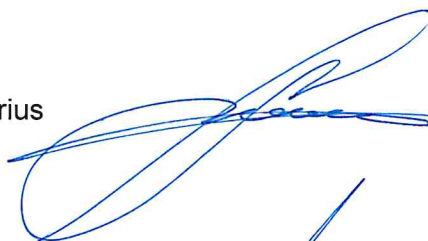


2019-08-30 Nr. 1962-SD-8158

CONFIRMATION OF RESPONSIBLE PERSONS

Referring to the provisions of the Article 24 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 Services Center of Verslo Aptarnavimo Centras UAB acting under Order No IS19-102 of 29 August 2019, hereby confirm that, to the best of our knowledge, AB „Energijos skirstymo operatorius“ condensed interim financial information for six month period ended 30 June 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 six 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

Verslo Aptarnavimo Centras UAB
Head of Accounting Services Center,
acting under Order No IS19-102 of 29
August 2019



Giedruolė Guobienė

Customer Service:

Self-Service www.manogile.lt
Free Electricity Power Cuts 1852
Free Gas Emergency Service 1804
Customer Service tel. 1802* or +370 611 21802
*- this is based on telephone operator's plan and an additional tariff.

Administration:

AB „Energijos skirstymo operatorius“
Aguonų str. 24
03212 Vilnius, Lietuva
E-mail info@eso.lt
www.eso.lt

Requisites:

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 SECOND QUARTER OF 2019 AND SIX-MONTH PERIOD ENDED 30 JUNE 2019, PREPARED ACCORDING TO INTERNATIONAL ACCOUNTING STANDARD 34, 'INTERIM FINANCIAL REPORTING' AS ADOPTED BY THE EUROPEAN UNION (UNAUDITED)



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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.

CONTENT

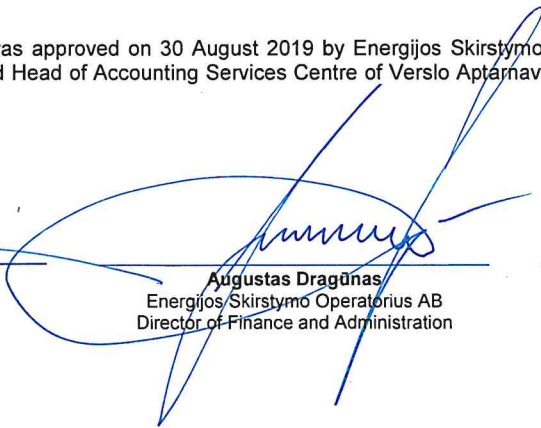
CONDENSED INTERIM FINANCIAL INFORMATION

Condensed interim statement of financial position	3
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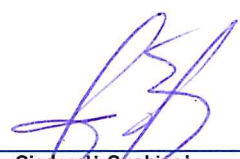
Condensed interim financial information was approved on 30 August 2019 by Energijos Skirstymo Operatorius AB Chief Executive Officer, Director of Finance and Administration and Head of Accounting Services Centre of Verslo Aptarnavimo Centras UAB (acting under Order No IS19-102 of 29 August 2019):



Mindaugas Keizeris
Energijos Skirstymo Operatorius AB
Chief Executive Officer



Augustas Dragūnas
Energijos Skirstymo Operatorius AB
Director of Finance and Administration



Giedruolė Guobienė
Verslo Aptarnavimo Centras UAB
Head of Accounting Services Centre
(acting under Order No IS19-102 of 29
August 2019)

All amounts are in EUR thousand unless otherwise stated

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2019	As at 31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	3	1,485,377	1,428,529
Intangible assets	3	35,164	35,751
Right-of-use asset	4	21,773	-
Prepayments for non-current assets		3	3
Investments in associates		2,579	2,459
Other non-current financial assets		281	210
		1,545,177	1,466,952
Current assets			
Inventories		2,113	1,992
Trade and other receivables		63,564	115,427
Prepayments, deferred expenses and assets under contracts with customers		1,200	2,226
Prepaid income tax		3,434	2,779
Cash and cash equivalents		19,462	2,266
		89,773	124,690
Total assets		1,634,950	1,591,642
EQUITY AND LIABILITIES			
Equity			
Authorised share capital	5	259,443	259,443
Revaluation reserve		147,695	154,834
Legal reserve		25,944	25,944
Retained earnings		235,430	199,813
Total equity		668,512	640,034
LIABILITIES			
Non-current liabilities			
Borrowings		428,334	448,534
Finance lease liabilities	4	16,722	-
Deferred income tax liabilities		15,077	10,276
Liabilities under contracts with customers		136,182	140,139
Grants and subsidies		14,732	13,052
Long-term employee benefits		2,004	1,710
Other non-current liabilities		3	3
Provisions		27,351	27,982
		640,405	641,696
Current liabilities			
Borrowings		209,560	182,930
Current portion of finance lease liabilities	4	5,101	-
Trade and other payables		69,846	77,045
Accrued expenses and contract liabilities		41,526	49,937
		326,033	309,912
Total liabilities		966,437	951,608
Total equity and liabilities		1,634,950	1,591,642

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

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376 Agonų str. 24, Vilnius, Lithuania
CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the six-month period ended 30 June 2019

All amounts are in EUR thousand unless otherwise stated

CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Q1–2 2019	Q2 2019	Q1–2 2018	Q2 2018
Revenue from contracts with customers	7	260,777	119,000	305,565	139,329
Other income		2,454	1,112	3,476	2,336
Purchases of electricity and related services		(133,513)	(57,935)	(211,478)	(95,401)
Purchase (expenses) of natural gas and transmission services		(2,917)	(1,737)	(1,969)	(893)
Depreciation and amortisation		(38,560)	(19,016)	(27,383)	(13,856)
Employee benefits and related social security contributions		(22,122)	(10,991)	(21,554)	(10,565)
Repair and maintenance expenses		(11,488)	(5,643)	(5,656)	(3,319)
Transport		(2,008)	(1,566)	(2,359)	(1,209)
Telecommunications and IT services		(4,421)	(2,013)	(4,544)	(2,077)
Rent and utilities		(978)	(441)	(2,036)	(994)
Impairment and write-off expenses		(2,310)	(897)	(2,603)	(1,238)
Other expenses		(7,002)	(2,885)	(8,527)	(4,205)
Operating profit		37,912	16,988	20,932	7,908
Finance income		13	(4)	47	29
Finance costs		(4,725)	(2,319)	(2,682)	(1,552)
Finance costs – net		(4,712)	(2,323)	(2,635)	(1,523)
Share of profit of associates and joint ventures		243	116	113	(32)
Profit before income tax		33,443	14,781	18,410	6,353
Income tax		(4,801)	(2,023)	(575)	144
Net profit for the period		28,642	12,758	17,835	6,497
Other comprehensive income/(loss)					
Items that will not be reclassified to profit or loss:					
Recalculation of the defined benefit plan obligation, net of deferred income tax		(164)	(164)	(116)	(116)
Total comprehensive income for the period		28,478	12,594	17,719	6,381
Weighted average number of shares (thousands)		894,630	894,630	894,630	894,630
Basic and diluted earnings per share (in EUR) attributable to owners of the Company		0.032	0.014	0.020	0.007

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

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376 Agonų str. 24, Vilnius, Lithuania
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
for the six-month period ended 30 June 2019

All amounts are in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

	Note	Authorised share capital	Revaluation reserve	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2018		259,443	44,680	25,910	277,611	607,644
Effect of change in accounting policies following the adoption of new IFRS		-	-	-	(62,654)	(62,654)
Restated balance at 1 January 2018		259,443	44,680	25,910	214,957	544,990
Net profit for the period		-	-	-	17,835	17,835
Recalculation of the defined benefit plan obligation, net of deferred income tax		-	-	-	(116)	(116)
Total comprehensive income for the period		-	-	-	17,719	17,719
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(2,323)	-	2,323	-
Transfers to legal reserve		-	-	34	(34)	-
Dividends	6	-	-	-	(22,679)	(22,679)
Balance at 30 June 2018		259,443	42,357	25,944	212,286	540,030
Balance at 1 January 2019		259,443	154,834	25,944	199,813	640,034
Comprehensive income						
Net profit for the period		-	-	-	28,642	28,642
Recalculation of the defined benefit plan obligation, net of deferred income tax		-	-	-	(164)	(164)
Total comprehensive income for the period		-	-	-	28,478	28,478
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(7,139)	-	7,139	-
Balance at 30 June 2019		259,443	147,695	25,944	235,430	668,512

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

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Note	1H 2019	1H 2018
Cash flows from operating activities			
Net profit		28,642	17,835
Adjustments for:			
Income tax expense		4,801	575
Depreciation and amortisation	3,4,8	39,068	27,940
Depreciation of grants		(508)	(557)
Share of (profit) of associates and joint ventures		(243)	(113)
(Gain)/loss on disposal and write-off of property, plant and equipment		2,018	2,353
Finance (income)		(13)	(47)
Finance costs		4,725	2,683
Changes in working capital:			
Trade and other receivables		52,067	5,514
Inventories, prepayments, deferred expenses and accrued income		743	(680)
Trade and other payables, advance amounts received, accrued expenses and deferred income		(14,516)	10,449
Cash generated from operating activities		115,766	65,952
Income tax paid		-	(2,068)
Net cash generated from operating activities		115,766	63,884
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(100,472)	(129,056)
Disposal of subsidiaries		275	77
Grants received		2,188	1,107
Dividends received		123	137
Interest received		-	47
Net cash used in investing activities		(97,886)	(127,688)
Cash flows from financing activities			
Proceeds from borrowings		30,653	162,177
Repayments of borrowings		(28,700)	(66,352)
Lease payments		(1,745)	-
Dividends paid to the Company's shareholders		(14)	(22,611)
Interest paid		(778)	(1,053)
Other increase (decrease) of cash flows from financing activities		(100)	-
Net cash used in financing activities		(684)	72,161
(Decrease) increase in cash and cash equivalents		17,196	8,357
Cash and cash equivalents at the beginning of the year (including overdraft balance)		2,266	(4,206)
Cash and cash equivalents at the end of the period (including overdraft balance)		19,462	4,151

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:

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

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

As at 30 June 2019 and 31 December 2018, the Company's shareholder structure was as follows:

	At 30 June 2019		At 31 December 2018	
	Number of shares held	Ownership interest	Number of shares held	Ownership interest
Lietuvos Energija UAB	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 30 June 2019 and 31 December 2018, the parent of the Company was Lietuvos Energija UAB. The Government of the Republic of Lithuania represented by the Ministry of Finance of the Republic of Lithuania owns 100% of shares of Lietuvos Energija UAB.

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

As at 30 June 2019 and 31 December 2018 Company's investments in associates comprised of the following:

Associate	Country	Year of acquisition	Company's ownership interest (%)		Profile of activities
			30 June 2019	31 December 2018	
Technologijų ir Inovacijų Centras, UAB	Lithuania	2013	29,012%	29,012%	Information technology and telecommunication, and other services provided to the shareholders
Verslo Aptarnavimo Centras, UAB	Lithuania	2014	22,25%	22,25%	Customer service, public procurement organisation and performance, accounting and personnel administration services.

2 Accounting principles

Company's condensed interim financial information for the six-month period ended 30 June 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.

The accounting policies applied in the preparation of this condensed interim financial information are consistent with those of the annual financial statements for the year ended 31 December 2018.

a) *New and amended standards, and interpretations*

During six – month reporting period ended 30 June 2019 the Company for the first time adopted IFRS 16 „Leases“, that had material impact on Company's financial statements.

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The value of assets being transferred under the lease agreement and related lease liabilities must be stated in the Company's statement of financial position.

The Company applied IFRS 16 *Leases* starting from 1 January 2019 using the modified retrospective approach for the first time application of IFRS 16.

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376 Agonų str. 24, Vilnius, Lithuania
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
for the six-month period ended 30 June 2019

All amounts are in EUR thousand unless otherwise stated

The Company performed the calculation of assets transferred according to the lease agreement and related liabilities under IFRS 16. At 1 January 2019, the Company recognised assets and liabilities managed under the right of use, which indicates the impact of the first-time adoption of IFRS 16 on the Company's financial statements. The management of the Company is assessing whether the lease of state-owned land is in compliance with the criteria of IFRS 16.

b) Impact of new standards' adoption on the the items in the statement of financial position

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

	At 31 December 2018	IFRS 16	At 1 January 2019
<i>EUR thousands</i>			
ASSETS			
Non-current assets			
Right-of-use asset	-	30,771	30,771
EQUITY AND LIABILITIES			
Non-current liabilities			
Finance lease liabilities	-	23,481	23,481
Current liabilities			
Current portion of finance lease liabilities	-	7,290	7,290

Elected practical expedients on transition where the Company is a lessee

Where the Company is a lessee the following practical expedients are applied on transition on a lease-by-lease basis. The Company:

1. applies a single discount rate to a portfolio of leases with similar characteristics (such as leases with similar maturity, class of leased asset and economic environment);
2. does apply transitional period adjustments to leases of low value (less than or equal to EUR 4 000).
3. excludes initial direct costs from leases which previously were classified as operating leases by applying the standard at the commencement date to determine the value of the right-of-use assets;
4. uses prior period information, for example, in determining the lease term if the contract provides an option to extend or terminate the lease. Consistently with the IAS 8, prior period information is used only for accounting estimates and judgments and is therefore not applicable to areas such as changes in indices or rates.

IFRS 16 does not specify how a lessee should distinguish and allocate the lease and non-lease components in the contract during the transitional period when the retrospective method is applied. The Company has chosen to apply a practical measure by accounting for each lease component and any related non-lease component as a single lease component consistently with accounting policy of the Company.

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

- **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.

c) 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. 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 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 30 June 2019		
Net book value at the beginning of the period	35,751	1,428,529
Additions	1,907	92,505
Sales	-	(204)
Write-offs	-	(2,089)
Impairment of construction in process	-	(48)
Reversal of impairment	-	1,066
Amortisation /depreciation	(2,494)	(34,382)
Net book value at 30 June 2019	35,164	1,485,377

4 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 30 June 2019	
Net book value at the beginning of the period	-
Additions	23,965
Amortisation /depreciation	(2,192)
Net book value at 30 June 2019	21,773

5 Share capital

As at 30 June 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.

6 Dividends

Approved dividends per share

	As at 30 June 2019	As at 30 June 2018
Approved dividends (thousands)	-	22,679
Weighted average number of shares (thousands)	894,630	894,630
Approved dividends per share (in EUR)	0.000	0.025

The ordinary general meeting of shareholders of Energijos Skirstymo Operatorius AB 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.

7 Revenue from contracts with customers

	II Q 2019	II Q 2018
Electricity supply and distribution	227,053	276,083
Natural gas distribution	19,696	23,115
Revenue from connection of new customers	14,028	6,367
Total	260,777	305,565

8 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 three-month period ended 30 June 2019 is presented below:

2019	Electricity supply and distribution	Gas distribution	Total
Revenue under contracts with customers	238,322	22,455	260,777
Other income	836	1,618	2,454
Expenses	(171,393)	(13,056)	(184,449)
EBITDA	67,765	11,017	78,782
Depreciation and amortisation	(33,763)	(4,797)	(38,560)
Impairment and write-off expenses	(2,230)	(80)	(2,310)
Operating profit	31,772	6,140	37,912
Finance income	12	1	13
Finance (costs)	(3,730)	(995)	(4,725)
Share of (profit) of associates	219	24	243
Profit before income tax	28,273	5,170	33,443
Income tax	(6,500)	1,699	(4,801)
Net profit for the period	21,773	6,869	28,642

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376 Agumonų str. 24, Vilnius, Lithuania
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
for the six-month period ended 30 June 2019

All amounts are in EUR thousand unless otherwise stated

Company's information about operating segments for the three-month period ended 30 June 2018 is presented below:

2018	Electricity supply and distribution	Gas distribution	Total
Revenue under contracts with customers	279,924	25,641	305,565
Other income	2,981	495	3,476
Expenses	(245,935)	(12,188)	(258,123)
EBITDA	36,970	13,948	50,918
Depreciation and amortisation	(23,643)	(3,740)	(27,383)
Impairment and write-off expenses	(2,657)	54	(2,603)
Operating profit	10,670	10,262	20,932
Finance income	39	8	47
Finance (costs)	(2,248)	(434)	(2,682)
Share of (profit) of associates	94	19	113
Profit before income tax	8,555	9,855	18,410
Income tax	(480)	(95)	(575)
Net profit for the period	8,075	9,760	17,835

9 Related-party transactions

The Company's related parties are:

- Lietuvos Energija, UAB (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;
- 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 between January and June of 2019 and the balances arising on these transactions as at 30 June 2019 are as follows:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Right-of-use asset	Purchases	Sales
Parent company Lietuvos energija, UAB	569,858	-	12	5,329	-
Associates	3,091	-	-	7,612	-
Lietuvos energija, UAB group companies	83,388	20,366	12,612	18,769	92,434
EPSO-G UAB group companies	21,618	10,439	19	79,299	511
Total	677,955	30,805	12,643	111,009	92,945

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

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Parent company Lietuvos energija, UAB	586,561	-	3,162	-
Associates	3,251	98	10,636	-
Lietuvos energija, UAB group companies	47,537	66,032	49,684	19,656
EPSO-G UAB group companies	33,800	3,107	95,249	306
Total	671,149	69,237	158,731	19,962

Compensation to key management personnel

Company	As at 30 June 2019	As at 30 June 2018
Wages and salaries and other short-term benefits to management personnel	292	228
Whereof: termination benefits	-	-
Number of key management personnel	6	7

Management includes heads of administration.

10 Events after the reporting period

There were no significant events after the date of the statement of financial position and until the date of the approval of this interim financial information.

2019

ENERGIJOS SKIRSTYMO OPERATORIUS AB INTERIM REPORT

REPORT FOR A SIX-MONTH PERIOD ENDED 30 JUNE 2019



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Reporting period covered by the Interim Report

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

Legal basis for preparation of the Interim Report

The Interim 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 Interim 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 7:30–16:30, on Fridays 7:30–15:15.

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					
		1–6 months of 2019	1–6 months of 2018	Change +/-	%
Operating indicators					
Distributed electricity via medium and low voltage networks	TWh	4.81	4.78	0.03	0.63
Public and guaranteed supply of electricity*	TWh	0.25	1.65	-1.40	-84.85
Distributed volume of natural gas	TWh	3.80	4.21	-0.41	-9.74
Supply quality indicators of the network					
Electricity	SAIDI (with <i>force majeure</i>)	min.	51.26	31.29	19.97
	SAIFI (with <i>force majeure</i>)	times	0.69	0.49	0.20
Gas	SAIDI (with <i>force majeure</i>)	min.	0.679	0.261	0.418
	SAIFI (with <i>force majeure</i>)	times	0.005	0.003	0.002
Key financial indicators of ESO ¹					
		1–6 months of 2019	1–6 months of 2018	Change +/-	%
Revenue	EUR '000	263,231	309,041	-45,810	-14.8
Purchase of electricity, gas and related services	EUR '000	136,430	213,447	-77,017	-36.1
Operating expenses	EUR '000	48,019	44,676	3,343	7.5
EBITDA	EUR '000	78,782	50,918	27,864	54.7
EBITDA margin	%	29.93	16.48		
Adjusted EBITDA**	EUR '000	95,302	84,247	11,055	13.1
Net profit (loss)***	EUR '000	28,642	17,835	10,807	60.6
		At 30/06/2019	At 31/12/2018	Change +/-	%
Total assets	EUR '000	1,634,950	1,591,642	43,308	2.7
Equity	EUR '000	668,512	640,034	28,451	4.4
Borrowings	EUR '000	637,894	631,464	6,430	1.0
Borrowings, net (4)	EUR '000	618,432	629,198	-10,766	-1.7
Return on equity ratio (ROE) (5)	%	4.05	2.51		
Return on assets (ROA) (6)	%	1.64	1.09		
Equity ratio (7)	%	40.89	40.21		
Borrowings, net / 12-month EBITDA	times	4.11	5.14		
Borrowings, net / Equity	%	92.51	98.31		

¹ - Alternative performance measures used by the Company can be found here <http://www.eso.lt/en/for-investors/alternative-performance-measures.html?sr=RVdTSUQ9YWI5cmk4dTVIZG4xbW81dGpzMm1yamVmNWl=>

* ESO discontinued electricity public supply activity with effect from 1 October 2018.

** The Company adjusted EBITDA by the difference between the actual profit earned during the reporting and earlier periods and the allowable return on investments for respective periods as established by the National Commission for Energy Control and Prices ("the NCC") and eliminated the impact of other atypical operating, one-off factors or factors that are not directly related to the current operating period. The difference resulted from the improvement of the Company's operational efficiency as well as other factors.

*** Increase in the Company's net profit was caused by significantly lower costs of electricity, gas and related services due to discontinued electricity public supply activity with effect from 1 October 2018 for the year 2019.

CEO'S FOREWORD

Dear All,

In Half 1 of 2019, we continued to refine activities of ESO as an infrastructure enterprise, focusing on the core electricity and gas distribution activities regulated by the state. We also completed the formation of strategic and long-term investment directions.

At the beginning of the year, we updated the ESO strategy covering the period up to 2030 in light of the long-term objectives of the LE 2030 Strategy. The actions outlined in this document will allow ensuring the best customer experience, both in terms of infrastructure reliability and intelligence, as well as the diversity of services and the price. Accordingly, empowering infrastructure will enable market players to create and provide services that meet individual needs of each customer.



As we continue to update our strategic documents, we announced our updated 10-year investment plan right after the reporting period. It contains ESO's plans to invest in three main directions in 2019-2028, namely, network reliability, network digitalization, customer experience and market empowerment. The plan is to invest a total of EUR 1.83 billion in these three directions and the connection of new customers to the distribution networks in 2019-2028. These investments will allow significantly improve the resilience of networks to natural impact, create conditions for receiving accurate information in real time, increase network efficiency and enhance network security.

In Half 1 of 2019, ESO stopped the provision of several commercial services, namely, the sale of heat pumps and solar power plants, electric car charging stations, gas cylinder terminals, as well as services of on-call electricians and gas specialists. This decision was driven by the goals established in LE and ESO strategies to empower the market by creating conditions for market participants to develop and provide services competing with each other. Having stopped the provision of these services, ESO continues to focus on its core business: distributing electricity and gas, maintaining distribution networks, fixing network malfunctions and connecting new customers, also ensuring guaranteed supply of electricity and natural gas.

In preparation for the installation of smart metering in Lithuania, ESO has undertaken the necessary infrastructure procurement procedures. The scope of the project will ensure the installation of about 1.2 million smart meters by the end of 2023, which will meter about 90% of the distributed electricity. Such an installation scenario will allow achieving three essential benefits: it will allow electricity consumers to save electricity, create conditions for market participants to develop new services for customers, and increase the efficiency of investments in the network.

In January-June 2019, ESO's revenue was EUR 263.2 million, which is EUR 14.8% less than in the same period of 2018. The decrease in revenue was due to discontinued public supply (PS) activities. Comparable revenue (having eliminated the effect of the PS activities discontinued in October 2018) remains stable: it increased by 1.8% in Half 1 of 2019 (the company's revenue exclusive of PS activities totalled EUR 258.5 million in Half 1 of 2018). Electricity distribution remains the main source of ESO's revenue. In Half 1 of 2019, ESO earned EUR 95.3 million in adjusted earnings before interest, tax, depreciation and amortization (adjusted EBITDA), which is 13.1 % more than a year ago, when it was EUR 84.2 million. More efficient operations of the company, increased volumes of guarantee electricity supply and revenue generated as a result of a growing number of new customers help to maintain such dynamics of the indicator.

The average duration of unplanned power outages, which remain a relevant challenge in ensuring the reliability of the network (SAIDI), with the impact of force majeure events was 51.26 minutes per customer in January-June of 2019, and compared to the same period of 2018, it increased by 19.97 minutes. Significantly increased extent of network failures caused by force majeure events had a major impact on the indicator, lasting for 13.0 minutes in January - June of 2019, while in 2018, it was a mere 0.38 minutes. The duration of outages for reasons within the operator's control was 23.81 minutes in January – June of 2019 compared to 18.22 minutes in January – June of 2018. The average duration of fixing a malfunction was 1 hour and 30 minutes in Half 1 of 2019. Compared to January – June of 2018 (1 hour and 24 minutes), unfavourable weather conditions had the main impact on the deterioration of the indicator.

ESO has maintained its continuous investment in upgrading its electricity and gas networks. In Half 1 of 2019, ESO's investments in electricity and gas distribution networks totalled EUR 95.8 million, which is 15.7% less than in the same period of 2018. During January–June 2019, investments in the expansion of the electricity distribution network amounted to EUR 42.6 million, which is 21.4% more than in the same period of 2018. The main reason for the increase in costs is a continuing increase in the number of new customers and improving connection terms: more than 19,000 customers were connected to the electricity distribution network and 5,850 - to the gas network, which is 21.3 % more than in the same period of 2018. It should also be noted that in Half 1 of 2019, weather conditions were more favourable for contract works compared to Half 1 of 2018.

Yours sincerely,
Mindaugas Keizeris
CEO and Chairman of the Board of ESO

MOST SIGNIFICANT EVENTS AT THE COMPANY DURING THE REPORTING PERIOD

Regarding the approval of the strategy of ESO till 2030

On 18 January 2019 The Supervisory Board approved the ESO's strategy, which was updated in light of the long-term goals and strategic directions of the Lietuvos Energija Group presented in May 2018. The approved ESO strategy covers the period till 2030.

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

By decision of the Board of the Company of 31 January 2019 the extraordinary general meeting of shareholders of the Company was convened on 22 February 2019 during which the issues of approval of the remuneration of the independent member of the Supervisory Board and of the agreement with the external auditor on audit of financial statements of the Company were deliberated.

Regarding the agreement on the investment plan for 2018

On 14 February 2019, the National Commission for Energy Control and Prices agreed on the Company's 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 Extraordinary General Meeting of Shareholders of ESO, held on 22 February 2019, adopted the following decisions: to define an hourly pay (before taxes) in the amount of EUR 54.43 for an independent member of the Supervisory Board of the Company for the actual activity as an independent member of the Supervisory Board; to elect Ernst & Young Baltic UAB as the audit firm for the audits of the financial statements of the Company for the period of 2019–2021; and to establish a fee for the audit services of the financial statements for 2019–2021 not in excess of EUR 246,350.00 (VAT excl.).

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 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.

Regarding the ruling passed by the court

ESO informs that on 6 March 2019 the Supreme Administrative Court of Lithuania passed the ruling whereby it rejected the Company's appeal against Resolution No O3-351 of the NCC of 4 June 2015 *Regarding violation of terms and conditions of the regulated activity by LESTO AB*, under which the fine was imposed on the Company. The appeal was filed with a request 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 NCC'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 the refusal of commercial services of ESO

On 27 March 2019, the Board of Energijos Skirstymo Operatorius AB made a decision to refuse the provision of the following commercial services as from 1 June 2019, including, the sale of heat pumps and solar power plants, the installation of electric car charging stations, gas cylinder terminals, as well as the provision of services of electricians and gas specialists on call. New orders for these services will no longer be accepted as from 1 June of this year, however, contracts with suppliers for orders received before the said date will be 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 Company's estimates, the refusal of the commercial services will have no significant impact on the Company's financial results.

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

The Management Board of the Company convenes the Ordinary General Meeting of Shareholders, to be held on 30 April 2019. The agenda and the proposed draft resolution of the Ordinary General Meeting of Shareholders of the Company: regarding the approval of the Annual Report, approval of the audited Annual Financial Statements, allocation of profit (loss) of ESO for the year 2018.

Regarding a decision to refuse 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

On 19 November 2018, the Company 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 – NCC) of 17 October 2018 "On the Recalculation of Price Caps of Services of Distribution via Medium and Low Voltage Networks of AB 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) has been applied and 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

The Management Board of the Company convenes the Ordinary General Meeting of Shareholders, to be held on 30 April 2019. The agenda and the proposed draft resolution of the Ordinary General Meeting of Shareholders of the Company: Regarding the approval of the Annual Report, audited Annual Financial Statements, allocation of profit (loss) of ESO for the year 2018. Regarding the approval of the new version of the Articles of Association of ESO.

Regarding the resolutions of Ordinary General Meeting of ESO Shareholders

The Ordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB, held on 30 April, 2019, adopted the following resolutions: approve the Annual Report of ESO, approve the audited Annual Financial Statements of ESO, to 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

The electricity and gas distribution company ESO owned by the largest energy group Lietuvos Energija, UAB, ended the first quarter of 2019 with continuously growing investments in the development and renovation of electricity and gas networks, which were 13.5 percent higher than last year. The growth of investments in the construction and reconstruction of gas distribution systems, which was nearly 90 percent 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.

MATERIAL EVENTS AFTER THE END OF THE REPORTING PERIOD

The updated Investment Plan of Energijos Skirstymo Operatorius for the following 10 years has been approved

The Company informs that on 31 July 2019 the Supervisory Board of the Company approved the updated Investment Plan of ESO for the following 10 years (hereinafter – the 10YIP). The 10YIP provides that over 2019-2028 ESO plans to invest EUR 1.83 billion in the reliability and safety of the network, technological and smart solutions, customer experience management, development of the electricity market through open and neutral platform solutions, and the promotion of the creation of a service market, which provides the same operating conditions for all market participants.

Approved ESO investment projects 2020-2023

The Company informs, that on 2 of August 2019 the National Energy Regulatory Council (hereinafter – the Council) has approved the Company's investment projects, the total value of which is EUR 30.486 million. It is planned, that up to 50 percent (EUR 15,243 million) of the sum required for the implementation of the investments will be financed from the EU structural funds (under the program "Modernization and development of electricity distribution networks by implementing smart solutions" (Stage III)). The remaining part will be financed by the Company's own funds. During the implementation of the projects, 13 transformer substations will be renewed, also 27 electricity distribution points will be renewed.

Regarding the nomination of the members of Supervisory Board of ESO

The Company announces that on the 6th of August, 2019, it received a letter from Lietuvos Energija, UAB informing that after the approval of the Supervisory Board of Lietuvos Energija, UAB, Dalia Jakutavice and Zaneta Kovaliova have been nominated for the positions of the member of Supervisory Board of ESO. Jakutavice was nominated as a representative of ESO trade unions. Kovalev was nominated as an independent member of Supervisory board. The election of the members of the Supervisory Board will be decided by the ESO General Meeting of Shareholders.

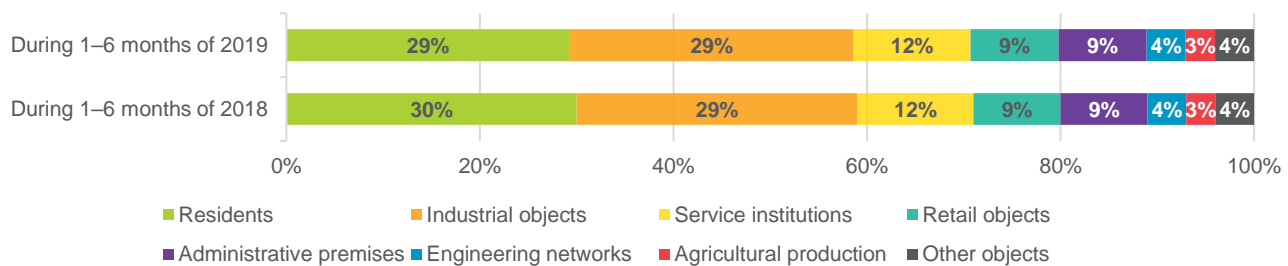
ANALYSIS OF THE OPERATING AND FINANCIAL INDICATORS

Electricity distribution

ESO owns and operates more than 125.1 thousand kilometres of electricity lines: 69.2% of them consist of overhead electricity lines, and 30.8% of electricity cables. During January–June 2019, the Company distributed to customers 4.81 billion kWh of electricity (January–June 2018: 4.78 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. The amount of supplied electricity decreased by 84.8% due to transferred public supply activity to Lietuvos Energijos Tiekimas UAB. The volume of electricity distributed increased by 0.6% compared to the same period of 2018. Technological costs in distribution equipment incurred by the Company during January–June 2019 amounted to 306.4 million kWh or 5.99% of the amount of electricity received. During the same period of 2018, technological costs totalled 6.36%.

Around 29.3% of the electricity distributed by ESO during January–June 2019 were consumed by residents. Industrial objects and service institutions consumed 29.5% and 11.8%, respectively, of electricity transmitted. There were no significant changes in the structure of electricity distribution volume by object as compared to the data of January–June 2018.

Figure 1. Electricity distribution volume by object

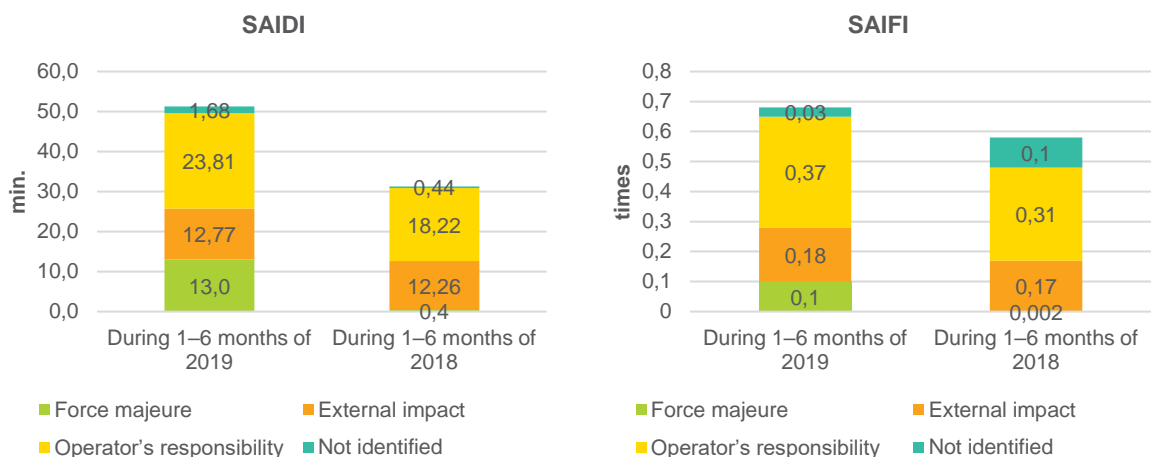


Electricity supply quality indices (SAIDI, SAIFI)

In January–June 2019, the average duration of unscheduled interruptions of electrical energy distribution (System Average Interruption Duration Index (SAIDI)), including effects of natural phenomena (force majeure) per customer, was 51.26 minutes and compared with the same period of 2018 increased by 19.97 minutes (in January–June 2018, SAIDI was 31.29 minutes). Such significant worsening of the indicator was mainly affected by considerably larger extent of force majeure network failure volumes which in January–June 2019 was 13.0 minutes, and in January–June 2018 – only 0.38 minutes. The duration of interruptions due to reasons attributable to the operator's responsibility in January–June 2019 amounted to 23.81 minutes, whilst in January–June 2018 it was 18.22 minutes. In January–June 2019, the average failure resolution duration was 1.5 hours. Compared with the indicator of January–June 2018 (1.4 hours) the essential effect on the worsening of the indicator was made by unfavourable weather conditions during the first months of 2019.

In January–June 2019, the average number of unscheduled long interruptions per customer (System Average Interruption Frequency Index (SAIFI)), including effects of natural phenomena (force majeure) per customer, reached 0.69 times and was by 0.20 times larger than in January–June 2018 when this indicator amounted to 0.49 times. The negative change of this indicator was caused by unfavourable weather conditions during the first months of 2019.

Figure 2. Electricity supply reliability indices



Natural gas distribution

The Company operates more than 9,200 km distribution gas pipelines. In the first half of 2019, the network of gas pipelines increased by more than 242 km and in the first half of 2018 – by more than 220 km. During January–June 2019, ESO transported 3.8 billion kWh of natural gas via gas distribution pipelines, which is 9.7% less than in the same period in 2018.

Gas distribution volumes decreased during January - June 2019 mostly due to lower gas consumption during February–March as a result of a higher average weather temperature than in 2018.

Natural gas supply quality indices (SAIDI, SAIFI)

During 2019 January - June the quality of natural gas supply has changed slightly, compared to 2018 the same period. During January–June 2019, the system average interruption duration index (SAIDI with *force majeure*) for the gas network per customer reached 0.68 minute, which is 0.42 minute more compared to the same period in 2018 (January–June 2017: SAIDI was 0,26 minutes). During January–June 2019, the system average interruption frequency index (SAIFI with *force majeure*)

per customer reached 0.0048 time (January–June 2018: 0.003 time). The main reason of deteriorating ratios is a larger number of natural gas pipeline damage cases done by third parties.

Revenue

Table 2. Revenue structure of ESO by activity area, %

	During 1–6 months of 2019	During 1–6 months of 2018
Revenue from electricity distribution	79	68
Revenue from public electricity supply services	0	16
Revenue from gas distribution	7	7
Revenue from guaranteed electricity supply	6	3
Connection of new customers	5	2
Other income	3	3

During January–June 2019, ESO's revenue totalled EUR 263.2 million, which is 14.8% less than in the same period in 2018. Revenue decreased due to the transfer of the public energy supply business to Lietuvos Energijos Tiekimas UAB. Electric power distribution is the main source of the Company's revenue.

During January–June 2019, electricity distribution revenue comprised 78.6% of the Company's total revenue. Revenue from natural gas distribution made up 7.48% of the Company's total revenue.

Expenses

In January–June 2019, the costs of purchase of electricity, natural gas or related services amounted to EUR 136.43 million. Compared with the same period of 2018, they reduced by 36.1 %. This was mainly influenced by activities of public supply of electrical energy sold since 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 175.0 million or for 77.7 % of total costs incurred by ESO.

Operating costs totalled EUR 48.0 million – were by 7.5 % larger than during the same period of 2018. The major increase of 103.1 % was observed in repair and technical costs. Main of repair and maintenance works which were scheduled in 2018 IVth quarter were finished in the first half of 2019 which caused the increase in repair and maintenance expenses compared with 2018 in the I half.

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

	During 1–6 months of 2019	During 1–6 months of 2018
Employee benefits and related social security contributions	22,122	21,554
Other expenses	7,002	8,527
Repair and maintenance expenses	11,488	5,656
Telecommunications and IT services	4,421	4,544
Transport	2,008	2,359
Rent and utilities	978	2,036
Total operating expenses	48,019	44,676

EBITDA

Table 4. EBITDA indicator¹

	During 1–6 months of 2019	During 1–6 months of 2018
EBITDA, EUR '000	78,782	50,918
Forecasted recalculation of regulated income of the current period (will be implemented in the future periods) (1)	-12,111	-4,994
Recalculation of regulated income from previous periods (will be implemented in the current years) (2)	31,244	38,323
Other corrections (3)	-2,613	
Adjusted EBITDA, EUR '000	95,302	84,247
EBITDA margin, %	29.93	16.48

INTERIM REPORT for the six-month period ended 30 June 2019

¹- Alternative performance measures used by the Company can be found here <http://www.eso.lt/en/for-investors/alternative-performance-measures.html?sr=RVdTSUQ9YWl5cmk4dTVlZG4xbW81dGpzMm1yamVmNWl=>

- (1) Forecasted 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, return on investment, depreciation 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 statements. Income components of regulated activity in Half 1 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 statements. The components of income from regulated activity of Half 1 are calculated in proportion to the Company's planned monthly amounts;
- (3) A one-off cost adjustment due to a compensation received from AB Litgrid for transmission (system) services (in January and February of 2016) is eliminated.

Regulator's statements based on which the recalculation of regulated income of 2019 was done:

- "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_kvr_pazyma.pdf)
- "Regarding the Amendment of the Resolution of the National Commission for Energy Control and Prices No. O3E-395 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)

During January–June 2019, the Company's earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to EUR 78.8 million, which is 54.7% more than in January-June 2018. Such dynamics of the index was caused by lower costs of purchase of electricity, natural gas or related services due to transferred public supply business segment from 1 October 2018 and higher new customer income due to applied IFRS after transfer of public supply business. Adjusted EBITDA increased by 13.1%. Such dynamics of the index was maintained by more effective activities of the Company and by the growing value of regulated assets and higher new customer income due to different application of IFRS.

Profit (loss) and profitability ratios

During January–June 2019, ESO's net profit totalled EUR 28.6 million, which is 60.6% more than in the same period in 2018. Increase in net profit was caused by the same reasons as the growth of EBITDA.

Table 5. ESO's profitability ratios¹, %

	During 1–6 months of 2019	During 1–6 months of 2018
Net profit margin	10.88	5.77
Operating profit margin	14.40	6.77

¹- Alternative performance measures used by the Company can be found here <http://www.eso.lt/en/for-investors/alternative-performance-measures.html?sr=RVdTSUQ9YWl5cmk4dTVlZG4xbW81dGpzMm1yamVmNWl=>

Investments

During January–June 2019, ESO's investments in the electricity and gas distribution networks amounted to EUR 95.881 million, which is 15.7% less than during January–June 2018, when investments totalled EUR 113.738 million.

Table 6. ESO's investments¹, EUR '000

	During 1–6 months of 2019	During 1–6 months of 2018
Renewal of the electricity distribution network	25,933	56,711
Expansion of the electricity distribution network	42,636	35,125
Construction and reconstruction of gas systems	25,966	18,181
Other (IT, management systems, etc.)	1,346	3,722
Total investments	95,881	113,738

¹- Alternative performance measures used by the Company can be found here <http://www.eso.lt/en/for-investors/alternative-performance-measures.html?sr=RVdTSUQ9YWl5cmk4dTVlZG4xbW81dGpzMm1yamVmNWl=>

During January-June 2019, ESO's investments allocated for the renewal of the electricity distribution network amounted to EUR 25.933 million, which is 54.3% less compared to January–June 2018. During January–June 2019, investments in the expansion of the electricity distribution network amounted to EUR 42.6 million, which is 21.4% more than in the same period of 2018. The main reason for increase in expenses was higher number of new customers.

During January–June 2019, ESO connected 19,025 new customers to the electricity distribution network, which is 37.83% more than in January-June 2018, when 13,803 new customers were connected. During January–June 2019, the admissible electric power of objects of newly connected customers was equal to 167.7 thousand kW, which is 5.29% less than during January–June 2018, when the admissible power was equal to 177.1 thousand kW.

INTERIM REPORT
for the six-month period ended 30 June 2019

During January–June 2019, ESO's investments in the construction and reconstruction of gas systems amounted to EUR 25.966 million, which is 42.8% more compared to January–June 2018, when investments totalled EUR 18.181 million. During January–June 2019, ESO constructed 241.8 km of the gas distribution pipeline (222.28 km in the respective period of 2018). During January–June 2019, ESO connected 5,850 new customers to the natural gas distribution network, which is 22.3% more than in the same period of 2018, when 4,782 customers were connected.

Analysis of financial indicators

At the end of the reporting period, the Company's assets amounted to EUR 1.63 billion. Non-current assets accounted for 94.5% of the total assets. Cash and cash equivalents, i.e. the most liquid assets, amounted to EUR 19.5 million or 21.7% of the total current assets.

Table 7. ESO's financial leverage ratios¹

	At 30 June 2019	At 31 December 2018
Debt ratio	0.59	0.60
Debt to assets ratio	0.39	0.40
Liabilities to equity ratio	1.45	1.49
Debt to equity ratio	0.95	0.99
Net borrowings, EUR million	618.43	629.20
Net borrowings to equity ratio	0.93	0.98
Long-term debt to equity ratio	0.64	0.70
General solvency ratio	0.69	0.67
Equity to assets ratio	0.41	0.40
Share price to earnings ratio	20.93	36.89
Capitalisation, EUR million	599.40	579.72

¹ Alternative performance measures used by the Company can be found here <http://www.eso.lt/en/for-investors/alternative-performance-measures.html?sr=RVdTSUQ9YWI5cmk4dTVlZG4xbW81dGpzMm1yamVmNWl=>

At the end of June 2019, ESO's borrowings amounted to EUR 637.9 million and accounted for 66.1% of total liabilities. Non-current borrowings amounted to EUR 428.3 million or 67.10% of total borrowings. At the end of the reporting period, ESO's current liabilities totalled EUR 325.6 million.

Table 8. ESO's liquidity ratios¹

	At 30 June 2018	At 31 December 2018
Current ratio	0.28	0.40
Working capital, EUR '000	-236,260	-185,222
Working capital to total assets ratio	-0.14	-0.12

¹ Alternative performance measures used by the Company can be found here <http://www.eso.lt/en/for-investors/alternative-performance-measures.html?sr=RVdTSUQ9YWI5cmk4dTVlZG4xbW81dGpzMm1yamVmNWl=>

ESO's current liabilities exceeded its current assets by EUR 236.3 million. The current ratio is equal to 0.28. Borrowings, as reduced by the amount of short-term investments and cash and cash equivalents, are equal to EUR 618.4 million. The Company's net borrowings account for 92.5% of its equity.

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

Other information is presented in the condensed interim financial statements of ESO for January–June 2019.

FACTORS AFFECTING THE COMPANY'S FINANCIAL INDICATORS

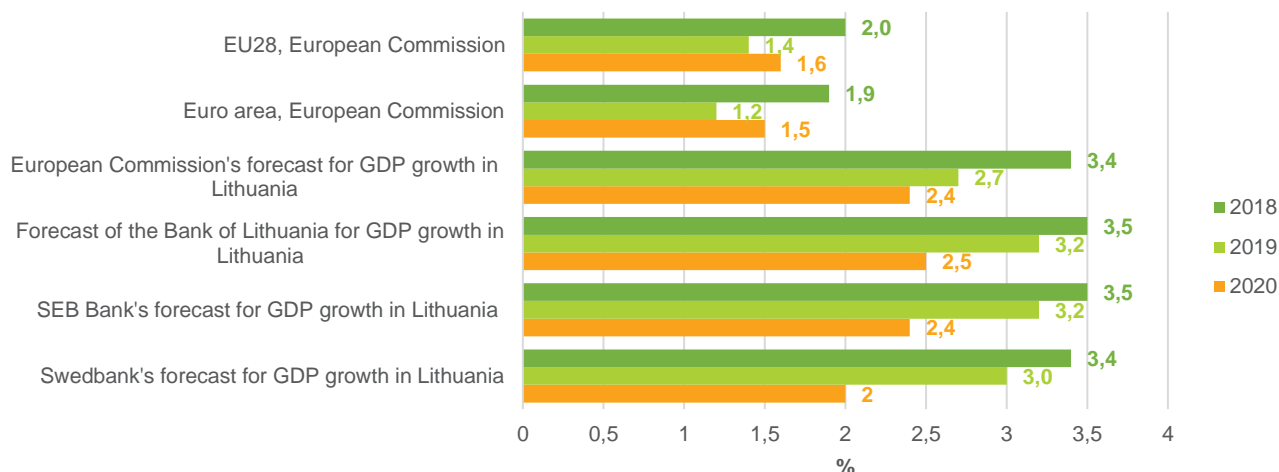
Operating environment

Changes in gross domestic product have the greatest impact on electrical energy consumption. Gross domestic product (hereinafter – GDP) has been growing in the European Union; however, forecasts show that due to increasing uncertainties at the global level its growth is expected to be more moderate and prospects – less predictable.

According to the forecast published by the European Commission in May 2019¹ the total growth of gross domestic product of the European Union (EU28) in 2018 was 2.0 %, of the euro area – 1.9 %. According to the up-to-date estimates, in 2019, economic growth should be 1.4 % and 1.2 %, in 2020 – 1.6 % and 1.5 %, respectively. The European Commission forecasts that the Lithuanian economy which in 2018 demonstrated the growth of 3.4 %, in 2019 will grow by 2.7 % and in 2020 – by 2.4 %.

Projections of economic growth published by banks operating in Lithuania in May also forecast the growth of the Lithuanian economy. On the basis of forecasts presented by analysts of SEB bankas in June 2019², it is stated that in 2018, gross domestic product of Lithuania went up by 3.5 %, in 2019 it will reach 3.2 %, and in 2020 – 2.4 %. In April, projections of the Lithuanian economy³ were also published by Swedbank analysts: in 2018, the growth of GDP in Lithuania reached 3.4 %, and the growth forecasted for 2019 is 3.0 % and for 2020 – 2 %. The overview of the Bank of Lithuania of June 2019⁴ shows that in 2018 the Lithuanian GDP grew by 3.5 %, in 2019 it is expected to grow by 3.2 %, and in 2020 – by 2.5 %.

Figure 3. GDP growth forecast for the European Union, euro area, and Lithuania in 2018–2019, %

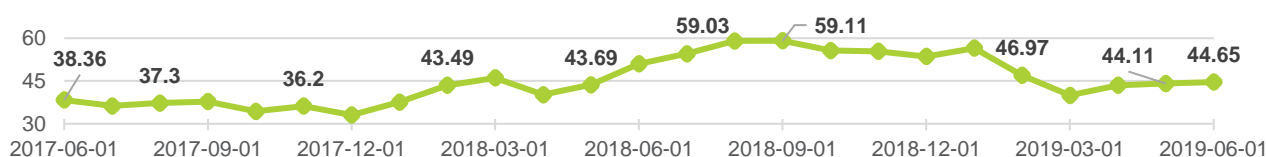


Use of electrical energy is closely linked with the GDP growth; therefore, economic results also affect performance of ESO. Having regard to the macroeconomic forecasts presented by macroeconomists and the actual performance of ESO, we consider that the amount of transmitted electrical energy will continue to grow moderately.

Situation in the electricity market

In the first half of 2019, the average price of electrical energy on Nord Pool electricity exchange in the Price Area of Lithuania was somewhat higher than in the first half of 2018. In January–June 2019, the average price was EUR 45.95 per MWh – a bit higher than in January–June 2018 (EUR 43.67 per MWh).⁵ The higher price of electrical energy on the exchange has a negative impact on results of ESO.

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



Strategy and goals of the Company

As the Group's parent company Lietuvos Energija published its renewed strategy LE 2030 on 23 May 2018, the ESO's strategy was reviewed at the end of 2018 and renewed on 18 January 2019.

The Company's strategy includes the updated mission and vision of the Company, distinguished new and revised existing strategic directions and prospects as well as actions planned for their implementation (see Figure 5).

¹ Source of data: https://ec.europa.eu/info/sites/info/files/economy-finance/ip102_en.pdf

² Source of data: <https://www.seb.lt/infobankas/ekonomine-aplinka/makroekonomika/makroekonomikos-prognozes>

³ Source of data: https://ziniuterasa.swedbank.lt/sites/default/files/2019-05/SEO%20eng%20-%20April_0.pdf

⁴ Source of data: https://www.lb.lt/uploads/publications/docs/22129_1774d999e919ea0d0f68c47ca30071a3.pdf

⁵ Source of data: <https://www.nordpoolgroup.com/Market-data/1/Dayahead/Area-Prices/ALL1/Monthly/?view=table>

Figure 5. 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 and 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 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 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, digitalise processes, strengthen cyber security and focus on the development of employee competences relevant for the implementation of the LE strategy 2030. ESO will continue aiming 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 renewed strategy of the Company (ESO 2030), on 31 July 2019, ESO announced the renewed investment plan for investments being made and planned in the electricity and gas distribution network (a 10-year investment plan), which establishes that in the upcoming 10 years, ESO will invest USD 1.83 billion in the improvement of the reliability, security and intelligence of the network, and customer experience.

In the ESO's plan for 2019 – 2028, the investment level was set in pursuit of declined quality indicators – the System Average Interruption Duration Index (SAIDI), the System Average Interruption Frequency Index (SAIFI), and the maximum troubleshooting duration. These indicators were set taking into account the expectations of stakeholders for service quality and the good practices of Western European countries.

The objectives of the ESO's 10-year investment plan are consistent with the objectives set in the National Energy Independence Strategy. The investment plan reflects the aim to ensure the best customer experience, price and quality, as well as the goals and indicators set out in the new LE2030 strategy of Lietuvos Energija Group, which owns ESO, and the new ESO 2030 strategy.

According to the ESO's 10-year investment plan for 2019–2028, ESO plans to invest in three directions:

- **Reliability of the grid** – to ensure uninterrupted and quality energy distribution through the environmentally safe electricity and natural gas network;
- **Introduction of smart grid technologies** – to speed up the restoration of electricity supply in case of disruptions; to enable making network management decisions based on real-time information;
- **Customer experience and empowerment of the market** – to use the latest technologies, digitalization and process innovation to ensure that every customer contact with ESO creates good experience for ESO customers.

These investments will allow significantly improving network reliability during storms, receiving accurate information in real time, enhance network security and increase customer satisfaction with ESO services. Moreover, 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's 10-year investment plan is updated each year.

Risk and uncertainty factors and their management

The risk management model applicable across the entire Group of companies has been drafted in light of the key principles of the *Committee of Sponsoring Organizations of the Treadway Commission* (COSO) and AS/NZS ISO 31000:2009 (Risk management - Principles and guidelines).

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

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

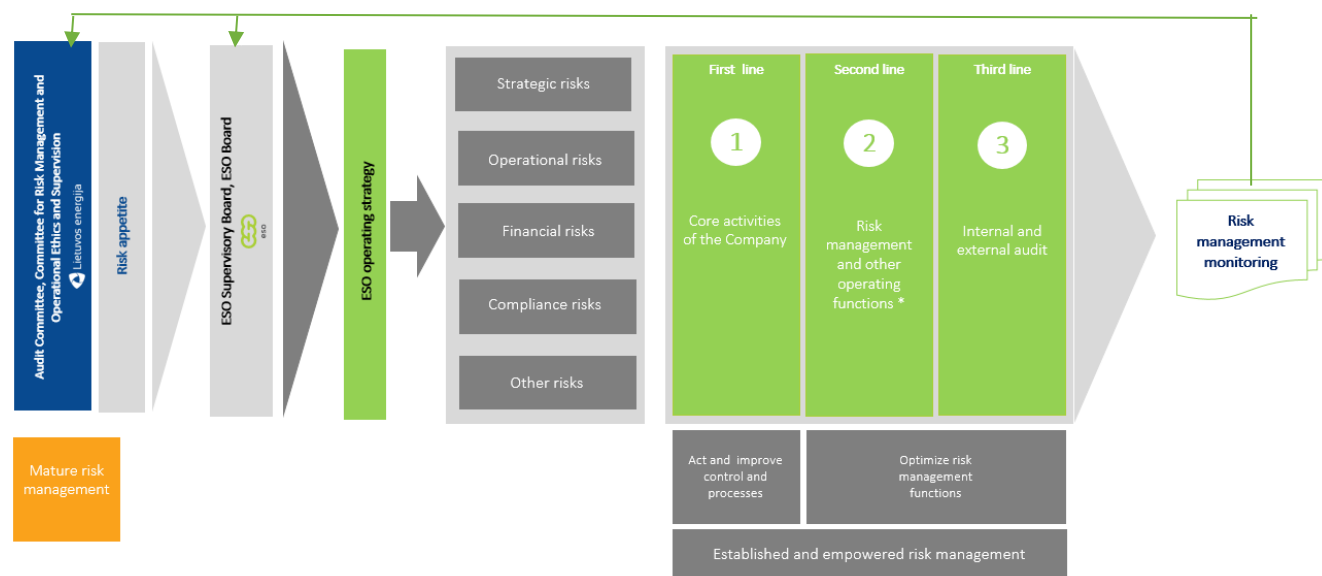
The risk management principles defined by Lietuvos Energija are consistently applied across the entire Group of companies. The uniform risk management principles ensure that the management personnel of the Group of companies receive risk management information covering all areas of activities. To ensure 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 at the time set, and risk management actions are established. In addition, the Company monitors new risk factors on a monthly basis and defines additional actions, if 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 incident values. The risk appetite and risk tolerance limits of the Group of companies are established by the Board of Lietuvos Energija 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 6).

Figure 6. Risk management and control model



* Employees of risk management and other functions (prevention, compliance, work safety, financial control).

As every year, when carrying out a risk assessment in 2018, the Company identified the areas where the Company will concentrate and coordinate the main risk management measures and initiatives. During the Company's performance of the assessment of the risk and its factors, the impact of the risk was assessed not only on financial and occupational health and safety results, but also on network reliability indicators, thus ensuring the integration of the Company's risk management system with the strategic planning and implementation of the new ESO 2030 strategy. The list of the main risk factors and management directions of 2019 is presented in Table 9.

Table 9. Risk factors for 2018 and their management directions

Risk factor	Risk sources	Main risk management directions	Risk level
Health and safety of employees, contractors, and residents	<p>Due to the specific character of its business activity, the Company bears the risk of ESO employees, its contractors or residents being injured in networks operated by the Company.</p> <p>Each 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); Continuous control and monitoring of occupational safety of employees and contractors; inspection of work places using a mobile application; division managers were also involved in inspections of work places in Half 1 of 2019; Practical trainings on various topics have been held at the Practical Training Centre established in 2018. Virtual reality trainings have been used when new employees are trained to safely evacuate a building in case of fire; Motivational and disciplinary system for employees and contractors. When rating contractors, occupational safety indicators in the electricity and gas areas were set. Safety indicators have been 	Very high

		<p>used in whiteboards of the divisions and the assessment of key performance indicators (KPI);</p> <ul style="list-style-type: none"> • Development and launch of the employee safety information system "Eshopis", where employees can see the list of personal protective equipment which they must have, and order the missing equipment. Here they can also see their medical check-up date. 	
Risk of non-assurance of network reliability	<p>According to information of the Hydrometeorological Service, there were 190 natural disasters in Lithuania in 1981-2016, or 6-7 storms, strong winds and hails per year. Hydrometeorologists forecast that climate change in Lithuania will lead to increasing number of cases of strong wind, heavy rain and storms, which the existing ESO electricity network will not be able to withstand: falling trees, snow and icing break wires, and fallen branches cause short circuits.</p> <p>With increasing number of customers and growing demand for the quality of electricity supplied, the technical parameters of the existing lines in some cases do not ensure the quality of electricity supply, and with rapidly growing volume of distributed generation, number of electric cars and their charging equipment in the network, the distribution system will face major challenges in bringing quality under control.</p>	<ul style="list-style-type: none"> • Collaboration with the Meteorological Service receiving information on forecasted meteorological phenomena in advance, leading to activated mobilization of resources. • The 10-year investment plan updated every year (investments are planned in replacing overhead lines with cable lines in wooded areas). • Rating models of investment objects are continuously reviewed and updated. • Installation of voltage regulators in overhead lines as an alternative to more expensive networks reconstructions was started in 2019. • Installation of the system for monitoring voltage quality parameters in the distribution network 	Very high
External regulation	<p>The Company is exposed to regulation risk due to:</p> <p>1) volatility and instability of the regulatory environment (frequently changing legislation allows for errors / misinterpretations).</p> <p>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"> • To ensure the compliance with new requirements, Group projects have been organized, involving best specialists of the Group on a specific issue; • Active participation in the process of public coordination of legislation; • Initiation of projects of amendments to legal acts unfavourable to the Company's activities; • 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 BDAR. 	High
Information security (cyber security)	<p>The risk of cyber incidents that can affect the availability of the electricity distribution network has increased due to changing geopolitical situation. Based on global trends, cyber threats have been increasing in the electricity transmission and distribution sectors every year. Cyber-attacks are targeted at companies of 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.</p>	<ul style="list-style-type: none"> • Enhancement of cyber-attack detection/suspension systems; • Increasing resistance of management systems of the electricity distribution network to cyber threats; • Cooperation with external establishments in the field of cyber security; • 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. 	High

INFORMATION ON THE COMPANY'S AUTHORISED SHARE CAPITAL AND SECURITIES

Authorised share capital and securities

As at 30 June 2019, the Company's authorised share capital amounted to EUR 259,442,796.57. All the shares issued by the Company are fully paid.

Table 10. Structure of the authorised share 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 in other regulated markets.

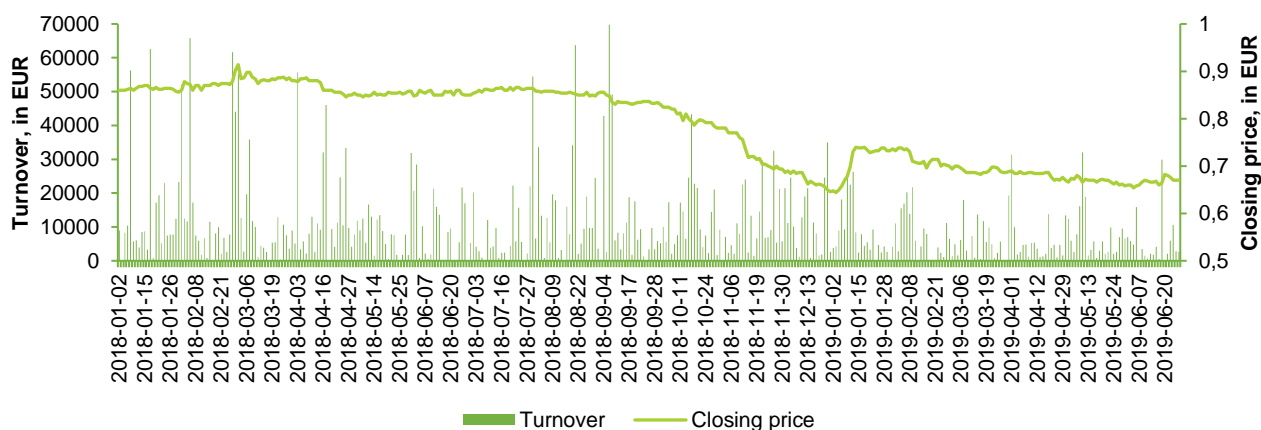
Table 11. Information on the Issuer's securities

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.

Dynamics of the price of Company's shares and turnover in shares

Figure 7. Dynamics of the price of ESO's shares and turnover in shares during the reporting period



During the reporting period the price of the Company's shares decreased by 24.65%.

Figure 8. Dynamics of the price of ESO's shares and turnover in shares between the beginning of trading and the end of the reporting period

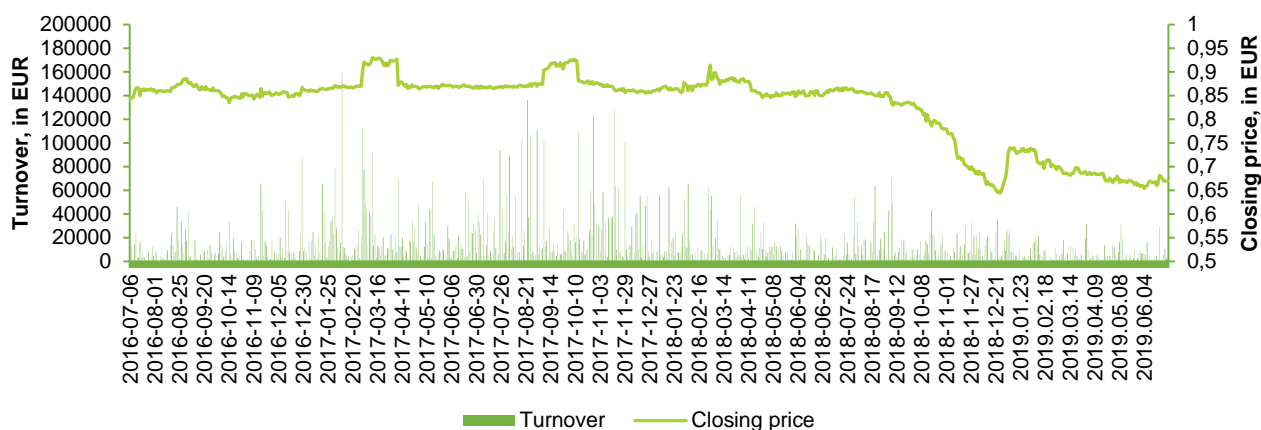
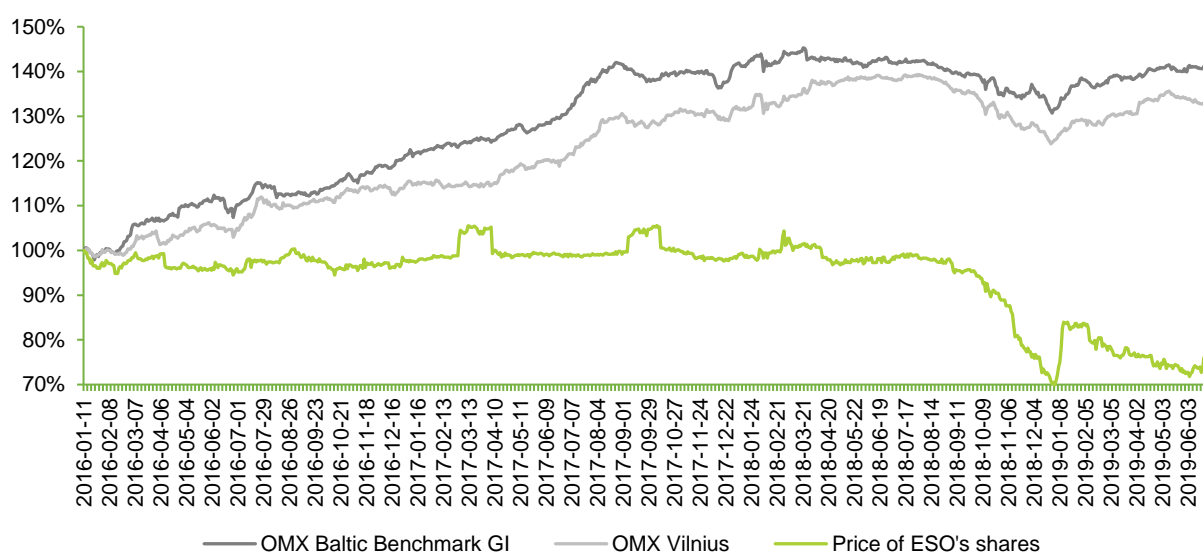


Figure 9. Dynamics of the price of ESO's shares and OMX Vilnius and OMX Baltic Benchmark indices since the beginning of trade

Since the beginning of trading the price of ESO's shares dropped by 24.29%



Between the beginning of trading in ESO's shares and the end of June of 2019, the OMX Vilnius index increased by 37.01%, the OMX Baltic Benchmark index increased by 48%, and the price of ESO's shares decreased by 24.29% from its initial value.

Ownership 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 at 30 June 2019, the total number of the Company's shareholders was 8,965.

Table 12. Shareholders owning more than 5% of ESO's authorised share capital as at 31 December 2018

Shareholder's name (company name, legal form, registered office address, code)	Number of ordinary registered shares owned by the shareholder, units	Ownership interest in the authorised capital, %	Percentage of voting rights conferred by shares owned
Lietuvos Energija UAB, Žvejų g. 14, LT-09310 Vilnius, Company code 301844044	849,743,761	94.98	94.98

Rights attached to shares, rights and obligations granted by shares

Ordinary registered shares confer equal rights. Property and non-property rights conferred by shares are defined by laws, other legal acts and the Company's Articles of Association. None of the shareholders of the Company had any special control rights. There were no restrictions regarding voting rights.

Restrictions on transfer of securities

According to the data of 30 June 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.

Dividends

The dividend policy of the Lietuvos Energija group of companies, which was approved in 2016 and also applies to the Company, is published on the Company's website at www.eso.lt. The policy establishes uniform net profit appropriation principles applicable to all group companies.

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.

By decision of the Board of the Company of 30 April 2019 the annual general meeting of the Company's shareholders was convened during which it was decided that dividends for the reporting period of six months – from 1 July 2018 until 31 December 2018 – will not be allocated.

CUSTOMER SERVICE, SERVICE ASSESSMENT

Number of customers being serviced

In 6 months of 2019, ESO had 10,943 contracts on purchase and sale of electricity concluded with private customers and 2,547 contracts on electricity supply or distribution services concluded with commercial customers. During that same period, ESO connected 11,480 private customers and 6,136 commercial customers to the electricity distribution network.

In 6 months of 2019, 3,989 private customers and 251 commercial customers were connected to ESO's natural gas distribution network for whom the provision of a distribution service was ensured. During the same period, 5,560 private and 242 commercial customers were connected to ESO's gas distribution network ensuring a distribution service for them.

Operation and development of electricity and gas metering devices

During the first half of 2019, ESO replaced 30,200 metering devices the term of metrological inspection of which has expired, of which – 21,600 electricity meters and 8,600 natural gas meters. The Company installed almost 11,800 electricity meters and 4,200 natural gas meters.

As part of continuous renewal of operated accounting meters the Company and its authorised persons also checked more than 372,000 electricity meters and more than 59,000 natural gas meters during the first half of 2019.

By investing into upgrading and automaton of electricity meters ESO connected 1,800 electricity meters to automated data reading systems during the first half of 2019. This way the number of electricity metering devices with automated reading of data operated by the Company reached almost 41,600. The number of natural gas metering devices with automated reading of data remained unchanged, i.e. 1,200. Automation of metering devices facilitates automatic issuance of invoices for consumed electricity to business clients and allows determining the precise amount of natural gas consumed by business clients.

With a view to improving the quality of services, creating preconditions for clients to follow closely the consumption of electricity, receive accurate invoices and save energy by achieving its rational consumption, the Company is implementing the smart metering system implementation programme in Lithuania. The investment project providing for replacement of existing electrical energy meters by smart meters has been tabled to the NCCPE for coordination. Installation of natural gas smart meters is planned for clients who annually consume more than 350 m³ of gas. As a rule, such clients use natural gas for heating.

In 2018, the smart metering installation programme was presented to the Energy Commission of the Seimas of the Republic of Lithuania, the Ministry of Energy of the Republic of Lithuania, independent energy suppliers and other stakeholders. Following international best practices and principles of transparency six market consultations were held with participation of foreign suppliers and producers generating useful insights for technical specifications being drafted.

With a view to improve the quality of services, create preconditions for clients to follow closely the consumption of electricity, receive accurate invoices and save energy by achieving its rational consumption, the Company is implementing the smart metering system introduction programme in Lithuania. The investment project providing for replacement of existing electrical energy meters by smart meters has been tabled to the NERC for coordination. During the first stage until end-2023 it is planned to install smart electricity meters for clients who consume large amounts of electricity (preliminarily – from 1,000 kWh per year). A decision on installation of natural gas smart meters has not been adopted yet. According to the deliberated scenario, their installation is envisaged for clients who annually consume more than 300 m³ of gas. As a rule, such clients use natural gas for heating.

In the first half of 2019, purchase of smart metering infrastructure is envisaged which will be followed by planned purchase of smart electricity meters (about 1.2 million units), IT systems for control of meters and safe collection of data.

Development of service channels

ESO has noticed there are increasingly more customers who use the offered remote service channels. The number of customers who use phone number 1802, reached 241,623 thousand as at 30 June 2019, while in January–June 2018, 552,000 clients were serviced. The number of clients is considerably smaller than during the first half of 2018, because in the first half of 2018 ESO was engaged in public supply activities which were taken over by Lietuvos energijos tiekimas, UAB from 1 October 2018.

Clients can also use the free phone 1852 to report electricity failures and the free phone 1804 of emergency natural gas service.

In the first half of 2019, client service centres set up in the largest cities of Lithuania provided services to 34,424 clients, while the number of clients serviced in January–June 2018 exceeded 100,000. The number of clients was significantly smaller than in the first half of 2018 because in the first half of 2018 ESO was engaged in public supply activities which were taken over by Lietuvos energijos tiekimas, UAB from 1 October 2018.

Management of customer settlements

On 1 October 2018, ESO electricity supply activities were transferred to another company of the Group of Lietuvos energija, UAB – Lietuvos energijos tiekimas, UAB. More than 1.6 million household users of electricity and legal persons who pay for electricity according to the public tariff became clients of Lietuvos energijos tiekimas.

According to ESO, in 2019, almost 60,000 clients of the Company benefit from the Service of distribution and guaranteed supply. About 53,500 invoices are generated per month on average; 94 % or almost 50,000 of such invoices are sent via e-channels (self-service + electronic bank account). The average number of e-invoices issued per month to a client in the bank is about 7,300 units or 14 %. About 6 % or 3,500 of invoices are sent by post.

Market liberalisation

As at 30 June 2019, independent suppliers supplied electricity to 64,424 (56 proc.) objects of commercial customers. The guaranteed provider ESO continued to supply electricity to the remaining objects.

Customer satisfaction

Based on the data of the latest, year 2018, GCSI (Global Customer Satisfaction Index) survey, the customer satisfaction level of the electricity and gas distribution company ESO was equal to 79 points in 2018. This result is 7 points higher than the

European (72) average and 4 points higher than the global (75) average. The Company is expecting for new results of the GCSI survey in the second half of 2019.

SOCIAL RESPONSIBILITY OF THE COMPANY

ESO's social responsibility is to contribute to public wellbeing primarily through conducting safe uninterrupted energy distribution and guarantee supply activities, active participation in educating the public about safe and rational use of energy, introducing new, viable and environmentally friendly technologies, caring for customers, employees, communities and encouraging responsibility of contractors and suppliers. ESO's priorities:

- Promotion of energy efficiency;
- Reduction of environmental impact through energy conservation;
- Strengthening of safe work habits of employees;
- Fostering of safe and responsible use of electricity and gas.

Activities of corporate social responsibility (CSR) are based on the Company's values and define the Company's attitude towards its activities, inclusion of social, environmental and transparent operation principles in the Company's internal processes and its relationships with stakeholders.

In conducting responsible activities the Company follows the Social Responsibility Policy approved by the Lietuvos Energija Group. This document defines general directions and provisions of responsible activities, on the basis of which the business culture and practice of a socially responsible and sustainably developed group of companies is developed.

The Company sticks to the Ten Principles of the Global Compact which defines responsibility of business in the areas of human rights, labour, environment and anti-corruption and aims at reducing the impact of its activities on environment, community, other businesses and at participating through common effort in decision making when it comes to economic, social and environmental issues, at contributing to the development of society and economic growth. These universally accepted and declared guidelines of responsible behaviour is a clear and strong approach for the Company in developing activities of a socially responsible business.

About the Global Compact

The UN Global Compact is the world's largest corporate sustainability initiative with corporate participants and other stakeholders – organisations, trade-unions, public sector and civil society organisations from all over the world.

The aim of this international agreement is to help organisations adopt the agreement's policies in their operational strategies, encourage communication and partnership among different sectors, within a state and beyond its borders in pursuance of universal global development goals.

The Global Compact is based on the principles in the areas of human rights, labour, the environment entrenched in the following international documents:

- Universal Declaration of Human Rights;
- International Labour Organisation Declaration on Fundamental Principles and Rights at Work;
- Rio Declaration on Environment and Development;
- United Nations Convention Against Corruption.

Principles of the Global Compact:

Human rights

- Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and
- 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 collective bargaining.
- Principle 4 The elimination of all forms of forced and compulsory labour.
- Principle 5 The effective abolition of child labour; and
- 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; and
- Principle 9 Encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

- Principle 1 Businesses should work against corruption in all its forms, including extortion and bribery.

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.

Durin 6 months of 2019, no violations in relation to discrimination or any other incidents in connection with human rights violations were identified in the Company.

Occupational health and safety at work

Regulation. The Company acts in compliance with the provisions of the Occupational Safety and Health Policy of the Group of Lietuvos energija, UAB which defines the general rules and principles of the occupational safety and health and the main guidelines of their implementation, as well as with all requirements of legal acts of the RL pertaining to the occupational safety and health.

Potentially dangerous working environment. In their daily activities, the Company's employees and contractors carry out dangerous works when they operate installations of the electricity distribution network and the natural gas distribution system. In addition, employees are exposed to potential risks of injury when they carry out such works as height works or works in excavations with potentially dangerous equipment, sources of open fire – all this poses the risk of failure to ensure the safety and health of employees as well as of contractors and 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;
- In strengthening the culture of safety, the Company keeps introducing new and innovative measures which increase the involvement of the Company's employees and managers in the occupational safety (safety days are organised, once a week employees of maintenance subdivisions are provided with 'Safety minutes' about occupational safety, a mobile programme which helps employees and engineers of the Occupational Safety and Environmental Protection Division (OSEPD) to carry out more effective checks of occupational safety was implemented).
- For effective supply with personal protective equipment the electronic system was developed. Functions of the programme are still being improved. Implementation of the new programme module 'Health' was also started to make the organisation of health examinations of employees more effective.

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:

- The description of the process of giving and preparing instructions for employees including full structured information about such instructions and reducing excessive documentation related to instruction was updated;
- Employees are further instructed and trained both directly and via e-platforms using knowledge of both lectors of educational institutions and experience accumulated by internal employees of the Company;
- The Practical Training Centre provides ongoing practical training for employees, organises competitions of professional skills;
- Managers of maintenance subdivisions are involved in the development of safety – once a quarter they carry out safety audits of workstations in the network, discuss their results with the Company's safety experts, quite often managers, on their own initiative, also invite their other employees to discuss the matters of safety.

Occupational health. Free medical examination is organised for all employees for whom it is mandatory. Employees who work outdoors are vaccinated against tick-borne encephalitis for the Company's account. All employees who wish to be vaccinated against flue are vaccinated each year free of charge at the workplace. On request of employees, they are provided with additional health insurance cover which enables the insured employees during the insurance period to use services of public and private health care institutions: be treated in clinics of their choice, visit doctors – specialists, carry out different tests, buy medicines, and use other health improvement services.

Occupational health and safety indicators

Employee incidents and accidents (minor, serious or lethal)	67 incidents of which 59 – car accidents. 5 minor accidents: 3 of them on the way to/from work, 2 of them – during performance of work functions. The main causes of accidents and incidents – careless behaviour of employees at the workplace, careless driving, slippery road covering. All accidents were investigated.
Violations of occupational safety and health of contractors' employees occurring in the Company's objects, their type and accidents	1,162 workplaces of contractors were checked and 447 violations were established. Works were stopped 21 times due to complex or serious violations. Type: incorrect documentation of works, absence of protective equipment, inappropriate workplace installation. During the first half-year, contractors' employees were involved in 2 minor accidents.

More information about the Company's employees and communication with them is provided further in this report.

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 most relevant environment-related issues: safe use of facilities, safe use of hazardous materials (from ecological perspective), management of resulting waste.

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.

Supporting the Environmental Management Standard. The Company supports the Environmental Management Standard ISO 14001. The globally recognised certificate demonstrates that the company observes the requirements for identification, monitoring, management and improvement of the most important environmental aspects.

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.

Saving of resources. The Company has about 60,000 clients and encourages them to give up paper invoices and pay-books and start using remote servicing channels and payment of invoices via the internet. E-invoices are used already by almost 95 % of clients of ESO.

During the first half of 2019, 1,564.792 t of waste were generated in the course of activities of ESO and transferred for management.

Public initiatives

ESO implements large-scale long-term social responsibility projects, which focus on active engagement of target groups of society and ideas on safe and efficient use of electricity.

Through means of mass media – television, radio, newspapers and the internet – the Company aims to inform the society about the safety principles that are to be observed when fieldworks are carried out. A particular attention is focused on reminding about the underground electricity and gas network, as well as dissemination of advice on safe behaviour during storms. Emphasis is also placed on the prevention of thefts that cause electricity supply interruptions and development of civic qualities. In the third quarter of 2018, in view of a significant rise in the number of thefts in the Kaunas region, the notification was issued urging residents to be more attentive and respond to possible criminal acts more operatively. Targeted meetings with representatives of the local police, the community, and mass media are regularly held in the highly affected regions.

Improvement of energy efficiency through the initiative 'As Much as Needed'. Promotion of reasonable use of energy is one of the priority directions of social responsibility of ESO contributing to preservation of environment and saving of resources and the country's commitments in implementing the climate change programmes of the European Union. The project is aimed at creating traditions of the society living reasonable life – looking for solutions of reasonable consumption of electrical energy with special attention devoted to consumption of business and industry. In 2018, we devoted special attention to individual recommendations during direct meetings; in autumn, the cycle of conferences for representatives of industry was held ('As Much as Needed by Industry 2018').

Conference on reasonable use of energy 'Energy efficiency solutions for competitive business'. On 27 February 2018, the conference which has already become traditional, initiated by ESO for business and organised jointly with 'Verslo žinios' was held. During the event, specialists from different sectors shared their insights on sustainable use of energy. The annual conference on energy efficiency is a part of the energy saving initiative 'As Much as Needed' launched by ESO. The purpose of this event is to bring together specialists of energy, implementers of energy efficiency solutions, business and academic community, so that discussions and useful experiences help improve business efficiency, steer resources in a useful direction and preserve the environment. Representatives of 243 business enterprises were present at the event in 2018.

Provision of support

Until 2017, the Company provided support through Lietuvos energija Support Foundation established in 2014. The Foundation combined and coordinated support provided by all companies of the Group for significant projects, programmes and activities. At present, the Company does not provide support.

Transparency, anti-corruption activities

ESO does not tolerate any manifestations of corruption and advocates fair business and transparent communication with public authorities by promoting a zero-tolerance policy against corruption, which is implemented across the entire group of Lietuvos Energija.

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 zero-tolerance policy against corruption are regularly communicated to the Company's employees – meetings of executive personnel are held, lectures and discussions are initiated for employees.

The Company operates an anonymous trust line 1802. Both the employees of ESO and other persons can report any noted violations of ethics via email pasitikejimolinija@eso.lt or by filling in the trust line form available on the ESO's website under the contacts section.

Transparent public procurements

Promotion of transparency in public procurements. ESO is the contracting authority. At the Lietuvos Energija Group of companies, the centralised procurement function is carried out by Verslo Aptarnavimo Centras UAB (VAC). VAC 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 (CVPIIS) tools, additionally informs about respective publications in its webpages, and provides reports on procurement procedures and information on on-going procurements.

In 6 months of 2019, as many as 634 purchases were initiated by the Company. During the year, 148 claims with regard to procurements conducted by the Company were received, only 34 of them were recognised to be substantiated and were satisfied.

Accountability

ESO is an active member of the Association for Responsible Business of Lithuania (LAVA) and a participant of the Global Compact, a United Nations initiative. In order to increase its accountability to the society, the Company publishes annual social corporate responsibility progress reports, which are presented on its website under the section for investors and the Global Compact website profile (www.globalcompact.org).

The latest report of the organisation (ESO Progress Report on Corporate Social Responsibility 2017) was announced on 24 August 2018.

A detailed integrated report of the Lietuvos Energija Group on social responsibility for 2018 which will present the Company's progress in this area will be drawn up and announced separately.

THE COMPANY AND ITS MANAGEMENT BODIES

Table 13. 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, ensurance of 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.

Subsidiaries and related companies

ESO is part of Lietuvos Energija, a state-owned group of companies, which is one of the largest energy company groups in the Baltic countries. Lietuvos Energija UAB, the parent company, controls 94.98% of the Company's shares.

As at 30 June 2019, ESO had no subsidiaries.

At the date of signing of the report, ESO, jointly with other companies, controlled Verslo Aptarnavimo Centras UAB and Technologijų ir Inovacijų Centras UAB.

Table 14. Main information about related companies

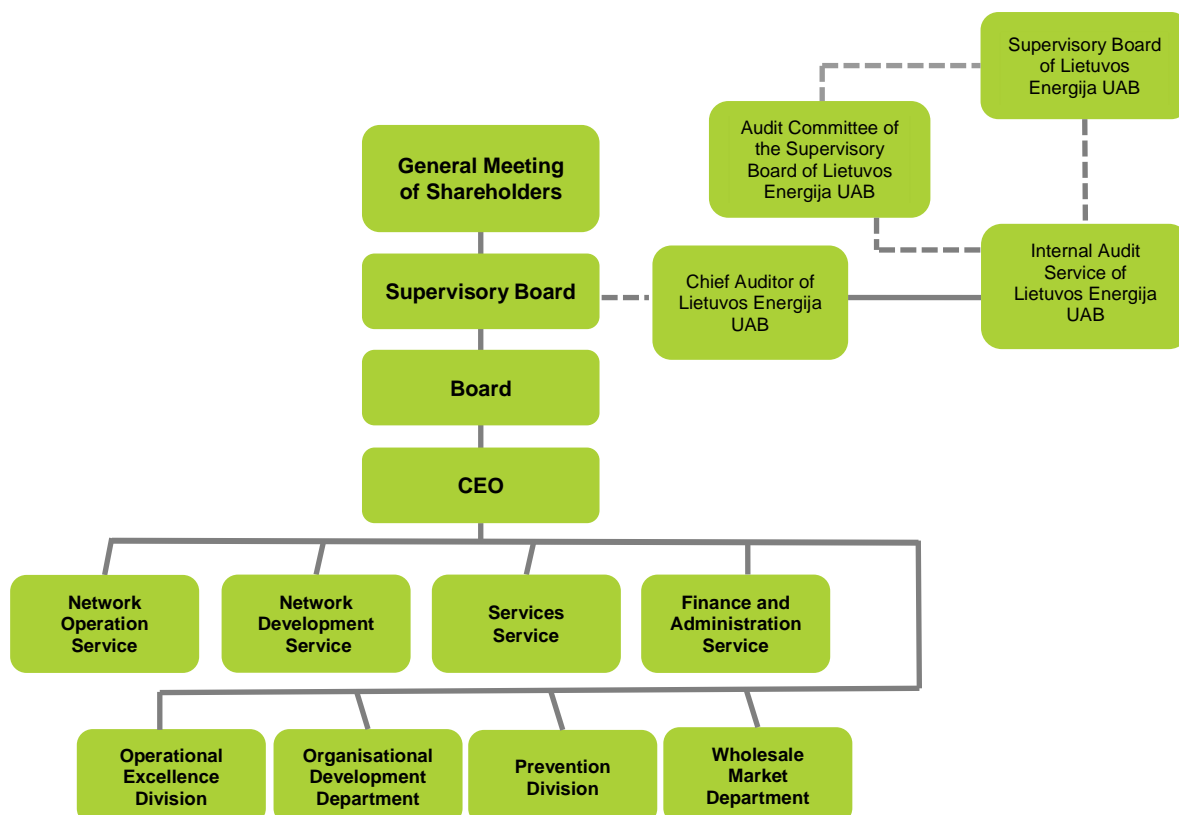
	Technologijų ir Inovacijų Centras UAB	Verslo Aptarnavimo Centras UAB
Address	A. Juozapavičiaus g. 13, Vilnius	P. Lukšio g. 5B, Vilnius
Registration date	4 December 2013	30 July 2014
Company code	303200016	303359627
Telephone	(8 5) 278 2272	(8 5) 259 4400
Fax	(8 5) 278 2299	(8 5) 259 4401
E-mail	info@etic.lt	vac@le.lt
Website	www.etic.lt	http://vac.le.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,

Information about significant related-party transactions

Information on related-party transactions is presented in the explanatory notes to the interim financial statements for January–June 2019.

Corporate governance

Figure 10. The Company's organisational structure (as at 30 June 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 Lietuvos Energija 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 Lietuvos Energija group of companies. 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 one 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 meeting of shareholders of 22 February 2019.

The Company's CEO (Board Chairman) and the Director of the Finance and Administration Service (Board member) participated at the annual general meeting of shareholders of the Company held on 30 April 2019.

Information about voting results of shareholders in these and earlier general meetings of shareholders is provided in the section 'For Investors' of the Company's website.

The Company's Supervisory Board

The Supervisory Board of ESO is a collegial supervisory body.

The competence of the Supervisory Board, the procedure of taking decisions and election and recall of members is established by laws, other legal acts and articles of association of the Company. After registration of new articles of association of ESO, on 3 June 2019, the Supervisory Board consisted of five members elected at the general meetings of shareholders for a term of four years. At least one third of the Supervisory Board of ESO comprises independent members, 1 candidate may be proposed to the Supervisory Board of ESO by written agreement of persons implementing representation of employees and acting at the employer's level. The Supervisory Board elects its chairman from among its members.

When nominating candidates to the Supervisory Board members the nominating person must submit to the general meeting of shareholders written explanations regarding qualification, experience of holding management positions, suitability for occupying the Supervisory Board member's position of each nominated Supervisory Board member. The Company's CEO, the Company's Board member, the member of the subsidiary's management body, the member of the supervisory body, management body or administration of a legal person engaged in activities of transmission or production (extraction) of electrical energy, activities of other supply of natural gas and/or of electrical energy, the auditor or the employee of the audit company who participates and/or participated in the audit of the set of financial statements of the Company when the period of 2 years has not passed from such audit, and the person who by virtue of legal acts has no right to hold such position may not be a member of the Supervisory Board.

Where a member of the Supervisory Board is recalled, resigns or for any other reason ceases to perform its duties and the Company's shareholders whose shares grant at least 1/10 of all votes do not object to the election of individual member of the Supervisory Board, the powers of the Supervisory Board shall be withdrawn and the entire Supervisory Board needs to be elected. Where individual members of the Supervisory Board are elected, the term of office for which they are elected shall be only until the expiry of the term of office of the current Supervisory Board.

The main competences of the Supervisory Board are as follows:

- 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, Darius Maikštėnas, Darius Kašauskas and Kęstutis Betingis worked in the Supervisory Board of the Company.

At the reporting date, the prospective term of office of the current Supervisory Board is 30 March 2022.

During the reporting period, seven sittings of the Supervisory Board of ESO were held and all of them were attended by all then elected members of the Supervisory Board.

Table 15. The composition of the Supervisory Board of ESO (as at 30 June 2019)

		
Darius Maikštėnas Chairman	Darius Kašauskas Member	Kęstutis Betingis Independent member
Elected from: 30 March 2018	Elected from: 30 March 2018	Elected from: 28 May 2018
End of term of office: 30 March 2022	End of term of office: 30 March 2022	End of term of office: 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)
Principal workplace and position held		
Lietuvos Energija UAB, Chairman of the Board, Chief Executive Officer	Lietuvos Energija, UAB, Member of the Board, Finance and Treasury Director	Betingis and Ragaišis law firm, 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
„Wider communications incorporated“, Delaware Corporation, USA, shareholder, member of the board (till 2019-05-21); „Wider Communications Limited“, private limited company, UK Member of the Board (till 2019-05-21).	Duomenų Logistikos Centras UAB, Chairman of the Board; Lietuvos Energija Support Fund, Member of the Board; Member of the Commission of the 288th Vingis Community Flat Owners revision; Energetikos Paslaugų ir Rangos Organizacija UAB, Chairman of the Board.	—
Percentage of share capital and voting rights of other companies held in excess of 5%		
—	—	—
Compensations calculated during January–December 2018, in EUR* (for activities in the Supervisory Board)		
—	—	5,750.99

* 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. Based on the decision of the general meeting of shareholders, remuneration may be paid to independent members of the Supervisory Board for their activity in the Supervisory Board. The terms of the agreements concluded with the members of the Supervisory Board and the independence criteria are established by the general meeting of shareholders according to the requirements of legal acts and the good corporate management practice.

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 that consists of five members is elected for a term of four years and removed by the Supervisory Board in the manner stipulated in the Company's Articles of Association and legal acts. The Board is accountable to the Supervisory Board and the General Meeting of Shareholders. The Chairperson of the Board is elected from the members of the Board.

A person proposing a candidate to members of the Board has the obligation to produce written explanations to the Supervisory Board as to the qualifications of each candidate proposed to members of the Board, candidate experience of managerial work,

and fitness to hold the office of a member of the Board. The position of the Board's member cannot be held by: a member of the supervisory, management body or administration of the legal entity engaged in electricity or gas transmission activity, a member of the Company's Supervisory Board, an auditor or an employee of the audit firm who participates and/or has participated in an audit of the Company's set of the financial statements, if a two year period following the audit has not expired, with whom the agreement on the audit of the Company's financial statements has been signed, and any person who has no right to take this position according to legal acts.

Where the Board is recalled, resigns or for any other reason ceases to perform its duties before the expiry of the term of office, a new Board is elected for a new term of office. Where individual members of the Board are elected, the term of office for which they are elected shall be only until the expiry of the term of office of the current Board.

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 consideration of the opinion of the Supervisory Board, the Board elects and removes from office the General Manager, fixes his/her salary and sets other terms of the employment contract, approves his/her job description, provides incentives for him/her and impose penalties.


Changes in the composition of the Company's Board were as follows during the reporting period: was'nt changed.

At the reporting date, the prospective term of office of the current Board is 27 December 2022.

During the reporting period, 18 sittings of the Board of ESO were held and all of them were attended by all then elected members of the Board.

More detailed information on the members of the Company's Board is presented in the table below. The description of their education and work experience is available on the Company's website under section 'About us→ESO Management'.

Table 16. The composition of the Board of ESO (as at 30 June 2019)

				
Mindaugas Keizeris Chairman of the Board, Chief Executive Officer	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 this position from: 27 December 2018	In this position from: 27 December 2018	In this position from: 27 December 2018	In this position from: 27 December 2018
In the position of the Chairman of the Board from: 27 December 2018	End of term of office: 27 December 2022	End of term of office: 27 December 2022	End of term of office: 27 December 2022	End of term of office: 27 December 2022
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 Business Management and Administration	ISM University of Management and Economics, Executive MBA degree	Kaunas University of Technology, Master's degree in International Trade	Kaunas University of Technology, Bachelor's and Master's degrees in Telecommunication and Electronics

Vilnius University, Master's degree in International Business; Baltic Institute of Corporate Governance, Professional board member		Vilnius University, Bachelor's degree in Economics	and Bachelor's degree in Electrical Engineering	
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				
Lietuvos Energija Support Foundation, Chairman of the Board (from 28 June 2019) Verslo Aptarnavimo Centras UAB, Board member (from 18 June 2019)	Technologijų ir Inovacijų Centras UAB, Board member (till 27 June 2019) Verslo Aptarnavimo Centras UAB, Board member (till 17 June 2019)			
Percentage of share capital and voting rights of other companies held in excess of 5%				
–	–	–	–	–
Compensations calculated during January–December 2018, in EUR (for activities in the Board)*				
10,890	7,800	7,800	7,800	7,800

Management of the Company

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

Table 17. Information on the remuneration calculated for the Chief Executive Officer and Chief Accountant of ESO*

	Remuneration during January–June 2019, in EUR	The variable component of the remuneration paid for the results of the previous year during January–June 2019, in EUR	Total payments in January–June 2019, in EUR
Mindaugas Keizeris, CEO	36,360	25,189	61,549

* From 1 December 2014, the accounting function was relocated from the Company to Verslo Aptarnavimo Centras UAB, therefore, the Company does no longer have personnel in charge of accounting functions, including the Chief Financial Officer. Verslo Aptarnavimo Centras UAB provides all accounting services to the Company, starting from entering initial documents to accounting programmes to the preparation of financial statements.

ESO has neither transferred the management of assets nor issued guarantees to the members of the bodies. During January–June 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 are established at the Lietuvos Energija group of companies. The committees provide their conclusions, opinions, and proposals to the Supervisory Board of Lietuvos Energija within their competence. A committee consists of at least three members, of whom at least one member is a member of the Supervisory Board and at least one member is an independent member. Members of the committees are elected for the term of four years. The activity of the committees is applicable to Lietuvos Energija and its directly and indirectly controlled subsidiaries, including the Company and the legal entities of other legal form, in which Lietuvos Energija may have direct or indirect ultimate impact.

The following committees of the Supervisory Board have been established at Lietuvos Energija:

- **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.

Where appropriate, the Company may also form other *ad hoc* committees (e.g. for addressing specific issues, preparation, supervision or coordination of strategic projects, etc.).

The Risk Management and Business Ethics Supervision Committee, the Audit Committee, the Nomination and Remuneration Committee were formed at Lietuvos Energija at the reporting date.

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 18. 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	<ul style="list-style-type: none"> - 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 - NNT Termo UAB, Director, Chairman of the Board - Nordnet UAB, Commerce Manager, Chairman of the Board
Danielius Merkinas Independent member	—	October 2017– October 2021	<ul style="list-style-type: none"> - Mercado Prekyba UAB, Director - Litcargos UAB, Chairman of the Board - Lietuvos Paštas AB, Member of the Board
Aušra Vičkačkienė Member	—	October 2017– October 2021	<ul style="list-style-type: none"> - 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	–	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, 9 sittings of the Audit Committee were held.

The Risk Management and Business Ethics Supervision Committee

The main functions of the Committee are 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 19. 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 2022	- 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 2022	- Saudi Aramco (an oil and gas industry company), Finance and Development Projects Unit, Chief Advisor
Šarūnas Rameikis Member	–	April 2018– April 2022	- R. Mištautas and T. Milickis law firm Konsus, Lawyer

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

During the reporting period, 9 sittings of the Risk Management and Business Ethics Supervision Committee were held.

The Nomination and Remuneration Committee

The main functions of the Committee are as follows:

- to provide suggestions in relation to the long-term remuneration policy of Lietuvos Energija and the companies of the Lietuvos Energija group (fixed basic 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 make assessments and provide suggestions in relation to the bonus (tantieme) policy of Lietuvos Energija and the companies of the Lietuvos Energija group;
- to monitor compliance of the remuneration and bonus (tantieme) policies of Lietuvos Energija and the companies of the Lietuvos Energija group with international practice and good governance practice guidelines, and provide suggestions for their improvement;
- to provide suggestions in relation to bonuses (tantiemes) upon appropriation of profit (loss) for the financial year of Lietuvos Energija and the companies of the Lietuvos Energija group;
- to assess the terms and conditions of inter-company agreements between Lietuvos Energija and the companies of the Lietuvos Energija group and the members of the management bodies of Lietuvos Energija and the companies of the Lietuvos Energija group;

- to assess the procedures for recruitment and hiring of candidates to the positions of management bodies and top management of Lietuvos Energija and the companies of the Lietuvos Energija group, and establishment of qualification requirements for them;
- to assess on a continuous basis the structure, size, composition and activities of management and supervisory bodies of Lietuvos Energija and the companies of the Lietuvos Energija group;
- to oversee the process of notification of the members of management bodies and employees of Lietuvos Energija and the companies of the Lietuvos Energija group about the professional training opportunities and monitor the progress achieved on a regular basis;
- to oversee and assess the implementation of measures ensuring business continuity of management and supervisory bodies of Lietuvos Energija and the companies of the Lietuvos Energija group;
- to perform other functions falling within the scope of competence of the Committee as decided by the Supervisory Board of Lietuvos Energija.

Table 20. 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	–	March 2019– September 2021	Lithuanian Ministry of Finance, Budget Department, Director
Lėda Turai-Petrauskienė Independent member	–	April 2018– September 2021	L-CON Global UAB, Leadership Development Partner, Shareholder

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

During the reporting period, 7 sittings of the Nomination and Remuneration Committee were held.

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 30 June 2019, the actual number of the Company's employees was 2,355 *.

Table 21. Structure of the Company's employees by category

Category of employees	Number of employees at 30 June 2019
Chief executive officer (CEO)	1
Top-level managers	5
Medium-level managers	196
Experts, specialists	1,611
Workers	542
Total number of employees	2,355*

* 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 22. Structure of the Company's employees by educational background

Education	Number of employees at 30 June 2019
Higher education	47.57 %
Advanced vocational education	25.88 %
Secondary and vocational education	26.22 %
Other	0.34 %

Remuneration system

The employee remuneration standard implemented by ESO facilitates in making correct performance-based evaluation of employees for their work and for corporate and team value created by them. The remuneration standard has been developed on the basis of 'Korn Ferry' methodology which ensures objective assessment of positions according to the required education, complexity of problems and level of responsibility attributed to the particular position. 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 and training.

Emotional reward is difficult to measure; however, this factor is of great relevance for employee engagement in the Company's activities including the Company reputation, corporate culture and values, offered career opportunities, implementation of various internal communication – employees can share their ideas, ask questions of interest for them, get acquainted with daily activities of other subdivisions.

Table 23. Average salary of the Company's employees

Category of employees	Average salary, in EUR (before taxes) January–June 2019
Chief executive officer (CEO)	8,711
Top-level managers	6,441
Medium-level managers	2,985
Experts, specialists	1,707
Workers	1,410
Total number of employees	1,756

Collective employment agreement

ESO has 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

The Company supports the joining of employees into voluntary trade unions and maintains close cooperation with them. On 15 April 2019, the Company was the first in Lithuania to conclude the agreement with all seven trade unions functioning in the Company; the agreement provided for including the representative delegated by trade unions in the Supervisory Board and working towards the achievement of goals important for both sides. In addition, on a quarterly basis, meetings are organised to discuss strategic projects implemented by the Company. Representatives of trade unions always participate in working groups when issues concerning employees (employees' working conditions, remuneration and social issues) are discussed.

Development of competences

ESO gives particular attention to the development of employees' competences. Development plans are drawn up every year taking into account the Company's objectives and the matching of employees' competences with the achievement of these objectives. The training courses organised focus on effective and high-quality ensurance of the maintenance of the electricity and gas distribution networks, customer service and safety of works.

In January–June 2019, 1,006 participants attended mandatory professional training after completion of which certificates for performance of special works are issued. Employees were trained during training on the issues of occupational safety and health, fire safety, operation of systems of combustible gases and works in electrical installations, professional and legal knowledge of a manager of construction operations of a construction works of exceptional significance and emergency medical aid.

In the period between January and June 2019, the general training courses were attended by 585 participants. These courses are organised by sending individual employees to attend seminars and conferences organised by external suppliers (in Lithuania and abroad) and by forming groups within the Company.

The Company seeks to involve internal employees in the competence development programmes – internal lecturers who have specific knowledge and skills and are capable of sharing them with others and also invests into training of such employees. In January–June 2019, internal training was attended by 470 participants. Employees improved their knowledge during training on the subjects of personal data protection, personal efficiency and public speaking, were interested in energy spheres in the Group of companies, deepened their skills of MS Excel and sales, attended training for beginners.

Training programmes are developed in close cooperation with the providers of training programmes, surveys are conducted to assess the quality of trainings. ESO also cooperates regularly with manufacturers and suppliers of equipment who share their knowledge with employees by presenting innovations in the field of energy.

During the first half of 2019, ESO provided partial funding for the studies of 8 employees at the Lithuanian higher education institutions aiming to improve professional qualification of workers and develop competences of managers. Employees have the opportunity to study the programmes on energy and management that are related to the Company's activities.

Internship opportunities

ESO actively cooperates with educational institutions and allows university and college students to apply their theoretical knowledge and gain practical skills. During January-June of 2019, 18 students completed internship at ESO across the territory of Lithuania. The Company's partnership with other Lithuanian talents' attraction programmes is also a great success – after internship at ESO we employed 2 specialists who have completed energy studies in foreign universities.

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

Material events 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.nasdaqomxbaltic.com>.

Table 24. Information on material events announced by ESO from 1 January 2019 to 30 June 2019

Date	Material event
2019-01-18	Regarding the approval of the strategy of ESO till 2030
2019-01-31	Regarding the Extraordinary General Meeting of Shareholders of ESO
2019-01-31	ESO preliminary financial results for 12 months of 2018
2019-02-14	Regarding the investment plan of 2018 alignment
2019-02-22	Regarding the resolutions of Extraordinary General Meeting of Shareholders of the Company
2019-02-28	ESO's 2018 preliminary results: historical investments and crystallisation of activities
2019-02-28	ESO preliminary financial results for 1 month of 2019
2019-03-06	Regarding Court Decision
2019-03-27	Regarding the refusal of commercial services of Energijos Skirstymo Operatorius AB

2019-03-29	ESO preliminary financial results for 2 month of 2019
2019-03-29	Regarding the agenda and proposed draft resolutions of the Ordinary General Meeting of Shareholders of AB „Energijos skirstymo operatorius“
2019-04-02	Regarding a decision to refuse 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
2019-04-12	Lietuvos Energija Group will hold an Investor Conference Webinar to introduce the financial results for the year 2018 and guidance for 2019
2019-04-15	Regarding the supplement of the agenda and proposed draft resolutions of the Ordinary General Meeting of Shareholders of AB „Energijos skirstymo operatorius“
2019-04-15	Update: Regarding the supplement of the agenda and proposed draft resolutions of the Ordinary General Meeting of Shareholders of AB „Energijos skirstymo operatorius“
2019-04-30	Regarding the resolutions of Ordinary General Meeting of Energijos Skirstymo Operatorius AB Shareholders
2019-05-03	Regarding the Energijos skirstymo operatorius, AB, Annual Information 2018
2019-05-31	ESO preliminary financial results for 4 month of 2019
2019-06-28	ESO preliminary financial results for 5 month of 2019

Table 25. Notifications on material events after the end of the reporting period from 30 June 2019

Date	Material event
2019-07-31	The updated Investment Plan of Energijos Skirstymo Operatorius for the following 10 years has been approved
2019-07-31	ESO preliminary financial results for 6 month of 2019
2019-08-02	Approved ESO investment projects 2020-2023
2019-08-06	Regarding the nomination of the members of Supervisory Board of ESO

OTHER SIGNIFICANT INFORMATION

Main features of the internal control and risk management systems related to the preparation of the consolidated financial statements

Information on compliance with the Corporate Governance Code for the Companies listed on NASDAQ Vilnius. The Company's financial statements are prepared according to International Financial Reporting Standards (IFRS) as adopted by the EU.

Employees of the company providing accounting services to the Company ensure a proper preparation of the financial statements and supervise a timely collection of correct data. The preparation of the Company's financial statements, internal control and financial risk management systems, legal acts regulating the preparation of financial statements are controlled and managed.

Alternative performance measures

More about Alternative performance measures:

<http://www.eso.lt/en/for-investors/alternative-performance-measures.html?sr=RVdTSUQ9YWI5cmk4dTVIZG4xbW81dGpzMm1yamVmNWl=>