

- in January 2019, employees have started training at the internal Practical Training Center in Panevėžys;
- Compulsory training is organized, which ensures the necessary competencies in the development and maintenance of electricity and gas distribution networks and work safety.
- Competence development programs involve in-house lecturers with specific knowledge and skills that can be shared with others, as well as invest in the training of these employees. Internal training platform *GROW Academy* is functioning at the Ignitis Group level;
- Exceptional vocational education programs are being developed to provide the necessary competencies to meet ESO strategic goals;
- A one-year intensive education program is designed specifically for ESO's executives.

Training programs are developed in close cooperation with training providers and training evaluation surveys are conducted. ESO has regular contacts with the manufacturers, equipment suppliers, who share their knowledge with employees, by introducing energy innovations.

Internship opportunities

ESO actively cooperates with educational institutions and allows university and college students to apply their theoretical knowledge and gain practical skills. During 2019, 39 students completed internship at ESO across the territory of Lithuania. The Company provides students not only with the possibility to complete their mandatory internship, but also welcomes motivated and enthusiastic students who wish to voluntarily enrol in job training with the Company

Significant agreements

There were no significant agreements made in which the Company was a party to and which would come into effect, change or terminate as a result of the change in the control of the Company.

There were no agreements made between the Company and the members of the bodies or employees that provide for compensation in case of their resignation or dismissal without a sound reason or in case of termination of their employment as a result of the change in the control of the Company.

Harmful transactions

During the reporting period there were no harmful transactions (transactions which do not meet the Company's objectives or existing normal market conditions or which violate the interests of shareholders or other groups, etc.), which had or might have negative impact on the Company's activity and (or) performance, conducted on behalf of the Company, as well as transactions made in the event of a conflict of interests between duties of executives of the Company, controlling shareholders or other related parties with respect to the Company and their private interests and (or) other duties.

MATERIAL EVENTS IN THE COMPANY'S ACTIVITIES

During the reporting period

In executing its duties in accordance with the applicable legislation regulating the securities market, ESO publishes information on material events and other regulated information on the EU-wide basis. Information announced by the Company is available on the Company's website (www.eso.lt, under the section "For investors") and the website of NASDAQ OMX Vilnius AB (<https://www.nasdaqbaltic.com>)

Table 28. Notifications on material events after the end of the reporting period from 1 January 2019

Date	Material event
18/01/2019	Regarding the approval of the strategy of ESO till 2030
31/01/2019	Regarding the Extraordinary General Meeting of Shareholders of ESO
31/01/2019	ESO preliminary financial results for 12 months of 2018
14/02/2019	Regarding the investment plan of 2018 alignment
22/02/2019	Regarding the resolutions of Extraordinary General Meeting of Shareholders of the Company
28/02/2019	ESO's 2018 preliminary results: historical investments and crystallisation of activities
28/02/2019	ESO preliminary financial results for 1 month of 2019
06/03/2019	Regarding the decision of the Court
27/03/2019	Regarding discontinuation of commercial services of Energijos Skirstymo Operatorius AB
29/03/2019	ESO preliminary financial results for 2 months of 2019
29/03/2019	Regarding the convocation, agenda and proposed draft resolutions of the Ordinary General Meeting of Shareholders of Energijos skirstymo operatorius AB
02/04/2019	Regarding a decision dismissing the appeal filed with the administrative court regarding the decision of the National Commission for Energy Control and Prices on the setting of electricity distribution price caps for 2019
12/04/2019	Lietuvos Energija Group will hold an Investor Conference Webinar to introduce the financial results for the year 2018 and guidance for 2019
15/04/2019	Regarding the supplement of the agenda and proposed draft resolutions of the Ordinary General Meeting of Shareholders of Energijos skirstymo operatorius AB
15/04/2019	Updated: Regarding the supplement of the agenda and proposed draft resolutions of the Ordinary General Meeting of Shareholders of Energijos skirstymo operatorius AB
30/04/2019	Regarding the resolutions of the Ordinary General Meeting of Energijos skirstymo operatorius AB
30/04/2019	Results of ESO of Q1 2019: a stable increase in investments and a steady flow of new customers
03/05/2019	Regarding the Energijos skirstymo operatorius AB Annual Information 2018
31/05/2019	ESO preliminary financial results for 4 months of 2019
28/06/2019	ESO preliminary financial results for 5 months of 2019
31/07/2019	Regarding the updated Investment Plan of Energijos Skirstymo Operatorius for the following 10 years
31/07/2019	ESO preliminary financial results for 6 months of 2019
02/08/2019	Approved ESO investment projects for period 2020–2023
06/08/2019	Regarding the nomination of the members of Supervisory Board of ESO
30/08/2019	ESO's unaudited results of 6 months of 2019: growing number of new customers and improving connection times
30/08/2019	ESO preliminary financial results for 7 months of 2019
19/09/2019	Regarding approval of the investment in smart meter project with the National Energy Regulatory Council
19/09/2019	Regarding non-routine inspection of Energijos Skirstymo Operatorius AB to be carried out by the National Energy Regulatory Council
23/09/2019	Regarding the Extraordinary General Meeting of Shareholders of ESO
01/10/2019	ESO preliminary financial results for 8 months of 2019
03/10/2019	Regarding approval of the investment plan for the natural gas sector for 2019
15/10/2019	Regarding the resolutions of the Extraordinary General Meeting of Energijos skirstymo operatorius AB

17/10/2019	Regarding the price-setting for electricity distribution price caps for 2020
21/10/2019	Regarding the initiation of reorganisation of Verslo aptarnavimo centras AB, and Ignitis Grupės Paslaugų Centras UAB
30/10/2019	ESO results of the three quarters: further growth in the number of new customers and stability of financial indicators
31/10/2019	On Setting Revenue Cap for Energijos skirstymo operatorius AB natural gas distribution services in 2020
11/11/2019	Regarding the convocation, agenda and proposed draft resolutions of the Extraordinary General Meeting of Shareholders of Energijos skirstymo operatorius AB
15/11/2019	The National Energy Regulatory Council announced electricity network prices for 2020
15/11/2019	The National Energy Regulatory Council approved Natural Gas Distribution Prices for 2020
19/11/2019	Further explanation regarding the delisting of Ignitis Group's subsidiaries shares and the potential IPO
29/11/2019	ESO preliminary financial results for 10 months of 2019
04/12/2019	Regarding the resolutions of Extraordinary General Meeting of Energijos skirstymo operatorius AB
04/12/2019	Regarding the intention to make an official tender offer
20/12/2019	Regarding completion of reorganisation of Verslo aptarnavimo centras UAB and Ignitis grupės paslaugų centras UAB
31/12/2019	ESO preliminary financial results for 11 months of 2019
31/12/2019	Reporting dates of Energijos skirstymo operatorius in 2020
31/12/2019	Regarding the decision of the Court

After the end of the reporting period

Table 29. Information on material events announced by ESO from 1 January 2020

Date	Key event
06/01/2020	Regarding the decision to appeal the judgement
10/01/2020	Regarding the information submitted to the Bank of Lithuania about official tender circular
14/01/2020	Update: Regarding the information submitted to the Bank of Lithuania about official tender circular
14/01/2020	Repeat: Update: Regarding the information submitted to the Bank of Lithuania about official tender circular
28/01/2020	Regarding the alignment of investment plan in the electricity sector of 2019
29/01/2020	Regarding judgement of Vilnius Regional Court of 28 January 2020 in the civil case
31/01/2020	ESO preliminary financial results for 12 months of 2019
31/01/2020	Planned investigation of the Supervision Service of the Bank of Lithuania completed with no infringements
13/02/2020	The Court upheld the decision to apply the temporary protection measures
21/02/2020	Correction: Reporting dates of Energijos skirstymo operatorius in 2020

OTHER IMPORTANT INFORMATION

Alternative performance measures

More about Alternative performance measures: <https://www.eso.lt/en/for-investors/alternative-performance-measures.html>