AB „Energijos
skirstymo operatorius"

eso

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2020-03-10 Nr. 30220-20KR-SD-2645

CONFIRMATION OF RESPONSIBLE PERSONS

Referring to the provisions of the Article 12 of the Law on Securities of the Republic of Lithuania and the Rules of Disclosure of the Bank of Lithuania, we, the undersigned Mindaugas Keizeris, Chief Executive Officer of AB Energijos skirstymo operatorius, Augustas Dragūnas, Director of Finance and Administration, and Giedruolė Guobienė, Head of Accounting Department of UAB „Ignitis grupės paslaugų centras" acting under Order No IS-73-20 of 26 February 2020, hereby confirm that, to the best of our knowledge, AB „Energijos skirstymo operatorius" financial statements for the financial year 2019 are prepared according to International Accounting 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 2019 includes a fair review of the activities business development as well as the condition of AB „Energijos skirstymo operatorius" and with the description of the principle risk and uncertainties it faces.

AB Energijos skirstymo operatorius Chief Executive Officer	Mindaugas Keizeris
AB Energijos skirstymo operatorius Director of Finance and Administration	Augustas Dragūnas
UAB „Ignitis grupės paslaugų centras" Head of Accounting Department acting under Order No IS-73-20 of 26 February 2020	Giedruolė Guobienė

2019 ENERGIJOS SKIRSTYMO OPERATORIUS AB

FINANCIAL STATEMENTS OF THE COMPANY FOR THE YEAR 2019, PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION, ANNUAL REPORT AND THE INDEPENDENT AUDITOR'S REPORT

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AB Energijos skirstymo operatorius
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E-mail info@eso.lt
Company code 304151376

Translation note:

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

CONTENTS

The financial statements were approved on 10 March 2020 by Energijos Skirstymo Operatorius AB Chief Executive Officer, Director of Finance and Administration and UAB „Ignitis grupės paslaugų centras" Head of accounting department, acting under Order No. IS-73-20 of 26th February 2020:

Mindaugas Keizeris	Augustas Dragūnas	Giedruolė Guobienė
Energijos Skirstymo Operatorius AB Chief Executive Officer	Energijos Skirstymo Operatorius AB Director of Finance and Administration	UAB „Ignitis grupės paslaugų centras" Head of Accounting Department (acting under Order No IS-73-20 of 26 February 2020)

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VAT payer code LT108784411
Register of Legal Entities

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Energijos Skirstymo Operatorius AB

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Energijos Skirstymo Operatorius AB, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), which comprise the statement of financial position as of 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying Company's financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019 and 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (regulation (EU) No 537/2014 of the European Parliament and of the Council). 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 are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of the financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the financial statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matters	How the matter was addressed in the audit
Revenue from Contracts with Customers	

Key audit matters

Revenue from Contracts with Customers

Revenue from contracts with customers for the financial year ended 31 December 2019 amount to EUR 413 million (EUR 463 million for the year ended 31 December 2018). During the year ended 31 December 2019, the Company generated revenues primarily from electricity supply and distribution, gas distribution and connection of new customers to the electricity and gas distribution system (distribution system).

Application of appropriate financial reporting standards for revenue recognition from contracts with customers is complex and requires significant management judgements. Furthermore, as disclosed in Note 4 of the accompanying financial statements, the management of the Company has reassessed judgment applied in application of IFRS 15 in respect of revenue recognition including recognition of revenue from the connection of new customers to the distribution system and agent vs. principle assessment for Public Service Obligations component (PSO component) of electricity distribution services. Due to changes in IFRS 15 application, the Company changed the comparative figures presented in the financial statements for 2019.

Revenue recognition was significant to our audit due to the materiality of revenue from contracts with customers to the financial statements, significant management judgment applied in implementing the new revenue standard to the specific circumstances of the Company and its impact on the financial statements for 2019.

How the matter was addressed in the audit

In relation to revenue recognition we performed the following procedures, among others:

- we gained an understanding of the revenue recognition and measurement process and related internal controls for electricity supply and distribution, gas distribution and connection of new customers to the distribution system revenue streams;
- we tested key controls implemented over the connection of new customers to the distribution system, electricity supply and distribution processes;
- we tested relevant IT general controls for selected IT systems (including billing systems) used by the Company in the process of revenue recognition and measurement;
- we obtained external customer confirmations for selected largest gas distribution customers regarding gas distribution revenue recognized by the Company;
- we performed analytical review procedures by forming an expectation of revenue based on the key performance indicators, including taking into consideration historical revenue information, changes in approved tariffs and comparing with actual results;
- we tested a sample of revenue transactions near the financial year-end for their recognition in the appropriate accounting period.

In relation to the changes made in the year with respect to IFRS 15 application and the resulting accounting treatments for revenue recognition, our procedures included the following, mainly to assess management's applied judgment and whether the new application better reflects the substance of the transactions entered into by the Company:

- we have read contracts with customers on a sample basis and reviewed IFRS 15 analysis prepared by management as to whether performance obligations in contracts with customers for the connection to the distribution system and ongoing distribution services have been appropriately identified and whether revenue related to the different performance obligations is recognized in accordance with IFRS 15 requirements;
- we have reviewed management's analysis to assess whether the Company acts as a principle or an agent in relation to PSO component of the electricity distribution services transaction price in accordance with IFRS 15 requirements;
- we have involved our IFRS specialists to assist us with the assessment of the judgements made by the management;
- we have reviewed the calculation of the restated comparative figures due to changes in accounting treatments, as described in note 4.

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Furthermore, we have considered adequacy of the disclosures on:

- the revenue from contracts with customers recognition and measurement accounting policies applied (Note 2),
- significant management judgment used to determine the appropriate accounting policies (Note 3) and
- changes in accounting treatment for revenue recognition from new customers connection to the distribution system services and net presentation of PSO amounts collected upon provision of electricity distribution services as well as impact on accompanying financial statements due to changes made (Note 4).

Fair value assessment of property, plant and equipment of electricity distribution segment

The property, plant and equipment allocated to electricity distribution business segment (electricity PPE) is accounted for at revalued amounts less subsequent accumulated depreciation and subsequent accumulated impairment losses and had a net book value of EUR 1,244 million as at 31 December 2019.

In year 2018 the Company has performed revaluation of property, plant and equipment of electricity PPE and accounted for revaluation results. IAS 16 requires the Company to perform a further revaluation of assets, when the fair value of a revalued asset differs materially from its carrying amount.

As disclosed in Note 5, the possible change in fair value of electricity PPE was tested by management of the Company by making a discounted cash flows model and comparing the potential fair value derived from the model to the carrying value of electricity PPE.

The fair value assessment of property, plant and equipment was significant to our audit as it involves management's judgment in making the assumptions related to cash flows forecasts, as well as the discount rate, used in it as disclosed in Note 5. Furthermore, carrying value of electricity PPE represents approximately 73% of the total assets of the Company as at 31 December 2019.

Our audit procedures included, among others, the following:

- we have obtained an understanding of the process (including assumptions and methods) through which management perform their assessment of fair value changes of electricity PPE;
- we considered reasonability of significant assumptions used by management in their estimation of cash flow forecasts by comparing previous management estimates of cash flows components to actual levels;
- we involved valuation specialists to assist us with the consideration of the discount rate and calculation model used by the management in the fair value assessment;
- we tested arithmetical accuracy of the discounted cash flows model;
- we tested the sensitivity of potential fair value changes of electricity PPE considering if a reasonably expected change in the assumptions (as disclosed in Note 5) could cause the fair value to significantly differ from its carrying value;
- we have read and compared the property, plant and equipment disclosure prepared by the management and presented in Note 5 to source data and supporting accounting registers;
- finally, we considered the adequacy of the Company's disclosures included in Note 5 about the assumptions used in the fair value assessment and the outcome of the it, including sensitivity disclosures.

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Impairment assessment of property, plant and equipment of gas distribution segment

The property, plant and equipment allocated to gas distribution segment cash generating unit (gas CGU) is accounted for at cost, less accumulated depreciation and accumulated impairment losses and had a net book value of EUR 319 million as at 31 December 2019.

Decreasing operating results of gas distribution business segment in year 2019 was considered as an indication for potential impairment. Therefore, management of the Company performed an impairment test of gas CGU based on recoverable value estimate (using the discounted cash flows model) as disclosed in Note 5 to the accompanying financial statements and as a result no additional impairment was identified.

The impairment test was significant to our audit as it involves management's judgment in making the assumptions related to cash flows forecasts, as well as the discount rate, used in recoverable value estimate as disclosed in Note 5. Furthermore, gas CGU carrying value represent approximately 19% of the total assets of the Company as at 31 December 2019.

Our audit procedures included, among others, the following:

- we have obtained understanding of the process (including assumptions and methods) how management perform their assessment of gas CGU impairment;
- we considered reasonability of significant assumptions used by management in their estimation of cash flow forecasts by comparing previous management estimates of cash flows components to actual levels;
- we involved valuation specialists to assist us with the consideration of the discount rate and calculation model used by the management in the impairment test;
- we tested arithmetical accuracy of the discounted cash flows model;
- we tested the sensitivity in the available headroom of gas CGU considering if a reasonably expected change in the assumptions (as disclosed in Note 5) could cause the carrying amount to exceed its recoverable amount;
- we have read and compared the property, plant and equipment disclosure prepared by the management and presented in Note 5 to source data and supporting accounting registers;
- finally, we considered the adequacy of the Company's disclosures included in Note 5 about the assumptions used in the impairment test and the outcome of the test, including sensitivity disclosures.

Other information

Other information consists of the information included in the Company's Annual Report, including Annex for Corporate Governance Report and section on Social Responsibility Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information presentation.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as indicated below.

In connection to our audit of the financial statements, our responsibility is to read the other information 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

We also have to evaluate, if the financial information included in the Company's Annual Report, including Annex for Corporate Governance Report, corresponds to the financial statements for the same financial year and if the Company's Annual Report, including Annex for Corporate Governance Report, was prepared in accordance with the relevant legal requirements. In our opinion, based on the work performed in the course of the audit of financial statements, in all material respects:

- The financial information included in the Company's Annual Report, including Annex for Corporate Governance Report, corresponds to the financial information included in the financial statements for the year ended 31 December 2019; and

- The Company's Annual Report, including Annex for Corporate Governance Report, was prepared in accordance with the requirements of the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

We also need to check that the Corporate Social Responsibility Report has been provided. If we identify that Corporate Social Responsibility Report has not been provided, we are required to report that fact. We have nothing to report in this regard.

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 skepticism 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 to communicate 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

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Appointment and approval of the auditor

In accordance with the decision made by the shareholders in 2019 we have been chosen to carry out the audit of the Company's financial statements. Our appointment to carry out the audit of Company's financial statements in accordance with the decision made by General shareholders meeting has been made for three years period. The audit of the financial statements for the year ended 31 December 2019 was our first annual audit of the Company.

Consistency with the audit report submitted to the audit committee

We confirm that our opinion in the section 'Opinion' is consistent with the additional Audit report which we have submitted to the Company and the Audit Committee of Ignitis Grupė UAB.

Non-audit services

We confirm that to the best of our knowledge and belief, services provided to the Company are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Throughout our audit engagement period, we have not provided any other services except for the audit and the translation of the financial statements.

The partner in charge of the audit resulting in this independent auditor's report is Kęstutis Juozaitis.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

K. Juozaitis

Kęstutis Juozaitis
Auditor's licence
No. 000550

10 March 2020

All amounts in EUR thousands unless otherwise stated

STATEMENT OF FINANCIAL POSITION

	Note	At 31 December 2019	At 31 December 2018 (restated*)	At 1 January 2018 (restated*)
ASSETS				
Non-current assets				
Property, plant and equipment	5	1,563,522	1,471,101	1,188,748
Intangible assets	6	44,819	35,751	5,451
Right-of-use assets	7	20,430	-	-
Prepayments for non-current assets		3	3	3
Investments in associates	8	2,628	2,459	2,382
Other financial assets	9	415	210	849
Total non-current assets		**1,631,817**	**1,509,524**	**1,197,433**
Current assets				
Inventories	10	1,892	1,992	2,135
Trade and other receivables	11	65,744	115,427	64,052
Prepayments, deferred expenses and assets under contracts with customers	12	917	2,226	7,224
Prepaid income tax		1,461	2,779	174
Cash and cash equivalents	13	4,775	2,266	6,449
Total current assets		**74,789**	**124,690**	**80,034**
Total assets		**1,706,606**	**1,634,214**	**1,277,467**
EQUITY AND LIABILITIES				
Equity				
Authorised share capital	14	259,443	259,443	259,443
Revaluation reserve	15	141,020	154,834	44,680
Legal reserve	15	25,944	25,944	25,910
Retained earnings		237,510	189,413	214,957
Total equity		**663,917**	**629,634**	**544,990**
LIABILITIES				
Non-current liabilities				
Borrowings	17	465,633	448,534	239,648
Lease liabilities	18	15,555	-	-
Deferred income tax liabilities	19	8,417	8,441	370
Liabilities under contracts with customers	20	205,332	193,736	186,520
Grants and subsidies	21	15,156	13,052	19,758
Long-term employee benefits	22	2,575	1,710	1,763
Other non-current liabilities		3	3	3
Provisions	23	23,018	27,982	-
Total non-current liabilities		**735,689**	**693,458**	**448,062**
Current liabilities				
Borrowings	17	176,268	182,930	133,040
Current portion of lease liabilities	18	5,029	-	-
Trade and other payables	24	67,351	77,045	116,529
Accrued expenses and contract liabilities	25	46,131	51,147	34,846
Provisions	23	12,221	-	-
Total current liabilities		**307,000**	**311,122**	**284,415**
Total liabilities		**1,042,689**	**1,004,580**	**732,477**
Total equity and liabilities		**1,706,606**	**1,634,214**	**1,277,467**

** Part of amounts does not agree with the financial statements of 2018 due to the changes in accounting methods as disclosed in Note 4.*

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	2019	2018 (restated*)
Revenue from contracts with customers	26	413,144	463,048
Other income	32	5,706	20,367
Purchases of electricity and related services		(180,830)	(278,094)
Purchase (expenses) of natural gas and transmission services		(5,268)	(4,404)
Depreciation and amortisation		(81,621)	(57,353)
Employee benefits and related social security contributions	27	(45,999)	(41,542)
Repair and maintenance expenses		(21,745)	(13,810)
Transport		(3,874)	(4,823)
Telecommunications and IT services		(9,058)	(9,095)
Utilities		(2,012)	(4,032)
Impairment and write-off expenses	28	(8,712)	24,068
Revaluation of property, plant and equipment	5	-	(78,382)
Other expenses	29	(15,494)	(16,483)
Operating profit		**44,237**	**(535)**
Finance income	30	27	89
Finance costs	30	(10,265)	(6,627)
Finance costs – net		**(10,238)**	**(6,538)**
Share of profit of associates		292	179
Profit before income tax		**34,291**	**(6,894)**
Income tax	19	22	12,159
Net profit for the period		**34,313**	**5,265**
Other comprehensive income (loss)			
Items that will not be reclassified to profit or loss:			
Gains (losses) on revaluation of property, plant and equipment	5	-	134,713
Effect of deferred income tax	5	-	(20,207)
Remeasurement of the defined benefit plan obligation, net of deferred income tax	22	(30)	77
Other comprehensive income (loss)		**(30)**	**114,583**
Total comprehensive income for the period		**34,283**	**119,848**
Weighted average number of shares	16	894,630,333	894,630,333
Basic and diluted earnings per share (in EUR) attributable to owners of the Company	31	0.038	0.006

** Part of amounts does not agree with the financial statements of 2018 due to the changes in accounting methods as disclosed in Note 4.*

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 (restated*)	Total equity (restated*)
Balance at 1 January 2018		**259,443**	**44,680**	**25,910**	**214,957**	**544,990**
Net profit for the period (restated*)		-	-	-	5,265	5,265
Revaluation of property, plant and equipment, net of deferred income tax		-	114,506	-	-	114,506
Remeasurement of the defined benefit plan obligation, net of deferred income tax		-	-	-	77	77
Total comprehensive income for the period		**-**	**114,506**	**-**	**5,342**	**119,848**
Transfers to retained earnings (transfer of depreciation, net of deferred income tax) (Note 15)		-	(4,352)	-	4,352	-
Transfer to the statutory reserve		-	-	34	(34)	-
Dividends	16	-	-	-	(35,204)	(35,204)
Balance at 31 December 2018 (restated*)		**259,443**	**154,834**	**25,944**	**189,413**	**629,634**
Restated balance as at 1 January 2019 (restated*)		**259,443**	**154,834**	**25,944**	**189,413**	**629,634**
Net profit for the period		-	-	-	34,313	34,313
Remeasurement of the defined benefit plan obligation, net of deferred income tax		-	-	-	(30)	(30)
Total comprehensive income		-	-	-	34,283	34,283
Transfer to retained earnings (transfer of depreciation, net of deferred income tax) (Note 15)		-	(13,814)	-	13,814	-
Balance as at 31 December 2019		**259,443**	**141,020**	**25,944**	**237,510**	**663,917**

** Part of amounts does not agree with the financial statements of 2018 due to the changes in accounting methods as disclosed in Note 4.*

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

All amounts are presented in EUR thousand unless otherwise stated

STATEMENT OF CASH FLOWS

	Note	2019	2018 (restated*)
Cash flows from operating activities			
Net profit for the period		34,313	5,265
Adjustments for:			
Income tax expenses	19	(22)	(12,160)
Depreciation and amortisation	5,6,7	82,695	58,467
Result of revaluation of property, plant and equipment	5	-	78,382
Change in value of property, plant and equipment	5	4,020	(28,791)
Amortisation of grants	21	(1,074)	(1,114)
Gain on transfer of the public supply activities	32	-	(17,330)
Share of (profit) of associates	8	(292)	(179)
(Gain)/loss on disposal and write-off of assets		3,703	4,752
Finance (income)	30	(27)	(89)
Finance costs	30	10,265	6,627
Elimination of other non-cash activities		1,272	(45)
Changes in working capital:			
Trade and other receivables		21,566	(40,581)
Inventories, prepayments, deferred expenses and assets under contracts with customers		1,763	(1,712)
Trade and other payables, advance amounts received and liabilities under contracts with customers		(4,503)	(18,504)
Amounts payable for property, plant and equipment		9,607	39,395
Cash generated from operations		**163,286**	**72,383**
(Paid)/Realized income tax paid		-	(1,128)
Net cash flows generated from operating activities		**163,286**	**71,255**
Cash flows from investing activities			
Purchase of property, plant and equipment, and intangible assets		(187,900)	(302,933)
Disposal of property, plant and equipment and intangible assets		910	146
Grants received	21	3,178	4,411
Dividends received	8	123	102
Interest received	30	27	-
Transfer of public electricity supply activities	32	27,441	-
Cash flows from other investing activity		(261)	5,560
Net cash flows used in investing activities		**(156,482)**	**(292,714)**
Cash flows from financing activities			
Proceeds from borrowings	17	50,000	266,287
Repayments of borrowings	17	(57,401)	(95,052)
Proceeds from cash-pool (net)	17	16,813	94,843
Lease payments	18	(4,543)	-
Dividends paid to the Company's shareholders		(26)	(35,105)
Interest paid		(9,138)	(3,042)
Net cash generated from (used in) financing activities		**(4,295)**	**227,931**
Net increase (decrease) in cash and cash equivalents		2,509	6,472
Cash and cash equivalents (including the overdraft balance) at the beginning of the period	13	2,266	(4,206)
Cash and cash equivalents (including the overdraft balance) at the end of the period	**13**	**4,775**	**2,266**

Increase in right-of-use assets and lease liabilities over the financial period is equal to 20,430 thousand euros.

** Part of amounts does not agree with the financial statements of 2018 due to the changes in accounting methods as disclosed in Note 4.*

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 Vilnius Stock Exchange since 11 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 2019 and 31 December 2018, the Company's shareholder structure was as follows:

	At 31 December 2019		At 31 December 2018	
	Number of shares held	Ownership interest	Number of shares held	Ownership interest
UAB "Ignitis grupė"	849,743,761	94.98%	849,743,761	94.98%
Other shareholders	44,886,572	5.02%	44,886,572	5.02%
Total	**894,630,333**	**100%**	**894,630,333**	**100%**

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

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

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

Associate	Country	Year of acquisition*	The Company's ownership interest		Profile of activities
			At 31 December 2019	At 31 December 2018	
Ignitis grupės paslaugų centras UAB (previously named Technologijų ir Inovacijų Centras UAB)	Lithuania	2013	26.84%	29.012%	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

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

As at 31 December 2019, the number of the Company's employees was 2,374 (31 December 2018: 2,387).

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 Energy Regulatory Council (hereinafter "the Council", "Commission", NERC).

The Council sets the price 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 Council.

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 2019, the Council established the price caps for the electricity distribution services for the year 2020 as follows:

- electricity distribution services via medium voltage networks – 1.076 EUR ct/kWh (excl. VAT) (2019: 0.862 EUR ct/kWh (excl. VAT));
- electricity distribution services via low voltage networks – 2.092 EUR ct/kWh (excl. VAT) (2019: 1.871 EUR ct/kWh (excl. VAT)).

An increase in the electricity distribution service price cap was determined by provisions of the Law on Special Conditions of Land Use, which will take effect as from 1 January 2020. They provide for the obligation to register special conditions for the use of land in cases where the Company's facilities necessary for electricity distribution activity are installed on land plots. The distribution service price cap is also affected by expenses of payment and administration of one-time compensations for land easements approved by the Government on 25 July 2018.

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

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

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 Council 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 Council. On 31 October 2019, the Council established the price cap for the natural gas distribution service for the year 2020 as follows:

On 31 October 2019, the NERC set the revenue cap at EUR 36,965,476 for the natural gas distribution services effective for the year 2020, and if dividing this cap by the projected annual gas distribution volume 7,254 GWh effective for the year 2020, forecasted price of natural gas distribution service for the year 2020 will amount to 5.10 EUR ct/MWh (excl. VAT) (2018: 5.32 EUR ct/MWh (excl. VAT)).

Approval of financial statements

The Company's management approved these financial statements on 10 March 2020. 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.

The Company shareholders have the right to request the amendment of these financial statements after their approval in accordance with the laws and regulations of the Republic of Lithuania.

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.

All amounts in the financial statements of the Company are presented in the euros (EUR). 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

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2019.

a) *New or amended standards and interpretations*

- **IFRS 16: Leases**

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

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

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

All amounts in EUR thousands unless otherwise stated

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

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

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

	1 January 2019
Future minimal payments for non-cancellable operating lease agreements as at 31 December 2018	**32,028**
To deduct: servicing costs of the lease contracts of vehicles*	(7,532)
To deduct: contracts unrenewed or terminated before 1 January 2019*	(147)
To deduct: differences between maximum and actual amounts of use or payments of contracts of vehicles*	(13,741)
To add: differences between maximum and actual amounts of use or payments of contracts of buildings*	3,964
To add: contracts of right of use of land*	1,309
To add: correction of initial recognition	776
Adjusted future minimal payments for non-cancellable operating lease agreements as at 31 December 2018	**16,657**
Weighted average incremental borrowing rate as at 1 January 2019	1.05 %
Calculated lease liabilities with applied interest rate as at 1 January 2019	15,864
Lease liabilities recognized as at 1 January 2019	**15,864**
whereof:	
Short-term lease liabilities	2,880
Long-term lease liabilities	12,984

***In 2018, under IAS 17 leases were initially measured at possible maximum amount of use or maximum payments, since the actual need of usage was unknown. The initial valuation also included maintenance and servicing costs under the contracts. Moreover, initial valuation included agreements that were later scoped out from IFRS 16 Leases – in particular leases of assets for which the lessor has substantive substitution rights. Contracts of right of use of land were not included in the initial valuation. Following the review of lease contracts due to IFRS 16 Leases implementation, future payments under non-cancellable leases were restated to actual contract utilisation amounts and payments, less maintenance and servicing costs and less agreements out of scope of IFRS 16 Leases.

The Company has lease contracts for various items of land, premises, vehicles and other assets. Before the adoption of IFRS 16 Leases, the Company classified each of its leases (as lessee) at the inception date as operating lease. Refer to Note 2.13 for the accounting policy applied before 1 January 2019.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 2.13 for the accounting policy applied after 1 January 2019. The following specific transition requirements and practical expedients that the standard provides were applied by the Company:

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics,
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application,
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application,
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**
  The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. Management assessed that adoption of new standard amendment for the first time had no significant effect on financial statements of the Company.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**
  The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. Management assessed that adoption of new standard amendment for the first time had no significant effect on financial statements of the Company.

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the

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

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

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

  - ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*****:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
  - ***IAS 12 Income Taxes*****:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
  - ***IAS 23 Borrowing Costs*****:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

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

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

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management has assessed that adoption of new standard will have no significant effect on financial statements of the Company.

- **Conceptual Framework in IFRS standards**
  The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- **IFRS 3: Business Combinations (Amendments)**
  The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. At the moment Management is assessing the effect of new standard amendment on financial statements of the Company.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. At the moment Management is assessing the effect of new standard amendment on financial statements of the Company.

- **Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)**
  The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. At the moment Management is assessing the effect of new standard amendment on financial statements of the Company.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. At the moment Management is assessing the effect of new standard amendment on financial statements of the Company.

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

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 profit or loss and other 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 as one geographical segment. 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 2004 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 life of an intangible asset (right to use the land which has a servitude) is indefinite, therefore, these assets are not subject to amortisation. Useful life of intangible assets are indefinite since the right to use the land is granted for an indefinite period of time according to the conditions of agreements for compensation for servitudes as well as Clause 4.130 of Civil code. Accordingly, right to use the land (to which servitude is applied) is retained by the Company regardless of the condition, repairs or renewals of Company's assets constructed on the mentioned land. Since, right-to-use the land is indefinite both contractual and statutory servitudes are out of scope of IFRS 16 lease. However, the Company has accounted for provision to compensate land owners for servitudes in accordance with requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets (see Note 2.17 Provisions). If provision is remeasured due to changes in underlying assumptions according to the Company's accounting policy choice respective adjustment is recorded in caption of intangible assets.

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. If the value of the asset changes, such change is accounted for by decreasing/increasing the value of the servitudes.

(c) Special conditions on land use (protection zones)

The Company's intangible assets includes the Company's obligations to register and the right to use a third-party land on the basis of special conditions on land use. The accounting policies applied are similar to those applied for (b) 'Servitudes'.

(d) Other intangible assets

All amounts in EUR thousands unless otherwise stated

Other 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 installations 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.

Class 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 borrowing costs (Note 2.12).

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 the equity of the Company. 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:

	Accounting method	Useful life
Buildings	Revaluation	15–60 years
Whereof:		
Engineering constructions	Revaluation	50 years
35-110 kV transformer substation constructions	Revaluation	35 years
6-10 kV electricity distribution constructions	Revaluation	35 years
10/0.4 kV transformer constructions	Revaluation	35 years
Communication and operation system constructions	Revaluation	15–25 years
Structures, equipment, and electricity networks	Revaluation	5–50 years
Whereof:		
35-110 kV transformer substation equipment (excl. constructions)	Revaluation	30 years
6-10 kV distribution equipment (excl. constructions)	Revaluation	30 years
10/0.4 kV capacity transformers	Revaluation	30 years
35 kV cables and lines	Revaluation	40-45 years
0.4-10 kV cables and lines	Revaluation	15–40 years
35-110 kV capacity transformers	Revaluation	40 years
Communication and operation system equipment (excl. constructions)	Revaluation	5–45 years
Hydrotechnical structures and equipment	Revaluation	50–75 years
Gas distribution pipelines and their equipment	Cost	13–55 years
Gas technological equipment and structures	Cost	18–36 years
Other property, plant and equipment	Revaluation	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 class of property, plant and equipment when it is completed and ready for the intended use.

2.7 Financial assets

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.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price as disclosed in Note 2.18. 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.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income (OCI), it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Company subsequent to initial recognition 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 represent solely payments of principal and interest. 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 other comprehensive income</u>

The Company does not have financial assets accounted for at fair value through other comprehensive income.

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

The Company did not have these types of financial instruments.

<u>Expected credit losses</u>

The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets 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.

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 of overdue periods. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics, i.e. receivables from UAB „Ignitis grupė" group companies, receivables from other corporate customers and receivables from private individuals. The non-recoverability analysis is conducted for the last 3 years in order to determine the general default ratio. Forward looking information is featured in to determinte the appropriate loss rate.

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 borrower, 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:

1 stage - upon granting of a loan, 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 stage - upon establishing that the credit risk related to the recipient of the loan 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. 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) is calculated on the carrying value of the financial assets, without adjusting it by the amount of expected credit losses.

3 stage – the Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the.

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.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

Derecognition of financial assets

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 Right-of-use assets

Policy applicable from 1 January 2019.

Right-of-use asset is an asset that shows the Company's right to use the leased asset within the lease period. Since 1 January 2019, the Company recognises right-of-use assets for all leases, including the subleases of right-of-use assets, except for leases of intangible assets, short-term leases and low-value leases.

Initial measurement of right-of-use assets

At the commencement date, a lessee measures the right-of-use asset at cost. The cost of the right-of-use asset shall comprise of the following: the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received. The Company incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period. The Company recognises such costs as part of the cost of the right-of-use asset when it incurs an obligation for those costs.

All amounts in EUR thousands unless otherwise stated

Subsequent measurement of right-of-use assets

After the commencement date, the Company measures the right-of-use asset applying a cost model. Applying the cost model, the Company measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability.

The Company applies the depreciation requirements in IAS 16 Property, Plant and Equipment in calculating the depreciation of the right-of-use asset.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

• Land	from 2 to 99 years
• Buildings	from 2 to 10 years
• Vehicles	from 3 to 5 years
• Other right-of-use assets	from 3 to 38 years

If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the Company calculates the depreciation of the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Company calculates the depreciation of the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Company presents right-of-use assets in the statement of financial position separately from intangible assets and property, plant and equipment.

2.9 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.

2.10 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.

2.11 Trade payables

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.

2.12 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 and its cost is greater than 100,000 EUR, are added to the cost of those assets. Other borrowing costs are recognised as expenses when incurred.

2.13 Lease liabilities

a) *Accounting policy applicable from 1 January 2019*

Initial measurement of lease liabilities

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date, the Company measures the lease liability at the present value of the lease payments to be made over the lease term. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the lessee's incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date: fixed payments (including in substance lease fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date, amounts expected to be payable by the Company under residual value guarantees, the exercise price of a purchase option if the Company is reasonably certain to exercise that option and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. Variable lease payments that depend on an index or a rate include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as LIBOR) or payments that vary to reflect changes in market rental rates. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

Subsequent measurement of lease liabilities

After the commencement date, the Company measures the lease liability by: increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made, and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

Interest on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The periodic rate of interest is the discount rate, or if applicable the revised discount rate.

After the commencement date, the Company recognises in profit or loss unless the costs are included in the carrying amount of another asset applying other applicable standards, both: interest on the lease liability and variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

Reassessment of lease liabilities

After the commencement date, the Company remeasures the lease liability to reflect changes to the lease payments. The Company recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Company recognises any remaining amount of the remeasurement in profit or loss.

Revised discount rate

The Company remeasures the lease liability by discounting the revised lease payments using a revised discount rate if there is a change in the lease term. The Company determines the revised lease payments based on the revised lease term, or if there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances in the context of a purchase option. The Company determines the revised lease payments to reflect the change in amounts payable under the purchase option.

If the lease terms have changed or if the assessment of an option to purchase an asset changes, the Company determines the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined.

Unchanged discount rate

The Company remeasures the lease liability by discounting the revised lease payments, if either:

- there is a change in the amounts expected to be payable by the Company under a residual value guarantee. The Company determines the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.

- there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including, for example, a change to reflect changes in market rental rates following a market rent review. The Company remeasures the lease liability to reflect those revised lease payments only when there is a change in the cash flows (i.e. when the adjustment to the lease payments takes effect).

The Company determines the revised lease payments for the remainder of the lease term based on the revised contractual payments.

In discounting the revised lease payments, the Company uses an unchanged discount rate, unless the change in lease payments results from a change in variable interest rates. In that case, the Company uses a revised discount rate that reflects changes in the interest rate.

Lease modifications

The Company accounts for a lease modification as a separate lease if both:
- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, the Company does the following:
- allocates the consideration in the modified contract;
- determines the lease term of the modified lease; and
- remeasures the lease liability by discounting the revised lease payments using a revised discount rate.

For a lease modification that is not accounted for as a separate lease, the Company accounts for the remeasurement of the lease liability by:
- decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The Company recognises in profit or loss any gain or loss relating to the partial or full termination of the lease;
- making a corresponding adjustment to the right-of-use asset for all other lease modifications.

The Company presents lease liabilities separately from other liabilities in the statement of financial position. Interest expenses of a lease liability is presented separately from the depreciation of right-of-use assets. Interest expenses of a lease liability are a component of financial costs, presented in the statement of profit (loss) and other comprehensive income.

b) Accounting policy applicable before 1 January 2019

In the comparative period, the Company as a lessee classified leases that transfer substantially all of the risks and rewards of ownership as finance leases and all other leases as operating leases. For the purpose of a finance lease, upon initial recognition the leased assets were measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset. Assets held under operating leases were not recognized in the Company's statement of financial position. Instead, payments made under such leases were recognized in profit or loss on a straight-line basis over the term of the lease.

The Company is a lessor

At inception of a contract, the Company, as a lessor, determines whether the lease is a finance lease or an operating lease. If the Company determines that the lease transfers substantially all of the risks and rewards of ownership of the underlying asset, the lease is a finance lease. Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Lease payments are accounted for on a straight-line basis over the lease term and recognised as revenue in the statement of profit or loss and other comprehensive income based on its lease nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent payments are recognised as revenue in the period in which they are earned.

The accounting policies applied by the Company as a lessor in the comparative period were similar to those in IFRS 16.

2.14 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 2019, an income tax at a rate of 15 per cent was applicable in Lithuania (2018: 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.

Disposal of accumulated tax losses

Upon disposal of accumulated tax losses carried forward to the Group companies, the Company derecognises deferred income tax asset (if such was recognised for disposed tax losses carried forward), consideration for disposed accumulated tax losses is recognised in Statement of profit or loss and other comprehensive income under deferred tax expenses caption.

Consideration received is disclosed under "Realised (paid) income tax" caption in the statement of cash flows.

2.15 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. If an employee belongs to labour union of the Company, he/she is also entitled to additional retirement benefit according to the collective agreement of the Company. A liability for such pension benefits is recognised in the statement of profit or loss and other 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.

2.16 Government 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 profit or loss and other comprehensive income, less related expenses.

2.17 Provisions

Provisions are recognised when the Company has a legal obligation or irrevocable commitment as a result of the past 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. Expenditures 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.
Payments of compensations to land owners are recorded as decreases of provision, while remeasurement of provision due to changes in underlying assumptions is recorded as change in respective intangible asset (Note 2.5).

Provisions for registration of protection zones

Provisions for registration of protection zones, compensations 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. Expenditures related to provision for registration of protection zones and compensations are recognised as intangible assets based on the 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. When discounting is applied, increase in the provisions reflecting the period of past time is accounted for as finance expense.

Payments related to registration of protection zones are recorded as decreases of provision, while remeasurement of provision due to changes in underlying assumptions is recorded as change in respective intangible asset (Note 2.5).

2.18 Revenue recognition

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 regulatory environment, 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 2018 the Company no longer directly engages in supplying and distribution of electricity to household customers (refer to Note 32).

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 Council (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) Connection fees

Connection fees obtained by the Company are non-refundable upfront fees paid by the customers for the connection to electricity and gas distribution network. The Company signs separate agreements with customers for connection services. Company also signs a distribution agreement with business customers for electricity distribution or has an implied contract (refer to Note 4 for a significant judgment applied) for electricity distribution service with private customers and gas distribution service with business and private customers. Connection fees do not represent a separate performance obligation from the sale of ongoing distribution of electricity or gas services as are highly interrelated. Therefore, revenue from connection fees is deferred and recognized as revenue over the the estimated average useful life of assets providing the connection service, being 27 years for electricity grid and 46-55 years on for gas grid. Connection fees received from customers which are deferred are accounted as liabilities under connection contracts with customers in the statement of financial position.

(d) PSO Services

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

Management has applied a significant judgment and as further discussed in Note 3 concluded that the Company acts as an agent in relation to PSO funds collection from customers. Accordingly PSO funds are considered as amounts collected on behalf of third parties and not reflected in the Company’s revenue from contracts with customers.

2.19 Impairment of assets

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. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit (loss) and other comprehensive income under the same item as impairment expenses.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level.

2.20 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.

2.21 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.

2.22 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.

2.23 Related parties

Related parties are defined as shareholders, heads of administration and their deputies, their close family members, state-owned enterprises and companies that directly or indirectly (through the intermediary) control the Company or are controlled by, or are under common control with the Company, provided such relationship empowers one of the parties to exercise control or significant influence over the other party in making financial and operating decisions.

2.24 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.

2.25 Fair value

Fair value is 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 measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: fair value of assets is based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: fair value of assets is based on other observable market data, directly or indirectly.
Level 3: fair value of assets is based on non-observable market data.

2.26 Events after the reporting period

All events after the reporting period (adjusting events) are accounted for in the financial statements provided that they are related to the reporting period and have a significant impact on the financial statements. Events after the reporting period that are significant but are not adjusting events are disclosed in the notes to the financial statements.

2.27 Regulated activities

The National Energy Regulatory Council 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 Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

a) Judgments

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Determinining whether contract is a lease

Management of the Company analyzed whether statutory and contractual servitudes are in scope of IFRS 16 Lease and concluded that is is not in scope since both statutory and contractual servitudes are not limited in time and can be used by the Company for a indefinite period of time.

Determining the lease term of contracts with renewal and termination options – the Company as lessee

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Company included the renewal period as part of the lease term for leases of premises and infrastructure with shorter non-cancellable period (i.e., one to three, three to five, five to seven years, etc.). The Company usually exercises its option to renew for these leases. There are no renewal options for leases of premises with longer non-cancellable periods (i.e. 10 years). The renewal options for leases of motor vehicles are not included as part of the lease term because the Company typically leases motor vehicles for not more than five years. Lease of the state-owned land is not subject to an extension clause, after which the lessee has a pre-emptive right to extend the lease. The periods covered by termination options are included as part of the lease term only when they are reasonably certain to be exercised.

Determining whether the Company acts as a principal or agent in relation to electricity transmission

In providing electricity distribution service, the Company acquires electricity transmission services from transmission grid operator. Management of the Company analysed related contracts with transmission grid operator and contracts with customers, also evaluated applicable regulatory environment and having considered arguments provided further concluded that it acts as a principal in relation to transmission services:

- According to the Law on electricity electricity distribution service comprise of electricity transmission over high voltage grid, systemic and distribution over low and mid-voltage grid services. Electricity distribution services are provided by the distribution grid operator (i.e. the Company).
- The Company controls tramission services before transferring it to the end customer on the following grounds:
  - The Company is primarily responsible for electricity distribution service towards end customers.
  - The Company bears a risk of loss in case of outage of electricity, regardless of whether there was transmission or distribution grid failure.
  - The Company has discretion in establishing the final distribution price and transmission component is not re-charged on a pass-through principle.

Determining whether the Company acts as a principal or agent in relation to PSO

Management has applied a significant judgment and concluded that the Company acts as an agent in relation to PSO funds collection from customers due to the following argumentation:

1) the Company is not responsible for PSO projects / initiatives, accordingly it is not responsible that PSO funds are used for their intended purpose,
2) the Company is not charged to any inventory risk,
3) the Company has no legal power to establish pricing of this component.

Determining whether connection of a new customer to the grid is a separate performance obligation from ongoing distribution service

Management concluded that the Company has an implied contract for distribution service with private customers for electricity and gas distribution and business customers for gas distribution due to the following:

- the Company is a major gas and electricity distribution system operator in Lithuania;
- the Company is ultimately responsible for distribution service to end customers according to the laws and regulations applicable for Company's operations;
- Electricity and gas distribution price caps are approved by the Council and charged to end customers by electricity and gas suppliers.

Having considered that the Company has either an ongoing distribution service contract or an implied distribution service contract (refer above) with a new customer for both gas and electricity distribution, management of the Company also concluded that connection fees do not represent a separate performance obligation from the sale of ongoing distribution service, since they are both highly interrelated due to the following:

- Majority of new customers pay the the connection fees with the only reason being to get an ongoing access to the grid, so from the perspective of a customer there is one single service the Company is providing to its customers, which is ongoing access to the grid,
- connection fee does not represent 100% of connection costs incurred by the Company and significant part of connection costs is collected by the Company through the distribution tariff,
- connection and ongoing distribution services are highly interdependent, as ongoing access can not be provided without providing the connection of the customer to the grid first.

b) Estimates and assumptions

Revaluation and impairment of property, plant and equipment in year 2018

The Company accounts for the property, plant and equipment of the electricity business segment (CGU) at a revalued amount in accordance with IAS 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 independent valuator. The fair value of assets was determined using the income and cost approach (Note 5).

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 as at 31 December 2018. An increase in the value of assets in the amount of EUR 134.7 million, without deductions for deferred income tax, was recognised in other 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 in profit or loss (Note 5).

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 5).

Having assessed all principal assumptions and performed the recoverable value assessment, the Company had 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 previously recorded impairment of the gas business segment (Note 5).

Test on the need for revaluation and impairment of property, plant and equipment in year 2019

At the reporting date of 31 December 2019, the Company's assets were tested for significant changes in fair value (electricity operating segment) or impairment (for intangible assets with indefinite useful life and for gas operating segment) using the discounted cash flow method. Discounted cash flows were calculated in accordance with the legal acts and methodologies regulating the activities of gas, electricity distribution and supply activity, effective as at 31 December 2019.

The assessment of the fair value of property, plant and equipment used in the electricity operating segment as at 31 December 2019 included the cash flow forecasts until 2059 as the distribution activity is regulated on the basis of the regulated base of property, plant and equipment, which mostly consists of assets with long useful life (40 years) – electricity lines. The Company has determined that the fair value of property, plant and equipment of electricity operating segment differs from the carrying value of this property not more than by 5 percent. In the opinion of the management, this difference is not material, therefore the Company's management decided that no adjustments for carrying value is needed.

An impairment test for property, plant and equipment used in the gas operating segment (measuring the recoverable amount) was carried out by making cash flow forecasts until 2074 for the natural gas operating segment as the gas distribution activity is regulated on the basis of the regulated base of property, plant and equipment, which mostly consists of assets with long useful life (55 years); a continuous cash flow has been estimated beyond the year 2074. The Company's management found no need to account for an additional impairment of these assets or a reversal of existing impairment, since recoverable value does not differ by more than 5% from carrying value.

For more information on tests performed refer to Note 5.

Provision for statutory servitudes

On 1 November 2017, amendments to the Law on Electricity 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 Electricity 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 compensations for damages related with the establishment of statutory servitudes (which came into effect on 10 July 2004). The methodology on the payment of servitudes 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. This estimate included a significant assumption on the number of land owners who will approach the Company for compensation, since the law prescribed the Company's obligation to compensate those land owners which approached the Company for it. At the date of initial recognition, the Company recognized EUR 28,563 thousand of intangible assets (assets with indefinite useful life carried at cost less impairment) and EUR 28,725 thousand (at discounted value) of non-current liability provision under IAS 37. The amount of compensations paid in the period from 2018 until 2019 was EUR 1,674 thousand. Provision for compensation for servitude was reduced accordingly.

At the end of 2019, the Company assessed the key assumptions used to estimate the provision, i.e. the expected timing of compensation, the number of claimants, the period over which full payment will be made, and the discount rate. On the basis of the historical information available as well as updated assumptions, the following was calculated and accounted for: (a) EUR 26,426 thousand of the intangible assets; (b) EUR 23,018 thousand of the provision for non-current obligation; (c) EUR 3,893 thousand of the current portion of the provision for non-current obligation. 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 0.559% (31 December 2018 – 1.135%). In calculating the total amount of compensations, the percentage of customers who are unlikely to apply for compensations used was 15% (5% in 2018) based on the management estimates and the number of clients who actually applied during the period from 2018 to 2019. The period during which the customers will apply for compensation is 10 years from the effective date of the methodology with additional period of 1 year of the date of the submission of the request to pay the compensation (the terms of the methodology provide for two years from the date of the submission of the request to pay the compensation, but effectively the Company pays within one year). It should be noted that the value of the provision may vary depending on the number of actual applicants, a sensitivity analysis of this significant assumption is provided below:

Number of applicants, %	80 proc.	85 proc.	90 proc.	95 proc.	100 proc.
Change in provision for compensations of servitudes (thousand EUR)	-1,725	-	+1,770	+3,530	+5,280

See Note 23 for more details.

Provision for special conditions on land use (protection zones)

On 6 June 2019 the Lithuanian Republic Law on Special Conditions on Land Use introducing obligation for the Company to register special protection conditions (protection zones) of a land owned or near the Company's infrastructure in the state real estate registry and pay compensations to land owners for the land covered by the protection zones. This Law defines the procedure and principles for registration of these special land areas and requires to pay compensations for the use of special land areas under the procedure approved by the Government of the Republic of Lithuania.

When providing information to the Council on the price caps for electricity and gas for the year 2020, the Company assessed that the Lithuanian Republic Law on Special Conditions on Land Use will come into force on 1 January 2020 and that all special conditions on land use must be registered within 3 years period and compensation paid accordingly. Accordingly, the Council has included the cost of the registration of protection zones in the revenue cap for electricity and gas distribution effective for the year 2020. Compensation costs for protection zones were excluded from the price cap for distribution for the year 2020. Electricity distribution price for the year 2020 includes EUR 8,059 thousand of protection zone registration costs, while gas distribution price – EUR 269 thousand. The provision of EUR 8,328 thousand was therefore recognized as the best management estimate (Note 23).

No provision is accounted for protection zone registration costs expected to be incurred in 2021 and 2022, as the new wording of the regulation on Real Property Register is not yet approved by the relevant authorities and there is an uncertainty over the exact scope of work needed to register the protection zones.The management estimates that the compensation costs for the registration of protection zones in 2021 and 2022 could be similar to those of 2020 and amount to EUR 8.3 million annually, and EUR 24.9 million in the period from 2020 to 2022, taking into account that the registration process will require the assistance of surveyors and/or other qualified professionals to develop plans/maps for special land use conditions. In case the Government of the Republic of Lithuania approves the new wording of the Regulations of the Real Estate Register and services of surveyors and/or other qualified professionals are not needed to develop plans/maps for special land use conditions, additional service costs for the registration of protection zones (registration, customer information, communication and other costs) associated with this obligation would amount to EUR 3.6 million.
No provision is accounted for compensation of land owners for the protection zones since the Government has not yet passet a methodology for payment of compensations for special protection zones that would describe the compensation mechanism and terms and therefore the Company is not able to determine reliably the amount of expenditures expected to be incurred for it.

Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Provision for expected credit losses of trade receivables

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e. by customer type).

The provision matrix is initially based on the Company's historical observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., changes in gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables is disclosed in Note 11.

Accounting for long-term employee benefits

The amount of present value of the retirement obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, future turnover of employees and mortality rates. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. For more information refer to Note 22.

Estimation of overdeclaration of electicity usage by private customers and accounting for deferred revenue

In the circumstances when the tariff in subsequent period is higher than in current period according to the historical evidence of the Company it has been identified that private customers tend to overdeclare the consumption of electricity in the last months of the year. Since Company's electricity distribution revenue depends on declarations of electricity consumed by the customers, overdeclaration increase Company's revenue and therefore the Company needs to estimate the amount of the overdeclared consumption to evaluate the amount of deferred revenue. Estimation is based on historical consumption by the customers as well as Company's assessment of technological losses in the electricity grid. All assumptions are reviewed at each reporting date. For more information refer to Note 25.

4 Change in management judgment on applying accounting methods

Connection fees

The Company accounted for the impact of the first-time adoption of IFRS 15 starting from 1 January 2018 using the modified retrospective approach. Due to adoption of IFRS 15 the Company reduced its retained earnings by EUR 73 million (which represented the deferred new customers connection fees for electricity segment) and increased deferred revenue by a respective amount. The tax impact was equal to EUR 11 million and was accounted for within retained earnings as well.

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

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

Following the transfer of electricity public supply activities as of 1 October 2018 (as described in Note 32), new customer connection in electricity segment was reconsidered as a separate performance obligation under IFRS 15, accordingly related revenue from 1 October 2018 was recognized when connection service was provided. The accumulated deferred connection fee revenue for electricity segment as at 1 October 2018 continued to be recognized over the time.

Management of the Company has extensively analysed IFRS 15 accounting policies, which were also reviewed by the Bank of Lithuania as an oversight body of listed entities, also auditors were involved in the discussions. The accounting policy applied upon initial adoption of IFRS 15 was assessed as appropriate after evaluating management judgement made in a number of areas. However, one year after mandatory implementation of the new standard, the Company observed the development of relevant industry practice, referred to the developing authoritative guidance on IFRS 15 application, analysed "implied contract" concept (as per IFRS 15 requirements), and consulted with its auditors, and as a result the Company has reconsidered its accounting treatment.

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

PSO Services

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

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

During year 2019 the Company changed the method of accounting for PSO Services by treating the Company as an Agent in relation to the PSO Services. Such decision has been taken after extensive analysis of relevant industry practice and taking into consideration the facts, that the Company is not responsible for PSO projects / initiatives, accordingly not responsible that PSO funds are used for their intended purpose. The Company is not charged to any inventory risk, as well as the Company has no legal power to establish pricing of this component.

All amounts in EUR thousands unless otherwise stated

The changed accounting policy allows the Company to be better comparable to its peers within the industry (especially, where such PSO component is not included in the tariff). This change in accounting treatment is accounted for retrospectively and comparative information is restated (see below).

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

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

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

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

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

All amounts in EUR thousands unless otherwise stated

Retrospectively corrected captions of statement of financial position:

	2018.12.31 *(previously reported)*	a) Reversal of IFRS 15 initial recognition adjustment (gas segment)	b) Depreciation of reversed impairment	c) Deferral of electricity connection fees	d) Deferral of gas connection fees	e) Accounting for revenue from connection fee over-the-time	f) Reclassification of short term portion of deferred revenue	**2018.12.31** *(restated)*
ASSETS								
Non-current assets								
Property, plant and equipment	1,428,529	43,512	(940)	-	-	-	-	1,471,101
Intangible assets	35,751							35,751
Prepayments for non-current assets	3							3
Investments in associates	2,459							2,459
Other non-current financial assets	210							210
Total non-current assets	**1,466,952**	**43,512**	**(940)**	**-**	**-**	**-**	**-**	**1,509,524**
Current assets								
Total current assets	**124,690**	-	-	-	-	-	-	**124,690**
Total assets	**1,591,642**	**43,512**	**(940)**	-	-	-	-	**1,634,214**
EQUITY AND LIABILITIES								
Authorised share capital	259,443							259,443
Revaluation reserve	154,834							154,834
Legal reserve	25,944							25,944
Retained earnings	69,565							69,565
Other comprehensive income	114,583							114,583
Current year profit	15,665	-	(940)	(4,193)	(6,265)	998	-	5,265
Total equity	**640,034**	**-**	**(940)**	**(4,193)**	**(6,265)**	**998**	**-**	**629,634**
LIABILITIES								
Non-current liabilities								
Borrowings	448,534							448,534
Deferred income tax liabilities	10,276	-	-	(740)	(1,106)	11	-	8,441
Liabilities under contracts with customers	140,139	42,635	-	4,933	7,371	(1,009)	(333)	193,736
Grants and subsidies	13,052							13,052
Long-term employee benefits	1,710							1,710
Other non-current liabilities	3							3
Provisions	27,982							27,982
	641,696	**42,635**	**-**	**4,193**	**6,265**	**(998)**	**(333)**	**693,458**
Current liabilities								
Borrowings	182,930							182,930
Trade and other payables	77,045							77,045
Accrued expenses and contract liabilities	49,937	877	-	-	-	-	333	51,147
	309,912	**877**	**-**	**-**	**-**	**-**	**333**	**311,122**
Total liabilities	**951,608**	**43,512**	**-**	**4,193**	**6,265**	**(998)**	**-**	**1,004,580**
Total equity and liabilities	**1,591,642**	**43,512**	**(940)**	**-**	**-**	**-**	**-**	**1,634,214**

All amounts in EUR thousands unless otherwise stated

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

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

Retrospectively corrected captions of statement of cash flows:

Correction of year 2018

	2018 (previously reported)	2018 (restated)	2018 difference
Cash flows from operating activities			
Net profit for the period	15,665	5,265	10,400
Adjustments for:			-
Income tax expenses	(10,324)	(12,159)	1,835
Depreciation and amortisation	57,527	58,467	(940)
Result of revaluation of property, plant and equipment	78,382	78,382	-
Change in value of property, plant and equipment	(28,791)	(28,791)	-
Amortisation of grants	(1,114)	(1,114)	-
Gain on transfer of the public supply activities	(17,330)	(17,330)	-
Share of (profit) of associates	(179)	(179)	-
(Gain)/loss on disposal and write-off of assets	4,752	4,752	-
Finance (income)	(89)	(89)	-
Finance costs	6,627	6,627	-
Elimination of other non-cash activities	(45)	(45)	-
Changes in working capital:			-
Trade and other receivables	(40,581)	(40,581)	-
Inventories, prepayments, deferred expenses and assets under contracts with customers	(1,712)	(1,712)	-
Amounts payable for property, plant and equipment	39,395	39,395	-
Trade and other payables, advance amounts received and liabilities under contracts with customers	(29,800)	(18,505)	(11,295)
Cash generated from operations	**72,383**	**72,383**	-
(Paid)/Realized income tax paid	(1,128)	(1,128)	-
Net cash flows generated from operating activities	**71,255**	**71,255**	-
			-
Net cash flows used in investing activities	**(292,714)**	**(292,714)**	-
Net cash generated from (used in) financing activities	**227,931**	**227,931**	-
Net increase (decrease) in cash and cash equivalents	6,472	6,472	-
Cash and cash equivalents (including the overdraft balance) at the beginning of the period	(4,206)	(4,206)	-
Cash and cash equivalents (including the overdraft balance) at the end of the period	**2,266**	**2,266**	-

All amounts in EUR thousands unless otherwise stated

5 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 installations	Vehicles	Computer hardware and communication equipment	Other PP&E	Construction-in-progress	In total
As at 31 December 2017										
Acquisition 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 (restated*)	**79**	**17,023**	**922,574**	**178,603**	**5,511**	**1,944**	**6,842**	**7,156**	**49,016**	**1,188,748**
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
Reclassifications between categories	-	1,717	194,895	55,713	1,296	-	1,970	2,535	(258,126)	-
Reclassification from/to inventories	-	-	-	-	-	-	-		1959	1959
Reversal of impairment	-	-	-	29,857	-	-	-	-	-	29,857
Impairment of construction in progress	-	-	-	-	-	-	-	-	(1,066)	(1,066)
Depreciation charge	-	(1,309)	(43,567)	(5,549)	(714)	(801)	(1,725)	(1,503)	-	(55,168)
Net book value as at 31 December 2018 (restated*)	**79**	**27,718**	**1,107,025**	**258,549**	**6,056**	**2,966**	**5,877**	**8,621**	**54,210**	**1,471,101**
As at 31 December 2018 (restated*)										
Acquisition 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	-	-	-	(14,318)	(535)	-	-	-	(1,066)	(15,919)
Net book value as at 01 January 2019 (restated*)	**79**	**27,718**	**1,107,025**	**258,549**	**6,056**	**2,966**	**5,877**	**8,621**	**54,210**	**1,471,101**
Additions	-	7	255	-	-	427	45	884	172,948	174,566
Disposals	-	(75)	(89)	-	-	(82)	(2)	(60)	-	(308)
Write-offs	-	(20)	(3,970)	(216)	(42)	-	(22)	(35)	-	(4,305)
Reclassifications between categories	-	2,156	130,974	50,302	469	5	1,189	2,418	(187,513)	-
Impairment of construction in progress	-	-	-	-	-	-	-	-	(3,985)	(3,985)
Depreciation charge	-	(4,430)	(55,252)	(8,693)	(717)	(938)	(1,787)	(1,730)	-	(73,547)
Net book value as at 31 December 2019	**79**	**25,356**	**1,178,943**	**299,942**	**5,766**	**2,378**	**5,300**	**10,098**	**35,660**	**1,563,522**
As at 31 December 2019										
Acquisition cost	79	29,783	1,234,294	423,861	12,774	3,255	7,080	11,811	39,645	1,762,582
Accumulated depreciation	-	(4,427)	(55,351)	(110,550)	(6,517)	(877)	(1,780)	(1,713)	-	(181,215)
Accumulated impairment	-	-	-	(13,369)	(491)	-	-	-	(3,985)	(17,845)
As at 31 December 2019	**79**	**25,356**	**1,178,943**	**299,942**	**5,766**	**2,378**	**5,300**	**10,098**	**35,660**	**1,563,522**

** Part of amounts does not agree with financial statements of 2018 due to the change in accounting methods disclosed in Note 4*

5 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.

As at 31 December 2019, the Company reviewed aged construction in progress and determined that some of the projects will not be executed, therefore, an impairment of construction in progress is recognised. Projects will be written off in 2020.

In 2019, the Company's borrowing cost capitalised as part of property, plant and equipment amounted to EUR 295 thousand; the interest rate was established at 1.97% (2018: interest capitalised amounted to EUR 438 thousand; the interest rate was established at 1.42%).

Test on the need for revaluation of electricity and impairment test on gas business segments performed by the Company in 2019

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 (gas business segment (CGU)) could be impaired and whether the carrying amount of property, plant and equipment recorded at the revalued amount (electricity business segment (CGU)) does not differ materially from their fair value (according IAS 16: when the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required). The Company performs the impairment test and revaluation of assets, if such indications are found.

As at the reporting date of 31 December 2019, the Company performed a test of gas CGU and electricity CGU respectively for impairment and potential need of revaluation using the discounted cash flow method. Discounted cash flows were calculated in accordance with the legal acts and methodologies regulating the activities of natural gas, electricity distribution and warranty supply activity, effective as at 31 December 2019:

The legal acts and methodologies regulating the activities of natural gas and electricity distribution 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 Council'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 Council's Resolution No O3E-468 of 21 December 2018 and subsequent amendments;
- Methodology for Setting the Rate of Return on Investments ("the WACC Methodology") approved by the Council '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 Council'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 Council's Resolution No. O3E-464 of 21 December 2018 and subsequent amendments.

Test on the need for revaluation of property, plant and equipment attributed to the electricity business segment as at 31 December 2019

The electricity operating segment comprises property, plant and equipment carried at revalued amount with a carrying amount of EUR 1,244 million. The potential change in fair value of these assets was tested by making cash flow forecast for the period until 2059, because the electricity supply activity is regulated on the basis of regulated asset base, which mostly consists of assets with long useful life – electricity lines (useful life of 40 years).

The following key assumptions were used by the Company in making cash flow forecast:

- As from 2021, the amount of electricity distributed will rise by half of the GDP, e.g. the projected GDP growth in 2021 would be at 2.3 %; therefore, the projected growth of the amount of electricity distributed would be at 1.15%.
- When setting the price cap of the electricity distribution service for 2019, the Council approved by the Certificate of 17 October 2019 the rate of return on investments (hereinafter – WACC) equal to 5.04% for this period. Given that the WACC methodology requires to apply the same WACC calculation principles to the electricity and gas business segments, for the upcoming regulatory period of 2021–2025, the return on investments of 4.78% is calculated as the average between the rate of return on investments of 3.59% that was newly established by the Council 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. As from 2026 (in the long term), the pre-tax rate of return on investments of 5.96% is to be applied for the cash flow forecast period (as calculated according to: a) the calculation data, which is publicly available on the Council's website www.vert.lt, b) the WACC Methodology as approved by the Council, and c) projected market trends). In the long term, an assumption is made that the rate of return on investments (pre-tax equals to 5.96%, after 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: (1) size of a business, if compared with the Lithuanian economy and other local companies (one of the largest companies in Lithuania); (2) monopolised and securely regulated business; (3) model compliance with the current methodology defined in regulatory legislation, which does not provide for any additional risk premiums.
- Discount rate of 5.07% (after tax) (5.96% - pre-tax) was used to calculate discounted cash flows.
- Forecasted operating expenses for the year 2020 are based according to the approved budget, for the period of 2021-2030 according to ESO strategy and expected reduction in operating costs (forecasted operating expenses until 2030 are expected to be approximately lower by 16% compared to the upper level approved by Council (calculations are based on forecasted macroeconomic assumptions (increase of payroll expenses and inflation))) due to implementation of activity excellence initiatives (process review,

robotisation, improvements) and data-driven solution that will enable to run business more efficiently. Forecasted changes since 2031 are according to the projected average annual consumer price index (CPI) and wage developments.

- 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 forecasted based on the ten-year investment plan for 2019–2028. A similar level to that in 2028 is expected from 2029 until 2030, however, more extensive investing is planned starting from 2031 and until 2036, 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 Council ('the Model') are expected to be implemented. It is planned that all items of technological assets that are currently depreciated or will become depreciated over the period until 2060 will be renewed until 2060.

- 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 Council and in view of paragraph 7 of the Electricity Methodology.

- The evaluation model foresees that when setting the price caps for distribution services in medium and low voltage networks in the period from 2019 to 2020; the difference in the level of revenue in the amount of 53 million (plus additional interest of EUR 0.567 million), which reduces the Company's income, will be refunded (via tariff) in the next regulatory period (from 2021), so the value of the assets will not change due to this Council decision 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.

Given that no significant changes have taken place in the regulatory environment for electricity and having assessed all above-mentioned assumptions and having performed the test on fair value assessment, the Company has identified that the carrying amount of property, plant and equipment attributed to the electricity business segment as at the reporting date of 31 December 2019 would increase immaterially (less than 5%), hence the management of the Company decided to withhold from making full revaluation to reflect the mentioned assets at new fair value.

Sensitivity analysis. At the end of 2019, the Company performed the sensitivity analysis on the fair value assessment in respect of changes in unobservable inputs using the following scenarios:

Sensitivity analysis scenario I: If the Council continued to calculate the return on investment based on historical acquisition cost of property, plant and equipment with only limited adjustments to the LRAIC model (as adjusted for the prices set for period from 2019 to 2020), rather than relied on the LRAIC model to its full extent, the value of the Company's property, plant and equipment would decrease approximately by EUR 400 million.

Sensitivity analysis scenario II: If the amount, i.e. EUR 53 million plus additional interest of EUR 0.5 million, by which the Company's distribution income for the years 2019 - 2020 was reduced is not reimbursed by the Council, the Company's revenue during the forecast period (from 2020 to 2059) would decrease by the aforesaid amount of EUR 53 million plus additional interest of EUR and 0.5 million, and the fair value of property, plant and equipment would decrease by EUR 49 million.

Sensitivity analysis scenario III: If the Council established the level of revenue from 2026 and applied 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 from 2026 as established by the Council in respect of the Company), plant and equipment would decrease by EUR 310 million.

Sensitivity analysis scenario IV: if the (pre-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 (after-tax)	*-20%*	*-10%*	*0%*	*10%*	*20%*
Discount rate (pre-tax), %	4.78%	5.36%	5.96%	6.56%	7.15%
Discount rate (after-tax), %	4.06%	4.56%	5.07%	5.58%	6.08%
Change in value of property, plant and equipment (million EUR)	457	213	0	-181	-333

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

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 independent valuator, 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, giving the difference of 46 million EUR.

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).

All amounts are presented in EUR thousand unless otherwise stated

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
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[1] type depreciation curves (the Iowa-curve method is based on study and scientific research performed at the University of Iowa). 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 were considered to 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.

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

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 Council 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 Council 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: a) the calculation data, which is publicly available on the Council's website, b) the WACC Methodology as approved by the Council, and c) 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;
- model compliance 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 Council ("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 Council 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 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 Council.

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 regulatory asset base (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 Council);
– 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 21)	-	10,002	10,002
Total	**134,713**	**(78,382)**	**56,331**

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 Council 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 Council'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 Council 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 Council 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 (million EUR)	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 2019 and 2018:

	Land	Buildings	Structures and machinery	Motor vehicles	Computer hardware and other communication equipment	Other PP&E	Construction in progress	Total
At 31 December 2018	109	30,148	1,116,825	1,993	10,234	7,664	52,575	1,219,548
At 31 December 2019	109	27,976	1,276,159	2,386	8,226	10,098	34,355	1,359,309

Assessment of the recoverable amount of property, plant and equipment in 2019 used in the gas operating segment.

The carrying amount of the property, plant and equipment, net of grants (EUR 6.1 million), attributable to the gas operating segment amounts to EUR 313 million. This property, plant and equipment is stated at acquisition cost less accumulated depreciation and impairment. The recoverable amount of these assets, which is the fair value less costs to sell, has been tested by making cash flow forecast for the period until 2074 for the natural gas operating segment, because the gas distribution activity is regulated on the basis of regulated asset base, which mainly consists of assets with long useful life – gas pipelines (useful life of 55 years).

The following key assumptions were used by the Company in making cash flow forecast:

- In setting the price cap of the gas distribution service for 2019–2023, the Council approved the rate of return on investments equal to 3.59% for this period. In 2020, WACC of 3.84 % (pre-tax) was applied for approving the natural gas distribution price, and, therefore, it was assumed that in the period from 2021 until 2023 the same WACC of 3.84 % (pre-tax) will apply. As 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 Council's website, the WACC (pre-tax) Methodology as approved by the Council, and projected market trends). In the long term, an assumption is made that the rate of return on investments will approximate the discount rate.

- discount rate of 5.07% (after tax) (5.96% pre-tax) was used to calculate discounted cash flows.
- Forecasted operating expenses for the year 2020 are based according to the approved budget, for the period of 2021-2030 according to ESO strategy and expected reduction in operating costs (forecasted operating expenses until 2030 are expected to be approximately lower by 16% compared to the upper level approved by Council (calculations are based on forecasted macroeconomic assumptions (increase of payroll expenses and inflation))) due to implementation of activity excellence initiatives (process review, robotisation, improvements) and data-driven solution that will enable to run business more efficiently. Forecasted changes since 2031 are according to the projected average annual consumer price index (CPI) and wage developments.
- 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 2019–2028. Starting from 2029 and until 2074, gradual decrease is expected to occur with each year.

Having assessed all above-mentioned assumptions and having performed an impairment test, the Company has identified that the carrying amount of property, plant and equipment attributed to the gas business segment as at the reporting date of 31 December 2019 would decrease immaterially (less than 5%), hence the management of the Company decided to withhold from making adjustments to the value of gas assets.

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 Council established the level of revenue for the gas business segment starting from 2023 and applied a 5% lower rate of return on investments, i.e. equal to 5.66% (pre-tax), an impairment of EUR 14 million would be recorded.

Sensitivity analysis scenario II: If the estimated after-tax discount rate was at 5.58% (which is 10% higher than the discount rate of 5.07% used in the long-term model), an impairment of EUR 35 million would be recorded. The sensitivity of the value of assets to the discount rate is presented in the table below:

Change in discount rate (after-tax)	*-20%*	*-10%*	*0%*	*10%*	*20%*
Discount rate (pre-tax), %	4,78%	5,36%	5,96%	6,56%	7,15%
Discount rate (postr-tax), %	4,06%	4,56%	5,07%	5,58%	6,08%
Change in value of property, plant and equipment (million EUR)	87	41	0	-35	-64

Assessment of the recoverable value of property, plant and equipment attributed to the Gas Business Segment in 2018 (restated as disclosed in Note 4)

The carrying amount of property, plant and equipment attributed to the Gas Business Segment, less grants, is equal to EUR 242.4 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 previously recorded impairment of the gas business segment established in prior periods.

All amounts are presented in EUR thousand unless otherwise stated

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:

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.

As at 31 December 2019 and 2018, the cost of acquisition of fully depreciated property, plant and equipment used by the Company was as follows:

	Structures and machinery	Gas distribution pipelines	Gas technological equipment and installations	Vehicles	Computer hardware and communication equipment	Other PP&E	In total
As at 31 December 2018	-	11,801	705	-	-	9	**12,515**
As at 31 December 2019	614	15,635	1,247	64	528	181	**18,269**

As at 31 December 2019 and 2018, the fair values of the Company's property, plant and equipment (recorded at acquisition cost) did not differ significantly from their carrying amounts:

Category of assets	Level 1	Level 2	Level 3
Gas distribution pipelines			299,942
Gas technological equipment and installations			5,766
Total			**305,708**

Disposal of property, plant and equipment

During 2019, the Company disposed the property, plant and equipment with a carrying amount of EUR 308 thousand and for the consideration of EUR 917 thousand. During 2019, the net result was recognised in the statement of profit or loss and other comprehensive income under the caption 'Other income' (Note 32).

All amounts are presented in EUR thousand unless otherwise stated

6 Intangible assets

	Patents and licences	Computer software	Other intangible assets	Rights to servitudes and security zones	Projects in progress	In total
As at 31 December 2017						
Acquisition cost	1,183	12,887	301	-	1,999	16,370
Accumulated amortisation	(1,141)	(9,552)	(226)	-	-	(10,919)
Net book value as at 01 January 2018	**42**	**3,335**	**75**	**-**	**1,999**	**5,451**
Additions	-	13	-	28,877	4,709	33,599
Reclassifications between categories	5	3,381	3	-	(3,389)	-
Amortisation charge	(43)	(3,213)	(43)	-	-	(3,299)
Net book value as at 31 December 2018	**4**	**3,516**	**35**	**28,877**	**3,319**	**35,751**
As at 31 December 2018						
Acquisition cost	1,188	16,281	304	28,877	3,319	49,969
Accumulated amortisation	(1,184)	(12,765)	(269)	-	-	(14,218)
Net book value as at 01 January 2019	**4**	**3,516**	**35**	**28,877**	**3,319**	**35,751**
Additions	-	-	-	9,890	4,127	14,017
Re-measurement of provision (Note 23)	-	-	-	(464)	-	(464)
Reclassifications between categories	-	3,851	-	-	(3,851)	-
Impairment losses	-	-	-	-	(35)	(35)
Amortisation charge	(4)	(4,415)	(31)	-	-	(4,450)
Net book value as at 31 December 2019	**-**	**2,952**	**4**	**38,303**	**3,560**	**44,819**
As at 31 December 2019						
Acquisition cost	213	19,482	244	38,303	3,595	61,837
Accumulated amortisation	(213)	(16,530)	(240)	-	-	(16,983)
Accumulated impairment	-	-	-	-	(35)	(35)
Net book value as at 1 January 2019	**-**	**2,952**	**4**	**38,303**	**3,560**	**44,819**

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 for servitudes 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 23).

At the end of 2019, the Company assessed the key assumptions used to estimate the provision, i.e. the expected timing of compensation, the number of claimants, the period over which full payment will be made, and the discount rate, and reassessed the provision. Change related to reassessment of provisions was reflected in intangible assets movement table above.

On 6 June 2019 the Lithuanian Republic Law on Special Conditions on Land Use introducing obligation for the Company to register special protection conditions (protection zones) and pay compensations. Accordingly, the Council has included the cost of the registration of protection zones in the revenue cap for electricity and gas distribution effective for the year 2020. For these reasons, the Company accounted for a provision for special conditions on land use (protection zones) in the category of *rights to servitudes and security zones*.

No intangible asset was recognized for compensation of security zones to land owners until the methodology for calculation of compensation will be approved by relevant authority.

As at 31 December 2019 and 2018, the cost of acquisition of fully amortised intangible asset still in use by the Company was as follows:

	Patents and licences	Computer software	Other intangible assets	In total
As at 31 December 2018	1,143	1,668	186	**2,997**
As at 31 December 2019	213	4,867	171	**5,251**

As at 31 December 2019, intangible asset was divided in the electricity and gas segment as follows:

	Patents and licences	Computer software	Rights to servitudes and security zones	Other intangible assets	In total
Electricity business segment	2,384	4	38,303	2,876	43,567
Gas business segment	567	-	-	684	1,251

All amounts are presented in EUR thousand unless otherwise stated

7 Right-of-use assets

Movement of the Company's right-of-use assets was as follows:

	Land	Buildings	Vehicles	Other right of use assets	Total
Period ended on 31 December 2019					
Balance as at the beginning of the period	-	-	-	-	-
Additions:					
Right of use assets as at 1 January 2019 (first time adoption of IFRS 16) (Note 2.2)	1,309	11,943	2,376	236	15,864
Signed lease contracts from 1 January 2019 to 31 December 2019	-	6,285	9,340	72	15,697
Write-offs and disposals	-	(6,418)	-	(16)	(6,434)
Depreciation	(32)	(2,189)	(2,389)	(87)	(4,697)
Balance as at 31 December 2019	**1,277**	**9,621**	**9,327**	**205**	**20,430**
As at 31 December 2019					
Acquisition cost	1,309	11,443	11,716	292	24,760
Accumulated depreciation	(32)	(1,822)	(2,389)	(87)	(4,330)
Balance as at 31 December 2019	**1,277**	**9,621**	**9,327**	**205**	**20,430**

Lease expenses recognized in the statement of profit or loss and other comprehensive income

The Company has lease contracts for various items of state-owned land, infrastructure and other asset. Leases of motor vehicles have lease terms between 3 and 5 years, office, warehousing premises – between 3 to 10 years. Lease of infrastructure have lease terms between 3 and 38 years, land – between 2 to 99 years. The Company also has premises and transport leases with lease terms of 12 months or less.

The Company's lease agreements provide for the right to change the scope of services within the maximum amount and price of services specified in the contract. The Company is not obligated to purchase maximum number of vehicles or any part of it. The Company has the right to terminate the contract with at least 6 days' prior notice to the lessor without incurring any additional financial obligations, and in the case of lease of office premises and infrastructure – with at least 14 months' prior notice without incurring additional financial obligations. A lease of land can be terminated prematurely without additional financial obligations.

The Company's short-term lease expenses are recognised in the statement of profit or loss and other comprehensive income as follows:

	Company	
	2019	2018
Current lease expenses (other expenses)	228	263
Lease expenses, total	**228**	**263**

8 Investments associates

Investments in associates

Movements of investments in associates in 2019 and 2018 were as follows:

	2019	2018
Carrying amount at 1 January	**2,459**	**2,382**
Dividends received	**(123)**	**(102)**
Share of profit/(loss) on investments in associates	**292**	**179**
Carrying amount at 31 December	**2,628**	**2,459**

The summarised financial information for the associates for the year 2019 (unaudited data) and the year 2018 (audited data) are presented below.

Condensed	Ignitis grupės paslaugų centras UAB (previously named Technologiju ir Inovacijų Centras UAB)		Verslo Aptarnavimo Centras UAB	
statement of financial position	At 31 December 2019	At 31 December 2018	At 31 December 2019	At 31 December 2018
Non-current assets	9,472	7,951	2,254	134
Total non-current assets	**9,472**	**7,951**	**2,254**	**134**
Cash and cash equivalents	421	1,156	209	1,837
Other current assets	4,765	4,138	4,123	1,760

All amounts are presented in EUR thousand unless otherwise stated

Total current assets	**5,186**	**5,294**	**4,332**	**3,597**
Other non-current liabilities	(1,033)	(157)	(1,380)	-
Total non-current liabilities	**(1,033)**	**(157)**	**(1,380)**	**-**
Borrowings	(3,315)	(3,455)	-	-
Other current liabilities	(2,228)	(2,522)	(4,027)	(2,763)
Total current liabilities	**(5,543)**	**(5,977)**	**(4,027)**	**(2,763)**
Net assets	**8,082**	**7,111**	**1,179**	**967**

9 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 amortised cost through profit or loss. Other financial assets consist of an investment in KŪB "Energy Efficiency Financing Platform" (Note 35).

	At 31 December 2019	At 31 December 2018
Non-current portion of mortgage loans granted (1)	154	210
Other non-current financial assets (2)	261	-
Total	**415**	**210**

1) The mortgage loans are repayable in instalments by 2027. These loans are secured over residential property. In 2019, the current portion of these loans amounted to EUR 56 thousand (2018: EUR 68 thousand) and was accounted for under trade and other receivables (Note 11). These loans were issued at a fixed interest rate ranging from 0.1% to 1%.

Fair value of mortgage loans does not differ materially from the carrying value as at 31 December 2019 and 2018 (Level 3 fair value estimate). The fair value of mortgage loans was estimated based on discounted cash flows at a rate of 1.80% (31 December 2018: 1.70%). 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 8.07% as at 31 December 2019 (2018: 7.97%).

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

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

By the management's judgment the Company does not have control over the Partnership because, under the terms of the Partnership Participants Agreement, the Company does not hold the majority of the votes in the Partnership participants meeting – a body that takes major decisions of the Partnership's activities. The only subject that requires the unanimous agreement of the participants is the modification of the Partnership participants agreement.

The main liability of the Partnership – to declare energy savings of at least 40 GWh by the end of 2020, using funded energy efficiency measures. The Company shall have the right to cease the membership in the Partnership on its own initiative, if the Partnership fails to declare required energy savings by the end of 2020. The investment policy of the Partnership includes certain qualitative criteria for investment effectiveness.

To ensure the financing of the Partnership activities in October 2019 VIPA signed an agreement with European Investment Bank (EIB) to provide a loan of EUR 12.5 million to the Partnership. The loan shall be for a minimum of 4 and a maximum of 10 years. Under the terms of the Partnership Participants Agreement, the Company is liable, within the limits of its Contributions, to this Loan Agreement. As of 31 December 2019 the loan limit was not utilised. As of 31 December 2019 the Company has contributed EUR 261 thousand to the Partnership. Part of the funds has been used to finance energy efficiency projects and the other part to cover operating costs of the Partnership.

10 Inventories

	At 31 December 2019	At 31 December 2018
Raw materials and spare parts	1,562	1,863
Natural gas	36	207
Fuel	126	62
Other	198	55
Less: write-down allowance for inventories	(30)	(195)
Total	**1,892**	**1,992**

The cost of the Company's inventories stated at net realisable value as at 31 December 2019 amounted to EUR 34 thousand (2018: EUR 205 thousand). Inventories are recognized as an expense using the FIFO method, except natural gas, which is estimated using the weighted average costing method. In 2019, EUR 2,589 thousand of natural gas was used for technical purposes (in 2018 EUR 3,721 thousand), EUR 32 thousand of gas was written off due to third party damage.

All amounts are presented in EUR thousand unless otherwise stated

Movements in the allowance for inventories in 2019 and 2018 were as follows:

	At 31 December 2019	At 31 December 2018
Inventory write-down at the beginning of the period	**195**	172
Increase in inventory write-down	-	87
Write-off/(reversal) of inventory write-down	(165)	(64)
Inventory write-down at the end of the period	**30**	**195**

The allowance for inventories was reversed due to the gain received from the sale of inventories and write-off of inventories that were recognized as unusable.

Change in the account of inventory write-down to net realisable value is recognised in the statement of profit or loss and other comprehensive income within 'Other expenses'. Impairment of inventories is calculated only for ageing, obsolete and unusable inventory.

11 Trade and other receivables

	At 31 December 2019	At 31 December 2018
Trade receivables for electricity	31,132	35,909
Trade receivables for distribution of natural gas	1,173	1,186
Other trade receivables	819	881
Trade and other receivables from related parties (Note 34)	34,746	67,580
Current portion of mortgage loans	56	68
VAT receivable	-	11,554
Other receivables	525	1,199
Less: expected credit losses for doubtful receivables	(2,707)	(2,950)
Total	**65,744**	**115,427**

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

Impairment of amounts receivable (lifetime expected credit losses (ECL)

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 changes of economic conditions during upcoming years. A different loss coefficient matrix is used with regard to household consumers and non-household consumers.

The following loss coefficient matrix was applied by the Company as at 31 December 2019:

	Days past due														TOTAL
	Not past due	Up to 30 days	31–60	61-90	91-120	121-150	151-180	181-210	211-240	241-270	271-300	301-330	331-360	Past due > 360 days	
Loss ratio	0.12%	3.82%	9.94%	14.30%	16.13%	17.18%	17.77%	18.06%	18.10%	18.10%	18.10%	18.12%	18.12%	55.53%	
Private individuals	119	33	48	25	11	8	3	3	-1	2	2	4	2	62	
ECL	0	1	5	4	2	1	1	1	0	0	0	1	0	34	**50**
Loss ratio	0.13%	2.99%	7.81%	11.38%	13.99%	15.76%	16.67%	17.20%	17.42%	17.86%	18.17%	18.57%	18.73%	55.59%	
Legal persons	34,325	845	318	203	123	150	49	50	84	82	35	119	42	1,166	
ECL	45	25	25	23	17	24	8	9	15	15	6	22	8	649	**891**
Loss ratio	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	
Municipal or state-funded enterprises, institutions and organizations	1,604	11	4	1	0	0	0	0	0	0	0	0	0	11	
ECL	0	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Loss ratio	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Clients who went/will go bankrupt or liquidated	81	33	34	32	26	27	20	21	25	23	36	22	34	1,352	
ECL	81	33	34	32	26	27	20	21	25	23	36	22	34	1,352	**1,766**
Total:	**126**	**59**	**64**	**59**	**45**	**52**	**29**	**31**	**40**	**38**	**42**	**45**	**42**	**2,035**	**2,707**

All amounts are presented in EUR thousand unless otherwise stated

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

	Days past due														
	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	TOTAL
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	71,965	1,197	541	297	242	151	91	89	88	88	59	69	84	3,154	78,115
ECL	101	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.

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

The Company does not account for ECL of amounts receivable as regards amounts receivable from public institutions, amounts rewarded by the court, loans granted, amounts receivable from employees, amounts receivable from cash collection institutions due to expected immaterial impact on ECL balance.

Movements in the Company's impairment allowance account for trade and other receivables in 2019 and 2018 were as follows:

Balance as at 1 January 2018	**6,249**
ECL charge (reversed) for the year	(79)
ECL transferred with public supply activities (Note 32)	(2,630)
Written-off accounts receivable	(590)
Balance as at 31 December 2018	**2,950**
Balance as at 1 January 2019	**2,950**
ECL charge (reversed) for the year	545
Written-off accounts receivable	(788)
Balance as at 31 December 2019	**2,707**

12 Prepayments, deferred expenses and assets under contracts with customers

	At 31 December 2019	At 31 December 2018
Prepayments for services	485	375
Assets under contracts with customers	432	569
Deferred expenses	-	1,282
Total	**917**	**2,226**

The balance of deferred expenses has decreased significantly due to changes in premises lease agreement, according to which the Company recovered previously incurred EUR 1,282 thousand expenditure for repairs of leased premises.

13 Cash and cash equivalents, and term deposits

Cash and cash equivalents

	At 31 December 2019	At 31 December 2018
Cash at bank	4,775	2,266
Total	**4,775**	**2,266**

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 2019	At 31 December 2018
Aa1	-	-
Aa2	4,573	1,391
Aa3	1	1
A3	-	874
BAA1	201	-
Total	**4,775**	**2,266**

14 Authorised share capital

As at 31 December 2019 and 2018, the Company's authorised share capital was divided into 894,630,333 ordinary registered shares with a nominal value of EUR 0.29 each. All issued shares are fully paid.

15 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 2019, the legal reserve amounted to EUR 25,944 (31 December 2018: EUR 25,944 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 2018	**52,564**	**(7,884)**	**44,680**
Gains (losses) on revaluation of property, plant and equipment during the year (Note 5)	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**
Balance at 1 January 2019	**182,157**	**(27,323)**	**154,834**
Transfer from revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)	(16,252)	2,438	(13,814)
Balance at 31 December 2019	**165,905**	**(24,885)**	**141,020**

16 Dividends

Approved dividends per share

	2019	2018
Declared dividends (in EUR thousand)	-	35,204
Weighted average number of shares (thousands)*	894,630	894,630
Declared dividends per share (in EUR per share)	**0.000**	**0.039**

*The weighted average number of ordinary shares during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the weighted average number of ordinary shares repurchased or issued during the period, multiplied by the time weighted ratio. The time weighted ratio is the number of days in the reporting period that the shares were outstanding in ratio to the total number of days in that reporting period.

Dividends declared by the Company during 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
			35,204

17 Borrowings

	At 31 December 2019	At 31 December 2018
Non-current borrowings		
Borrowings from related parties (Note 34)	465,633	448,534
	465,633	**448,534**
Current borrowings		
Borrowings from related parties (Note 34)	176,268	182,930
	176,268	**182,930**
Total borrowings	**641,901**	**631,464**

All amounts are presented in EUR thousand unless otherwise stated

On 14 July 2017, the Company's parent company UAB „Ignitis grupė“ 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 UAB „Ignitis grupė“ (hereinafter "Ignitis Grupė") for the transfer of a EUR 100 million portion of the green bonds issue to the Company. Under this Agreement, UAB „Ignitis grupė“ 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 UAB „Ignitis grupė“ 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 UAB „Ignitis grupė“ 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 UAB „Ignitis grupė“ for the transfer of up to a EUR 250 million. portion of the green bonds issue to the Company. As at 31 December 2019 the Company fully utilized the amount of 250 million EUR.

Non-current borrowings by maturity:

	At 31 December 2019	At 31 December 2018
Between 1 and 2 years	7,901	32,901
Between 2 and 5 years	23,704	23,704
After 5 years	434,028	391,929
	465,633	**448,534**

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

	2019	2018
Borrowings from related parties	1.2	1.2

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

	2019	2018
Credit facilities	51,644	68,457

Net debt balances as at 31 December 2019 and 31 December 2018:

	2019	2018
Cash and cash equivalents	4,775	2,266
Borrowings payable within one financial year (including overdraft)	(176,268)	(182,930)
Borrowings payable after one year	(465,633)	(448,534)
Net debt	**(637,126)**	**(629,198)**

Reconciliation of net debt balances and cash flows from financing activities of 2019 and 2018:

	Cash/overdraft	Borrowings	Cash pool	Total
Net debt as at 31 December 2017	**(4,206)**	**(335,333)**	**(26,700)**	**(366,239)**
Increase in cash and cash equivalents	6,472	-	-	6,472
Loan received	-	(266,287)	-	(266,287)
Loan repaid	-	95,052	-	95,052
Cash pool received (net)	-	-	(94,843)	(94,843)
Changes in accrued interest	-	(3,353)	-	(3,353)
Net debt as at 31 December 2018	**2,266**	**(509,921)**	**(121,543)**	**(629,198)**
(Decrease) in cash and cash equivalents	2,509	-	-	2,509
Loan received	-	(50,000)	-	(50,000)
Loan repaid	-	57,401	-	57,401
Cash pool received (net)	-	-	(16,813)	(16,813)
Changes in accrued interest	-	(1,025)	-	(1,025)
Net debt as at 31 December 2019	**4,775**	**(503,545)**	**(138,356)**	**(637,126)**

All amounts are presented in EUR thousand unless otherwise stated

18 Lease liabilities

The Company's lease liabilities and their dynamics:

	2019
Opening book value	**-**
Recognition of lease liabilities under IFRS 16 (first time adoption as at 1 January 2019)	15,864
Lease contracts concluded	9,263
Interest charges	202
Lease payments (principal portion and interest)	(4,745)
Carrying amount at 31 December	**20,584**
Disclosed as:	
Non-current lease liabilities	15,555
Current lease liabilities	5,029

The total amount of payments under lease and finance leases in 2019 amounted to EUR 4,745 (in 2018: EUR 4,953). Payments related to leases of 12 months or less are classified as cash flows from operating activities.

The Company's future payments under non-cancellable leases were as follows:

	2019-12-31	2018-12-31
Minimum payments		
Within one year	5,209	7,646
Two to five years	14,134	23,105
After five years	3,445	1,277
In total	**22,788**	**32,028**
Future finance costs		
Within one year	(180)	-
Two to five years	(386)	-
After five years	(1,638)	-
In total	**(2,204)**	**-**
Carrying amount	**20,584**	**32,028**

19 Income tax

The Company's income tax expense/(income) for 2019 and 2018 comprised as follows:

	2019	2018 (restated*)
Effect of tax losses purchased	-	(97)
Adjustments of income tax in respect of prior years	-	75
Deferred income tax expenses (income)	(22)	(12,137)
Total	**(22)**	**(12,159)**

** Part of amounts does not agree with financial statements of 2018 due to the change in accounting methods disclosed in Note 4*

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). As at 31 December 2019 the Company had EUR 102,47 million unused investment relief, of which EUR 46,47 million can be utilized until 31 December 2021 and EUR 56 million which can be utilized until 31 December 2022.

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

Deferred income tax assets	Revenue from connection of new customers	Impairment of inventories and amount receivables	Accrued expenses	Overdeclared electricity	IFRS 16	Unused investment relief	Total
At 1 January 2018	**13,768**	**931**	**1,015**	**103**	**-**	**991**	**16,808**
Income tax (expenses)/income recognised in profit or loss (restated*)	1,202	(445)	(105)	850	-	9,223	10,725
At 31 December 2018 (restated*)	**14,970**	**486**	**910**	**953**	**-**	**10,214**	**27,533**
Income tax (expenses)/income recognised in profit or loss	(805)	(64)	(22)	241	23	5,057	4,430
At 31 December 2019	**14,165**	**422**	**888**	**1,194**	**23**	**15,271**	**31,963**

All amounts are presented in EUR thousand unless otherwise stated

Deferred income tax liabilities	Differences in tax and accounting values of property, plant and equipment	Investment relief	Write-off of grants	Total
At 1 January 2018	**(14,103)**	**(1,917)**	**(1,158)**	**(17,178)**
Income tax (expenses)/income recognised in profit or loss	2,529	355	(1,473)	1,411
Recognised in other comprehensive income	(20,207)	-	-	(20.207)
At 31 December 2018 (restated*)	**(31,781)**	**(1,562)**	**(2,631)**	**(35,974)**
Income tax (expenses)/income recognised in profit or loss	(4,724)	318	-	(4.406)
At 31 December 2019	**(36,505)**	**(1,244)**	**(2,631)**	**(40,380)**

** Part of amounts does not agree with financial statements of 2018 due to the change in accounting methods disclosed in Note 4*

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.

Deferred income tax recognised in the statement of financial position as at 31 December 2019 and 2018 and at 1 January 2018 comprised the following:

	At 31 December 2019	At 31 December 2018 (restated*)	At 1 January 2018
Deferred tax asset	-	-	-
Deferred tax liabilitie	8,417	8,441	370
Deferred income tax liability, net	**8,417**	**8,441**	**370**

** Part of amounts does not agree with financial statements of 2018 due to the change in accounting methods disclosed in Note 4*

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:

	2019	2018 (restated*)
Profit before income tax	34,291	(6,894)
Income tax calculated at a rate of 15% (2018: 15%)	5,144	(1,034)
Expenses not deductible for tax purposes	354	350
Income not subject to tax	(463)	(285)
Income tax relief for investments	(5,057)	(11,168)
Effect of tax losses purchased	-	(97)
Adjustments of income tax in respect of prior years	-	75
Total	**(22)**	**(12,159)**

** Part of amounts does not agree with financial statements of 2018 due to the change in accounting methods disclosed in Note 4*

20 Liabilities under connection contracts with customers

	At 31 December 2019	At 31 December 2018 (restated*)	At 1 January 2018 (restated*)
Liabilities under connection contracts with customers	205,084	193,476	186,247
Liabilities under contracts on public service obligation (PSO) services	248	260	273
Total non-current liability under contracts with customers	**205,332**	**193,736**	**186,520**

All amounts are presented in EUR thousand unless otherwise stated

Liabilities under connection contracts with customers:

	At 31 December 2019	At 31 December 2018 (restated*)	At 1 January 2018 (restated*)
Non-current portion	205,332	193,736	186,520
Current portion (Note 25)	9,750	9,110	5,243
Total liability under connection contracts	**215,082**	**202,846**	**191,763**

	2019	2018 (restated*)
Balance at 1 January	**202,846**	**191,763**
Received during the year	21,668	19,863
Recognised as income in the statement of profit or loss and other comprehensive income	(9,432)	(8,780)
At the end of the period	**215,082**	**202,846**

** Part of amounts does not agree with financial statements of 2018 due to the change in accounting methods disclosed in Note 4*

21 Government grants

Balance at 31 December 2017	**19,758**
Received	4,412
Reversal of grants	(2)
Write-off of grants (Note 5)	(10,002)
Amortisation charge	(1,114)
Balance at 31 December 2018	**13,052**
Received	3,178
Amortisation charge	(1,074)
Balance at 31 December 2019	**15,156**

Grants consist of funds received from the EU Funds for the purpose of acquisition and construction of structures and electricity networks.

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.

22 Long-term employee benefits

	2019			2018		
	Benefits to employees of retirement age	Variable component of remuneration	Total	Benefits to employees of retirement age	Variable component of remuneration	Total
Opening balance	**1,672**	**38**	**1,710**	**1,717**	**46**	**1,763**
The change as shown in the item 'Employee benefits and related social security contributions' in the statement of profit (loss) and other comprehensive income	815	(24)	791	(23)	(8)	(31)
The change as shown in the item 'Financing activities – Other costs' in the statement of profit (loss) and other comprehensive income	44	-	44	54	-	54
The change as shown in the item 'Other comprehensive income – Remeasurement of the defined benefit plan obligation, net of deferred income tax' in other comprehensive income	30	-	30	(76)	-	(76)
Closing balance	**2,561**	**14**	**2,575**	**1,672**	**38**	**1,710**

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

	2019	2018
Discount rate	0.61%	0.79%
Annual employee weighted average rate	8.6%	10.1%
Annual salary increase	4%	4%
Average time until retirement (years)	20	20

All amounts are presented in EUR thousand unless otherwise stated

23 Provisions

Balance at 31 December 2017	**-**
Provisions for compensations for servitudes (Note 3)	28,564
Discounting effect	162
Payments for servitudes	(744)
Balance at 31 December 2018	**27,982**
Discounting effect	324
Payments for servitudes	(931)
Re-measurement of provisions for servitudes due to changes in assumptions (Note 3)	(464)
Provisions for registration of protection zones (Note 3)	8,328
Balance at 31 December 2019	**35,239**
Non-current provisions	23,018
Current provisions	12,221

24 Trade and other payables

	At 31 December 2019	At 31 December 2018
Trade payables	28,881	32,219
Trade payables to related parties (Note 34)	31,326	39,305
Total trade payables	**60,207**	**71,524**
Taxes (other than income tax)	1,749	30
Payroll-related liabilities	2,238	2,471
Other current liabilities	3,157	3,020
Total other amounts payable	**7,144**	**5,521**
Trade and other payables	**67,351**	**77,045**

Other payables amounting to EUR 3,987 thousand as at 31 December 2019 (31 December 2018: EUR 2,501 thousand) are non-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.

25 Accrued expenses and contract liabilities

	At 31 December 2019	At 31 December 2018 (restated*)	At 1 January 2018 (restated*)
Accrued expenses	10,255	13,307	7,280
Current portion of contract liabilities under connection contracts with customers	9,750	9,110	5,243
Contract liabilities under other than under connection contracts	26,126	28,730	22,323
	46,131	**51,147**	**34,846**

** Part of amounts does not agree with financial statements of 2018 due to the change in accounting methods disclosed in Note 4*

As at 31 December 2019, 31 December 2018 and 1 January 2018 advance amounts received comprised advances received for the connection of new customers (EUR 15,126 thousand – 2019, EUR 18,001 thousand – 2018 and EUR 14,137 – 1 January 2018), advances received for electricity and overdeclared electricity (Note 3) (EUR 5,789 thousand – 2019, EUR 4,248 thousand – 2018 and EUR 3,657 thousand – 1 January 2018) and others (EUR 5.211 thousand – 2019, EUR 6,479 thousand – 2018 and EUR 4,529 thousand 1 January 2018) amounting to, respectively, EUR 26,126 thousand and EUR 28,730 thousand as at 31 December 2019 and 2018 and EUR 22,323 thousand as at 1 January 2018.

All amounts are presented in EUR thousand unless otherwise stated

Advances from new customer for connection to the electricity network amount to EUR 10,600 thousand, to gas network – EUR 4,526 thousand by the end of the 2019, EUR 10,432 thousand to the electricity network and EUR 7,571 thousand to the gas network by the end of the 2018. As at 1 January 2018 advance amounts received from new customer for connection to the electricity network - EUR 8,947 thousand and to the gas network EUR 5,190 thousand.

26 Revenue from contracts with customers

In 2019, revenue from contracts with customers comprised the following:

2019	Electricity supply and distribution segment	Gas distribution segment	Total
Revenue from electricity transmission	335,997	-	335,997
Revenue from gas distribution	-	34,886	34,886
Revenue from guaranteed electricity supply	27,955	-	27,955
Revenue from connection of new customers	8,306	1.126	9,432
Income from equipment transfer	4,874		4,874
Total	**377,132**	**36,012**	**413,144**
Moment of revenue recognition:			
At point in time upon rendering the service	4,874	-	4,874
Recognised over time	372,258	36,012	408,270
Total	**377,132**	**36,012**	**413,144**

In 2018 (restated*), revenue from contracts with customers comprised the following:

2018	Electricity supply and distribution segment	Gas distribution segment	Total
Revenue from electricity transmission	305,627	-	305,627
Revenue from public electricity supply services	73,812	-	73,812
Revenue from gas distribution	-	41,353	41,353
Revenue from guaranteed electricity supply	28,956	-	28,956
Revenue from connection of new customers	7,789	991	8,780
Income from equipment transfer	4,520	-	4,520
Total	**420,704**	**42,344**	**463,048**
Moment of revenue recognition:			
At point in time upon rendering the service	4,520	-	4,520
Recognised over time	416,184	42,344	458,528
Total	**420,704**	**42,344**	**463,048**

** Part of amounts does not agree with financial statements of 2018 due to the change in accounting methods disclosed in Note 4*

The performance obligation is satisfied upon delivery of the service and payment is generally due within 30 days from delivery.

Transaction price allocation to remaining performance obligations

All amounts are presented in EUR thousand unless otherwise stated

All the Company's performance obligations entitle the Company to receive from the customer such amount that corresponds directly with the value of the Company's performance completed to date, therefore, the Company applies the practical expedient in paragraph 121 of IFRS 15 and elects not to disclose the allocation of transaction price to the remaining unsatisfied performance obligations.

27 Employee benefits and related social security contributions

	2019	2018
Wages and salaries	44,264	31,952
Termination benefits	569	(430)
Social security contributions	199	9,854
Change in vacation accrual	152	189
Benefits to employees of retirement age (Note 22)	815	(23)
Total	**45,999**	**41,542**

28 Impairment and write-off expenses

	2019	2018
Write-offs of non-current assets and construction in progress (Note 5)	4,305	4,779
Impairment of amounts receivable (reversal) (Note 11)	545	(79)
Impairment (reversal of impairment) of inventories (Note 10)	(165)	23
Impairment (reversal of impairment) of non-current assets (Note 5)	-	(29,857)
Impairment (reversal of impairment) of construction in progress (Note 5, Note 6)	4,020	1,066
Other write-offs	7	-
Total	**8,712**	**(24,068)**

29 Other expenses

	2019	2018
Maintenance company expenses	4,304	3,430
Taxes (other than income tax)	3,007	2,623
Customer service expenses	2,806	6,554
Other expenses	1,841	183
Consultation services	1,515	1,553
Payments under the collective agreement and other additional payments	591	685
Personnel development, business trips	428	620
Indemnification for damages	418	151
Public relations and marketing	400	426
Insurance, medical care services	184	258
Total	**15,494**	**16,483**

Customer service expenses decreased due to the transfer of the public supply activities (Note 32).

All the services the audit company granted to the Company during the 2018–2019 period are disclosed below:

	2019	2018
Expenses related to audit of financial statements (including translation services) under agreements	50	46
Expenses related to assurance and other related services	-	5
Expenses related to other services	-	2
Total	**50**	**53**

30 Financing activities

	2019	2018
Finance income		
Interest income on loans granted	27	89
Total	**27**	**89**
Finance costs		
Interest expense on loans	(9,659)	(6,393)
Interest and discount expense on lease liabilities	(202)	-
Other (costs)	(404)	(234)
Total	**(10,265)**	**(6,627)**

31 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.

	2019	2018 (restated*)
Net profit/(loss) attributable to shareholders of the Company (in EUR thousands)	34,313	5,265
Weighted average number of shares (thousands)	894,630	894,630
Basic earnings/(loss) per share (in EUR per share)	**0.038**	**0.006**

** Part of amounts does not agree with financial statements of 2018 due to the change in accounting methods disclosed in Note 4*

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 2019 and 2018, the Company had no dilutive potential ordinary shares issued.

32 Transfer of the public supply activities

During the implementation of the project initiated by UAB „Ignitis grupė" (hereinafter – Group), 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. UAB „Ignitis" (former – Lietuvos energijos tiekimas UAB), which was 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 UAB „Ignitis". 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. UAB „Ignitis" 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 valuator – the sale price of the part of the business corresponds to the market value of the part of the business as determined by the valuator. 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 UAB „Ignitis" performed the offsetting of intercompany debts; consequently, UAB „Ignitis" was obligated to pay an amount of EUR 1,499 thousand to the Company. As at 31 December 2019 all consideration due by UAB „Ignitis" was fully settled.

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) 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

All amounts are presented in EUR thousand unless otherwise stated

revenue were collected from customers by UAB „Ignitis“ 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:

	2019	2018
Profit on disposal of the public supply activities	-	17,330
Rental income	736	587
Income from past due obligations	516	1,371
Profit from disposal of property, plant and equipment	609	-
Other income*	3,845	1,079
Total	**5,706**	**20,367**

*As at December 2019 other income consisted mainly of revenue from the construction of underground gas pipelines and solar power plants. Other revenue as at 31 December 2018 mainly consisted of profit on transfer of the public supply activities.

Under the provisions of the agreement for the transfer of public supply activities concluded with Ignitis UAB of 21 September 2018, the Company is obliged to compensate Ignitis UAB a half of the difference generated until 21 September 2018 between the revenue determined by the National Energy Regulatory Council (hereinafter ‘NERC’) and the actual (regulated) revenue, if NERC is not going to compensate this difference to Ignitis UAB when setting electricity tariff for the period from 2019 to 2021. Difference occurred between the purchase price of electricity determined by NERC and the actual price paid.

At the conclusion of the agreement for the transfer of public supply activities, the difference of EUR 23,927 thousand was identified between the revenue determined by the NERC and the actual (regulated) revenue earned. Part of the aforementioned difference of EUR 8,000 thousand was repaid to UAB Ignitis when determining the prices for the public supply service for the year 2020. Management expects that the remainder of the difference will be repaid when determining the price caps for Ignitis UAB for the year 2021. The exact repayment date and amount will become clear in October 2020, when the NERC approves the price cap for the public electricity supply service of Ignitis UAB for the year 2021.

Based on the management estimates, the risk that part of the residual difference will not be compensated to the public supplier is minimal, because even if part of the difference will not be compensated to Ignitis UAB through the price of the regulated service set for the year of 2021, Ignitis UAB will recover all the amounts received under the agreement for the transfer of public supply activities of 21 September 2018 according to the revenue compensation mechanism established during the stages of the electricity market liberalization under Article 22 clause 9 of the draft Law on Electricity of the Republic of Lithuania.

33 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 2019 is presented below.

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

All amounts are presented in EUR thousand unless otherwise stated

**EBITDA (earnings before interest, taxes and depreciation/ amortization) is calculated as follows: Operating profit + Impairment and write-off expenses + Revaluation of property, plant and equipment + Depreciation and amortization.*

In 2019, the Company's largest customer in the electricity supply and distribution segment accounted for revenue of EUR 132,999 thousand (EUR 77,534 thousand in 2018). The Company's largest customer in the gas distribution segment accounted for revenue in the amount of EUR 28,764 thousand (EUR 34,417 thousand in 2018).

Information on the Company's segments for 2018 (restated*) is presented below.

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

** Part of amounts does not agree with financial statements of 2018 due to the change in accounting methods disclosed in Note 4*
***EBITDA (earnings before interest, taxes and depreciation/ amortization) is calculated as follows: Operating profit + Impairment and write-off expenses + Revaluation of property, plant and equipment + Depreciation and amortization.*

34 Related-party transactions

The Company's related parties are as follows:

- UAB „Ignitis grupė" (the main shareholder of the Company) and its subsidiaries and associates;
- Associates of the Company;
- Management of the Company including companies in which they hold executive positions or companies which are controlled by them or over which a significant influence is exercised;
- All companies which are owned by the state or over which the state exercises a significant influence (transactions with these companies are disclosed when they are material).

Purchase and sale of goods and services:

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

Related parties	Borrowings	Amounts payable	Right-of-use assets	Accrued expenses	Amounts receivable	Prepayments and deferred charges	Purchases	Sales	Interest expense of borrowings
Parent company UAB „Ignitis grupė"	608,689	159	65	-	-	-	1,478	-	9,708
Associates	892	4,867	-	90	-	-	18,792	-	3
UAB „Ignitis grupė" group companies	32,320	1,355	11,596	3,959	27,649	-	36,037	188,931	260
EPSO-G UAB group companies	-	24,945	-	-	7,097	401	167,923	1,355	-
Total	**641,901**	**31,326**	**11,661**	**4,049**	**34,746**	**401**	**224,230**	**190,286**	**9,971**

With the purpose to reduce costs of its working capital financing, on 18 May 2016 the Company concluded a termless UAB „Ignitis grupė" 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 138,356 thousand as at 31 December 2019 (31 December 2018: EUR 121,543 thousand). In table above balance of cash pool is disclosed under borrowings – EUR 105,164 thousand was borrowed from parent company and EUR 33,192 thousand was borrowed from other UAB „Ignitis grupė" group companies.

All amounts are presented in EUR thousand unless otherwise stated

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 UAB „Ignitis grupė“ 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.

Terms of transactions with related parties

The payment terms set range from 30 to 90 days. Closing debt balances are not secured by pledges, they do not yield interest, and settlements occur in cash. As at 31 December 2019, the Company had EUR 200 thousand of guarantees paid to Litgrid AB under the electricity balancing service agreement. As at 31 December 2019, the Company did not have bad debt allowance for expected credit losses, receivables from related parties.

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

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

Compensation to key management personnel

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

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

35 Commitments and contingencies

Capital expenditure commitments

In 2019, 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 28 million (31 December 2018: EUR 45 million).

Rate adjustments due to profit earned in preceding periods exceeding the return on investment permitted by the Commission (2019)

Electricity business segment

Based on its Resolution No O3E-569 of 17 October 2019 *On recalculating the price caps for electricity distribution services provided by Energijos Skirstymo Operatorius AB through medium and low voltage networks for the year 2020*, the Council set the price cap for the distribution service for 2020 and, based on its Certificate No O5E-517 of 16 October 2019 *On recalculating the price caps for electricity distribution services provided by Energijos Skirstymo Operatorius AB through medium and low voltage networks for the year 2020* , the Council stated that the level of expected revenue from electricity distribution activities carried out by the Company in 2020 is reduced by EUR 41,875 thousand, including the impact of time value of money of EUR 1,388 thousand. The amount is the remaining part of the return on investments in 2016-2017 that was earned by the Company in excess of the level set by the Council for these years.

In establishing the price caps for 2019 - 2020, the Council 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 Council. In its certificate No O5E-517 of 16 October 2019 *On recalculating the price caps for electricity distribution services provided by Energijos Skirstymo Operatorius AB through medium and low voltage networks for the year 2020* , the Council stated the following: *<… in order to maintain an integral financing of required and supported investments into assets optimized according to the LRAIC model the impact of said correction will be evaluated in further regulatory period while establishing the price cap (new regulatory period) according to the LRAIC model used for setting the price for distribution services …>.*

In 2018, the Company revalued its property, plant and equipment of electricity business segment to fair value. As an input to the fair value measurement, the independent property valuator used the assumption that going forward, the Council will use LRAIC model in its full extent (i.e. not adjusted) in determining the amount of the asset base.

Gas business segment

Based on its Resolution No O3E-365 on 31 October 2019 *On the correction of the price caps for natural gas distribution services provided by Energijos Skirstymo Operatorius AB for 2020*, the Council set the price cap for the natural gas distribution service to be effective for year 2020 and, based on its Certificate No O5E-538 of 21 October 2019 *On the correction of price caps for natural gas distribution services provided by Energijos Skirstymo Operatorius AB for 2020*, the Council stated that the level of revenue from natural gas distribution activities carried out by the Company in 2020 is reduced by EUR 9,791 thousand, including the impact of time value of money of EUR 264 thousand. The amount of the remaining part of the return on investments in 2014-2018 that was earned by the Company in excess of the level set by the Council (EUR 19,054 thousand) will be assessed when establishing the natural gas distribution price for the upcoming periods.

Litigations

The Plaintiff Vilniaus Energija UAB has filed a claim with the Vilnius Regional Court regarding the award of EUR 9,284 thousand from AB Energijos Skirstymo Operatorius. The plaintiff claims to have incurred EUR 9,284 thousand losses due to the fact that Energijos Skirstymo Operatorius AB during the year of 2014 purchased only the electricity produced by the Plaintiff's cogeneration plants in the technical minimum regime. The Company has not recognised any provision related to the claim, because the description for Public Service Obligations (PSO) provisions and other applicable legislation do not impose any obligation on the Defendant to purchase all electricity generated by the Plaintiff. On 17 March 2017, the Plaintiff updated the subject-matter of the claim and requested the court to award damages in the amount 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 rejected the ruling of Vilnius Regional Court of 18 September 2017 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 in the court of first instance by the request of the claimant until part of the case is reviewed under the cassation procedure.

By the ruling of 6 May 2019, the Vilnius Regional Court resumed proceedings following the ruling of the Supreme Court of Lithuania of 17 April 2019 to terminate the appeal proceedings. Vilnius Regional Court passed a judgement in the civil case on 28 January 2020, where it satisfied partially the claim of plaintiff Vilniaus energija UAB against the Company and recognized that Vilniaus energija UAB had been discriminated with regard to other combined heat and power plants. The court adjudged losses of EUR 2,2 million from the Company for behalf of Vilniaus energija UAB and 6 percent annual interest from the adjudged amount calculated from the day when the civil case was lodged in the court until complete execution of the judgement. Vilniaus energija UAB asked in another part to recognize that it had been discriminated with regard to supply of balancing energy and to adjudge reimbursement of losses from the Company. This part of the civil claim of Vilniaus energija UAB was rejected. The judgement of Vilnius Regional Court has not yet become effective.

On 27 February 2020, the Company filed an appeal regarding the part of the judgement of Vilnius Regional Court dated 28 January 2020 that satisfied the claim of UAB Vilniaus energija. The Company contents Vilnius Regional Court's conclusions that the Company discriminated Vilniaus energija UAB with regard to other combined heat and power plants when purchasing eligible electricity. Based on the management estimates, the amount of energy purchased by the Company beyond the technical minimum amount of the producers has been distributed to all producers on a pro-rata basis, so that there is no breach of competition law. In the absence of unlawful actions by the Company, there is no obligation on the Company to compensate for the loss which Vilniaus Energija UAB alleges it has suffered.

*Inspection of the electricity distribution activity's SAIDI/SAIFI**

On 26 March 2018 the Council initiated on-the-spot check of the Company's regulated activities with a view to assessing whether the Company complied with the requirements of legal acts of the Republic of Lithuania regarding reliability of electricity transmission and quality of service in the period from 1 January 2012 to 28 February 2018. During the meeting on 19 September 2019, the Council approved the on-the-spot check report in which the Council found that ESO failed to comply with legal requirements when registering transmission reliability indicators and that the ESO procedure governing the qualification of power interruptions needs to be adjusted. In its decision, the Council also noted that the amount of allowable return on investment in distribution services received by the Company during the period from 2012 to 2015 as a result of the electricity transmission reliability indicators that exceeded the minimum levels set by the Council should be evaluated by adjusting the Company's electricity distribution price cap for the year 2020.

In that context, for the propose of recalculation of the Company's price caps for medium and low voltage distribution services for the year 2020, the Council decided on 17 October 2019 to reduce the Company's allowed revenue by EUR 1,604 thousand. Pursuant to the applicable legislation, the Council is entitled to impose sanctions on the energy company for violations of the conditions of regulated activities. Amount of sanction can be up to 10% of revenue from regulated activity. Accordingly, the Council drew up a report in respect of the Company as at 30 December 2019. The decision of the Council on the imposition of a sanction shall be taken within 6 months from the date on which the infringement was determined. At the reporting date, the decision regarding sanction are pending and, consequently, no provisions have been made in connection with the possible imposition of the sanction.

*SAIDI - The System Average Interruption Duration Index; SAIFI - he System Average Interruption Frequency Index.

All amounts are presented in EUR thousand unless otherwise stated

36 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 2019 and 31 December 2018, the Company complied with these requirements.

For the purpose of the Company's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Company's capital management is to maximise the shareholder value.

On 27 December 2016, the Board of Ignitis Grupė UAB 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 UAB „Ignitis grupė" (hereinafter "Group") group companies for 2016–2020 as approved by Minutes No PER 2016 30 of the sitting of the Board of UAB „Ignitis grupė" dated 13 June 2016. The Company must follow an optimal capital structure assessed as D (net debt – Note 17)/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 Group 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.

Additional information on capital position is provided below in the table:

	2019	2018 (restated*)
Net debt (Note 17)	**637,126**	**629,198**
Equity	663,918	629,634
Total capital	663,918	629,634
Capital and net debt	**1,301,044**	**1,258,832**
Gearing ratio	**49%**	**50%**

** Part of amounts does not agree with financial statements of 2018 due to the change in accounting methods disclosed in Note 4*

37 Financial risk management

Credit risk

In the electricity segment, trade and other receivables are generated from many customers however one customer (public supplier) comprise a significant portion of revenue and receivables exposing the Company to 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, other loans, 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 UAB „Ignitis grupė" group, approved by the Board of UAB „Ignitis grupė" 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.

All amounts are presented in EUR thousand unless otherwise stated

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 2019, the maximum exposure to credit risk of the Company amounted to EUR 70,934 thousand (31 December 2018: EUR 106,347 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 2019 borrowings with fixed interest rate are equal to EUR 554,644 thousand (31 December 2018 – EUR 366,288 thousand) and all remaining borrowings (Note 17) 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
2019		
EUR	0.15	-123
EUR	-0.15	123
2018		
EUR	0.15	-387
EUR	-0.15	387

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 2019 were 0.25 and 0.24 (31 December 2018: 0.40 and 0.39), respectively.

The current level of debt enables the Company to optimise the capital structure by financing its operations through long-term borrowing solutions, such as long-term loans or debt transfer agreements. As referred to in Note 17, for the purpose of the management of the short-term cash flow needs, the Company had EUR 51,644 thousand unused financing facilities under the agreement regarding the short-term lending to related parties platform.

The financial statements of the Company are prepared on a going concern basis. Despite the fact that the Company's current liabilities as at 31 December 2019 exceeded current assets by EUR 232,211 thousand (31 December 2018: EUR 186,432 thousand), the Company's management is confident that this circumstance will not have a material impact on the Company's ability to continue as a going concern.

By the end of the 2019, decrease in liquidity was related to the Company's specifics, since most of the cash flow from operating activities is allocated to capital expenditures to distribution grid reconstruction and development (which are non-current assets), whereas payables for the grid development and reconstruction are classified as current liabilities. Also the seasonal nature of the Company's activity makes an impact on liquidity, since a significant part of the grid development and reconstruction works are completed at the end of the calendar year. In addition, the Company is the only one in Lithuania which owns more than 95% of the electricity distribution market and is strategically important for national security. The continuity of the Company's activities is ensured by regulating and approving the caps of distribution prices and the Company's investments cost by the Council. Also the Council evaluates and determines Company's financial capacity annually, which is sufficient for the performance of regulated activities.

It should be noted that on February 19th of 2020 a letter from the Group was received confirming the Group's intention to provide the necessary financial support to ensure the Company's operations and fulfillment of obligations for a period of at least one year.

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2019 and 2018 based on contractual undiscounted payments.

Company	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Lease liabilities	-	-	19,343	3,445	22,788
Borrowings	148,944	33,741	76,656	473,271	732,612
Trade and other payables	63,363	-	3	-	63,366
At 31 December 2019	**212,307**	**33,781**	**96,002**	**476,716**	**818,766**
Borrowings	136,323	51,564	90,482	428,819	707,188

All amounts are presented in EUR thousand unless otherwise stated

Trade and other payables	74,542	2	3	-	74,547
At 31 December 2018	**210,865**	**51,566**	**90,485**	**428,819**	**781,735**

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.

The carrying amount of the Company's financial assets and financial liabilities approximates their fair value, except for mortgage loans as disclosed in Note 9.

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

	Carrying amount In total	Level 1	Fair value Level 2	Level 3
As at 31 December 2019				
Other non-current financial assets (Note 9)	415	-	-	415
Trade and other receivables (Note 11)	65.744	-	-	65.744
Cash and cash equivalents (Note 13)	4.775	4.775	-	-
Total	**70.934**	**4.775**	**-**	**66.159**
As at 31 December 2018				
Other non-current financial assets (Note 9)	210	-	-	210
Trade and other receivables (Note 11)	103.871	-	-	103.871
Cash and cash equivalents (Note 13)	2.266	2.266	-	-
Total	**106.347**	**2.266**	**-**	**104.081**

	Carrying amount In total	Level 1	Fair value Level 2	Level 3
As at 31 December 2019				
Borrowings (Note 17)	641.901	-	-	641.901
Trade and other payables (Note 24)	63.363	-	-	63.363
Other liabilities	3	-	-	3
Total	**705.267**	**-**	**-**	**705.267**
As at 31 December 2018				
Borrowings (Note 17)	631.464	-	-	631.464
Trade and other payables (Note 24)	74.544	-	-	74.544
Other liabilities	3	-	-	3
Total	**706.011**	**-**	**-**	**706.011**

All amounts are presented in EUR thousand unless otherwise stated

38 Events after the reporting period

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

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

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

The said reorganization of associates did not have impact on financial position or operating results of the Company as merely the legal composition of investees changed.

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2019 ENERGIJOS SKIRSTYMO OPERATORIUS AB ANNUAL REPORT

FOR A FINANCIAL YEAR ENDED 31 DECEMBER 2019

eso

CONTENTS

Reporting period covered by the Annual Report

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

Legal basis for preparation of the Annual Report

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

Individuals responsible for information contained in the Annual Report

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

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

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

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

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

KEY OPERATING AND FINANCIAL INDICATORS OF THE COMPANY[8]

Table 1. **Key operating and financial indicators**

Key operating indicators of ESO						
Operating indicators			**2019**	**2018**	**Change +/-**	**Change %**
Distributed electricity via medium and low voltage networks		*TWh*	9.55	9.59	-0.04	-0.42
Guaranteed supply of electricity[2]		*TWh*	0.47	0.51	-0.04	-7.84
Distributed volume of natural gas		*TWh*	6.97	7.60	-0.63	-8.29
Supply quality indicators of the network						
Electricity	SAIDI (with force majeure)	minutes	91.8	81.37[6]	10.43	
	SAIFI (with force majeure)	times	1.31	1.14	0.17	
Gas	SAIDI (with force majeure)	minutes	1.249	0.606	0.643	
	SAIFI (with force majeure)	times	0.008	0.006	0.002	

Key financial indicators of ESO[1]					
		2019	**2018[7]**	**Change +/-**	**Change %**
Revenue from contracts with customers[2]	EUR '000	413,144	463,048	-49,904	10.8
Other income[2]	EUR '000	5,706	20,367	-14,661	-72.0
Purchase of electricity, gas and related services[2]	EUR '000	186,098	282,498	-96,400	-34.1
Operating expenses	EUR '000	98,182	89,785	8,397	9.4
EBITDA	EUR '000	134,570	111,132	23,438	21.1
EBITDA margin	%	32.13	22.99		
Adjusted EBITDA[3]	EUR '000	180,488	161,287	19,201	11.9
Net profit (loss)[4]	EUR '000	34,313	5,265	29,048	551.7
		As at 31/12/2019	**As at 31/12/2018[7]**	**Change +/-**	**Change %**
Total assets	EUR '000	1,706,606	1,634,214	72,392	4.4
Equity	EUR '000	663,917	629,634	34,283	5.4
Borrowings	EUR '000	641,901	631,464	10,437	1.7
Borrowings, net	EUR '000	637,126	629,198	7,928	1.3
Return on equity (ROE)	%	5.31	0.85		
Return on assets (ROA)	%	2.05	0.36		
Turnover of assets[5]	times	0.24	0.28		
Equity ratio	%	38.90	38.53		
Borrowings, net / 12-month EBITDA	times	4.73	5.66		
Borrowings, net / 12-month adjusted EBITDA	times	3.53	3.90		
Borrowings, net / Equity	%	95.96	99.93		
Free cash flow	EUR '000	6,804	-221,459	228,263	-103.1

[1] Description of ESO's indicators is available at: http://www.eso.lt/en/for-investors/alternative-performance-measures.html
[2] As from 1 October 2018, ESO has discontinued the public electricity supply activity. Following elimination of the impact of discontinued public supply activities in the period January–December 2018 revenue amounted to EUR 409.6 million and the costs for the purchase of electricity, gas and related services – EUR 180.3 million.
[3] The Company adjusted the EBITDA by the difference between actual profit earned during the reporting and earlier periods and the allowable return on investments for the respective periods established by the National Energy Regulatory Council (hereinafter "the NERC") and made a new customers income adjustment by eliminating new customers' deffered income and restoring the net income effect of the new customers for the current year, as well as eliminated the impact of other atypical, one-time factors that are not directly attributable to the current period. The difference resulted from the operational efficiency improved by the Company, as well as other factors. More information about adjusted EBITDA is provided in the section "EBITDA".
[4] The increase in the Company's net profit was driven by significantly lower prices for electricity, gas and related services as a result of discontinued public electricity supply activities as from 1 October 2018.
[5] Revenue from contracts with customers was used for the calculation of the ratio
[6] Comparative indicator was revised.
[7] Comparative indicators were recalculated.[8] This Report includes certain financial measures of historical financial performance, financial position, or cash flows, which are not defined or specified under IFRS ("Alternative Performance Measures"). The Company considers that these measures are relevant and reliable in assessing the Company's financial performance and position, however such measures are not a substitute for financial measures under IFRS and should be read in conjunction with Company's published financial statements

CEO's FOREWORD

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

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

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

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

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

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

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

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

The operating and financial indicators: ESO income in January-December 2019 reached 418.9 million euros –13.4 percent less than in the same period in 2018. However, the comparative income remains stable: (after having eliminated effect of the public supply activities stopped in October 2018) it grew by 2.3% in 12 months in 2019 (the activities of public supply made 409.6 million euros in 12 months of 2018). The sources of growing ESO income is bigger income from connection of new users due to changed standards of international financial accounting: 23.9 thousand private clients and 16.2 thousand business clients were connected to the electricity distribution network (27 percent more of private and business clients than in 2018). 11.4 thousand private clients and 334 business clients were connected to the gas network in 2019 (20 percent less of private and business clients than in 2018). ESO earned 180.5 million euros of corrected earnings before interest, taxes, depreciation and amortization (corrected EBITDA) in January-December 2019 – 11.9 percent more than one year ago, when his index was 161.3 million euros. Such dynamics of the KPI is maintained by effective activities of the Company and growing base of regulatory assets.

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

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

MOST SIGNIFICANT COMPANY'S EVENTS DURING THE REPORTING PERIOD

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

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

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

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

Preliminary results of ESO for 2018: record-high investments and crystallisation of activities
On 28 February 2019, electricity and gas distribution company ESO controlled by the group of energy companies Lietuvos Energija (from 6 September 2019, Ignitis Group UAB) made further investments into reliability enhancement of the distribution grid. ESO's investments into the electricity and distribution grids have exceeded EUR 271 million. The growth of investments resulted from a significant rise in prices of contract works and a one-sixth increase in the number of new customers using electricity or natural gas. ESO will further focus on the assurance of the grid's reliability, investments in the grid's modernisation, automation, implementation of a big scale project on smart metering. ESO will continue to work towards ensuring the best distribution price in the region by maintaining a rational level of costs.

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

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

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

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

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

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

Results of ESO of Q1 2019: a stable increase in investments and a steady flow of new customers
ESO ended the first quarter of 2019 with continuously growing investments in the development and renovation of electricity and gas networks, which were 13.5% higher than last year. The growth of investments in the construction and reconstruction of gas distribution systems, which was nearly 90% compared to the same period of 2018, is noteworthy in particular. The Company also recorded the continuously increasing number of new customers connecting to the distribution networks.

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

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

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

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

ESO's unaudited results of 6 months of 2019: growing number of new customers and improving connection times
ESO's results of Half 1 of 2019 of reflect the steadily growing activity of the Company, while electricity distribution remains the main source of ESO's income. Excluding one-off factors of regulated activity, the Company's profitability ratios improved: investments in the distribution network was in line with the planned level for 2019, however, were declining compared to the same period in 2018.

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

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

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

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

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

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

Regarding the initiation of reorganisation of Verslo aptarnavimo centras AB, and Ignitis Grupės Paslaugų Centras UAB
The Company announced that the General Meetings of Shareholders of Verslo aptarnavimo centras AB (hereinafter – VAC) and Ignitis grupės paslaugų centras UAB (hereinafter – GPC), of which the Company is a shareholder, have approved the initiation of reorganisation of VAC and GPC on 21 October 2019 by merging VAC to GPC and obligated the boards of both companies to draw up their reorganisation terms. The reorganisation of the companies is scheduled to be completed by the end of 2019.
VAC and GPC provide services for the companies of Ignitis Group therefore, the reorganisation of VAC and GPC enables the creation and development of higher quality services, and provision of them to customers faster and more efficiently.

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

On Setting Revenue Cap for ESO's natural gas distribution services in 2020
On 31 October 2019, the National Energy Regulatory Council adopted a decision on the revenue cap for natural gas distribution services, effective in 2020: EUR 36,965,476 (in 2019 – EUR 36,465,031). The increase of the revenue cap for the natural gas distribution service is caused by the provisions of the Law Special Conditions of Land Use, which will come into force on 1 January 2020. However, the increase of the revenue cap for the natural gas distribution services is moderate because a part of the return on investments made from 2014 to 2018 is repaid, if it exceeds the amount set by the regulator. A large part of the excess formed because of increased efficiency of the Company's activities.

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

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

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

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

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

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

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

KEY EVENTS AFTER THE END OF THE REPORTING PERIOD

Regarding the decision to appeal the judgement
ESO informs that on 6 January 2020 appealed to District Court of Vilnius City regarding the 31 December 2019 decision to apply temporary protection measures and suspend the resolutions of the Extraordinary General Meeting of Shareholders of ESO adopted on 4 December 2019. In ESO view, the temporary protection measures and suspension of the delisting process were unreasonable and the real reason of the initiated litigation is the aim to dispute the purchase price of ESO shares which is not the subject of the Extraordinary General Meeting of Shareholders.

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

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

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

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

The Court upheld the decision to apply the temporary protection measures
The Company informs that Vilnius Regional Court (hereinafter – the Court) on 13 February 2020 issued a ruling that rejected the complaint by ESO and left in effect a decision of District Court of Vilnius City of 31 December 2019. The court ruled that there is no ground to state that the lawsuit of a few minority shareholders is a frivolous one until the case is heard and the evidence is considered by the court. Meantime, plausible validity of the lawsuit is enough to apply temporary protection measures.
As it was announced earlier, on January 6 2020 the Company appealed the decision of District Court of Vilnius City of 31 December 2019 regarding application of temporary protection measures - suspension of the 4 December 2019 resolutions of the Extraordinary General Meeting of Shareholders of ESO.
Delisting of shares of ESO from trading on the AB Nasdaq Vilnius Stock Exchange is halted until judgement in a civil case regarding the claim of the few minority shareholders of ESO asking to invalidate resolutions which were adopted at the Extraordinary General Meeting of Shareholders enters into force. The Company informs that further actions will be disclosed as required by law.

ESO 2019 Results: Refinement of Activities and Concentration on Functions of Distribution Network Infrastructure Operator
The ESO, a company controlled by "Ignitis Grupė", the largest energy group in the country, completed the refinement of its operation in 2019 and made significant progress towards the smart grid. By non-audited results, during 2019, the ESO earned EUR 180.5 million of adjusted profit before interest, taxes, depreciation, and amortization (adjusted EBITDA) - 11.9% higher

than a year ago, when the ratio was EUR 161.3 million. This change in the ratio was determined by increasing efficiency of the Company and the growing regulatory asset base.

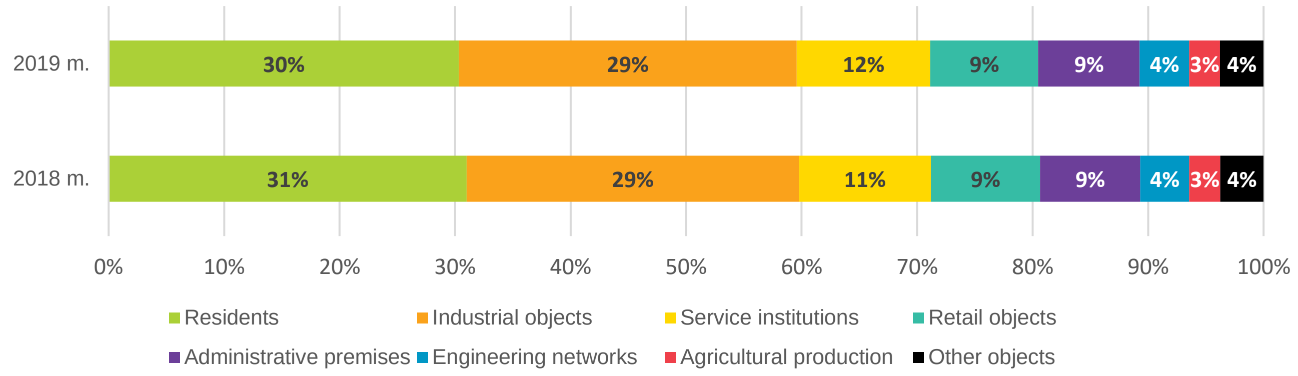
ANALYSIS OF THE OPERATING AND FINANCIAL INDICATORS

Electricity distribution

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

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

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

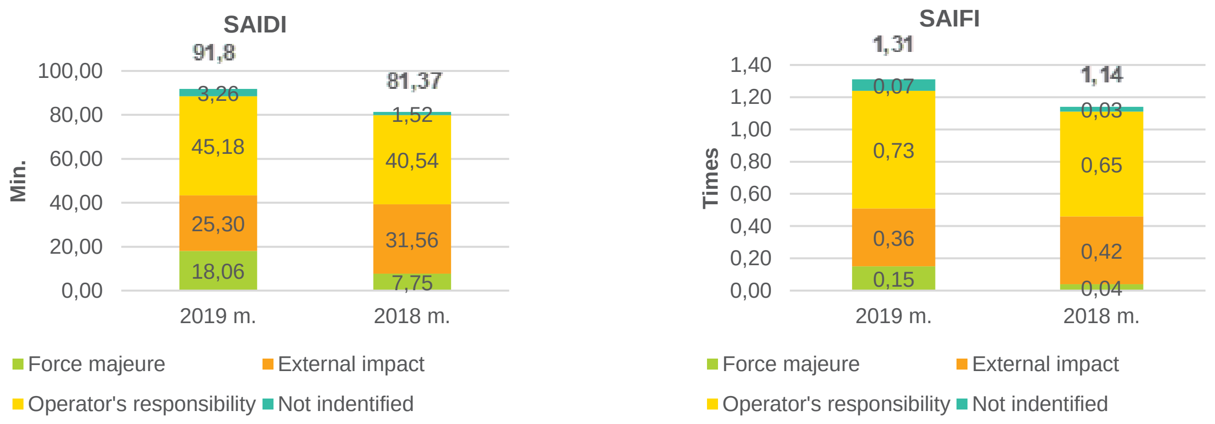


Electricity supply quality indices (SAIDI, SAIFI)

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

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

Figure 2. **Electricity supply reliability indices**



Natural gas distribution

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

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

Natural gas supply quality indices (SAIDI, SAIFI)

In 2019, The System Average Interruption Duration Index (SAIDI with *force majeure*) for the gas network per customer reached 1.25 minutes (damage cases done by third parties was 1.03 minutes), which is 0.62 minute more compared to the same period in 2018 (in 2018 SAIDI was 0.61 minutes, damage cases done by third parties – 0.41 minutes). In 2019, The System Average Interruption Frequency Index (SAIFI), including *force majeure*, per customer, reached 0.008 times (in 2018 – 0.006 times). The main reason of deteriorating ratios is supply disruptions for a larger number of customers (3,4 thousand customers) due to natural gas pipeline damage cases done by third parties comparing with the same period of 2018 (1,6 thousand customers), although the number of damages increased insignificantly.

Revenue

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

	2019	2018[1]	2017
Revenue from electricity transmission	80	63	66
Revenue from public electricity supply services	-	15	18
Revenue from gas distribution	8	9	8
Revenue from guaranteed electricity supply	7	6	3
Connection of new customers	2	2	3
Other income	3	5	2

[1] Comparative indicators were recalculated

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

During 2019, electricity transmission revenue comprised 80,2 % of the Company's total revenue. Revenue from natural gas distribution made up 8.3% of the Company's total revenue.

Expenses

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

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

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

	2019	2018[1]	Change 2018/2019	2017[1]
Employee benefits and related social security contributions	45,999	41,542	10.7%	43,731
Other expenses	15,494	16,483	-6.0%	18,026
Repair and maintenance expenses	21,745	13,810	57.5%	15,657
Telecommunications and IT services	9,058	9,095	-0,4%	8,713
Transport	3,874	4,823	-19.7%	4,453

Rent and utilities	2,012	4,032	-50.1%	4,148
Total operating expenses	**98,182**	**89,785**	**9.4%**	**94,728**

[1] Comparative indicators were not recalculated

EBITDA

Table 4. **EBITDA indicator[1]**

	2019	2018[2]	2017[3]
EBITDA, EUR '000	134,570	111.132	140,080
Recalculation of regulated income of the current period (will be implemented in the future periods) (1)	*-24,817*	*-11,244*	*-41,282*
Recalculation of regulated income from previous periods (will be implemented in the current period) (2)	*61,724*	*75,205*	*52,110*
Other corrections (3)	*9,011*	*-13,806*	*0*
Adjusted EBITDA, EUR '000	180,488	161,287	150,908
EBITDA margin, %	32.13	22.99	22.88
Adjusted EBITDA margin, %	43.09	33.36	24.65

[1] Description of ESO's indicators is available at: http://www.eso.lt/lt/investuotojams/alternatyvus-veiklos-rodikliai.html
[2] Comparative indicators were recalculated
[3] Comparative indicators were not recalculated

(1) Recalculation of regulated income of the current period for the adjustment of excess profit that may form according to estimates of the management Assessment of the difference between forecasted values of key income level components (OPEX, costs of purchase of electricity for own needs and consumption thereof in technological equipment, depreciation an amortisation expenses, return on investment, and other income) and values of price components approved by the regulator. Annual values of the price components approved by the regulator are published on the regulator's website (www.vert.lt), in the price approval certificates. Income components of regulated activity for 12 months are calculated in proportion to the Company's planned monthly amounts.

(2) Recalculation of regulated income from previous periods, which is implemented in the current year's prices, is set by the regulator when approving regulated prices Annual values of recalculations of income of the previous periods set by the regulator are published on the regulator's website (www.vert.lt), in the price approval certificates. Income components of regulated activity for 12 months are calculated in proportion to the Company's planned monthly amounts.

(3) Adjusted EBITDA includes adjustment of the changes in income accounting principles (15 IFRS) of new customers (hereinafter – NC). Management estimates that elimination of NC deferred income by adding NC generated cash flow for the current year enables to reflect the Company's result for the reporting period more accurately and to better compare the results between the periods. Such calculation of the indicator shows generated cash flow and income by the Company for the services provided to the NC during the reporting period when those services were provided, i.e. fulfillment of the contractual connection obligations to the customers. Other results of irregular activities (one-off or other factors that are not related to the curernt period) are eliminated as well e.g. result of public electricity supply activity's transaction, result of selling Company's non-current assets etc.

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

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

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

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

Profit (loss) and profitability ratios

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

Table 5. **ESO's profitability ratios[1], %**

	2019	2018[2]	2017[3]
Net profit margin	8.19	1.09	12.67

Operating profit margin	10.56	-0.11	13.94

[1] Description of ESO's indicators is available at: http://www.eso.lt/lt/investuotojams/alternatyvus-veiklos-rodikliai.html
[2] Comparative indicators were recalculated
[3] Comparative indicators were not recalculated.

Investments

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

Table 6. **ESO investments[1], EUR '000**

	2019	2018[2]	2017[3]
Renewal of the electricity distribution network	44,390	121,520	128,191
Expansion of the electricity distribution network	79,061	83,653	52,227
Construction of gas systems	44,972	47,677	34.931[2]
Reconstruction of gas systems	7,005	8,516	
Other (IT, management systems, etc.)	5,743	9,917	10,853
Total investments	**181,171**	**271,283**	**226,202**

[1] Description of ESO's indicators is available at: http://www.eso.lt/lt/investuotojams/alternatyvus-veiklos-rodikliai.html
[2] Comparative indicators were recalculated
[3] Comparative indicators were not recalculated.

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

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

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

Analysis of financial indicators

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

Table 7. **ESO's financial leverage ratios[1]**

	As at 31/12/2019	As at 31/12/2018[2]	As at 31/12/2017[3]
Net borrowings, EUR million	637.13	629.20	366.24
Net borrowings to equity ratio	0.96	1.00	0.60
Share price to earnings ratio	20.91	109,77	9.92
Capitalisation, EUR million	717.49	579.72	769.38

[1] Description of ESO's indicators is available at: http://www.eso.lt/lt/investuotojams/alternatyvus-veiklos-rodikliai.html
[2] Comparative indicators were recalculated
[3] Comparative indicators were not recalculated

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

Table 8. **ESO's liquidity ratios[1]**

	As at 31/12/2019	As at 31/12/2018[2]	As at 31/12/2017[3]
Current ratio	0.24	0.40	0.28

Working capital, EUR '000	-232,211	-186,432	-204,047
Working capital to total assets ratio	-0.55	-0.39	-0.33

[1] Description of ESO's indicators is available at: http://www.eso.lt/lt/investuotojams/alternatyvus-veiklos-rodikliai.html
[2] Comparative indicators were recalculated
[3] Comparative indicators were not recalculated

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

By the end of the 2019, decrease in liquidity ratios was related to the Company's specifics, since most of the cash flow from operating activities is allocated to capital expenditures to distribution grid reconstruction and development (which are non-current assets), whereas payables for the grid development and reconstruction are classified as current liabilities. Also the seasonal nature of the Company's activity makes an impact on liquidity, since a significant part of the grid development and reconstruction works are completed at the end of the calendar year. In addition, the Company is the only one in Lithuania which owns more than 95% of the electricity distribution market and is strategically important for national security. The continuity of the Company's activities is ensured by regulating and approving the caps of distribution prices and the Company's investments cost by NERC. Also, NERC evaluates and determines Company's financial capacity annually, which is sufficient for the performance of regulated activities.

It should be noted that on February 19th of 2020 a letter from the Group was received confirming the Group's intention to provide the necessary financial support to ensure the Company's operations and fulfillment of obligations for a period of at least one year.

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

Other information is presented in the condensed interim financial statements of ESO for 2019 (link: https://www.nasdaqbaltic.com/market/upload/reports/eso1/2019_q4_en_eur_con_ias.pdf).

FACTORS AFFECTING THE COMPANY'S FINANCIAL INDICATORS

Business environment

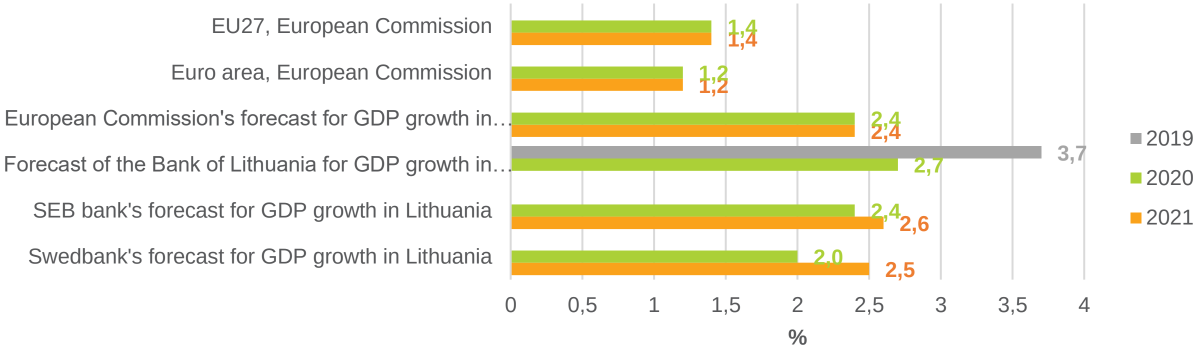
Continued economic growth made the biggest influence on electricity consumption in Lithuania in 2019. According to the EC macroeconomic forecast[1], the European Union economic growth is forecast to slow down. The geopolitical environment poses the highest risks on growth.

According to the forecast of the European Commission published in November 2019[1], the gross domestic product is forecast to grow by 1.4% in the European Union (E27) in 2020, in 2021 – 1.4% The economic growth in euro zone should be 1.2% in 2020, and 1.2% in 2021. The European Commission forecasts[2] that the growth of the Lithuanian economy Is going to reach 2.4% in 2020 (in previous years – 2.7%), and 2.4% in 2021 (the same).

As indicated in the Lithuania's economic outlook published by the Lithuanian banks, Lithuania's economic prospects are considered to be positive. According to the forecasts presented by the analysts of SEB bank in September 2019[3], Lithuanian economy will grow by 2.4% in 2020, and by 2.6% in 2021. The Swedbank analysts adjusted the Lithuania's economy outlook in November[4]: 2.0 % growth forecasted in 2020 and 2.5% in 2021. The survey of the Bank of Lithuania, made in December 2019, showed that Lithuania's GDP in 2019 was growing by 3.7%, and is expected to grow by 2.5% in 2020. Data for 2021 outstanding.

[1] Data source: https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin_forecast_autumn_2019_overview_en.pdf;
[2] Data source: https://ec.europa.eu/economy_finance/forecasts/2019/autumn/ecfin_forecast_autumn_2019_lt_en.pdf
[3] Data source: https://www.seb.lt/infobankas/ekonomine-aplinka/makroekonomika/makroekonomikos-prognozes
[4] Data source: https://internetbank.swedbank.se/ConditionsEarchive/download?bankid=1111&id=WEBDOC-PRODE43036376

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



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

Situation in the electricity market

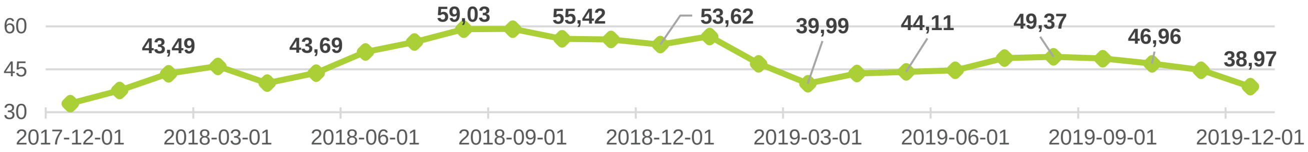
In 2019, the average price of electricity in the Nord Pool's Lithuanian trading zone decreased compared to the year of 2018. In 2019, the average price was 46.12 EUR/MWh, in 2018 it was equal to 50.00 EUR/MWh.[5]

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

Table 9. **Sensitivity analysis to the purchase price of electricity**

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

Figure 4. ***The average price of electricity in the Lithuanian trading zone on the Nord Pool power exchange***[6]



Company's strategy and objectives

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

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

[5] Data source: https://www.nordpoolgroup.com/Market-data1/Dayahead/Area-Prices/LT/Yearly/?view=table
[6] Data source: https://www.nordpoolgroup.com/Market-data1/Dayahead/Area-Prices/LT/Monthly/?view=table

Figure 4. ESO 2030 operational strategy scheme

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

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

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

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

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

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

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

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

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

Investment plan: modernisation of the electricity and gas distribution networks

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

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

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

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

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

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

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

Risk and uncertainty factors and their management

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

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

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

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

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

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

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

***Figure 5.* Risk management and control model**

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

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

***Table 10.* Risk factors for 2019 and their management policies**

Risk factor	Sources of risk	Main risk management policies	Risk level
Health and safety of employees, contractors and residents	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. Every year this risk remains a priority area and the main causes of this risk include high-risk working environment, potentially dangerous equipment and lack of awareness or experience.	• Maintenance of the occupational health and safety management system (OHSAS 18001:2007). • Implementation of the programme for the strengthening of safety culture. • Regular control and supervision of safety of employees and contractors. • Mobile application installed for the record of occupational safety violations to be comfortable. • A base for management of preventive measures has been implemented to record measures after accidents, incidents, etc., ensuring timely implementation of the measures envisaged. • Safety days are initiated jointly with the State Labour Inspectorate, which are held every six months. • The Practical Training Center provides training for employees under approved training programs by enhancing their practical experience in hazardous work; • Professional excellence competitions are held for both ESO and contractor staff on regular basis.	Very high

		• Information system for providing employees with security measures has been developed and implemented. • Unit managers are provided with breath analysers for employee testing.	
Risk of network reliability failure	According to information provided by the Hydrometeorological Service, during the period of 1981–2016. there were 190 natural phenomena in Lithuania or of 6–7 cases of storm, strong wind, hail per year, on average. Hydro-meteorologists predict that climate change in Lithuania will increase the number of cases of strong winds, heavy rainfalls and storms to which the existing electricity network of ESO is highly vulnerable: falling trees, snow and icing cut wires off, and falling branches cause short-circuits. As the number of customers increases along with the quality of electricity supplied, the technical parameters of the existing lines do not, in some cases, partially ensure the quality of electricity supply. Moreover, the rapid growth of distributed generation, electric vehicles and their charging equipment on the network, distribution system faces a profound challenge in terms of quality management.	• Through the cooperation with the Meteorological Service, the information on forecasted meteorological events is obtained prior its occurrence which leads to resource mobilization. • 10-Year investment plan is updated annually (the planned investments for the replacement of overhead power lines with underground cables in wooded areas). • Investment rating models are regularly revised and updated. • As from 2019, voltage regulators are used in overhead electricity lines as an alternative to more expensive network reconstruction. • A voltage quality monitoring system is being implemented in the electricity distribution network.	Very high
External regulation	The Company is exposed to regulatory risk due to following reasons: (1) Volatility and instability of the regulatory environment (frequent changes in legislation give rise to erroneous interpretations/misinterpretations). (2) reforms of the legal framework for the protection of personal data, the main act of which is the General Data Protection Regulation of the European Union (GDPR), which took effect on 25 May 2018. Changes in the regulation of personal data protection and the lack of clarifications of practical application thereof pose the risk of faulty implementation of rules provided for by the GDPR.	• For the purpose of ensuring compliance with new requirements, the Group-level projects engaging the best specialists of the Group companies with regard to the issue concerned are organised. • Active contribution to the process of public coordination of legal acts. • Initiation of draft amendments to legal acts that are unfavourable to the Company; • Phase two of the project for the implementation of GDPR requirements has been in progress, implementing additional solutions in IT, legal and process areas, and organizational measures to ensure the compliance of the Company's activities with GDPR.	High
Information security (cybersecurit y)	The changing geopolitical situation increases the risk of cyber incidents that can affect the reliability of the electricity distribution network. Based on global trends, cyber threats in the electricity transmission and distribution sectors are increasing every year. Cyber-attacks tend to target the companies of strategic importance to the State. Today, we can name a few countries with sufficient resources and motivation, who are able to target cyber-attacks on the Company.	• Enhancement of cyber-attack detection/resistance systems. • Increasing the resilience of electricity distribution network management systems to cyber threats by expanding the cyber security network. • Cooperation with external establishments in the field of cyber security. • Education of the Company's employees and training in the field of information security. • Preventive measures to tackle corruption and cases of potential spying. • Professional development of employees in charge of cyber security.	High

INFORMATION ON THE COMPANY'S ISSUED CAPITAL AND SECURITIES

Structure of issued capital and securities

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

*Table 11. **Structure of issued capital***

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

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

*Table 12. **Information on the Issuer's securities***

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

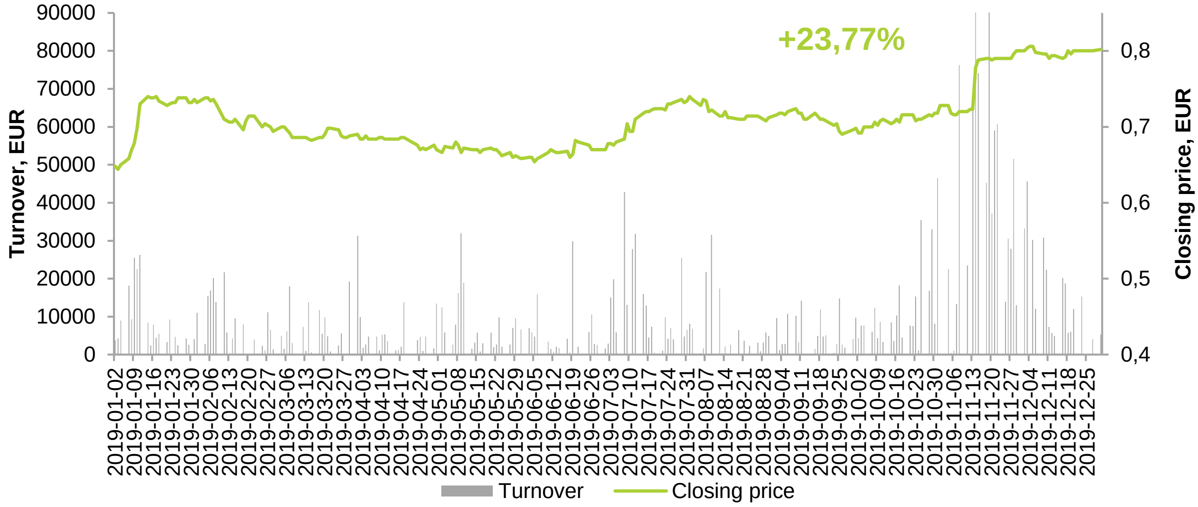
The Company did not acquire its own shares until the end of the reporting period and neither acquired nor disposed of its own shares during the reporting period.

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

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

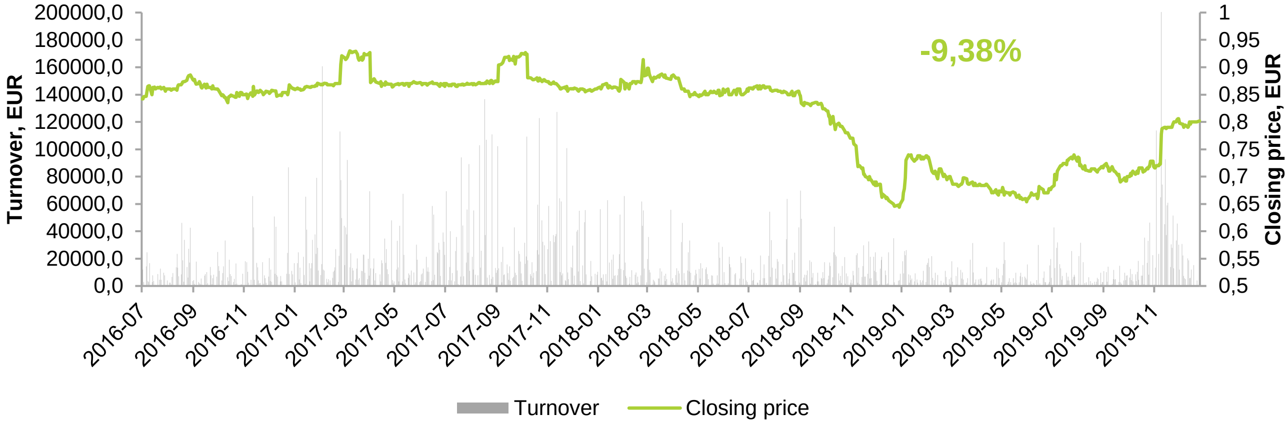
The Company's share price and turnover dynamics

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



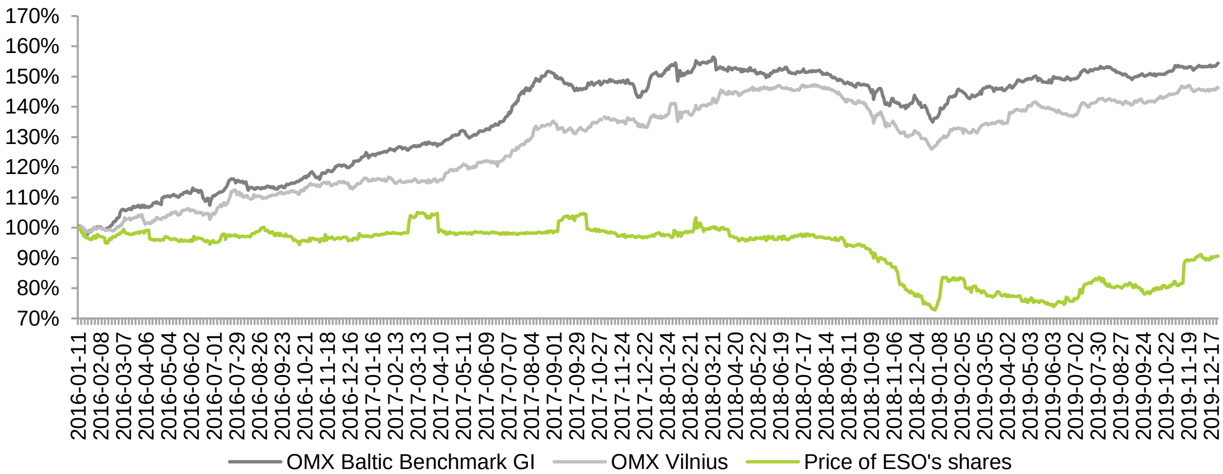
During the reporting period, the price of the Company's shares increased by 23.77%.

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



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

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



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

Shareholder structure

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

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

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

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

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

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

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

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

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

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

There were no restrictions on voting rights.

Restrictions on transfer of securities

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

Information on agreements with intermediaries of public trading in securities

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

Dividend policy and dividends

The dividend policy of Lietuvos energija (from 6 September 2019 – Ignitis Group UAB), which was approved in 2016, applies to ESO and is published on the Company's website under the section "For Investors". This policy establishes the uniform net profit appropriation principles to be applicable to all companies of the Group.

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

Dividends were also paid out based on the decision made at the Extraordinary General Meeting of Shareholders held on 29 September 2017 regarding the pay-out of dividends to the Company's shareholders for the period shorter than the financial year. Dividends allocated per share for the six-month period ended 31 December 2017 amounted to EUR 0.046 (EUR 41,2 million in total).

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

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

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

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

CUSTOMER SERVICE, SERVICE ASSESSMENT

Number of customers being serviced

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

In 2019, ESO concluded 7,928 contracts with private customers for connection to ESO's gas distribution network or 49% less than in 2018, when 15,448 contracts were signed. During January-December 2109, 324 contracts for gas network service were signed with commercial customers or 26% less than in 2018 (435 contracts). In 2019, 11,459 private gas consumers were connected – 20% less than in 2018 (14,340 private customers). In 2019, 334 commercial customers were connected to the ESO's gas distribution network or 17% less than in 2018 (401 customers).

Operation and development of electricity and gas metering devices

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

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

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

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

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

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

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

Development of service channels

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

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

Management of customer settlements

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

Market liberalisation

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

Customer satisfaction

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

SOCIAL RESPONSIBILITY REPORT

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

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

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

Social Responsibility Policy

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

Being engaged in its activities in a responsible manner, the Company follows the Social Responsibility Policy approved for the Ignitis Group (link: https://www.ignitisgrupe.lt/sites/default/files/inline-files/Socialines%20atsakomybes%20politika.pdf). This document defines general responsible policies and provisions under which the business culture and practice of the socially responsible and sustainable group of companies is being developed. The Group of companies adheres to its vision, mission, values and strategic objectives when implementing its social responsibility through focused activities in four key areas of environmental concerns, relationships with employees and society, market activities.

ESO identifies the following priorities for its responsible activities:

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

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

Principles of the Global Compact:

Human rights	
Principle 1.	Businesses should support and respect the protection of internationally proclaimed human rights.
Principle 2.	Make sure that they are not complicit in human rights abuses.
Employee rights	
Principle 3.	Businesses should uphold the freedom of association and the effective recognition of the right to collect bargaining.
Principle 4.	The elimination of all forms of forced and compulsory labour.
Principle 5.	The effective abolition of child labour.
Principle 6.	The elimination of discrimination in respect of employment and occupation.
Environmental protection	
Principle 7.	Businesses should support a precautionary approach to environmental challenges;
Principle 8.	Undertake initiatives to promote greater environmental responsibility.
Principle 9.	Encourage the development and diffusion of environmentally friendly technologies.
Anti-corruption	
Principle 10.	Businesses should work against corruption in all its forms, including extortion and bribery.

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

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

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

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

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

Human rights

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

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

Social and personnel issues

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

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

Remuneration system. All the companies of Ignitis Group have implemented an advanced employee remuneration system (link: https://www.ignitisgrupe.lt/sites/default/files/inline-files/UAB%20Ignitis%20grup%C4%97%20%C4%AFmoni%C5%B3%20grup%C4%97s%20Atlygio%20politika.pdf) placing the Company on an equal footing with other leading companies of the country remunerating their employees according to their performance, the value created for the organisation and the team. The remuneration system was developed on the basis of 'Korn Ferry' methodology ensuring objective evaluation of the employee's job positions according to the required qualification, complexity of the problems, and the level of responsibility assigned to a specific job position.

The Group Remuneration Policy was updated in 2019 (link: https://www.ignitisgrupe.lt/sites/default/files/inline-files/UAB%20Ignitis%20grup%C4%97%20%C4%AFmoni%C5%B3%20grup%C4%97s%20Atlygio%20politika.pdf), which also applies to its subsidiaries and sets out the cornerstone principles of remuneration management, was updated: internal justice, external competitiveness, clarity, transparency, flexibility, ensuring that employees all Group companies are rewarded in the same way for the same type of work, expertise and performance.

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

Occupational Health and Safety

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

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

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

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

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

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

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

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

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

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

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

Environmental protection

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

The Company's responsibilities and obligations in terms of the environmental impact of its activities are defined in its Environmental Policy (link: https://www.eso.lt/download/68384/eso%20aplinkos%20apsaugos%20politika.pdf).

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

The Company complies with all environmental requirements and takes care of construction of new facilities and restoration of the old ones on its own initiative so that the Company's activities cause as little impact on the environment as possible. The Company organises environment management campaigns. Meetings of employees of different units are held using video conferences so as to reduce costs on transport and cause less emissions.

The Company promotes the use of electronic devices, spare sheets of paper, sorting. The Company's employees tend to use less paper in their work activities, manage documents in an electronic way via the special document management system. From 2019 The company started calculating the amount of paper using: in 2019 used about 6 thousand packs of paper or about 15 thousand kg of paper (1 pack = 2.5 kg).

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

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

Protection of soil and groundwater. In order to prevent contamination of soil and groundwater, the collection and disposal of oil and other waste is always ensured in the areas where the construction, installation, operation and reconstruction of electrical installations are envisaged. Oil collection tanks are installed in open switchyards and substations, where oil from the transformer stations and oil circuit breakers may leak into the ground and groundwater.
Saving of resources. The Company has implemented technological solutions to reduce paper costs and create a paperless office culture. The Company actively encourages its customers to choose electronic invoices. Around 93% of bills are sent by electronic means (self-service + e-bills in banks).

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

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

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

Promoting energy efficiency

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

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

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

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

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

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

Anti-corruption

ESO does not tolerate any manifestations of corruption and are in favour of honest business and transparent communication with state institutions, supporting the Policy of Zero Tolerance of Corruption, valid throughout Group companies of Ignitis Group (link: https://www.eso.lt/download/191094/le%20antikorupcine%20politika.pdf).

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

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

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

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

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

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

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

Provision of Support

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

Awards

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

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

THE COMPANY AND ITS MANAGEMENT BODIES

***Table 17.* Information about the Company and its contact details**

Company name	Energijos Skirstymo Operatorius AB
Company code	304151376
Authorised share capital	EUR 259,442,796.57
Registered office address	Aguonų g. 24, LT-03212 Vilnius
Telephone	(8 5) 277 7524

Fax	(8 5) 277 7514
E-mail	info@eso.lt
Website	www.eso.lt
Legal-organisational form	Public limited liability company
Date and place of registration	11 December 2015, the Lithuanian Register of Legal Entities
Register accumulating and storing data about the Company	Register of Legal Entities
Registrar	State enterprise Centre of Registers

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

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

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

Information on the Company's branches and representative offices

The Company has no branches or representative offices.

Information about ownership interest in other entities

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

As at 31 December 2019, ESO had no subsidiaries.

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

Table 18.* *Main information about related companies

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

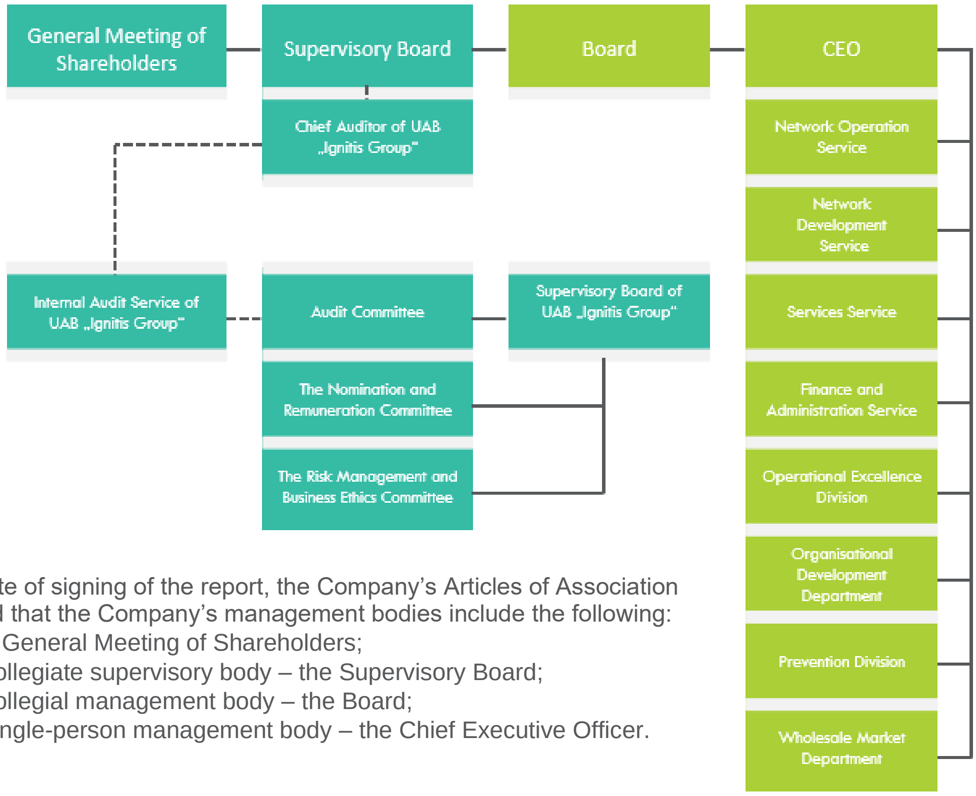
** Following completion of the reorganization proceedings of Ignitis Grupės Paslaugų Centras UAB and Verslo Aptarnavimo Centras UAB after the reporting period, Verslo aptarnavimo centras UAB was removed from the Register of Legal Entities on 2 January 2020. After the reorganization, Ignitis Grupės Paslaugų Centras UAB continues its activities and provides services.*
*** Following completion of the reorganization proceedings of Ignitis Grupės Paslaugų Centras UAB and Verslo Aptarnavimo Centras UAB after the reporting period, as from 1 January 2020 the Company owns 26.3976% of Ignitis Grupės Paslaugų Centras UAB shares.*

Information on major related party transactions

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

\Corporate Governance

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



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

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

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

Amendment procedure of the Articles of Association

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

General Meeting of Shareholders

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

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

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

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

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

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

The Company's Supervisory Board

ESO's Supervisory Board is a collegial supervisory body. Its competence, procedures of decision making, election and recalling of the members are established in laws, other legal acts and the Company's Articles of Association. Following registration of the new wording of the Articles of Association on 3 July 2019, the Company's Supervisory Board has five members elected for the term of office of four years by the General Meeting of Shareholders.

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

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

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

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

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

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

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

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

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

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

				
Darius Maikštėnas Chairman	**Darius Kašauskas** Member	**Kęstutis Betingis** Independent member	**Žaneta Kovaliova** Independent member	**Dalia Jakutavičė** Employee representative, Member
Elected from: 30 March 2018 End of term of office: 30 March 2022	Elected from: 30 March 2018 End of term of office: 30 March 2022	Elected from: 28 March 2018 End of term of office: 30 March 2022	Elected from: As at 15 October 2019 End of term of office: As at 30 March 2022	Elected from: As at 15 October 2019 End of term of office: As at 30 March 2022
Education				
Harvard Business School, General Management Program; Baltic Management Institute, Master's degree in Business Administration; Kaunas University of Technology, Bachelor's degree in Business Management	ISM University of Management and Economics, Doctoral studies of Social Sciences in the field of Economics; ISM University of Management and Economics, BI Norwegian Business School, Master's degree in Management; Vilnius University, Master's degree in Economics	Vilnius University, Master's degree in Law; Lithuanian Institute of Public Administration, the Organisation Leaders Training Programme for Heads of Public Prosecutors (OLYMP-38)	Vilnius University, Bachelor and Master's degree in Business Management and Administration	Kaunas School of Radio and Television Mechanics Kolping College, Law (Specialization - Public Administration) Professional competence of social dialogue mediator
Principal workplace and position held				
Ignitis Group UAB, Chairman of the Board, CEO	Ignitis Group UAB, member of the Board, Finance and Treasury Director	Betingio ir Ragaišio Lawyer Firm, lawyer	UP Consulting Group Ltd CEO	Lithuanian Energy Workers' Trade Union Federation Deputy Chairwoman, lawyer
Participation in the activities of other companies and organisations				
Name of a company, body, organisation, position held	**Name of a company, body, organisation, position held**	**Name of a company, body, organisation, position held**	**Name of a company, body, organisation, position held**	**Name of a company, body, organisation, position held**
WIDER COMMUNICATIONS INCORPORATED, DELAWARE CORPORATION, USA, shareholder, the member of the Board (until 21/05/2019); WIDER COMMUNICATIONS LIMITED PRIVATE LIMITED COMPANY, UK a sole member of the Board (until 21/05/2019)	Duomenų logistikos centras UAB, Chairman of the Board; Lithuanian Energy Support Foundation, Member of the Board; 288th DNSB Vingis, Member of the Revision Commission; Energetikos paslaugų ir rangos organizacija UAB, Chairman of the Board (until 24 October 2019).	–	Member of the Association of Chartered Accountants (ACCA) Certified auditor of Lithuania (inactive status) Būsto paskolų draudimas, UAB, independent member of the Board.	–
Percentage of share capital and voting rights of other companies held in excess of 5%				
–	–	–	–	–
Compensations calculated during January–December 2019, in EUR (for activities in the Supervisory Board)**				

–	–	10,559.69	2,062.02	2,503.78

** The Extraordinary General Meeting of Shareholders of the Company, held on 15 October 2019, elected Ms. Žaneta Kovaliova as independent member of the Supervisory board of ESO and Ms. Dalia Jakutavičė as representative of the employees of the Company in the Supervisory board of ESO. New members of the Supervisory board of ESO started their duties after the Extraordinary General Meeting of Shareholders who elected them.*
*** According to the ESO's Articles of Association, agreements may be concluded with the members of the Supervisory Board regarding the activity related to the Supervisory Board, which establish members' rights, obligations and responsibility. Remuneration for work at the Supervisory Board can be paid to the independent members of the Supervisory Board and upon the decision of the General Meeting of Shareholders. The terms and conditions of the agreements with the members of the Supervisory Board, including the independence criteria, are established at the General Meeting of Shareholders in accordance with the requirements set forth in the relevant legal acts and based on the best corporate governance practices."*

The Company's Board

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

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

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

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

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

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

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

Activities of the Company's Board in 2019 covered the following key areas:
• Evaluation of the most significant transactions planned by the Company, approval of their conclusion and approval of essential terms of transactions.
• Establishment of the General Manager's remuneration, taking into account the opinion of the Supervisory Board.
• Evaluation of the arrangement of the Company's activities and taking decisions related thereto.
• Establishment of the Company's organizational structure, staff job descriptions, and a list of the maximum establishments;
• Evaluation and approval of the Company's operational planning documents, taking into account the opinion of the Company's Supervisory Board;
• Convocation of general meetings of the Company;
• Approval of the Company's annual report and interim report adopted with a view to making a decision on allocation of dividends for the period shorter than the financial year and submission to the Supervisory Board and General Meeting of Shareholders;
• Evaluation of the Company's annual financial statements and profit (loss) distribution project, interim financial statements adopted with a view to making a decision on allocation of dividends for the period shorter than the financial year, the draft decision on dividend distribution for less than a financial year and provision of feedback to the Supervisory Board and the General Meeting of Shareholders.

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

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

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

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

21,780	15,600	15,600	15,600	15,600

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

The Company's Management

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

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

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

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

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

Information about the Committees

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

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

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

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

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

The Audit Committee

The main functions of the Committee are as follows:

- to supervise the financial reporting process of Ignitis Group UAB 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 Ignitis Group UAB and the companies of the Ignitis Group UAB 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 Ignitis Group UAB and the companies of the Ignitis Group UAB, 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 Ignitis Group UAB and the companies of the Ignitis Group UAB, 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 Ignitis Group UAB and the companies of the Ignitis Group UAB with laws and other legal acts of the Republic of Lithuania, articles of association and operational strategy;
- to provide opinion to the entities of the Company who shares are traded in the regulated market on transactions with a related party as stipulated in Article 37(5) of the Lithuanian Law on Companies;
- to assess and analyse other issues attributed to the competence of the Committee by the decision of the Supervisory Board;
- to perform other functions related to the functions of the Committee set forth by legal acts of the Republic of Lithuania and the Corporate Governance Code of companies listed on the NASDAQ Vilnius Stock Exchange.

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

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

Committee member	Number of shares held at the Company (%)	Term of office	Name of employer, job position
Irena Petruškevičienė Chairwoman of the Committee, Independent member	–	October 2017– October 2021	- ISM University of Management and Economics, Head of the executive Master's degree module 'Finance Strategy and Management' - The Authority of Audit, Accounting, Property Valuation and Insolvency Management under the Ministry of Finance of the Republic of Lithuania, Member of the Audit Supervision Committee European Stability Mechanism (ESM), Member of the Board of Auditors
Danielius Merkinas Independent member	–	October 2017– October 2021	- NNT Termo UAB, Director, Chairman of the Board - Nordnet UAB, Commerce Manager, Chairman of the Board - Mercado Prekyba UAB, Director - 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 13 October 2021.

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

The Risk Management and Business Ethics Supervision Committee

The main functions of the Committee as follows:

- to monitor the way the risks relevant for the achievement of the targets set for Ignitis Group UAB and the companies of the Ignitis Group UAB 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 Ignitis Group UAB and the companies of the Ignitis Group UAB;

- 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 Ignitis Group UAB.

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

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

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

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

Nomination and Remuneration Committee

Main functions of the committee:

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

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

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

The term of office of the incumbent Nomination and Remuneration Committee is from 13 September 2017 to 31 September 2021.
Overall 14 meetings of the Nomination and Remuneration Committee were held during the reporting period.

Employees of the Company

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

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

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

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

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

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

Remuneration system

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

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

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

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

Table 27. Average salary of the Company's employees

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

Workers	1,508
Total number of employees	**1,804***

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

Collective employment agreement

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

Trade unions

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

Development of competences

ESO gives particular attention to the development of employees' competences. Development plans are drawn up based on the development strategy of Ignitis Group, which delivers autonomous and engaging, business-driven, flexible, innovative, and fast development.
The Company creates a modern learning culture with the aim of enabling excellence to be developed everywhere, anytime, and quickly:

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

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

Internship opportunities

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

Significant agreements

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

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

Harmful transactions

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

MATERIAL EVENTS IN THE COMPANY'S ACTIVITIES

During the reporting period

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

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

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

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

After the end of the reporting period

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

Date	Key event
06/01/2020	Regarding the decision to appeal the judgement
10/01/2020	Regarding the information submitted to the Bank of Lithuania about official tender circular
14/01/2020	Update: Regarding the information submitted to the Bank of Lithuania about official tender circular
14/01/2020	Repeat: Update: Regarding the information submitted to the Bank of Lithuania about official tender circular
28/01/2020	Regarding the alignment of investment plan in the electricity sector of 2019
29/01/2020	Regarding judgement of Vilnius Regional Court of 28 January 2020 in the civil case
31/01/2020	ESO preliminary financial results for 12 months of 2019
31/01/2020	Planned investigation of the Supervision Service of the Bank of Lithuania completed with no infringements
13/02/2020	The Court upheld the decision to apply the temporary protection measures
21/02/2020	Correction: Reporting dates of Energijos skirstymo operatorius in 2020
28/02/2020	ESO 2019 Results: Refinement of Activities and Concentration on Functions of Distribution Network Infrastructure Operator
28/02/2020	ESO preliminary financial results for 1 month of 2020
05/03/2020	CORRECTION: Reporting dates of Energijos skirstymo operatorius in 2020

OTHER IMPORTANT INFORMATION

Alternative performance measures

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

ANNEXES

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 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 not concluded any additional agreements with the company that carried out the audit of its financial statements.

CORPORATE GOVERNANCE REPORTING FORM

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, hereby 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.

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 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:

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: https://ignitisgrupe.lt/sites/default/files/inline-files/Korporatyvinio%20valdymo%20gaires%202017%2006%2001_0.pdf). Corporate governance activities are focused in the parent company of the Ignitis Group UAB–, which coordinates in the Ignitis Group UAB 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 Ignitis Group UAB 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 Ignitis Group UAB and the system of governance and control can be found via (link: https://ignitisgrupe.lt/lt/valdymas). 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).

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.
1.5. 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.

1.6. 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.
1.7. 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.
1.8. 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 and approved Group-wide policies oblige members of the Company's collegial management body and also each member of the Company's collegial management body 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 2019 there were 13 (thirteen) 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.
3.1.	Principle 3: Management Board 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 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. Each member should devote sufficient time and attention to perform his duties as a member of the Management Board. Should a member of the Management Board attend less than a half of the meetings of the Management Board throughout the financial year of the company, the Supervisory Board of the company or, if the Supervisory Board is not formed at the company, the General Meeting of Shareholders should be notified thereof.	Yes	Members of the Management Body are actively involved in meetings of the Management Board and devote sufficient time for performing their duties as a member of the collegial body. In 2019 there were 34 (thirty-four) Management Board's meetings. All elected members of the Management Board were in attendance in all meetings of the Management Board held in 2019.
3.2.7. 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.
3.2.8. 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.
3.2.9. 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.

[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.

3.2.10.	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
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 and Business Ethics.
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	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).

number of meetings and attendance over the year as well as the main directions of their activities and performance.		
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
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 5.1.1
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	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

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.

5.4. Audit committee

5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee[12].	Yes	In accordance with the Law on the Audit of Financial Statements of the Republic of Lithuania, a public interest company which is a subsidiary and prepares consolidated financial statements may omit the requirement to form an Audit Committee as defined in the Lithuanian Law on Audit if its parent company has the required committee. Since the parent company Ignitis Group UAB, has a formed audit company, a separate Audit Committee is not set up in the Company.
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.	Yes	
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. The Company implements the recommendation through the Audit Committee formed by the parent company.
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. The Company implements the recommendation through the Audit Committee formed by the parent company.
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. The Company implements the recommendation through the Audit Committee formed by the parent company.

[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.

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 the 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 interests 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 immediately 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 Ignitis Group UAB regulates the main principles of identification of conflict of interest situations, which persons working in Ignitis Group UAB 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 Ignitis Group UAB approved by decision of the Board of Ignitis Group 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 Ignitis Group UAB, approved by the Decision of the Board of Ignitis Group 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 Ignitis Group UAB. According to the provisions of the Remuneration Policy, the variable remuneration component is paid only in case the target achievement value is 70% at the least. If criteria for the evaluation of performance results are not met, i.e. the goal achievement value is below 70%, 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	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 Labour 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 Labour 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 Ignitis Group UAB, approved the Remuneration Policy of Ignitis Group UAB. According to article 37[3] of the Law on Companies of the Republic of Lithuania the Remuneration Policy of the Company is going to be approved in the closest Ordinary General Meeting of Shareholders of the Company.

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 (1852, +370 69761852), 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.
9.2. 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	
9.3. 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.
9.4. 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.