2019-03-29 Nr. 2620
19KR-SD-3187

CONFIRMATION OF RESPONSIBLE PERSONS

Referring to the provisions of the Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, the undersigned Mindaugas Keizeris, Chief Executive Officer of AB Energijos skirstymo operatorius, Augustas Dragūnas, Director of Finance and Administration, and Giedruolė Guobienė, Head of Accounting Services Center of Verslo Aptarnavimo Centras UAB acting under Order No IS18-77 of 13 August 2018, hereby confirm that, to the best of our knowledge, AB „Energijos skirstymo operatorius" financial statements for the financial year 2018 are prepared in accordance with the International Financial Reporting Standards 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 Annual Report for the financial year 2018 includes a fair review of the activities business development as well as the condition of AB „Energijos skirstymo operatorius" and with the description of the principle risk and uncertainties it faces.

AB Energijos skirstymo operatorius Chief Executive Officer	Mindaugas Keizeris
AB Energijos skirstymo operatorius Director of Finance and Administration	Augustas Dragūnas
Verslo Aptarnavimo Centras UAB Head of Accounting Services Center, acting under Order No IS18-77 of 13 August 2018	Giedruolė Guobienė

2018

ENERGIJOS SKIRSTYMO OPERATORIUS AB

FINANCIAL STATEMENTS OF THE COMPANY FOR THE YEAR 2018, PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION, ANNUAL REPORT AND THE INDEPENDENT AUDITOR'S REPORT

eso

Lietuvos energija

Group of energy companies

www.le.lt

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.

CONTENTS

FINANCIAL STATEMENTS

The financial statements were approved on 29 March 2019 by Energijos Skirstymo Operatorius AB Chief Executive Officer, Finance Department Director and Head of Accounting Services Centre of Verslo Aptarnavimo Centras UAB (acting under Order No IS17-77 of 13 August 2018):

Mindaugas Keizeris Energijos Skirstymo Operatorius AB Chief Executive Officer	**Augustas Dragūnas** Energijos Skirstymo Operatorius AB Director of Finance and Administration Service	**Giedruolė Guobienė** Verslo Aptarnavimo Centras UAB Head of Accounting Services Centre (acting under Order No IS18-77 of 13 August 2018)

Independent auditor's report

To the shareholders of Energijos Skirstymo Operatorius AB

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Energijos Skirstymo Operatorius AB ("the Company") as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited
The Company's financial statements comprise:

- the statement of financial position as at 31 December 2018 ;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the Law of the Republic of Lithuania on the Audit of Financial Statements that are relevant to our audit of the financial statements in the Republic of Lithuania. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Law of the Republic of Lithuania on the Audit of Financial Statements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company are in accordance with the applicable law and regulations in the Republic of Lithuania and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014 considering the exemptions of Regulation (EU) No 537/2014 endorsed in the Law of the Republic of Lithuania on the Audit of Financial Statements.

The non-audit services that we have provided to the Company, in the period from 1 January 2018 to 31 December 2018 are disclosed in note 26 to the financial statements.

Our audit approach

Overview

Materiality	Overall materiality: EUR 3,826 thousand (2017: EUR 4,220 thousand), representing average adjusted 5% of profit before tax of the years 2016-2018 as explained in section *Materiality* below
Key audit matters	• Revaluation of property, plant and equipment of the electricity distribution segment • Impairment testing of property, plant and equipment of the gas distribution segment

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall Company materiality	EUR 3,826 thousand (2017: EUR 4,220 thousand)
How we determined it	Overall materiality represents 5% of average profit before tax for the years 2016-2018 adjusted for results of revaluation or reversal of impairment loss of property, plant and equipment and gains or losses from transfer of businesses.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the generally accepted measure and it is the measure against which the performance of the company is most commonly assessed. The Company's current year performance depends on approved tariffs, which incorporate electricity prices in the current and prior periods. Because of specifics how tariffs are regulated in the market, we chose

	average figure to eliminate the impact of annual fluctuations in electricity prices, as the differences between estimated and actual electricity prices of a year will be involved in determination of the tariff of future periods. We eliminated certain gains and losses as described above as in our view they had significant impact on earnings reported which caused profits before tax in these years volatile. We chose 5%, which is within the range of acceptable quantitative materiality thresholds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 191 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Revaluation of property, plant and equipment of the electricity distribution segment (refer to notes 3 and 4) Property, plant and equipment is the most significant item of assets on the statement of financial position and as at 31 December 2018 amounted to EUR 1,429 million. The property, plant and equipment allocated to electricity distribution network is accounted for using the revaluation method and had a net book value of EUR 1,203 million. In 2018, the Company's management performed a valuation of the assets attributed to the electricity segment. Valuation was performed as at 31 August 2018 with reference to the valuation report delivered by independent valuers. Based on the valuation performed, management has determined that fair value of the property, plant and equipment of the electricity segment is higher than the net book value as at 31 August 2018 by EUR 46.3 million and accounted for it: increase of EUR 134.7 million was recognised directly in equity and decrease of EUR 88.4 million (net of write-off	Our procedures in relation to property, plant and equipment revaluation included as follows: • We evaluated the independent external valuers' competence, capabilities and objectivity. • We obtained the cash flow model used by the management to determine the value of assets employed in electricity businesses. • We tested the model as to whether it is mathematically accurate, discussed with management key inputs and assumptions, traced them to external or Company's internal information, where appropriate, and assessed sensitivity of the cash flow model to changes in selected assumptions. • We also involved PwC valuation expert who assessed the appropriateness of the model, inputs, assumptions used as the basis of the valuation and the reasonableness of the discount rate applied. • We obtained the model for calculating the replacement cost new (RCN) and depreciated replacement cost (DRC), tested the reasonableness of inputs used and the determination of physical and functional obsolescence of assets for selected items, by

of grants of 10.0 million) was recognised in profit or loss.

Valuation of assets was carried out in the following stages: (i) replacement cost of new assets (RCN) was estimated; (ii) physical and functional obsolescence of assets was determined; (iii) economic obsolescence of assets was assessed (using the income method).

In determining the replacement cost, the external valuers took into account property-specific current information such as cost of materials, installation works, labour, transportation and handling fees, overall costs of contractor, also indirect costs, such as engineering and design costs.

Then physical and functional obsolescence of assets was determined to estimate depreciated replacement cost (DRC) for each individual asset.

Finally, income method was used to determine the economic obsolescence of assets. Based on the results of the economic obsolescence test, the values of assets determined by DRC method were reduced on a pro rata basis, except for assets for which such allocation would have resulted in a value lower than the asset's regulated asset base (hereinafter – RAB) value. For such assets the RAB value was considered to be its fair value. The amount of reduction that would otherwise have been allocated to an asset was allocated pro rata to the other assets.

Assessment of fair values of property, plant and equipment is an area of significant management judgements, and they are, therefore, given special audit attention.

comparing to recent construction prices of comparable new assets and verifying formulas and data used to arrive from RCN to DRC.

- We also checked the allocation of fair value surplus or reduction to individual items based on economic obsolescence principles and performed detailed allocation testing for selected items.

We also considered whether or not there was bias in determining fair value.

We also considered the adequacy of disclosures in Note 4.

Key audit matter	*How our audit addressed the key audit matter*
Impairment testing of property, plant and equipment of the gas distribution segment The property, plant and equipment allocated to gas distribution segment is accounted for using the cost model and had a net book value of EUR 226 million as at 31 December 2018. The changes in an economic and regulatory environment since 2014 indicated that the carrying amount of gas business segment assets might be below their recoverable amount which would trigger reversal of impairment loss recognised back in 2014. The management calculated the recoverable amount of gas cash generating unit (CGU) and recognised a reversal of impairment loss of EUR 29.9 million. Assessment of recoverable amounts of property, plant and equipment is an area of significant management judgements, and they are, therefore, given special audit consideration.	We took into account our knowledge of the Company and its business activities, as well as our accumulated knowledge related to the industry where the Company operates, including the changes in the regulatory environment; and performed inquiries with the management and key employees and inspected internal documents of the Company, in order to determine whether the management's conclusions regarding the need to assess the reversal of impairment loss of assets is consistent with the evidence we obtained. We evaluated the appropriateness of the impairment test performed by the management, by: • assessing the reasonableness of the assumptions related to the expected future operational performance of gas CGU, such as forecasts of earning before interests, tax, depreciation and amortisation, capital investments and regulated rate of return on regulated asset base; • challenging the management's assumptions by comparing them to the actual performance, and internal documents, such as budget forecasts for 2018 - 2024; • assessing the sensitivity of the impairment test to key inputs; • verifying if impairment model was mathematically correct and whether the results were accurately compared to the carrying amounts of assets and recorded respectively. Based on the audit evidence obtained from the above procedures, we did not identify any material misstatements in the calculation of the recoverable amount and reversal of impairment loss recognised for property, plant and equipment. We also considered the adequacy of disclosures in Note 4.

Reporting on other information including the annual report

Management is responsible for the other information. The other information comprises the annual report, including the corporate governance report and the social responsibility report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the annual report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the annual report, we considered whether the annual report includes the disclosures required by Law of the Republic of Lithuania on Financial Reporting by Undertakings implementing Article 19 of Directive 2013/34/EU.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the annual report for the financial year ended 31 December 2018, for which the financial statements are prepared, is consistent with the financial statements; and
- the annual report has been prepared in accordance with the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

The Company presented the social responsibility report as a part of the annual report.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the annual report which we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and have communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were appointed as auditors of the Company in 2016. Considering reorganisations held in 2009-2016, we conclude that we were first appointed as auditors of the Company in 2009. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 10 years.

The certified auditor on the audit resulting in this independent auditor's report is Rasa Radzevičienė.

On behalf of PricewaterhouseCoopers UAB

Rasa Radzevičienė
Partner
Auditor's Certificate No. 000377

Vilnius, Republic of Lithuania
29 March 2019

All amounts in EUR thousands unless otherwise stated

STATEMENT OF FINANCIAL POSITION

	Note	At 31 December 2018	At 31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	4	1,428,529	1,188,748
Intangible assets	5	35,751	5,451
Prepayments for non-current assets		3	3
Investments in associates	6	2,459	2,382
Other non-current financial assets	7	210	849
		1,466,952	**1,197,433**
Current assets			
Inventories	8	1,992	2,135
Trade and other receivables	9	115,427	64,386
Prepayments, deferred expenses and assets under contracts with customers	10	2,226	7,224
Prepaid income tax		2,779	174
Cash and cash equivalents	11	2,266	6,449
		124,690	80,368
Total assets		**1,591,642**	**1,277,801**
EQUITY AND LIABILITIES			
Equity			
Authorised share capital	12	259,443	259,443
Revaluation reserve	13	154,834	44,680
Legal reserve	13	25,944	25,910
Retained earnings		199,813	277,611
Total equity		**640,034**	**607,644**
LIABILITIES			
Non-current liabilities			
Borrowings	15	448,534	239,648
Deferred income tax liabilities	16	10,276	11,368
Liabilities under contracts with customers	17	140,139	113,202
Grants and subsidies	18	13,052	19,758
Long-term employee benefits	19	1,710	1,763
Other non-current liabilities		3	3
Provisions	20	27,982	-
		641,696	**385,742**
Current liabilities			
Borrowings	15	182,930	133,040
Trade and other payables	21	77,045	116,529
Accrued expenses and contract liabilities	22	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 are an integral part of these financial statements.

All amounts in EUR thousands unless otherwise stated

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2018	2017
Revenue from contracts with customers	23	603,677	610,735
Other income	30	20,367	1,574
Purchases of electricity and related services		(407,428)	(373,808)
Purchase (expenses) of natural gas and transmission services		(4,404)	(3,693)
Depreciation and amortisation		(56,413)	(50,385)
Employee benefits and related social security contributions	24	(41,542)	(43,731)
Repair and maintenance expenses		(13,810)	(15,657)
Transport		(4,823)	(4,453)
Telecommunications and IT services		(9,095)	(8,713)
Rent and utilities		(4,032)	(4,148)
Impairment and write-off expenses	25	24,068	(4,339)
Revaluation of property, plant and equipment	4,18	(78,382)	
Other expenses	26	(16,483)	(18,026)
Operating profit		**11,700**	**85,356**
Finance income	27	89	1. 562
Finance costs	27	(6,627)	(2,274)
Finance costs – net		**(6,538)**	**(712)**
Share of profit of associates and joint ventures	6	179	148
Profit before income tax		**5,341**	**84,792**
Income tax	16	10,324	(7,240)
Net profit for the period		**15,665**	**77,552**
Other comprehensive income (expenses)			
Items that will not be reclassified to profit or loss:			
Gains (losses) on revaluation of property, plant and equipment	4	134,713	-
Effect of deferred income tax	16	(20,207)	-
Recalculation of the defined benefit plan obligation, net of deferred income tax	19	77	(187)
Other comprehensive income (expenses)		**114,583**	**(187)**
Total comprehensive income for the period		**130,248**	**77,365**
Weighted average number of shares		894,630,333	894,630,333
Basic and diluted earnings per share (in EUR) attributable to owners of the Company		0.018	0.087

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

All amounts in EUR thousands unless otherwise stated

STATEMENT OF CHANGES IN EQUITY

	Note	Authorised 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 obligation, net of deferred income tax	19	-	-	-	(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	14	-	-	-	(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	**2,2**	-	-	-	(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 property, plant and equipment, net of deferred income tax		-	114,506	-	-	114,506
Recalculation of the defined benefit plan obligation, net of deferred income tax	19	-	-	-	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	14	-	-	-	(35,204)	(35,204)
Balance at 31 December 2018		**259,443**	**154,834**	**25,944**	**199,813**	**640,034**

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

All amounts in EUR thousands unless otherwise stated

STATEMENT OF CASH FLOWS

	Note	2018	2017
Cash flows from operating activities			
Net profit for the period		15,665	77,552
Adjustments for:			
Income tax expenses	16	(10,324)	7,240
Depreciation and amortisation	4,5	57,527	51,534
Result of revaluation of property, plant and equipment	4	78,382	-
Reversal of impairment of property, plant and equipment	4	(28,791)	-
Amortisation of grants	18	(1,114)	(1,149)
Gain on transfer of the public supply activities	30	(17,330)	
Share of (profit) of associates and joint ventures	6	(179)	(148)
(Gain)/loss on disposal and write-off of assets		4,752	4,547
Finance (income)	27	(89)	(1,562)
Finance costs	27	6,627	2,274
Changes in working capital:			
Trade and other receivables		(40,581)	2,694
Inventories, prepayments, deferred expenses and assets under contracts with customers		(1,712)	(1,358)
Trade and other payables, advance amounts received and liabilities under contracts with customers		(29,845)	31,202
Amounts payable for property, plant and equipment		39,395	(29,627)
Cash generated from operations		**72,383**	**143,199**
Income tax paid		(1,128)	(6,767)
Net cash flows generated from operating activities		**71,255**	**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		146	16
Grants received	18	4,411	444
Loans (granted)		-	(2,919)
Loan repayments received		-	4,529
Dividends received	6	102	112
Interest received	27	-	122
Cash inflows from investing activities	9	5,560	
Net cash flows used in investing activities		**(292,714)**	**(199,304)**
Cash flows from financing activities			
Proceeds from borrowings	15	266,287	177,000
Repayments of borrowings	15	(95,052)	(61,377)
Proceeds from cash-pool (net)	15	94,843	26,700
Dividends paid to the Company's shareholders		(35,105)	(92,579)
Interest paid		(3,042)	(1,740)
Net cash generated from (used in) financing activities		**227,931**	**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	11	(4,206)	10,662
Cash and cash equivalents (including the overdraft balance) at the end of the period	**11**	**2,266**	**(4,206)**

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

All amounts in EUR thousands unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Energijos Skirstymo Operatorius AB (hereinafter “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 2017, Lietuvos Energija UAB was the parent of the Company. Lietuvos Energija UAB is wholly owned by the Lithuanian Government represented by the Lithuanian Ministry of Finance.

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

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

Associate	Country	Year of acquisition	The 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%	Information technology and telecommunication, and other services to the shareholders
Verslo Aptarnavimo Centras UAB	Lithuania	2014	22.25%	22.25%	Public procurement organisation and performance, accounting and personnel administration services, customer service

As at 31 December 2018, the number of the Company's employees was 2,387 (31 December 2017: 2,503).

Regulation of the Company’s activities

The Company’s activities are regulated by the Lithuanian Law on Energy, the Lithuanian Law on Electricity, the Lithuanian Law on Natural Gas and other regulatory legislation.

The Company carries out the following licensed activities:

- electricity distribution;
- until 30 September 2018 - public supply of electricity;
- distribution of natural gas.

The licences are issued and licensed activities are controlled by the National Commission for Energy Control and Prices (hereinafter "the Commission").

The Commission sets the prices caps for the services of electricity distribution, public supply of electricity and natural gas distribution.

1. The setting of price caps in the electricity sector

The price caps of electricity distribution, public supply services are established according to the Methodology for the Determination of the Price Caps of Electricity Transmission, Distribution and Public Supply Services ("the Methodology") approved by Resolution No O3-3 of 15 January 2015 of the Commission.

The price caps of electricity distribution and public supply services are established for the regulatory period of 5 years (the 2016-2020 regulatory period is currently applicable to the electricity sector) and they can be adjusted not more than twice per year if substantial changes in one or several factors, based on which the price caps were determined, occur, including a substantial change in the scope of services, inflation, taxes and other objective (outside the control of the market participant) factors.

On 17 October 2018, the Commission established the price caps for the electricity distribution services for the year 2019 as follows:

- electricity distribution services via medium voltage networks– 0.862 euro ct/kWh (2018: 0.798 euro ct/kWh (excl. VAT);
- electricity distribution services via low voltage networks– 1.871 EUR ct/kWh (excl. VAT) (2018: 1.716 EUR ct/kWh (excl. VAT)).

Changes in the prices of electricity distribution services are significantly affected by the planned expenses of compensation for servitudes, as well as the increased electricity market price for acquiring electricity for technological needs.

2. The setting of price caps in the natural gas sector.

The pricing of the natural gas distribution service is regulated by the Commission according to the *Procedure for Determining Regulated Prices in Natural Gas Sector* approved by Resolution No O3-367 of 13 September 2013 of the Commission.

The price cap and/or revenue cap of natural gas distribution service is established for the regulatory period of 5 years (the 2019–2023 regulatory period is currently applicable to the natural gas sector) and it can be adjusted once per year if there is a change in the inflation level, prices of imported (transported into the country) natural gas, taxes, requirements of regulatory legislation, also when the investments agreed with the Commission have been implemented by natural gas companies, when those companies do not reach or exceed the revenue cap or deviate from the indicators determined under the methodology approved by Resolution No O3-367 of 13 September 2013 of the Commission. On 26 October 2018, the Commission established the price cap for the natural gas distribution service for the year 2019 as follows:

- natural gas distribution service – 5.32 EUR ct/MWh (excl. VAT) (2017: 5.52 EUR ct/MWh (excl. VAT)).

Approval of financial statements

The Company's management approved these financial statements on 29 March 2019. The Company's shareholders have a statutory right to approve or not to approve these financial statements and to require the preparation of a new set of financial statements.

2 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements have been prepared under the historical cost convention, as modified by property, plant and equipment measured at revalued amount and certain financial assets measured at fair value.

All amounts in the financial statements of the Company are presented in the euros (EUR), which is the Company's functional and presentation currency from 1 January 2015. All amounts in these financial statements have been rounded to the nearest thousand (in thousand EUR), unless otherwise stated.

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

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

2.2 Accounting policies

Accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial year except as follows:

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

The following IFRSs and amendments thereto were adopted by the Company for the first time for the financial year ended 31 December 2018:

IFRS 9, Financial Instruments (effective for annual periods beginning on or after 1 January 2018). The main features of the new standard are as follows:
- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or

All amounts in EUR thousands unless otherwise stated

lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

On 1 January 2018, the Company adopted IFRS 9 *Financial instruments* for the first time.

The Company accounted for the impact of the first-time adoption of IFRS 9 starting from 1 January 2018 using the modified retrospective approach. The first-time adoption of the standard had no impact on the measurement of financial assets and financial liabilities, except that impairment of amounts receivable, which was recalculated under the requirements of the new standard, increased by EUR 334 thousand. The impact of the adoption of this standard was reported in equity as of 1 January 2018 by reducing retained earnings and recognising additional impairment of amounts receivable.

IFRS 15, Revenue from contracts with customers

On 1 January 2018, the Company adopted IFRS 15 *Revenue from contracts with customers* and its amendments for the first time and they had a significant impact on the Company's financial statements.

The Company accounted for the impact of the first-time adoption of IFRS 15 starting from 1 January 2018 using the modified retrospective approach.

The Company's management assessed the impact of the adoption of IFRS 15 *Revenue from Contracts with Customers* and amendments thereto on the Company's financial statements and established that the requirements of the new standard will significantly affect the recognition of revenue from new customer connection.

Following the application of IFRS 15 with respect to revenue from new customer (NC) connection to the electricity system, the Company recognises such revenue over time, unlike the approach applied until 1 January 2018 (revenue was recognised upon the fulfilment of an obligation). As effective legal acts require that a new customer conclude the transmission or public/guaranteed supply agreement with the Company, it means that a customer‘s connection to the network is not a separate performance obligation under IFRS 15, but it is interdependent with the electricity transmission service, therefore, NC connection revenue should be recognised over a period during which the electricity distribution service is provided. In view of this change, accrued NC connection revenue that had been recognised as revenue immediately between the period from 2 July 2009 and 31 December 2017 has been recalculated retrospectively to reflect the recognition over the estimated period of the provision of electricity distribution services to NC. Such a method of revenue recognition reduced the Company's retained earnings by EUR 73 million and increased deferred revenue by a respective amount. The tax impact was estimated to be equal to EUR 11 million and was accounted for within retained earnings as well. The entry into force of IFRS 15 did not affect revenue from NC connection to the electricity networks that were accrued before 1 July 2009, because such revenue was recognised over time. Following the transfer of electricity public supply activities to Lietuvos Energijos Tiekimas UAB as of 1 October 2018, new customer connection is considered a separate performance obligation under IFRS 15. This entails that inflows received from new customers after 1 October 2018 are recognised as revenue upon connecting the customer to electricity distribution networks. Inflows received from new customers until 1 October 2018, that were previously accounted for as deferred revenue, will continue to be recognised as revenue over the period of estimated customer relationship, which is determined based on the useful life of the related newly created property, plant and equipment. (see more in point 2.18).

As a result of the application of IFRS 15 in the gas segment, NC connection service revenue that was accrued and recognised in the statement of financial position over the useful life of property, plant and equipment created during the connection (i.e. deferred revenue) will from 1 January 2018 be recognised upon fulfilment of the connection obligation. Such estimation made by the management was based on the fact that the Company's customers have a possibility to ensure the provision of natural gas distribution services by concluding a supply agreement with a natural gas supply company. A majority of the Company‘s customers make use of such a possibility. Consequently, the sole agreement concluded by the Company with the consumer is the NC connection agreement, under which all obligations assumed with respect to the consumer are deemed to be fulfilled when the connection service has been provided. Such a method of revenue recognition increased the Company's retained earnings by EUR 44 million and reduced the deferred revenue by a respective amount. By reducing the deferred revenue balance, the carrying value of the cash generating unit for which impairment test was performed, increased. As a result, the carrying value exceeded the recoverable value by EUR 44 million and the resulting impairment loss was recognised in retained earnings as at 1 January 2018, as a part of the adjustments related to adoption of IFRS 15. The total amount of the impact of adopting IFRS 15 in the gas segment, including tax, is equal to zero.

The table below presents the impact of the first-time adoption of IFRS 9 and IFRS 15 as accounted for as at 1 January 2018.

	Note	At 31 December 2017	IFRS 15	IFRS 9	2018 1 January
ASSETS					
Non-current assets					
Property, plant and equipment	4	1,188,748	(43,512)	-	1,145,236
Current assets					
Trade and other receivables	9	64,386	-	(334)	64,052
EQUITY AND LIABILITIES					
Equity					
Retained earnings (deficit)		277,611	(62,320)	(334)	214,957
Non-current liabilities					
Deferred income tax liability	16	11,368	(10,998)	-	370
Liabilities under contracts with customers	17	113,202	30,683	-	143,885
Current liabilities					
Liabilities under contracts with customers		5,243	(877)	-	4,366

Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2; on 26 February 2018, the European Commission approved the application of the amendment in the European Union for annual periods beginning on or after 1 January 2018). The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety. Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows: (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. The Company did not conduct share-based payment transactions during 2018. According to the Company's management, the first-time adoption of the amendment did not have any significant impact on the Company's financial statements.

Annual improvements to IFRSs 2014–2016 Cycle (effective for annual periods beginning on or after 1 January 2017 (changes to IFRS 12) or on or after 1 January 2018 (changes to IFRS 1 and IAS 28). On 7 February 2018, the European Commission, ensuring compliance with other accounting standards, approved the application of the improvements in the European Union retrospectively). The improvements impact three standards. The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. IFRS 1 was amended to delete some of the short-term exemptions from IFRSs after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that venture capital organisations or similar entities have an investment-by- investment choice for measuring investees at fair value. Additionally, the amendment clarifies that if an investor that is not an investment entity has an associate or joint venture that is an investment entity, the investor can choose on an investment-by-investment basis to retain or reverse the fair value measurements used by that investment entity associate or joint venture when applying the equity method. According to the Company's management, the first-time adoption of the improvements did not have any significant impact on the Company's financial statements.

Transfers of Investment Property – Amendments to IAS 40 (effective for annual periods beginning on or after 1 January 2018; on 14 March 2018, the European Commission approved the application of the amendment in the European Union for annual periods beginning on or after 1 January 2018). The amendment clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence; a change in intention, in isolation, is not enough to support a transfer. According to the Company's management, the first-time adoption of the amendment did not have any significant impact on the Company's financial statements.

IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018; on 28 March 2018, the European Commission approved the application of the interpretation in the European Union for annual periods beginning on or after 1 January 2018). The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The interpretation clarifies that the date of transaction, i.e. the date when the exchange rate is determined, is the date on which the entity initially recognises the non-monetary asset or liability from advance consideration. However, the entity needs to apply judgement in determining whether the prepayment is monetary or non-monetary asset or liability based on guidance in IAS 21, IAS 32 and the Conceptual Framework. The Company does not conduct settlements in foreign currencies, therefore the amendment to the interpretation has no impact on the Company's financial statements. According to the Company's management, the first-time adoption of the interpretation did not have any significant impact on the Company's financial statements.

Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts – Amendments to IFRS 4 (effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply the temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply overlay approach). The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches. (1) The amended standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued ('overlay approach'). In addition, the amended standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39. The amendments to IFRS 4 supplement existing options in the standard that can already be used to address the temporary volatility. This standard will have no impact on the Company's financial position or results of operations as insurance services are not provided.

Other standards, amendments and interpretations that became effective for the financial year beginning on 1 January 2018 are not relevant to the Company.

b) *New standards, amendments and interpretations that are not yet effective*

Other new standards, amendments and interpretations that are mandatory for annual periods beginning on 1 January 2019 or later and that have not been adopted when preparing these financial statements:

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (effective date to be determined by the IASB; not yet adopted by the EU). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary and the shares of the subsidiary are transferred during the transaction. The Company is currently assessing the impact of these amendments on its financial statements.

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

All amounts in EUR thousands unless otherwise stated

The Company will apply IFRS 16 *Leases* starting from 1 January 2019 using the modified retrospective approach. The value of assets being transferred under the lease agreement and related lease liabilities will be stated in the Company's statement of financial position. The Company performed the calculation of assets transferred according to the lease agreement and related liabilities under IFRS 16. On 1 January 2019, the Company recognised assets and liabilities managed under the right of use in the amount of EUR 30,771 thousand, which indicates the impact of the first-time adoption of IFRS 16 on the Company's financial statements. The management of the Company is assessing whether the lease of state-owned land and servitudes are in compliance with the criteria of IFRS 16.

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

	Note	At 31 December 2018	IFRS 16	At 1 January 2019
ASSETS				
Non-current assets				
Non-current assets managed on the basis of lease		-	30,771	30,771
EQUITY AND LIABILITIES				
Non-current liabilities				
Non-current financial liabilities		-	23,481	23,481
Current liabilities				
Current financial liabilities		-	7,290	7,290

IFRIC 23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019; on 23 October 2018, the European Commission approved the application of the interpretation in the European Union for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the Interpretation. The Company is currently assessing the impact of the amendment to the interpretation on its financial statements.

Prepayment Features with Negative Compensation – Amendments to IFRS 9 (effective for annual periods beginning on or after 1 January 2019; on 22 March 2018, the European Commission approved the application of the amendment in the European Union for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Company is currently assessing the impact of the amendment to the standard on its financial statements.

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in the investee. The Company is currently assessing the impact of the amendment to the standard on its financial statements.

Annual Improvements to the IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Company is currently assessing the impact of these amendments on its financial statements.

Conceptual Framework for Financial Reporting (published on 29 March 2018; effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). The Framework sets out the fundamental concepts for the preparation of financial statements that guide the publisher of the standards in developing the International Financial Reporting Standards. The Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction and helps stakeholders to understand and interpret the Standards. The revised Framework establishes the definitions of assets and liabilities as well as criteria for recognising assets and liabilities in financial statements. The Framework sets out the following improvements:

a) Measurement. Revisions have been made to the concepts on the measurement of the elements constituting financial statements, including factors to be considered when selecting a measurement basis;
b) Presentation and disclosure. Revisions have been made to the concepts on presentation and disclosure, including when to classify income and expenses in comprehensive income;
c) Derecognition. Revisions have been made to the guidance on when assets and liabilities are to be removed from financial statements.

The revised Framework provides additional explanations related to the principles of prudence and substance over form, measurement uncertainty, and management's stewardship of the entity's economic resources.

The Company is currently assessing the impact of the new standards on its financial statements.

2.3 Investments in associates

Investments in associates over which the Company has a significant influence are accounted for using the equity method, except for the cases when the investment is acquired and held solely for the purpose of selling it in the near future (not later than within 12 months from the date of acquisition) and the management is engaged in active search for buyers.

Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the change in net assets of the investee after the date of acquisition.

The Company's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Company's share of losses in an associate equals to or exceeds its interest in the associate, including all unsecured receivables, the Company does not recognise further losses, unless it has assumed obligations or made payments on behalf of the associate.

At each reporting date the Company reviews investments in associates to assess whether there is objective evidence that investments in associates may be impaired. If such indications exist, the Company calculates the amount of impairment, which is equal to the difference between the recoverable amount and the carrying amount of the associate, and recognises this amount under the line item of share of profit (loss) of associates in the statement of comprehensive income.

2.4 Segment reporting

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

According to the management, the Company has two operating segments, i.e. supply and distribution of electric power, and distribution of gas. The Company's operations are located in the 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. The chief operating decision-maker does not analyse operating segments on the basis of information about assets and liabilities.

2.5 Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 years).

(b) Servitudes

The category of the Company's intangible assets includes 'Servitudes' which comprise the Company's rights to use the land plots owned by third persons on the basis of servitudes. Servitudes comprise statutory and contractual servitudes. Statutory servitudes comprise the Company's rights to use the land plots owned by third persons in which electric networks were established up to 10 July 2018 on the basis of statutory servitudes. Contractual servitudes comprise the Company's rights to use the land plots owned by third persons in which electric networks were established since 2018 on the basis of servitudes. The useful lives of intangible assets are indefinite, therefore, these assets are not subject to amortisation. The Company tests the intangible assets of servitudes for potential impairment, by comparing their recoverable value with the carrying value at least once per year or when there are signs of impairment.

(c) Other intangible assets

Intangible assets expected to provide economic benefits to the Company in future periods are stated at acquisition cost, less any accumulated amortisation and impairment losses. Amortisation is calculated on the straight-line method over estimated useful lives of 3 to 4 years.

2.6 Property, plant and equipment

Property, plant and equipment is shown at revalued amount based on periodic valuations by external independent valuers, less subsequent accumulated depreciation and impairment, except for gas distribution pipelines and their equipment, gas technological equipment and structures that are accounted for under the cost method. Valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the value that would have been established based on the fair value at the balance sheet date. Any accumulated depreciation and impairment at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All amounts in EUR thousands unless otherwise stated

Categories of property, plant and equipment measured using the cost method are recorded at cost less accumulated depreciation and accumulated impairment losses.

The initial value of property, plant and equipment comprises acquisition cost, including not refundable acquisition taxes and all directly attributable costs associated with the preparation for its intended use, and interest on loans.

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other comprehensive income and shown as revaluation reserve in shareholders' equity. Decreases arising on subsequent revaluation that offset previous increases of the same asset are charged in other comprehensive income and debited against revaluation reserve in equity; all other decreases are charged to profit or loss. Increases in the carrying amount that offset previous decreases that were recognised in profit or loss, are recognised in profit or loss. All other increases in the carrying amount arising on revaluations of property, plant and equipment are recognised in other comprehensive income and credited to revaluation reserve directly in equity. Each year the difference between depreciation based on the revalued amount of the asset charged to profit or loss, and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings taking into account the effect of deferred income tax.

Depreciation of property, plant and equipment is calculated using the straight-line method to write off the revalued amount or cost of asset to its residual value over the following estimated useful lives:

Buildings	15–60 years
Whereof:	
Engineering constructions	50 years
35-110 kV transformer substation constructions	35 years
6-10 kV electricity distribution constructions	35 years
10/0.4 kV transformer constructions	35 years
Communication and operation system constructions	15–25 years
Structures, equipment, and electricity networks	5–50 years
Whereof:	
35-110 kV transformer substation equipment (excl. constructions)	30 years
6-10 kV distribution equipment (excl. constructions)	30 years
10/0.4 kV capacity transformers	30 years
35 kV cables and lines	40-45 years
0.4-10 kV cables and lines	15–40 years
35-110 kV capacity transformers	40 years
Communication and operation system equipment (excl. constructions)	5–45 years
Hydrotechnical structures and equipment	50–75 years
Gas distribution pipelines and their equipment	13–55 years
Gas technological equipment and structures	18–36 years
Other property, plant and equipment	3–50 years

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

When assets are written off or otherwise disposed, the acquisition cost and related accumulated depreciation charges are derecognised from the financial statements, and gain or loss on such disposal is recognised in profit or loss. Gain or loss on disposal of property, plant and equipment is determined as the difference between proceeds and the net book value of assets disposed. Upon disposal of revalued asset, the corresponding amount included in revaluation reserve is transferred to retained earnings.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are recognised in profit or loss in the period when such costs are incurred.

Construction in progress is reclassified to corresponding categories of property, plant and equipment when it is completed and ready for the intended use.

Borrowing costs directly attributable to the acquisition, construction or production of assets, which are assets that necessarily take a substantial period of time (longer than 6 months) to get ready for their intended use are added to the cost of those assets.

2.7 Financial assets

Accounting policies applied until 1 January 2018

Financial assets are classified the Company as financial assets at fair value through profit or loss, held-to-maturity investments, loans granted and receivables, and available-for-sale financial assets. Regular purchases and sales of financial assets are recognised on the trade date. Financial assets are initially recognised at fair value plus transaction costs, except for the financial assets at fair value through profit or loss.

(a) Loans and receivables

Loans and amounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the date of the statement of financial position. These are classified as non-current assets.

Loans and receivables are initially recognised at FV plus transaction cost and subsequently carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss in the statement of profit or loss when these assets are derecognised, impaired or amortised.

Impairment loss is recognised when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the amount receivable is impaired. The carrying amount of the asset is reduced, and the amount of the loss is recognised in profit or loss within other expenses. When an amount receivable is uncollectible, it is written off against the allowance account for amounts receivable. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the statement of profit or loss and other comprehensive income.

(b) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value plus transaction costs and subsequently remeasured at fair value. Unrealised gains and losses, arising from changes in the fair value are recognised in other comprehensive income, except for impairment losses and foreign exchange gains or losses. When such financial assets are derecognised, the cumulative revaluation result previously recognised in other comprehensive income is recognised in profit or loss.

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

(c) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent two sub-categories: financial assets held for trading and financial assets which, at initial recognition, are designated at fair value through profit or loss. The Company does not have any financial assets held for trading and attributes to this category only financial assets arising from the disposal of business or investments classified as non-equity contingent consideration. They are measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Interest income on these financial assets is reflected in 'Interest income'.

Accounting policies applied from 1 January 2018

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

At initial recognition, the Company measures financial assets at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

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

Following the adoption of **IFRS 9**, ***Financial Instruments***, the Company classifies its financial assets into the following 3 categories:

(i) financial assets subsequently measured at amortised cost;
(ii) financial assets subsequently measured at fair value through other comprehensive income (FVOCI); and
(iii) financial assets subsequently measured at fair through profit or loss (FVPL).

Subsequent to initial recognition, financial assets are classified into the afore-mentioned categories based on the business model the Company applies when managing its financial assets and cash flow characteristics of the asset. The business model applied to the group of financial assets is determined at a level that reflects how all groups of financial assets are managed together to achieve a particular business objective of the Company. The Company may apply more than one business model to manage its financial assets.

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

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

<u>Financial assets measured at amortised cost</u>

Loans granted by the Company, amounts receivable, and cash and cash equivalents are accounted for under the business model the purpose of which is to hold financial assets in order to collect contractual cash flows that can contain cash flows related to the payment of the principal amount and interest inflows. These assets are carried at amortised cost using the effective interest rate method. Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. The effective interest method is a method of allocating interest income over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Financial assets are included in current assets, except for maturities greater than 12 months after the end of the date of the statement of financial position. These are classified as non-current assets.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method.

Any gain or loss arising on write-off of the assets is recognised in the statement of profit or loss and other comprehensive income. Impairment losses are presented as impairment and write-off expenses in the statement of profit or loss.

<u>Financial assets at fair value through profit or loss</u>

Debt instruments that do not meet the criteria for financial assets measured at amortised cost or FVOCI are measured at FVPL. Specifically, the Company classifies in this category the receivables from business disposed for which SPPI classification test has not been satisfied as their amount had part of contingent consideration. A gain or loss on fair value measurement of debt investment is recognised in profit or loss in the period in which it arises.

<u>Expected credit losses</u>

The Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost regardless of whether there are any impairment indicators.

Credit losses incurred by the Company are calculated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate. The Company estimates cash flows by considering all contractual terms of the financial instrument through the expected life of that financial instrument, including cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money; and reasonable and supportable information about past events and current conditions, and reasonable and supportable forecasts of future events and economic conditions at the reporting date.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the period from the date of initial recognition of a financial asset to the subsequent date of settlement of the financial asset or ultimate write-off of the financial asset.

The Company seeks for lifetime expected credit losses to be recognised before a financial instrument becomes past due. Typically, credit risk increases significantly before a financial instrument becomes past due or other lagging borrower-specific factors (for example, a modification or restructuring) are observed. Consequently when reasonable and supportable information that is more forward-looking than past due information is available without undue cost or effort, it must be used to assess changes in credit risk.
Expected credit losses are recognised by taking into consideration individually or collectively assessed credit risk of loans granted and trade receivables. Credit risk is assessed based on all reasonable information including forward-looking information.

For short-term trade receivables without a significant financing component the Company applies a simplified approach required by IFRS 9 and measures the loss allowance at expected lifetime credit losses from initial recognition of the receivables. The Company uses a provision matrix in which loss allowances are calculated for trade receivables falling into different ageing ot overdue periods. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics, i.e. receivables from Lietuvos energija group companies, receivables from other corporate customers and receivables from physical persons. The non-recoverability analysis is conducted for the last 3 years in order to determine the general default ratio.

The lifetime expected credit losses of other receivables (e.g. receivables for transferred public supply business) are assessed on individual basis. The Company's management performs the assessment on an individual basis reflecting the possibility of obtaining information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information that would allow to timely determine whether there has been a significant increase in the credit risk of that particular borrower, thus enabling making judgment on the recognition of lifetime expected credit losses in respect of that particular borrower.

When granting the loan the Company assesses and recognises 12-month expected credit losses. In subsequent reporting periods, in case there is no significant increase in credit risk related to the lender, the Company adjusts the balance of 12-month expected credit losses in view of the outstanding balance of the loan at the assessment date. Having determined that the financial position of the borrower has deteriorated significantly compared to the financial position that existed upon the issue of the loan, the Company records all lifetime expected credit losses of the loan. The latest point at which the Company recognises all lifetime expected credit losses of the loan granted is identified when the borrower is late to pay a periodic amount or the total debt for more than 30 days. In case of other evidence available, the Company accounts for all lifetime expected credit losses of the loan granted regardless of the more than 30 days past due presumption.

The stages of the recognition of expected credit losses of loans granted and cash and cash equivalents:

1. Upon granting of a loan, receiving of cash and cash equivalents, the Company recognises the expected credit losses for the twelve-month period. Interest income from loans (finance leases) or cash and cash equivalents is calculated on the carrying value of the financial assets, without adjusting it by the amount of expected credit losses.
2. Upon establishing that the credit risk related to the recipient of the loan or bank where cash and cash equivalents are held has significantly increased (which is indicated by the receivables overdue by at least 30 days, there is significant negative information about changes impacting the borrower, etc.), the Company accounts for the lifetime expected credit losses of the loan or cash equivalents. All lifetime expected credit losses of a financial instrument are calculated only in the presence of a significant increase in the credit risk related to the recipient of the loan. Interest income on the loan (finance lease) or cash equivalents is calculated on the carrying value of the financial assets, without adjusting it by the amount of expected credit losses.
3. Where the Company establishes that the recovery of the loan or cash equivalents is doubtful or that the condition of the finance lease customer shows that the loan of this customer needs to be classified as doubtful debts, the Company classifies this loan (finance lease receivables) as financial assets with objective evidence of impairment (doubtful loans and other receivables). Interest income on the loan (finance lease) or cash equivalents is calculated on the carrying value of the financial assets, reduced by the amount of expected credit losses.

Financial assets with objective evidence of impairment

A financial asset is considered to have objective evidence of impairment when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset has objective evidence of impairment include observable data about the following events:
a) amounts are overdue for more than 360 days;
b) significant financial difficulty of the borrower;
c) a breach of contract, such as a default or past due event;
d) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
e) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
f) the disappearance of an active market for that financial asset because of financial difficulties;
g) financial assets are purchased or granted at a deep discount that reflects the incurred credit losses.

The combined effect of several events that may occur simultaneously or subsequently throughout the term of validity of the agreement on the financial assets may have caused financial assets to have objective evidence of impairment.

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

<u>Derecognition of financial assets</u>

The Company derecognises financial assets in case of the following:
- the rights to receive cash flows from the asset have expired;
- the Company has retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass through” arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset:
  - if the Company has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;
  - if the Company has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

Whether the Company has retained control of the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the Company has not retained control. In all other cases, the Company has retained control.

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of the remaining amount of natural gas is established using the weighted average and the cost of all other inventories is estimated using the FIFO method. Acquisition cost of inventories includes purchase price and related taxes (other than those subsequently recovered by the Company from tax authorities), transportation, handling and other costs directly associated with acquisition of inventories. The acquisition cost excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with maturities up to 3 months.

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held in settlement bank accounts, and other short-term highly liquid investments with maturities up to 3 months, and bank overdrafts. In the statement of financial position, bank overdrafts are included in current borrowings.

2.10 Trade receivables

Trade payables are recognised when the other party has performed its obligations under the contract, and are initially recognised at fair value and subsequently accounted for at amortised cost using the effective interest rate method.

2.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 month after the balance sheet date.

Borrowing costs directly attributable to the acquisition, construction or production of assets, which are assets that necessarily take a substantial period of time (longer than 6 months) to get ready for their intended use, are added to the cost of those assets. Other borrowing costs are recognised as expenses when incurred.

2.12 Income tax

Income tax expense for the period comprises current tax and deferred tax.

(a) Income tax

Current income tax assets and liabilities are recognised to the extent their recovery from or payment to tax authorities is probable. Income tax is determined in accordance with laws on taxes and using the tax rates that have been enacted by the date of the statements of financial position. In 2018, an income tax at a rate of 15 per cent was applicable in Lithuania (2017: 15 per cent).

(b) Deferred income tax

Deferred income tax is accounted for using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised on all temporary differences that will increase the taxable profit in future, whereas deferred tax assets are recognised to the extent it is probable that they will reduce the taxable profit in future. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from initial recognition of goodwill (or negative goodwill); or if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.
Deferred tax assets are reviewed at each date of the statement of financial position and if it is not probable that the Company will generate sufficient taxable profit to realise these assets, they are reduced to an amount which is likely to reduce the taxable profit in future. Deferred income tax assets and liabilities are estimated using the tax rate that has been applied when calculating income tax for the year when the related temporary differences are to be realised or settled.

Deferred tax assets and liabilities are offset only where they relate to income tax assessed by the same fiscal authority or where there is a right to offset current tax assets and current tax liabilities.

(c) Current tax and deferred tax

Current tax and deferred tax are recognised as income and expenses and included in net profit or loss for the period, except to the extent that they relate to the amounts recognised in other comprehensive income and relate to transactions or events that are recognised directly in equity in the same or the next period.

2.13 Employee benefits

(a) Social security contributions

The Company pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Company pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognised as expenses on an accrual basis and are included in payroll expenses.

(b) Termination benefits

Termination benefits are payable whenever an employee’s employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan and agreements signed with employees without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy that cannot be withdrawn. Benefits falling due more than 12 months after balance sheet date are recognised at present value discounted using market interest rate.

(c) Pension benefits to employees of retirement age

Each employee of retirement age who terminates his/her employment with the Company upon retirement is entitled to receive a payment equal to 2 monthly salaries as stipulated in the Lithuanian laws. A liability for such pension benefits is recognised in the statement of comprehensive income and it reflects the present value of these earned benefits at the date of the statement of financial position. The aforementioned non-current liability for pension benefits to employees at the date of the statement of financial position is determined with reference to actuarial valuations. The present value of the defined non-current liability for pension benefits to employees is determined by discounting the estimated future cash flows using the effective interest rates as set for long-term government debentures, i.e. the term of which is no less than 5 years. According to the Company’s management, such discount ratio best reflects the value of future benefits.

2.14 Grants

Asset-related grants

Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants relating to purchase of property, plant and equipment are included in non-current liabilities in the statement of financial position and are recognised in the profit or loss account in the statement of profit or loss and other comprehensive income on a straight-line basis over the expected lives of the related assets.

On revaluation of non-current assets, the grants related to non-current assets, for which impairment was recognised and reported in profit or loss, are reduced by the same amount by which the value of the respective asset had been reduced and accounted for in profit or loss (presented net of decrease in carrying amount).

Income-related grants

Government grants received as a compensation for costs or unearned income for current or previous reporting period, and all grants other than those related to assets, are considered as grants related to income. The income-related grants are recognised as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant. These grants are presented in the statement of comprehensive income, less related expenses.

2.15 Operating lease

(a) Operating lease – where the Company is a lessee

Lease is recognised as operating lease, when all the risks and rewards of ownership of the leased item remain with the lessor. Operating lease payments are recognised as expenses in the statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

(b) Operating lease – where the Company is a lessor

Lease is recognised as operating lease, when the lessor retains all the rewards and risks of ownership of the leased item. Payments received under operating leases are recognised as income on a straight-line basis over the lease term.

2.16 Provisions

Provisions are recognised when the Company has a legal obligation or irrevocable commitment as a result of the event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects that provision amount in part or in full will be compensated, compensation to be received is recorded as a separate asset, but only when it is virtually certain. Expenses related to provisions are recorded in profit or loss in the statement of profit or loss and other comprehensive income, net of compensation receivable. If the effect of the time value of money is material, the amount of provision is discounted using the effective pre-tax discount rate set based on the interest rates for the period and taking into account specific risks associated with the provision as appropriate. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Provisions for servitudes

Provisions for servitudes are recognised only when the Company has a legal obligation or irrevocable commitment as a result of past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Expenses related to provision for servitudes are recognised as non-current intangible assets in view of amounts to be compensated. If the effect of the time value of money is material, the amount of provision is discounted using the effective pre-tax discount rate based on the interest rates for the period and taking into account specific risks associated with the obligation. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

2.17 Revenue recognition

Accounting policies applied until 1 January 2018

Revenue of the Company comprises the fair value of the consideration received or receivable for goods and services sold in the ordinary course of business. Revenue is shown net of value-added tax, returns, rebates and discounts.

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities, as described below.

(a) Revenue from supply and distribution of electricity

Revenue from supply and distribution of electricity to private customers is recognised in the period upon supply of electricity. At the end of each reporting period, revenue is accrued to account for electricity supplied but not paid yet.

Revenue from supply and distribution of electricity to business customers is recognised upon sale of electricity based on the consumption of electricity which is determined according to the readings of electricity meters.

Revenue from supply and distribution of electricity is regulated.

(b) Revenue from distribution of natural gas

Revenue from non-household customers for the distribution of natural gas is recognised on a monthly basis referring to the readings of measuring devices provided by users or, if users did not provide the readings of measuring devices, referring to the quantities of gas calculated according to the rules on the use of the Company's natural gas distribution system as agreed with the Commission and approved by the Company (hereinafter – "the Rules") (an accrual basis).

Revenue from household customers is recognised on a monthly basis referring to the quantities of gas calculated according to the Rules, i.e. the calculation of revenue takes into account mismatches between quantities of gas declared by household customers and quantities of gas used by them (an accrual basis). Revenue from household consumers does not form a significant part of revenue from natural gas distribution activities.

(c) Revenue from new customer connection to the electricity network

Fees received after 1 July 2009 for the connection of new customers, producers and for the dislocation or reconstruction of electricity network objects or facilities upon the request of the customer, producer or any other entity, are recognised as revenue from contracts with customers upon connection.

The above-mentioned fees received before 1 July 2009 were initially recognised as accrued deferred revenue and subsequently recognised as revenue on a proportionate basis over the useful life of the newly created property, plant and equipment concerned. The related costs comprising the acquisition cost of property, plant and equipment and other costs are capitalised and are depreciated over the estimated useful life of the assets capitalised.

(d) Revenue from new customer connection to the Company's natural gas distribution network

Payments made by users for the connection to the Company's gas system are recorded as deferred revenue in the statement of financial position and recognised as revenue over the depreciation period of the capitalised property, plant and equipment concerned. Such revenue is shown in the line item 'Sales revenue' in the statement of comprehensive income.

Accounting policies applied from 1 January 2018

Revenue from providing services is recognised in the accounting period in which control of the services are passed to the customer, which is when the service is rendered. For certain service contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. When recognising revenue the Company takes into consideration terms of contracts signed with customers and all significant facts and circumstances, including the nature, amount, timing and uncertainty relating to cash flows arising from the contract with the customer.

(a) Revenue from supply and distribution of electricity

Revenue from supply and distribution of electricity to household customers is recognised in each reporting period on the basis of declared or actual, i.e. determined upon inspection or received via smart meters, readings. If declared or actual meter readings are not available, revenue from supply and distribution of electricity is recognised based on the average usage estimation method. From 1 October the Company no longer directly engages in supplying and distribution of electricity to household customers.

Revenue from supply and distribution of electricity to business customers is recognised over time based on the actual electricity supplied which is determined according to the readings of electricity meters.

Revenue from electricity distribution services is recognised over time referring to the readings of measuring devices as submitted by customers.

Revenue from supply and distribution of electricity is regulated.

(b) Revenue from distribution of natural gas

Revenue from non-household customers for the distribution of natural gas is recognised over time based on to the readings of measuring devices provided by users or, if users did not provide the readings of measuring devices, referring to the quantities of gas calculated according to the approved methodology for the calculation of quantities of natural gas, as agreed with the Commission (an accrual basis).

Revenue from household customers is recognised over time based on the quantities of gas calculated according to the approved methodology for the calculation of quantities of natural gas, i.e. the calculation of revenue takes into account mismatches between quantities of gas declared by household customers and quantities of gas distributed to them (an accrual basis). Revenue from household consumers does not form a significant part of revenue from natural gas distribution activities.

(c) Revenue from new customer connection to the electricity network

<u>From 1 January 2018 to 30 September 2018</u>

From 1 January 2018 to 30 September 2018, fees received for the connection of new customers were recognised as income for the period in which the company ensured the connection of a new customer to the electricity distribution networks, as it was concluded that connection to the network is not a separate performance obligation, but rather non-separable component of electricity supply and distribution service. Fees received from customers are initially recognised as contract liability and subsequently recognised as revenue on a proportionate basis over the period of estimated customer relationship, that is limited to the useful life of the related property, plant and equipment, being 27 years.

<u>Since 1 October 2018</u>

On 30 June 2018, the Seimas of the Republic of Lithuania adopted amendments to Law on Electricity No XIII-1456 (hereinafter “the Law”) allowing the Company to properly implement the transfer of the function of the public electricity supply to the group company Lietuvos Energijos Tiekimas UAB (hereinafter “LET”). The amendments to the Law relevant to the activity of the public electricity supply came into effect as from 1 September 2018. In view of the changes in the Law and decisions adopted by the management and supervisory bodies of Lietuvos Energija UAB, the Company, and LET, the function of the public electricity supply was transferred to LET as from 1 October 2018. The transfer of the activity of the public electricity supply to another group company of Lietuvos Energija UAB will provide for the creation of additional value to customers, as well as for enhanced concentration of the functions of the companies in respect of core activities carried out, i.e. the distribution and infrastructure activities in respect of the Company, and supply of electricity and natural gas in respect of LET. Following the implementation of these amendments, the provision of electricity distribution services to customers will be ensured without entering into an electricity purchase and sale agreement with the Company and instead an agreement with a supply company will be signed. The method of recognition of revenue from new customer connection was consequently changed.

Starting from 1 October 2018, revenue from new connection is recognised when the connection service is rendered, contrary to the previously applied method of revenue recognition when revenue was recognised throughout the period of provision of the electricity distribution service, since it is interdependent with the electricity transmission service. As from 1 October 2018, new customer connection is considered a separate performance obligation under IFRS 15. This entails that inflows received from new customers after 1 October 2018 are recognised as revenue upon connecting the customer to electricity distribution networks. Payments received from new customers until 1 October 2018 that were previously deferred will continue to be deferred and be recognised as revenue over the period of expected customer relationship, that is limited to the useful life of the related property, plant and equipment, being 27 years.

(d) Revenue from new customer connection to the Company's natural gas distribution network

From 1 January 2018, the fees paid by new customers for the connection to the Company's gas system are recognised as revenue upon connecting the customer to the gas distribution pipeline.

2.18 Impairment of assets

(a) Non-financial assets

The Company's non-financial assets are assessed for impairment when events and circumstances indicate that the value of assets may not be recoverable. Where the carrying amount of an asset exceeds its recoverable amount, impairment loss is accounted for in profit or loss. The recoverable amount is the higher of an asset's fair value, less costs of disposal and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The previously recognised impairment loss is reversed when there are indications that recognised loss on impairment of an asset no longer exists or has reduced significantly. Reversal is accounted for in profit or loss under the same item as impairment loss.

2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.20 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary registered shares in issue during the period. Where the number of shares changes without causing a change in the economic resources, the weighted average number of ordinary registered shares is adjusted in proportion to the change in the number of shares as if such change happened at the beginning of the previous reporting period presented. The Company has no dilutive instruments, therefore, basic and diluted earnings per share do not differ.

2.21 Contingencies

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

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

2.22 Events after the end of the reporting period

All subsequent events after the end of the reporting period (adjusting events) are accounted for in the financial statements if they relate to the reporting period and have significant impact on the financial statements. All subsequent events that are significant but not adjusting events are disclosed in notes to the financial statements.

2.23 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.24 Regulated activities

The National Commission For Energy Control and Prices regulates the Company's level of profitability by approving the prices of services for the next year. The level of prices depends on expected costs of the next year, expected volume of services provided, the variance between profit earned during the prior periods and the regulated amount of profit and other matters.

Actual costs incurred by the Company during the year may differ from budgeted costs at the time of the approval of prices and the actual volume of services may differ from the expected volume. As a result, the Company's actual profit may deviate from the regulated level and the difference will affect the prices of future services.

The Company does not recognise regulatory assets or liabilities that would be used to adjust the current year profit in order to arrive at the regulated level of profit, if this difference is recovered / returned in the course of service provision in future.

3 Critical accounting estimates

The preparation of financial statements according to International Financial Reporting Standards requires the Company to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and costs and contingencies.

The areas where estimates are significant to the financial statements are presented below.

Revaluation and impairment of property, plant and equipment

The Company accounts for the property, plant and equipment of the Electricity Business Segment at a revalued amount in accordance with International Accounting Standard 16 'Property, plant and equipment". As at 31 December 2018, valuation of property, plant and equipment of the Company was carried out. The fair value was determined with reference to the PP&E valuation report by Ernst & Young Baltic UAB. The fair value of assets was determined using the income and cost approach (Note 4).

Having performed the valuation of property, plant and equipment attributed to the Electricity Business Segment, the Company identified and accounted for an increase in the value of assets in the amount of EUR 46.3 million. An increase in the value of assets in the amount of EUR 134.7 million, without deductions for deferred income tax, was recognised in comprehensive income and charged in the revaluation reserve. Impairment amounting to EUR 88.4 million, without deductions for deferred income tax, was recognised in profit or loss. The grants related to non-current assets, for which impairment was established, and amounting to EUR 10 million were written off (Note 4).

Property, plant and equipment of gas business segment comprises property, plant and equipment stated at acquisition cost and revalued amount, i.e. gas distribution pipelines and their equipment, technological gas equipment and structures that are stated using the cost method and the remaining assets are recorded at the revalued amount. As at 31 December 2018, the recoverable and fair values of these assets were assessed by forecasting cash flows until 2073, because the gas distribution activity is regulated with reference to the regulated asset base, which mainly consists of assets with long-term useful life, e.g. gas distribution pipelines (55 years) (Note 4).

Having assessed all principal assumptions and performed the fair value assessment, the Company has identified that the increase in the value of property, plant and equipment attributed to the Gas Business Segment was equal to EUR 29.8 million as at 31 December 2018. Since the increase in value is significant (15%), the management made a decision to reverse the decrease in the value of the Gas Business Segment established in prior periods (Note 4).

Key changes in assumptions are disclosed in Note 4.

Provisions for compensations for servitudes

On 1 November 2017, amendments to the Law on Energy of the Republic of Lithuania came into effect. The amendments set forth compensation for servitudes established for the construction of electricity networks in land not owned by the operator. The Energy Law provides that the construction of electricity transmission and distribution networks or other types of electricity installations will be subject to the payment of one-off compensation of damages related with the establishment of statutory servitudes (which came into effect by 10 July 2004). The Company did not have the possibility of reliably assessing and accounting for payments for servitudes as at 31 December 2017, i.e. upon enactment of the Amendments to the Law on Electricity of the Republic of Lithuania, since the methodology for the calculation of payments for servitudes, establishing the conditions for the payment of compensations, had not been approved yet. The methodology came into force as of 31 July 2018. Under this methodology, an estimated gross amount of payments for servitudes was assessed and accounted for in 2018.

According to the Company, payments for servitudes were capitalised and recognised as intangible assets, since they give legal right to the Company to access its distribution network and gives future benefit of free access to either repair or modify network as and when needed. Consequently, in 2018, the Company recognised intangible assets in the amount of EUR 28,563 thousand. These assets are carried at cost less impairment, their useful life is indefinite, as, according to the Management, the servitudes would be used for an indefinite period, since the rights to use the predefined land plots are granted for an indefinite period of time (pursuant to the Agreement on the Payments for Servitudes and Point 4.130 of the Civil Code).

The estimated amount of payments for servitudes was accounted for in the statement of financial position as a provision for non-current liability (under IAS 37) and was equal to EUR 28,725 thousand at initial recognition. The estimation of the amount of the provision took into account the expected time of settlement and the number of applicants. The provision was calculated at the discounted value. For the purpose of the calculation of the provision, the discount rate was applied with reference to the lending rate of similar liabilities and was equal to 1.135%. As at 31 December 2018, the amount of the provision was equal to EUR 27,982 (Note 20). The total amount of the provision is included in non-current liabilities pursuant to the provisions of the aforementioned methodology, according to which the one-off compensation for statutory servitudes is to be paid within 2 years from the date of the submission of an eligible application.

All amounts in EUR thousands unless otherwise stated

4 Property, plant and equipment

Movements on the Company's property, plant and equipment accounts were as follows:

	Land	Buildings	Structures and machinery	Gas distribution pipelines	Gas technological equipment and structures	Motor vehicles	Computer hardware and other communication equipment	Other PP&E	Construction in progress	Total
At 31 December 2016										
Cost	79	21,084	866,233	289,364	10,404	5,070	12,481	9,314	26,816	1,240,845
Accumulated depreciation	-	(3,754)	(65,828)	(84,335)	(4,512)	(2,303)	(5,597)	(3,063)	-	(169,392)
Accumulated impairment	-	-	-	(50,305)	(607)	-	-	-	-	(50,912)
Net book amount at 1 January 2017	**79**	**17,330**	**800,405**	**154,724**	**5,285**	**2,767**	**6,884**	**6,251**	**26,816**	**1,020,541**
Additions	-	7	415	14	-	-	166	449	221,456	222,507
Disposals	-	-	(85)	-	-	-	-	-	-	(85)
Write-offs	-	(24)	(4,328)	(30)	(56)	-	(15)	(1)	-	(4,454)
Reclassification between groups	-	1,760	163,925	28,911	919	-	1,414	1,926	(198,855)	-
Impairment	-	-	-	-	-	-	-	-	(401)	(401)
Depreciation charge		(2,050)	(37,758)	(5,016)	(637)	(823)	(1,607)	(1,469)	-	(49,360)
Net book amount at 31 December 2017	**79**	**17,023**	**922,574**	**178,603**	**5,511**	**1,944**	**6,842**	**7,156**	**49,016**	**1,188,748**
At 31 December 2017										
Cost	79	22,815	1,024,529	318,195	11,141	5,020	13,576	11,675	49,417	1,456,447
Accumulated depreciation	-	(5,792)	(101,955)	(92,400)	(5,055)	(3,076)	(6,734)	(4,519)	-	(219,531)
Accumulated impairment	-	-	-	(47,192)	(575)	-	-	-	(401)	(48,168)
Net book amount at 1 January 2018	**79**	**17,023**	**922,574**	**178,603**	**5,511**	**1,944**	**6,842**	**7,156**	**49,016**	**1,188,748**
Effect of the application of IFRS 15 - Impairment*	**-**	**-**	**-**	(43,512)	**-**	**-**	**-**	**-**	**-**	(43,512)
Restated net book amount at 1 January 2018	**79**	**17,023**	**922,574**	**135,091**	**5,511**	**1,944**	**6,842**	**7,156**	**49,016**	**1,145,236**
Additions	-	1	694			1,815	3	395	262,432	265,340
Disposals	-	(5)	(140)	-	-	-	(1)	-	-	(146)
Write-offs	-	(6)	(4,556)	(75)	(37)	-	(63)	(10)	(5)	(4,752)
Revaluation	-	10,297	37,125	-	-	8	(1,149)	48	-	46,329
Reclassification between groups	-	1,717	194,895	55,713	1,296	-	1,970	2,535	(258,126)	-
Reclassification to/from inventories	-	-	-	-	-	-	-		1959	1959
Reversal of impairment	-	-	-	29,857	-	-	-	-	-	29,857
Impairment of construction in process	-	-	-	-	-	-	-	-	(1,066)	(1,066)
Depreciation charge	-	(1,309)	(43,567)	(4,609)	(714)	(801)	(1,725)	(1,503)	-	(54,228)
Net book amount at 31 December 2018	**79**	**27,718**	**1,107,025**	**215,977**	**6,056**	**2,966**	**5,877**	**8,621**	**54,210**	**1,428,529**
At 31 December 2018										
Cost	79	27,719	1,107,271	373,774	12,348	3,016	5,887	8,621	55,276	1,593,991
Accumulated depreciation	-	(1)	(246)	(100,907)	(5,757)	(50)	(10)	-	-	(106,971)
Accumulated impairment	-	-	-	(56,890)	(535)	-	-	-	(1,066)	(58,491)
	79	**27,718**	**1,107,025**	**215,977**	**6,056**	**2,966**	**5,877**	**8,621**	**54,210**	**1,428,529**

All amounts in EUR thousands unless otherwise stated

4 Property, plant and equipment (continued)

The Company's property, plant and equipment is stated at revalued amount, except for gas distribution pipelines and gas technological equipment and structures which are stated using a cost method.

Structures and machinery comprise objects related to electricity distribution.

In 2018, the Company's interest capitalised as part of property, plant and equipment amounted to EUR 438 thousand; the interest rate was established at 1.42% (2017: interest capitalised amounted to EUR 64 thousand; the interest rate was established at 0.82%).

* As a result of the application of IFRS 15 in the gas segment as of 1 January 2018, new customer (NC) connection service revenue that was previously accrued and recognised in the statement of financial position over the useful life of property, plant and equipment created during the connection (i.e. deferred revenue) is recognised upon the fulfilment of the connection obligation. Such estimation made by management was based on the fact that the Company's customers have a possibility to ensure the provision of natural gas distribution services by concluding a supply agreement with a natural gas supply company. A majority of the Company's customers make use of such a possibility. Consequently, the sole agreement concluded by the Company with the consumer is the NC connection agreement, under which all obligations assumed with respect to the consumer are deemed to be fulfilled when the connection service has been provided.

This change in accounting policies of revenue recognition was applied using the modified retrospective approach, which resulted in increase in the Company's retained earnings by EUR 44 million and decrease in deferred revenue by the respective amount at 1 January 2018. By reducing the deferred revenue balance, the carrying value of the cash generating unit for which impairment test was performed, increased. As a result, the carrying value exceeded the recoverable value by EUR 44 million and the resulting impairment loss was recognised in retained earnings as at 1 January 2018, as a part of the adjustments related to adoption of IFRS.

<u>Revaluation and measurement of the fair and recoverable values of the Company's property plant and equipment in 2018</u>

At least once a year the Company assesses whether there is any indication that the carrying amount of property, plant and equipment recorded at acquisition cost could be impaired and whether the carrying amount of property, plant and equipment recorded at the revalued amount does not differ materially from their fair value. The Company performs the impairment test and revaluation of assets, if such indications are found.

In 2018, the Company's management made a decision to perform a valuation of the assets attributed to the electricity segment and also to perform an assessment of the change in value of the assets attributed to the gas segment. Valuation was performed using the depreciated replacement cost method; economic obsolescence was tested using the income method.

The legal acts and methodologies regulating the activities of natural gas and electricity distribution, public supply and guaranteed supply in force as at the reporting date are as follows:

- *Methodology of Setting Price Ceilings of Electricity Transmission, Distribution and Public Supply Services and Public Energy Price Ceilings* ("the Electricity Methodology") approved by the Commission's Resolution No O3-3 of 15 January 2015 and subsequent amendments;
- *Description of Requirements for Accounting Separation and Cost Allocation of Electric Power Sector Companies and Requirements Related to Accounting Separation* ("the Electricity Description") approved by the Commission's Resolution No O3-112 of 29 April 2014 and subsequent amendments;
- Methodology for Setting the Rate of Return on Investments ("the WACC Methodology") approved by the Commission's Resolution No O3-510 of 22 September 2015.
- *Methodology of Setting Regulated Prices in the Natural Gas Sector* ("the Gas Methodology") approved by the Commission's Resolution No O3-367 of 13 September 2013 and subsequent amendments;
- *Description of Requirements for Accounting Separation and Cost Allocation of Gas Sector Companies and Requirements Related to Accounting Separation* ("the Gas Description") approved by the Commission's Resolution No O3-316 of 18 July 2013 and subsequent amendments.

<u>Revaluation of property, plant and equipment attributed to the Electricity Business Segment as at 31 December 2018</u>

The Company accounts for property, plant and equipment at revalued amount in accordance with IAS 16, 'Property, plant and equipment". As part of the implementation of the provisions of paragraph 31 of IAS 16, the Company carried out valuation of its property, plant and equipment with reference to the valuation report delivered by Ernst&Young Baltic UAB, and determined the fair value of property, plant and equipment (including construction in progress) equal to EUR 1,137 million as at 31 August 2018. It was concluded that the fair value of property, plant and equipment was EUR 50 million higher than the net book amount of EUR 1,087 million as at 31 August 2018. Change in value of property, plant and equipment resulted mainly from expected higher rate of return on investments. The valuation was subsequently updated by the Company for events and circumstances occuring between 31 August 2018 and 31 December 2018.

Valuation of assets was carried out in the following stages: (i) the fair value of the whole electricity property, plant and equipment was determined using income approach as the pool of assets forms a single cash generating unit 'Electricity Business Segment'; (ii) replacement cost of new assets was estimated; (iii) physical and functional obsolescence of assets was determined; and (iv) economic obsolescence of assets was assessed (allocating the total fair value to individual assets items).

The fair value of the Company's property, plant and equipment was determined using the income and cost methods. All items of property, plant and equipment are within Level 3 in the fair value hierarchy under IFRS 13. The fair value of the Company's property, plant and equipment attributed to the Electricity Business Segment according to the fair value hierarchy levels is as follows as at 31 December 2018:

Company	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	Total
Land	-	-	79	79
Buildings	-	-	27,718	27,718
Structures and machinery	-	-	1,107,025	1,107,025
Motor vehicles	-	-	2,966	2,966
Other PP&E, computer hardware and other communication equipment	-	-	14,498	14,498

All amounts in EUR thousands unless otherwise stated

Company	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	Total
Construction in progress	-	-	51,145	51,145
Fair value at 31 December 2018	**-**	**-**	**1,203,431**	**1,203,431**

The **cost method** relates to Replacement Cost New (RCN) approach at individual asset level. A direct cost method was applied to 98% of PP&E (percentage calculated based on the fair value as at 31 August 2018), whereby RCN was estimated for new assets. RCN includes the cost of materials, installation works, labour, transportation and handling fees, overall costs of contractor, also indirect costs, such as engineering and design costs, at 2018 market prices.

During the valuation, indirect cost method was applied to assets, for which it was impossible to apply a direct cost method due to their unique nature or for which insufficient data was available. The indirect cost method was applied to approx. 2% of PP&E (percentage calculated based on the fair value as at 31 August 2018). Under the indirect cost method, the current replacement cost of new assets was estimated individually for each item of assets through indexation of capitalised historical cost of assets (based on the consumer price or producer price indices announced by the Lithuanian Statistics).

RCN and replacement costs, less physical and functional obsolescence (i.e. DRC) of assets acquired between 1 September 2018 and 31 December 2018, were treated as equal to the respective cost and net book amounts. Such approach was applied to approx. 6% of PP&E (based on the fair value as at 31 December 2018).

After the replacement cost was estimated, it was further reduced by physical obsolescence, i.e. deterioration in condition of assets caused by use intensity. Physical obsolescence was determined using the age/useful life approach, based on Iowa type depreciation curves[1]. These depreciation curves were used to determine the life cycle of assets based on economic useful life, in view of current repairs and maintenance. Based on the Iowa curves used in valuation, the useful lives of assets exceed to certain extent the useful lives used for financial reporting purposes by the Company until 31 December 2018. Useful lives will be reviewed and prolonged accordingly and changes will be applied starting from 1 January 2019. It is expected that due to the annual review of the useful life, useful life will become longer for some assets and shorter for other, and overall depreciation expense will increase by EUR 2.5 million.

For all technological assets with physical obsolescence not similar to straight-line depreciation, Iowa R2 type depreciation curve was used; and for all assets with physical obsolescence similar to straight-line depreciation, Iowa R3 type depreciation curve was used (the useful life based on this type is slightly more similar to the actual operational period). Physical obsolescence of transformers was estimated according to the maintenance curves (MC depreciation curves) that were based on a real useful life cycle of transformers, taking into consideration the intervals and costs of repairs and major improvements. Physical obsolescence of buildings was estimated according to the Marshall & Swift curve (MS depreciation curve), which is used to evaluate assets with the value not lower than 20% of RCN at all times, provided such assets are still in use (if properly maintained).

RCN was further reduced by the amount of functional obsolescence, i.e. occurrence of functional failures over a particular period as a result of technological developments in the market. Functional obsolescence was estimated separately for each category of assets, the performance of which failed to comply in full with the intended function or was lower than that of modern equivalents that were used for reference when estimating RCN.

DRC was estimated as RCN less physical and functional obsolescence.

The main assumptions of the cost method used for the valuation are as follows:

- RCN values, which reflect all costs that are incurred upon creation of new identical assets;
- Depreciation curves, which determine the developments in the value of an asset over its life cycle according to the characteristics of that asset and its useful life;
- Functional obsolescence, which estimates the decrease in the usefulness of an asset due to its existing alternatives and technological progress;
- Hold factor, which establishes the minimum value for an asset, since the Company can continue to use fully depreciated assets.

Income method. Under the income method, the economic obsolescence of assets was assessed. This method was used to estimate economic depreciation.

When estimating economic obsolescence, a cash flow forecast was prepared for the period from September 2018 to 2058. Key assumptions used in the cash flow forecasts to estimate economic depreciation of assets were as follows:

- from 2019, the amount of electricity distributed will rise by half of the GDP, e.g. the projected GDP growth would be at 2,8%; therefore, the projected growth of the amount of electricity distributed would be at 1.4%.
- setting the price cap of the electricity distribution service for 2019, in the Certificate of 17 October 2018, the Commission approved the rate of return on investments equal to 5.04% for this period. This rate is used to determine the return on investments for the period of 2019–2020. With regard to the fact that the WACC methodology provides identical WACC calculation principles to be applied to the Electricity and Natural Gas Business Segments, for the upcoming regulatory period of 2021–2025, the return on investments is calculated as the average between the rate of return on investments of 3.59% that was newly established by the Commission for the gas sector (for 2019–2023) and the rate of pre-tax return on investments of 5.96% that is estimated in the long term for the electricity sector (i.e. 4.78%). From 2026 (in the long term), the rate of pre-tax return on investments of 5.96% is to be applied for the cash flow forecast period (as calculated according to the calculation data, which is publicly available on the Commission's website, the WACC Methodology as approved by the Commission, and projected market trends). In the long term, an assumption is made that the rate of return on investments (pre-tax 5.96% equivalent to post-tax 5.07%) will approximate the discount rate;
- The discount rate was determined using the Capital Asset Pricing Model (CAPM). It was assumed that the market player will not apply any unsystematic risk premium due to the following reasons:
    - size of a business, if compared with the Lithuanian economy and other local companies (one of the largest companies in Lithuania);
- monopolised and securely regulated business;

[1] The Iowa-curve method is based on study and scientific research performed at the University of Iowa.

All amounts in EUR thousands unless otherwise stated

- this model also complies with the current methodology defined in regulatory legislation, which does not provide for any additional risk premiums.

- the cash flows were discounted using an post-tax discount rate of 5.07%;
- the Company's operating expenses for 2019 are planned under the budget and its operating expenses for 2020–2030 are planned on the basis of ESO's strategy with respect to planned directions for expense reduction. Starting from 2031 (it is expected that by 2030 the level of operating expenses will be up to 16% lower than the level of expenses permissible by the regulator (calculated on the basis of the projected market macroeconomic assumptions (increase in wages and inflation)) as a result of the implementation of operational excellence measures (process supervision, robotisation, improvements) and data-based solutions that will increase the efficiency of operations), changes are planned referring to expected changes in the average annual consumer price index and remuneration prevailing during valuation;
- a part of operating expenses incurred by the Company is not included in the regulated prices of the electricity distribution and supply activity in accordance with the provisions of the Electricity Description;
- the calculation of the level of revenue does not involve estimates that additional profit would be earned as a result of the planned performance efficiency (such a possibility is established in the Electricity Methodology);
- investments are shown under the ten-year investment plan for 2018–2027. More extensive investing is planned starting from 2028 and until 2035, i.e. all the investments that were not made in prior periods with reference to the amount calculated in accordance with the long-run average incremental cost (LRAIC) model approved by the Commission ("the Model") are expected to be performed. It is planned that all items of technological assets that are currently depreciated or will become depreciated over the period until 2058 will be recovered until 2058;
- The cost of capital (return on investments and depreciation of non-current assets) is calculated and included when determining the prices of the distribution services for other regulatory periods in accordance with the Model approved by the Commission and in view of paragraph 7 of the Electricity Methodology;
- the valuation model assumes that the difference in the level of revenue in the amount of EUR 26.5 million, calculated in establishing the price caps for electricity distribution services through medium and low voltage networks for 2019 (and the additionally calculated amount of interest expenses equal to EUR 0.567 million) will be returned to the Company during the upcoming regulatory period (starting from 2021). Therefore, the value of assets will not change as a result of this resolution of the Commission.

Based on the discounted cash flow method, the value of the Company's electricity business enterprise was estimated and the value attributable to PPE was determined.

Based on the results of the economic obsolescence test, the values of assets determined by the DRC method were reduced on a pro rata basis (as the total fair value of assets was determined using income method), except for assets for which such allocation would have resulted in a value lower than the asset's RAB value. For such assets the RAB value was considered to be its fair value. The amount of reduction that would otherwise have been allocated to the asset was allocated pro rata to the other assets. In order to distribute the value of economic obsolescence among separate items of assets so that the resulting value would reflect more accurately the fair value of the respective separate item of assets, the Company followed a policy whereby the fair value of particular item of assets would not be lower than the RAB assumption used in respect of that particular item of assets. The RAB value for separate items of assets might be calculated as follows: RAB value for separate items of assets equals net book value (NBV) for separate items of assets included in the RAB ledger (whereby values pertain to grants but not to revaluations) less the grants allocated on a proportionate basis and new customer fees.

Economic obsolescence was applied (i.e. distributed) to all assets, except for the following categories (or separate items of assets from different categories), where DRC was approximated to the carrying amount of these assets:
– construction in progress; because new projects are included in RAB at full value;
– other tangible assets that are not directly related to the underlying technological asset (for example, assets used in both Electricity and Gas Business Segments that are allocated to the segments using value drivers as agreed with the Commission);
– assets with the fair value equal to the net book amount for the purpose of valuation (assets acquired no earlier than one year until the valuation date 31 August 2018);
– assets with the value before economic obsolescence lower than RAB value attributed to these assets (those kept at RAB value);

The main reasons for the change in the value of separate items of assets include the following:
- DRC changes resulting from RCN changes in different categories of assets: rising prices in certain categories of assets resulted in an increase in their fair value (extensive investing in the largest category of assets, i.e. 0.4-10 kV cable lines, incl. growth in their prices, 10 kV overhead lines on concrete poles, etc.), while dropping prices in certain categories of assets resulted in a decrease of their fair value (pole-mounted transformer substations, distribution devices, etc.);
- review of the technical database and projects on ensuring the quality of technical data: the parameters of the technical data base are being harmonised with the parameters of the financial data base (length in km, number of units, etc.), but the value of assets has not been adjusted during the performance of amount adjustments. Consequently, in view of the changes in the amount of assets, adjustments to the value of assets were performed during the valuation of assets;
- new values were established (set) with respect to assets that are depreciated to zero but still in use;
- an increase in prices in certain categories of assets and the establishment of new values for depreciated but still in use assets resulted in an impairment charge of other categories of assets, because the total fair value estimated under income method de facto capped the amount available for allocation to individual items.

Information on the gains and losses on revaluation of the assets of the electricity segment in 2018 is presented below:

	Recognised in other comprehensive income and revaluation reserve	Recognised in profit or loss	Total revaluation gain (loss)
Increase (decrease) in carrying amount	134,713	(88,384)	46,329
Write-off of grants (Note 18)	-	10,002	10,002
Total	**134,713**	**(78,382)**	**56,331**

All amounts in EUR thousands unless otherwise stated

Sensitivity analysis. Based on the provisions set forth in paragraph 93 of IFRS 13, the Company performed fair value sensitivity analysis in respect of changes in unobservable inputs using the following scenarios:

Sensitivity analysis scenario I: In case the Commission continued to determine return on investments based on historical cost of the property, plant and equipment with limited LRAIC adjustments (as done in 2018), and not based on LRAIC model in full extent, the value of the Company's PP&E would decrease by EUR 339 million.

Sensitivity analysis scenario II: if judicial authorities rejected the Company's complaint in respect of the Commission's resolution under which the Company's income from distribution services for 2019 was reduced by EUR 26.5 million and interest in the amount of EUR 0.5 million was additionally charged, the Company's income for the forecast period (2019–2058) would decrease by the said amounts of EUR 26.5 million and EUR 0.5 million and the fair value of PP&E would decrease to EUR 1,119 million.

Sensitivity analysis scenario III: had the Commission established the level of revenue starting from 2026 and applied a 20% lower rate of return on investments, i.e. equal to 4.78% (which is the average rate of return on investments effective for the electricity sector and the gas sector for the new regulatory period as established by the Commission in respect of the Company), and accordingly a 20% lower discount rate, i.e. equal to 4,06%, the fair value of property, plant and equipment would increase by EUR 145 million.

Sensitivity analysis scenario IV: if the (post-tax) discount rate was applied within the interval of -/+ 20%, the value of assets would correspondingly decrease or increase. The sensitivity of the value of assets to the discount rate is presented in the table below:

Change in discount rate (post-tax)	*-20%*	*-10%*	*0%*	*10%*	*20%*
Discount rate (pre-tax), %	4.78%	5.36%	5.96%	6.56%	7.15%
Discount rate (post-tax), %	4.06%	4.56%	5.07%	5.58%	6.08%
Change in value of property, plant and equipment	521	242	0	-205	-376

If no revaluation had been carried out for PP&E, the net book values of the Company's PP&E attributed to the Electricity Business Segment would have been as follows as at 31 December 2018 and 2017:

	Land	Buildings	Structures and machinery	Motor vehicles	Computer hardware and other communication equipment	Other PP&E	Construction in progress	Total
At 31 December 2017	79	15,548	862,441	1,942	6,813	7,156	49,016	942,995
At 31 December 2018	79	16,053	1,015,389	2,957	5,866	8,573	51,145	1,100,063

Assessment of the recoverable value of property, plant and equipment attributed to the Gas Business Segment in 2018

The carrying amount of property, plant and equipment attributed to the Gas Business Segment, less grants, is equal to EUR 199.8 million (before reversal of impairment). This property, plant and equipment is stated at acquisition cost, less depreciation and impairment. The recoverable value (being fair value less cost of disposal) of these assets were assessed by forecasting cash flows until 2073, because the gas distribution activity is regulated with reference to the regulated asset base, which mainly consists of assets with long-term useful life, e.g. gas distribution pipelines (55 years). The main assumptions used in the cash flow forecast were as follows:

- In setting the price cap of the gas distribution service for 2019–2023, the Commission approved the rate of return on investments equal to 3.59% for this period; From 2024 (in the long term), the rate of return on investments of 5.96% is to be applied for the cash flow forecast period (as calculated according to the calculation data, which is publicly available on the Commission's website, the WACC Methodology as approved by the Commission, and projected market trends). In the long term, an assumption is made that the rate of return on investments will approximate the discount rate;
- The cash flows were discounted using a post-tax discount rate of 5.07%;
- The Company's operating expenses for 2019 are planned under the budget and its operating expenses for 2020–2030 are planned on the basis of ESO's strategy with respect to planned directions for expense reduction. Starting from 2031 (it is expected that by 2030 the level of operating expenses will be up to 16% lower than the level of expenses permissible by the regulator (calculated on the basis of the projected market macroeconomic assumptions (increase in wages and inflation)) as a result of the implementation of operational excellence measures (process supervision, robotisation, improvements) and data-based solutions that will increase the efficiency of operations), changes are planned referring to expected changes in the average annual consumer price index and remuneration prevailing during valuation;
- A part of operating expenses incurred by the Company is not included in the regulated prices of the gas distribution activity in accordance with the provisions of the Gas Description;
- The calculation of the level of revenue does not involve estimates that additional profit would be earned as a result of the planned performance efficiency (such a possibility is established in the Gas Methodology);
- Investments are shown under the ten-year investment plan for 2018–2027. Starting from 2028 and until 2073, gradual decrease is expected to occur with each year.

Having assessed all above-mentioned assumptions and performed the fair value assessment, the Company has identified that the increase in the value of property, plant and equipment attributed to the Gas Business Segment was equal to EUR 29.8 million as at 31 December 2018. Since the increase in value is significant (15%), the Management made a decision to reverse the decrease in the value of the Gas Business Segment established in prior periods.

Impairment test and reversal of impairment for the Gas Business Segment have been performed as at 31 December 2018, as the assumptions of the impairment test have significantly changed and the impairment that had been accounted for as at 31 December 2014 needs to be reversed. The principal assumptions due to the change in which the reversal of impairment for the Gas Business Segment has been identified are as follows:

All amounts in EUR thousands unless otherwise stated

1. The estimated increase in investments will consequently result in increasing return on investments and depreciation. The value of regulated assets used in the 2018 impairment test is higher as at the beginning of 2019 than that estimated in the 2014 impairment test model.
2. The assumptions related to the regulatory return and discount rate have changed. In the 2014 impairment test model, return is calculated at 7.09% and the discount rate is set at 6.03% (post-tax). In the 2018 impairment test, regulatory return for 2019–2023 is calculated at 3.59% and after 2023 is calculated at 5.96% pre-tax which is an equivalent of post-tax discount rate of 5.07% which was used in the model.
3. The amount of income tax relief for investments is estimated to be higher.

Sensitivity analysis. The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs using the following scenarios:

Sensitivity analysis scenario I: had the Commission established the level of revenue for the Company's Gas Business Segment starting from 2023 and applied a 10% lower rate of return on investments, i.e. equal to pre-tax 5.36%, the reversal of impairment would have been equal to EUR 7 million.

Sensitivity analysis scenario II: if the estimated post-tax discount rate was at 5.32% (which is 5% higher than the discount rate of 5.07% used in the long-term model), the reversal of impairment recorded would have been equal to EUR 13 million, rather than EUR 30 million.

Differences from valuation of the Company's property plant and equipment in 2017

At the reporting date of 31 December 2017, the Company used the discounted cash flow method to assess whether the carrying amount of its property, plant and equipment does not materially differ from fair value. Discounted cash flows were calculated in accordance with the legal acts and methodologies regulating the distribution and supply activities in force as at the 31 December 2017 reporting date.

Having assessed all assumptions the Company concluded that the carrying amount of property, plant and equipment does not materially differ from its fair value/recoverable amount.

The main assumptions used in the cash flow forecast were as follows:

- Setting the price cap of the electricity distribution service for 2018, in the Certificate of 17 October 2017, the Commission approved the rate of return on investments equal to 4.88% for this period. This rate is used to determine return on investments for the period of 2018–2020 (in 2018 valuation rate of return on investments used was 5,04%). The rate of return on investments of 3.76% was applied for the entire remaining cash flow forecast period (as calculated according to the calculation data, which is publicly available on the Commission's website), while in 2018 valuation it is set at 5,96% and approximates discount rate;
- A post-tax discount rate of 4.16% was used for discounting cash flows; while in 2018 valuation post-tax discount rate of 5,07% was used.
- Continuous cash flow is estimated by setting off the rate of return on investments against the discount rate;
- The Company's operating expenses for 2018–2020 are planned under the Company's long-term plans and its operating expenses for 2021–2020 are planned on the basis of the Management's view with respect to planned directions for expense reduction. Starting from 2026, changes are planned referring to expected changes in the average annual consumer price index and remuneration prevailing during valuation;
- A part of operating expenses incurred by the Company is not included in the regulated prices of the distribution and supply activity in accordance with the provisions of the electricity descriptions;
- It is estimated that in different regulatory periods additional profit will be earned as a result of the planned performance efficiency of the Company (such a possibility is established in the Methodology);
- Investments are shown under the reviewed ten-year investment plan for 2017–2026. Starting from 2027, investments are reduced proportionately assuming that all items of technological assets that are currently depreciated or become depreciated over the period until 2057 will be recovered until 2057;
- The cost of capital (return on investments) and depreciation of non-current assets is calculated and included, when determining the prices of the distribution services for other regulatory periods, in accordance with the long-run average incremental cost (LRAIC) model approved by the Commission ("the Model") and in view of paragraph 7 of the Electricity Methodology;

The assets attributable to the Company's Electricity Business Segment (Lesto AB) was previously revalued as at 31 December 2014. The fair value was determined with reference to Lesto AB PP&E valuation report by Ernst & Young Baltic UAB. The fair value of assets was determined using the income and cost approach.

The distribution of the fair value of the Company's property, plant and equipment as at 31 December 2017.

Company	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Land	-	-	79	79
Buildings	-		17,023	17,023
Structures and machinery	-	474	922,100	922,574
Motor vehicles	-	621	1,323	1,944
Other PP&E, computer hardware and other communication equipment	-	-	13,998	13,998
Construction in progress	-	-	49,016	49,016
Fair value at 31 December 2017	**-**	**1,095**	**1,003,539**	**1,004,634**

All amounts in EUR thousands unless otherwise stated

5 Intangible assets

	Patents and licences	Computer software	Other intangible assets	Servitudes	Projects in progress	Total
At 31 December 2016						
Cost	1,165	10,003	290	-	876	12,334
Accumulated amortisation	(1,043)	(7,538)	(180)	-	-	(8,761)
Net book amount at 1 January 2017	**122**	**2,465**	**110**	**-**	**876**	**3,573**
Additions	-	136	-	-	3,916	4,052
Reclassification between groups	19	2,762	12	-	(2,793)	-
Amortisation	(99)	(2,028)	(47)	-	-	(2,174)
Net book amount at 31 December 2017	**42**	**3,335**	**75**	**-**	**1,999**	**5,451**
At 31 December 2017						
Cost	1,183	12,887	301	-	1,999	16,370
Accumulated amortisation	(1,141)	(9,549)	(226)	-	-	(10,916)
Net book amount at 1 January 2018	**42**	**3,335**	**75**	**-**	**1,999**	**5,451**
Additions	-	13	-	28,877	4,709	33,599
Reclassification between groups	5	3,381	3	-	(3,389)	-
Amortisation	(43)	(3,213)	(43)	-	-	(3,299)
Net book amount at 31 December 2018	**4**	**3,516**	**35**	**28,877**	**3,319**	**35,751**
At 31 December 2018						
Cost	1,188	16,281	304	28,877	3,319	49,969
Accumulated amortisation	(1,184)	(12,765)	(269)	-	-	(14,218)
Net book amount at 1 January 2018	**4**	**3,516**	**35**	**28,877**	**3,319**	**35,751**

On 1 November 2017, amendments to the Law on Energy of the Republic of Lithuania came into effect. The amendments set forth compensation for servitudes established for the construction of electricity networks in land not owned by the operator. The Energy Law provides that the construction of electricity transmission and distribution networks or other types of electricity installations will be subject to the payment of one-off compensation of damages related with the establishment of statutory servitudes (which came into effect by 10 July 2004).

As from 31 July 2018, the methodology for the calculation of compensations came into force. The methodology sets forth the conditions for the payment of compensations: the process of payment, conditions of payment and related documentation, the formula component for the calculation of compensations for servitudes. The Company calculated a possible amount of compensations based on available information on servitudes used. The amount of compensations was reported at the discounted value using a discount rate of 1.14% (Note 20).

6 Investments in joint ventures and associates

Investments in associates

Movements of investments in associates in 2018 and 2017 were as follows:

	2018	2017
Carrying amount at 1 January	**2,382**	**2,346**
Dividends received	(102)	(112)
Share of profit/(loss) on investments in associates	179	148
Carrying amount at 31 December	**2,459**	**2,382**

The summarised financial information for the associates for the year 2018 (unaudited data) and the year 2017 (audited data) are presented below.

Condensed statement of financial position	Technologijų ir Inovacijų Centras UAB		Verslo Aptarnavimo Centras UAB	
	At 31 December 2018	At 31 December 2017	At 31 December 2018	At 31 December 2017
Current assets and liabilities				
Cash and cash equivalents	1,156	106	1,837	627
Other current assets	4,138	3,787	1,760	3,026
Total current assets	**5,294**	**3,893**	**3,597**	**3,653**
Other current liabilities	(5,977)	(5,361)	(2,763)	(2,706)
Total current liabilities	**(5,977)**	**(5,361)**	**(2,763)**	**(2,706)**
Non-current assets and liabilities				
Property, plant and equipment	6,609	7,111	4	1
Other non-current assets	1,342	1,302	129	91
Total non-current assets	**7,951**	**8,413**	**133**	**92**
Other non-current liabilities	(157)	(153)	-	-

All amounts in EUR thousands unless otherwise stated

Total non-current liabilities	**(157)**	**(153)**	**-**	**-**
Net assets	**7,111**	**6,792**	**967**	**1,039**

Condensed statement of comprehensive income	Technologijų ir Inovacijų Centras UAB		Verslo Aptarnavimo Centras UAB	
	2018	2017	2018	2017
Revenue	**16,170**	**14,317**	**11,323**	**11,209**
Profit before income tax	**576**	**338**	**258**	**547**
Income tax benefit/(expenses)	(108)	(145)	(62)	(94)
Profit after income tax	**468**	**193**	**196**	**453**
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**468**	**193**	**196**	**453**

Condensed financial information	Technologijų ir Inovacijų Centras UAB		Verslo Aptarnavimo Centras UAB	
	2018	2017	2018	2017
Net assets at the beginning of the period (1 January)	**6,792**	**6,883**	**1039**	**720**
Formation/cancellation of authorised share capital, changes in reserves	-	-	**-**	-
Dividends	(43)	(284)	(268)	(134)
Profit (loss) for the period	468	193	196	453
Other comprehensive income	-	-	-	-
Net assets at the end of the period (31 December)	**7,230**	**6,792**	**967**	**1,039**
Ownership interest	29%	29%	22%	22%
Investments in the associate	1,877	1,877	129	129
Carrying amount applying the equity method	**2,252**	**2,159**	**207**	**223**

7 Other non-current financial assets

Other non-current financial assets consist of the non-current portion of mortgage loans granted to private individuals for a period of 25 years and assets measured at fair value through profit or loss. Other amounts receivable comprise prepayments for leasehold improvements:

	At 31 December 2018	At 31 December 2017
Non-current portion of mortgage loans granted	210	271
Other non-current amounts receivable	-	578
Total	**210**	**849**

The mortgage loans are repayable in instalments by 2027. These loans are secured over residential property. In 2018, the current portion of these loans amounted to EUR 68 thousand (2017: EUR 70 thousand) and was accounted for under trade and other receivables (Note 9). These loans were issued at a fixed interest rate ranging from 0.1% to 1%.

	At 31 December 2018	At 31 December 2017
Fair value of mortgage loans granted	321	411
Carrying amount of mortgage loans granted	274	341

The fair value of mortgage loans was estimated based on discounted cash flows at a rate of 1.70% (31 December 2017: 1.59%). The discount rate corresponds to the interest rate on loans granted to non-financial entities and households as published by the Bank of Lithuania. The fair value of mortgage loans is within Level 3 of the fair value hierarchy. The weighted average effective interest rate used by the Company for the discounting of mortgage loans was 7.97% as at 31 December 2018 (2017: 7.93%).

The fair value of other non-current amounts receivable does not significantly differ from the carrying amount.

8 Inventories

	At 31 December 2018	At 31 December 2017
Raw materials and spare parts	1,863	1,530
Natural gas	207	161
Fuel	62	45
Other	55	571
Less: write-down allowance for inventories	(195)	(172)
Total	**1,992**	**2,135**

Movements in the impairment allowance for inventories in 2018 and 2017 were as follows:

	At 31 December 2018	At 31 December 2017
Inventory write-down at the beginning of the period	172	45
Increase in inventory write-down	87	135
Write-off/(reversal) of inventory write-down	(64)	(8)
Inventory write-down at the end of the period	**195**	**172**

All amounts in EUR thousands unless otherwise stated

9 Trade and other receivables

	At 31 December 2018	At 31 December 2017
Trade receivables for electricity	35,909	47,769
Trade receivables for distribution of natural gas	1,186	1,508
Other trade receivables	881	1,189
Assets at fair value through profit or loss	-	5,560
Trade and other receivables from related parties (Note 31)	67,580	10,526
Current portion of mortgage loans	68	70
VAT receivable	11,554	3,037
Other receivables	1,199	641
Less: impairment allowance for doubtful receivables	(2,950)	(5,915)
Total	**115,427**	**64,386**

The fair values of trade and other receivables approximate their carrying amounts.

Impairment of amounts receivable (lifetime expected credit losses, IFRS 9)

For the purpose of determining the lifetime expected credit losses of amounts receivable, the Company uses the loss coefficient matrix. The loss coefficient matrix is based on historical data on the settlement for trade receivables during the period of validity of trade receivables and is adjusted with respect to future forecasts. The loss coefficients are updated during the preparation of the annual financial statements with respect to the impact of operational prospects where these prospects are indicative of any exacerbation of economic conditions during upcoming years, as well as the types of consumers. As regards different groups of consumers, a different loss coefficient matrix is used with regard to household consumers and non-household consumers.

In this regard, the following loss coefficient matrix was applied by the Company as at 31 December 2018:

	Days past due														TOTAL
	Not past due	1-30	31-60	61-90	91-120	121-150	151-180	181-210	211-240	241-270	271-300	301-330	331-360	Past due for more than 360 days	
Loss coefficient*	0.08%	2.33%	6.28%	9.09%	10.71%	11.74%	12.29%	12.59%	12.69%	12.84%	12.95%	13.10%	13.15%	58.14%	
Trade receivables and other receivables of the Company	71,926	1,197	541	297	242	151	91	89	88	88	59	69	84	3,154	78,115
Impairment	102	30	30	26	31	28	18	20	21	22	20	19	32	2,552	2,950

* The average loss coefficient applied to different groups of consumers is presented in table above.

The following loss coefficient matrix was applied by the Company as at 31 December 2017:

	Days past due														TOTAL
	Not past due	1-30	31-60	61-90	91-120	121-150	151-180	181-210	211-240	241-270	271-300	301-330	331-360	Past due for more than 360 days	
Loss coefficient*	0.45%	5.20%	13.00%	20.65%	26.45%	30.70%	33.60%	35.70%	37.50%	39.60%	41.10%	42.95%	44.05%	60.50%	
Trade receivables and other receivables of the Company	49,114	2,589	738	462	293	207	164	186	180	168	406	210	173	6,104	60,992
Impairment	303	151	95	111	84	76	65	81	81	78	179	106	97	4,406	5,915

* The average loss coefficient applied to different groups of consumers.

Trade receivables are non-interest bearing and are normally settled over the term of 25 to 35 days.

The Company does not account for impairment of amounts receivable as regards amounts receivable from public institutions, amounts rewarded, loans granted, amounts receivable from employees, amounts receivable from cash collection institutions.

All amounts in EUR thousands unless otherwise stated

Movements in the Company's impairment allowance account for trade and other receivables in 2018 and 2017 were as follows:

Balance at 1 January 2017	**7,230**
Impairment charge (reversal) for the year	(661)
Write-offs	(654)
Balance at 31 December 2017	**5,915**
Balance at 1 January 2018	**5,915**
Effect of first-time adoption of IFRS 9	**334**
Restated balance at 1 January 2018	**6,249**
Impairment charge (reversal) for the year	(79)
Impairment transferred with the public supply activities (Note 30)	(2,630)
Write-offs	(590)
Balance at 31 December 2018	**2,950**

10 Prepayments, deferred expenses and assets under contracts with customers

	At 31 December 2018	At 31 December 2017
Accrued revenue from sales of electricity	-	4,900
Prepayments for services	375	1,521
Assets under contracts with customers	1,851	803
Total	**2,226**	**7,224**

Revenue received from household customers is adjusted by additionally calculated amounts for electricity consumed but not declared by customers. Accrued sales revenue was calculated as one third of revenue from sale of electricity to household customers earned in the last month of the reporting period based on the assumption that customers declare meter data on around 20th day of each month. The calculation does not include revenue recognised according to average invoices formed for household customers. The recalculation was carried out in June and December. As this revenue was related to the public supply activities that were disposed by the Company as of 1 October 2018, the Company transferred this accrued revenue and did not have related accrued revenue as at 31 December 2018.

11 Cash and cash equivalents, and term deposits

Cash and cash equivalents

	At 31 December 2018	At 31 December 2017
Cash at bank	2,266	6,449
Total	**2,266**	**6,449**

Cash and cash equivalents include the following for the purpose of the cash flow statement:

	At 31 December 2018	At 31 December 2017
Cash and cash equivalents	2,265	6,449
Bank overdraft (Note 18)	-	(10,655)
	2,265	**(4,206)**

Presented below is the analysis of the credit quality of balances of cash and cash equivalents based on ratings established by the rating agency Moody's:

	At 31 December 2018	At 31 December 2017
Aa2	1,390	2,955
Aa3	1	2,290
A1	-	1,204
A2	-	-
A3	874	-
Total	**2,266**	**6,449**

12 Authorised share capital

As at 31 December 2018 and 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.

13 Reserves

Legal reserve

A legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfers of not less than 5 per cent of net profit are required until the reserve reaches 10 per cent of the share capital. As at 31 December 2018, the legal reserve amounted to EUR 25,944 (31 December 2017: EUR 25,910 thousand). The legal reserve can be used only to cover the Company's loss. When the legal reserve is used to cover the loss, the legal reserve is re-established from distributable profit in accordance with the procedure set in Article 59(5) of the Law on Companies.

Revaluation reserve

Revaluation reserve arises from revaluation of property, plant and equipment due to the value increase. This reserve cannot be used to cover losses.

	Revaluation reserve	Deferred income tax	Net of deferred income tax
Balance at 1 January 2017	**58,663**	**(8,799)**	**49,864**
Transfer from revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)	(6,099)	915	(5,184)
Balance at 31 December 2017	**52,564**	**(7,884)**	**44,680**
Balance at 1 January 2018	**52,564**	**(7,884)**	**44,680**
Gains (losses) on revaluation of property, plant and equipment during the year	134,713	(20,207)	114,506
Transfer from revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)	(5,120)	768	(4,352)
balance at 31 December 2018	**182,157**	**(27,323)**	**154,834**

14 Dividends

Approved dividends per share

	2018	2017
Declared dividends (in EUR thousand)	35,204	92,916
Weighted average number of shares (thousands)	894,630	894,630
Declared dividends per share (in EUR per share)	**0.039**	**0.104**

Dividends declared by the Company during 2017–2018 were as follows:

Date on which dividends were declared	Period for which dividends are allocated	Dividends per share, in EUR	Amount of dividends declared
At 30 September 2018	first half of 2018	0.01400	12,525
At 30 March 2018	second half of 2017	0.02535	22,679
At 29 September 2017	first half of 2017	0.04600	41,153
At 24 March 2017	second half of 2016	0.05786	51,764
			128,121

15 Borrowings

	At 31 December 2018	At 31 December 2017
Non-current borrowings		
Borrowings from banks	-	-
Borrowings from related parties (Note 31)	448,534	239,648
	448,534	**239,648**
Current borrowings		
Bank overdraft (Note 11)	-	10,655
Borrowings from banks	-	-
Borrowings from related parties (Note 31)	182,930	122,385
	182,930	**133,040**
Total borrowings	**631,464**	**372,688**

On 14 July 2017, the Company's parent company Lietuvos Energija UAB issued green bonds worth EUR 300 million at the Luxembourg Stock Exchange. On 13 October 2017, the Company signed a Proportional Transfer Agreement for Green Bonds (hereinafter "Agreement") with Lietuvos Energija UAB (hereinafter "Lietuvos Energija") for the transfer of a EUR 100 million portion of the green bonds issue to the Company.

All amounts in EUR thousands unless otherwise stated

Under this Agreement, Lietuvos Energija UAB granted a loan of EUR 100 million to the Company. Liabilities assumed under the Agreement are to be fulfilled by 14 July 2027. The fixed interest rate under the Agreement coincides with the effective interest rate on the green bonds issue and amounts to 2.23%. The Company itself is not involved in the distribution of the issue of these bonds.

On 28 February 2018, the Company and Lietuvos Energija UAB signed an additional arrangement to the Proportional Transfer Agreement for Green Bonds of 13 October 2017, under which the Company assumed additional obligations for green bonds amounting to EUR 66,288 thousand that will be used to finance the Company's long-term investment plan.

On 3 July 2018, the Company's parent company Lietuvos Energija UAB distributed the second issue of green bonds with EUR 300 million at the Luxembourg Stock Exchange. On 29 August 2018, the Company signed a Proportional Transfer Agreement for Green Bonds with Lietuvos Energija UAB for the transfer of up to a EUR 250 million (Company used EUR 200 million out of EUR 250 million available as at 31 December 2018) portion of the green bonds issue to the Company.

On 8 November 2017, the Company signed trilateral agreements on the transfer of debt and rights and obligations with Lietuvos Energija UAB and the creditors of the Company (separately with each creditor): OP Corporate Bank Plc and SEB Bankas AB. The Company transfers to Lietuvos Energija UAB its entire debt obligation, together with all rights and obligations to creditors arising from loan agreements, while Lietuvos Energija UAB, from the moment the contracts enters into force, takes over from the Company all its debts to creditors together with all other rights and obligations arising from loan agreements, meaning that the Company no longer has borrowings from banks and instead has the same borrowings from Lietuvos energija UAB

Accordingly, on 8 November 2017 the Company signed bilateral loan agreements with Lietuvos Energija UAB the essential terms and conditions of which coincide with the essential terms and conditions of the aforementioned loan agreements.

Refinanced borrowings of the Company bear variable interest rate with repricing period up to 3 months. No assets are provided as collateral for borrowings. The agreements provide partly quarterly repayments.

Non-current borrowings by maturity:

	At 31 December 2018	At 31 December 2017
Between 1 and 2 years	32,901	57,402
Between 2 and 5 years	23,704	48,704
After 5 years	391,929	133,542
	448,534	**239,648**

The average interest rates at the date of preparation of the financial statements were as follows:

	2018	2017
Bank overdraft	-	0,55
Borrowings from related parties	1.2	1.2

The Company has the following undrawn committed credit facilities expiring within or after one year:

	2018	2017
Credit facilities	68,457	22,645

Net debt balances as at 31 December 2018 and 31 December 2017:

	2018	2017
Cash and cash equivalents	2,266	6,449
Borrowings payable within one financial year (including overdraft)	(182,930)	(133,040)
Borrowings payable after one year	(448,534)	(239,648)
Net debt	**(629,198)**	**(366,239)**

Reconciliation of net debt balances and cash flows from financing activities of 2018 and 2017:

	Cash/overdraft	Borrowings	Cash pool	Total
Net debt as at 31 December 2016	**10,662**	**(219,081)**	**-**	**(208,419)**
(Decrease) in cash and cash equivalents	(14,868)	-		(14,868)
Loan received	-	(177,000)		(177,000)
Loan repaid	-	61,377		61,377
Cash pool received (net)		-	(26,700)	(26,700)
Other non-cash changes	-	(629)		(629)
Net debt as at 31 December 2017	**(4,206)**	**(335,333)**	**(26,700)**	**(366,239)**
(Decrease) in cash and cash equivalents	6,472	-		6,472

All amounts in EUR thousands unless otherwise stated

Loan received	-	(266,287)		(266,287)
Loan repaid	-	95,052		95,052
Cash pool received (net)			(94,843)	(94,843)
Other non-cash changes	-	(2,919)		(2,919)
Net debt as at 31 December 2018	**2,266**	**(509,487)**	**(121,543)**	**(628,764)**

16 Income tax

The Company's income tax expense/(income) for 2018 and 2017 comprised as follows:

	2018	2017
Current year income tax expenses*	-	3,552
Effect of tax losses purchased	(97)	(726)
Adjustments of income tax in respect of prior years	75	-
Deferred income tax expenses (income)	(10,302)	4,414
Total	**(10,324)**	**7,240**

*Company had sufficient amount of unused investment relief to cover all taxable profit (as since 2018 100% of taxable profits can be covered with investment relief).

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	2018	2017
Deferred income tax assets:		
Deferred income tax assets to be realised after more than 12 months	20,640	4,185
Deferred income tax assets to be realised within 12 months	6,466	1,625
Total	**27,106**	**5,810**
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after more than 12 months	(32,064)	(14,384)
Deferred income tax liabilities to be settled within 12 months	(5,317)	(2,794)
Total	**(37,381)**	**(17,178)**

Deferred income tax assets and deferred income tax liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts offset are presented in the table below:

Deferred income tax assets	Revenue from connection of new customers	Impairment of assets	Accrued expenses	Overdeclared electricity	Unused investment relief	Total
At 1 January 2017	**2,953**	**1,115**	**1,032**	**225**	**-**	**5,325**
Income tax (expenses)/income recognised in profit or loss	(183)	(184)	(17)	(122)	991	484
At 31 December 2017	**2,770**	**931**	**1,015**	**103**	**991**	**5,810**
Impact of IFRS 15 recognised in equity (Note 2.2)	10,997	-	-	-	-	10,997
At 31 December 2017 (restated)	**13,767**	**931**	**1,015**	**103**	**991**	**16,807**
Income tax (expenses)/income recognised in profit or loss	(1,131)	1,462	(105)	850	9,223	10,299
At 31 December 2018	**12,636**	**2,393**	**910**	**953**	**10,214**	**27,106**

Deferred income tax liabilities	Revenue from connection of new customers	Revaluation of PP&E and differences due to different depreciation rates	Investment relief	Write-off of grants	Total
At 1 January 2017	**-**	**(8,759)**	**(2,325)**	**(1,196)**	**(12,280)**
Income tax (expenses)/income recognised in profit or loss	-	(5,344)	408	38	(4,898)
At 31 December 2017	**-**	**(14,103)**	**(1,917)**	**(1,158)**	**(17,178)**

All amounts in EUR thousands unless otherwise stated

Income tax (expenses)/income recognised in profit or loss	(5,886)	7,008	355	(1,473)	4
Recognised in other comprehensive income	-	(20,207)	-	-	(20,207)
At 31 December 2018	**(5,886)**	**(27,302)**	**(1,562)**	**(2,631)**	**(37,381)**

The amount of income tax expenses reported in the statement of profit or loss and other comprehensive income attributable to the operating result for the year can be reconciled against the amount of income tax expenses that would result from applying the statutory income tax rate of 15 per cent to profit before tax:

	2018	2017
Profit before income tax	5,341	84,792
Income tax calculated at a rate of 15% (2017: 15%)	801	12,719
Expenses not deductible for tax purposes	350	378
Income not subject to tax	(285)	(288)
Income tax relief for investments	(11,168)	(4,693)
Effect of tax losses purchased	(97)	(726)
Adjustments of income tax in respect of prior years	75	-
Support , charity	-	(150)
Total	**(10,324)**	**7,240**

17 Liabilities under connection contracts with customers

	At 31 December 2018	At 31 December 2017
Liabilities under connection contracts with customers	139,879	112,929
Liabilities under contracts on public service obligation (PSO) services	260	273
Total non-current liability under contracts with customers	**140,139**	**113,202**

Liabilities under connection contracts with customers:

	At 31 December 2018	At 31 December 2017
Non-current portion	139,879	112,929
Current portion	7,771	5,243
Total liability under connection contracts	**147,650**	**118,172**

Until 1 January 2018, payments made by customers for the connection to the Company's gas system were recorded as deferred revenue and recognised as revenue over the estimated customer relationship period, being the average useful life of the capitalised property, plant and equipment concerned. Such revenue was shown in the 'sales revenue' line item of the statement of comprehensive income. As from 1 January 2018, payments received are recognised as revenue immediately upon fulfilment of the obligation set in the agreement and are not deferred.

From 1 January 2018 to 30 September 2018, payments received from the connection to the Company's electricity system are accounted for as deferred revenue and recognised as revenue over the estimated customer relationship period, being the useful life of the capitalised property, plant and equipment concerned of the period over which the Company ensures the connection of a customer to the electricity distribution network. During the period from 1 July 2009 to 1 January 2018, payments received were recognised as revenue immediately upon the fulfilment of the obligation. However, following the adoption of IFRS 15 as of 1 January 2018, accrued NC connection revenue that had been recognised as revenue immediately between the period from 2 July 2009 and 31 December 2017 has been recalculated retrospectively and recognised over the estimated period of the provision of electricity distribution services to NC. The payments received before 1 July 2009 have been recognised as deferred revenue and subsequently recognised as revenue over the estimated customer relationship period, being the useful life of the related newly created property, plant and equipment.

	2018	2017
At the beginning of the period	**118,172**	**118,427**
The effect of first-time adoption of IFRS 15 on the liabilities of the Gas Business Segment under contracts with customers	(43,512)	-
The effect of first-time adoption of IFRS 15 on the liabilities of the Electricity Business Segment under contracts with customers	73,318	-
Restated balance at 1 January	**147,978**	**118,427**
Received during the year	7,443	4,988
Recognised as income in the statement of profit or loss and other comprehensive income	(7,771)	(5,243)

All amounts in EUR thousands unless otherwise stated

At the end of the period	**147,650**	**118,172**

Liabilities under contracts with customers

In 2018, revenue recognised during the reporting period and included in the balance of deferred revenue as at 1 January 2018 amounted to EUR 7,771 thousand.

18 Grants

Balance at 31 December 2016	**20,477**
Received	444
Reversal of grants	(14)
Amortisation charge	(1,149)
Balance at 31 December 2017	**19,758**
Received	4,412
Reversal of grants	(2)
Write-off of grants (Note 4)	(10,002)
Amortisation charge	(1,114)
Balance at 31 December 2018	**13,052**

Grants consist of funds received from the EU Funds for the purpose of acquisition and construction of structures and electricity networks and of property, plant and equipment received at no consideration from the Government of the Republic of Lithuania.

Amortisation of grants is accounted for under the line item 'Depreciation and amortisation' in the statement of profit or loss and other comprehensive income. Depreciation charges of the related property, plant and equipment are reduced by the amount of amortisation of grants.

In 2018, on revaluation of non-current assets, the grants related to non-current assets, for which impairment was established, were written off.

19 Long-term employee benefits

	2018			2017		
	Benefits to employees of retirement age	Variable component of remuneration	Total	Benefits to employees of retirement age	Variable component of remuneration	Total
Opening balance	**1,717**	**46**	**1,763**	**2,924**	**25**	**2,949**
The change as shown in the item 'Wages and salaries and related expenses' in the statement of comprehensive income	(23)	(8)	(31)	(1,339)	21	(1,318)
The change as shown in the item 'Financing activities – Actuarial (gains) and losses' in the statement of comprehensive income	54		54	(55)	-	(55)
The change as shown in the item 'Other comprehensive income – Actuarial (gains) and losses' in the statement of comprehensive income	(76)		(76)	187	-	187
Closing balance	**1,672**	**38**	**1,710**	**1,717**	**46**	**1,763**

The principal assumptions used in determining long-term employee benefit obligation of the Company are shown below:

	2018	2017
Discount rate	0.79%	1.06 %
Annual employee turnover rate	14.5%	13.6 %
Annual salary increase	4%	4 %
Average time until retirement (years)	20	20

20 Provisions

	At 31 December 2018	At 31 December 2017
At the beginning of the period	-	-
Provisions for compensations for servitudes (Note 3)	28,564	-
Discounting effect	162	-
Payments for servitudes	(744)	-
At the end of the period	**27,982**	**-**

All amounts in EUR thousands unless otherwise stated

21 Trade and other payables

	At 31 December 2018	At 31 December 2017
Trade payables	32,219	65,286
Trade payables to related parties (Note 28)	39,305	45,414
Total trade payables	**71,524**	**110,700**
Taxes (other than income tax)	30	372
Payroll-related liabilities	2,471	2,368
Other current liabilities	3,020	3,089
Total other amounts payable	**5,521**	**5,829**
Trade and other payables	**77,045**	**116,529**

Other payables amounting to EUR 2.501 thousand as at 31 December 2018 (31 December 2017: EUR 2.740 thousand) are not financial instruments.

Trade payables

The above financial liabilities have the following conditions:

– Trade payables are non-interest bearing and are normally settled within the term of 60 days.
– Other payables are non-interest bearing and have an average settlement term of 6 months.

22 Accrued expenses and contract liabilities

	At 31 December 2018	At 31 December 2017
Accrued expenses	13,308	7,280
Current portion of contract liabilities under connection contracts with customers	7,900	5,230
Contract liabilities under other than connection contracts	28,729	22,336
	49,937	**34,846**

As at 31 December 2018 and 31 December 2017, advance amounts received comprised advances received for the connection of new customers, advances received for electricity, and overdeclared electricity effects amounting to, respectively, EUR 3,513 thousand in 2018 and EUR 690 thousand in 2017 arising from overdeclared electricity by some private customers as compared to actual consumption.

23 Revenue from contracts with customers

In 2018, revenue from contracts with customers comprised the following:

2018	Electricity supply and distribution segment	Gas distribution segment	Total
Electricity supply	73,812	-	73,812
Electricity distribution	463,918	-	463,918
Natural gas distribution	-	41,353	41,353
Revenue from connection of new customers	17,223	7,371	24,594
Total	**554,953**	**48,724**	**603,677**
Moment of revenue recognition:			
At point in time upon rendering the service	9,452	7,371	16,823
Recognised over time	545,501	41,353	586,854
Total	**554.953**	**48.724**	**603.677**

All amounts in EUR thousands unless otherwise stated

In 2017, revenue from contracts with customers comprised the following:

2017	Electricity supply and distribution segment	Gas distribution segment	Total
Electricity supply	107,304	-	107,304
Electricity distribution	432,356		432,356
Natural gas distribution	-	51,067	51,067
Revenue from connection of new customers	19,131	877	20,008
Total	**558,791**	**51,944**	**610,735**
Moment of revenue recognition:			
At point in time upon rendering the service	14,766		14,766
Recognised over time	544,025	51,944	595,969
Total	**558,791**	**51,944**	**610,735**

If accounting policies were not changed due to adoption of IFRS 15, revenue for the year 2018 would be as follows:

	Revenue under new accounting policy (IFRS 15)	Impact of changes in accounting policy due to IFRS 15	Revenue under old accounting policy (IAS 18)
Electricity segment	554,953	4,166	559,119
Gas segment	48,724	(6,446)	42,278
Total	**603.677**	**(2,280)**	**601,397**

24 Employee benefits and related social security contributions

	2018	2017
Wages and salaries	31,952	32,183
Termination benefits	(429)	2,205
Social security contributions	9,854	10,637
Change in vacation accrual	189	45
Benefits to employees of retirement age (Note 19)	(23)	(1,339)
Total	**41,542**	**43,731**

25 Impairment and write-off expenses

	2018	2017
Write-offs of non-current assets and construction in progress	4,779	4,472
Impairment of amounts receivable (reversal) (Note 9)	(79)	(661)
Impairment (reversal of impairment) of inventories (Note 8)	23	127
Impairment (reversal of impairment) of non-current assets (Note 4)	(29,857)	-
Impairment (reversal of impairment) of construction in progress	1,066	401
Total	**(24,068)**	**4,339**

26 Other expenses

	2018	2017
Customer service expenses	6,554	7,525
Taxes (other than income tax)	2,623	3,211

Maintenance company expenses	3,430	3,717
Consultation services	1,553	1,260
Payments under the collective agreement and other additional payments	685	385
Personnel development, business trips	620	447
Public relations and marketing	426	243
Insurance, medical care services	258	227
Other expenses	334	1,011
Total	**16,483**	**18,026**

All the services the audit company granted to the Company during the 2017–2018 period are disclosed below:

	2018	2017
Expenses related to audit of financial statements under agreements	46	46
Expenses related to assurance and other related services	5	5
Expenses related to other services	2	2
Total	**53**	**53**

27 Financing activities

	2018	2017
Finance income		
Late-payment interest on trade receivables	-	1,186
Interest income on loans granted	89	122
Other finance income	-	254
Total	**89**	**1,562**
Finance costs		
(Interest) paid on loans	(6,393)	(2,311)
Other (costs)	(234)	37
Total	**(6,627)**	**(2,274)**

28 Basic and diluted earnings per share

Basic

Basic earnings per share are calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2018	2017
Net profit/(loss) attributable to shareholders of the Company (in EUR thousands)	15,665	77,552
Weighted average number of shares (thousands)	894,630	894,630
Basic earnings/(loss) per share (in EUR per share)	**0.018**	**0.087**

Diluted

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As at 31 December 2018, the Company had no dilutive potential ordinary shares issued.

29 Segment reporting

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

According to the management, the Company has two operating segments, i.e. supply and distribution of electric power, and distribution of gas. All the Company's assets and customers are located in the 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. The chief operating decision-maker does not analyse operating segments on the basis of information about assets and liabilities.

Inter-segment transactions are not executed.

Information on the Company's segments for 2018 is presented below.

All amounts in EUR thousands unless otherwise stated

2018	Electricity supply and distribution	Gas distribution	Total
Revenue under contracts with customers	554,953	48,724	603,677
Other income	18,914	1,453	20,367
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**

The table below presents the Company's information on segments for the year 2017:

2017	Electricity supply and distribution	Gas distribution	Total
Revenue under contracts with customers	558,791	51,944	610,735
Other income	1,036	538	1,574
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	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	**58,909**	**18,643**	**77,552**

30 Transfer of the public supply activities

During the implementation of the project initiated by Lietuvos Energija UAB (hereinafter – "LE"), the purpose of which is to optimise the activities of the Group and concentrate the function of energy supply to a single company, the activity of public electricity supply was unbundled from the Company and transferred to another Group company, i.e. Lietuvos Energijos Tiekimas UAB, which is a supplier of natural gas to household customers and businesses.

Under the Agreement on the Purchase and Sale of a Part of the Business of 21 September 2018, the Company sold the public electricity supply part of the business with all assets, rights and obligations attributed thereto to Lietuvos Energijos Tiekimas UAB. The transfer of the public supply activity was executed at 30 September 2018. The price of the Company's said part of the business is EUR 27,441,351. Lietuvos Energijos Tiekimas UAB has to pay the indicated price to the Company no later than within 6 months from the moment of transfer. The public electricity supply part of the business on sale was evaluated by the independent valuer Ernst & Young Baltic UAB – the sale price of the part of the business corresponds to the market value of the part of the business as determined by the valuer. The Company's assets transferred comprise amounts receivable, including impairment allowance for amounts receivable, and the Company's liabilities transferred comprise advance amounts received as well as trade and other payables. The Company and Lietuvos Energijos Tiekimas UAB performed the offsetting of intercompany debts; consequently, Lietuvos Energijos Tiekimas UAB was obligated to pay an amount of EUR 1,499 thousand to the Company. As at 31 December 2018, Lietuvos Energijos Tiekimas UAB was settled with the Company with respect to the offsetting of intercompany debts. As per the agreement, the settlement for the transfer of the activity is to be made within 6 months from the moment of transfer.

Transfer of the public supply activities:

Transfer of the public supply activities	At 30 September 2018
ASSETS	
Current assets	
Trade and other receivables	11,712
Accrued revenue	5,352*
Total assets	**17,064**
EQUITY AND LIABILITIES	

Equity attributable to owners of the Company	
Retained earnings	10,131*
LIABILITIES	
Current liabilities	
Trade and other payables	1,499
Advance amounts received, accrued liabilities and deferred revenue	5,434
Total liabilities	**6,933**
	17,064

* Following the transfer of the activity, the Company transferred accrued revenue related to September public supply activities (1/3 accrual, see Note 10) which were not included on the signed list of assets transferred and which amounted to EUR 5,352 thousand at the date of the transfer. These revenue were collected from customers by Lietuvos Energijos Tiekimas UAB including it in October billing. Profit on disposal of the public supply activities was reduced by this amount.

Information on the Company's other income is presented below:

	2018	2017
Profit on disposal of the public supply activities	17,330	-
Rental income	587	516
Income from past due obligations	1,371	462
Other income	1,079	596
Total	**20,367**	**1,574**

Other revenue as at 31 December 2018 mainly consisted of profit on transfer of the public supply activities.

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

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

With the purpose to reduce costs of its working capital financing, on 18 May 2016 the Company concluded a non-terminated Lietuvos Energija UAB Group intercompany borrowing agreement, according to which it can obtain short term loans from other Group companies. The internal lending limit established from 26 June 2018 is EUR 190,000 thousand. The latter limit is valid until 12 March 2020. The market interest rate of 0,5% is determined for the one year period and coincides with interest rates of commercial banks.

Balance of the borrowings received by the Company from the Group's cash pool account amounted to EUR 121,543 thousand as at 31 December 2018 (31 December 2017: EUR 26,670 thousand). In table above balance of cash pool is disclosed under borrowings – EUR 76,320 thousand was borrowed from parent company and EUR 45,223 thousand was borrowed from other Lietuvos energija UAB group companies.

The company purchased the following goods and services from other group companies: leases of assets, information technology and telecommunication services, organization and execution of tenders, accounting and personnel administration services, also construction, reconstruction and maintenance of electric equipment. The main share of purchases from Lietuvos Energija UAB group companies belongs to purchase of electricity. Companies of EPSO – G UAB group provide electricity and gas transmission services, public service offerings (PSO), and carry out contractual works.

All amounts in EUR thousands unless otherwise stated

The amount receivable from Lietuvos Energijos Tiekimas UAB for the transfer of the public supply activities accounts for EUR 27,441 thousand (disclosed in table above under amounts receivable from Lietuvos Energija UAB group companies).

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:

Related parties	Borrowings	Amounts payable	Accrued expenses	Amounts receivable	Prepayments and deferred charges	Purchases	Sales	Interest expense of borrowings
Parent company Lietuvos Energija UAB	356,559	353	-	5,418	-	1,192	115	773
Associates	-	4,378	47	-	-	21,394	0	
Lietuvos Energija UAB group companies	5,473	9,911	2	6,395	1,281	77,908	44,531	6
EPSO-G UAB group companies	-	29,924	-	4,130	206	195,183	751	-
Total	**362,032**	**44,566**	**49**	**15,943**	**1,487**	**295,677**	**45,397**	**779**

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

The management includes heads of administration.

32 Commitments and contingencies

Capital expenditure commitments

In 2018, the Company's capital expenditure commitments assumed under the signed contracts as at the date of the financial statements but not accounted for in the financial statements amounted to EUR 45 million (31 December 2017: EUR 36 million).

Operating lease

The future aggregate minimum lease payments under non-cancellable operating leases (which significantly increased due to the signing of an agreement on lease services of motor vehicles with Transporto Valdymas UAB in 2018) are as follows:

	2018	2017
Within the first year	7,646	1,933
Two to five years	23,105	6,088
Over 5 years	1,277	-
Total	**32,028**	**8,021**

Rate adjustments due to profit earned in preceding periods exceeding the return on investment permitted by the Commission

Based on its Resolution No O3E-334 of 17 October 2018 *On recalculating the price caps for electricity distribution services provided by Energijos Skirstymo Operatorius AB through medium and low voltage networks for the year 2019*, the Commission set the price cap for the distribution service for 2019 and, based on its Certificate No O5E-264 of 17 October 2018, the Commission stated that the level of expected revenue from electricity distribution activities carried out by the Company in 2019 is reduced by EUR 13,219.5 thousand, including the impact of time value of money of EUR 423 thousand. The amount is the remaining part of the return on investments in 2014-2015 that was earned by the Company in excess of the level set by the Commission for these years. In establishing the price caps for 2019, the Commission determined the amount of investments (i.e. the asset base) on the basis of the historical cost of the asset base rather than the asset base determined using the LRAIC (long-run average incremental cost) model approved by the Commission. In the opinion of the Company, the model used by the Commission does not comply with the requirements of the Electricity Methodology and other legislation, therefore, the Company made a decision to apply to Vilnius Regional Administrative Court with a request to amend the Resolution.

In 2018, the Company revalued its property, plant and equipment to fair value. As an input to the fair value measurement, the independent property valuer used the assumption that going forward, the Commission will use LRAIC model in determining the amount of the asset base. In the absence of unambiguous interpretation of the principles of the applicable regulation, the practical application of the principles by the Commission may have a significant negative effect on the value of the Company's assets.

Based on its Resolution No O3E-360 of 26 October 2018 *On recalculating the price caps for natural gas distribution services provided by Energijos Skirstymo Operatorius AB for 2019–2023*, the Commission set the price cap for the natural gas distribution service to be effective from 1 January 2019 and, based on its Certificate No O3E-360 of 26 October 2018, the Commission stated that the level of revenue from natural gas distribution activities carried out by the Company in 2019 is reduced by EUR 3,416.6 thousand, including the impact of time value of money of EUR 466.4 thousand. The amount is ¼ of the remaining part of the return on investments in 2014-2016 that was earned by the Company in excess of the level set by the Commission. The remaining part of the return on investments that was earned in 2014-2016 in excess of the level set by the Commission will be assessed when establishing the natural gas distribution price for the upcoming periods.

Litigations

Vilniaus Energija UAB (the Claimant) filed a claim to Vilnius Regional Administrative Court, whereby it requested to award damages of EUR 9.284 million from Energijos Skirstymo Operatorius AB. The claimant insisted that it incurred losses of EUR 9.284 million because in 2014 Energijos Skirstymo Operatorius AB purchased only the volume of electricity that was produced under the technical minimum mode at the thermal power plants owned by the claimant. The Company did not account for any provisions related to the claim, because the description of PSO services and other effective legal acts do not stipulate that the Defendant is obliged to purchase the total volume of electricity produced by the Claimant. On 17 March 2017, the Claimant specified the subject matter of the claim and requested to award damages of EUR 10,712 thousand. On 18 September 2017, the court of first instance passed the ruling whereby the claim was rejected in full. The Claimant appealed against the court ruling. By the ruling of 6 November 2018, the Court of Appeal of Lithuania satisfied the ruling of Vilnius Regional Court of 18 September 2018 in part and remitted the case back to the court of first instance. On 22 January 2019, the Claimant filed an appeal in cassation regarding the part of the Ruling of the Court of Appeal of Lithuania dated 6 November 2018 that was left unchanged and the Supreme Court of Lithuania accepted the appeal. The investigation of the case has been suspended by the request of the claimant until part of the case is reviewed under the cassation procedure.

In July 2015, LESTO AB (the Company was established following the reorganisation by way of merging LESTO AB and Lietuvos Dujos AB) filed the complaint to Vilnius Regional Administrative Court with the request to annul the Commission's Resolution on the Violation of Terms and Conditions of the Regulated Activity by LESTO AB under which the violation made by LESTO AB in respect of the licensed activity was identified, i.e. LESTO AB unjustifiably allocated more costs to the regulated activities of electricity distribution and public supply than the amount that could have been actually allocated, and to recognise the imposed fine of EUR 300 thousand as ungrounded. On 25 October 2017, the court of first instance passed a ruling whereby it rejected the Company's complaint on audit results in its entirety. Disagreeing with the court's ruling, the Company filed an appeal. By its ruling of 6 March 2019, the Lithuanian Supreme Administrative Court did not satisfy the appeal of the Company with the request to repeal part of the ruling of Vilnius Regional Administrative Court of 25 October 2017 in the administrative case concerning the amount of the sanction (fine) of EUR 300 thousand and to pass a new ruling in the case – to not impose the fine indicated in Point 3.1 of the Resolution No O3-351 *On the Violation of Terms and Conditions of the Regulated Activity by LESTO AB* of the National Commission for Energy Control and Prices (hereinafter "the Commission") dated 4 June 2015 or to reduce it to a reasonable amount, that is EUR 41,075.36. The ruling of the Lithuanian Supreme Administrative Court is final and conclusive. The ruling passed of the Lithuanian Supreme Administrative Court will not have any impact on the Company's financial results for 2019, since the impact of the fine was accounted for in the Company's financial statements for earlier periods.

33 Capital risk management

Pursuant to the Lithuanian Law on Companies, the authorised share capital of a public company must be not less than EUR 28.97 thousand and the shareholders' equity should not be lower than 50 per cent of the company's authorised share capital. As at 31 December 2018 and 31 December 2017, the Company complied with these requirements.

On 27 December 2016, the Board of Lietuvos Energija Group approved the dividend policy which establishes the uniform dividend payment principles to be applicable to all companies of the Group. Dividend policy is one of the measures for capital risk management. Based on this policy, the Company plans the distribution of dividends in view of the ratio of return on equity and net profit earned. According to dividend policy, appropriation of profit for the payment of dividends for the financial year or a period shorter than the financial year will depend on the ratio of return on equity, availability of financial resources for payment of dividends, implementation of economic projects important for the State and other significant circumstances. Between 60% and 85% of net profit is appropriated for the payment of dividends, depending on the ratio of return on equity at the end of the reporting period. A company is not obliged to distribute dividends only when it incurs net loss. A company will not pay any dividends when its financial debts (i.e. financial liabilities to credit institutions and other entities and finance lease liabilities that do not include trade payables) at the end of the reporting period are equal to or exceed four times the EBITDA (i.e. operating profit (loss) + depreciation and amortisation expenses + expenses on revaluation and provisions for emission allowances + impairment expenses of non-current assets + write-off expenses of non-current assets) amount for the last twelve months as from the end of the reporting period.

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

When financing its business activities, the Company follows the provisions of the financing strategies of Lietuvos Energija UAB (hereinafter "LE") group companies for 2016–2020 as approved by Minutes No PER 2016 30 of the sitting of the Board of Lietuvos Energija UAB dated 13 June 2016. The Company must follow an optimal capital structure assessed as D (net debt – note 15)/E (equity) ratio which cannot exceed the set 1.1x limit. Upon reaching the limit set in the financing strategy, further borrowing is not recommended. Where the D/E ratio is exceeded due to the results of operations (e.g. upon incurring significant losses) or by the decision of the shareholders (upon paying a significant share of retained earnings in dividends), the D/E ratio must be restored within 12 months from its breach by reducing the level of the financial debt and/or increasing own share capital through the shareholder's additional contributions. The decision on the optimal capital structure (concerning the debt to equity ratio), as agreed with the Company, is passed by the LE Finance and Treasury Service, which is responsible for the organisation of financing of the group (group companies) and establishment of guidelines. The latter is done with reference to the prevalent situation in the financial markets, availability and costs related to debt and/or capital, risk appetite, etc.

All amounts in EUR thousands unless otherwise stated

34 Financial risk management

Credit risk

In the electricity segment, trade and other receivables are generated from many customers, therefore, there is no significant concentration risk. Credit risk or the risk of counterparties defaulting is controlled by the application of monitoring procedures.

The Company does not issue guarantees to secure the fulfilment of obligations of third parties. The maximum exposure to credit risk is represented by the carrying amount of each item of financial assets. Based on the judgement of the Company's management, the maximum risk approximates the amount of mortgage loans, borrowings, trade and other receivables, and cash at bank, less recognised impairment loss at the date of the preparation of the statement of financial position.

Because of the specific character of the Company's operations, no collateral is required from customers.

The Company's treasury management is regulated by the Treasury Management Policy (hereinafter "Policy") of Lietuvos Energija UAB group, approved by the Board of Lietuvos Energija UAB on 29 February 2016, as well as the Company's internal policies. Pursuant to this Policy, free liquid funds can be invested by the Company only in low-risk short-term (with the remaining maturity less than 549 calendar days) money market instruments and debts securities, i.e. term deposits, bonds, Government securities, of reliable financial institutions or entities that have been assigned a long-term credit rating not lower than "A-" according to the rating agency Fitch Ratings (or equivalent rating of other rating agencies). In exceptional circumstances, free liquid funds may be held with other financial institutions that act under the licence issued by the Bank of Lithuania, which entitles them to provide financial services. The Company is allowed to hold funds with such financial institutions the amount not exceeding the amount guaranteed under the Lithuanian Law on Insurance of Deposits and Liabilities to Investors.

The priority objective of investing activities is the ensurance of security of funds and maximisation of return on investments in pursuance of this objective.

As at 31 December 2018, the maximum exposure to credit risk of the Company amounted to EUR 105,608 thousand (31 December 2017: EUR 73,503 thousand) as disclosed in section *Financial instruments by category* of this note.

Interest rate risk

Part of the Company's borrowings bear variable interest rate linked with EURIBOR and expose the Company to the interest rate risk, and the other part of the Company's borrowing bear fixed interest rate. As at 31 December 2018 borrowings with fixed interest rate are equal to EUR 366,288 thousand (31 December 2017 – EUR 100,000 thousand) and all remaining borrowings (note 15) bear variable interest rate linked with EURIBOR.
The Company did not have any derivative financial instruments to hedge against interest rate risk.

The following table demonstrates the sensitivity of the Company's profit before tax to potential shift in interest rates, with all other variables held constant (by changing the interest rate). There is no impact on the Company's equity, except for impact on current year profit.

	Increase/ decrease, percentage points	Effect on profit before tax
2018		
EUR	0.15	-387
EUR	-0.15	387
2017		
EUR	0.15	-419
EUR	-0.15	419

Foreign exchange risk

All monetary assets and liabilities of the Company are denominated in the euro, therefore, the Company practically is not exposed to the foreign exchange rate risk.

Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through adequate amounts of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Company's current liquidity (total current assets / total amounts payable within one year and current liabilities) and quick ratios ((total current assets – inventories) / total amounts payable within one year and current liabilities) as at 31 December 2018 were 0.40 and 0.40 (31 December 2017: 0.27 and 0.26), respectively.

The financial statements of the Company have been prepared on a going concern basis. Irrespective of the fact that, as at 31 December 2018, the Company's current liabilities exceeded its current assets by EUR 185,223 thousand (31 December 2017: EUR 208,585 thousand), the Company's management is certain that this will not have a significant effect on the Company's ability to continue as a going concern. The difference arises due to the seasonal nature of the Company's investments and contractual works, as well as the significant increase in the volume of investments. It should be noted that the Company's operating cash flows, which amounted to EUR 76,815 thousand in 2018 (2017: EUR 136,432 thousand), will enable ensuring liquidity in the future, and the current level of debt will allow the Company to optimise its share capital structure while financing activities through long-term borrowing solutions, such as long-term loans and bond transfer agreements. As disclosed in Note 15, to manage short-term cash flow needs, as at 31 December 2018, the Company had EUR 68,457 thousand of undrawn credit facilities according to the agreement on the platform of short-term lending to related parties. For the purpose of ensuring liquidity in 2018, the Company signed an agreement with Lietuvos Energija UAB on the increase of the limit applicable to the platform of short-term lending to related parties to EUR 190,000 thousand (of which EUR 68,457 thousand is unused as at 31 December 2018), which is valid until 12 March

All amounts in EUR thousands unless otherwise stated

2020. Also, as at 31 December 2018 Company has an unused EUR 50 million borrowing from signed a Agreement for Green Bonds with Lietuvos Energija UAB on 29 August 2018 (note 15).

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2018 and 2017 based on contractual undiscounted payments.

Company	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Borrowings	136,323	51,564	91,482	428,819	707,188
Trade and other payables	74,542	2	3	-	74,547
At 31 December 2018	**210,865**	**51,566**	**90,485**	**428,819**	**781,735**
Borrowings	92,768	45,784	117,537	144,621	400,710
Trade and other payables	113,415	375	3	-	113,793
At 31 December 2017	**206,183**	**46,159**	**117,540**	**144,621**	**514,503**

Fair value

The Company's principal financial assets and liabilities not designated at fair value are trade receivables and other receivables, trade and other payables and non-current and current borrowings.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial asset or financial liability is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

To improve consistency in and comparability of fair value measurements and related disclosures, a fair value hierarchy is established that categorises into three levels the inputs to valuation techniques used to measure fair value.

Level 1 inputs (the highest level of accuracy) are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

The carrying amount of the Company's financial assets and financial liabilities approximates their fair value, except for mortgage loans as disclosed in Note 7.

The fair value of borrowings is estimated based on discounted probable future cash flows using prevailing interest rates. The fair value of loans and other financial assets is estimated using market interest rates.
The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

a) The carrying amount of current trade receivables and other receivables, current trade and other payables and current borrowings approximates their fair value.
b) The fair value of non-current borrowings is estimated based on the quoted market price for the same or similar loan or on the current rates available for debt with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts. The fair value of non-current borrowings with fixed interest rates also approximates their carrying amounts.

Financial instruments by category

	Loans and receivables	Assets at fair value through profit or loss	Total
As at 31 December 2018			
Other non-current financial assets (Note 7)	210	-	210
Trade and other receivables (Note 9)	103,871	-	103,871
Accrued revenue (Note 10)	-	-	-
Cash and cash equivalents (Note 11)	2,266	-	2,266
Total	**106,347**		**106,347**
As at 31 December 2017			
Other non-current financial assets (Note 7)	849	-	849
Trade and other receivables (Note 9)	55,745	5 560	61,305
Accrued revenue (Note 10)	4,900	-	4,900
Cash and cash equivalents (Note 11)	6,449	-	6,449
Total	**67,943**	**5,560**	**73,503**

	Oher financial liabilities at amortised cost	Liabilities at fair value through profit and loss	Total
As at 31 December 2018			
Borrowings (Note 15)	631,464	-	631,464
Trade and other payables (Note 20)	74,544	-	74,544
Other liabilities (Note 22)	7,532	-	7,532
Total	**706,011**	**-**	**706,011**
As at 31 December 2017			

All amounts in EUR thousands unless otherwise stated

Borrowings (Note 15)	372,688	-	372,688
Trade and other payables (Note 20)	113,790	-	113,790
Other liabilities	903	-	903
Total	**486,481**	**-**	**486,481**

35 Events after the reporting period

****

2018 ENERGIJOS SKIRSTYMO OPERATORIUS AB ANNUAL REPORT

REPORT FOR A TWELVE-MONTH PERIOD ENDED 31 DECEMBER 2018

eso

Lietuvos energija

Group of energy companies

www.le.lt

CONTENTS

ANNUAL REPORT

Reporting period covered by the Annual Report

The Annual Report provides information to shareholders, creditors, and other stakeholders of Energijos Skirstymo Operatorius AB ('ESO', 'the Company') about the Company's operations during the period from January to December 2018.

Legal basis for preparation of the Annual Report

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

Individuals responsible for information contained in the Annual Report

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

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

The report and the documents, on the basis of which it was prepared, are available at the head office of the Company (Aguonų g. 24, Vilnius), on working days from Mondays through Thursdays 7:30–16:30, on Fridays 7:30–15:15.

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

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

KEY OPERATING AND FINANCIAL INDICATORS OF THE COMPANY

Table 1.

Key operating indicators of ESO						
			1–12 months of 2018	1–12 months of 2017	Change +/-	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 *force majeure*)	min.	81.28	137.83	-56.55	
	SAIFI (with *force majeure*)	times	1.14	1.32	-0.18	
Gas	SAIDI (with *force majeure*)	min.	0.606	1.161	-0.555	
	SAIFI (with *force majeure*)	times	0.006	0.007	0	
Key financial indicators of ESO						
			1–12 months of 2018	1–12 months of 2017	Change +/-	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	169,058	150,908	18,150	12.0
Net profit (loss)***	EUR '000	15,665	77,552	-61,887	-79.8

		At 31/12/2018	At 31/12/2017	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	631.464	372,688	258.776	69,4
Borrowings, net (4)	EUR '000	629.198	366,239	262.959	71.8
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	2.61		
Borrowings, net / Equity	%	98.31	60.27		

(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.
** ESO discontinued electricity public supply activity with effect from 1 October 2018.*
*** The Company adjusted EBITDA by the difference between the actual profit earned during the reporting and earlier periods and the allowable return on investments for respective periods as established by the National Commission for Energy Control and Prices ('the NCC') and eliminated the impact of other atypical operating, one-off factors or factors that are not directly related to the current operating period. The difference resulted from the improvement of the Company's operational efficiency as well as other factors.*
**** Decrease in the Company's net profit was caused by the revaluation of the Company's non-current assets. Following the elimination of a one-off correction of the non-current assets revaluation, the Company's profit amounted to EUR 56.9 million.*

CEO'S FOREWORD

Dear All,

We finished the last year following the adoption and implementation of the decision to crystallise the activities of ESO as an infrastructure company and a distribution operator. We have managed to put into practice an important change, namely, we have transferred ESO's public supply business segment to Lietuvos Energijos Tiekimas for more than EUR 27 million along with all assets, rights and obligations attributed to the transferred part 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 the removal of network failures and connection of new clients to the network as well as ensures guaranteed supply of 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 directly affected the price for electricity distribution in 2019. The National Commission for Energy Control and Prices established the price cap for electricity distribution service through average voltage networks for the year 2019, which is 8% higher than in 2018, and the price for electricity distribution through low voltage networks, which is 9% higher. This change was determined not only by the increase in electricity prices but also by the new legal obligation to pay land owners for easement.

The Company's revenue reached 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. General growth in revenue was supported by a growing demand for electricity and the transaction on the transfer of the public supply business segment, which was worth EUR 27.4 million.

In 2018, the Company earned EUR 169.1 million of adjusted profit before interest, tax, depreciation and amortisation (adjusted EBITDA), i.e. 12.0% more than during the same period in 2017, when this indicator was equal to EUR 150.9 million. Such dynamics of the indicator was maintained as a result of more effective activities of the Company and a growing value of regulated assets due to investments in the renewal of networks.

The net profit of the Company for the year 2018 amounted to EUR 15.7 million. This amount was affected by the one-off result of the revaluation of the Company's non-current assets. The revaluation of non-current assets in the electricity segment, taking into account the impact of adjustments to grants related to assets, reduced the Company's profit by EUR 66.6 million, whereas, the natural gas segment saw the reversal of the impairment of non-current assets with the total impact of EUR 25.4 million. Excluding the impact of one-off adjustments of non-current assets, in 2018, the Company's net profit would be equal to EUR 56.9 million or 27% lower than in 2017. The main reason for the decrease in net profit was an average 32.1% increase in the purchase price of electricity.

The System Average Interruption Duration Index (SAIDI) per customer, with the impact of *force majeure*, reached 81.3 minutes during January–December 2018, compared to 137.8 minutes during the same period in 2017, thus declining by 56.6 minutes. A significant improvement of the indicator was influenced by substantially lower volumes of *force majeure* circumstances reaching 56.5 minutes in 2017 and only 7.8 minutes in 2018. The duration of interruptions due to the reasons which fall under the responsibility of the operator reached 40.4 minutes in 2018, and 46.2 minutes in 2017. The time for removal of failures was reduced to 1.3 hours in 2018, whereas in 2017 this indicator was equal to 3.5 hours. The System Average Interruption Frequency Index (SAIFI) per customer, with the impact of *force majeure*, declined by 0.18 time and was equal to 1.14 times during the period January–December 2018 compared to 1.32 times in 2017.

The year 2018 was also exceptional for the record-high investments in the distribution network and in other areas of ESO's operations. According to the unaudited data, investments exceeded EUR 271 million. One of the factors that determined higher investments was a record-high number of new customers connected to the electricity and natural gas networks – nearly 49 thousand, which is a 16% increase compared to 2017. Increase in investment volumes was also determined by increase in prices for contract works. However, a one-year volume of investments does not indicate a continuous trend or obligation to retain the same extent of investments in the next or subsequent years. Investments in 2019 should amount to a one-year average established in the ten-year investment plan

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 the introduction of electricity, we contributed to the growth of the overall rating of Lithuania's competitiveness. According to the World Bank's ranking 'Doing Business 2019', Lithuania rose by 7 places compared to the previous year reaching the 26th place in terms of the 'getting electricity' indicator (the 33rd place in 2018 and the 55th place in 2017).

We finished last year with the formation 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 during the course of the year, the Supervisory Board of ESO adopted a decision to announce a new selection of the Board members. The decision was passed aiming to achieve a long-term sustainability between the Company's strategy and the management's decisions.

At the end of 2018, in accordance with the National Energy Independence Strategy (NEIS) and the provisions of the Lietuvos Energija Group strategy 2030, the ESO Strategy 2030 was started to be developed. The ESO Strategy 2030 was announced after the end of the reporting period, its strategic directions are consistent with the ESO's ten-year investment plan and the NEIS provisions. ESO will further focus on the assurance of network reliability, investments in network modernisation, automation, implementation of a big scale project on smart metering, implementation of the Data Hub Energy Data Exchange Platform enabling the market players and customer to easily exchange data on consumption.

As a matter of fact, when conducting a unique public tender for the acquisition of a smart metering system, ESO invited Lithuanian and foreign companies to familiarise with the plans on the development of smart metering in Lithuania. The invitation attracted much attention from 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 ensure the best experience to our customers in terms of infrastructure reliability and smartness, and the range and prices of the services.

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

MOST SIGNIFICANT EVENTS AT THE COMPANY DURING THE REPORTING PERIOD

Rytis Borkys resigned from the position of a member of the ESO's Board

On 10 January 2018, the Company received a notification of the 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. Mr Borkys was elected to the Company's Board on 3 December 2015.

Accident

On 7 February 2018, the Company's operational management team worker was killed by electric shock in a substation in Skuodas region. Following the examination of the circumstances of the accident by the State Labour Inspectorate, it was found out that the accident occurred due to non-compliance with the mandatory requirements of safety and health regulations and irregularities in established work procedures: failure to properly coordinate actions with the on-call dispatcher, inadmissible expansion of the work place, failure to check for power, and failure to install earthing and bonding of devices used.

Regarding an amendment to the Proportional Transfer Agreement for Green Bonds

On 28 February 2018, the Company signed an amendment to the Proportional Transfer Agreement for Green Bonds with Lietuvos Energija UAB, dated 13 October 2017. The amendment increases the amount of the loan granted to the Company from EUR 100 million to EUR 166.288 million. The additional funds will be allocated to ESO's long-term investments in the renewal of the electricity distribution networks according to the Green Bonds Programme of Lietuvos Energija.

Regarding the decision passed by the court

By the ruling of 13 March 2018, the Supreme Administrative Court of Lithuania ('the SACL') partially complied with the Company's appeal against the decision of Vilnius Regional Administrative Court decision dated 22 December 2015, by which the court dismissed ESO's complaint asking to repeal part of the Resolution No. O3-841 of the National Commission for Energy Control and Prices ('the NCC') of 17 October 2014. SACL passed a decision to annual parts of the resolutions of the NCC on the basis of which the regulatory period for 2011–2013 was extended to the year 2015 and the upper price limits for the year 2015 were improperly recalculated. The ruling of the Lithuanian Supreme Administrative Court is final and conclusive.

Ovidijus Martinonis elected as a member of the ESO's Board

On 14 March 2018, the Supervisory Board of the Company elected Ovidijus Martinonis as a 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). Until then Mr Martinonis led the Company's Metering Management Department.

Regarding the planned transfer of the public electricity supply activity

On 21 March 2018, the Company received a letter from Lietuvos Energija UAB about planned changes. The letter states that the Project Portfolio Management Committee of Lietuvos Energija UAB passed a decision to separate the public electricity supply activities carried out by the subsidiary ESO from the electricity distribution activities and (through the sale of the part of the business) transfer it to another company of the Lietuvos Energija Group, i.e. – Lietuvos Dujų Tiekimas UAB, in return for consideration.

Regarding the agreement on the investment plan of 2017

On 22 March 2018, the NCC agreed on the Company's investment projects for 2017, submitted for a commonly agreed list of investments, the total value of which is over EUR 137.8 million (EUR 129.0 thousand – for the electricity sector, EUR 8.8 million – for the natural gas sector).

Ordinary General Meeting of Shareholders was 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 current 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.

Kęstutis Betingis elected as an independent member of the ESO's Supervisory Board

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, Mr 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.

Agreement on the exchange of smart meter data was signed between Elering and ESO

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 to be 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.

Approval of ESO's investments planned to be implemented in 2019–2021

On 29 June 2018, the National Commission for Energy Control and Prices approved the ESO's investments planned to be implemented in 2019–2021, the total value of which is EUR 26.573 million. On 22 August 2018, based on the evaluation of projected selected by the Lithuanian Business Support Agency on 23 July 2018, the Ministry of Energy approved that up to 50% (EUR 13.108 million) (thirteen million one hundred eight thousand) of the sum required for the implementation of these investments will be financed from the EU structural funds. The remaining amount will be financed using own funds of the Company. During the implementation of the investment projects, nine transformer substations will be renewed. Influence of these investments to the price of distribution services in 2016–2020 has been evaluated earlier, therefore these works will not add to the price of regulated services.

On the establishment of the Limited Partnership

On 3 July 2018, the incorporation documents of the limited partnership Energy Efficiency Financing Platform were signed with the Public Investment Development Agency. The Limited Partnership will allocate funds for the implementation of various projects and facilities contributing to increasing end-use energy efficiency and the number of producing consumers. ESO acts as a limited partner of the Limited Partnership, i.e. its liability is limited to the contribution of EUR 10 million, which will be paid for a period of 10 years when necessary. 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 convocation of the Extraordinary General Meeting of Shareholders and the decision to abandon the public electricity supply licence

On 10 July 2018, the sitting of the ESO's Board was held where it was decided to convene an extraordinary general meeting of shareholders and to apply to the National Commission for Energy Control and Prices regarding the revocation of the licence granting the right engage in the activity of the public supply of electricity.

Ten-year investment plan of ESO approved

On 17 July 2018, the sitting of the ESO's Supervisory Board was held where it was decided to approve the investment plan of ESO for the following 10 years ('10YIP'). In the next 10 years (2018–2027) ESO's investments will be directed towards increase of the network's reliability, safety and smart grid solutions. In 2018–2027, ESO investments will be focused on the following three directions: reliable and climate impact-resilient grid; remotely controlled grid; smart grid. It is planned to allocate the total of EUR 2.1 billion for the 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 passed a decision on the termination of the validity of the energy activity licence issued to ESO, which entitles ESO to engage in electricity public supply activity, with effect from 1 October 2018. The decision to apply to the NCC with the request to terminate the validity of the licence was passed by the Board of ESO on 10 July 2018. This application is part of the preparation for the separation of the public electricity supply activity. It is planned that the public electricity supply activity currently carried out by the Company will be transferred to another subsidiary of Lietuvos Energija, i.e. Lietuvos Dujų Tiekimas UAB for a certain consideration (by way of the sale of a part of the business). Following the separation of the public electricity supply activity, ESO continues to engage in its principal activities, i.e. distribution of electricity and gas, maintenance of the distribution networks, removal of breakdowns in the networks, connection of new consumers, safeguarding the guaranteed supply.

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

On 1 August 2018, the Company received a notification of resignation of Dalia Andrulionienė from the position of the Chair of the Board of ESO effective from 10 August 2018. Dalia Andrulionienė resigns from the position of the Chief Executive Officer of ESO by agreement of the parties effective from 10 August 2018 as well. From 10 August 2018, Augustas Dragūnas, Member of the Board of ESO and Finance and Administration Service Director, held the position of the Company's Acting Chief Executive Officer.

Regarding the resolutions of the Company's Extraordinary General Meeting of Shareholders

On 6 August 2018, the Extraordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB was held where a new version of the Company's Articles of Association was approved by specifying the objectives and the object of the Company's activities defined in the Articles of Association.

Chairman of the Board of ESO was elected

On 10 August 2018, the Company's Board passed a decision to elect Mr. Augustas Dragūnas as a Chairman of the Company's Board. As previously announced, after the resignation of Mrs. Dalia Andrulionienė from the position of the Chair of the Company's Board and the resignation by the agreement of parties from the position of Chief Executive Officer of the Company from 10 August 2018, Mr. Augustas Dragūnas, Member of the Board and Director of Finance and Administration Service, held the position of the Acting Chief Executive Officer of the Company from 11 August 2018.

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

On 29 August 2018, the Company signed a Proportional Transfer Agreement for Green Bonds with Lietuvos Energija UAB for the transfer of a EUR 250 million portion of the green bonds issue to the Company. Prior to the issue of the green bonds of Lietuvos Energija worth of EUR 300 million, a portion of the issue's funds was foreseen to be used for the financing of ESO's long-term investment plan. Obligations assumed under the Agreement are to be fulfilled by 10 July 2028.

Regarding the separation of the electricity public supply business segment

On 29 August 2018, the Supervisory Board of the Company approved the decision of the Board of the Company regarding the conclusion of the purchase and sale agreement on the public electricity supply operations ('the Business Segment') with Lietuvos Dujų Tiekimas UAB. On the basis of the valuation conducted by an independent property valuer Ernst & Young Baltic UAB, the price of the Business Segment sold was set at EUR 30,520,000 that Lietuvos Dujų Tiekimas UAB shall pay to the Company.

Resolutions of the Supervisory Board of ESO

On 17 September 2018, the Supervisory Board of ESO approved the Company's interim report for the six-month period ended 30 June 2018 and presented this view at the Extraordinary General Meeting of Shareholders of the Company held on 28 September 2018. The set of interim financial statements of the Company for the six-month period audited by PricewaterhouseCoopers UAB was approved. The decision on the proposed allocation of dividends for the period shorter than the financial year was approved. A decision was passed to allocate dividends in the amount of EUR 0.014 per share to shareholders of ESO for the six-month period.

Regarding the conclusion of the transaction on the sale and purchase of the public supply business

On 21 September 2018, ESO concluded a transaction on the sale and purchase of the business segment, whereby the business segment of the public supply of electricity with the related assets, rights and duties was transferred to Lietuvos Energijos Tiekimas UAB from 1 October 2018. The ESO's Supervisory Board approved this transaction on 29 August 2018 based on a positive opinion of the Audit Committee of the parent company Lietuvos Energija UAB.

Extraordinary General Meeting of Shareholders of ESO was convened

On 28 September 2018, the Extraordinary General Meeting of Shareholders of the Company was held where it was decided to approve the interim report, the set of the financial statements and the auditor's report of the audit firm PricewaterhouseCoopers UAB for the six-month period ended 30 June 2018. A decision was passed at the Shareholders' Meeting to allocate dividends in the amount of EUR 0.014 per share to shareholders of the Company for the six-month period ended 30 June 2018.

Amended Articles of Association of ESO were registered

Given that on 1 October 2018 the Company transferred a business segment of public electricity supply to Lietuvos Energijos Tiekimas UAB (former Lietuvos Dujų Tiekimas UAB), the amended Articles of Association of the Company were registered with the Register of Legal Entities on 1 October 2018. The changes were approved at the Extraordinary General Meeting of Shareholders held on 6 August 2018. The Company's operational objectives and the object were adjusted accordingly in the Articles of Association.

Mindaugas Keizeris was elected as the Chairman of the Board and the Chief Executive Officer of ESO

On 2 October 2018, the sitting of the Company's Board was held where Mindaugas Keizeris was elected as the Chairman of the Board and the Chief Executive Officer. He took the position of the Chief Executive Officer on 8 October 2018. Until then Augustas Dragūnas, Director of Finance and Administration Service of ESO, served as the Acting Chief Executive Officer.

Regarding the setting of price caps for electricity distribution services for 2019

On 17 October 2018, the National Commission for Energy Control and Prices established the following price caps for electricity distribution services for 2019: electricity distribution services via medium voltage network – 0.862 euro ct/kWh; electricity distribution services via low voltage network – 1.871 euro ct/kWh. Changes in prices of electricity distribution services were mainly caused by planned compensation costs of easements and increased electricity market price for the purchase of electricity for technological needs. In view of on the price caps set for electricity distribution services, the Board of the Company will decide on prices of electricity transmission services for the year of 2019.

Ignas Pranskevičius, a member of the Board of ESO, resigned

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 20 January 2017, and was responsible for the area of service provision. Ignas Pranskevičius resigned from the Board and the position of the Services Director of the Company as of 1 November 2018.

Regarding the setting of price caps for natural gas distribution service for 2019–2023

On 26 October 2018, the National Commission for Energy Control and Prices established the price cap of the natural gas distribution service to be effective for 2019 equal to EUR 5.32 per MWh (excl. VAT).

Sale price of the public electricity supply business was adjusted according to the agreement on the sale and purchase of the business segment

On 31 October 2018, the sale price of the business segment of the public electricity supplier was adjusted (on 21 September 2018, the transaction on the purchase and sale of the business segment was concluded, based on which ESO transferred to Lietuvos Energijos Tiekimas UAB the business segment of the public supply of electricity with the related assets, rights and obligations with effect from 1 October 2018).

Regarding the selection of the members of the Board of ESO

On 5 November 2018, the Supervisory Board of the Company 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 selection of the Board members was announced taking into consideration the fact that the Company currently reviews its long-term operational strategy, the implementation of which will require sustainable decisions to be made by the Company's management.

Regarding the announced prices for electricity transmission services for 2019

On 16 November 2018, the National Commission for Energy Control and Prices announced the new prices of electricity transmission service for 2019 that were approved by the decision of 12 November 2018 of the Company's Board. The

Company proposed to reduce the transmission service prices for 2019 (including the price of public service obligation services) for business customers receiving electricity from medium voltage networks. The price for business customers will decline by 8.0% on average, by around 3.5% for those receiving electricity from low voltage networks and by 0.2% on average for private customers.

Regarding a decision to appeal against the decision of the National Commission for Energy Control and Prices on the determination of the price caps for electricity distribution services for 2019

On 19 November 2018, an appeal was filed against the decision of the National Commission for Energy Control and Prices regarding Resolution No O3E-334 of the National Commission for Energy Control and Prices of 17 October 2018, which requires the recalculation of the price caps for the distribution services by medium and low voltage grids for 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 that were established by the Board of ESO on 12 November 2018 to be applicable from 1 January 2019. Depending on the consumer price groups the natural gas distribution prices dropped from 9.7% to 7.7% compared to 2018. The average price of natural gas distribution service will decline by 3.6% in 2019 compared to 2018.

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

On 30 November 2018, the National Commission for Energy Control and Prices approved the updated natural gas distribution prices that were established by the Company's Board on 29 November 2018 to be effective from 1 January 2019. Having assessed the resulting 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 investments accrued by the Company but not yet realised 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. It should be noted that in the long-term this decision will not affect the Company's revenue and profit. The decision was made also referring to time value of money.

The Board of ESO was elected

On 27 December 2018, the Company's Supervisory Board recalled the Company's Board *in corpore* and elected the new Board of ESO for the term of 4 years. Mindaugas Keizeris (responsible for strategy and management), 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) were elected as the members of the Company's Board. The elected Board of the Company shall start performing its duties as of the end of the sitting of Company's Supervisory Board that elected it.

MATERIAL EVENTS AFTER THE END OF THE REPORTING PERIOD

Regarding the approval of the strategy of ESO till 2030

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

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

On 31 January 2019, the Extraordinary General Meeting of Shareholders on 22 February 2019 is convened by the decision of the Company's Board.

Regarding the agreement on the investment plan for 2018

On 14 February 2019, the National Commission for Energy Control and Prices agreed on the Company's investment projects for 2018, submitted for a commonly agreed list of investments, the total value of which does not exceed EUR 240.1 million (EUR 226.2 million – for the electricity sector, EUR 13.9 million – for the natural gas sector).

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

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

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

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

Regarding the ruling passed by the court

ESO informs that on 6 March 2019 the Supreme Administrative Court of Lithuania passed the ruling whereby it rejected the Company's appeal against Resolution No O3-351 of the NCC of 4 June 2015 *Regarding violation of terms and conditions of the regulated activity by LESTO AB*, under which the fine was imposed on the Company. The appeal was filed with a request to amend the ruling of Vilnius Regional Administrative Court of 7 July 2015, based on which a fine of EUR 300,000 was imposed on ESO. It was requested to reduce the fine to a reasonable amount, i.e. EUR 41,075.36. It was also requested to revoke the obligation stipulated in paragraph 3.2.2 of the NCC's resolution requiring ESO to correct reports on regulated expenses for 2011–2013. ESO notes that the ruling of the Supreme Administrative Court of Lithuania will have no impact on the Company's financial performance for 2019, because the effect of the fine has been already reflected in the company's financial statements of the previous reporting periods

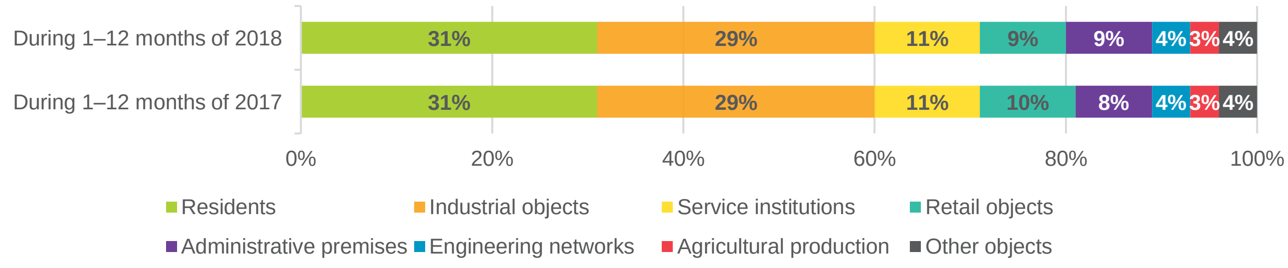
ANALYSIS OF THE OPERATING AND FINANCIAL INDICATORS

Electricity distribution

ESO owns and operates more than 125 thousand kilometres of electricity lines: nearly 70% of them consist of overhead electricity lines, and 30% of electricity cables. During January–December 2018, the Company distributed to customers 9.59 billion kWh of electricity (January–December 2017: 9.22 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 transmission service. The amount of electricity sold decreased by 18.9%, while the volume of electricity transmitted 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 608.5 million kWh or 5.96% of the amount of electricity received. During the same period of 2017, technological costs totalled 6.16%.

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

Figure 1. **Electricity distribution volume by object**

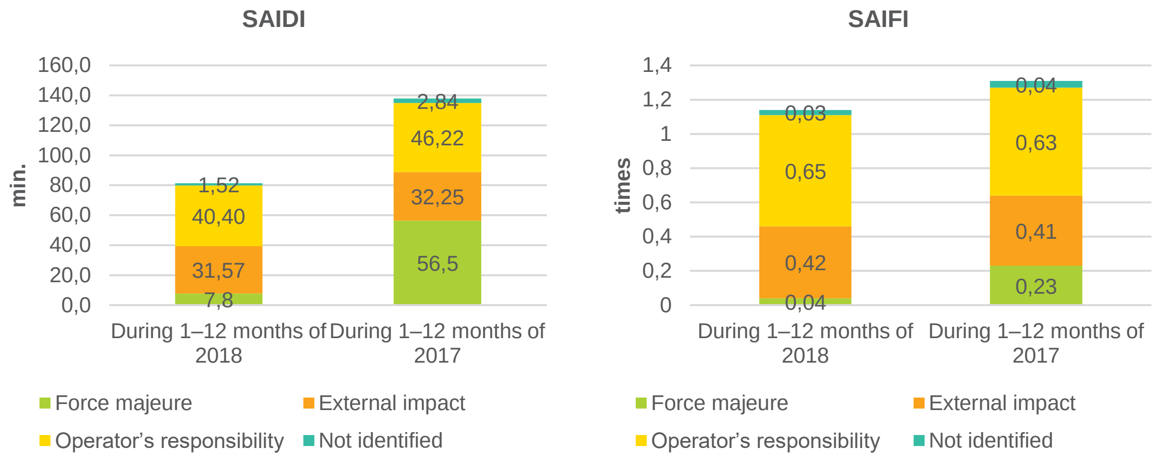


Electricity supply quality indices (SAIDI, SAIFI)

During January–December 2018, the system average interruption duration index (SAIDI with *force majeure*) for the electricity network per customer reached 81.3 minutes, which is 56.5 minutes less compared to the same period in 2017 (January–December 2017: SAIDI was 137.8 minutes). A significant improvement of the indicator was influenced by substantially lower volumes of *force majeure* circumstances reaching 56.5 minutes in 2017 and only 7.8 minutes in 2018. The duration of interruptions due to the reasons which fall under the responsibility of the operator reached 40.4 minutes in 2018, and 46.2 minutes in 2017. During the twelve months of 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 nearly 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 in the same period in 2017.

Gas distribution volumes increased during January–December 2018 mostly due to higher gas consumption during February–March as a result of a lower average weather temperature than in 2017 and changes of production plans in certain 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 minute, which is 0.56 minute 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 time (January–December 2017: 0.007 time).

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 transmission	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 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. Revenue increased due to a higher quantity of electricity and natural gas distributed to the customers of the Company and a one-off transaction on the transfer of the public energy supply business to Lietuvos Energijos Tiekimas UAB. Electric power transmission is the main source of the Company's revenue.

During January–December 2018, electricity transmission 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 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.

Operating expenses amounted to EUR 89.8 million, which is 5.2% less compared to the same period in 2017. The most significant decline was noted in employee benefits and related social security contributions, as well as repair and maintenance expenses, which dropped by, respectively, 5.0% and 11.8%.

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

	During 1–12 months of 2018	During 1–12 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. **EBITDA indicator**

	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	169,508	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 NCC. The difference resulted from the 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 NCC 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 NCC.

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 12.0%. Such dynamics of the index was maintained by more effective activities of the Company and by the growing value of regulated assets due to investments in the renewal 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. Decline in net profit was caused by a higher electricity purchase price and a one-off result of revaluation of the Company's non-current assets. Revaluation of non-current assets in the electricity segment, taking into account the impact of adjustment to grants related to assets, reduced the Company's profit by EUR 66.6 million, whereas, the natural gas segment saw the reversal of the impairment of non-current assets with the total impact of EUR 25.4 million. Excluding the impact of one-off adjustments to non-current assets, in 2018, the Company's net profit was equal to EUR 56.9 million, which is a 27% decrease compared to 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 investments totalled 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. During 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 reasons for increase in expenses were higher costs for contract works and higher number of new customers.

During January–December 2018, ESO connected 34,026 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, which is 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 customers 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.

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	629.20	366.24
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 indicator was determined by the one-off impact of the valuation of assets.*
****The description of indicators is presented at the end of the report.*

At the end of December 2018, ESO's borrowings amounted to EUR 631.5 million and accounted for 66.4% of total liabilities. Non-current borrowings amounted to EUR 448.5 million or 71.0% 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	0.04	0.28
Quick ratio	0.04	0.28
Cash ratio	0.01	0.02
Working capital, EUR '000	-185,222	-204,047
Working capital to total assets ratio	-0.12	-0.16

ESO's current liabilities exceeded its current assets by EUR 185.2 million. The current ratio is equal to 0.40. Operating cash flows and the amount to be recovered from Lietuvos Energijos Tiekimas by the end of March for the transferred public supply business segment will allow ensuring continuity and liquidity of operations. The quick ratio slightly differs 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 629.2 million. The Company's net borrowings account for 98.3% of its equity.

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

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

FACTORS AFFECTING THE COMPANY'S FINANCIAL INDICATORS

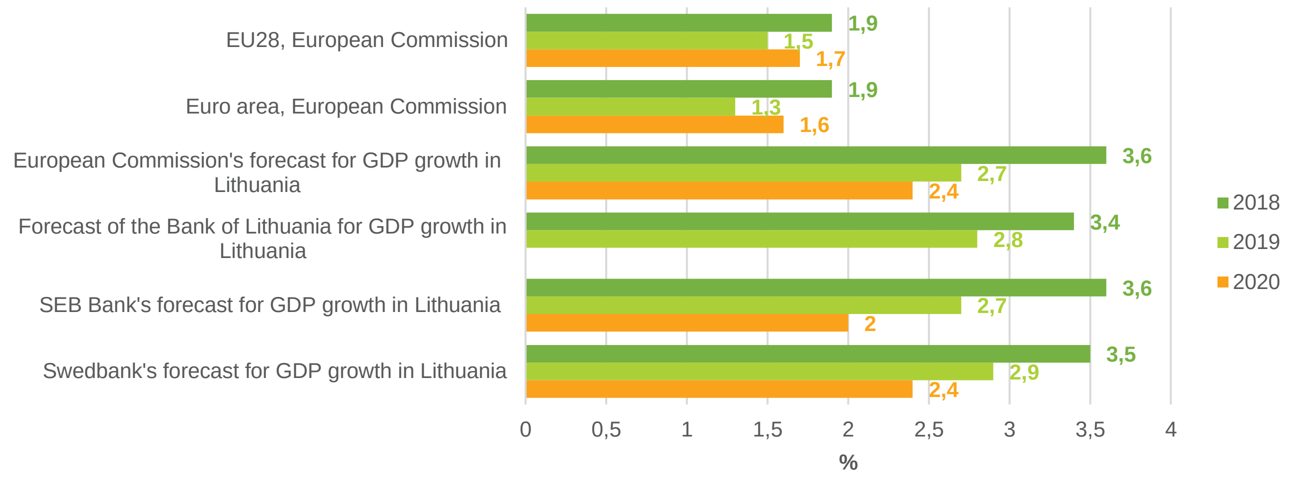
Operating environment

The major impact on electricity consumption is caused by changes in gross domestic product. The growth tendency of the gross domestic product in the European Union has been observed for several years in a row. In 2017, GDP growth has been the most prominent in the last 10 years. In 2017, for the first time since 2007, the economies of all EU Member States grew. Growth is to continue, however, according to forecasts it will be more moderate due to increasing uncertainties all over the world. According to the European Commission's forecast issued in February of 2019[1], GDP growth in 2018 is forecast to rise to 1.9% for the European Union (EU28) as a whole and to 1.9% for the euro area. Meanwhile, in 2019 economic growth is expected to reach 1.5% and 1.3%, respectively and 1.7% and 1.6%, respectively, in 2020. The Lithuanian economy will grow by 3.6% in 2018, 2.7% in 2019 and 2.4% in 2020, according to the European Commission's forecast. In autumn 2018, a slightly higher growth was forecast both in EU28, in the euro area and in Lithuania[2].

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 February 2019[3], Lithuania's real gross domestic product will increase by 3.5% in 2018, 2.9% in 2019, and 2.4% in 2020. At the end of January 2019, the analysts of Swedbank AB also published the Lithuanian economic outlook[4]: they expected that the gross domestic product would grow by 3.6% in 2018, 2.7% in 2019 and 2.0% in 2020. According to the October 2018 forecast issued by the Bank of Lithuania[5], the Lithuanian gross domestic product will grow by 3.4% in 2018 and 2.8% in 2019.

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

[1] Source of data: European Commission. European Economic Forecast Winter 2019.
[2] Source of data: European Commission. European Economic Forecast Autumn 2018.
[3] Source of data: SEB Bankas. Lithuanian Macroeconomic Review No 68, 5 February 2019
[4] Source of data: Swedbank Economic Outlook. January 2019.
[5] Source of data: Bank of Lithuania. The Lithuanian Economic Review, October 2018.

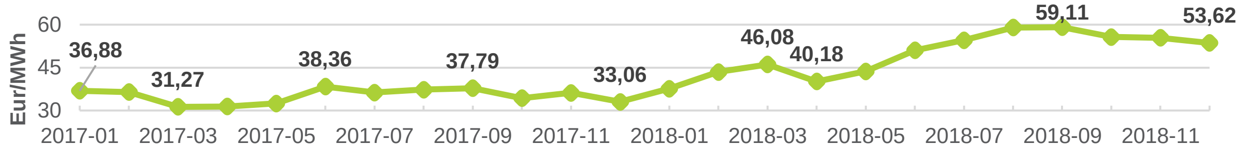


Electricity consumption is closely linked with the growth of a gross domestic product, therefore economic growth also impacts the performance of ESO. Given the macroeconomic forecasts presented by economists for a year as well as the actual results of operations of ESO, we hold the view that the volume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

Situation in the electricity market

In 2018, the average price of electricity on the Nord Pool power exchange in the Lithuanian trading zone significantly increased compared to 2017. In January–December 2018, the average price was 50.00 EUR/MWh, i.e. 42.3% higher than in January–December 2017, when it was equal to 35.13 EUR/MWh[6]. A higher price of electricity on the exchange negatively affects ESO's performance.

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



The Company's strategy and objectives

During January–December 2018, the Company followed the ESO's operational strategy for 2016–2020 as announced on 2 November 2016, the main operational directions of which are related to customer service reliability and speed, effectiveness, and organisational culture, which is based on shared values and continuous improvement. This document defined the Company's long-term operational strategy: strategic directions and objectives as well as indicators that measure the implementation of the strategy. The aim of the Company was to earn revenue from new activities and at the same time reduce expenses of the principal activities.

As the group's parent company Lietuvos Energija published its renewed strategy LE2030 on 23 May 2018, the Company's strategy was reviewed at the end of 2018 and renewed on 18 January 2019.

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

***Figure 5.* ESO 2030 operational strategy scheme**

[6] Source of data: *Nord Pool.*

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

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

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

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

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

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

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

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

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

Investment plan: modernisation of the electricity and gas distribution networks

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 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 and the new ESO strategy 2030.

According to the 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 infrastructure that would enable to make network management decisions based on real-time information, and to facilitate the integration of renewable energy sources and subsequently producing customers. 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 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 will require approx. EUR 537 million over the period of ten years, thus ESO's investments could amount up to EUR 2.1 billion in 2018–2027. In accordance with the Law on Electricity of the Republic of Lithuania the ten-year investment plan of ESO is renewed annually.

Risk and uncertainty factors and their management

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

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

- achievement of the Company's performance objectives with controllable, yet in principle acceptable deviations from these objectives;
- 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, clients, stakeholders and the society;
- ensurance of the stability (including financial) and sustainability of the Company's activities;

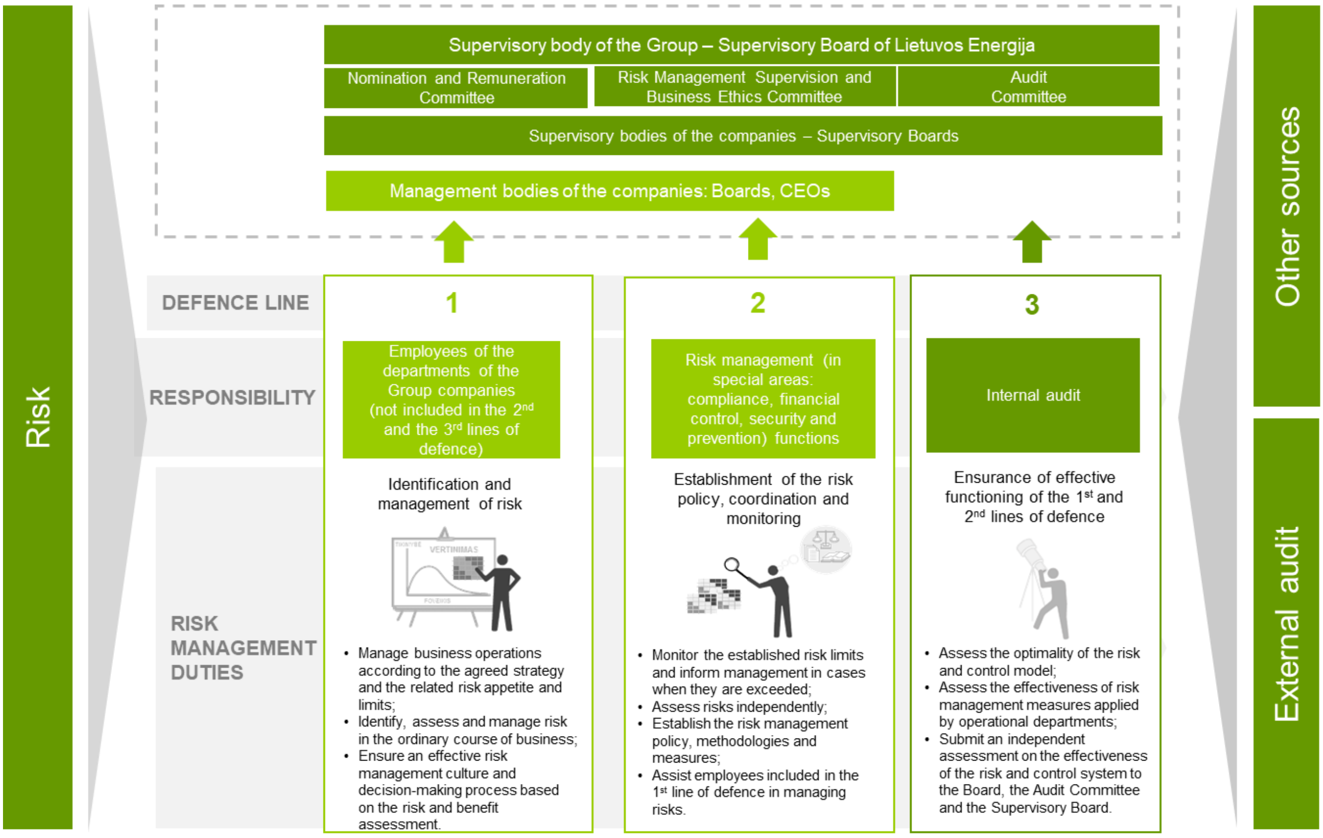
The risk management principles established by Lietuvos Energija are consistently applied across the entire Group of companies. The uniform risk management principles ensure that the management personnel of the Group of companies receive risk management information covering all areas of activities. To 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 (see Figure 6).

***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	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. This risk remains a priority area every year and the main	• 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. The introduction of the verification of work places using mobile application in the second half of 2018;	Very high

	causes of this risk include high-risk working environment, potentially dangerous equipment and lack of awareness or experience.	• Completion of the contract works of the Practical Training Centre in the second half of 2018 and the commencement of pilot team trainings, virtual reality trainings in this centre when new employees are trained to safely evacuate from a building in case of fire; • Enhancement of physical safety measures, warning signs; • Motivational and disciplinary system for employees and contractors. The description of the rating of agreements on contract works for electricity and gas distribution network was updated in the first half of 2018. Occupational safety indicators in the electricity and gas areas were evaluated. The implementation of safety indicators in whiteboards of the divisions and the assessment of key performance indicators (KPI) was initiated.	
External regulation (ENEF, ADA)	The Company is exposed to regulatory risk due to the constant change of regulatory environment (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 ('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.	• As clear and proper fulfilment of regulatory requirements as possible; • For the purpose of ensuring compliance with new requirements, group-level projects are organised 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 the 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 the GDPR requirements, etc.	High
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 effectiveness of the installation process of IT changes; • Regular monitoring of implemented changes; • Creation of a model for testing critical systems.	High
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.	• 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;	Medium

	Constant arising of new global cyber threats, tendencies of their development. Strong motivation to direct cyber-attacks at the Company for its strategic meaning to the country's security.	• Professional development of employees in charge of cyber security.	
Risk relating to public procurements and 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. 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.	• 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. • Performance improvement of purchase processes seeking standartisation, automation, and quality assurance; • Cooperation with external partners; • Constant market analysis and communication; • Implementation of process automation projects; • Case-law.	Medium

Following the changes in the Company's risk assessment methodology and principles, the impact of the risk not only on financial performance, occupational health and safety results, but also on the grid's reliability indicators was assessed, thus ensuring the integration of the Company's risk management system with the strategic planning and the implementation of a new ESO strategy 2030. These Company's operational risks for 2019 will be identified and described in the interim reports for 2019.

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

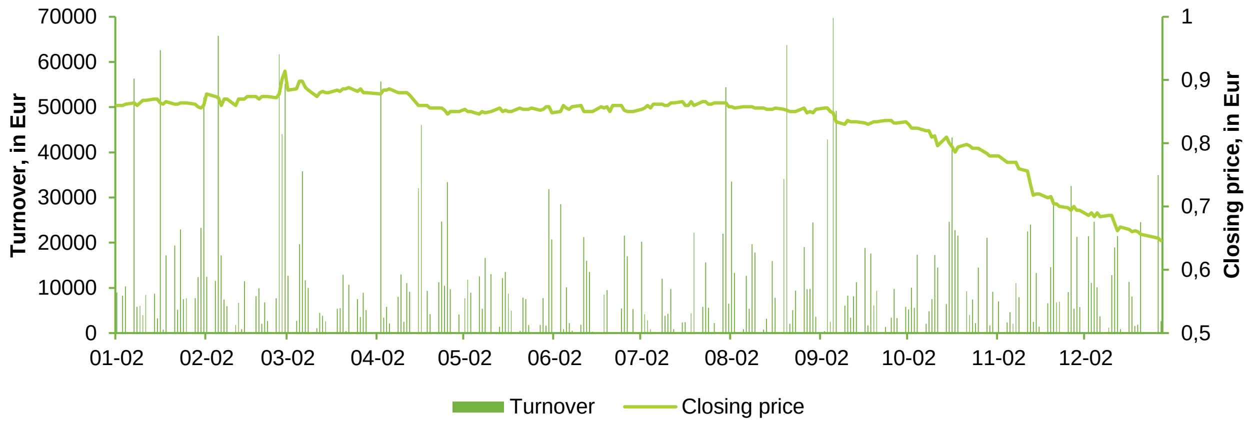
The Company did not acquire its own shares until the end of the reporting period and neither acquired nor disposed of its own shares during the reporting period.

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

Table 12. ***Statistics on trade in the Company's shares***

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

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

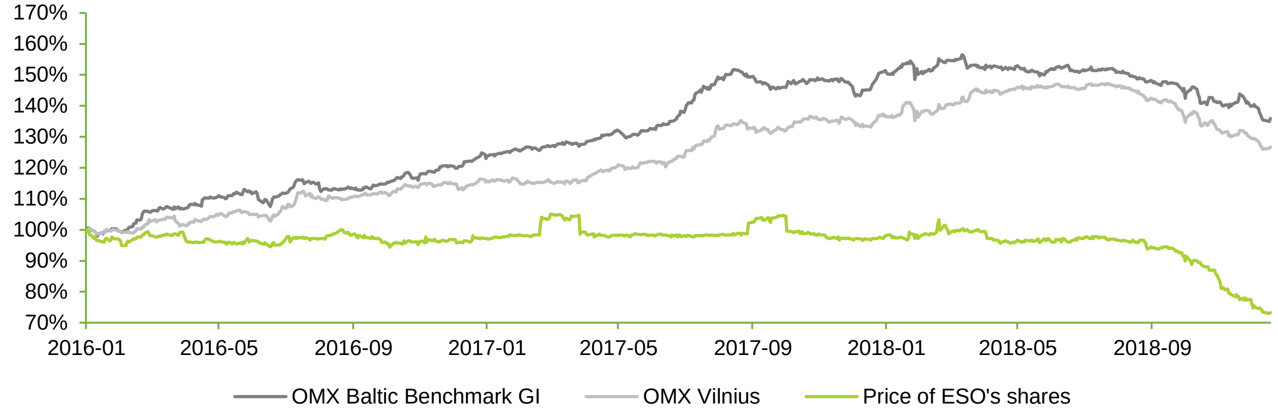


During the reporting period the price of the Company's shares decreased by 24.65%.

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

Since the beginning of trading the price of ESO's shares dropped by 26.78%

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



Between the beginning of trading in ESO's shares and the end of December of 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 8,789. As at 31 December 2017, the total number of the Company's shareholders was 8,789.

Table 13. 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 the Ordinary General Meeting of Shareholders of the Company held on **30 March 2018**, the Company's profit (loss) appropriation for 2017 was approved. It was decided to pay out dividends in the amount of EUR 22.7 million for the six-month period ended 31 December 2017. Dividends per share for this period amounted to EUR 0.02535. Dividends were received by those persons who were the Company's shareholders at the end of the tenth work day following the decision to pay out dividends made at the General Meeting of Shareholders, i.e. at the end of 16 April 2018.

Dividends were also paid out based on the decision made at the Extraordinary General Meeting of Shareholders held on 29 September 2017 regarding the pay-out of dividends to the Company's shareholders for the period shorter than the financial year. Dividends allocated per share for the six-month period ended 31 December 2017 amounted to EUR 0.046 (EUR 41.2 million in total).

In 2017, the Company's net profit from continuing operations totalled EUR 77.6 million. The dividend/net profit ratio for this period was 0.82.

During the Extraordinary General Meeting of Shareholders held on **28 September 2018**, a decision was made to allocate dividends for the period shorter than the financial year. Dividends allocated per share to the Company's shareholders for the six-month period ended 30 June 2018 amounted to EUR 0.014 (EUR 11.9 million in total). Dividends were received by those persons who were the Company's shareholders at the end of the record day of the rights of the Company's shareholders, i.e. at the end of 12 October 2018.

During January–June 2018, the Company's net profit from continuing operations totalled EUR 17.8 million. The dividend/net profit ratio for this period was 0.67.

CUSTOMER SERVICE, SERVICE ASSESSMENT

Number of customers being serviced

By 30 September 2018, ESO had 24,314 contracts on purchase and sale of electricity concluded with private customers and 9,712 contracts on electricity supply or distribution services concluded with commercial customers.

In 2018, approx. 14,333 private customers and approx. 408 commercial customers were connected to ESO's gas distribution network for whom the provision of a distribution service was ensured.

Operation and development of electricity and gas metering devices

In 2018, ESO replaced 90.6 thousand units of metering devices that no longer meet the meteorological requirements, whereof: 72.2 thousand units of electricity meters and 18.4 thousand units of natural gas meters. The Company installed 26 thousand electricity metering devices and 6.0 thousand natural gas metering devices for new customers.

By regularly renewing metering devices being operated, the Company and its authorised persons inspected more than 815 thousand electricity meters and more than 115 thousand natural gas meters during 2018. During 2018, the Company installed 869 controlling metering devices in the 10 kV voltage network, thereby increasing their number up to 3.607 thousand. This accounts for 100% of the total 10 kV voltage network.

By investing in the modernisation and automation of the electricity metering equipment, during 2018 ESO connected 3.4 thousand electricity metering devices to the existing automated data reading systems. As a result, the number of operated electricity meters that are scanned remotely reached nearly 39.8 thousand. The number of natural gas meters that are scanned remotely remained unchanged and is equal to 1.2 thousand. The automation of metering devices allows to automatically submit bills for electricity consumed to commercial customers and establish a precise amount of natural gas consumed by a commercial customer.

In order to improve the quality of services, create preconditions for customers to accurately monitor their energy consumption, receive accurate invoices, and save energy by using it rationally, the Company carries out the programme on the implementation of the smart metering system in Lithuania. An investment project envisaging the replacement of existing electricity meters with smart electricity meters has been submitted to the NCC for the latter's agreement. Smart natural gas meters are planned to be installed to customers who consume more than 350 m3 of gas per year. These are usually customers who use natural gas for heating.

In 2018, the programme on the implementation of the smart metering system was presented to the Energy Commission of the Seimas of the Republic of Lithuania, the Ministry of Energy of the Republic of Lithuania, independent energy suppliers, and other stakeholders. By following the good practice of foreign countries and adhering to transparency principles, six market consultations were held, which were attended by local and foreign suppliers and manufacturers and produced many useful insights into the technical specifications being drafted.

Development of service channels

ESO has noticed there are increasingly more customers who use the offered remote service channels. The number of customers who use the self-service website www.manogile reached 515.253 thousand as at 31 December 2018. Meanwhile, the number of customers who contacted ESO by phone dropped by 17.32%.

During 2018, information via the customer service telephone number 1802 was provided to 138.011 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, 163.377 thousand customers were serviced at the customer service centres in the major Lithuanian cities.

Management of customer settlements

1 October 2018 ESO supply of electricity activities were transferred to another “Lietuvos Energija”, UAB group company, “Lietuvos energijos tiekimas (from hereon LET), UAB. From 1 October 2018 more than 1,6 m. of household and company customers, who are paying for supply of electricity according to the standard public rate have become the customers of “Lietuvos energijos tiekimas” On 31 December 2018 the amount of such customers has amounted 1,8m Eur, out of which, 1,6m of customers have signed the electricity supply agreements directly with LET.
In 2018, ESO 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 79 points in 2018. This result is 7 points higher than the European (72) average and 4 points higher than the global (75) 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 guaranteed supply, active participation in public education on the issues of safe and rational use of energy, installation of new, promising and efficient technologies, taking care of customers, employees, communities and promotion of awareness of contractors and suppliers. ESO’s priorities are the following:
- Promotion of energy efficiency;
- Reduction of environmental impact through energy conservation;
- Strengthening of safe work habits of employees;
- Fostering of safe and responsible use of electricity and gas.

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

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

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

About the Global Compact

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

The aim of this international agreement is to help organisations adopt the agreement's policies in their operational strategies, encourage communication and partnership among different sectors, within a state and beyond its borders in pursuance of universal global development goals.
The Global Compact is based on the principles in the areas of human rights, labour, the environment entrenched in the following international documents:
- Universal Declaration of Human Rights;
- International Labour Organisation Declaration on Fundamental Principles and Rights at Work;
- Rio Declaration on Environment and Development;
- United Nations Convention Against Corruption.

Principles of the Global Compact:

Human rights

Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2	Make sure that they are not complicit in human rights abuses.
Employee rights	
Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
Principle 4	The elimination of all forms of forced and compulsory labour.
Principle 5	The effective abolition of child labour; and
Principle 6	The elimination of discrimination in respect of employment and occupation.
Environmental protection	
Principle 7	Businesses should support a precautionary approach to environmental challenges;
Principle 8	Undertake initiatives to promote greater environmental responsibility; and
Principle 9	Encourage the development and diffusion of environmentally friendly technologies.
Anti-corruption	
Principle 1	Businesses should work against corruption in all its forms, including extortion and bribery.

Human rights

In carrying out its activities and providing services and acting in different communities, the Company follows the principles of human rights protection, supports and respects the international human rights protection within the area of its responsibility and makes sure that it does not contribute to any human rights violations and speaks against any infringements on human rights.

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

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

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

Prevention of accidents. Aiming to prevent accidents at work the Company places main focus on occupational safety:
- 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 and work organisation is regularly verified, complex inspections of the Company's units are carried out;
- Safety culture is strengthened by regularly introducing new and innovative measures that increase the involvement of the Company's employees and executive staff in the matters related to occupational safety (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 implementation of safety indicators in whiteboards of the divisions and the assessment of key performance indicators (KPI) was initiated, etc.);
- Employees are provided with all personal and collective protection measures.

Professional development of employees. Aiming to improve technical knowledge and competences of employees and enhance responsibility for safety at work, large efforts are also devoted to professional development of employees:
- Employees are given instructions and trained in classrooms as well as through electronic platforms where they are provided with all obligatory and professional trainings and necessary instructions;
- In 2018, contract works of the Practical Training Centre were completed; pilot practical trainings were launched for the Company's staff teams;
- Virtual trainings have been started – new employees learn how to evacuate safely from a building in case of fire in virtual reality.

Health of employees. The Company cares about its employees' health. Free medical check-up is organised for all employees who have to do that. Employees working outdoors get encephalitis vaccine. Employees, if they wish, can also receive vaccination to protect against flu.

Figures on 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, negligent driving, failure to check voltage, expansion of workplace. All accidents were investigated.
Violations of occupational safety and health incurred by employees of contractors at the Company's objects, nature of violations and 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: 3 of them – minor, 1 - serious.

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

Environmental protection

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

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

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

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

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

Conservation of resources. In 2018, the Company had over 1.6 million customers and encouraged them to refuse using paper bills and utility bills and to start using remote customer service channels. During the reported period, most clients were already using electronic bills. Reports on interruptions of 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 system. The review and update of processes for management of waste, reversible substances and hazardous waste were also started.

Public initiatives

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

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

***As Much as Needed* initiative for increasing energy efficiency**. The promotion of rational use of energy is one of the priority directions of ESO's social responsibility contributing to the conservation of environment and energy resources as well as the implementation of the country's obligations under the European Union's climate change programmes. The project is aimed at creating traditions of rational living by looking for solutions on rational use of electricity, with a particular focus on consumption by businesses and industrial entities. 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 on rational energy consumption: *Energy Efficiency Solutions for Competitive Business*. On 27 February 2018, a business conference, which has already become a tradition, was held. The conference was initiated by ESO and organised together with Verslo Žinios. The event brought together specialists from various sectors who shared their insights about the topic of sustainable energy consumption. The annual energy efficiency conference is part of the *As Much as Needed* initiative, which was initiated by ESO to encourage energy saving. The event is aimed at bringing together energy specialists, installers of energy efficiency solutions, representatives of the business and academic society, encouraging discussions, and sharing valuable experiences in order to increase business efficiency, direct resources in a targeted manner, and save the environment. The 2018 conference was attended by representatives of 243 businesses.

Provision of support

Until 2017, the Company provided support via the Support Foundation of Lietuvos Energija established in 2014. The Foundation combined and coordinated support provided by all companies of the Group for projects, programmes and activities of public interest. Currently, the Company does not provide support.

Transparency, anti-corruption activities

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

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

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

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

Transparent public procurements

Promotion of transparency in public procurements. ESO is the contracting authority. At the Lietuvos Energija Group of companies, the centralised procurement function is carried out by Verslo Aptarnavimo Centras UAB (VAC). VAC carries out purchases and provides the services of the organisation and performance of public procurement of goods, services or works. The function of public procurement is centralised, procurement processes are standardised and concentrated on a single on-line platform.

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

ESO also publishes technical specification projects of all its procurements, except for low-value procurements, via the Central Public Procurement Information System (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. During 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 the Lietuvos Energija Group on social responsibility for 2018 which will present the Company's progress in this area will be drawn up and announced separately.

THE COMPANY AND ITS MANAGEMENT BODIES

Table 14.* *Information about the Company and its contact details

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

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

ESO owns and operates more than 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 nearly 9 thousand kilometres.

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

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

Information on the Company's branches and representative offices

The Company has no branches or representative offices.

Subsidiaries and related companies

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

As at 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 15.* Main information about related companies**

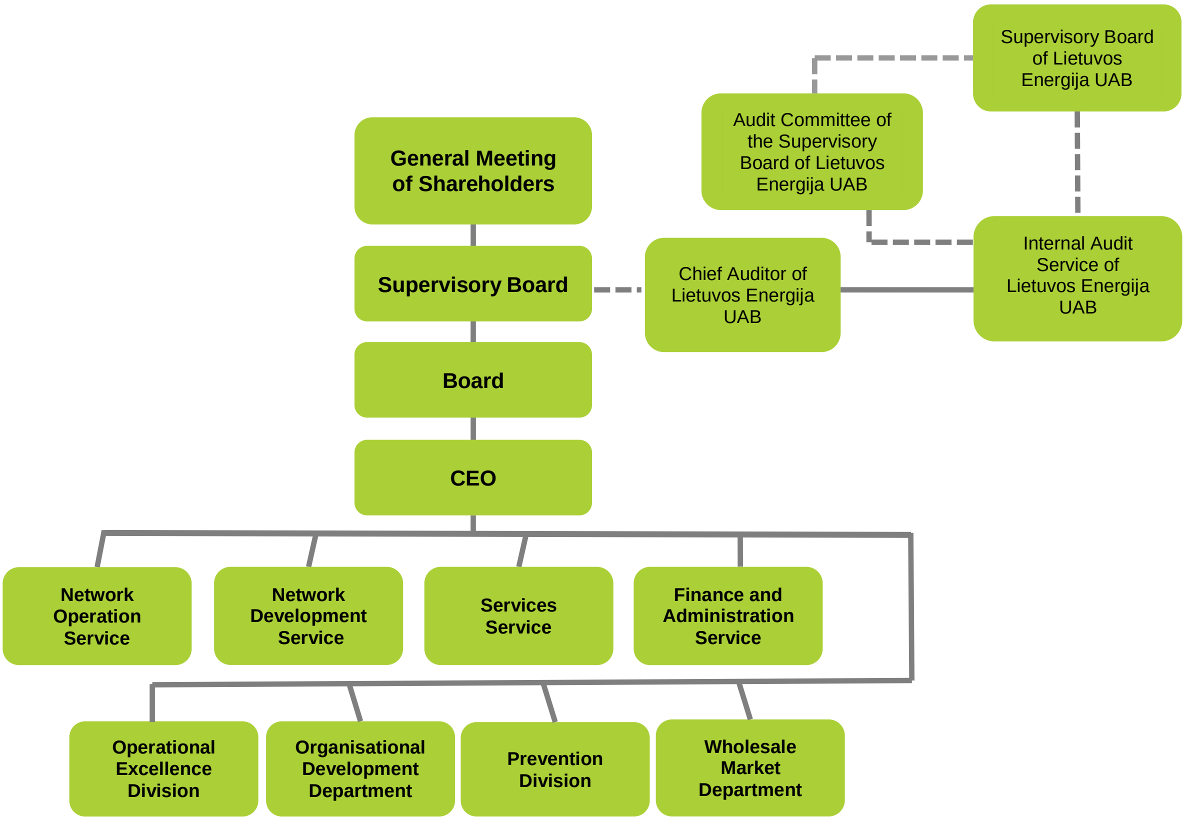
	Technologijų ir Inovacijų Centras UAB	Verslo Aptarnavimo Centras UAB
Address	A. Juozapavičiaus g. 13, Vilnius	P. Lukšio g. 5B, Vilnius
Registration date	4 December 2013	30 July 2014
Company code	303200016	303359627
Telephone	(8 5) 278 2272	(8 5) 259 4400
Fax	(8 5) 278 2299	(8 5) 259 4401
E-mail	info@etic.lt	vac@le.lt
Website	www.etic.lt	http://vac.le.lt
Ownership interest held by ESO (at 31 December 2018)	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, communication 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 10. 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 General Meeting of Shareholders has the right to amend the Articles of Association of ESO.

General Meeting of Shareholders

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

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

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

During the reporting period, one Ordinary General Meeting of Shareholders and three Extraordinary General Meetings of Shareholders were held. None of the shareholders of the Company registered to directly participate in the Ordinary General Meeting of Shareholders held on 30 March 2018 and the Extraordinary General Meetings of Shareholders held on 28 May 2018 and 6 August 2018. One shareholder registered and participated in the Extraordinary General Meetings of Shareholders held on 28 September 2018.

The Company's Chief Executive Officer (Chairman of the Board) and the Director of Finance and Administration Service (member of the Board) attended all general meetings of the Company's shareholders convened by the Company in 2018.

Information on the results of voting by the shareholders at these and previous general meetings of shareholders is provided on the Company's website under section 'For Investors'.

The Company's Supervisory Board

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.

A person proposing a candidate to members of the Supervisory Board has the obligation to produce written explanations to the General Meeting of Shareholders as to the qualifications of each candidate proposed to members of the Supervisory Board, candidate experience of managerial work, and fitness to hold the office of a member of the Supervisory Board. The position of the Supervisory Board's member cannot be held by: the Company's Chief Executive Officer, a member of the Company's Board, a member of the management body of the subsidiary, a member of the supervisory/management body or administration of a legal entity engaged in electricity or natural gas transmission or generation (production) activity, of other legal entity engaged in natural gas and (or) electricity supply activity, auditor or an employee of an audit firm who participate and/or has participated in an audit of the Company's set of the financial statements, if a two year period following the audit has not expired, and any person who has no right to take this position according to legal acts

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

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

At 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 current 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 current Supervisory Board is 30 March 2022.

During the reporting period, fifteen 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 16. The composition of the Supervisory Board of ESO (as at 31 December 2018)

		
Darius Maikštėnas Chairman	**Darius Kašauskas** Member	**Kęstutis Betingis** Independent member
Elected from: 30 March 2018 End of term of office: 30 March 2022	Elected from: 30 March 2018 End of term of office: 30 March 2022	Elected from: 28 May 2018 End of term of office: 30 March 2022
Education		
Harvard Business School, General Management Program; Baltic Management Institute, Master's degree in Business Administration; Kaunas University of Technology, Bachelor's degree in Business Management	ISM University of Management and Economics, Doctoral studies of Social Sciences in the field of Economics; ISM University of Management and Economics, BI Norwegian Business School, Master's degree in Management; Vilnius University, Master's degree in Economics	Vilnius University, Master's degree in Law; Lithuanian Institute of Public Administration, the Organisation Leaders Training Programme for Heads of Public Prosecutors (OLYMP-38)
Principal workplace and position held		
Lietuvos Energija UAB, Chairman of the Board, Chief Executive Officer	Lietuvos Energija, UAB, Member of the Board, Finance and Treasury Director	Betingis and Ragaišis law firm, lawyer
Participation in the activities of other companies and organisations		
Name of a company, body, organisation, position held	**Name of a company, body, organisation, position held**	**Name of a company, body, organisation, position held**
–	Elektroninių Mokėjimų Agentūra UAB, Member of the Supervisory Board (until 23 March 2018); Duomenų Logistikos Centras UAB, Chairman of the Board (from 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)		
–	–	5,612**

** 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 from this amount. 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 4,569.*

The Company's Board

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

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

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

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

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

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

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

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

At the beginning of the reporting period, the composition of the Company's Board was as follows: Chairwoman of the Board Dalia Andrulionienė 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 current Board of the Company.
- On 1 August 2018, after the receipt of the notification from Dalia Andrulionienė on her resignation from the position of the Chair of the Board and the Chief Executive Officer, based on the decision of the Company's Board dated 10 August 2018, Mrs Andrulionienė ceased to act as the Chief Executive Officer and the Chair of the Board. From 11 August 2018, Augustas Dragūnas, Finance and Administration Service Director, held the position of the Acting Chief Executive Officer.
- On 2 October 2018, the sitting of the Supervisory Board of the Company was held where a decision was adopted to elect Mindaugas Keizeris as a member of the Board until the end of the term of office of the current Board of the Company.
- On 2 October 2018, the sitting of the Board of the Company was held where a decision was adopted to elect Mindaugas Keizeris as the Chairman of the Company's Board and the Company's Chief Executive Officer. Mindaugas Keizeris started to serve as the Chairman of the Company's Board after the end of the sitting of the Company's Board that elected him and started to serve as the Company's Chief Executive Officer from 8 October 2018.
- On 27 December 2018, the sitting of the Supervisory Board of the Company was held where a decision was adopted to recall the Board of the Company *in corpore* and to elect Mindaugas Keizeris, Augustas Dragūnas, Ovidijus Martinonis, Renaldas Radvilas and Virgilijus Žukauskas to acts as the members of the Company's Board for the term of four years.
- On 27 December 2018, the sitting of the Board of the Company was held where a decision was adopted to elect Mindaugas Keizeris as the Chairman of the Company's Board.

At the reporting date, the prospective term of office of the current 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.

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

***Table 17.* The composition of the Board of ESO (as at 31 December 2018)**

				
Mindaugas Keizeris Chairman of the Board, Chief Executive Officer	**Augustas Dragūnas** Board member	**Renaldas Radvila** Board member	**Virgilijus Žukauskas** Board member	**Ovidijus Martinonis** Board member
In the position of the CEO from: 8 October 2018 In the position of the Chairman of the Board from: 27 December 2018 End of term of office: 27 December 2022	In this position from: 27 December 2018 End of term of office: 27 December 2022	In this position from: 27 December 2018 End of term of office: 27 December 2022	In this position from: 27 December 2018 End of term of office: 27 December 2022	In this position from: 27 December 2018 End of term of office: 27 December 2022
Education				
Vilnius University, Bachelor's degree in Business Administration and Management; Vilnius University, Master's degree in International Business; Baltic Institute of Corporate Governance, Professional board member	Vilnius University, Master's degree in Business Management and Administration	ISM University of Management and Economics, Executive MBA degree Vilnius University, Bachelor's degree in Economics	Kaunas University of Technology, Master's degree in International Trade and Bachelor's degree in Electrical Engineering	Kaunas University of Technology, Bachelor's and Master's degrees in Telecommunication and Electronics
Principal workplace and position held				
ESO's Chief Executive Officer	ESO's Finance and Administration Service Director	ESO's Services Director	ESO's Networks Operation Service Director	ESO's Networks Development Service Director
Participation in the activities of other companies and organisations				
Lietuvos Energija Support Foundation, Chairman of the Board	Technologijų ir Inovacijų Centras UAB, Board member Verslo Aptarnavimo 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 from Dalia Andrulionienė on her resignation from the position of the member and the Chair of the Board of ESO from 10 August 2018. Mrs Andrulionienė left her position as the CEO of ESO by mutual agreement of the parties. From 11 August 2018, Augustas Dragūnas, Member of the Board of ESO and Finance and Administration Service Director, held the position of the Company's Acting Chief Executive Officer and the Chairman of the Board. From 2 October 2018, Mindaugas Keizeris was elected as the Chairman of the Company's Board. MrsAndrulionienė was paid EUR 10,603, Mr Keizeris — EUR 4,297 and Mr Dragūnas – EUR 2,522 for their activities and work in the Board.*
*** In the period from 1 January 2018 to 1 November 2018, the position of a Board member and Director of the Services Service was held by 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 Service is held by Renaldas Radvila, who was paid EUR 123 for his work in the Board.*
**** Until the election of the ESO's Board of a new composition, the position of the Director of Network Operation Service was held by Saulius Vaičekauskas, who was paid EUR 10,306 for his activities in the Board until 27 December 2018, and Virgilijus Žukausas was paid EUR 123.*
***** During the reporting period, compensations for activities in the Board calculated for Rytis Borkys, who held the position at the Board until 27 January 2018, amounted to EUR 673. Compensations for activities in the Board calculated for Rytis Borkys, who held the position at the Board from 14 March 2018, amounted to EUR 8,326.*

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 18.* 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**	31,442	29,811	61,253
Augustas Dragūnas, Acting CEO ***, Director of Finance and Administration Service	46,866	12,783	59,649
Mindaugas Keizeris, CEO (from 28 October 2018)	13,078	0	13,078

** From 1 December 2014, the accounting function was relocated from the Company to Verslo Aptarnavimo Centras UAB, therefore, the Company does no longer have personnel in charge of accounting functions, including the Chief Financial Officer. Verslo Aptarnavimo Centras UAB provides all accounting services to the Company, starting from entering initial documents to accounting programmes to the preparation of financial statements.*
*** On 1 August 2018, the Company received a notification from Dalia Andrulionienė on her resignation from the position of the member and the Chair of the Board of ESO from 10 August 2018. Dalia Andrulionienė resigns from the position of the Chief Executive Officer of ESO by agreement of the parties.*
**** From 11 August 2018 until 7 October 2018, Augustas Dragūnas, Member of the Board of ESO and Finance and Administration Service Director, held the position of the Company's Acting Chief Executive Officer, who was also elected as the Chairman of the Company's Board on 11 August 2018. He was paid the compensation of EUR 46,866 for holding the position of the Head of the Company's Finance and Administration Service and serving as the acting official: the total amount paid is equal to EUR 59,649, EUR 7,545 of which comprised remuneration paid for holding the position of the Acting Chief Executive Officer of the Company in the period from 11 August 2018 to 7 October 2018.*

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

The committees of the Supervisory Board are established at the Lietuvos Energija group of companies. The committees provide their conclusions, opinions, and proposals to the Supervisory Board of Lietuvos Energija within their competence. A committee consists of at least three members, of whom at least one member is a member of the Supervisory Board and at least one member is an independent member. Members of the committees are elected for the term of four years. The activity of the committees is applicable to Lietuvos Energija and its directly and indirectly controlled subsidiaries, including the Company and the legal entities of other legal form, in which Lietuvos Energija may have direct or indirect ultimate impact.

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

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

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

The Audit Committee

The main functions of the Committee are as follows:

- to supervise the financial reporting process of Lietuvos Energija and its group entities, with a special focus on the relevance and consistency of accounting methods used;
- to monitor the effectiveness of internal control and risk management systems of Lietuvos Energija and the companies of the Lietuvos Energija group affecting the financial statements of the audited entity;
- to observe compliance of the auditors or audit firm with the principles of independence and objectivity, to provide recommendations on the selection of an audit company;
- to monitor the audit processes of Lietuvos Energija and the companies of the Lietuvos Energija group, examine the audit effectiveness and the administration‘s response to the audit firm‘s recommendations to the management;
- to monitor the effectiveness of the internal audit function at Lietuvos Energija and the companies of the Lietuvos Energija group, to provide to the Supervisory Board recommendations on the selection, appointment and removal of the head of the Company's Internal Audit Service, to coordinate and regularly evaluate the activities of the Company's Internal Audit Service, to discuss the results of verifications regarding the removal of identified deficiencies, implementation of internal audit plans;
- to approve regulations of the Company's Internal Audit Service, internal audit plan;
- to monitor the compliance of activities of Lietuvos Energija and the companies of the Lietuvos Energija group with laws and other legal acts of the Republic of Lithuania, articles of association and operational strategy;
- to provide opinion to the entities of the Company who shares are traded in the regulated market on transactions with a related party as stipulated in Article 37(5) of the Lithuanian Law on Companies;
- to assess and analyse other issues attributed to the competence of the Committee by the decision of the Supervisory Board;
- to perform other functions related to the functions of the Committee set forth by legal acts of the Republic of Lithuania and the Corporate Governance Code of companies listed on the NASDAQ Vilnius Stock Exchange.

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

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

The term of office of the current Audit Committee is from 13 October 2017 to 12 October 2021.

During the reporting period, 24 sittings of the Audit Committee were held.

The Risk Management and Business Ethics Supervision Committee

The main functions of the Committee as follows:

- to monitor the way the risks relevant for the achievement of the targets set for Lietuvos Energija UAB and the companies of the Lietuvos Energija group are identified, assessed and managed;
- to assess the adequacy of internal control procedures and risk management measures in view of the risks identified;
- to assess the progress achieved in the implementation of risk management measures;
- to monitor the process of risk management;
- to analyse the financial possibilities for the implementation of risk management measures;
- to assess the risks and the risk management plan for Lietuvos Energija and the companies of the Lietuvos Energija group;
- to assess the periodic cycle of risk identification and assessment;
- to monitor availability of risk registers, analyse their data, provide recommendations;
- to monitor the availability of internal documentation pertaining to risk management;
- to assess the sufficiency, adequacy of the internal documents regulating the group's fight against bribery and corruption and regularly perform supervision of their implementation/compliance;
- to regularly monitor information related to actions, events for managing the ensurance of business ethics and unresolved incidents (ensurance of transparency, prevention of bribery, management/prevention of the risk of corruption, etc.);
- to perform other functions assigned to the Committee based on the decision of the Supervisory Board of Lietuvos Energija.

Table 20. **Members of the Risk Management and Business Ethics Supervision Committee at the end of the reporting period**

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

The term of office of the current Risk Management and Business Ethics Supervision Committee is from 20 April 2018 to 19 April 022.

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

The Nomination and Remuneration Committee

The main functions of the Committee are as follows:

- to provide suggestions in relation to the long-term remuneration policy of Lietuvos Energija and the companies of the Lietuvos Energija group (fixed basic pay, performance-based pay, pension insurance, other guarantees and remuneration forms, compensations, severance pay, other items of the remuneration package), and the principles of compensation for expenses related to the person's activities;
- to make assessments and provide suggestions in relation to the bonus (tantieme) policy of Lietuvos Energija and the companies of the Lietuvos Energija group;
- to monitor compliance of the remuneration and bonus (tantieme) policies of Lietuvos Energija and the companies of the Lietuvos Energija group with international practice and good governance practice guidelines, and provide suggestions for their improvement;
- to provide suggestions in relation to bonuses (tantiemes) upon appropriation of profit (loss) for the financial year of Lietuvos Energija and the companies of the Lietuvos Energija group;
- to assess the terms and conditions of inter-company agreements between Lietuvos Energija and the companies of the Lietuvos Energija group and the members of the management bodies of Lietuvos Energija and the companies of the Lietuvos Energija group;
- to assess the procedures for recruitment and hiring of candidates to the positions of management bodies and top management of Lietuvos Energija and the companies of the Lietuvos Energija group, and establishment of qualification requirements for them;
- to assess on a continuous basis the structure, size, composition and activities of management and supervisory bodies of Lietuvos Energija and the companies of the Lietuvos Energija group;
- to oversee the process of notification of the members of management bodies and employees of Lietuvos Energija and the companies of the Lietuvos Energija group about the professional training opportunities and monitor the progress achieved on a regular basis;
- to oversee and assess the implementation of measures ensuring business continuity of management and supervisory bodies of Lietuvos Energija and the companies of the Lietuvos Energija group;
- to perform other functions falling within the scope of competence of the Committee as decided by the Supervisory Board of Lietuvos Energija.

Table 21. **Members of the Nomination and Remuneration Committee at the end of the reporting period**

Committee member	Number of shares held at the Company (%)	Term of office	Name of employer, job position
Daiva Lubinskaitė-Trainauskienė Chairwoman of the Committee, Independent member	–	September 2017– September 2021	Thermo Fisher Scientific Baltics UAB, Human Resources Director. Association of Human Resource Management Professionals, Member of the Board
Aušra Vičkačkienė Member	–	September 2017– September 2021	Lithuanian Ministry of Finance, Asset Management Department, Director
Ramūnas Dilba Member (until 7 November 2018)	–	November 2017– November 2018	Ministry of Finance, European Union Investment Department, Director
Lėda Turai-Petrauskienė Independent member (from 28 March 2018)	–	April 2018– September 2021	L-CON Global UAB, Leadership Development Partner, Shareholder ISM University of Management and Economics, Head of the Leadership Module of the Executive MBA programme

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

During the reporting period, 11 sittings of the Nomination and Remuneration Committee were held.

Employees of the Company

The Company's personnel policy focuses on a continuous professional development of employees and formation of an organisational culture ensuring the creation of higher added value for customers, partners and society. As at 31 December 2018, the actual number of the Company's employees was 2,387*.

***Table 22.* 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 number of employees	**2,387***

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

***Table 23.* 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 24. **Average salary of the Company's employees***

Category of employees	Average salary, in EUR (before taxes) January–December 2018
Chief executive officer (CEO)	5,857
Top-level managers	4,963
Medium-level managers	2,221
Experts, specialists	1,224
Workers	1,020
Total number of employees	**1,266**

Collective employment agreement

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

Trade unions

The Company supports 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, 2,779 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, diesel engine operator of an emergency station, operation of flammable gas systems and works at electricity facilities, installers of insulation, earthing and neutral earthing screws, pressure vessels, works in wells, lifting equipment, logging works.

In the period between January and December 2018, the general training courses were attended by 2,863 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. In 2018, 1,863 participants attended internal training courses. Employees improved their knowledge in the trainings on the subjects of personal data protection, learned to enhance their personal effectiveness and public speaking skills, were acquainted with the power areas within the group, improved their MS Excel skills, participated in the trainings for new employees, learned about the basic concepts of GIS.

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 five employees (four employees during the second half of 2018) 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 2018, 33 students completed internship at ESO across the territory of Lithuania. The Company provides students not only with the possibility to complete their mandatory internship, but also welcomes motivated and enthusiastic students who wish to voluntarily enrol in job training with the Company.

Significant agreements

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

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

Harmful transactions

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

MATERIAL EVENTS IN THE COMPANY'S ACTIVITIES

Material events during the reporting period

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

Table 25. **Information on material events announced by ESO from 1 January 2018 to 31 December 2018**

Date	Material event
2018-01-10	Regarding resignation from the Board of ESO
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
2018-03-01	Correction: Regarding Investor Calendar for 2018
2018-03-06	Regarding the Ordinary General Meeting of Shareholders of ESO
2018-03-13	Regarding Court Decision
2018-03-14	Regarding the resolutions of the Company's Supervisory Board
2018-03-14	Member of the Board of ESO 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 Shareholders of the Company
2018-03-30	Preliminary ESO results for 2 months of 2018: revenue reached EUR 111.2 million, adjusted EBITDA – EUR 34.3 million

2018-04-30	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 the Company
2018-05-28	Regarding the resolutions of Extraordinary General Meeting of Shareholders of the Company
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 ESO has been approved
2018-07-17	Correction:10-year Investment Plan of ESO 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 Shareholders of the Company
2018-08-10	Chairman of the Board of ESO elected
2018-08-24	ESO Progress Report on Corporate Social Responsibility 2017
2018-08-28	Announcement on Corporate Action (Regarding the contract with Lietuvos Energija, UAB on the Proportional Transfer of the obligations arising from the Green Bonds)
2018-08-30	Announcement on Corporate Action (Regarding the separation of the business segment)
2018-08-30	CORRECTION: Regarding Investor Calendar for 2018
2018-08-31	ESO H1 2018 results: the impact of wholesale electricity prices and higher investment
2018-08-31	Correction: ESO H1 2018 results: the impact of wholesale electricity prices and higher investment
2018-08-31	ESO preliminary financial results for 7 months of 2018
2018-09-05	Audited financial information for period of 6 months of 2018
2018-09-05	Regarding the Extraordinary General Meeting of Shareholders of the Company
2018-09-13	Approved ESO investment projects
2018-09-17	Resolutions of the Supervisory Board of ESO
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 Shareholders of the Company
2018-10-02	Amended Articles of Association of ESO have been registered
2018-10-02	M. Keizeris has been elected as the Chairman of the Board and the Chief Executive Officer of ESO
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 ESO
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 ESO
2018-12-27	The Management Board Members of ESO 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 26. **Notifications on material events after the end of the reporting period from 1 January 2019**

Date	Material event
2019-01-18	Regarding the approval of the strategy of ESO till 2030
2019-01-31	Regarding the Extraordinary General Meeting of Shareholders of ESO
2019-01-31	ESO preliminary financial results for 12 months of 2018
2019-02-14	Regarding the investment plan of 2018 alignment
2019-02-22	Regarding the resolutions of Extraordinary General Meeting of Shareholders of the Company
2019-02-28	ESO's 2018 preliminary results: historical investments and crystallisation of activities
2019-02-28	ESO preliminary financial results for 1 month of 2019

OTHER SIGNIFICANT INFORMATION

Methodology for the calculation of indicators presented in the Annual 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

MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATED TO THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Information on the audit

During the Extraordinary General Meeting of Shareholders of the Company held on 26 July 2016, a decision was made to elect PricewaterhouseCoopers UAB as the audit firm for the audit of the Company's financial statements for 2016–2018; and to establish a fee for the audit services of the financial statements for 2016–2018 not in excess of EUR 159,600.00 (VAT excl.).

During the Extraordinary General Meeting of Shareholders of the Company held on 22 February 2019, a decision was made to elect Ernst & Young Baltic UAB as the audit firm for the audit of the Company's financial statements for 2019–2021; and to establish a fee for the audit services of the financial statements for 2019–2021 not in excess of EUR 246,350.00 (VAT excl.)

Other contractual arrangements with the auditors

The Company has concluded an agreement with the company that carried out the audit of its financial statements on the audit of the reports on regulated activities.

ANNEXES

Notice of the compliance with the Corporate Governance Code for the Companies Listed on NASDAQ Vilnius

Energijos Skirstymo Operatorius AB (hereinafter referred to as the Company or ESO), acting in compliance with Article 22(3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of NASDAQ Vilnius AB, here-by discloses how it complies with the Corporate Governance Code for the Companies listed on NASDAQ Vilnius AB as well as its specific pro-visions or recommendations. In case of non-compliance with this Code or some of its provisions or recommendations, the specific provisions or recommendations that are not complied with are indicated and the reasons for such non-compliance are specified.

Summary of the Corporate Governance Report:

Energijos Skirstymo Operatorius AB (hereinafter referred to as the Com-pany or ESO), acting in compliance with Article 22(3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of NASDAQ Vilnius AB, here-by discloses how it complies with the Corporate Governance Code for the Companies listed on NASDAQ Vilnius AB as well as its specific pro-visions or recommendations. In case of non-compliance with this Code or some of its provisions or recommendations, the specific provisions or recommendations that are not complied with are indicated and the reasons for such non-compliance are specified.

Summary of the Corporate Governance Report:

The corporate governance model of the energy group was implemented following the governance guidelines approved by the Ministry of Finance of the Republic of Lithuania on 7 June 2013 (link to the document (in Lithuanian)). Corporate governance activities are focused in the parent company of the Lietuvos Energija Group – Lietuvos Energija, UAB, which coordinates in the Lietuvos Energija Group companies the areas of finance, law, planning and monitoring, human resources, risk management, audit, technology, communication and other common areas. Activities of companies of the Lietuvos Energija Group in these areas are based on mutual agreement – cooperation focusing on the pursuit of overall result, and is coordinated by policies – general provisions and norms applicable to all Group companies. The description of the principles of corporate governance of the Lietuvos Energija Group and the system of governance and control can be found via (this link). More information on the management bodies ant its members, committees etc. is provided in the section "The Company and its Management Bodies" of this annual re-port and in the table below, in which information on compliance with the Corporate Governance Code for the Companies listed on NASDAQ Vilnius is disclosed.

The Corporate Governance Report was prepared in accordance with the new version of the Code of Conduct for the Management of Listed Companies of AB Nasdaq Vilnius, approved at the meeting of the Board of AB Nasdaq Vilnius on 15 January 2019 (Minutes No. 19-63), at the meeting of the Bank of Lithuania on 7 January 2019 (Decision No. 241-3).

Corporate Governance Reporting Form

The public limited liability company *Issuer's name* (hereinafter referred to as the "Company"), acting in compliance with Article 22 (3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of AB Nasdaq Vilnius, hereby discloses how it complies with the Corporate Governance Code for the Companies listed on Nasdaq Vilnius as well as its specific provisions or recommendations. In case of non-compliance with this Code or some of its provisions or recommendations, the specific provisions or recommendations that are not complied with must be indicated and the reasons for such non-compliance must be specified. In addition, other explanatory information indicated in this form must be provided.

1. Summary of the Corporate Governance Report:

[*Please provide summary of the Corporate Governance Report in the free form text*]

2. Structured table for disclosure:

PRINCIPLES/ RECOMMENDATIONS	YES/NO/ NOT APPLICABLE	COMMENTARY
Principle 1: General meeting of shareholders, equitable treatment of shareholders, and shareholders' rights		
The corporate governance framework should ensure the equitable treatment of all shareholders. The corporate governance framework should protect the rights of shareholders.		
1.1. All shareholders should be provided with access to the information and/or documents established in the legal acts on equal terms. All shareholders should be furnished with equal opportunity to participate in the decision-making process where significant corporate matters are discussed.	Yes	All information that shall be public in accordance with legal acts is published in Lithuanian and English via informational system of stock-exchange Nasdaq Vilnius and on the website of the Company. The place, date and time of the General Meeting of Shareholders convened by the Company is determined in order to enable the shareholders to participate in the decision-making process where significant corporate matters are discussed.
1.2. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all of their holders.	Yes	The Company's authorized share capital consists of EUR 0.29 nominal value ordinary shares, which provide their holders equal property and non-property rights.
1.3. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The rights, provided by the shares are indicated in the Company's Articles of Association, which is publicly available on the Company's website.
1.4. Exclusive transactions that are particularly important to the company, such as transfer of all or almost all assets of the company which in principle would mean the transfer of the company, should be subject to approval of the general meeting of shareholders.	No	The Articles of Association of the Company do not provide that the mentioned transactions must be approved by the general meeting of shareholders.
Procedures for convening and conducting a general meeting of shareholders should provide shareholders with equal opportunities to participate in the general meeting of shareholders and should not prejudice the rights and interests of shareholders. The chosen venue, date and time of the general meeting of shareholders should not prevent active participation of shareholders at the general meeting. In the notice of the general meeting of shareholders being convened, the company should specify the last day on which the proposed draft decisions should be submitted at the latest.	Yes	The Company convenes General Meetings of Shareholders and implements other meeting-related procedures in accordance with the procedure established in the Law on Companies of the Republic of Lithuania and creates equal possibilities to its shareholders to participate in the meeting. The shareholders of the Company shall have access to the agenda and materials of the meeting in accordance with the procedure established by legal acts.

With a view to ensure the right of shareholders living abroad to access the information, it is recommended, where possible, that documents prepared for the general meeting of shareholders in advance should be announced publicly not only in Lithuanian language but also in English and/or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders after the signing thereof and/or adopted decisions should be made available publicly not only in Lithuanian language but also in English and/or other foreign languages. It is recommended that this information should be placed on the website of the company. Such documents may be published to the extent that their public disclosure is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	The Company notifies of a General Meeting of Shareholders being convened and presents to shareholders drafts of proposed decision and any other documents pertaining to the General Meeting of Shareholders being convened also information concerning decisions taken during the General Meeting of Shareholders provides in the manner and under the terms prescribed in legal acts by posting them publicly on the Company's website. All information intended for investors, including information about the decisions adopted by the General Meeting of Shareholders as well as related documents are published in Lithuanian and English via informational system of stock-exchange Nasdaq and on the website of the Company.
Shareholders who are entitled to vote should be furnished with the opportunity to vote at the general meeting of shareholders both in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The Company's shareholders can implement their right to participate in the General Meeting of Shareholders personally and through a representative, in case he/she is properly authorized to represent the shareholder or a voting right transfer contract is signed according to the regulations of the legal acts. The Company provides possibilities for the shareholders to vote by filling in the general vote ballot paper, as it is specified by the Law on Companies of the Republic of Lithuania.
With a view to increasing the shareholders' opportunities to participate effectively at general meetings of shareholders, it is recommended that companies should apply modern technologies on a wider scale and thus provide shareholders with the conditions to participate and vote in general meetings of shareholders via electronic means of communication. In such cases the security of transmitted information must be ensured and it must be possible to identify the participating and voting person.	No	Upon the shareholders' request and by taking into account the objective possibilities, the Company would allow to vote by means of telecommunication facilities.
1.9. It is recommended that the notice on the draft decisions of the general meeting of shareholders being convened should specify new candidatures of members of the collegial body, their proposed remuneration and the proposed audit company if these issues are included into the agenda of the general meeting of shareholders. Where it is proposed to elect a new member of the collegial body, it is recommended that the information about his/her educational background, work experience and other managerial positions held (or proposed) should be provided.	Yes	Information about the candidatures of members of the Company's Supervisory Board and the proposed remuneration to the independent members of the Supervisory Board is presented to the General Meeting of Shareholders in accordance with the procedure established by the Law on Companies of the Republic of Lithuania. Article 21 of Company's Articles of Association defines that a person proposing a candidate to members of the Supervisory Board has the obligation to produce written explanations to the General shareholders' meeting as to the qualifications of each candidate proposed to members of the Supervisory Board, candidate experience of managerial work, and fitness to hold the office of a member of the Supervisory Board. Information about the proposed audit company is also included in the notice on the draft decisions of the general meeting of shareholders if such issue is included in the agenda.

1.10. Members of the company's collegial management body, heads of the administration[7] or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders should take part in the general meeting of shareholders. Proposed candidates to member of the collegial body should also participate in the general meeting of shareholders in case the election of new members is included into the agenda of the general meeting of shareholders.	Yes/No	Members of the Board of the Company who are able to provide information related to the agenda of the General Meeting of Shareholders participate in the General Meeting of Shareholders. The proposed candidates to the members of the Supervisory Board didn't participate in the General Meeting of Shareholders up to now, but the Company is considering to use this practice in the future.

Principle 2: Supervisory board

2.1. Functions and liability of the supervisory board

The supervisory board of the company should ensure representation of the interests of the company and its shareholders, accountability of this body to the shareholders and objective monitoring of the company's operations and its management bodies as well as constantly provide recommendations to the management bodies of the company.

The supervisory board should ensure the integrity and transparency of the company's financial accounting and control system.

2.1.1. Members of the supervisory board should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders and represent their interests, having regard to the interests of employees and public welfare.	Yes	All members of the Supervisory Board act in good will with respect to the Company, with due regard to the Company's interests and public welfare. The duties set out in this recommendation are embedded in the agreement on activities of a member of the Supervisory Board and agreement on activities of an independent member of the Supervisory Board.
2.1.2. Where decisions of the supervisory board may have a different effect on the interests of the company's shareholders, the supervisory board should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed about the company's strategy, risk management and control, and resolution of conflicts of interest.	Yes	Supervisory Board of the Company follows prescribed recommendations. Before taking decisions the members of the Supervisory Board discuss their influence on the performance of the Company and also on all shareholders. Articles of Association oblige the Supervisory Board of the Company and also each member to act on behalf of the Company and its shareholders. Communication with the shareholders and obligations for them are determined in accordance with requirements of legal acts.
2.1.3. The supervisory board should be impartial in passing decisions that are significant for the company's operations and strategy. Members of the supervisory board should act and pass decisions without an external influence from the persons who elected them.	Yes	The Supervisory Board of the Company acts impartially when taking decisions that are significant for the Company's activities and strategy.
2.1.4. Members of the supervisory board should clearly voice their objections in case they believe that a decision of the supervisory board is against the interests of the company. Independent[8] members of the supervisory board should: a) maintain independence of their analysis and decision-making; b) not seek or accept any unjustified privileges that might compromise their independence.	Yes	Members of the Supervisory Board have the right to express their opinion concerning all questions included to the agenda that according to work regulations of the Supervisory Board must be properly reflected in the protocol of the meeting.

[7] For the purposes of this Code, heads of the administration are the employees of the company who hold top level management positions.
[8] For the purposes of this Code, the criteria of independence of members of the supervisory board are interpreted as the criteria of unrelated parties defined in Article 31(7) and (8) of the Law on Companies of the Republic of Lithuania.

2.1.5. The supervisory board should oversee that the company's tax planning strategies are designed and implemented in accordance with the legal acts in order to avoid faulty practice that is not related to the long-term interests of the company and its shareholders, which may give rise to reputational, legal or other risks.	Yes	In exercising its competence to supervise the activities of the Company's management bodies, the Supervisory Council performs the duties specified in the recommendation, and submits its opinion on tax planning issues.
2.1.6. The company should ensure that the supervisory board is provided with sufficient resources (including financial ones) to discharge their duties, including the right to obtain all the necessary information or to seek independent professional advice from external legal, accounting or other experts on matters pertaining to the competence of the supervisory board and its committees.	Yes	The Company ensures that the Supervisory Board is supplied with all of the resources required for its activities (monitors technical aspects of the Supervisory Board meetings, provides all the required information and performs other functions specified in the Supervisory Board's Work Regulations). Agreement of activities of a member of the supervisory board defines that the Company commits to creating proper working conditions for the supervisory board and its members by supplying them with technical and administrative tools required for work. The Articles of Association set out that the supervisory board has the right to apply to the board and chief executive officer asking for documents and information pertaining to the Company's operations, and the board of directors and chief executive officer must ensure that the documents and information so requested are produced to the supervisory board within reasonable time. The provision regarding supply of information is also included in the agreement of activities of a member of the supervisory board.

2.2. Formation of the supervisory board

The procedure of the formation of the supervisory board should ensure proper resolution of conflicts of interest and effective and fair corporate governance.

2.2.1. The members of the supervisory board elected by the general meeting of shareholders should collectively ensure the diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance between the qualifications of the members of the supervisory board, it should be ensured that members of the supervisory board, as a whole, should have diverse knowledge, opinions and experience to duly perform their tasks.	Yes	Pursuant to the Law on Companies of the Republic of Lithuania, the Supervisory Board is elected and the qualification of its members is assessed at the general meeting of shareholders. The main activities of the Company are the performance of the functions of the operator of electricity and natural gas distribution networks, and the majority of the members of the Supervisory Board have experience in the field of energy.
2.2.2. Members of the supervisory board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience.	Yes	The supervisory board is elected for the term of 4 (four) years. The term of office of members on the supervisory board is the maximum term of office prescribed by the Lithuanian Law on Companies. A general meeting of shareholders may remove from office both the entire supervisory board and individual members thereof before the end of their term of office.
2.2.3. Chair of the supervisory board should be a person whose current or past positions constituted no obstacle to carry out impartial activities. A former manager or management board member of the company should not be immediately appointed as chair of the supervisory board either. Where the company decides to depart from these recommendations, it should provide information on the measures taken to ensure impartiality of the supervision.	Yes	The Chairman of the Company's Supervisory Board and the CEO of the Company is not the same person. The members of the Supervisory Board and the Chairman have not been members of the Board of the Company or the CEO of the Company.

2.2.4. Each member should devote sufficient time and attention to perform his duties as a member of the supervisory board. Each member of the supervisory board should undertake to limit his other professional obligations (particularly the managing positions in other companies) so that they would not interfere with the proper performance of the duties of a member of the supervisory board. Should a member of the supervisory board attend less than a half of the meetings of the supervisory board throughout the financial year of the company, the shareholders of the company should be notified thereof.	Yes	Members of the Supervisory Board are active participants of the meetings of the collegial body and devote sufficient time to perform their duties as members of the collegial body. In 2018 there were 15 (fifteen) Supervisory Board's meetings, and all of them were attended by all members of the Supervisory Board.
2.2.5. When it is proposed to appoint a member of the supervisory board, it should be announced which members of the supervisory board are deemed to be independent. The supervisory board may decide that, despite the fact that a particular member meets all the criteria of independence, he/she cannot be considered independent due to special personal or company-related circumstances.	Yes	Information on the candidates to the Company's Supervisory Board members (as well as information on the candidate's compliance with the independence requirements) is provided to the General Meeting of Shareholders in accordance with the Law on Companies of the Republic of Lithuania (see commentary on recommendation 1.9).
2.2.6. The amount of remuneration to members of the supervisory board for their activity and participation in meetings of the supervisory board should be approved by the general meeting of shareholders.	Yes	The amount of remuneration to be paid to independent members of the Supervisory Board for their activities in the Supervisory Board is approved by the General Meeting of Shareholders.
2.2.7. Every year the supervisory board should carry out an assessment of its activities. It should include evaluation of the structure of the supervisory board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the supervisory board, and evaluation whether the supervisory board has achieved its objectives. The supervisory board should, at least once a year, make public respective information about its internal structure and working procedures.	Yes/No	Each year the members of the Company's Supervisory Board perform an informal assessment of their activities by completing the questionnaires, which include the evaluation of the work of the Supervisory Board and the microclimate.

Principle 3: Management Board

3.1. Functions and liability of the management board

The management board should ensure the implementation of the company's strategy and good corporate governance with due regard to the interests of its shareholders, employees and other interest groups.

3.1.1. The management board should ensure the implementation of the company's strategy approved by the supervisory board if the latter has been formed at the company. In such cases where the supervisory board is not formed, the management board is also responsible for the approval of the company's strategy.	Yes	The Company's Board carries out the duty of implementation of the Company's strategy approved by the Company's Supervisory Board.
3.1.2. As a collegial management body of the company, the management board performs the functions assigned to it by the Law and in the articles of association of the company, and in such cases where the supervisory board is not formed in the company, it performs *inter alia* the supervisory functions established in the Law. By performing the functions assigned to it, the management board should take into account the needs of the company's shareholders, employees and other interest groups by respectively striving to achieve sustainable business development.	Yes	As there is the the Supervisory Board formed in the Company, the Board performs the functions of the Company's collegial management body. The obligation to take into account the Company, the shareholders, the employees and other interest groups is established in the agreement on performance in the Board signed by each member of the Board.

	3.1.3. The management board should ensure compliance with the laws and the internal policy of the company applicable to the company or a group of companies to which this company belongs. It should also establish the respective risk management and control measures aimed at ensuring regular and direct liability of managers.	Yes	The Board of the Company adheres to the aforementioned recommendation, approves and ensures compliance with internal policies.
	3.1.4. Moreover, the management board should ensure that the measures included into the OECD Good Practice Guidance[9] on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards.	Yes	The Board of the Company follows the aforementioned recommendation.
	3.1.5. When appointing the manager of the company, the management board should take into account the appropriate balance between the candidate's qualifications, experience and competence.	Yes	When appointing the CEO of the Company the Board takes into account the balance of his/her qualifications, experience and competence as well as the opinion of the Company's Supervisory Board.
3.2.	**Formation of the management board**		
3.2.1.	The members of the management board elected by the supervisory board or, if the supervisory board is not formed, by the general meeting of shareholders should collectively ensure the required diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance in terms of the current qualifications possessed by the members of the management board, it should be ensured that the members of the management board would have, as a whole, diverse knowledge, opinions and experience to duly perform their tasks.	Yes	The Board of the Company ensures the balance of its members' qualifications. The main activities of the Company are the performance of the functions of the electricity and natural gas distribution network operator, and the majority of the Board members have experience in the field of energy.
3.2.2.	Names and surnames of the candidates to become members of the management board, information on their educational background, qualifications, professional experience, current positions, other important professional obligations and potential conflicts of interest should be disclosed without violating the requirements of the legal acts regulating the handling of personal data at the meeting of the supervisory board in which the management board or individual members of the management board are elected. In the event that the supervisory board is not formed, the information specified in this paragraph should be submitted to the general meeting of shareholders. The management board should, on yearly basis, collect data provided in this paragraph on its members and disclose it in the company's annual report.	Yes	Information about the candidates to the members of the Board of the Company, including their curriculum vitae and declaration of interests, is presented at the meeting of the Company's Supervisory Board, which elects the Board or its individual members. The information on the offices held by the members of the Board or their involvement in any other companies is collected, accumulated and disclosed in the annual report as well as on the Company's website.
3.2.3.	All new members of the management board should be familiarized with their duties and the structure and operations of the company.	Yes	The members of the Board after their election are acquainted with the Company's activities, organizational and management structure, strategy, activities and financial plans.

[9] Link to the OECD Good Practice Guidance on Internal Controls, Ethics and Compliance: https://www.oecd.org/daf/anti-bribery/44884389.pdf

3.2.4.	Members of the management board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience and sufficiently frequent reconfirmation of their status.	Yes	The Board is elected for the term of 4 (four) years. The term of office of members of the Board is the maximum term of office prescribed by the Law on Companies of the Republic of Lithuania. The Supervisory Board may remove all or individual members of the Board before the end of their term of office.
3.2.5.	Chair of the management board should be a person whose current or past positions constitute no obstacle to carry out impartial activity. Where the supervisory board is not formed, the former manager of the company should not be immediately appointed as chair of the management board. When a company decides to depart from these recommendations, it should furnish information on the measures it has taken to ensure the impartiality of supervision.	Yes	Current or past positions of the Chairman of the Board of the Company do not create preconditions for possible impartiality. The Chairman of the Board of the Company is a member of the Board and CEO of the Company, but in this case the impartiality of its activities is ensured, as there is the Supervisory Board formed in the Company.
3.2.6.	In the event that the management board is elected in the cases established by the Law where the supervisory board is not formed at the company, and some of its members will be independent[10], it should be announced which members of the management board are deemed as independent. The management board may decide that, despite the fact that a particular member meets all the criteria of independence established by the Law, he/she cannot be considered independent due to special personal or company-related circumstances.	Not applicable	There is the Supervisory Board formed in the Company.
3.2.7.	The general meeting of shareholders of the company should approve the amount of remuneration to the members of the management board for their activity and participation in the meetings of the management board.	No	Since the Company has a Supervisory Board that has the competence to elect and remove the members of the Board, the remuneration of the Board members is also determined by the Supervisory Board.
3.2.8.	The members of the management board should act in good faith, with care and responsibility for the benefit and the interests of the company and its shareholders with due regard to other stakeholders. When adopting decisions, they should not act in their personal interest; they should be subject to no-compete agreements and they should not use the business information or opportunities related to the company's operations in violation of the company's interests.	Yes	The members of the Board act in good faith towards the Company and in accordance with the interests of the Company and taking into account the welfare of the society.
3.2.9.	Every year the management board should carry out an assessment of its activities. It should include evaluation of the structure of the management board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the management board, and evaluation whether the management board has achieved its objectives. The management board should, at least once a year, make public respective information about its internal structure and working procedures in observance of the legal acts regulating the processing of personal data.	Yes/No	Each year the members of the Company's Board perform an informal assessment of their activities by completing the questionnaires, which include the evaluation of the work of the Board and the microclimate.

Principle 4: Rules of procedure of the supervisory board and the management board of the company

[10] For the purposes of this Code, the criteria of independence of the members of the board are interpreted as the criteria of unrelated persons defined in Article 33(7) of the Law on Companies of the Republic of Lithuania.

The rules of procedure of the supervisory board, if it is formed at the company, and of the management board should ensure efficient operation and decision-making of these bodies and promote active cooperation between the company's management bodies.

4.1. The management board and the supervisory board, if the latter is formed at the company, should act in close cooperation in order to attain benefit for the company and its shareholders. Good corporate governance requires an open discussion between the management board and the supervisory board. The management board should regularly and, where necessary, immediately inform the supervisory board about any matters significant for the company that are related to planning, business development, risk management and control, and compliance with the obligations at the company. The management board should inform he supervisory board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this.	Yes	Legal acts, Articles of Association and rules of procedure governing activities of the Company's supervisory and management bodies lay down the principles and procedure of cooperation between supervisory and management bodies of the Company and ensure that management and supervisory bodies cooperate to attain the greatest possible benefit to the Company and its shareholders.
4.2. It is recommended that meetings of the company's collegial bodies should be held at the respective intervals, according to the pre-approved schedule. Each company is free to decide how often meetings of the collegial bodies should be convened but it is recommended that these meetings should be convened at such intervals that uninterruptable resolution of essential corporate governance issues would be ensured. Meetings of the company's collegial bodies should be convened at least once per quarter.	Yes	According to the Company's Articles of Association and the working procedure regulations of the Supervisory Board and the Board, the meetings of the Company's Supervisory Board are held at least once per quarter and the Board – at least once per two weeks. In case of necessity, the Board can define new meeting periodicity.
4.3. Members of a collegial body should be notified of the meeting being convened in advance so that they would have sufficient time for proper preparation for the issues to be considered at the meeting and a fruitful discussion could be held and appropriate decisions could be adopted. Along with the notice of the meeting being convened all materials relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body present at the meeting agree with such change or supplement to the agenda, or certain issues that are important to the company require immediate resolution.	Yes	According to the Company's Articles of Association and the working procedure regulations of the Supervisory Board and the Board, the members of the collegial body and persons that are invited to such meetings, are informed of them in advance. They are also provided with all of the information and materials, needed to examine the questions, presented in the agenda.
4.4. In order to coordinate the activities of the company's collegial bodies and ensure effective decision-making process, the chairs of the company's collegial supervision and management bodies should mutually agree on the dates and agendas of the meetings and close cooperate in resolving other matters related to corporate governance. Meetings of the company's supervisory board should be open to members of the management board, particularly in such cases where issues concerning the removal of the management board members, their responsibility or remuneration are discussed.	Yes	The Company does observe the recommendation. The chairman of the Supervisory Board and the chairman of the Board closely cooperate in resolving issues related to the Company's management. According to Article 33.3 of the Company's Articles of Association, the Supervisory Board provide the possibility for the members of the Board and the CEO to attend their meetings and provide explanations, as well as the right to attend for other employees whenever issues, related with their activities, are being discussed.

Principle 5: Nomination, remuneration and audit committees

5.1. Purpose and formation of committees

The committees formed at the company should increase the work efficiency of the supervisory board or, where the supervisory board is not formed, of the management board which performs the supervisory functions by ensuring that decisions are based on due consideration and help organise its work in such a way that the decisions it takes would be free of material conflicts of interest.

Committees should exercise independent judgment and integrity when performing their functions and provide the collegial body with recommendations concerning the decisions of the collegial body. However, the final decision should be adopted by the collegial body.

5.1.1. Taking due account of the company-related circumstances and the chosen corporate governance structure, the supervisory board of the company or, in cases where the supervisory board is not formed, the management board which performs the supervisory functions, establishes committees. It is recommended that the collegial body should form the nomination, remuneration and audit committees[11].	Yes	According to the regulations of the Audit law of the Republic of Lithuania, the public interest company, which is a secondary company and whose financial reports are consolidated, may not follow the Audit law of the Republic of Lithuania requirement to form an Audit Committee, if its parent company has one. Since the parent company has formed an Audit Committee, a separate Audit Committee is not formed in the Company. The parent company has also formed Supervisory Committees for Appointment and Compensation and Risk Management.
5.1.2. Companies may decide to set up less than three committees. In such case companies should explain in detail why they have chosen the alternative approach, and how the chosen approach corresponds with the objectives set for the three different committees.	Yes	
5.1.3. In the cases established by the legal acts the functions assigned to the committees formed at companies may be performed by the collegial body itself. In such case the provisions of this Code pertaining to the committees (particularly those related to their role, operation and transparency) should apply, where relevant, to the collegial body as a whole.	Not applicable	See the comments for recommendation 5.1.1
5.1.4. Committees established by the collegial body should normally be composed of at least three members. Subject to the requirements of the legal acts, committees could be comprised only of two members as well. Members of each committee should be selected on the basis of their competences by giving priority to independent members of the collegial body. The chair of the management board should not serve as the chair of committees.	Yes	The Company implements the recommendation through the committees of the supervisory board formed by the parent company. See the comments for recommendation 5.1.1
5.1.5. The authority of each committee formed should be determined by the collegial body itself. Committees should perform their duties according to the authority delegated to them and regularly inform the collegial body about their activities and performance on a regular basis. The authority of each committee defining its role and specifying its rights and duties should be made public at least once a year (as part of the information disclosed by the company on its governance structure and practice on an annual basis). In compliance with the legal acts regulating the processing of personal data, companies should also include in their annual reports the statements of the existing committees on their composition, the number of meetings and attendance over the year as well as the main directions of their activities and performance.	Yes	The Company implements the recommendation through the committees of the supervisory board formed by the parent company. See the comments for recommendation 5.1.1
5.1.6. With a view to ensure the independence and impartiality of the committees, the members of the collegial body who are not members of the committees should normally have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or request that certain employees of the company or experts would participate in the meeting. Chair of each committee should have the possibility to maintain direct communication with the shareholders. Cases where such practice is to be applied should be specified in the rules regulating the activities of the committee.	Yes	The Company implements the recommendation through the committees of the supervisory board formed by the parent company. See the comments for recommendation 5.1.1

[11] The legal acts may provide for the obligation to form a respective committee. For example, the Law on the Audit of Financial Statements of the Republic of Lithuania provides that public-interest entities (including but not limited to public limited liability companies whose securities are traded on a regulated market of the Republic of Lithuania and/or of any other Member State) are under the obligation to set up an audit committee (the legal acts provide for the exemptions where the functions of the audit committee may be carried out by the collegial body performing the supervisory functions).

5.2. Nomination committee

5.2.1. The key functions of the nomination committee should be the following: 1) to select candidates to fill vacancies in the membership of supervisory and management bodies and the administration and recommend the collegial body to approve them. The nomination committee should evaluate the balance of skills, knowledge and experience in the management body, prepare a description of the functions and capabilities required to assume a particular position and assess the time commitment expected; 2) assess, on a regular basis, the structure, size and composition of the supervisory and management bodies as well as the skills, knowledge and activity of its members, and provide the collegial body with recommendations on how the required changes should be sought; 3) devote the attention necessary to ensure succession planning.	Yes	The Company implements the recommendation through the Committee on Appointment and Compensation formed by the parent company. See the comments for recommendation
5.2.2. When dealing with issues related to members of the collegial body who have employment relationships with the company and the heads of the administration, the manager of the company should be consulted by granting him/her the right to submit proposals to the Nomination Committee.	Yes	The Company implements the recommendation through the Committee on Appointment and Compensation formed by the parent company. See the comments for recommendation 5.1.1

5.3. Remuneration committee

The main functions of the remuneration committee should be as follows: 1) submit to the collegial body proposals on the remuneration policy applied to members of the supervisory and management bodies and the heads of the administration for approval. Such policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as conditions which would allow the company to recover the amounts or suspend the payments by specifying the circumstances under which it would be expedient to do so; 2) submit to the collegial body proposals regarding individual remuneration for members of the collegial bodies and the heads of the administration in order to ensure that they would be consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned; 3) review, on a regular basis, the remuneration policy and its implementation.	Yes	The Company implements the recommendation through the Committee on Appointment and Compensation formed by the parent company. See the comments for recommendation 5.1.1
5.4. Audit committee	Yes	According to the regulations of the Audit law of the Republic of Lithuania, the public interest company, which is a secondary company and whose financial reports are consolidated, may not follow the Audit law of the Republic of Lithuania requirement to form an Audit Committee, if its parent company has one. Since the parent company has an Audit Committee, there is no separate Audit committee in the Company.

5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee[12].		
5.4.2. All members of the committee should be provided with detailed information on specific issues of the company's accounting system, finances and operations. The heads of the company's administration should inform the audit committee about the methods of accounting for significant and unusual transactions where the accounting may be subject to different approaches.		
5.4.3. The audit committee should decide whether the participation of the chair of the management board, the manager of the company, the chief finance officer (or senior employees responsible for finance and accounting), the internal and external auditors in its meetings is required (and, if required, when). The committee should be entitled, when needed, to meet the relevant persons without members of the management bodies present.	Yes	See the comments for recommendations 5.1.1 and 5.4.1
5.4.4. The audit committee should be informed about the internal auditor's work program and should be furnished with internal audit reports or periodic summaries. The audit committee should also be informed about the work program of external auditors and should receive from the audit firm a report describing all relationships between the independent audit firm and the company and its group.	Yes	See the comments for recommendations 5.1.1 and 5.4.1
5.4.5. The audit committee should examine whether the company complies with the applicable provisions regulating the possibility of lodging a complaint or reporting anonymously his/her suspicions of potential violations committed at the company and should also ensure that there is a procedure in place for proportionate and independent investigation of such issues and appropriate follow-up actions.	Yes	See the comments for recommendations 5.1.1 and 5.4.1
5.4.6. The audit committee should submit to the supervisory board or, where the supervisory board is not formed, to the management board its activity report at least once in every six months, at the time that annual and half-yearly reports are approved.	Yes	See the comments for recommendations 5.1.1 and 5.4.1

[12] Issues related to the activities of audit committees are regulated by Regulation No. 537/2014 of the European Parliament and the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, the Law on the Audit of Financial Statements of the Republic of Lithuania, and the Rules Regulating the Activities of Audit Committees approved by the Bank of Lithuania.

Principle 6: Prevention and disclosure of conflicts of interest

The corporate governance framework should encourage members of the company's supervisory and management bodies to avoid conflicts of interest and ensure a transparent and effective mechanism of disclosure of conflicts of interest related to members of the supervisory and management bodies.

Any member of the company's supervisory and management body should avoid a situation where his/her personal interests are or may be in conflict with he company's interests. In case such a situation did occur, a member of the company's supervisory or management body should, within a reasonable period of time, notify other members of the same body or the body of the company which elected him/her or the company's shareholders of such situation of a conflict of interest, indicate the nature of interests and, where possible, their value.	Yes	The Company does observe the recommendations. According to article 22 of the Company's Articles of Association, each candidate member of the Supervisory Board is obliged to provide his interest declaration for the General Shareholder Meeting, where he undertakes to specify all of the circumstances, which could lead to the conflict of interest between him and the Company. Upon emergence of new circumstances that may give rise to a conflict of in-terests between a member of the Supervisory Board and the Company, the member of the Supervisory Board shall immediately notify the Company and the Supervisory Board of such new circumstances in writing. According to article 39 of the Company's Articles of Association, each candidate member of the Board is obliged to provide his interest declaration for the General Shareholder Meeting, where he undertakes to specify all of the circumstances, which could lead to the conflict of interest between him and the Company. In case any new circumstances arise that may cause the above-mentioned conflict, the member of the Board is obliged to immediate-ly inform the Company and the Supervisory Board of them in writing. Apart from that, article 41 of the Company's Articles of Association provides, that the members of the Board cannot be employed or perform any duties, which would be inconsistent with their activities as a member of the Board, including managerial positions in other legal persons (excluding positions and employment in the Company and the Group of companies), employment in state institutions, statute institutions. Members of the Board are prohibited to perform other duties or be employed elsewhere, with the exception of the Company duties and duties in other legal persons, where the Company is a part of and pedagogic, creative activities or copyright activities, which they are allowed to take up only with the prior consent of the Supervisory Board. According to the laws and the Company's legal acts, regulating the activities of the members of the Company's Supervisory Board and management body, the members of the Company's bodies are obliged to avoid situations, when their personal interests are in conflict with the Company's interests. They are also prohibited to vote, whenever the meeting decides upon questions, related to their responsibilities or their activities in the respective company body. The Policy of Management of Conflicts of Interests of Lietuvos Energija, UAB Group regulates the main principles of identification of conflict of interest situations, which persons working in Lietuvos Energija, UAB, Group may face, and the essential provisions of management of these situations.

Principle 7: Remuneration policy of the company

The remuneration policy and the procedure for review and disclosure of such policy established at the company should prevent potential conflicts of interest and abuse in determining remuneration of members of the collegial bodies and heads of the administration, in addition it should ensure the publicity and transparency of the company's remuneration policy and its long-term strategy.

7.1. The company should approve and post the remuneration policy on the website of the company; such policy should be reviewed on a regular basis and be consistent with the company's long-term strategy.	Yes/No	The Remuneration Policy of Lietuvos Energija, UAB, Group approved by decision of the Board of Lietuvos Energija, UAB governs the setting and payment of remuneration in the Company. General information on the Company's remuneration policy and average salaries of individual groups of employees are publicly disclosed in the Company's interim and annual reports. The Company publishes salaries set to members of management bodies of the Company and other benefits related to the functions of members of management bodies. The Company's remuneration policy is not published on the Company's website, but the Company plans to publish its remuneration policy in the nearest future.
7.2. The remuneration policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as the conditions specifying the cases where the company can recover the disbursed amounts or suspend the payments.	Yes	The Remuneration Policy of Lietuvos Energija, UAB, approved by the Decision of the Board of Lietuvos Energija, UAB, governs the setting and the payment of remuneration in the Company. This document defines remuneration components, their maximum amounts, the principles of allocation and payout, which are common for all companies of Lietuvos Energija, UAB Group. According to the provisions of the Remuneration Policy, the variable remuneration component is paid only in case the target achievement value is 70 percent at the least. If criteria for the evaluation of performance results are not met, i.e. the goal achievement value is below 70 percent, the variable remuneration component is not paid.
7.3. With a view to avoid potential conflicts of interest, the remuneration policy should provide that members of the collegial bodies which perform the supervisory functions should not receive remuneration based on the company's performance.	Yes/No	The Remuneration Policy is aimed at defining the principles of employee remuneration. The published Guidelines for Corporate Governance of State-Owned Energy Group (version of Order No. 1K-215 of the Minister of Finance of the Republic of Lithuania of 1 June 2017), provide for the principles of remuneration of collegial bodies. The remuneration of members of collegial bodies carrying out supervisory functions does not depend on the performance of the Company.
7.4. The remuneration policy should provide sufficient information on the policy regarding termination payments. Termination payments should not exceed a fixed amount or a fixed number of annual wages and in general should not be higher than the non-variable component of remuneration for two years or the equivalent thereof. Termination payments should not be paid if the contract is terminated due to inadequate performance.	Yes/No	The Company follows this recommendation in accordance with provisions of the Labor Code of the Republic of Lithuania, without exceeding the sums laid down therein. The Remuneration Policy does not provide for the procedure of paying termination payments, but the Company is considering the possibility of supplementing the policy with respective provisions.
7.5. In the event that the financial incentive scheme is applied at the company, the remuneration policy should contain sufficient information about the retention of shares after the award thereof. Where remuneration is based on the award of shares, shares should not be vested at least for three years after the award thereof. After vesting, members of the collegial bodies and heads of the administration should retain a certain number of shares until the end of their term in office, subject to the need to compensate for any costs related to the acquisition of shares.	Not applicable	The financial incentive scheme is not applied at the Company.

7.6. The company should publish information about the implementation of the remuneration policy on its website, with a key focus on the remuneration policy in respect of the collegial bodies and managers in the next and, where relevant, subsequent financial years. It should also contain a review of how the remuneration policy was implemented during the previous financial year. The information of such nature should not include any details having a commercial value. Particular attention should be paid on the major changes in the company's remuneration policy, compared to the previous financial year.	Yes/No	The Company follows the provisions of the Guidelines for Corporate Governance of State-Owned Energy Group approved by the Ministry of Finance of the Republic of Lithuania, also the principles laid down in Resolution No. 1341 of the Government of the Republic of Lithuania "On the Remuneration of Managers of State-Owned Enterprises" (as subsequently amended) (hereinafter – the Resolution) without exceeding the remuneration limits laid down therein. The Company has been providing the Ministry of Social Security and Labor of the Republic of Lithuania with information on the implementation of the Resolution. There have been no major changes in the Remuneration Policy in the past few years.
7.7. It is recommended that the remuneration policy or any major change of the policy should be included on the agenda of the general meeting of shareholders. The schemes under which members and employees of a collegial body receive remuneration in shares or share options should be approved by the general meeting of shareholders.	No	The Board of Lietuvos Energija, UAB, approved the Remuneration Policy of Lietuvos Energija, UAB.

Principle 8: Role of stakeholders in corporate governance

The corporate governance framework should recognize the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle the concept "*stakeholders*" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.

8.1. The corporate governance framework should ensure that the rights and lawful interests of stakeholders are protected.	Yes	The Company's management system provides protection for the rights of the stakeholders that are protected by laws. The Company pursues the maximum possible transparency in its relations with all stakeholders and the compliance with the highest ethical requirements and principles – in its activities, because honest and open business activities are one of the key elements of impeccable business reputation. The Company takes into account the changing customer needs, constantly improving its operational processes, empowering employees, taking care of the safety and health of its employees, seeking to maintain a close relationship with investors and ensure information accessible to all, continuously updating the information and posting it in the "Investors" section of its website.
8.2. The corporate governance framework should create conditions for stakeholders to participate in corporate governance in the manner prescribed by law. Examples of participation by stakeholders in corporate governance include the participation of employees or their representatives in the adoption of decisions that are important for the company, consultations with employees or their representatives on corporate governance and other important matters, participation of employees in the company's authorized capital, involvement of creditors in corporate governance in the cases of the company's insolvency, etc.	Yes	The Company does observe the recommendations. For example, the employee representatives are involved in consultations, negotiations and discussions regarding the Company's business optimization processes. According to the employees' collective agreement, the Company informs representatives of the professional union about the expected changes in the Company, the Company's financial situation and so on. Stakeholders may get involved in the Company's management to the extent prescribed by law.

8.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	The Company does observe the recommendations. The stakeholders are given access to the necessary information.
8.4. Stakeholders should be provided with the possibility of reporting confidentially any illegal or unethical practices to the collegial body performing the supervisory function.	Yes	The company has a trust line (1802, +370 61121802), information can also be provided anonymously by e-mail: pasitikejimolinija@eso.lt.

Principle 9: Disclosure of information

The corporate governance framework should ensure the timely and accurate disclosure of all material corporate issues, including the financial situation, operations and governance of the company.

9.1. In accordance with the company's procedure on confidential information and commercial secrets and the legal acts regulating the processing of personal data, the information publicly disclosed by the company should include but not be limited to the following:		
operating and financial results of the company;	Yes	The Company's operating and financial results are published each month, also in the Company's interim and annual reports.
objectives and non-financial information of the company;	Yes	The Company's business objectives and non-financial information is published in the Company's interim and annual reports, the Company's strategy and activity plans.
persons holding a stake in the company or controlling it directly and/or indirectly and/or together with related persons as well as the structure of the group of companies and their relationships by specifying the final beneficiary;	Yes	The information is published in the Company's interim and annual reports, and on the Company's website.
members of the company's supervisory and management bodies who are deemed independent, the manager of the company, the shares or votes held by them at the company, participation in corporate governance of other companies, their competence and remuneration;	Yes	The information is published in the Company's interim and annual reports, and on the Company's website.
reports of the existing committees on their composition, number of meetings and attendance of members during the last year as well as the main directions and results of their activities;	Yes	The information is published in the Company's interim and annual reports, and on the Company's website.
potential key risk factors, the company's risk management and supervision policy;	Yes	The information is published in the Company's interim and annual reports, and on the Company's website.
the company's transactions with related parties;	Yes	The information is published on the Company's website. The Company's announcements on corporate action are published on the information disclosure system used by NASDAQ Vilnius Stock Exchange.
main issues related to employees and other stakeholders (for instance, human resource policy, participation of employees in corporate governance, award of the company's shares or share options as incentives, relationships with creditors, suppliers, local community, etc.);	Yes	The information is published in the Company's interim and annual reports, and on the Company's website.
structure and strategy of corporate governance;	Yes	The information is published in the Company's interim and annual reports, and on the Company's website.

initiatives and measures of social responsibility policy and anti-corruption fight, significant current or planned investment projects. This list is deemed minimum and companies are encouraged not to restrict themselves to the disclosure of information included into this list. This principle of the Code does not exempt companies from their obligation to disclose information as provided for in the applicable legal acts.	Yes	The information is published in the Company's interim and annual reports, and on the Company's website.
When disclosing the information specified in paragraph 9.1.1 of recommendation 9.1, it is recommended that the company which is a parent company in respect of other companies should disclose information about the consolidated results of the whole group of companies.	Not applicable	
When disclosing the information specified in paragraph 9.1.4 of recommendation 9.1, it is recommended that the information on the professional experience and qualifications of members of the company's supervisory and management bodies and the manager of the company as well as potential conflicts of interest which could affect their decisions should be provided. It is further recommended that the remuneration or other income of members of the company's supervisory and management bodies and the manager of the company should be disclosed, as provided for in greater detail in Principle 7.	Yes	The Company's annual report discloses information regarding the members of the Supervisory Board and the Board as well as CEO. Article 25(5) of the Law of the Republic of Lithuania on Energy, the Company publicly discloses fee for members of the Supervisory and Management Bodies of the Company for the activities of the Board and other payments related to the functions of members of the management bodies.
Information should be disclosed in such manner that no shareholders or investors are discriminated in terms of the method of receipt and scope of information. Information should be disclosed to all parties concerned at the same time.	Yes	The Company discloses the information via the information disclosure system used by the Vilnius Stock Exchange in the Lithuanian and English languages simultaneously. The Company observes the recommendation and announces its material events before or after a trading session on the Vilnius Stock Ex-change, except for the cases provided for by legal acts. The Company does not disclose the information likely to impact the price of the issued by it securities in its comments, interviews or otherwise by the time such information is announced via the information system of the Stock Exchange.

Principle 10: Selection of the company's audit firm

The company's audit firm selection mechanism should ensure the independence of the report and opinion of the audit firm.

10.1. With a view to obtain an objective opinion on the company's financial condition and financial results, the company's annual financial statements and the financial information provided in its annual report should be audited by an independent audit firm.	Yes	The Company executes its annual financial statement audit. The audit firm also verifies the compliance of the Company's annual report with its audited financial statements.
10.2. It is recommended that the audit firm would be proposed to the general meeting of shareholders by the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company.	No	The audit firm is being selected according to the procedure, laid out in the Public procurement law of the Republic of Lithuania, the selected audit firm is proposed to the General Shareholder Meeting by the Company's Board.
10.3. In the event that the audit firm has received remuneration from the company for the non-audit services provided, the company should disclose this publicly. This information should also be available to the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company when considering which audit firm should be proposed to the general meeting of shareholders.	Yes	The Company does observe the recommendations.