

2019-02-28 Nr. 19KRSD1964

CERTIFICATION STATEMENT

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, Mindaugas Keizeris, Chief Executive Officer of AB Energijos skirstymo operatorius and, Augustas Dragūnas, Director of Finance and Administration Service, and Giedruolė Guobienė, Head of Accounting Services Center of Verslo Aptarnavimo Centras UAB acting under Order No IS18-77 of 13 August 2018, hereby confirm that, to the best of our knowledge, AB Energijos skirstymo operatorius condensed interim financial information for the year ended 31 December 2018 prepared according to International Accounting Standard 34 'Interim financial reporting' adopted by the European Union, give a true and fair view of AB Energijos skirstymo operatorius assets, liabilities, financial position, profit or loss for the period and cash flows, the Interim Report for the twelve-month period includes a fair review of the development and performance of the business.

AB Energijos skirstymo operatorius
Chief Executive Officer



Mindaugas Keizeris

AB Energijos skirstymo operatorius
Director of Finance and
Administration Service



Augustas Dragūnas

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



Giedruolė Guobienė

2018

ENERGIJOS SKIRSTYMO OPERATORIUS AB

THE COMPANY'S CONDENSED INTERIM FINANCIAL
INFORMATION

THE COMPANY'S CONDENSED INTERIM FINANCIAL
INFORMATION FOR THE FORTH QUARTER OF 2018 AND
TWELVE-MONTH PERIOD ENDED 31 2018, PREPARED
ACCORDING TO INTERNATIONAL ACCOUNTING STANDARD 34,
'INTERIM FINANCIAL REPORTING' AS ADOPTED BY THE
EUROPEAN UNION (ANAUDITED)



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Group of energy
companies

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Translation note:

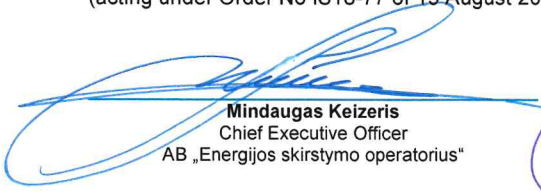
This version of the accompanying documents is a translation from the original, which was prepared in Lithuanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions,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

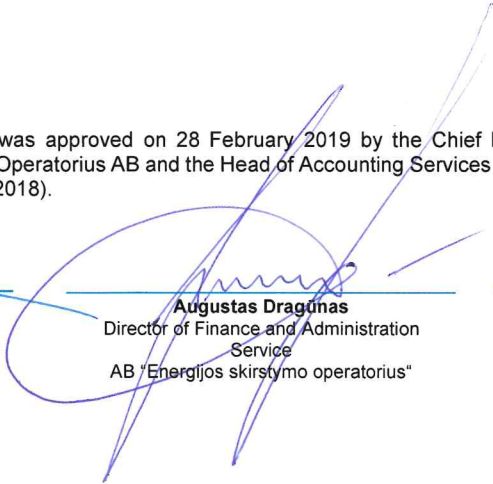
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The condensed interim financial information was approved on 28 February 2019 by the Chief Executive Officer, Director of Finance and Administration Service of Energijos Skirstymo Operatorius AB and the Head of Accounting Services Centre of Verslo Aptarnavimo Centras UAB (acting under Order No IS18-77 of 13 August 2018).


Mindaugas Keizeris
Chief Executive Officer
AB „Energijos skirstymo operatorius“


Augustas Dragūnas
Director of Finance and Administration
Service
AB „Energijos skirstymo operatorius“


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

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376, Agonų g. 24, Vilnius, Lithuania
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
31 December 2018

All amounts in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2018	As at 31 December 2017
ASSETS			
Non-current assets			
Property, plant, and equipment	3	1,428,529	1,188,748
Intangible assets	3	35,751	5,451
Prepayments for non-current assets		3	3
Investments in associates		2,459	2,382
Other non-current financial assets		210	849
		1,466,952	1,197,433
Current assets			
Inventories		1,92	2,135
Trade and other receivables		115,508	64,386
Prepayments, deferred charges and accrued income		2,145	7,224
Prepaid income tax		2,779	174
Cash and cash equivalents		2,266	6,449
		124,690	80,368
Total assets		1,591,642	1,277,801
EQUITY AND LIABILITIES			
Equity			
Authorised share capital	4	259,443	259,443
Revaluation reserve		154,834	44,680
Legal reserve		25,944	25,910
Retained earnings		199,813	277,611
Total equity		640,034	607,644
LIABILITIES			
Non-current liabilities			
Borrowings		448,534	239,648
Deferred income tax liabilities		10,276	11,368
Deferred revenue		140,139	113,202
Grants and subsidies		13,052	19,758
Long-term employee benefits		1,710	1,763
Other non-current liabilities		3	3
Provisions		27,982	-
		641,696	385,742
Current liabilities			
Borrowings		182,496	133,040
Trade and other payables		77,479	116,529
Advance amounts received, accrued liabilities and deferred revenue		49,937	34,846
		309,912	284,415
Total liabilities		951,608	670,157
Total equity and liabilities		1,591,642	1,277,801

The accompanying notes form an integral part of this condensed interim

31 December 2018

All amounts in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Q1-4 2018	Q4 2018	Q1-4 2017	Q4 2017
Revenue	598.325	146.865	610.735	165.539
Other income	25.719	21.598	1.574	516
Purchases of electricity and related services	(407.428)	(83.982)	(373.808)	(100.410)
Purchase (expenses) of natural gas and transmission services	(4.404)	(1.337)	(3.693)	(1.187)
Depreciation and amortisation	(56.413)	(14.854)	(50.385)	(13.250)
Employee benefits and related social security contributions	(41.542)	(10.172)	(43.731)	(13.175)
Repair and maintenance expenses	(13.810)	(3.235)	(15.657)	(4.496)
Transport costs	(4.823)	(1.242)	(4.453)	(1.139)
Telecommunications and IT services	(9.095)	(2.123)	(8.713)	(1.956)
Rent and utilities	(4.032)	(978)	(4.148)	(1.099)
Impairment and write-off expenses	24.068	27.682	(4.339)	(2.429)
Revaluation of property, plant and equipment	(78.382)	(78.382)	-	-
Other expenses	(16.483)	(3.562)	(18.026)	(4.747)
Operating profit	11.700	(3.722)	85.356	22.167
Finance income	89	25	1.562	706
Finance costs	(6.627)	(2.310)	(2.274)	(901)
Finance costs – net	(6.538)	(2.285)	(712)	(195)
Share of profit of associates and joint ventures	179	(89)	148	(133)
Profit before income tax	5.341	(6.096)	84.792	21.839
Income tax	10.324	10.932	(7.240)	(967)
Net profit for the period	15.665	4.836	77.552	20.872
Other comprehensive income/(loss)				
Profit from revaluation of property, plant and equipment (loss)	134.713	134.713	-	-
Impact of Deferred Income Tax	(20.207)	(20.207)	-	-
Recalculation of the defined benefit plan obligation, net of deferred income tax	77	77	(187)	(187)
Other General Income (loss)	114.583	114.583	(187)	(187)
Total comprehensive income for the period	130.248	119.419	77.365	20.685
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	0,018	0,005	0,087	0,023

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

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376, Agonų g. 24, Vilnius, Lithuania
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
31 December 2018

All amounts in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Revaluation reserve	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2017		259,443	49,864	25,910	287,978	623,195
Comprehensive income						
Net profit for the period		-	-	-	77,552	77,552
Recalculation of the defined benefit plan net of deferred income tax		-	-	-	(187)	(187)
Total comprehensive income for the period		-	-	-	77,365	77,365
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(5,184)	-	5,184	-
Dividends		-	-	-	(92,916)	(92,916)
Balance at 31 December 2017		259,443	44,680	25,910	277,611	607,644
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		-	-	-	15,665	15,665
Revaluation of non-current assets net of deferred tax		-	114,506	-	-	114,506
Recalculation of the defined benefit plan obligation, net of deferred income tax		-	-	-	77	77
Total comprehensive income for the period		-	114,506	-	15,742	130,248
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(4,352)	-	4,352	-
Transfers to legal reserve		-	-	34	(34)	-
Dividends		-	-	-	(35,204)	(35,204)
Balance at 31 December 2018		259,443	154,834	25,944	199,813	640,034

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

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376, Aguonų g. 24, Vilnius, Lithuania
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
31 December 2018

All amounts in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Notes	2018	2017
Cash flows from operating activities			
Net profit for the period		15,665	77,552
Adjustments for:			
Income tax expenses		(10,324)	7,240
Depreciation and amortisation	3,8	57,527	51,534
Amortisation of grants		78,381	-
Share of (profit) of associates and joint ventures		(28,791)	-
(Gain)/loss on disposal and write-off of assets	8	(1,114)	(1,149)
Finance (income)		(179)	(148)
Finance costs		4,752	4,547
Cash flows from operating activities		(89)	(1,562)
Net profit for the period		6,627	2,274
Changes in working capital:			
Trade and other receivables		(45,418)	2,694
Inventories, prepayments, deferred charges and accrued income		(1,712)	(1,358)
Trade and other payables, advance amounts received, accrued charges and deferred income		3,052	1,575
Cash generated from operations		78,377	143,199
Income tax paid		(1,128)	(6,767)
Net cash flows generated from operating activities		77,249	136,432
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(302,933)	(201,608)
Proceeds from sale of property, plant and equipment and intangible assets		146	16
Grants received		4,411	444
Loans (granted)		-	(2,919)
Loans repayments received		-	4,529
Dividends received		102	112
Interest received		-	122
Net cash flows used in investing activities		(298,274)	(199,304)
Cash flows from financing activities			
Proceeds from borrowings		361,130	203,700
Repayments of borrowings		(95,052)	(61,377)
Dividends paid to the Company's shareholders		(35,105)	(92,579)
Interest paid		(3,476)	(1,740)
Net cash flows generated from/(used in) financing activities		227,497	48,004
Net increase (decrease) in cash and cash equivalents		6,472	(14,868)
Cash and cash equivalents (including the overdraft balance) at the beginning of the period		(4,206)	10,662
Cash and cash equivalents (including the overdraft balance) at the end of the period		2,266	(4,206)

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 17 January 2016. The address of its registered office is as follows:

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

The Company's core lines of business include electricity supply and distribution, and natural gas distribution.

As at 31 December 2018 and 31 December 2017, the Company's shareholder structure was as follows:

	At 31 December 2018		At 31 December 2017	
	Number of shares held	Ownership interest	Number of shares held	Ownership interest
„Lietuvos energija“, UAB	849,743,761	94,98%	849,743,761	94,98%
Other shareholders	44,886,572	5,02%	44,886,572	5,02%
Total	894,630,333	100%	894,630,333	100%

As at 31 December 2018 and 31 December 2017, 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 31 December 2018 and 31 December 2017, the Company's investments in associates were as follows:

Associate	Country	Year of acquisition	Company's ownership interest (%)		Profile of activities
			At 31 December 2018	At 31 December 2017	
Technologijų ir Inovacijų Centras UAB	Lithuania	2013	29,01%	29,01%	Technologijų ir Inovacijų Centras UAB
Verslo Aptarnavimo Centras UAB	Lithuania	2014	22,25%	22,25%	Verslo Aptarnavimo Centras UAB

2 Accounting policies

The Company's condensed interim financial information for last year period ended 31 December 2018 has been prepared according to International Financial Reporting Standards as adopted by the European Union and applicable to interim financial reporting (International Accounting Standard (IAS) 34 *Interim financial reporting*).

This condensed interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The Company for the first time applied the income recognition accounting policy harmonised with IFRS 15 "Revenue from Contract with Customers" and the policy of accounting of financial measures harmonised with IFRS 9 "Financial Instruments" to prepare these financial statements. Other accounting principles applied for preparation of a shortened intermediate financial information, except for the description below, are the same as used for drawing up annual financial statements for the year 2017. The financial year of the Company matches with the calendar year.

Adoption of new and/or amended IFRS and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)

On 1 January 2018, the Company for the first time adopted IFRS 9 "Financial Instruments: Recognition and Measurement". Adoption of the standard for the first time had no impact on the evaluation of the financial assets and financial liabilities, except for recalculated impairment of receivables according to the requirements of the standard, which increased by EUR 334,000. Effect of this standard adoption was recorded in the 2018 Financial Statement by reducing retained earnings and recognising additional impairment of receivables.

On 1 January 2018, the Company for the first time adopted IFRS 15 "Revenue from Contract with Customers" and its amendments which had a significant impact on the Company's financial statements.

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376, Agonų g. 24, Vilnius, Lithuania
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
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All amounts in EUR thousands unless otherwise stated

The overall impact of the entry into force of IFRS 9 and IFRS 15 for the time on 1 January 2018 is represented in the table below:

	Note	As at 31 December 2017	IFRS 15	IFRS 9	As at 1 January 2018
ASSETS					
Fixed assets					
Tangible fixed assets		1,188,748	(43,512)	-	1,145,236
Current assets					
Trade and other receivables		64,386	-	(334)	64,052
EQUITY AND OTHER LIABILITIES					
Equity					
Retained profit (loss)		277,611	(62,320)	(334)	214,957
Long-term liabilities					
Deferred tax liability		11,368	(10,998)	-	370
Liabilities under contracts with clients		113,202	30,683	-	143,885
Short-term liabilities					
Liabilities under contracts with clients		5,243	(877)	-	4,366

New standards, amendments to standards and interpretations which apply to the financial year starting on 1 January 2019 or later and which were not referred to when drawing up these financial statements are specified further.

IFRS 16 "Lease" (applicable annually starting on 1 January 2019 or later). The new standard set out the principles of recognition, presentation, disclosure of lease. Lessors acquire the right to use an asset under all types of lease at the start of the lease period and, where rentals are paid within a certain period, also receives funding. For this reason, IFRS 16 removes the current distinction between the operating and financial leases as required by IAS 17 and a model of general accounting of all leases is presented. Lessors shall recognise the following: (a) assets and liabilities under all types of leases which are longer than 12 months, except for the cases, where the value of transferred asset under a lease contract is small; (b) depreciation of rental asset separately from interest for rental liabilities in the profit and loss statement. In principle, the requirements for accounting by lessors set forth in IAS 17 are transposed into IFRS 16. For this reason, lessors must continue distinguishing between operational and financial lease and record these two types of lease differently. The Company will apply IFRS 16 from 1 January 2019 and will capitalise liabilities under non-cancellable lease agreements in the statements of financial condition. Management of the Company is still considering and assessing the impact IFRS 16 will have on the Company's financial statements.

There were no other new standards, amendments to standards and interpretations applicable to the Company since 2018 and having a significant impact on the financial accountability of the Company.

Income tax for the intermediate reporting period was calculated using the tax rate which would be applicable for the calculation of taxes on the presumable total amount of annual profit.

3 Non-current intangible and tangible assets

Movements in the Company's long-term intangible and tangible assets accounts are presented below:

Company	Intangible assets	Tangible assets
12 month period ended 31 December 2017		
Residual value at the beginning of the period	5,451	1,188,748
Acquisitions	33,599	265,340
Sales	-	(146)
Write-offs	-	(4,752)
Revaluation	-	46,329
Depreciation	-	(44,578)
Restoration of impairment	-	29,857
Reclassification between groups	-	1,959
Amortisation	(3,299)	(54,228)
Residual value in 31 December 2018	35,751	1,428,529

The Company's property, plant and equipment is carried at revalued amount, except for Distribution Gas Pipelines and Gas Technology Equipment and Structures, which are accounted for using the acquisition cost method.

The Company performed valuation of its property, plant and equipment attributable to the Company's Electricity Business Segment as at 31 December 2018 and has set 46.3 million Eur appreciation in value.

The Company performed valuation of its property, plant and equipment attributable to the Company's Natural gas Business Segment and has set 29.8 million Eur appreciation in value.

4 Authorised share capital

As at 31 December 2018 and 31 December 2017, the Company's authorised share capital was divided into 894,630,333 ordinary registered shares with a nominal value of EUR 0.29 each. All the shares are fully paid.

5 Dividends

Approved dividends per share:

	As at 31 December 2018	As at 31 December 2017
Approved dividends (in EUR thousand)	35,204	92,916
Weighted average number of shares (thousands)	894,630	894,630
Approved dividends per share (in EUR per share)	0,039	0,104

The ordinary general meeting of Shareholders of Energijos Skirstymo Operatorius, AB which took place on 28 September 2018 approved the distribution of the profit for the period from January to June 2018 and decided to allocate EUR 0,014 per share, in total EUR 12,525 thousand in dividends.

The ordinary general meeting of Shareholders of Energijos Skirstymo Operatorius, AB was held on 30 March 2018 where it was decided to approve the distribution of the profit for the period from July to December 2017 and decided to allocate EUR 0,02535 per share in dividends, in total EUR 22,679 thousand in dividends.

The ordinary general meeting of shareholders of Energijos Skirstymo Operatorius AB was held on 29 September 2017 where it was decided to approve the profit appropriation for January–June 2017 and to allocate EUR 0,046 per share in dividends, in total EUR 41,153 thousand in dividends.

The ordinary general meeting of shareholders of Energijos Skirstymo Operatorius AB was held on 24 March 2017 where it was decided to approve the profit appropriation for July–December 2016 and to allocate EUR 0,05786 per share in dividends, in total EUR 51,764 thousand in dividends.

6 Revenue from contracts with customers

	As at 31 December 2018	As at 31 December 2017
Revenue from electricity distribution and sales	532,378	539,660
Revenue from distribution of natural gas	41,353	51,067
Revenue from new customers connection	24,594	20,008
Total:	598,325	610,735

7 The activity of public energy supply

Implementing the project initiated by Lietuvos Energija, UAB aimed to refine activities carried out by the Group and to concentrate electricity public supply function to one company, the electricity public supply activities were separated from the Company starting from the 1 October 2018 and sold to another Group company Lietuvos Energijos Tiekimas, UAB, which conducts natural gas public supply activities to private and business consumers.

Under the contract on the sale of the electricity public supply operations signed on 21 September 2018, the Company sold the Business segment of electricity public supply to Lietuvos Energijos Tiekimas, UAB with all assigned assets, rights and obligations. The Business segment was sold for EUR 27,441,351. The value of the Business segment was determined by an independent property valuer UAB Ernst & Young Baltic. According to the opinion of the independent valuator the price of the Business segment corresponds to the market value.

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 Board of Directors that makes strategic decisions.

According to the management, the Company has two operating segments, i.e. supply* and distribution of electric power, and distribution of gas. 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.

*Electricity public supply activities were sold to Lietuvos energijos tiekimas, UAB starting from 1 October 2018.

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376, Aguonų g. 24, Vilnius, Lithuania
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for the period ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Company's information about operating segments for the 12 months period ended 31 December 2018:

2018	Electricity supply and distribution	Gas distribution	Total
Revenue	573,867	50,177	624,044
Expenses	(477,339)	(24,278)	(501,617)
EBITDA	96,528	25,899	122,427
Depreciation and amortisation	(48,670)	(7,743)	(56,413)
Impairment and write-off expenses	(83,080)	28,766	(54,314)
Operating profit	(35,222)	46,922	11,700
Finance income	74	15	89
Finance (costs)	(5,483)	(1,144)	(6,627)
Share of (profit) of associates	149	30	179
Profit before income tax	(40,482)	45,823	5,341
Income tax	14,292	(3,968)	10,324
Net profit for the period	(26,190)	41,855	15,665

Company's information about operating segments for the 12 months period ended 31 December 2017:

2017	Electricity supply and distribution	Gas distribution	Total
Revenue	559,827	52,482	612,309
Expenses	(447,992)	(24,237)	(472,229)
EBITDA	111,835	28,245	140,080
Depreciation and amortisation	(42,768)	(7,617)	(50,385)
Impairment and write-off expenses	(3,668)	(671)	(4,339)
Operating profit	65,399	19,957	85,356
Finance income	1,213	349	1,562
Finance (costs)	(1,899)	(375)	(2,274)
Share of profit of associates and joint ventures	238	(90)	148
Profit before income tax	64,951	19,841	84,792
Income tax	(6,042)	(1,198)	(7,240)
Net profit for the period	(6,042)	(1,198)	(7,240)
Profit before income tax	58,909	18,643	77,552

9 Related-party transactions

The Company's related parties are as follows:

- 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 December of 2018 and the balances arising on these transactions as at 31 December 2018 are presented below:

Related parties	Amounts payable and accrued expenses	Amounts receivable and other assets	Purchases	Sales
Parent company	586,560	-	8,062	-
Lietuvos energija, UAB				
Associates of the Company	3,251	98	22,626	-
Lietuvos energija, UAB group companies	47,538	66,031	82,810	120,141
EPSO – G UAB group companies	34,388	3,112	209,654	11,906
Total	671,737	69,241	323,152	132,047

The Company's transactions with related parties between January and December of 2017 and the balances arising on these transactions as at 31 December 2017 are presented below:

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376, Agonų g. 24, Vilnius, Lithuania
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Related parties	Amounts payable and accrued expenses	Amounts receivable and other assets	Purchases	Sales
Parent company				
Lietuvos Energija, UAB	356,911	5,418	1,965	115
Associates of the Company	4,425	-	20,711	-
Lietuvos energija, UAB group companies	15,386	7,676	77,914	44,531
EPSO – G UAB group companies	29,924	4,336	195,183	751
Total	406,646	17,430	295,773	45,397

Compensation to key management personnel

Company	2018	2017
Wages and salaries and other short-term benefits to management personnel	494	612
Whereof: termination benefits	49	81
Number of key management personnel	5	7

Management in the table above includes heads of administration and their deputies.

10 Events after the reporting period

2018

ENERGIJOS SKIRSTYMO OPERATORIUS AB INTERIM REPORT

REPORT FOR THE TWELVE-MONTH PERIOD ENDED 31ST OF DECEMBER
2018



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INTERIM REPORT

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Reporting period covered by the report

The report provides information to shareholders, creditors and other stakeholders of Energijos Skirstymo Operatorius AB (hereinafter “ESO”, “the Company”) about the Company’s operations for the twelve-month period ended 31 December 2018.

The persons responsible for the information provided in the report

Position	Name and surname	Phone number
Chief Executive Officer	Mindaugas Keizeris	(8 5) 277 7524
Director of Finance and Administration Division	Augustas Dragūnas	(8 5) 277 7524
Director of the 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 str. 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 the Company 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 Vilnius stock exchange (www.nasdaqbaltic.com).

KEY OPERATING AND FINANCIAL INDICATORS OF THE COMPANY

Table 1.

Key operating indicators of ESO					
		During 12 months of 2018	During 12 months of 2017	Change +/-	%
Operating indicators					
Distributed electricity via medium and low voltage networks	TWh	9.59	9.22	0.37	4.01
Public and guaranteed supply of electricity*	TWh	2.61	3.22	-0.61	-18.94
Distributed volume of natural gas	TWh	7.60	7.37	0.23	3.12
Supply quality indicators of the network					
Electricity	SAIDI (with <i>force majeure</i>)	min	81.37	137.83	-56.46
	SAIFI (with <i>force majeure</i>)	times	1.14	1.32	-0.18
Gas	SAIDI (with <i>force majeure</i>)	min	0.606	1.161	-0.555
	SAIFI (with <i>force majeure</i>)	times	0.006	0.007	0
Key financial indicators of ESO					
		During 12 months of 2018	During 12 months of 2017	Change +/-	%
Revenue	EUR '000	624,044	612,309	11,735	1.9
Purchase of electricity, gas and related services	EUR '000	411,832	377,501	34,331	9.1
Operating expenses (1)	EUR '000	89,785	94,728	-4,943	-5.2
EBITDA (2)	EUR '000	122,427	140,080	-17,653	-12.6
EBITDA margin (3)	%	19.62	22.88		
Adjusted EBITDA**	EUR '000	169,467	150,908	18,559	12.3
Net profit (loss)***	EUR '000	15,665	77,552	-61,887	-79.8
		At 31 December 2018	At 31 December 2017	Change +/-	%
Total assets	EUR '000	1,591,642	1,277,801	313,841	24.6
Equity	EUR '000	640,034	607,644	32,390	5.3
Borrowings	EUR '000	631,031	373,321	257,710	69.0
Borrowings, net (4)	EUR '000	628,765	366,871	261,894	71.4
Return on equity ratio (ROE) (5)	%	2.51	12.60		
Return on assets (ROA) (6)	%	1.09	6.49		
Equity ratio (7)	%	40.21	47.55		
Borrowings, net / 12-month EBITDA	times	5.14	2.62		
Borrowings, net / Equity	%	98.24	60.38		

(1) Operating expenses (OPEX) = operating expenses excluding costs attributable to the purchase of electricity and related services, depreciation and amortisation, impairment and write-off expenses;

(2) EBITDA (earnings before results of financing activities, tax and depreciation and amortization) = profit (loss) before tax + expenses of financing activities - income from financing activities - dividends received + depreciation and amortisation + impairment expenses + write-off expenses;

(3) EBITDA margin = EBITDA / Revenue;

(4) Borrowings, net = borrowings - cash and cash equivalents - short-term investments and term deposits - a portion of non-current other financial assets representing investments in debt securities;

(5) Return on equity (ROE) = net profit (loss) for the last 12-months / average of equity at the beginning and at the end of the reporting period;

(6) Return on assets (ROA) = net profit (loss) for the last 12-months / average of assets at the beginning and at the end of the reporting period;

(7) Equity ratio = equity at the end of the period/total assets at the end of the period;

* Since 1 October 2018 the Company has closed a business segment of public electricity supply.

** 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 (hereinafter "the Commission"). The difference is due to improvement of the Company's operational efficiency as well as other factors.

*** The decrease in net profit was impacted by the onetime result of revaluation of the Company's non-current assets. Excluding the assessment of onetime revisions of non-current assets, in 2018, the Company earned EUR 56,9 million of net profit.

CEO LETTER

Dear All,

We finished last year following the adoption and implementation of the decision to crystallise the activities of ESO as of an infrastructure company and distribution operator. We have managed to put into practice an important change, namely, we have transferred part of ESO's public supply business worth more than EUR 27 million to Lietuvos Energijos Tiekimas along with all property, rights and obligations attributed to the transferred share of activities. After the separation, not only ESO crystallised its activities but it has now focused on its main activity: it distributes electricity and gas, oversees distribution networks, is responsible for removal of network failures and connection of new clients to the network as well as ensures supply of supported electricity and natural gas.



The previous year was distinct for high electricity prices. They remained high on the electricity exchange all year round (EUR 50/MWh on average) and affected the price for electricity distribution in 2019 directly. The National Commission for Energy Control and Prices established the ceiling price for electricity distribution through average voltage networks for the year 2019 which is 8% higher than in 2018, and the price for power distribution through low voltage networks which is 9% higher. This change was determined not only by the increase in electricity prices but also due to the new legal obligation to pay land owners for easement.

Revenue of the Company reached the amount of EUR 624 million during 2018 and was 1.9% higher than in 2017. It was negatively affected by reduced prices of regulated services and discontinuation of public energy supply activities from the fourth quarter of the year. The general growth in revenue was supported by the growing customers' demand for electricity and the transaction on the transfer of business share in relation to public supply which was worth EUR 27.4 million.

In 2018, the Company earned EUR 169.5 million of adjusted profit before interest, tax, depreciation and amortisation (adjusted EBITDA*), i.e. 12.3% more than over the same period in 2017, when this index was EUR 150.9 million. Such dynamics of the index was maintained by more effective activities of the Company and by the growing value of regulated property due to investments in network refurbishment.

Net profit of the Company for the year 2018 amounted to EUR 15.7 million. This amount was impacted by the one-off result of revaluation of the Company's non-current assets. Revaluation of non-current assets in the electricity segment, taking into account the impact of grants related to property, reduced the Company's profit by EUR 66.6 million, whereas, the natural gas segment saw the reversal of the impairment of non-current assets the impact that amounted to EUR 25.4 million. Excluding the assessment of one-off revaluations of non-current assets, in 2018, the Company earned EUR 56.9 million of net profit or 27% less than in 2017. The main reason for the decrease in net profit was higher acquisition price of electricity which rose by 32.1% on average.

The System Average Interruption Duration Index (SAIDI) per customer with the impact of force majeure taken into consideration amounted to 81.4 minutes from January to December 2018 compared to 137.8 minutes over the same period in 2017 thus reducing by 56.5 minutes. The key impact on such significant improvement of the indicator was lower volume of force majeure which amounted to 47.1 minutes in 2017, and 7.8 minutes in 2018. Duration of interruptions for the reasons which fall under the responsibility of the operator amounted to 40.5 minutes in 2018, whereas it amounted to 46.2 minutes in 2017. Time of removal of failures reduced to 1.3 hours in 2018, whereas in 2017 this indicator amounted to 3.5 hours. The System Average Interruption Frequency Index (SAIFI) per customer with the impact of force majeure taken into consideration was 1.14 times and was 0.18 time smaller in the period from January to December 2018 than in 2017 where this indicator was 1.32 times.

2018 was also exceptional for the largest investment in distribution network and other ESO's activities in the history of the Company. According to unaudited data, investments amounted to EUR 271 million and the key factor of growth resulted from the record number of new clients connected to electricity and natural gas networks – almost 49,000 (compared to 2017, 16% growth was recorded). Growth in the value of investment was also determined by the increase in prices for contract work. However, a sample of investments on one year does not entail a continuous trend or obligation to retain the same extent in the subsequent years. The amount of investments in 2019 should amount to the average estimated in the 10 year investment plan or could amount to about EUR 190 million a year.

We focus not only on the sustainable management of the investments but also on the quality of service. By improving the duration and conditions for installation of electricity, we contributed to the overall growth of the rating of Lithuania's competitiveness. In the Doing Business 2019 report of the World Bank, Lithuania rose by 7 places reaching the 26th place in terms of the indicator of connection to electricity network compared to the previous year (in 2017 it was the 55th place, whereas in 2018 – the 33rd).

We finished last year with the composition of a new ESO Board. With the term of office of the previous Board of ESO coming to an end and with some replacements of the Board members in the course of the year, the Supervisory Board of ESO adopted a decision to announce a new selection of Board members. The decision was triggered by long-term strategies of the Company and the strive for synergy in the management decisions.

At the end of 2018, in accordance with the provisions of the National Energy Independence Strategy (NEIS) and the LE Group strategy 2030, the ESO Strategy 2030 started to be developed. It was announced after the end of the reference period, the strategic directions of the company match with the ESO's 10 year investment plan and the NEIS. ESO will further focus on the assurance of network reliability, investments in network modernisation, automation, implementation of a big scale project on smart accounting installation, implementation of the Data Hub Energy Data Exchange Platform enabling the market players and clients to easily exchange the data on consumption.

As a matter of fact, when conducting a unique public tender for the acquisition of a smart accounting system, ESO invited Lithuanian and foreign companies to familiarise themselves with the plans on the development of smart accounting in Lithuania. The invitation attracted much attention of the potential Lithuanian and foreign producers and suppliers. This attitude of the market seems promising and gives hope that the development of a smart network will be smooth, transparent and effective. At the same time we believe that actions provided for in the ESO Strategy 2030 will allow us to ensure the best experience to our clients in terms of infrastructure reliability and smartness and the range and price of services.

Respectfully yours,
Mindaugas Keizeris,
CEO and Chairman of the Board of
Energijos Skirstymo Operatorius, AB

SIGNIFICANT EVENTS TO THE COMPANY DURING THE REPORTING PERIOD

Regarding resignation from the Board of Energijos skirstymo operatorius AB

Company informed that on 10 January, 2018 the Company received Mr. Rytis Borkys's notification of resignation from the member of the Company's Board position. Pursuant to the Republic of Lithuania Law on Companies, the last day of term of office of Mr. Rytis Borkys as the member of the Company's Board will be 24 January, 2018. Mr. Rytis Borkys was elected to the Company's Board on 3 December 2015 upon decision of the Company's Supervisory Board.

Regarding a Proportional Transfer Agreement of the issue of Lietuvos Energija Green Bonds Transfer

On the 28th of February, 2018 Company signed a Proportional Transfer Agreement for Green Bonds (hereinafter referred to as the Agreement) on 13 October, 2017 with Lietuvos Energija, UAB (hereinafter referred to as Lietuvos Energija) for EUR 100 million of the issue of Green Bonds transfer to the Company. This amendment increases the amount of the loan granted to the Company from EUR 100 million to EUR 166.288 million. Other terms of the contract are not subject to change. Additional funds will be allocated to ESO's long-term investment in the upgrade of distribution networks in accordance with the Lietuvos Energija Green Bond framework.

Regarding the Ordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB

The General Meeting of Shareholders of AB "Energijos skirstymo operatorius" was held on 30 March, 2018 at 09.00 at the registered office premises located at Aguonų str. 24, Vilnius.

Regarding Court Decision

On the 13 March, 2018 Supreme Administrative Court of Lithuania partially complied with the Company's appeal against Vilnius Regional Administrative Court decision dated 22 December, 2015 by which Vilnius Regional Administrative Court dismissed the Company's complaint asking to repeal part of the Resolution No. O3-841 of the National Commission for Energy Control and Prices of 17.10.2014 that extended regulatory period for 2015 year, and the Commission's Resolution No. O3-841 of 17.10.2014 which recalculated upper price limits for 2015 year. The SACL decision was final and is not subject to appeal.

Member of the Board of Energijos Skirstymo Operatorius AB has been elected

The Company informed that on 14 March, 2018 the Supervisory Board of the Company adopted a decision to elect Ovidijus Martinonis as the new member of the Board in charge of the area of network development from the end of the meeting of the Supervisory Board of the Company that elected him until the end of the term of office of the current Board of Directors. Till now Ovidijus Martinonis led Company's metering management department.

Regarding forthcoming transfer of public electricity supply activities

On 21st March 2018 the Company received a letter from "Lietuvos Energija", UAB, which holds 94.98 percent of Company's shares, about forthcoming changes. The letter states that the Project Management Committee of "Lietuvos energija" decided to separate the public electricity supply activities carried out by the subsidiary ESO from the electricity distribution business and for a fee (through the sale of the business part) transfer it to another company of the "Lietuvos energija" group – UAB "Lietuvos dujų tiekimas".

Ordinary General Meeting of Shareholders convened

On 30 March 2018, during the Ordinary General Meeting of ESO Shareholders, the Company's audited annual financial statements for 2017 and the annual report were approved and the proposed profit appropriation, with plans to pay-out dividends, was agreed on. The shareholders also approved the new version of ESO's Articles of Association, recalled the incumbent Supervisory Board of ESO *in corpore* (Ilona Daugėlaitė and Petras Povilas Čėsna were then holding a position

at the Supervisory Board), and elected Darius Maikštėnas and Darius Kašauskas as the new members of the Supervisory Board for a four-year term of office.

Regarding the investment plan of 2017 alignment

On 22nd March 2018 the National Commission for Energy Control and Prices has approved the Company's 2017 investment projects submitted for a commonly agreed list of investments, the total value of which is over EUR 137.8 million (EUR 129.023 thousand – for electricity sector, – EUR 8.782.73 – natural gas sector).

ESO audited financial results of 2017 has been approved

On 30th March, 2018 during the Ordinary General Meeting of ESO Shareholders the Company's audited Annual Financial Statements and Annual report has been approved. Electricity and gas distribution company ESO, which is a part of the largest Lithuania's energy group Lietuvos Energija, during the second year of operation has significantly increased – up to 51.6 percent – investments into gas and electricity distribution network modernisation and development. Continuously reduced costs and more efficient activity has contributed to reduced prices for customers – natural gas distribution and electricity prices has declined for a several years in a row.

K. Betingis elected as independent member of the Supervisory Board of ESO

During the Extraordinary General Meeting of Shareholders of ESO held on 28 May 2018, a decision was made to elect Kęstutis Betingis as an independent member of the Supervisory Board until the end of the term of office of the current Supervisory Board. Since 2013, K. Betingis has been working as a lawyer. In 2014–2017, he held the position of member of the Board of Litgas, a liquefied natural gas supply and trade company owned by the Lietuvos Energija Group.

Elering and ESO signed agreement on the exchange of smart meter data

On 26 June 2018, Elering, an operator of Estonia's transmission system, and ESO launched the project on the exchange of smart meter data, which is the first project of such kind in Europe. The project will contribute to the harmonisation of data management processes and will ensure that the customers of both countries can receive and use the data on electricity consumption in the common retail electricity market. The regional data exchange platform is expected to stimulate the expansion of energy services in international markets.

Transaction on the services related to the lease of motor vehicles concluded

On 27 June 2018, the Company, in accordance with the results of the public procurement that was executed under the procedures set forth in the Law on Public Procurement of the Republic of Lithuania, as well as with the decisions of the managing and supervisory bodies of the Company, announced of its plans to enter into a transaction with Transporto Valdymas UAB on the services related to the lease of motor vehicles. The value of the transaction might reach EUR 26.7 million (excluding VAT) during the period of five years.

On Establishment of Limited Partnership

The Company informs on the signing of the establishment agreement of the limited partnership "Platform for Financing Energy Efficiency" with Public Investment Development Agency on 3 July 2018. The Partnership will allocate funds for implementation of various projects and measures contributing to reduction of final energy consumption and increase of generating consumers. ESO participates in the Partnership as a limited partner, i.e., is liable for a contribution of 10 million EUR to be paid, if necessary, for a period of 10 years. VIPA, as a general partner of unlimited liability, is in charge of all the activities of the Partnership: search for funded projects, assessment of applications, administration, etc. It is also foreseen that the Partnership is open to contributions of other partners that strive for changes in increasing energy consumption efficiency.

Regarding the convening of the extraordinary general meeting of shareholders and the decision to abandon the public electricity supply licence

The Company informs, that on 10 July 2018 the Board of ESO passed a decision to convene an extraordinary general meeting of shareholders of the Company and to apply to the National Commission for Energy Control and Prices regarding the revocation of the issued energy operations licence granting the right engage in the activity of the public supply of electricity.

10-year Investment Plan of Energijos Skirstymo Operatorius has been approved

The Company informs that on 17 July 2018 the Supervisory Board of the Company passed a decision to approve the investment plan of ESO for the following 10 years. 10YIP provides that ESO investments will be allocated to increase reliability, safety of the network and smart grid solutions over the next 10 years. In 2018–2027 ESO investments will be targeted at three programs - reliable and climate impact-resilient grid; remotely controlled grid; smart grid. It is planned to allocate 2.1 billion euro of total investments in these three directions and the connection of new customers to the distribution networks during 2018–2027. It should be noted that the 10YIP of ESO cannot be considered as a commitment to invest.

Regarding the revocation of the public electricity supply license

On 31 July 2018 the National Commission for Energy Control and Prices has adopted a decision on revocation of the issued energy operations licence granting the right to the Company to engage in the activity of the public supply of electricity as of 1 October 2018. The decision to apply to the NCC regarding the revocation of the issued energy operations licence was passed by the Board of the Company on 10 July 2018 in preparation for the segregation of the public electricity supply activity. It is planned that the public electricity supply activity that the Company is currently engaged in will be for a consideration (by selling part of the business) transferred to UAB Lietuvos Dujų Tiekimas, another company governed by the Lietuvos Energija Group. Once the public electricity supply operations are segregated, ESO will continue to be engaged

in its key activities – distribute electricity and gas, and maintain the distribution networks, will ensure elimination of any faults of the network, as well as the connection to the network of all new customers, and guaranteed supply.

Regarding the resignation by agreement of the parties of Dalia Andrulionienė, Chairwoman and CEO of ESO

The Company notifies that on 1st August, 2018 it has received a notification from Mrs. Dalia Andrulionienė on her resignation from the position of the Chairwoman of the Board of the Company from 10th August, 2018. By the agreement of the parties, Mrs. Dalia Andrulionienė will resign from the position of Chief Executive Officer of ESO also on 10th August, 2018 onwards. We hereby notify, that Mr. Augustas Dragūnas, Member of the Board and Director of Finance and Administration Division of ESO, will temporarily take the position of acting Chief Executive Officer of the Company from 10th August, 2018. ESO will notify regarding the election of the new Chairman of the Board and Chief Executive Officer in accordance with the laws.

Regarding the resolutions of Extraordinary General Meeting of Energijos Skirstymo Operatorius AB Shareholders

As it was announced in the notifications of material events on 10 July, 2018 and 31 July, 2018, the segregation of the public electricity supply operations carried out by the Company from the electricity distribution activity is being implemented. The Extraordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB, held on 6 August, 2018, approved a new version of the Company's Articles of Association by specifying the objectives and the object of the Company's activities defined in the Articles of Association.

Chairman of the Board of Energijos Skirstymo Operatorius AB elected

We hereby inform that on 10th August, 2018 the Board of the Company elected Mr. Augustas Dragūnas as a Chairman of the Board. As previously announced, after the resignation of Mrs. Dalia Andrulionienė from the position of the Chairwoman of the Board and the resignation by the agreement of parties from the position of Chief Executive Officer of the Company from 10th August, 2018, Mr. Augustas Dragūnas, Member of the Board and Director of Finance and Administration Division, will take the position of acting Chief Executive Officer of the Company from 11th August, 2018.

Regarding the signing of the Transfer Agreement for Green Bonds with "Lietuvos Energija", UAB

On 29 August 2018 the Company signed the Contract on the Proportional Transfer of the obligations arising from the Green Bonds issue with Lietuvos Energija, UAB providing for the transfer of part of the up to EUR 250 million worth Green Bonds issue to the Company. Before issuing the EUR 300 million worth Green Bonds of Lietuvos Energija part of the proceeds was projected to be used for long-term investments of the Company. The contractual term for the discharge of the obligations is no later than by 10 July 2028.

Regarding the separation of electricity public supply business segment

On 29 August 2018 The Supervisory Board of the Company on the basis of positive opinion of the Audit Committee of the parent company Lietuvos Energija, UAB approved the Decision of the Board of the Company regarding the conclusion of the contract on the sale of the public electricity supply operations with Lietuvos Dujų Tiekimas, UAB. On the basis of the valuation conducted by an independent property valuer UAB Ernst & Young Baltic, the price of the Business segment being sold was set at EUR 30,520,000 that the LDT shall pay to the Company. Given that the public supply electricity operations constituting the Business segment are continuous which causes changes in the Business segment in the period from the cut-off balance sheet of 30 June 2018 until the transfer of the Business segment on 1 October 2018, the price of the Business segment as specified below can be adjusted.

Supervisory Board of the ESO adopted some Resolutions

On September 17, 2018 the Supervisory Board of the ESO adopted the following Resolutions: Approve the interim Report of ESO for the period of six months of 2018. Approve the set of interim Financial Statements of the ESO for the period of six months of 2018, audited by "PricewaterhouseCoopers" UAB. Approve the draft resolution for the allocation of dividends for the period shorter than the financial year – to allocate dividends to the shareholders of ESO in the amount of 0,014 EUR per ESO share for the period shorter than financial year as of the end of 30 June 2018 and submit this opinion to the Extraordinary General Meeting of Shareholders of Energijos skirstymo operatorius AB, which will be held on 28 September 2018.

Regarding the conclusion of the transaction on the sale of share of business

The Company hereby informs that on 21 September 2018 it concluded a transaction on sale purchase of business segment whereby ESO as of 1 October 2018 shall transfer the business segment of the public supply of electric energy with the related assets, rights and duties (hereinafter – the Business segment) to Lietuvos Dujų Tiekimas, UAB (hereinafter – LDT). The Decision of the Board of the Company regarding the conclusion of the contract on the sale of the public electricity supply operations with LDT was approved by the Supervisory Board of the Company on 29 August 2018 on the basis of positive opinion of the Audit Committee of the parent company Lietuvos Energija, UAB. Given that the public supply electricity operations constituting the Business segment are continuous which causes changes in the Business segment in the period from the cut-off balance sheet of 30 June 2018 until the transfer of the Business segment on 1 October 2018, the price of the Business segment as specified below can be adjusted.

Regarding the resolutions of Extraordinary General Meeting of ESO Shareholders

The Extraordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB, held on 28 September, 2018, approve the interim Report, Regarding the approval of the set of interim Financial Statements, approve the set of interim Financial Statements of the ESO for the period of six months of 2018, audited by "PricewaterhouseCoopers" UAB, the Company's auditor and approve the allocation of dividends in the amount of 0,014 EUR per share for shareholders of ESO for the period shorter than financial year as of the end of 30 June 2018.

Amended Articles of Association of ESO have been registered

Given that since 1 October 2018 the Company has transferred a business segment of public electricity supply to Lietuvos Energijos Tiekimas UAB, on 1 October 2018, the Register of Legal Entities registered the amended Articles of Association of the Company. As has been informed earlier, while implementing separation of the public electricity supply operations carried out by the Company from the electricity distribution activity, the Extraordinary General Meeting of Shareholders of the Company, held on 6 August 2018, approved a new version of the Company's Articles of Association by specifying the objectives and the object of the Company's activities defined in the Articles of Association.

M. Keizeris has been elected as the Chairman of the Board and the Chief Executive Officer of ESO

The Company informs that on the 2nd of October, 2018, the Supervisory Board of the Company adopted a decision to elect Mindaugas Keizeris as the new Chairman of the Board and the Chief Executive Officer. His term of office starting is on 8th of October, 2018. Until the date hereof, Director of Finance and Administration Division of the Company Augustas Dragūnas shall temporarily continue performing duties of the Chief Executive Officer of the Company.

Regarding the price-setting for electricity distribution price caps for 2019

On 17 October, 2018 the National Control Commission for Prices and Energy established electricity distribution price caps for 2019: in medium - voltage networks 0,862 EUR ct/kWh, in low - voltage networks 1,871 EUR ct/kWh. The main influence on changes in the electricity distribution price caps is due to the planned compensation cost of servitudes and increased electricity price for the purchase of electricity for technological losses. Based on the set electricity distribution price cap, the Board of the Company will decide on the mentioned specific services prices for the year of 2019.

Ignas Pranskevičius, member of the Board, resigns from the Board as of 1st November, 2018

On 18 October, 2018 The Company received the resignation letter from the member of the Board Mr. Ignas Pranskevičius. He was elected the member of the Board of the Company on 20th January, 2017, and was responsible for the area of service provision. Ignas Pranskevičius resigns from the Board and the position of the Services Director of the Company as of 1st November, 2018.

Regarding the price setting for Energijos Skirstymo operatorius AB natural gas distribution price cap for 2019 – 2023

On 26 October, 2018 the National Control Commission for Prices and Energy set the natural gas distribution price cap from 2019, which is Eur 5,32 per MWh (without VAT). Currently the natural gas distribution price cap is Eur 5,52 per MWh (without VAT).

The sales price of the part of the public electricity supply business is adjusted according to the Sale and Purchase of business segment agreement

On 31 October 2018 the price of the business segment of the public electricity supplier has been adjusted (1 October 2018 iESO concluded a transaction on sale - purchase of business segment whereby ESO as of transferred the business segment of the public supply of electric energy with the related assets, rights and duties (to Lietuvos Energijos Tiekimas, UAB).

Regarding the selection of Board members of AB Energijos Skirstymo Operatorius

On 5 November 2018, the Supervisory Board of Energijos Skirstymo Operatorius adopted a decision to approve the initiation of public selection of four Board members for the following areas of oversight: finance and administration, customer experience and services, network development, and network operation. The term of office of the current Board of Energijos Skirstymo Operatorius expires on 2 December 2019.

Regarding announced electricity network prices for 2019

he National Commission for Energy Control and Prices on November 16 announced the prices approved by the Board of the Company on 12 November. The decision has approved new electricity network service prices, which will be in force in 2019. For corporate customers, who receive electricity from medium voltage networks, Company proposed 8,0 % lower network service price (including public service obligation). For corporate customers, who receive electricity from the low voltage networks – 3,5 %, for private customers – 0,2 %. The cost of the electricity network service may vary for specific customers.

Regarding a decision to appeal the decision of the National Commission for Energy Control and Prices on the determination of the price cap limits for energy distribution prices of 2019

On 19 November 2018 ESO appealed decision of the National Commission for Energy Control and Prices. On 17 October 2018, the National Commission for Energy Control and Prices adopted Resolution No O3E-334 "On the recalculation of price cap limits for the distribution services by medium and low voltage grids of AB Energijos Skirstymo Operatorius for 2019" whereby the price cap limits for the Company's electricity distribution services were set for the year 2019.

The National Commission for Energy Control and Prices approved Natural Gas Distribution Prices for 2019

On 21 November 2018, the National Commission for Energy Control and Prices approved natural gas distribution prices set by the Board of Energijos skirstymo operatorius AB on 12 November 2018 which will apply from 1 January 2019. Natural gas distribution prices will change from -9.7% to 7.7% depending on consumer's price group. Average gas distribution price for 2019 will decrease by 3.6 % compared to the prices for 2018. Natural gas distribution price is one components of the final gas price.

The National Commission for Energy Control and Prices updated natural gas distribution prices for 2019

On 30 November 2018, the National Commission for Energy Control and Prices updated natural gas distribution prices set by the Board of Energijos Skirstymo Operatorius AB on 29 November 2018, which are to take effect on 1 January 2019. Having assessed the formed situation regarding the possible increase in the final price of natural gas for household customers, a decision was made to update natural gas distribution prices by reducing the level of income of the Company from the natural gas distribution service by making an adjustment of EUR 3.2 million. This adjustment accordingly will reduce the amount in excess of the allowed return on investment accrued by the Company but not yet implemented for the 2014 – 2016 period, which formed as a result of more efficient activities of the Company and respectively lower operating expenses compared to those planned in the regulated service prices.

The Management Board Members of Energijos Skirstymo Operatorius, AB have been elected

On 27 December, 2018 the Supervisory Board of the Company has decided to recall the Management Board of the Company in corpore and for the term of 4 years has elected the new Management Board. Mindaugas Keizeris (responsible for strategic management of the Company), Augustas Dragūnas (responsible for finance and administration), Ovidijus Martinonis (responsible for network development), Renaldas Radvila (responsible for customer experience and service) and Virgilijus Žukauskas (responsible for network maintenance) have been elected as members of the Management Board of the Company. The elected Management Board of the Company shall start performing its duties as of the end of the meeting of Company's Supervisory Board that elected it.

MATERIAL EVENTS AFTER THE END OF THE REPORTING PERIOD

Regarding the approval of the strategy of AB Energijos Skirstymo Operatorius till 2030

The Supervisory Board of AB Energijos Skirstymo Operatorius (ESO) owned by the energy group Lietuvos Energija approved the ESO's strategy, which was updated in light of the long-term goals and strategic directions of Lietuvos Energija Group presented in May 2018. The approved ESO strategy covers the period till 2030. Till that time, ESO plans to significantly increase network resistance to atmospheric factors, to implement technological, intelligent solutions that include remote, automated network control and maintenance, and to develop a customer experience management model across the ESO value chain. All this will ensure a stable return and maintain the optimal value-to-price ratio for customers. Strategic directions of ESO 2030 correspond to the goals laid down in the ESO's 10-year investment plan and the National Energy Independence Strategy.

Regarding the Extraordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB

On 22 February 2019, The Extraordinary General Meeting of Shareholders is convened by decision of the Board of the Company.

Regarding the investment plan of 2018 alignment

On 14th February 2019 the National Commission for Energy Control and Prices has approved the Company's 2018 investment projects submitted for a commonly agreed list of investments, with a total value of up to EUR 240.1 million (EUR 226.1 million – for electricity sector, EUR 13.9 million – natural gas sector).

Regarding the resolutions of Extraordinary General Meeting of Energijos Skirstymo Operatorius AB Shareholders

The Extraordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB, held on 22 February, 2019, adopted the following resolutions: To define an hourly pay (before taxes) in the amount of 54.43 EUR (fifty four euros and forty three cents) for an independent member of the Supervisory Board of Energijos Skirstymo Operatorius AB for the actual activity as an independent member of the Supervisory Board. To elect Ernst & Young Baltic UAB as the audit company for the audits of financial reports of Energijos Skirstymo Operatorius AB, for the period of 2019–2021. The remuneration for the audit services shall not exceed 246,350.00 EUR (VAT excluded) for the year 2019–2021".

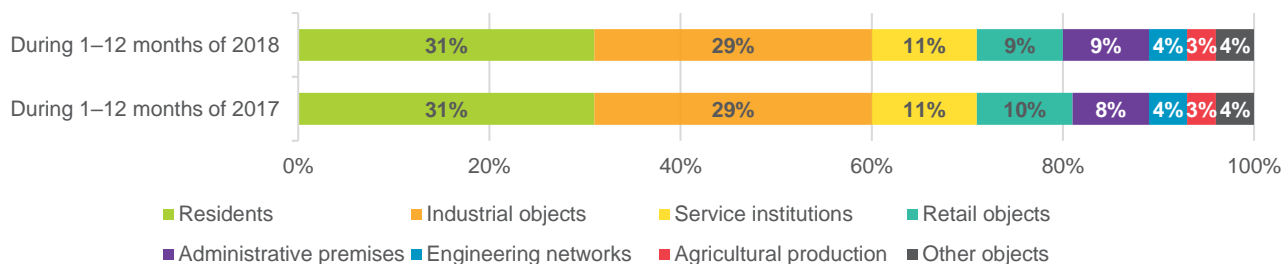
ANALYSIS OF THE OPERATING AND FINANCIAL INDICATORS

Electricity distribution

ESO owns and operates 125 thousand kilometres of electricity lines: 70% of them consist of overhead electricity lines, and 30% of electricity cables. During January– December 2018, the Company transmitted 9.590 billion kWh of electricity (January–December 2017: 9.220 billion kWh). Public and guaranteed supply of electricity made up 27% of this amount. The remaining customers of the Company were provided only with the distribution service. The amount of electricity sold decreased by 18.9%, while the volume of electricity distributed increased by 4.0% compared to the same period of 2017. Technological costs in distribution equipment incurred by the Company during January– December 2018 amounted to 615,4 million kWh or 6.03% of the amount of electricity received. During the same period of 2017, technological costs totalled 6.16%.

Nearly 31% of the electricity distributed by ESO during January– December 2018 was consumed by residents. Industrial objects and service institutions consumed 28.8% and 11.4%, respectively, of distributed electricity. There were no significant changes in the structure of electricity distribution by object as compared to the data of January– December 2017.

Figure 1. Electricity distribution volume by object

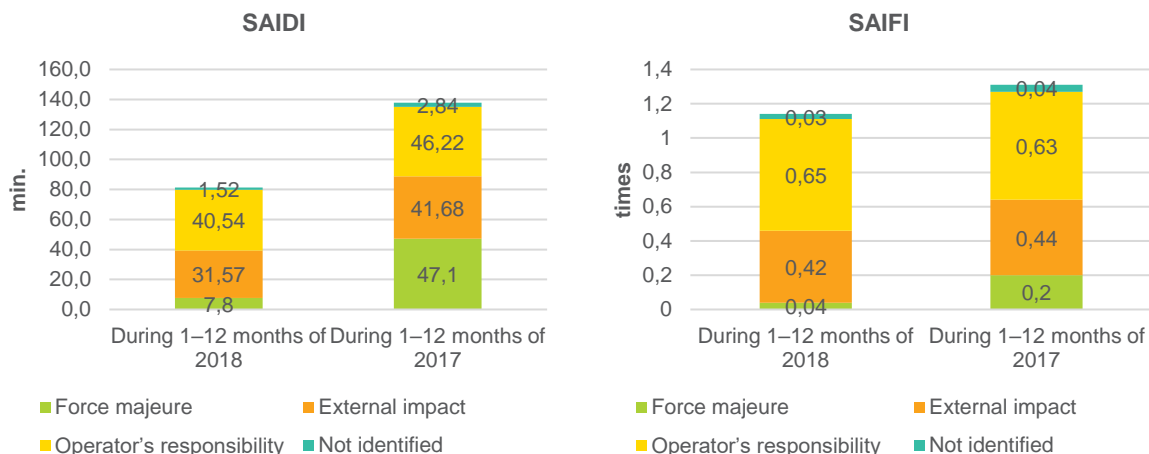


Electricity supply quality indices (SAIDI, SAIFI)

During January– December 2018, the system average interruption duration index (SAIDI with *force majeure*) for the electricity network per customer reached 81.37 minutes, which is 56.46 minutes less compared to the same period in 2017 (January– December 2017: SAIDI was 137.83 minutes). The main reason is the significantly lower indicator in the case of *force majeure*. The duration of electricity breakdowns for reasons related to the operator in 2018 was 40.5 min, when in 2017 it was 46.2 min. During January– December 2018, electricity network breakdowns were removed by ESO in as little as 1.3 hours, on average, from the moment of registration. This would have taken 3.5 hours last year. The duration of the removal of breakdowns has been shortened as a result of closer cooperation with meteorologists, the digitalisation of the management of dispatch control centres, improved customer service and greater efficiency and effectiveness of the organisation of breakdown removal services.

During January– December 2018, the system average interruption frequency index (SAIFI with *force majeure*) per customer reached 1.14 times, which is 0.18 time less compared to 2017 when it was equal to 1.32 times. The positive change in this indicator was caused by increasing investments in an underground electricity network that is more resilient to natural disasters.

Figure 2. Electricity supply reliability indices



Natural gas distribution

The company operates gas distribution pipelines with the length of more than 9 thousand kilometres. During January– December 2018, ESO transported 7.6 billion kWh of natural gas via gas distribution pipelines, which is 3.1% more than during the same period in 2017.

Gas distribution volumes increased during January–December 2018 mostly due to higher gas consumption as a result of colder winter season than in 2017 and changes of production plans in industrial companies.

Natural gas supply quality indices (SAIDI, SAIFI)

During January– December 2018, the quality of the natural gas supply remained substantially the same as in January– December 2017. During January– December 2018, the system average interruption duration index (SAIDI with *force majeure*) for the gas network per customer reached 0.61 minutes, which is 0.56 minutes less compared to the same period in 2017 (January– December 2017: SAIDI was 1.16 minutes). During January– December 2018, the system average interruption frequency index (SAIFI with *force majeure*) per customer reached 0.006 times (January– December 2017: 0.007 times).

Revenue

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

	During 1–12 months of 2018	During 1–12 months of 2017
Revenue from electricity distribution	68	66
Revenue from public electricity supply services	12	18
Revenue from gas distribution	7	8
Revenue from guaranteed electricity supply	5	3
Connection of new customers	3	3
Other finance income	6	2

During January– December 2018, ESO's revenue totalled EUR 624.0 million, which is 1.9% more than in the same period in 2017. Income increased due to a higher amount of electricity and natural gas distributed to the customers of the Company and due to a one-off transaction of transfer of the public energy supply business to Lietuvos Energijos Tiekimas, UAB. The main income source of ECO is transmission of electrical power.

During January– December 2018, distribution revenue comprised 68.1% of the Company's total revenue. Revenue from public supply of electricity represented 11.8% and revenue from natural gas distribution made up 6.6% of the Company's total revenue.

Expenses

During January– December 2018, expenses for purchase of electricity, natural gas or related services totalled EUR 411.83 million, which is 9.1% more compared to the same period in 2017. This was mainly influenced by increased electricity purchase price and the revaluation of non-current assets. During the reporting period, expenses for purchase of electricity, natural gas or related services, as well as depreciation and amortisation expenses, amounted to EUR 468.2 million or 76.5% of ESO's total costs.

Operational costs amounted to EUR 89.8 million, which is 5.2% less than in 2017. The most marked decline was seen in remuneration to employees and social insurance contributions as well as repair and maintenance costs which constituted 5.0% and 11.8% accordingly.

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

	During 1–6 months of 2018	During 1–6 months of 2017
Employee benefits and related social security contributions	41,542	43,731
Other expenses	16,483	18,026
Repair and maintenance expenses	13,810	15,657
Telecommunications and IT services	9,095	8,713
Transport	4,823	4,453
Rent and utilities	4,032	4,148
Total operating expenses	89,785	94,728

EBITDA

Table 4. ESO's EBITDA ratio

	During 1–12 months of 2018	During 1–12 months of 2017
EBITDA*, EUR '000	122,427	140,080
EBITDA margin, %	19.62	22.88
Adjusted EBITDA**, EUR '000	169,467	150,908

* EBITDA (earnings before results of financing activities, tax and depreciation and amortisation) = profit (loss) before tax + expenses of financing activities - income from financing activities - dividends received + depreciation and amortisation + impairment expenses + write-off expenses.

* 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 Commission. The difference is due to improvement of the Company's operational efficiency as well as other factors.

The Company does not evaluate the impact of the incentive mechanism established by the Commission on adjusted EBITDA, according to which the allowable return on investments of 2016 and 2017 can be additionally increased due to operational efficiency as proven to the Commission.

During January– December 2018, the Company's earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to EUR 122.4 million, which is 12.6% less than in January–December 2017. Adjusted EBITDA increased by 12.3%. The indicator increased due to more efficient Company's activity and increased regulated assets base as a result of investments into renewal and modernisation of networks.

Profit (loss) and profitability ratios

During January– December 2018, ESO's net profit totalled EUR 15.7 million, which is 79.8% less than in the same period in 2017. The decrease in net profit was mainly influenced by higher electricity purchase price and one-time revaluation of the Company's non-current assets. In the electricity segment, the revaluation of non-current assets, taking into account the impact of the adjustment of asset-related grants, reduced the Company's profit by 66.6 mln. In the natural gas segment, the impairment of non-current assets was restored, with a total impact of EUR 25.4 million. Excluding a one-off non-current asset adjustment, the Company earned EUR 56.9 million net profit of 27% less than 2017.

Table 5. ESO's profitability ratios, %

	During 1–12 months of 2018	During 1–12 months of 2017
Net profit margin	2.51	12.67
Operating profit margin	1.87	13.94

Investments

During January– December 2018, ESO's investments in the electricity and gas distribution networks amounted to EUR 271.283 million, which is 19.9% more than during January– December 2017, when they were equal to EUR 226.202 million.

Table 6. ESO's investments, EUR '000

	During 1–12 months of 2018	During 1–12 months of 2017
Renewal of the electricity distribution network	121,520	128,191
Expansion of the electricity distribution network	83,653	52,227
Construction and reconstruction of gas systems	56,193	34,931
Other (IT, management systems, etc.)	9,917	10,853
Total investments	271,283	226,202

During January– December 2018, ESO's investments allocated for the renewal of the electricity distribution network amounted to EUR 121,520 million, which is 5.2% less compared to January– December 2017. In January– December 2018, investments in the expansion of the electricity distribution network amounted to EUR 83.7 million, which is 60.2% more than in the same period of 2017. The main reason for the increase in costs - the increase in higher prices of ranking contracts costs and the increase in the number of new users.

During January– December 2018, ESO connected 340,026 new customers to the electricity distribution network, which is 14.8% more than in January– December 2017, when 29,640 new customers were connected. During January– December 2018, the admissible electric power of objects of newly connected customers was equal to 445 thousand kW, which is 7.3% more than during January– December 2017, when the admissible power was equal to 414 thousand kW.

During January– December 2018, ESO's investments in the construction and reconstruction of gas systems amounted to EUR 56.193 million or 60.9% more compared to January– December 2017, when investments totalled EUR 34.931 million. During January– December 2018, ESO constructed 614.2 km of the gas distribution pipeline (372.5 km in the respective period of 2017). During January– December 2018, ESO connected 14,741 new customers¹ to the natural gas distribution network, which is 17.6% more than in the same period of 2017, when 12,531 customers were connected.

Analysis of financial indicators

At the end of the reporting period, the Company's assets amounted to EUR 1.59 billion. Non-current assets accounted for 92.2% of the total assets. Cash and cash equivalents, i.e. the most liquid assets, amounted to EUR 2.3 million or 1.8% of the total current assets.

¹ The number of connected customers who were connected after the construction of the natural gas system by Energijos Skirstymo Operatorius AB, for which documents certifying the completion of construction works were obtained (the agreements on purchase and sale of natural gas and service provision are not necessarily concluded by customers).

Table 7. ESO's financial leverage ratios*

	At 31 December 2018	At 31 December 2017
Debt ratio	0.60	0.52
Debt to assets ratio	0.40	0.29
Liabilities to equity ratio	1.49	1.10
Debt to equity ratio	0.99	0.61
Net borrowings, EUR million	628.77	366.87
Net borrowings to equity ratio	0.98	0.60
Long-term debt to equity ratio	0.70	0.39
General solvency ratio	0.67	0.91
Equity to assets ratio	0.40	0.48
Share price to earnings ratio	36.89	9.92
Capitalisation, EUR million	579.72	769.38

* The description of indicators is presented at the end of the report.

At the end of December 2018, ESO's borrowings amounted to EUR 631.0 million and accounted for 66.3% of total liabilities. Non-current borrowings amounted to EUR 448.5 million or 71.1% of total borrowings. At the end of the reporting period, ESO's current liabilities totalled EUR 309.9 million.

Table 8. ESO's liquidity ratios

	At 31 December 2018	At 31 December 2017
Current ratio	0.40	0.28
Quick ratio	0.40	0.28
Cash ratio	0.01	0.02
Working capital, EUR '000	-184,221	-204,047
Working capital to total assets ratio	-0.12	-0.16

ESO's current liabilities exceeded current assets by EUR 185.2 million. Current ratio is equal to 0.40. The cash flow from operations and the amount recovered from Lietuvos Energijos Tiekimas for the public supply activities transferred, by the end of March, will help to ensure continuity and liquidity. Quick ratio does not significantly differ from the current ratio, because inventories represent only 1.6% of total current assets. Borrowings, as reduced by the amount of short-term investments and cash and cash equivalents, are equal to EUR 628.8 million. The Company's net borrowings account for 98.2% of its equity.

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

Other information is presented in the condensed interim financial statements of ESO for January– December 2018.

FACTORS AFFECTING THE COMPANY'S FINANCIAL INDICATORS

Operating environment

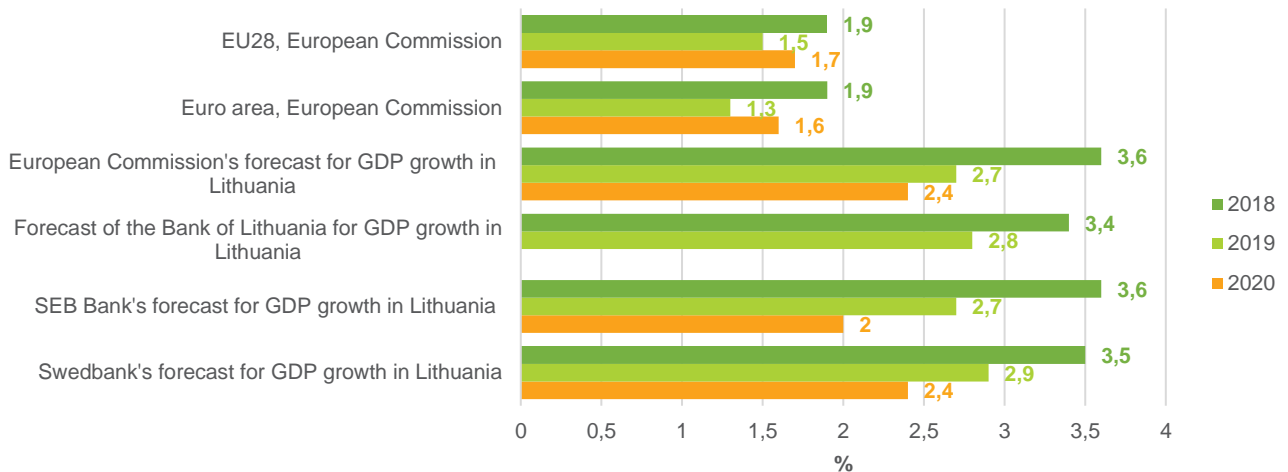
The major impact on electricity consumption is caused by changes in gross domestic product. For a few years in a row, the GDP has been growing in the European Union, and 2017 saw the speediest growth in the last 10 years. In 2017, for the first time since 2007, economies of all EU Member States grew. The growth is to continue, however, according to forecasts it will be more moderate due to increasing uncertainties all over the world. The European Economic Forecast announced by the European Commission in February 2019² states that the total growth in GDP of the EU (EU28) as well as of the Eurozone will constitute 1.9%; whereas the 2019 economic growth should amount to 1.5% (for EU28) and 1.3% (for Eurozone), and in 2020 – 1.7% and 1.6%, respectively. The European Commission estimates that the growth of the Lithuanian economy in 2018 will be 3.6%, in 2019 –2.7%, and in 2020 – 2.4%. In autumn 2018, slightly higher growth was forecast both in EU28, in Eurozone and Lithuania³.

² Source of data: European Commission. European Economic Forecast Winter 2019.

³ Source of data: European Commission. European Economic Forecast Autumn 2018.

The forecasts of the economists of the Lithuanian banks also project growth of the Lithuanian economy. According to the SEB Bankas analysts' forecasts issued in October 2018, Lithuania's gross domestic product will increase by 3.2% in 2018 and 3.0% in 2019.⁴ In March 2018, the analysts of Swedbank AB also published the Lithuanian economic outlook: they expected that the gross domestic product would grow by 3.1% in 2018 and 2.5% in 2019.⁵ According to the December 2018 forecast issued by the Bank of Lithuania, the Lithuanian gross domestic product will grow by 3.2% in 2018 and 2.7% in 2019.⁶

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

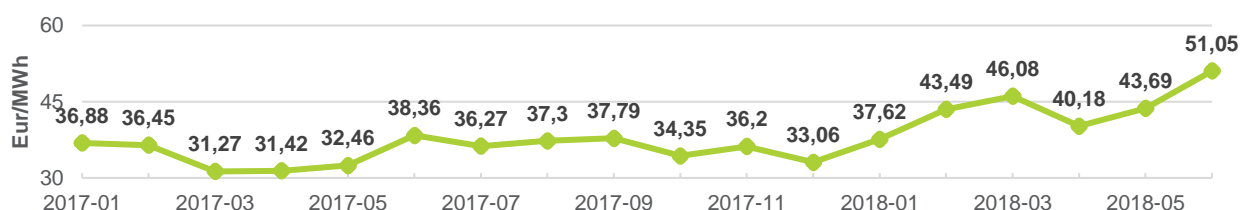


Since electricity consumption is closely related to the growth in GDP, the economic growth affects ESO's operational performance as well. Given the macroeconomic forecasts provided by economists for a year and taking into consideration actual ESO's results, we hold the view that the amount of transmitted electricity will grow moderately.

Situation in Electricity Market

In 2018, the average electricity price in Nord Pool exchange in terms of the Lithuanian trading area considerably reduced compared to 2017. The average price in January–December 2018 was EUR 50.00/MWh, i.e. 42.3% higher than in January – December 2017, when it was EUR 35.13/MWh.⁷ The augmenting electricity price in the electricity exchange has negative impact on ESO's results.

Figure 4. The average price of electricity at the Lithuanian price are of the Nord Pool power exchange



The Company's strategy and objectives

During January– December 2018, the Company complied with the ESO operational strategy for 2016–2020 as approved on 2 November 2016. The strategy of ESO is based on customer service reliability and speed, effectiveness, and organisational culture based on unified values and continuous improvement.

The strategy outlines enhancement of operational efficiency and reduction of operating expenses. A safe and reliable provision of electricity and natural gas distribution services will be achieved by making investments for the improvement of technical conditions of electricity and natural gas networks.

The Company will focus on significantly improving the reliability of the electricity distribution network by 2020. The system average interruption duration index (SAIDI with *force majeure*) for the electricity network is expected to drop down to 100

⁴ Source of data: SEB Bankas. Lithuanian Macroeconomic Review, April 2018.

⁵ Source of data: Swedbank Economic Outlook. March 2018

⁶ Source of data: Bank of Lithuania. The Lithuanian Economic Review, June 2018.

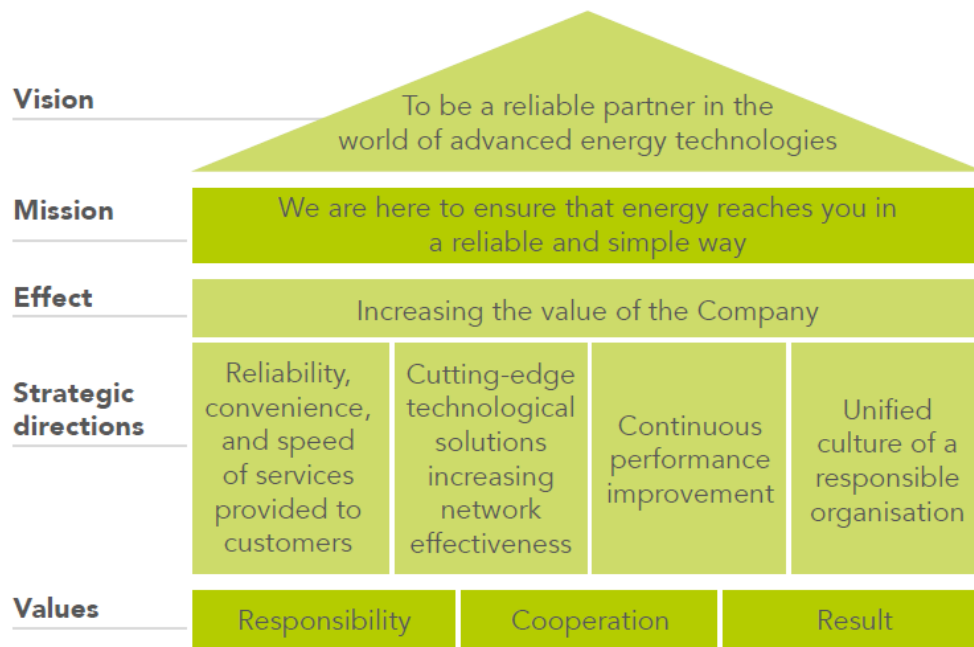
⁷ Source: „Nord Pool“

minutes and the system average interruption frequency index (SAIFI with *force majeure*) will respectively decrease by 1 times by the year 2020. The Company will also aim to maintain high reliability indices of the natural gas distribution network.

By 2020, the Company plans to shorten the time for new customer connections to the natural gas and electricity distribution networks. The shortening of the process of new customer connection to the electricity network will improve the country's ranking in the World Bank's index Doing Business as getting electricity is one of its component indicators.

The Company will aim to maintain a high customer service satisfaction level which is to exceed the European average for energy companies. It is expected that the Company's customer satisfaction index (GCSI) will remain at 80 points in 2020.

Figure 5. ESO's operational strategy scheme



The fulfilment of ESO's mission, vision, pursuit of its activities are based on the values of collaboration, responsibility, and performance. These values express a concept that the Company constantly takes responsibility for its actions, cooperates, and always strives to achieve the best results for its stakeholders.

All of these elements are considered the fundamental assumptions for the achievement of the main strategic goal – increase of the Company's value. The increase of the Company's value is perceived as a sustainable balance between the strategic directions listed below, which are linked by the balanced scorecard methodology to their relevant perspectives:

1. Reliability, convenience, and speed of customer service (customer perspective);
2. Advanced technological solutions which enhance network performance (internal processes perspective);
3. Unified organisational culture (employee training perspective);
4. Continuous improvement of activities (internal processes perspective).

A consistent implementation of these directions allows us to contribute to the core strategic objective of the Company – increase of the Company's value (financial perspective) – in a balanced way.

Updated strategy of the Company for the period up to 2030 approved and publicly announced in 18 January 2019. The document of the ESO operational strategy can be found in section *About us* of the Company's website www.eso.lt.

Investment plan: modernisation of the electricity and gas distribution networks

On 3 February 2015, LESTO, the operator of the electricity distribution network whose activities are being continued by ESO, announced the investment plan for 2015–2025. It was then planned that in order to ensure reliable, safe and intelligently managed services, the Company will invest EUR 1.7 billion in the modernisation and renewal of the network by 2025.

On 13 December 2015, Lietuvos Dujos AB whose activities are being continued by ESO, announced the ten-year investment plan projecting that its investments in the network will amount to EUR 141.1 million over the next ten years. The largest portion of investments will be allocated to the development of the distribution system, reconstruction of distribution pipelines and modernisation of the systems of remote data collection and control.

On 17 July 2018, ESO announced the plan of investments into the electricity and gas distribution network that are being carried out or planned for 2018–2027 (the ten-year investment plan).

The level of investments in ESO's 10-year investment plan for 2018–2027 was established with an aim to reduce quality indicators, i.e. the system average interruption duration index (SAIDI), the system average interruption frequency index (SAIFI), and the maximum duration of the removal of breakdowns. They were established with the reference to stakeholders' expectations about the quality of services, as well as Western European countries' good practices. It is expected that SAIDI and SAIFI will be reduced by half following the implementation of the planned investments.

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

According to ESO's ten-year investment plan ESO's investments in 2018–2027 will be targeted in three directions. The first direction is reliable and climate impact-resilient network. By replacing overhead lines with underground lines, eliminating unreliable and destructible devices, the strategy aims at ensuring uninterrupted and high-quality energy distribution via environment-friendly electricity and gas networks. The value of investments planned under this direction might total up to EUR 640 million.

The aim of the second direction of investments, which is remotely-controlled grid, is to speed-up the restoration of the energy supply after a disruption, create preconditions for making network management decisions based on real-time information, and to facilitate the integration of renewable energy sources. It is planned to install remotely-controlled equipment and self-healing network equipment, and implement solutions for network monitoring. The value of investments planned under this direction is approx. EUR 582 million.

The third direction of investments is a smart network. It is planned to improve the quality of ESO's services, create preconditions for customers to accurately monitor their energy consumption, receive accurate invoices, and save energy through rational consumption. Consequently, it is planned to install smart meters, upgrade information systems. The value of investments planned under this direction is approx. EUR 336 million.

In addition, according to ESO's calculations, connection of new customers might require approx. EUR 538 million over the period of then years, thus ESO's investments might amount up to EUR 2.1 billion in 2018–2027.

Risk and uncertainty factors and their management

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

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

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

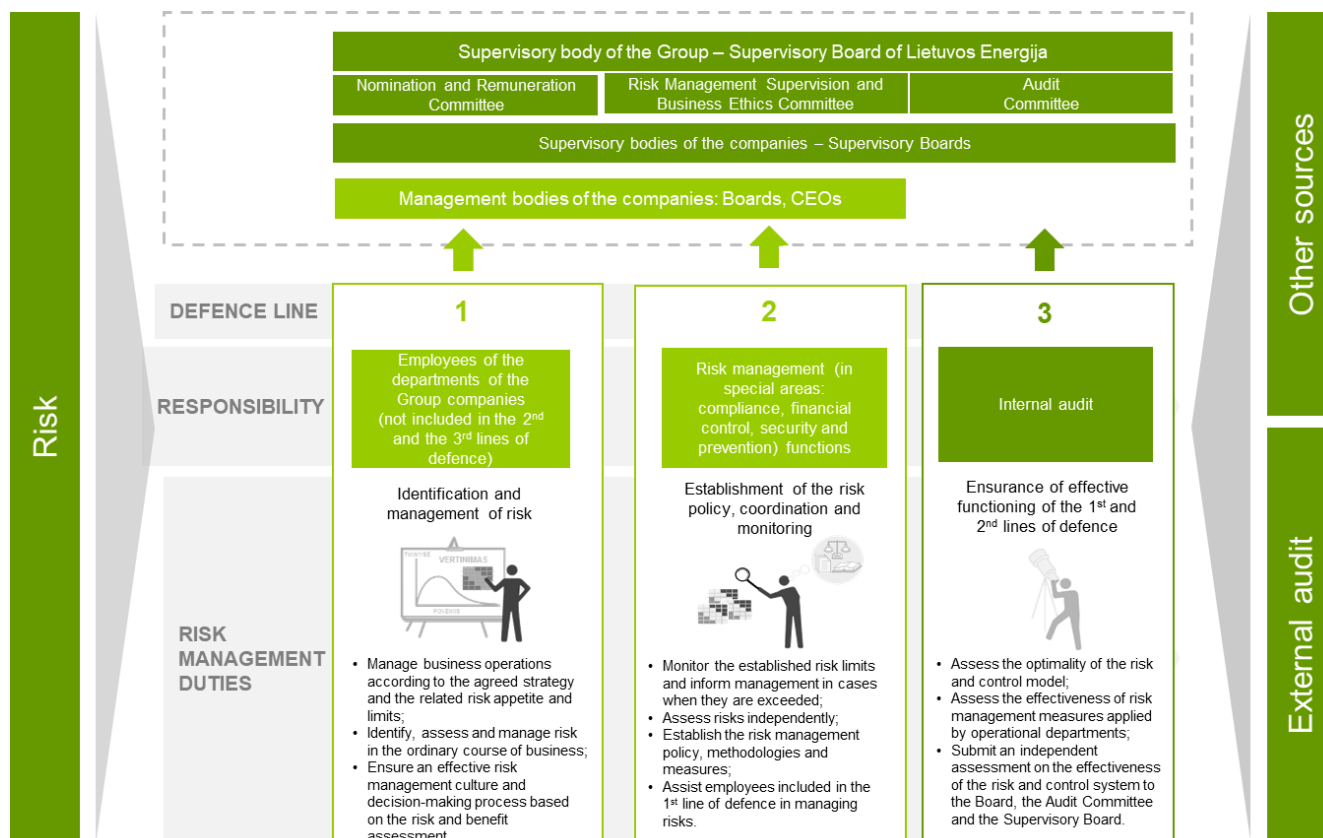
The risk management principles established by Lietuvos Energija are consistently applied across the entire Group of companies. The uniform risk management principles ensure that the management personnel of the Group of companies receive risk management information covering all areas of activities. To 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 during a specified time period and risk management actions are established. In addition, the Company monitors new risk factors on a quarterly 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 values of incidents. 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.

Figure 6. Risk management and control model



As every year, during the risk assessment for 2018 that the Company performed in 2017, certain areas were identified in which the Company concentrates the main risk management measures and initiatives and coordinates them at the Group level. The main risk factors and management policies for 2018 are listed in Table 9.

Table 9. Risk factors for 2018 and their management directions

Risk factor	Sources of risk	Main risk management policies	Risk level
Health and safety of employees, contractors, and residents	<p>With regard to the specific character of its business activity, the Company bears the risk of injury to the employees of ESO, its contractors, and residents.</p> <p>This risk remains a priority area every year and the main causes of this risk, in addition to high-risk working environment, stem from the lack of awareness or experience/knowledge.</p>	<ul style="list-style-type: none"> Maintenance of the occupational health and safety management system (OHSAS 18001:2007); Implementation of the programme for the strengthening of safety culture; Regular control and monitoring of occupational safety of employees and contractors; Launch of practical training in the Training simulator and implementation of VR training in the second half of 2018; Enhancement of physical safety measures, warning signs; Motivational and disciplinary system for employees and contractors; 	<ul style="list-style-type: none"> Very High
External regulation (ENEF, ADA)	The Company is exposed to regulatory risk due to the constant change of regulatory environment	<ul style="list-style-type: none"> As clear and proper fulfilment of regulatory requirements as possible; For the purpose of ensuring compliance with new requirements, Group-level organisation of projects 	<ul style="list-style-type: none"> High

(frequent changes in legislation give rise to erroneous interpretations/misinterpretations).

Moreover, the transposition of the Energy Efficiency Directive into the Lithuanian law has imposed unproportionally large obligations on ESO, without any proper incentive mechanisms for the market of energy efficiency services.

The Company is exposed to external regulatory risk due to the reform of legal regulation of personal data protection, the basic legal act of which is the General Data Protection Regulation (hereinafter "GDPR") of the European Union that came into force on 25 May 2018. New rights for individuals as established in the GDPR, stricter requirements for the treatment of consents, and other changes related to the protection of personal data pose a risk of misleading implementation of regulations set forth in the GDPR.

engaging the best specialists of the Group with regard to the issue concerned; development of financial instruments;

- Active contribution to the process of public coordination of legal acts;
- Initiation of draft amendments to legal acts that are unfavourable to the Company;
- The Company has carried out a project on the implementation of GDPR requirements, during which the Company performed the following:
 - renewal of the Company's document forms (agreements, requests, etc.);
 - approval of the Company's new internal legal acts (the policy and standards of personal data protection, the publicly available privacy notice, etc.)
 - implementation of functionalities allowing system users to see only as much data as necessary for the execution of their functions;
 - designation of data protection executive (officer);
 - organisation of trainings on personal data protection for the Company's employees;
 - ensurance of regular monitoring of the compliance of the Company's activities with GDPR requirements, etc.

Disruptions in services while implementing IT changes (system instability due to high number of changes)

The majority of information systems, in order to make them more efficient, are undergoing extensive changes. Due to a high number of changes, the quality of those changes is not always controlled and the stability of the systems is not always retained (in terms of both functionality errors and optimal functioning).

- Modernisation of information systems, installation of up-to-date specialised IT tools in order to create new possibilities of providing the customers with high-quality services and increasing the efficiency of the Company's processes;
- Enhancement of the installation process of IT changes;
- Regular monitoring of current changes;
- Creation of a model for testing critical systems.

• Middle

Information security (cyber security)

Detection of random (automated) and specialised cyber attacks carried out in a bid to exploit the weak social traits of the Company's employees (curiosity, credulity), vulnerabilities of information systems. Constant arising of new global cyber threats, tendencies of their development. Strong motivation to direct cyber attacks at the Company for its strategic

- Enhancement of cyber attack detection/resistance systems;
- 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.

• Middle

	meaning to the country's security.		
Risk relating to timely performance of contracts	Proper execution of public procurement agreements is essential not only for considerations of the public interest, but for the fulfilment of obligations to ESO's customers as well. ESO constantly monitors changes in the market and seeks to efficiently use existing resources in order to achieve the set objectives.	<ul style="list-style-type: none"> • Employee training; • Cooperation with external partners; • Enhancement of system functionalities in installing tools for the application of default measures; • Case-law; • Performance improvement by reviewing the terms and conditions of contracts. 	• Middle
Risk relating to purchases	Purchases on behalf of ESO are carried out by the authorised organisation Verslo Aptarnavimo Centras UAB. In performing public procurement procedures, it is aimed to conclude agreements that ensure the lowest price as well as are the most cost-efficient. The agreements are subject to requirements for quality as well as for terms, therefore, ESO constantly performs the monitoring of the market and changes.	<ul style="list-style-type: none"> • Performance improvement of purchase processes seeking typing, automation, and quality assurance; • Cooperation with external partners; • Constant market analysis and communication; • Implementation of process automation projects; • Case-law. 	• Middle

INFORMATION ON THE COMPANY'S AUTHORISED SHARE CAPITAL AND SECURITIES

Authorised share capital and securities

As at 31 December 2018, 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.

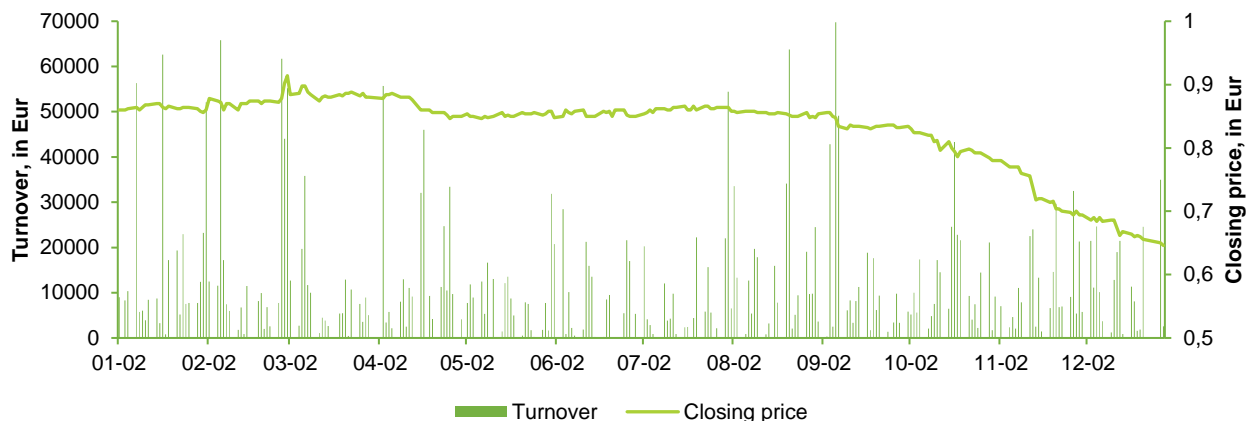
Table 11. Information on the Issuer's securities

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.

Share price dynamics and turnover

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

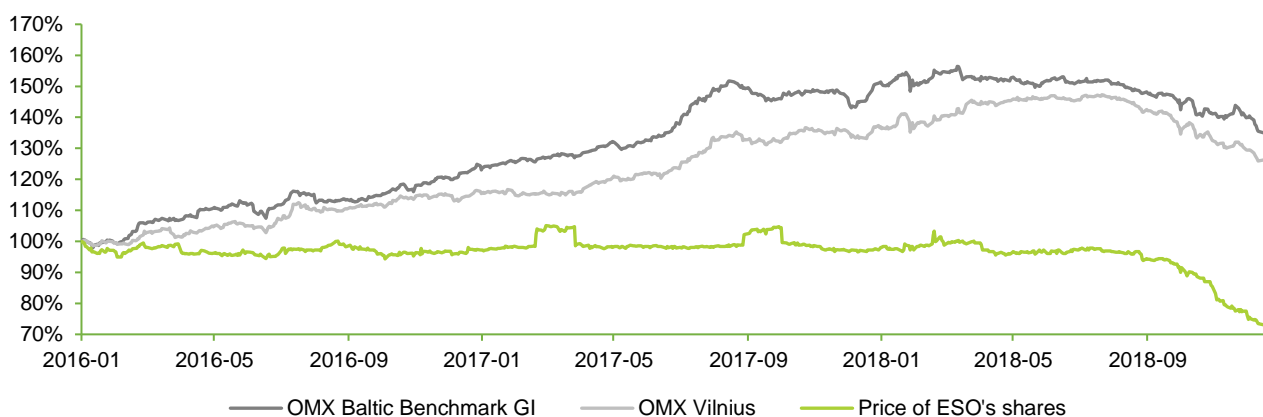


ESO is the largest company listed on the NASDAQ Baltic stock exchange in terms of market capitalisation. At the end of the reporting period, ESO's capitalisation amounted to EUR 760.44 million (2.3% less than as at 31 December 2017). During January– December 2018, the price of ESO's share dropped by 0.7%. During this period, the lowest price of ESO's shares was recorded on 26 April 2018 and it was equal to EUR 0.84 per share. The highest point (EUR 0.916) was reached on 28 February 2018. During January– December 2018, the average weighted price per share amounted to EUR 0.867.

Figure 8. Dynamics of the price of ESO's shares since the beginning of trade during the reporting period



Since the beginning of trade of ESO's shares the price of ESO's share dropped by 26.78%.



From the beginning of trade in ESO's shares to the end of December 2018, the OMX Vilnius index increased by 26.68%, the OMX Baltic Benchmark index increased by 35.78%, and the price of ESO's shares decreased by 26.78 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 31 December 2018, the total number of the Company's shareholders was 8,838. As at 31 December 2017, the total number of the Company's shareholders was 8,789.

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 31 December 2018, 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 General Meeting of Shareholders of the Company which was held on **30 March 2018**, distribution of the Company's profit (loss) of 2017 was approved. The meeting decided to pay EUR 22.7 in dividends for the period of six months ended on 31 December 2017. Holders of shares received EUR 0.02535 per share in dividends for the aforesaid period. Dividends were paid to the persons who were shareholders of the Company at the end of the tenth business day after the adoption of the decision on payment of dividends by the General Meeting of Shareholders, i.e. at the end of a business day of 16 April 2018.

Dividends were also paid in accordance with the decision adopted during the extraordinary general meeting of shareholders of the company which was held on 29 September 2017. It was decided to pay dividends for the period shorter than a financial year. A holder of one share was paid EUR 0.046 in dividends (in total, EUR 41.2 million were paid in dividends) for the period of six months ended on 31 December 2017.

The Company's net profit from continuous activities amounted to EUR 77.6 million in 2017; for this reason, the indicator of dividends paid for this period / net profit amounts to 0.82.

On 28 September 2018, in extraordinary general meeting of shareholders the decision was made to allocate dividends for the period shorter than a financial year. Shareholders of the Company were paid EUR 0.014 per share for the period of six months ended 30 June 2018 (in total, EUR 11.9 million). Dividends were paid to the persons who at the end of record day of the Company's shareholders' rights, i.e. 12 October 2018, were shareholders of the Company.

The Company's net profit from continuous activities in the period from January to June 2018 amounted to EUR 17.8 million, thus the indicator of dividends paid for this period / net profit indicator is 0.67.

CUSTOMER SERVICE, SERVICE ASSESSMENT

Number of customers being serviced

For the date of 30 September 2018, ESO had 60,407,000 electricity purchase and sale agreements with private clients and 5,750,000 electricity supply or transmission contracts with commercial clients. .

On 30 September 2018, ESO had 9,030,000 private and about 1,395,000 business clients connected to its gas distribution network who were provided with gas distribution service.

Operation and development of electricity and gas metering devices

Over 2018, ESO replaced 90,600 metering devices the deadline for inspection of which expires. Of them, 72,200 were electricity metering devices and 18,400 – natural gas metering devices. The Company installed almost 26,000 new electricity and 6,000 new natural gas metering devices for its customers.

Continuously replacing the metering devices with new ones, the Company and its authorised persons inspected over 815,000 electricity and over 115,000 natural gas metering devices over the year 2018. The company installed 869 control metering devices in 10 kV power network thus increasing their number to 3,607,000. This covers 100% of the entire 10 kV network.

Investments in modernisation of electricity metering devices and their automation enabled ESO to connect 3,400 electricity metering devices to the existing automated data reading systems over 2018. In this way, the number of electricity metering devices used by the Company to take readings remotely reached almost 39,800. Meanwhile, the number of natural gas metering devices the readings of which are taken at a distance remains the same, i.e. 1,200. Automation of metering devices allows the Company to produce electricity bills to business clients automatically and to accurately identify the amount of natural gas used by every business client.

To improve service quality, to enable customers to track energy consumption, receive accurate bills and save energy by its rational use, the Company implements the programme of installation of a smart metering system in Lithuania. The NCECP has been provided with an investment project aimed at replacing all existing electricity metering devices by new ones for approval. Smart metering devices for natural gas are planned with regard to those consumers who use more than 350 m³ of gas a year. Usually these are clients who use natural gas for heating.

In 2018, the smart metering installation programme was introduced to the Energy Commission of the Seimas of the Republic of Lithuania and the Ministry of Energy of the Republic of Lithuania, to independent energy suppliers and other interested parties. Following the best practice of foreign countries and the principles of transparency, six market consultations were organised which were actively attended by local and foreign suppliers and producers, useful insights were received with respect to technical specifications which are being drawn up.

Development of service channels

ESO has noticed there are increasingly more customers who use the offered remote service channels. During January–December 2018, the number of customers who use the self-service website www.manogile.lt increased by 9% compared to January–December 2017. Meanwhile, the number of customers who contacted ESO by phone dropped by 6%. The number of customers serviced at the customer service centres in smaller towns declined as well.

During January–December 2018, information via the customer service number 1802 was provided to 552 thousand customers (during the first half of 2017: 587 thousand customers). Customers also use the free-of-charge telephone number 1852 to report power failures, as well as the free-of-charge telephone number 1804 of the gas emergency service.

During 2018, more than 163 thousand customers were serviced at the customer service centres in the major Lithuanian cities.

Management of customer settlements

ESO has provided customers with the possibility to pay for electricity according to the average quantity of electricity consumed. Payments according to the average consumption helps plan expenses evenly, because the same amount is paid every month despite seasonality and changes in the amount of electricity consumed. In addition, customers possessing several residential properties have the ability to pay for electricity consumed at several residential properties owned by the customer by making a single payment (a single invoice can be issued). Monthly payments for electricity are calculated according to the previous average quantity of electricity consumed by the customer (in kilowatt hours, kWh), which is adjusted in view of the customer's declared readings or data received during a periodic inspection of meters. Customers can find out and check the applied average amount to be paid at the self-service website www.manogile.lt, by calling the customer service number 1802 or by visiting the customer service centre Gilė. VAT invoices are issued to all ESO customers at the self-service website www.manogile.lt. 9.5% of customers make payments according to electronic invoices issued.

Market liberalisation

As at 31 December 2018, independent suppliers supplied electricity to 62,977 (57%) 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 GCSI (Global Customer Satisfaction Index) survey, the customer satisfaction level of the electricity and gas distribution company ESO was equal to 78 points in 2017 (2016: 79 points). This result is 7 points higher than the European (71) average and 5 points higher than the global (73) average.

SOCIAL RESPONSIBILITY OF THE COMPANY

Social responsibility is not only ideas and values that the Company follows in its everyday activities and in planning for the future. This involves very specific solutions and is part of everyday business activities and conduct.

ESO assumes the responsibility to contribute to the welfare of society through a secure continuous energy distribution and supply, active participation in public education on the issues of safe and rational use of energy, installation of new, promising and efficient technologies, taking care of customers, employees, communities and promotion of awareness of contractors and suppliers. ESO's priorities are the following:

- Promotion of energy efficiency;
- Reduction of environmental impact through energy conservation;
- 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.

Conducting responsible activities the Company follows the Social Responsibility policy approved by Lietuvos Energija Group. This document defines general directions and provisions of responsible activities on the basis of which business culture and practice of a social and sustainably developed company group is developed.

The Company sticks to the Ten Principles of the Global Compact which delineate 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 sustainable and socially responsible 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 and anti-corruption 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.

Labour

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.

Environment

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 10. 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.

In 2018, 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

The Company adheres to the general provisions and principles of occupational health and safety at work and follows the main guidelines for their implementation and the standards of Occupational Health and Safety at Work Policy of Lietuvos Energija Group.

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

To prevent accidents at work the Company focuses much on occupational safety: a certificate of occupational safety and health at work OHSAS 18001:2007 is maintained, quality of workplaces of the Company employees and contractors as well as work organisation is periodically verified, complex inspections of the Company's units are carried out. Employees are instructed during briefings and on digital platforms, they are trained and equipped with personal protection measures. In 2018, contract works of the Practical Training Centre were completed; pilot practical trainings were launched for the Company's staff teams. A programme on the enhancement of culture of security is being implemented – virtual training has started – new employees learn how to evacuate safely from a building in case of fire in virtual reality. The most proficient workers in regions are selected, safety and security days are organised, weekly "Safety and Security Minutes" are held to the employees of maintenance units on safety at work.

The Company cares about its employees' health. Free medical check-up is organised for all employees who have to do that. Employees get flu and encephalitis vaccines.

Using the digital training platform, a periodic briefing on safety requirements was organised to the Company employees in 2018.

Figures in Relation to Occupational Health and Safety at Work (2018)

Incidents and accidents at work (minor, major or fatalities)	12 incidents. 9 minor accidents: 4 of them on the way to/from work, 5 of them – while carrying out work functions. Employee fatalities – 1. The main reason for incidents and accidents – negligent employee behaviour at work, failure to check voltage, expansion of workplace, negligent driving. All accidents were investigated.
Accidents incurred by employees of contractors in the Company's premises, harm to health, nature of accidents	As many as 3,722 workplaces of contractors were checked, 732 violations detected. In 41 cases, work was suspended for the reason of complex or serious violations. Nature: failure to use personal protection measures, failure to observe occupational health and safety at work regulations, improper formulation of works, insobriety, etc. 4 accidents: of them 3 – minor, 1 - serious.

More details on the Company's employees and relationship with them can be found further in the report.

Protection of the Environment

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 applied 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 paperwork, manage documents in an electronic way via the special document management system.

Supporting 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. No non-conformities were identified in 2018.

Landscape Protection. To reduce impact on landscape, new cables are installed in those localities where there were old overhead power lines which were thin and dangerously close to plantings, and where old infrastructure caused numerous failures. Cable-based lines ensure a more reliable electricity supply and are safer.

Preservation of Resources. In 2018, the Company had over 1.6 million customers and encouraged them to refuse using paper bills and payment books and to start using remote customer service channels. During the reported period, most clients were already using electronic bills. Reports on interruptions to power supply and the estimated time required for their removal were sent by text messages and emails to those customers who had provided their details and had ordered such service.

Waste Management. In 2018, the Company chose using the Unified Product, Packaging and Waste Record Keeping Information System (GPAIS). In accordance with the legislation governing waste management, all waste produced in ESO's activities is accounted for. In this way, revision and update of reversible substance and hazardous materials management processes was ensured.

Public initiatives

ESO implements large-scale long-term social responsibility projects for children, young people and members of the general public, which focus on active engagement of target groups of society and ideas on safe and efficient use of electricity.

Information security campaign *Safe Energy*. The Company continues the implementation of the large-scale campaign, aimed at a safe use of electricity and gas, theft prevention of ESO's technological property, provision of useful advice to the general public. In mass media – television, radio, newspapers and the internet – the campaign is aimed at raising public awareness of safety issues related to fieldworks, with emphasis placed on the underground electricity and gas network, as well as educational advice on safe behaviour during storms. The campaign also focuses on thefts that cause electricity supply interruptions as well as prevention (educational material, videos, articles). Targeted meetings with representatives of the police, the community, and media are being held in the regions concerned.

To increase energy efficiently – initiative “As much as needed”. Promotion of rational use of energy is one of the priority direction of ESO's corporate social responsibility which contributes to preservation of environment and energy resources as well as the fulfilment of obligations of the country in implementing the EU climate change programmes. The project is aimed at creating traditions for a rationally living society – solutions for rational use of electric power are searched for, special attention is devoted to consumption in business and industry. In 2018 we focused a lot on individual recommendations for through direct meetings, in autumn a conference cycle for industry representatives was organised (“As much as the industry needs 2018”).

Conference “Energy Efficiency Solutions for Competitive Business” (*Lith, “Energetinio efektyvumo sprendimai – konkurencingam verslui”*) on rational use of energy. On 27 February 2018, a traditional conference was held for business in cooperation with Verslo Žinios. During the event, insights of specialists from different sectors were shared on the subject of energy use in a preserving manner. The annual energy efficiently conference is part of the ESO's initiative “As much as needed”. The purpose of the event is to get energy specialists and energy efficiency solution developers as well as business and academic community together in this way making discussions and valuable experiences help increase business effectiveness and direct resources in the appropriate direction and preserve the environment. The 2018 conference was attended by representatives of 243 businesses.

Provision of Support

Up to 2017, the Company provided support via the support foundation of Lietuvos Energija set up in 2014. The Foundation united and coordinated support of the Group to significant public projects, programmes and actions. Currently the Company provides no 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 risk is minimised by complex mechanisms of internal control aimed at identifying potential factors of corruption risk. Prevention of corruption is one of the functions conducted by the Company's Prevention Division. ESO continuously carries out operational control, improves operational processes and takes actions to remedy any violation detected, any threat posed

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to the good name of the Company, employees of the Company are periodically trained on the subjects of “Zero Tolerance for Corruption Policies” – management meetings are held, employees are provided with lectures and discussion sessions.

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 ESO's website under the contacts section.

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 (CVPIS) tools, additionally informs about respective publications in its webpages, and provides reports on procurement procedures and information on on-going procurements.

In 2018, as many as 1, 428 purchases were initiated by the Company. Over the year, 70 claims with regard to procurements conducted by the Company were received, only 7 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 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

Name of the company	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

Energijos Skirstymo Operatorius AB 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.

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ESO owns and operates 125 thousand kilometres of electricity lines: 70% of them consist of overhead electricity lines, and 30% of electricity cables. The company also operates gas distribution pipelines with the length of more than 9 thousand kilometres.

The main functions of ESO include electricity supply and distribution, 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 and 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 31 December 2018, 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	At 30 July 2014
Company code	303200016	303359627
Telephone	(8 5) 278 2272	(8 5) 259 4400
Fax	(8 5) 278 2299	(8 5) 259 4401
E-mail	info@etic.lt	vac@le.lt
Website	www.etic.lt	http://vac.le.lt

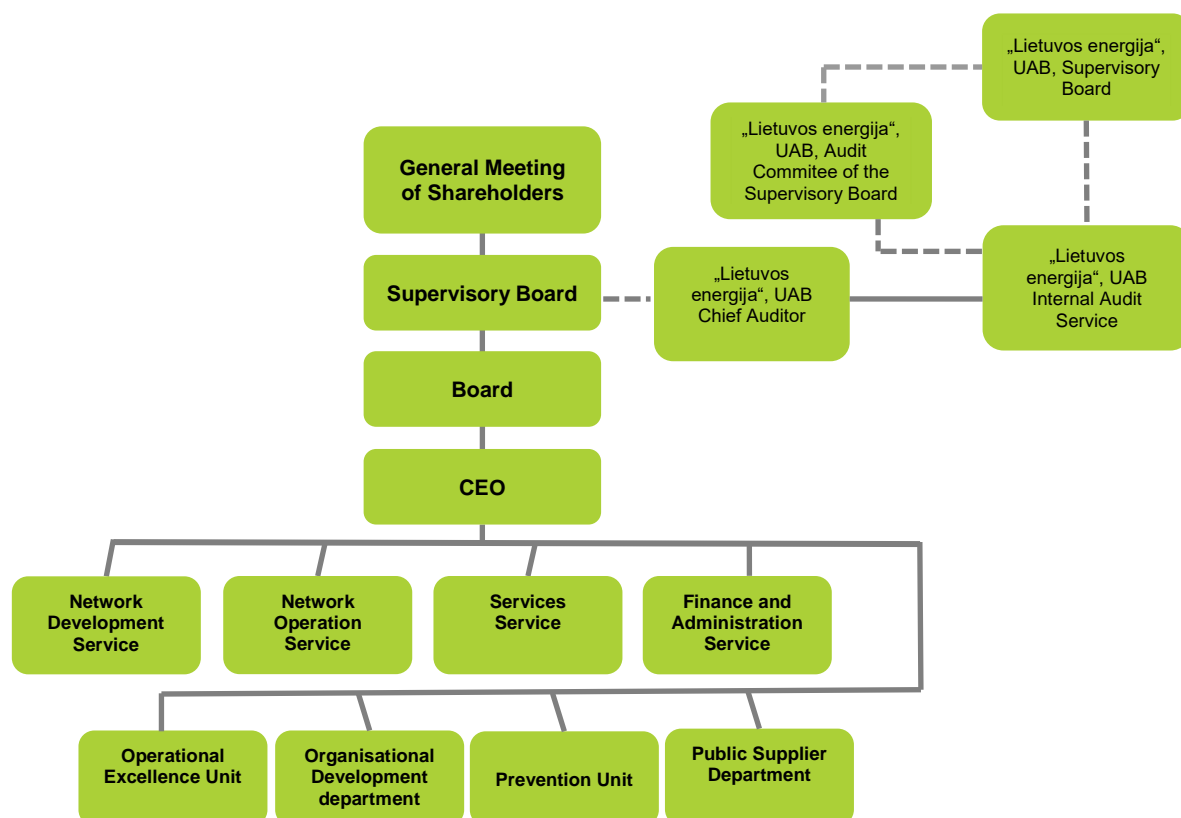
	Technologijų ir Inovacijų Centras UAB	Verslo Aptarnavimo Centras UAB
Ownership interest held by ESO (at 31 December 2018)	29.01%	22.25%
Principal activities	Provision of information technology and telecommunication services for the companies in the energy sector	Provision of services of organisation and performance of public procurements, accounting, administration of employment relationships, customer service, administration of human resources, legal services, consultations and trainings on operational efficiency

Information about significant related-party transactions

Information on related-party transactions is presented in the explanatory notes to the interim financial statements for January– December 2018.

Corporate governance

Figure 9. The Company's organisational structure (as at 31 December 2018)



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 ESO's Articles of Association can be amended only at the General Meeting of Shareholders.

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 first half of 2018, one Ordinary General Meeting of Shareholders and one Extraordinary General Meeting of Shareholders were convened. None of the shareholders of the Company registered to participate in the Ordinary General Meeting of Shareholders held on 30 March 2018 and the Extraordinary General Meeting of Shareholders held on 28 May 2018.

The Company's Supervisory Board

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for the twelve-month period ended 31 December 2018

The Supervisory Board of ESO is a collegial supervisory body.

The competence of the Supervisory Board, the procedure of decision-making, election and removal of its members are established by laws, other legal acts, and the Company's Articles of Association. The Supervisory Board of ESO is composed of three members who are elected by the General Meeting of Shareholders for a term of four years. Independent members make up at least a third of ESO's Supervisory Board. The Chairperson of the Supervisory Board is elected from the members of the Supervisory Board.

At beginning of the reporting period, the Company's Supervisory Board comprised Ilona Daugėlaitė and Petras Povilas Čėsna, an independent member. During the reporting period, the following changes were made to the composition of the Supervisory Board:

- during the Ordinary General Meeting of Shareholders of the Company held on 30 March 2018, a decision was passed to recall the incumbent Supervisory Board of *in corpore* and to elect Darius Maikštėnas and Darius Kašauskas for a new four-year term of office;
- during the Extraordinary General Meeting of Shareholders of the Company held on 28 May 2018, a decision was passed to elect Kęstutis Betingis as an independent member of the Supervisory Board until the end of the term of office of the current Supervisory Board.

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

During the reporting period, four 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 31 December 2018)

		
Darius Maikštėnas (born in 1970) The President	Darius Kašauskas (born in 1972) Member	Kęstutis Betingis (born in 1958) Independent member
In this position from: 30 March 2018	In this position from: 30 March 2018	In this position 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
D. Maikštėnas	D. Kašauskas	K. Betingis
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
–	Elektroninių Mokėjimų Agentūra UAB*, Member of the Supervisory Board (until 23 March 2018); Duomenų Logistikos Centras UAB, the President of the Board since 24 May 2018; 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	–

	(Member since 19 March 2018, Chairman since 22 March 2018).	
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)		
–	–	4569**

* 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.

** During the reporting period, compensations for activities in the Supervisory Board calculated for Petras Povilas Čėsna, who held the position as an independent member of the Supervisory Board until 30 March 2018, amounted to EUR 1,043. During the reporting period, compensations for activities in the Supervisory Board calculated for Kęstutis Betingis, who held the position as an independent member of the Supervisory Board, amounted to EUR 4569.

The Company's Board

ESO's Board is a collegial management body of the Company.

The authorities of members of the Board are set forth in the Company's Articles of Association and the Law on Companies of the Republic of Lithuania. The competence of the Board, the procedure of decision-making, election, and removal of its members are established by laws, other legal acts, and the Company's Articles of Association. The Board is composed of five members who are elected by the Supervisory Board for a term of four years. The Chairperson of the Board is elected from the members of the Board.






At the beginning of the reporting period, the composition of the Company's Board was as follows: Chairwoman of the Board Dalia Andriulionienė and members Augustas Dragūnas, Rytis Borkys, Ignas Pranskevičius, and Saulius Vaičekauskas. During the reporting period, the following changes were made to the composition of the Board:

- on 10 January 2018, the Company received a notification of resignation of Rytis Borkys from the position of a member of the Company's Board (the last day of his term of office at the Company's Board was 24 January 2018);
- on 14 March 2018, the Supervisory Board of the Company adopted a decision to elect Ovidijus Martinonis as member of the Board until the end of the term of office of the incumbent Board of the Company.
- On 1 August 2018, the Company received a notification by Dalia Andriulionienė on her resignation from the post of chair and member of the Management Board of ESO and Ms. Andriulionienė left her office as a CEO of ESO by mutual agreement of the parties as of 10 August 2018. From 11 August the position of an acting CEO and chair of the Management Board of ESO was occupied by Augustas Dragūnas Head of the Company's Finance and Administration Division.
- On 2 October 2018 the Supervisory Board of the Company adopted a decision to elect Mr Mindaugas Keizeris as member of the Board until the end of the term of office of the incumbent Board of the Company.
- On 2 October 2018, the chair of the Company's Management Board was elected Mr. Mindaugas Keizeris, On 8 October 2018 he was elected as CEO.
- On 27 December, 2018 the Supervisory Board of the Company has decided to recall the Management Board of the Company in corpore and for the term of 4 years has elected the new Management Board. Mindaugas Keizeris (responsible for strategic management of the Company), Augustas Dragūnas (responsible for finance and administration), Ovidijus Martinonis (responsible for network development), Renaldas Radvila (responsible for customer experience and service) and Virgilijus Žukauskas (responsible for network maintenance) have been elected as members of the Management Board of the Company.
- On 27 December, Management Board has decided to elect Mr Mindaugas Keizeris as the Chairman of the Company's Management Board.

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

During the reporting period, 37 sittings of the Board of ESO were held and all of them were attended by all then elected members of the Board.

Table 16. The composition of the Board of ESO (as at 31 December 2018)

				
Mindaugas Keizeris Chair of the Board	Augustas Dragūnas Board member	Renaldas Radvila Board member	Virgilijus Žukauskas Board member	Ovidijus Martinonis Member of the Board

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CEO				
In Chair of the Board 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 this position 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
In CEO position from: End of term of office: 8 October 2019*				
M. Keizeris	A. Dragūnas	R. Radvila	V. Žukauskas	O. Martinonis
Education				
Vilnius University, Bachelor of Business Administration and Management; Vilnius University, Master of International Business; Baltic institute of corporate governance, Professional board member	Vilnius University, Master's degree in Business Management and Administration	ISM University of Management and Economics, Master's degree in Management Vilnius University, Bachelor's degree in Economics	Professional Board member, Baltic institute of corporate governance Engineer – electrician, Kaunas Polytechnic institute Technician – electrician, Panevėžys Polytechnic school	Kaunas University of Technology, Bachelor's and Master's degrees in Telecommunication and Electronics
Principal workplace and position held				
ESO's Chief Executive Officer	ESO's Finance and Administration Service Director	ESO's Services Director	ESO's Networks Operation Service Director	ESO's Networks Development Service Director
Participation in the activities of other companies and organisations				
Verslo Aptarnavimo Centras UAB, Board Member; The National Power Association, Board Member	Technologijų ir Inovacijų Centras UAB, Board Member			
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)				
17,422*	11,465	8,842**	10,429***	8,999****

* On 1 August 2018, the Company received a notification by Dalia Andrulionienė on her resignation from the post of chair and member of the Management Board of ESO and Ms. Andrulionienė left her office as a CEO of ESO by mutual agreement of the parties as of 10 August 2018. From 11 August 2018, the position of an acting CEO and chair of the Management Board of ESO was occupied by Augustas Dragūnas Head of the Company's Finance and Administration Division. As of 2 October 2018, the chair of the Company's Management Board was elected Mr. Mindaugas Keizeris. For their activities and work in the Board Ms. Andrulionienė was paid EUR 10,603, Mr Keizeris — EUR 4,297; Mr Dragūnas – EUR 2,522.

** In the period from 1 January 2018 to 1 November 2018, the position of a Board Member and Director of the Services Division was taken by Mr Ignas Pranskevičius, who was paid EUR 8,719 for his work in the Board. From 27 December 2018, the position of a Board Member and Director of the Services Division was taken Mr Renaldas Radvila, who was paid EUR 123 to this end.

*** Until the election of a new composition of the ESO Management Board, the position of the Director of Network Maintenance Division was taken by Mr Saulius Vaičekauskas, who was paid EUR 10,306 for his work in the Board, and Mr Virgilijus Žukauskas was paid EUR 123 to this end.

**** Mr Rytis Borkis who worked in the Board until 27 January 2018 was paid EUR 673 for his activities in the Board in the reference period. Mr Martinonis was paid EUR 8,326 for activities in the Board from 14 March 2018.

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–December 2018, in EUR	The variable component of the remuneration paid for the results of the previous year during January–December 2018, in EUR	Total payments in January–December 2018, in EUR
Dalia Andrulionienė, CEO	31442	29811	61253
Acting Chief Executive Officer of the Company an	34397	12783	47180

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Chairman of the Board**,
Director of Finance and
Administration Division of
ESO

Mindaugas Keizeris, CEO
(since 8 October 2018)

13078

0

13078

* As of 1 December 2014, the accounting function was transferred from the Company to Verslo Aptarnavimo Centras, UAB; for this reason, there are no employees to conduct the function of accounting and of a senior accountant. Verslo Aptarnavimo Centras, UAB provides the Company with all accounting services starting with the entry of initial documents in the accounting programmes and finishing with drawing up of financial statements.

** On 1 August 2018, the Company received a notification by Dalia Andrulionienė on her resignation from the post of chair and member of the Management Board of ESO and Ms. Andrulionienė left her office as a CEO of ESO by mutual agreement of the parties as of 10 August 2018.

*** From 11 August 2018 to 7 October 2018 (inclusively), the acting CEO of the Company was a Board Member of ESO and the Head of the Finance and Administration Division Mr Augustas Dragūnas, who on 11 August 2018 was elected to occupy the position of the chair of the Company's Management Board. He was paid EUR 34,083 for taking the office of a Head of the Company's Finance and Administration Division and interim position: he was paid EUR 46,866, in total, of them EUR 7,545 is his wage for taking the office of an acting director in the period from 11 August 2018 to 7 October 2018 and remuneration of EUR 26,538 for taking the office of the Head of Finance and Administration Division of the Company.

ESO has neither transferred the management of assets nor issued guarantees to the members of the bodies. During January– December 2018, 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

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 UAB and its directly and indirectly controlled subsidiaries, including ESO and legal entities of other legal form, in which Lietuvos Energija may have direct or indirect ultimate impact.

The following committees have been established at Lietuvos Energija:

- **The Risk Management 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) main risk factors and implementation of risk management or prevention measures;
- **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 and 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 Board Members 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.

The functions of the committees are described in greater detail in the Company's annual reports.

Table 18. Members of the Risk Management Supervision and Business Ethics 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
Andrius Pranckevičius Chair of the Committee	–	April 2018– April 2020	Linas Agro Group AB, Deputy Chief Executive Officer, Member of the Board; Kekava PF, Chief Executive Officer and Chairman of the Board
Darius Daubaras , Member	–	April 2018– April 2020	Saudi Aramco (an oil and gas industry company), Finance and Development Projects Unit, Project Manager
Šarūnas Rameikis Independent member	–	April 2018– April 2020	R. Mištautas and T. Milickis law firm Konsus, Lawyer

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

Table 19. 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 Chairperson of the Committee	–	October 2017– October 2021	European Commission, Audit Progress Committee, Member

Independent member			
Danielius Merkinas	–	October 2017– October 2021	Nordnet UAB, CEO
Independent member			
Aušra Vičkačkienė	–	October 2017– October 2021	Lithuanian Ministry of Finance, Asset Management Department, Director
Member			
Ingrida Muckutė	–	May 2018– October 2021	The Ministry of Finance of the Republic of Lithuania, Accountability, Audit, Property Valuation and Insolvency Management Division, Head
Member			
Šarūnas Radavičius	–	May 2018– October 2021	Rodl & Partner UAB, Chief Executive Officer
Independent member			

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

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	–	September 2017– September 2021	Thermo Fisher Scientific Baltics UAB, Human Resources Director
Chairperson of the Committee			
Independent member			
Aušra Vičkačkienė	–	September 2017– September 2021	Lithuanian Ministry of Finance, Asset Management Department, Director
Member			
Ramūnas Dilba	–	November 2017– September 2021	Ministry of Finance, European Union Investment Department, Director
Member			
Lėda Turai-Petrauskienė	–	March 2018– September 2021	The International Coach Federation, Coach
Independent member			

The term of office of the incumbent Audit Committee is from 13 September 2017 to 13 September 2021.

Employees of the Company

The Company's personnel policy focuses on a continuous professional development of employees and formation of an organisational culture ensuring the creation of higher added value for customers, partners and society. As at 31 December 2018, the number of the Company's employees was 2,454 (this constitutes the actual number of employees, including employees on maternity leave and parental leave, as well as employees at the military service).

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

Category of employees	Number of employees At 31 December 2018
Chief executive officer (CEO)	1
Top-level managers	4
Medium-level managers	201
Experts, specialists	1,661
Workers	520
Total average	2,387*

* This is the number of employees actually employed, excluding employees on maternity or parental leave and military service.

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

Education	Number of employees At 31 December 2018
Higher education	1,459
Advanced vocational education	784
Secondary and vocational education	144

Remuneration system

ESO has implemented the employee remuneration system placing the Company among the country's most advanced companies that compensate their employees for work according to results achieved, value created for the organisation and the team. The Hay Group methodology was used in developing the remuneration system, which provides an objective assessment of duties according to the required education, complexity of issues and level of responsibility that is assumed under a specific position. This system enables the Company to effectively manage costs and ensures that ESO's strategic objectives and business management logic 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 remuneration is not easily measured, however it plays an important role in terms of employee engagement in the Company's activities. Emotional remuneration includes the Company's reputation, organisational culture and values, career opportunities, various internal communication programmes that give employees an opportunity to share their ideas, rise concerns, acquaint with their colleagues through the internal website.

Table 23. Average salary of the Company's employees

Category of employees	Average salary, in EUR (before taxes) January– December 2018
Chief executive officer (CEO)	6,844
Top-level managers	5,113
Medium-level managers	2,228
Experts, specialists	1,243
Workers	1,156
Total average	1,316

Collective employment agreement

ESO has a collective agreement with social partners which ensures higher protection of employees working for ESO and provides for more benefits which are not established in the Labour Code of the Republic of Lithuania. The purpose of the collective agreement is to guarantee efficient corporate operations and represent the rights and vested interests of every single employee of the Company. The agreement sets out the conditions and guarantees in relation work labour, remuneration, social, economic and professional areas which are not covered in laws and other regulations. Employees of the company are entitled to additional guarantees (payments in case of an accident, disease, death of relatives, support to families which have new-borns, additional paid leave following the birth of a child, entry into marriage and in other cases).

Trade unions

The Company supports employees' participation in voluntary trade unions and cooperates closely with them. Every quarter meetings are organised, during which the implementation of the Company's strategic projects is discussed. Trade union representatives always participate in the working groups when issues related to employees (working conditions, remuneration, social issues) are deliberated.

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 the period between January and December 2018, 1,179 participants attended the compulsory vocational training programmes, at the end of which certificates permitting to perform special works were issued. Employees were provided training on occupational safety and health, fire safety, operation of flammable gas systems, rotary turbine gas meters, and gas volume correctors, as well as professional and legal basis concerning technical supervision of the construction of special-purpose structures.

In the period between January and December 2018, the general training courses were attended by 1,743 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 encourage the engagement of the organisation's employees, i.e. lecturers within the organisation with specific knowledge and skills able to share them with others, in the programmes for competence development, also invests in the training of staff. During the first half of 2018, 1,086 participants attended internal trainings. A large part of these trainings was dedicated to the personnel in charge of the operation of electro-mechanic and gas systems, aiming to improve their qualification, upgrade already acquired skills, and make them acquainted with new methodologies. Trainings on customer service and other trainings organised by the Accounting Department also comprised a significant proportion. In order to ensure the effectiveness of internal processes, employees are introduced to the initiatives and programmes implemented by the Company, for example, the programmes on operational excellence and employee performance management.

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 2018, ESO provided partial funding for the studies of 5 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 the first half of 2018, 24 students completed internship at ESO across the territory of Lithuania. The Company provides students not only with the possibility to complete their mandatory internship, but also welcomes motivated and enthusiastic students who wish to voluntarily enrol in job training with the Company.

Significant agreements

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

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

Harmful transactions

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

ESSENTIAL EVENTS IN THE COMPANY'S ACTIVITIES

Key events during the reporting period

ESO, in carrying out its duties according to the securities market legislation, publishes material events and other regulated information throughout the European Union. The information published is available on the Company's website (www.eso.lt) and the AB NASDAQ OMX Vilnius website (www.nasdaqomxbaltic.com).

Table 24. Since 2018-01-01 until 2018-12-31 ESO has announced this major event information

Date	Notification on material event
2018-01-10	Regarding resignation from the Board of Energijos skirstymo operatorius AB
2018-01-31	Preliminary ESO results for 12 months of 2017: revenue reached EUR 612.3 million, adjusted EBITDA – EUR 151 million
2018-02-13	CORRECTION: Regarding Investor Calendar for 2018
2018-02-28	Preliminary ESO results for 1 month of 2018: revenue reached EUR 57.2 million, adjusted EBITDA – EUR 18.7 million
2018-02-28	CORRECTION: Regarding Investor Calendar for 2018
2018-02-28	ESO 2017 results: 51.6 percent higher investments and decreased prices for customers
2018-02-28	Regarding a Proportional Transfer Agreement of the issue of Lietuvos Energija Green Bonds Transfer

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2018-03-01	CORRECTION: Regarding Investor Calendar for 2018
2018-03-06	Regarding the Ordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB
2018-03-13	Regarding Court Decision
2018-03-14	Regarding the resolutions of Energijos Skirstymo Operatorius AB Supervisory Board
2018-03-14	Member of the Board of Energijos Skirstymo Operatorius AB has been elected
2018-03-21	Regarding forthcoming transfer of public electricity supply activities
2018-03-22	Regarding the investment plan of 2017 alignment
2018-03-30	ESO audited financial results of 2017 has been approved
2018-03-30	Regarding the resolutions of Ordinary General Meeting of Energijos Skirstymo Operatorius AB Shareholders
2018-03-30	Preliminary ESO results for 2 months of 2018: revenue reached EUR 111.2 million, adjusted EBITDA – EUR 34.3 million
2018-03-30	ESO's first quarter of 2018 results: rising investment and growing numbers of new customers
2018-05-03	Regarding the Extraordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB
2018-05-28	Regarding the resolutions of Extraordinary General Meeting of Energijos Skirstymo Operatorius AB Shareholders
2018-05-31	Preliminary ESO results for 4 months of 2018: revenue reached EUR 215.8 million, adjusted EBITDA – EUR 64.3 million
2018-06-01	Correction:Preliminary ESO results for 4 months of 2018: revenue reached EUR 215.8 million, adjusted EBITDA – EUR 64.3 million
2018-06-27	Regarding the transaction of vehicles lease services
2018-06-29	ESO preliminary financial results for 5 months of 2018
2018-07-03	On Establishment of Limited Partnership
2018-07-10	Regarding the convening of the extraordinary general meeting of shareholders and the decision to abandon the public electricity supply licence
2018-07-17	10-year Investment Plan of Energijos Skirstymo Operatorius has been approved
2018-07-17	Correction:10-year Investment Plan of Energijos Skirstymo Operatorius has been approved
2018-07-20	CORRECTION: Regarding Investor Calendar for 2018
2018-07-31	ESO preliminary financial results for 6 months of 2018
2018-07-31	Regarding the revocation of the public electricity supply license
2018-08-01	Regarding the resignation by agreement of the parties of Dalia Andrulionienė, Chairwoman and CEO of ESO
2018-08-06	Regarding the resolutions of Extraordinary General Meeting of Energijos Skirstymo Operatorius AB Shareholders
2018-08-10	Chairman of the Board of Energijos Skirstymo Operatorius AB elected
2018-08-28	Regarding the signing of the Transfer Agreement for Green Bonds with "Lietuvos Energija", UAB
2018-08-30	Regarding the separation of electricity public supply business segment
2018-09-05	Regarding the Extraordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB
2018-09-13	Approved ESO investment projects
2018-09-17	Supervisory Board of the Energijos skirstymo operatorius AB Resolutions
2018-09-21	Regarding the conclusion of the transaction on the sale of share of business
2018-09-28	ESO preliminary financial results for 8 months of 2018
2018-09-28	Regarding the resolutions of Extraordinary General Meeting of Energijos Skirstymo Operatorius AB Shareholders
2018-10-02	Amended Articles of Association of Energijos Skirstymo Operatorius AB have been registered
2018-10-02	M. Keizeris has been elected as the Chairman of the Board and the Chief Executive Officer of Energijos Skirstymo Operatorius AB
2018-10-17	Regarding the price-setting for electricity distribution price caps for 2019
2018-10-18	Ignas Pranskevičius, member of the Board, resigns from the Board as of 1st November, 2018
2018-10-26	Regarding the price setting for Energijos Skirstymo operatorius AB natural gas distribution price cap for 2019 – 2023
2018-10-30	ESO's three quarter of 2018 results: rising investment and better grid reliability results
2018-10-31	The sales price of the part of the public electricity supply business is adjusted according to the Sale and Purchase of business segment agreement

2018-11-05	Regarding the selection of Board members of AB Energijos Skirstymo Operatorius
2018-11-16	Regarding announced electricity network prices for 2019
2018-11-19	Regarding a decision to appeal the decision of the National Commission for Energy Control and Prices on the determination of the price cap limits for energy distribution prices of 2019
2018-11-21	The National Commission for Energy Control and Prices approved Natural Gas Distribution Prices for 2019
2018-11-30	The National Commission for Energy Control and Prices updated natural gas distribution prices for 2019
2018-11-30	ESO preliminary financial results for 10 months of 2018
2018-12-18	Regarding Selection of Management Board Members of Energijos Skirstymo Operatorius, AB
2018-12-27	The Management Board Members of Energijos Skirstymo Operatorius, AB have been elected
2018-12-28	ESO preliminary financial results for 11 months of 2018
2018-12-31	Reporting dates of ESO in 2019

Table 25. Material events after the end of the reporting period since 2019-01-01

Date	Material event
2018-01-18	Regarding the approval of the strategy of AB Energijos Skirstymo Operatorius till 2030
2018-01-31	ESO preliminary financial results for 12 months of 2018
2018-01-31	Regarding the Extraordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB
2018-02-14	Regarding the investment plan of 2018 alignment
2018-02-22	Regarding the resolutions of Extraordinary General Meeting of Energijos Skirstymo Operatorius AB Shareholders

Methodology for the calculation of indicators presented in the interim report

Debt ratio = liabilities / assets

Debt to assets ratio = borrowings (non-current borrowings + current borrowings) / assets

Liabilities to equity ratio = liabilities / equity

Debt to equity ratio = borrowings / equity

Net borrowings = borrowings - cash and cash equivalents

Net borrowings to equity ratio = net borrowings / equity

Long-term debt to equity ratio = non-current borrowings / equity

General solvency ratio = equity / liabilities

Equity to assets ratio = equity / assets

Share price to earnings ratio = the price of share at the end of the period / (net earnings / number of shares)

Capitalisation, EUR million = the price of share at the end of the period * number of shares

Current liquidity ratio = current assets / current liabilities

Quick ratio = (current assets - inventories) / current liabilities

Cash ratio = cash and cash equivalents / current liabilities

Working capital = current assets - current liabilities

Working capital to total assets ratio = working capital / assets