Nr. 30220 -

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 Lina Radlinskienė, Head of Financial Reporting of UAB Ignitis grupės paslaugų centras acting under Order No IS-185-20 of 18 December 2020, hereby confirm that, to the best of our knowledge, AB Energijos skirstymo operatorius financial statements for the financial year 2020 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 2020 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 Financial Reporting acting under Order No IS-185-20 of 18 December 2020	Lina Radlinskienė

Customer Service
Customer Service tel. 1802 or +370 697 61 852*
Free Electricity helpline 1852
Free Gas supply helpline 1804
Self-Service www.eso.lt
* this is based on telephone operator's plan and an additional tariff

Company Requisites
AB „Energijos skirstymo operatorius“
Aguonų str. 24, 03212 Vilnius, Lithuania
E-mail info@eso.lt
Company Code 304151376
PVM Code LT100009860612
Data collected and stored in the Register of Legal Entities

2020

AB ENERGIJOS SKIRSTYMO OPERATORIUS

FINANCIAL STATEMENTS OF THE COMPANY FOR THE YEAR 2020, PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION, ANNUAL REPORT AND THE INDEPENDENT AUDITOR'S REPORT

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www.eso.lt

AB Energijos skirstymo operatorius
Aguonų st. 24, 03212 Vilnius, Lithuania
E-mail: info@eso.lt
Company code 304151376

CONTENT

The financial statements of AB Energijos skirstymo operatorius were prepared and signed on 26 February 2021 by the Chief Executive Officer, the Director of Finance and Administration, and the Head of Financial Reporting of UAB Ignitis grupės paslaugų centras, acting under Order No IS-185-20 of 18/12/2020:

Mindaugas Keizeris AB Energijos skirstymo operatorius CEO	**Augustas Dragūnas** AB Energijos skirstymo operatorius Director of Finance and Administration	**Lina Radlinskienė** Head of Financial Reporting of UAB Ignitis grupės paslaugų centras, acting under Order No IS-185-20 of 18/12/2020

UAB „Ernst & Young Baltic“
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Juridinio asmens kodas 110878442
PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

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Code of legal entity 110878442
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 2020, 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 2020 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

Revenue recognition related to the estimation of overdeclaration/ underdeclaration of electricity usage and to the deferred revenue from new customer connections over the estimated useful life of respective assets

The Company's electricity distribution revenue depends on declarations of electricity consumed by private customers which do not have automated meter readings. Due to customers' behavior to declare amounts not exactly at the year -end, the Company at each year-end has to estimate the amount of the overdeclared / underdeclared consumption in order to calculate the actually earned revenue to be recognized to the statement of profit or loss and other comprehensive income for the financial year. The management's estimation is based on historical consumption by private customers as well as the Company's assessment of technological losses in the electricity grid at the financial year end. The advances received for electricity and overdeclared electricity from the customers amounted to EUR 3.7 million as of 31 December 2020 (5.8 million – as of 31 December 2019).

Another significant estimation related to revenue recognition is that the Company accounts for the upfront fees paid by the customers for the connection to electricity and gas distribution network (further – connection fees) by deferring the fees received over the estimated useful lives of the assets, used in provision of the connection service. Under the Company's accounting policy the estimated average useful life of such assets is 27 years for the electricity grid and 46-55 years for the gas grid. As disclosed in Note 20, the deferred revenue – the liabilities under connection contracts (current and non-current) amounted to EUR 226 million as of 31 December 2020 (EUR 215 million – as of 31 December 2019).

Revenue recognition factors mentioned above are significant to our audit due to the materiality of the amounts, significant management judgment applied, estimations used and impact on the financial statements for 2020.

How the matter was addressed in the audit

In relation to revenue recognition related to estimation of overdeclaration / underdeclaration of electricity usage we performed the following procedures, among others:

- we obtained management's model for calculation of overdeclaration / underdeclaration and compared it to prior year model by evaluating the consistency of the model and the estimates made;
- we obtained and reviewed evidence supporting main inputs used in the model and recalculated formulas in order to check the accuracy of the calculations;
- we performed analytical review procedures by forming an expectation of deferred revenue based on the key performance indicators, including taking into consideration historical revenue and technological grid losses information, changes in approved tariffs and comparing with actual results;
- finally, we considered the adequacy of the Company's disclosures included in Note 2.16 and Note 25.

In relation to revenue recognition related to deferred revenue from new customer connections we performed the following procedures, among others:

- we have updated our understanding of the new connection fee revenue recognition and measurement process and related internal controls;
- we tested key controls implemented over the connection of new customers to the distribution system revenue recognition, by testing a representative sample of new contracts signed during financial year, reconciling inputs and reviewing respective approvals to primary supporting documents;
- we have performed correlation of transactions analysis between cash – received advances – trade accounts receivable – deferred revenues – revenues accounts. We have tested a sample of advances received by reviewing bank payments, issued invoices and work transfer and acceptance acts to assess the completeness of deferred revenue;
- we performed analytical review procedures by forming an expectation of additional deferred revenue to be recognized during 2020 and comparing it to actual additional deferred revenue recognized in 2020;
- we reviewed the management's calculation of deferred revenue from contracts with new customers, inspected the formula applied and

recalculated the amounts split for current and non-current periods;
- we performed analytical review procedures by forming an expectation of the connection fees amount which should be recognized as revenue for the year and comparing it to actual revenue recognized in the statement of profit or loss and other comprehensive income for the financial year ended;
- finally, we considered the adequacy of the Company's disclosures included in Note 2.16 and Note 20.

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 1,280 million as at 31 December 2020.

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 assessed 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 2020.

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 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.

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 330 million as at 31 December 2020.

The legislative changes in the calculation of regulated tariffs (for more information refer to Note 5) and decreasing operating results of gas distribution

Our audit procedures included, among others, the following:

- we have obtained understanding of the process (including assumptions and methods) how management performs the assessment of gas CGU impairment;
- we considered significant assumptions used by management in the estimation of cash flow forecasts by comparing previous management estimates of cash flows components to actual levels;

business segment in year 2020 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 the impairment amounting to EUR 6.3 million was accounted for the financial year ended as at 31 December 2020.

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 2020.

- 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 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 a section on Sustainability 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 corresponds to the financial statements for the same financial year and if the Company's Annual 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 corresponds to the financial information included in the financial statements for the year ended 31 December 2020; and
- The Company's Annual 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 2020 was our second 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 AB.

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, the review of half year financial information 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

Kęstutis Juozaitis
Auditor's licence
No. 000550

26 February 2021

STATEMENT OF FINANCIAL POSITION

All amounts in thousands of euro unless otherwise stated

	Notes	As at 31/12/2020	As at 31/12/2019
ASSETS			
Non-current assets			
Property, plant and equipment	5	1,610,169	1,563,522
Intangible assets	6	42,967	44,819
Right-of-use assets	7	16,238	20,430
Prepayments for non-current assets		3	3
Investments in associates	8	3,722	2,628
Other financial assets		104	415
Other non-current receivables	34	200	-
Total non-current assets		**1,673,403**	**1,631,817**
Current assets			
Inventories	9	2,344	1,892
Trade and other receivables	10	74,896	65,744
Prepayments, deferred expenses and contract assets		1,123	917
Other current assets	11	2,787	-
Prepaid income tax		-	1,461
Cash and cash Equivalents	12	8,965	4,775
		90,115	**74,789**
Long-term assets held for sale		5	-
Total current assets		**90,120**	**74,789**
TOTAL ASSETS		**1,763,523**	**1,706,606**
EQUITY AND LIABILITIES			
Equity			
Issued capital	13	259,443	259,443
Revaluation reserve	14	127,038	141,020
Legal reserve	14	25,944	25,944
Retained earnings		253,191	237,510
Total equity		**665,616**	**663,917**
LIABILITIES			
Non-current liabilities			
Loans	16	657,732	465,633
Lease liabilities	18	11,302	15,555
Deferred tax liabilities	19	17,007	8,417
Liabilities under connection contracts with customers	20	215,199	205,332
Grants and subsidies	21	21,318	15,156
Long-term employee benefits	22	2,269	2,575
Other non-current liabilities		-	3
Provisions	23	21,166	23,018
Total non-current liabilities		**945,993**	**735,689**
Current liabilities			
Loans	16	15,549	176,268
Current portion of finance lease liabilities	18	5,083	5,029
Trade and other payables	24	57,841	67,351
Accrued expenses and contractual obligations	25	64,525	46,131
Provisions	22, 23	8,916	12,221
Total current liabilities		**151,914**	**307,000**
Total liabilities		**1,097,907**	**1,042,689**
TOTAL EQUITY AND LIABILITIES		**1,763,523**	**1,706,606**

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

All amounts in thousands of euro unless otherwise stated

	Notes	2020	2019
Revenue from contracts with customers	26	480,866	413,144
Other income	27	3,975	5,706
Purchase of electricity and related services		(191,891)	(180,830)
Purchase (expenses) of natural gas and transmission services		(2,585)	(5,268)
Depreciation and amortisation	5, 6, 7, 21	(82,716)	(81,621)
Wages and salaries and related expenses	28	(51,368)	(45,999)
Repair and maintenance expenses		(24,842)	(21,745)
Transport		(3,240)	(3,874)
Telecommunications and IT services		(9,717)	(9,058)
Utilities		(1,956)	(2,012)
Impairment and write-off expenses	29	(11,722)	(8,712)
Other expenses	30	(14,813)	(15,494)
Operating profit		**89,991**	**44,237**
Finance income	31	38	27
Finance costs	31	(12,096)	(10,265)
Finance costs – net		**(12,058)**	**(10,238)**
Share of profit of associates	8	139	292
Profit before tax		**78,072**	**34,291**
Income tax (expense) benefit	19	(8,590)	22
Net profit		**69,482**	**34,313**
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods			
Revaluation of the defined benefit plan obligation, net of deferred income tax	22	208	(30)
Other comprehensive income (loss)		**208**	**(30)**
Comprehensive income (loss) for the period		**69,690**	**34,283**
Weighted average number of shares	32	894,630,333	894,630,333
Basic and diluted earnings per share (in EUR) attributable to owners of the Company	32	0.078	0.038

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

AB ENERGIJOS SKIRSTYMO OPERATORIUS, company code 304151376, Aguonų st. 24, Vilnius, Lithuania
STATEMENT OF CHANGES IN EQUITY
All amounts in thousands of euro unless otherwise stated

	Notes	Issued capital	Revaluation reserve	Legal reserve	Retained earnings	Total equity
Balance as at 1 January 2019		**259,443**	**154,834**	**25,944**	**189,413**	**629,634**
Net profit for the period		-	-	-	34,313	34,313
Revaluation 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 of revaluation reserve, net of deferred income tax)	14	-	(13,814)	-	13,814	-
Balance as at 31 December 2019		**259,443**	**141,020**	**25,944**	**237,510**	**663,917**
Balance as at 1 January 2020		**259,443**	**141,020**	**25,944**	**237,510**	**663,917**
Net profit for the period		-	-	-	69,482	69,482
Revaluation of the defined benefit plan obligation, net of deferred income tax		-	-	-	208	208
Total comprehensive income		**-**	**-**	**-**	**69,690**	**69,690**
Transfer to retained earnings (transfer of depreciation of revaluation reserve, net of deferred income tax)	14	-	(13,982)	-	13,982	-
Dividends	15	-			(67,991)	(67,991)
Balance as at 31 December 2020		**259,443**	**127,038**	**25,944**	**253,191**	**665,616**

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

STATEMENT OF CASH FLOWS

All amounts in thousands of euro unless otherwise stated

	Notes	2020	2019
Cash flows from operating activities			
Net profit		69,482	34,313
Adjustments for:			
Income tax expense	19	8,590	(22)
Depreciation and amortisation	5, 6, 7	83,761	82,695
Change in value of property, plant and equipment	5	6,967	4,020
Amortisation of grants	21	(1,045)	(1,074)
Share of (profit) of associates	8	(139)	(292)
(Gain)/loss on disposal and write-off of assets		3,542	3,703
Finance (income)	31	(38)	(27)
Finance costs	31	12,096	10,265
Elimination of other non-cash activities:		(325)	1,272
Working capital changes:			
Trade and other receivables		(9,541)	21,566
Inventories, prepayments, deferred expenses and contract assets		(3,252)	1,763
Trade and other payables, accrued expenses and contractual obligations, liabilities under connection contracts with customers		18,016	(4,503)
Payables for property, plant and equipment		1,117	9,607
Net cash flows from operating activities		**189,231**	**163,286**
Cash flows used in investing activities			
Purchase of property, plant and equipment, and intangible assets		(141,009)	(187,900)
Disposal of property, plant and equipment and intangible assets		716	910
Grants received	21	7,211	3,178
Dividends received	8	194	123
Interest received	31	38	27
Transfer of public electricity supply activities		-	27,441
Other increases (decreases) in cash flows used in investing activities		-	(261)
Net cash flows used in investing activities		**(132,850)**	**(156,482)**
Cash flows from/used in financing activities			
Proceeds from borrowings	16	200,000	50,000
Repayments of borrowings	16	(32,901)	(57,401)
Proceeds from cash-pool (net)	16	(138,356)	16,813
Dividends paid to the Company's shareholders		(67,860)	(26)
Lease payments		(5,095)	(4,543)
Interest paid		(7,979)	(9,138)
Net cash flows from/used in financing activities		**(52,191)**	**(4,295)**
Increase (decrease) in cash and cash equivalents		**4,190**	**2,509**
Cash and cash equivalents (including the overdraft balance) at the beginning of the period	12	4,775	2,266
Cash and cash equivalents (including the overdraft balance) at the end of the period	**12**	**8,965**	**4,775**

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

All amounts in thousands of euro unless otherwise stated

1 General information

AB Energijos Skirstymo Operatorius (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 Company is headquartered at:

Aguonų st. 24
LT-03212 Vilnius
Lithuania.

The shares of the Company have been listed on the Main List of Nasdaq Vilnius Stock Exchange since 11 January 2016. On 21 May 2020, Nasdaq Vilnius AB took the decision under the request of the Company to delist all the shares of the Company from the Main List. 30 June 2020 was the last day of trading on the Nasdaq Vilnius AB Stock Exchange.

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

Shareholders of the Company:

	As at 31 December 2020		As at 31 December 2019	
	Number of shares held	Ownership interest (%)	Number of shares held	Ownership interest (%)
AB Ignitis Grupė	881,512,158	98.53	849,743,761	94.98
Other shareholders	13,118,175	1.47	44,886,572	5.02
Total	**894,630,333**	**100**	**894,630,333**	**100**

As at 31 December 2020 and 2019, the main shareholder of the Company was AB Ignitis Grupė (hereinafter "the Group"). Until 06 September 2019, the name of the main shareholder was UAB Lietuvos energija, which was later changed to UAB Ignitis Grupė. As from 28 July 2020, UAB Ignitis grupė was converted to public limited liability company AB Ignitis Grupė. As at 31 December 2019, AB Ignitis Grupė was wholly owned by the State of Lithuania, represented by the Lithuanian Ministry of Finance. On 5 October 2020, AB Ignitis Grupė increased its issued capital, and on 7 October 2020, has executed initial public offering (hereinafter "IPO") of new shares. As at 31 December 2020, the shareholders of AB Ignitis Grupė were the Ministry of Finance of the Republic of Lithuania (73.1%), and retail and institutional investors (26.9%).

The main shareholder of AB Ignitis Grupė bought 3.55% of the Company's shares from other shareholders. The remaining 1.47% of shares is subject to mandatory buyout, which was not completed yet on 31 December 2020.

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

The Company's investments into associates comprised the following:

Associate	Country	Year of acquisition	As at 31 December 2020	As at 31 December 2019	Profile of activities
			The Company's ownership interest (%)	The Company's ownership interest (%)	
UAB Ignitis Grupės Paslaugų Centras (former UAB Technologijų ir Inovacijų Centras)*	Lithuania	2013	26.40	29.01	Information technology and telecommunication, organisation and performance of public procurements, accounting and personnel administration, customer service
UAB Verslo Aptarnavimo Centras (reorganised)*	Lithuania	2014	-	22.25	-

* As from 1 January 2020, the Company's associates UAB Ignitis Grupė Paslaugų Centras and UAB Verslo Aptarnavimo Centras UAB were reorganised by merging UAB Ignitis Grupė Paslaugų Centras with UAB Verslo Aptarnavimo Centras, which ceased its activities without the liquidation procedure. The assets, rights and obligations of UAB Verslo Aptarnavimo Centras were transferred to the company UAB Ignitis Grupės Paslaugų Centras, the Company and the shareholders of the reorganised company, except for UAB Ignitis Grupės Paslaugų Centras, received in return the shares of UAB Ignitis Grupės Paslaugų Centras for no consideration, and accordingly, the issued capital of UAB Ignitis Grupės Paslaugų Centras was increased.

As at 31 December 2020 and 2019, the Company had no subsidiaries.

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
- Gas distribution

The licences are issued and licensed activities are controlled by the National Energy Regulatory Council (hereinafter "the Council", NERC).

The Council sets the price caps for the services of electricity distribution 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 in accordance with the Methodology for the Determination of the Price Caps of Electricity Transmission, Distribution and Public Supply Services (hereinafter “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 2016-2021 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 factors (outside the control of the market participant).

Based on its Resolution No O3E-989 of 16 October 2020, the Council established the following price caps applicable to the electricity distribution services for the year 2021:

- electricity distribution services via medium voltage networks – 1.167 EUR ct/kWh (excl. VAT) (2020: 1.076 EUR ct/kWh (excl. VAT));
- electricity distribution services via low voltage networks – 2.171 EUR ct/kWh (excl. VAT) (2020: 2.092 EUR ct/kWh (excl. VAT)).

Th increase in the electricity distribution service price cap is driven by the growing regulatory asset base due to the consistent investments in the development and renewal of the electricity distribution network in recent years.

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

The pricing of the natural gas distribution service is regulated by the Council in accordance with 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.

Based on resolution No O3E-1010 of 22 October 2020, the Council set the revenue cap at EUR 39,661,616 for the natural gas distribution services effective for the year 2021, and if dividing this cap by the projected annual gas distribution volume 7,181 GWh effective for the year 2021, forecasted price of natural gas distribution service for the year 2021 will amount to EUR 5.52 ct/MWh (excl. VAT) (2019: EUR 5.10 ct/MWh (excl. VAT).

Changes in the natural gas distribution price were mainly driven by the price cap set which is 7.3% higher (EUR 39,661,616) than in 2020 (EUR 36,965,477), smaller forecasted natural gas volumes and their distribution among consumer groups.

Approval of financial statements

The Company’s management prepared and signed these financial statements on 26 February 2021. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

The Company’s shareholders have a statutory 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 accounting policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements have been prepared under the historical cost convention, except for certain property, plant and equipment which is measured at revalued amount and certain financial assets measured at fair value.

Financial statements are presented in euros, which is the Company’s functional and presentation currency. All amounts have been rounded to the nearest thousand (in 000’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 (hereinafter “the EU”).

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

2.2 Accounting policy

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except for the new standards which entered into force on 1 January 2020.

In preparing these financial statements, the Company did not adopted new standards, amendments and interpretations, the effective date of which is later than 1 January 2020. The following new standards and amendments that became effective in 1 January 2020 did not affect these financial statements or the Company's applicable accounting policy.

(a) Adoption of new and/or amended International Financial Reporting Standards (hereinafter "IFRSs") and interpretations of the International Financial Reporting Interpretations Committee (hereinafter "IFRIC")

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.

The management of the Company has assessed that these Amendments have no impact on these financial statements of the Company but may impact future periods if the Company enters into any business combinations.

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.

The management of the Company has assessed that these amendments have no significant impact on these financial statements.

Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)

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. 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 relief, 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. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. 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 management of the Company has assessed that these amendments have no significant impact on these financial statements.

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

New standards, amendments and interpretations that are not yet effective in the reporting period beginning on or after 1 January 2020 and have not been early adopted when preparing these financial statements are presented below:

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 recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised 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.

The management of the Company has assessed that these amendments will have no significant impact on the financial statements.

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. However, in response to the COVID-19 pandemic, the IASB has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. 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.

The management of the Company is currently assessing the impact of this amendment on the financial statements.

IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)

The amendment applies to annual reporting periods beginning on or after 1 June 2022. Earlier application is permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- **Annual Improvements 2018–2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

These Amendments have not yet been endorsed for use in the EU. The Company's management is currently assessing the impact of these amendments on the Company's financial statements.

IFRS 16 Leases-COVID-19 Related Rent Concessions (Amendment)

The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

In the opinion of the Company's management, the application of these amendments does not have a material impact on the Company's financial statements as no significant concessions or discounts have been received during the reporting period and are not expected to be received in subsequent periods.

Interest Rate Benchmark Reform– Phase 2– IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)

On 27 August 2020, the IASB published "Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)" thus completing its work in response to the IBOR reform: the amendments include a practical expedient to take account of the consequences on financial reporting of replacing the interbank offered rates (IBOR) with a nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of the interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendment applies to annual reporting periods beginning on or after 1 January 2021. Earlier application is permitted. While application is retrospective, an entity is not required to restate prior periods.

The management of the Company has assessed that these amendments will have no significant impact on financial statements.

2.3 Investments in associates

Investments in associates over which the Company has significant influence are accounted for using the equity method, unless the investment is acquired and held solely for the purpose of selling in the near term (no later than 12 months after the acquisition) and management is actively seeking a buyer.

Under the equity method, investments are initially recognised at cost, and the carrying amount is increased or decreased based on the investor's share of the post-acquisition changes in the net assets of the acquiree.

The Company's share of the profit or loss of the investee after the acquisition date is recognised profit or loss, and changes in other comprehensive income after the acquisition date are recognised in other comprehensive income, with corresponding adjustments 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 any such indications exist, the Company calculates the amount of impairment, which is equal to the difference between the recoverable cost 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 Disclosure of segments

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 of Directors that makes strategic decisions.

Based on the judgement of the management, the Company has two operating segments, i.e. electricity supply and distribution, and gas distribution. The Company's operations are located in the Republic of Lithuania. The chief operating decision-maker monitors the results with reference to the financial statements 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 licenses 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 "Servitudes and security zones" includes 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 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. It implies that, irrespective of the condition of the Company's property, plant and equipment, the right to use designated land plot is retained and (after the physical condition of the property is restored or a new property is developed), the land plot will continue to be used for indefinite time. Provision for non-current obligations is accounted for under IAS 37 to compensate for statutory provisions (see Note 2.15 "Provisions"). The estimation of the amount of the provision takes into account the expected time of settlement and the number of applicants. The provision is calculated at the discounted value.

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 assets of servitudes.

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

A group of the Company's intangible assets "Servitudes and protection zones" 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

Intangible assets are recognised at cost less accumulated amortisation and any accumulated impairment loss, if it is probable that future economic benefits that are attributable to the asset will flow to the Company. Amortisation is calculated on the straight-line basis over the estimated economic useful life of 3–4 years.

2.6 Property, plant and equipment

Property, plant and equipment is accounted for at revalued amount, except for gas distribution pipelines and their equipment, gas technological equipment and installations that are accounted for under the cost method. A revalued amount is determined on the basis of periodic valuations (carried out with sufficient regularity so that the carrying amount does not differ materially from that which would be determined using fair value at the at the statement of financial position date) by external independent appraisers, less subsequent accumulated depreciation and impairment Any accumulated depreciation and impairment losses at the date of revaluation are eliminated against gross carrying amount of the asset and net amount is restated to the revalued amount of the assets.

All amounts in thousands of euro unless otherwise stated

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

The initial cost of property, plant and equipment comprises its purchase price, including non-refundable acquisition taxes and any directly attributable costs of bringing the asset to its working condition and borrowing costs (Note 2.7.2.5).

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other comprehensive income and subsequently added to the revaluation reserve in equity. Decreases in the carrying amount arising on the subsequent revaluation that offset previous increases of the same asset are recognised in other comprehensive income and debited against previously recognised revaluation reserve directly in equity. All other decreases are charged to profit or loss and other comprehensive income. 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 assets’ residual values and useful lives are reviewed on regular basis, and adjusted if appropriate, under the procedure established by the Company.

When property, plant and equipment is retired or otherwise disposed off, the cost and related accumulated depreciation and impairment are derecognised, and any related gains or losses are recorded in the statement of profit or loss or other comprehensive income. Gains or losses on disposal of property, plant and equipment are determined as the difference between proceeds and the carrying amount of assets disposed. When revalued assets are disposed, the corresponding portion of revaluation reserve is transferred to retained earnings.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset 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 those parts that are replaced is derecognised. All other repair and maintenance costs are recognised in the statement of profit or loss and other comprehensive income in the period when such costs are incurred.

Construction in progress is transferred to appropriate categories of property, plant and equipment when it is completed and ready for its intended use.

Borrowing costs attributable to the acquisition, construction or production of assets that necessarily take a substantial time (more than 12 months) to get ready for intended use and the value of such assets exceeds EUR 100 thousand, are capitalised as part of the costs of those assets.

2.7 Financial instruments

2.7.1 Financial assets

The Company recognises a financial asset in its statement of financial position when, and only when, it becomes party to the contractual provisions of the instrument. The purchase or sale of financial assets is recognised 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 2.16. 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 OCI, it needs to give rise to cash flows that are "solely payments of principal and interest" (hereinafter "SPPI") on the principal amount outstanding. This measurement is referred to as the SPPI test and is performed at a financial instrument level.

After initial recognition, the Company classifies its financial assets into the following 3 categories:

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

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 characteristics of cash flows from these assets. 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:

2.7.1.1 Financial assets measured at amortised cost

Loans granted by the Company, amounts receivable, and cash and cash equivalents are accounted for under the business model the purpose of which is to hold financial assets in order to collect contractual cash flows that can contain cash flows related to the payment of the principal amount and interest inflows. These assets are stated at amortised cost using the effective interest method. Amortised cost is the amount at which the financial instrument was recognised at initial recognition minus principal repayments, plus accrued interest, and, for financial assets, minus any write-down 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, when appropriate, a shorter period to the gross carrying amount of the financial instrument.

Financial assets are recognised as current assets, except for maturities greater than 12 months after the date of the preparation of the statement of financial position, in which case they are classified as non-current assets.

Assets held in order to collect contractual cash flows that represent solely payments of principal and interest (SPPI) are carried at amortised cost. Interest income calculated on these financial assets is recognised as finance income and amortised using the effective interest rate method. Any gain or loss arising from the write-off of assets is recognised in the statement of profit or loss and other comprehensive income. Impairment losses are accounted for as impairment and write-off expenses in the statement of profit or loss and other comprehensive income.

2.7.1.2 Financial assets at fair value through other comprehensive income

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

2.7.1.3 Financial assets at fair value through profit or loss

The Company did not have these types of financial instruments.

2.7.1.4 Effective interest method

The effective interest method is used in the calculation of the amortised cost of a financial asset and in the allocation of the interest revenue in profit or loss over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash inflows through the expected life of the financial asset to the gross carrying amount of the financial asset that shows the amortised cost of the financial asset, before adjusting for any loss allowance. When calculating the effective interest rate, the Company estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the Company uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

2.7.1.5 Impairment of financial assets – expected credit losses

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

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

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

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

The Company seeks for lifetime expected credit losses to be recognised before a financial instrument becomes past due. Typically, credit risk increases significantly before a financial instrument becomes past due or other lagging borrower-specific factors (for example, a modification or restructuring) are observed. Consequently when reasonable and supportable information that is more forward-looking than past due information is available without undue cost or effort, it must be used to assess changes in credit risk. Expected credit losses are recognised by taking into consideration individually or collectively assessed credit risk of loans granted and trade receivables. Credit risk is assessed based on all reasonable information, including future-oriented 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 applies a provision matrix to calculate the provision for losses in respect of trade receivables with different maturities and overdue payment periods. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics, i.e. receivables from AB "Ignitis Grupė" group companies, other business clients and natural persons. The non-recoverability analysis is conducted for the past 3 years in order to determine the general default ratio.

The lifetime expected credit losses of other receivables (e.g. receivables for transferred public supply activities) are assessed based on the individual assessment 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 judgement on the recognition of lifetime expected credit losses in respect of that particular borrower.

When granting the loan the Company assesses and recognises 12-month expected credit losses. In subsequent reporting periods, in case there is no significant increase in credit risk related to the lender, the Company adjusts the balance of 12-month expected credit losses in view of the outstanding balance of the loan at the measurement date. If it is determined that the financial position of the debtor has significantly deteriorated compared to the position prevailing at the time of the loan issue, the Company accounts for all the ECLs over the remaining life 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.

Recognition stages of expected credit losses on loans and cash and cash equivalents:

1. Upon granting of a loan or receiving cash or cash equivalents, the Company recognises the expected credit losses for the twelve-month period. Interest income from the loan (finance lease) or cash equivalents is calculated on the carrying amount of financial assets without adjusting it by the amount of expected credit losses.
2. Upon establishing that the credit risk related to the borrower or bank, where cash and cash equivalents are held, has significantly increased (reflected by accounts receivable overdue for more than 30 days and significant negative information about changes affecting the borrower, etc.), the Company accounts for the lifetime expected credit losses of the loan or finance lease agreement. All lifetime expected credit losses of a financial instruments are calculated only when there is a significant increase in credit risk relating to the borrower. Interest income from the loan (finance lease) or cash equivalents is calculated on the carrying amount of financial assets without adjusting it by the amount of expected credit losses.
3. 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 Company. 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 are recognised in the statement of profit or loss and other comprehensive income through the contrary account of doubtful receivables.

2.7.1.6 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.

2.7.2 Financial Liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss and other financial liabilities. Debt or equity instruments are classified as financial liabilities or equity based on the substance of the arrangement.

2.7.2.1 Initial recognition and measurement of financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL (change in fair value of which is accounted through profit or loss), loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge. All financial liabilities are recognised initially at fair value and, in the case of loans, liabilities and payables, net of directly attributable transaction costs.

2.7.2.2 Subsequent measurement

For the purposes of subsequent measurement, financial liabilities fall into two categories:
- Financial liabilities at FVPL
- Financial liabilities at amortised cost

2.7.2.3 Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

Financial liabilities are classified as held for trading if they are incurred principally for the purpose of repurchasing them in the near term. This category also includes derivatives entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separate embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gain or loss arising from financial liabilities held for trading is recognised in the statement of profit or loss and other comprehensive income.

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability at FVPL.

2.7.2.4 Financial liabilities measured at amortised cost

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gain and loss is recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss and other comprehensive income.

2.7.2.5 Presentation and borrowing costs

Financial liabilities are classified as current unless the Group has an unconditional right to postpone repayment for at least 12 months after the end of the reporting period.

If a financing agreement concluded before the balance sheet date proves that the liability was non-current by its nature as of the date of the balance sheet, that financial liability is classified as non-current.

Borrowing costs directly attributable to the acquisition, construction or production of assets the value of which exceeds EUR 100 thousand and that necessarily take a substantial time (more than one year) to get ready for intended use or sale are capitalised as part of the costs of those assets until those assets are completely ready for use or sale. Interest income that relate to temporal investment of borrowed funds until their use for the acquisition of the assets are deducted from the acquisition cost of the assets.

2.7.2.6 Effective interest method

The effective interest method is used in the calculation of the amortised cost of a financial asset and in the allocation of the interest revenue in profit or loss and other comprehensive income over the relevant period.

Effective interest rate ('EIR') is the rate that exactly discounts estimated future cash flows through the expected life of the financial liability to the gross carrying amount of the financial liability, which represents the amortised cost of the financial liability. When calculating the effective interest rate, the Company estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, put and similar options). EIR (including cost of amortised asset) calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of EIR, transaction costs and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the Company uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

2.7.2.7 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference between the respective balances is recognised in the statement of profit or loss and other comprehensive income.

2.7.3 Offsetting of financial assets and liabilities.

Financial assets and 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 by the entity or the counterparty in the normal course of business and in the event of default, insolvency or bankruptcy.

2.8 Right-of-use assets

Right-of-use asset is the asset that reflects the right of the Company to use the leased asset over the life of a lease. The Company recognises a right-of-use asset for all types of leases, including leases of right-of-use assets in sublease, with the exception of leases of intangible assets, short-term leases and leases for which the underlying asset is of low value.

Initial measurement of right-of-use assets

At the commencement date, the Company measures the right-of-use asset at cost. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. The Company incurs obligation for these costs either at the commencement date or as a consequence of having used the underlying asset during a particular period. The Company recognizes these costs as part of the cost of right-of-use asset when the Company incurs an obligation for these costs.

Subsequent measurement of right-of-use assets

Subsequent to initial recognition, the Company measures the right-of-use asset at cost. Under the cost model, the Company measures a right-of-use asset at cost: less any depreciation and any accumulated impairment losses adjusted for any remeasurement of the lease liability.

The right-of-use assets depreciated by the Company under the depreciation requirements of IAS 16, *Property, Plant and Equipment.*

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
• Vehicles	from 3 to 5 years
• Premises	from 2 to 10 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 lessee will exercise a purchase option, the Company depreciates 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. The cost of inventories comprises purchase price, taxes (other than those subsequently recoverable by the Company from the tax authorities), transportation, handling and other costs directly attributable to the acquisition of inventories. Cost does not include borrowings costs.

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

Impairment of inventories is calculated only for ageing, obsolete and unusable inventory.

2.10 Cash and cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

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 three months, and bank overdrafts. In the statement of financial position, bank overdrafts are included in current borrowings.

2.11 Lease liabilities

At the commencement date, the Company measures lease liability at the present value of the lease payments that are not paid at that date.

At the commencement date, the lease payments included in the measurement of the lease liability comprise: 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 lessee under residual value guarantees; the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; payments of penalties for terminating the lease, if the lease term reflects the Company exercising an option to terminate the lease.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, a lessee shall measure 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. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term and low-value lease

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). They also apply low-value asset lease recognition exemption to office equipment that are considered to be low value. Lease related discounts are charged to the lease income proportionally over the term of the lease.

The Company is a lessor

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 recognised 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.

2.12 Income tax

(a) Income tax

The current year tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. 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 2020, an income tax at a rate of 15% was applicable in the Republic of Lithuania (in 2019 – 15%).

(b) Deferred income tax

Deferred income tax is calculated using the balance sheet liability method. Deferred tax assets and deferred tax liability are recognised for future tax purposes to reflect 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 that is probable to reduce the taxable profit in future. Deferred tax assets and liabilities are not recognised when temporary differences arise from goodwill (or negative goodwill) or 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 income tax assets are reviewed at the date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available for the Company to realise all or part of deferred income tax assets. Deferred tax assets are reduced to an amount which is likely to reduce the taxable profit in future. Deferred 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 taxes assessed by the same fiscal authority or where there is a right to offset current tax assets and current tax liabilities.

(c) Current and deferred income tax for the reporting period

Current and deferred income tax are recognised as income or expenses and included in net profit or loss for the reporting period, except for the cases when tax arises from amounts recognised in other comprehensive income or transaction or event that is recognised directly in equity in the same or subsequent period.

Transfer of accrued tax losses

When tax losses are acquired, the Company accounts for deferred tax assets and payables for the acquired tax losses through the deferred tax expenses. These tax losses are deducted by the Company from the deferred income tax asset account when utilised.

For the purposes of the cash flow statement, the consideration paid for the tax losses acquried are recorded in the line item ‘Realised (paid) income tax’ in the cash flows from operating activities.

2.13 Employee Benefits

(a) Social security contributions

The Company pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Company pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The 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. Non-current benefits 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 trade union of the Company, he/she is also entitled to additional retirement benefit according in accordance with the agreement of the Company. A liability for such pension benefits is recognised in the statement of financial position and reflects the present value of these 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 estimated with reference to actuary valuations. The present value of the defined non-current liability for pension benefits to employees is determined by discounting the estimated future cash flows using the effective interest rates as set for long-term government debentures, i.e. the term of which is no less than 5 years. According to the Company's management, such discount ratio best reflects the value of future benefits.

2.14 Grants

Grants related to assets

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 conditions imposed. 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).

Grants related to income

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.

2.15 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, e.g. under an insurance contract, 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 based on the interest rates for the period and taking into account specific risks associated with the provision as appropriate. When discounting is applied, increase in the provisions reflecting the period of past time is accounted for as finance expense.

Provisions for servitudes

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).

Provisions for special conditions on land use (protection zones)

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).

2.16 Revenue from contracts with customers

The Company in the contracts with customers identifies performance obligations (stated either explicitly or implied) to transfer either distinct goods or services or series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Promised goods or services represent separate performance obligation if the goods or services are distinct. A promised good or service is considered distinct if both of the following criteria are met:

(i) customer can benefit from the good or service on its own or with other readily available resources (i.e. distinct individually) and
(ii) the good or service is separately identifiable from other promises in the contract (distinct within the context of the contract).

The Company's major legal performance obligations identified in the contracts with customers are as follows: electricity distribution and transfer, guaranteed electricity supply, connection of new customers.

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties.

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

(a) Revenue from electricity transfer (distribution and transmission)

Revenue from electricity transfer (includes both transmission and distribution) of electricity to household customers is recognised over the time in accordance with invoices issued, in which the presented volume of electricity consumed is calculated on the basis of declared or actual readings, i.e. determined upon inspection or received via smart meters. If declared or actual meter readings are not available, revenue from electricity distribution and transmission is recognised based on the average usage estimation method.

Revenue from electricity transfer (includes both transmission and distribution) to business customers is recognised over time based on the actual electricity supplied which is determined in accordance with readings of electricity meters.

In the circumstances when the distribution and transmission tariff in subsequent period is higher than in current period based on 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 revenue from electricity distribution and transmission depends on declarations of electricity consumed by the customers, the Company's revenue increase due to overdeclaration of electricity consumed, and therefore the Company needs to estimate the declared amount of electricity consumed to evaluate the amount of deferred revenue. The Company's deferred income are disclosed in the line item "Accrued expenses and contract liabilities" in the statement of financial position (Note 25). 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.

Electricity transmission services are provided by and purchased from the electricity transmission system operator. The Company collects fees for electricity transmission services from household and business customers through the electricity tariff paid by the consumer and transfers them to the electricity transmission system operator. The Company's management has identified that the Company acts as a Principal in relation to electricity transmission services acquired from the electricity transmission system operator, and recognises revenue from electricity transmission (Note 3.4).

Revenue from electricity distribution and transmission is subject to regulation (Note 2.24).

(b) Revenue from guaranteed electricity supply

The Company provides a guaranteed electricity supply service to household and non-household customers. Guaranteed electricity supply means ensuring electricity supply to consumers on a temporary basis for 6 months:

– who have not chosen the independent supplier;
– who's chosen independent supplier has failed to fulfil its obligations to supply electricity on agreed terms and conditions;
– who's chosen independent supplier has discontinued its operations
– who's chosen independent supplier has terminated the electricity purchase and sale agreement concluded with the consumer.

The guaranteed electricity supply tariff for the consumers who are ensured guaranteed electricity supply includes the distribution and transmission service price (see point (a) in this Note), PSO (Public service obligation) price and guaranteed supply price.

Guaranteed supply price includes electricity price which is calculated by applying the coefficient of 1.25 to the average power exchange price for the previous month. Revenue from guaranteed supply is recognised over the time based on invoices issued, in which the presented volume of electricity consumed is calculated on the basis of declared or actual readings, i.e. determined upon inspection or received via smart meters.

The Company collects PSO fees through the electricity tariff paid by the customers and transfers them to the PSO fund administrator UAB Baltpool. The Company's management identified that in respect of collecting ir transferring PSO fees the Company acts as agent, therefore, PSO fees are accounted for by netting revenue against expenses in the line item "Purchase of electricity and related services" in the statement of profit or loss and other comprehensive income (Note 3.5).

Revenue from guaranteed electricity supply is subject to regulation (Note 2.24).

c) Revenue from natural gas transfer (distribution and transmission)

Revenue from non-household customers for the transfer 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 NERC (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 transfer activities.

Gas transmission are provided by and purchased from the gas transmission system operator. The Company collects fees for natural gas transmission services from household and business customers through the gas tariff paid by the consumer and transfers them to the gas transmission system operator. The Company's management has identified that the Company acts as a principal in relation to gas transmission services acquired from the gas transmission system operator, and recognises revenue from natural gas transmission (Note 3.6).

d) Revenue from new customers connection fees

Proceeds from new customers' connection fees obtained by the Company are recognised as income for the period in which the Company ensured 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 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 recognised as revenue over 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 are accounted as "Liabilities under connection contracts with customers" in the statement of financial position.

2.17 Impairment of 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 to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased significantly. The reversal is accounted in the same line item of profit or loss as the impairment loss.

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

2.18 Dividend distribution

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

2.19 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 (Note 32).

2.20 Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed in the financial statements 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 or economic benefits is probable.

2.21 Related Parties

Related parties are defined as shareholders, members of the Board, their close relatives, 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 other party, which is also recognised as a related party, provided such relationship empowers one of the parties to exercise control or significant influence over the other party in making financial and operating decisions.

2.22 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 acquiring 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 categorised within the fair value hierarchy, provided below. The hierarchy is 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 where the lowest level inputs that are significant to the fair value measurement are directly or indirectly observable.
Level 3: fair value of assets where the lowest level inputs that are significant to the fair value measurement are unobservable.

2.23 Events after the end of 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.

2.24 Regulated activities

NERC regulates the Company's level of profitability by approving the prices of services for the next year. The level of tariffs depends on the projected costs, volume of services for the next period, the extent to which the previous period earnings are at variance with the regulated level, and other factors.

Actual costs incurred by the Company during the year may differ from the projected costs that are considered during the approval of the tariffs, and the actual volume of services may differ from the projected one. Accordingly, the actual earnings of the Company may differ from the regulated level, and the resulting difference will affect the future tariffs of 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 provision of services in future.

Tariffs for electricity distribution are regulated by NERC by establishing the price caps. NERC regulates the tariff for guaranteed electricity supply, which is calculated by applying the coefficient of 1.25 to the average power exchange price for the previous month In the Lithuanian price zone. NERC regulates prices of natural gas transmission and distribution services by setting price caps.

3 Significant accounting 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.

3.1 *Impact of COVID-19 on critical accounting estimates, management judgements and estimation uncertainties*

The following key areas considered by the Company's management in assessing the impact of COVID-19 are presented below:

- Going concern

In assessing the potential impact of factors related to the COVID-19 pandemic on the Company's performance, the Company's management assesses the potential disruptions of cash flow, supply of regulated services, the attraction of sources of financing, the potential reduction in electricity and gas consumption due to economic slowdown, the risk of COVID-19 infection of critical function personnel and the risk of delays in ongoing projects, using all the information available at the date of issue of these financial statements on the risks posed by COVID-19 in the future. The Company's management has not identified any significant threats to the Company's going concern. It is not possible to reasonably estimate the assumptions of the longer-term adverse effect scenario at the date of issue of the financial statements.

- Risk management of COVID-19 infection in employees

During the quarantine, the Company strictly follows all the recommendations provided by the Government of the Republic of Lithuania regarding the management of the potential threat of COVID-19. All the conditions are in place for efficient teleworking without any disruptions in the performance of principal job. The Company's management pays special attention to the management of the risk of infection of the employees whose functions are to ensure the smooth operation of the equipment used for electricity generation in order to ensure the continuity of operations. These employees are provided with additional personal protection and personal hygiene measures, actions for employee rotation have been developed and implemented, the areas at equipment control points have been separated by partitions, etc. At the date of issue of these financial statements, the Company did not experience any major problems with the functions performed by these employees due to COVID-19.

- Residual value and useful life of an asset: property, plant and equipment and intangible assets

The management has reviewed the useful lives of non-current assets to assess whether they are consistent with the expected nature and purpose of non-current assets, taking into account the potential impact of COVID 19 on those assets. The review of useful life was based on future outcomes and economic conditions that could result from a future COVID-19 pandemic. That review did not give any significant indication of any disruptions in the use of property, plant and equipment neither in the short nor in the long term.

- Expected credit losses: financial assets

To measure expected credit losses of receivables, the Company uses the loss ratio matrix. The loss ratio matrix is based on historical data on the settlement for receivables during the period of validity of receivables and is adjusted with respect to future forecasts. The Company's management has assessed past events, current and future economic conditions as of the date of issue of these financial statements in determining the expected credit losses due to the impact of COVID-19. On, 31 December 2020, the Company recalculated loss coefficients by taking into consideration more pessimistic GDP forecast due to COVID-19, and used the recalculated loss ratios to calculate the expected credit losses. The Company's management believes that in the short term, the spread of the COVID-19 pandemic will have a very insignificant impact on the Company's results of operations and cash flows. Meanwhile in the long term, the cost of bad debts resulting from COVID-19 (if such occur) will be compensated to the Company (through the regulatory mechanism), i.e. it will be compensated in subsequent pricing periods for regulated services.

- Determination of the fair value of property, plant and equipment in the Electricity Business Segment and recoverable amount of assets in the Gas Business Segment: property, plant and equipment

The management has reviewed the key assumptions used to determine the fair and recoverable value of property, plant and equipment. The management has not identified any significant circumstances related to COVID-19 that would require significant revision of the management's forecasts for 2021–2024, and adjustments to the pre-tax weighted average cost of capital compared to those used in the preparation of the annual financial statements for the year 2020. In addition, no significant change in the return on investment is expected, nor significant changes in the legal framework and the scope of services provided are anticipated due to COVID-19, taking into account the most current information and long-term forecasts. Management has not identified any COVID-19 pandemic-related circumstances that could significantly change the value of assets carried at revalued amounts or at cost.

- General information on the impact of COVID-19 on the Company's operations

The World Health Organization (WHO) declared the outbreak of COVID-19 a public health emergency of international concern on 30 January 2020, and on 11 March 2020, characterised the spread of the disease as a pandemic. On 26 February 2020, the Government of the Republic of Lithuania declared a national level emergency in the whole country due to the threat of the COVID-19, and on 14 March 2020 it adopted the resolution No 207 "On the declaration of a national level emergency", on the basis of which quarantine was announced in the entire territory of the Republic of Lithuania from 16 March 2020 until 1 June 2020. On 17 December 2020 the quarantine was renewed until 31 March 2021. The following measures apply during quarantine:

- Restricted cross-border and domestic movements of population (movements of goods were not restricted)
- Restricted activities of public and private sector
- Suspended educational and childcare process as well as the educational activities in all educational establishments
- The organisation of work in health care institutions was established, etc.

The Company's management instructed all the employees of the Company who have the ability to work remotely to refrain going to work in offices, attending and organising meetings, events, and to hold meetings through teleconferencing IT programs. All the conditions are in place for efficient teleworking without any disruptions in the performance of principal job. During the quarantine, the Company strictly follows all the recommendations provided by the Government of the Republic of Lithuania regarding the potential threat of COVID-19.

3.2 *Test on the need for revaluation and impairment of property, plant and equipment as at 31 December 2020*

The Company accounts for the property, plant and equipment of the electricity business segment (CGU) at a revalued amount. 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 gas business segment CGU assets are recorded at the revalued amount.

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

As at 31 December 2020, no any significant changes in the electricity business segment CGU identified, and, therefore, no revaluation was carried out and accounted. As at 31 December 2020, impairment of assets in gas business segment CGU indication was identified and EUR 6,327 thousand of impairment losses were recognised. For more information see Note 5.

3.3 *Provisions for rights to servitudes and special conditions on land use (protection zones)*

Provision for statutory land 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 includes a significant assumption on the number of land owners who will request the Company for compensation, since the law prescribed the Company's obligation to compensate those land owners which request the Company for it. At the date of initial recognition, the Company recognised 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 (at discounted value) under IAS 37. The amount of compensations paid in the period from 31 July 2018 until 31 December 2020 was EUR 1,933 thousand.

All amounts in thousands of euro unless otherwise stated

However, the Constitutional Court issued a ruling on 8 July 2020 stating that statutory servitudes payment methodology, which was based on the principles of determining the coefficient and the value of a land plot, are in conflict with the Constitution and laws of the Republic of Lithuania (due to the applied 0.1 coefficient and the principle of determining a value of the land plot, where as in the meantime different principles and different coefficient was applied to the servitude by contract). This means that the Company will not be able to examine requests and apply the methodology where the methodology applied was deemed to conflict with Constitution, until the new methodology is set and approved. The ruling is only valid for the future and there is no need to recalculate previously paid compensations. The Company has assessed the following changes and has recalculated the provision for statutory servitude benefits using new benefit coefficient assumptions until the new methodology is set and approved by the resolution of the Government of Lithuania:

a) the land plot on which electrical installations were installed before 10 March 1990, a coefficient of 0.1 as specified in the methodology shall apply. Such installations account for 88.93% of all installations installed before 10 July 2004. Therefore, a coefficient of 0.1 is applied to 89% of the plot when calculating the total value of the payment. Assumption was made, that land with electricity distribution equipment installed before 10 March 1990, was acquired with an already installed network, so the ownership of the land was acquired with already established restrictions to the usage of the land, therefore the value and availability of this land has not changed and the servitudes payment coefficient of 0.1 should be used.
b) the land plot on which electrical installations have been installed after 11 March 1990 and until 10 July 2004, a coefficient of 0.5 shall apply (the same amount apply to the servitudes determined by contract). Such installations account for 11.07% of all installations installed before 10 July 2004. Therefore, a coefficient of 0.5 is applied to calculate the total value of the payment for 11 percent of the plot.

When preparing financial statements for the year ended on 31 December 2020, the Company also reviewed other assumptions used in the calculation of this provision, specifically the number of applicants, the period over which all benefits will be paid, and the discount rate:

- 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 0.219% (31 December 2019 – 0.559%).
- the number of potential applicants was estimated taking into account the available historical information of two years. In calculating the total amount of compensations, the percentage of customers who are unlikely to apply for compensations was set to 65% (the percentage of 15% used as at 31 December 2019) determined based on the management estimates and the number of clients who actually applied during the period from 2018 to 2019, with an average annual rate of only around 3% (historical data for 2020 has not been included in the calculations due to suspension of methodology application, as it might distort the overall average).
- the period during which customers will apply for compensation has been set at 10 years starting in 2020, as the application of the methodology has been suspended (the updated methodology is expected to be approved in 2021). An additional 1-year deadline for the payment of compensation from the date of submission of the application was applied (the methodology of servitude related compensations provides two years for the payment from the date of submission of the application, but in fact the Company pays within one year).

After assessing the changed circumstances, the Company decided to adjust provision on 31 December 2020 by reducing its amount (which was estimated as at 31 December 2019) from EUR 26,911 thousand to EUR 14,638 thousand (Note 23). For the purpose of intangible assets accounting, this provision decreased from EUR 27,576 thousand to Eur 14,588 thousand (Note 6).

It should be noted that the value of the provision may vary depending on the number of applicants. Sensitivity analysis is provided below:

As at 31 December 2020	Number of applicants, %							
	25%	35%	45%	55%	65%	75%	85%	95%
Increase (decrease) in provision for compensations of servitudes	-5,192	0	+4,822	+9,829	+14,837	+19,844	+24,851	+29,858

Provision for servitudes of real estate

On 8 July 2020. the Constitutional Court issued a ruling stating that servitudes compensation methodology, which was based on the principles of determining the coefficient and the value of a land plot, are in conflict with the Constitution and laws of the Republic of Lithuania not only for the land plots, but also for real estate (due to the applied 0.1 coefficient, where as in the meantime different principles and different coefficient was applied to the servitude by contract). This means that the Company will not be able to examine requests and apply the methodology where the methodology applied was deemed to be in conflict with Constitution, until the new resolution is approved, issued by the Government of the Republic of Lithuania (dated 25 July 2018, resolution No 725 on approval methodology for determining the maximum amount of one-time compensations to be paid for the use of land and other real estate servitudes for the benefit of network operators established by a law or a contract (wording of 22 January 2020; TAR, No 2103 30/01/2020) (hereinafter “the Methodology”) provisions.

As the application of the Methodology is suspended and it is not clear how it will be applied in the future and what coefficient will be applied, as no real estate servitude compensation has been paid prior to the Constitutional Court decision, it is not possible for the Company to reliably estimate the amount of provision for real estate servitudes due to:

a) as no compensations have been paid before the decision of Constitutional Court, it is not possible to estimate how many persons would apply for a compensation of a real estate servitudes;
b) it is not clear what coefficient should be applied to statutory servitudes of real estate until the Methodology is updated.
c) the clear information to be used to estimate the potential value of these property items is not available.

Accordingly, with the requirements of IAS 37, the said obligation does not qualify for provision recognition and is therefore not recognised in the financial statements as at 31 December 2020. Furthermore, the Company does not have sufficient information to accurately estimate financial effect or possibility of any reimbursement of this obligation, therefore, no additional quantitative information is provided.

Provision for special conditions on land use (protection zones)

The Lithuanian Republic Law on Special Conditions on Land Use was approved on 6 June 2019 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.

The amendment to the Real Estate Cadastre Regulations necessary for the implementation of the Law on Special Land Use Conditions of the Republic of Lithuania entered into force on 12 February 2020, which details the procedure for changing tags and cadastral provisions for development and for existing networks. This amendment provides for an alternative process for registering protection zones (avoiding the change of cadastral data and the hiring of land surveyors). In accordance with the Law on Special Land Use Conditions of the Republic of Lithuania, the Government has an order to adopt an amendment to this legal act by 1 January 2022 at the latest.

According to the management, the implementation of the obligation provided for in the Law on Special Land Use Conditions of the Republic of Lithuania to register special protection conditions (protection zones) for the existing electricity and natural gas distribution network will be subject to a simpler procedure than estimated in 31 December 2019 for the accounting of related provisions. According to the Company, the simplified procedure will lead to lower surveyor costs, as it is expected that only a part of the plots will need to adjust the measurements, which will significantly reduce registration costs of protection zones. Thus, taking into account the increase in costs due to the registration of tags and the possible reduction in the costs of surveyors' services, planned amount of expenses related to the registration of protection zones for 2021–2024 is estimated at EUR 15,070 thousand.

After assessing the changed circumstances, the Company decided to adjust a provision for security registration expenses for 2021-2024, increasing the amount of the provision (which was accounted for as at 31 December 2019) from EUR 8,328 thousand to EUR 15,070 thousand in the statement of financial position of 31 December 2020.

Provision for compensations for the Special Land Use Conditions (Protected Areas)

The Ministry of Environment of the Republic of Lithuania has prepared a methodology for the calculation and payment of Compensation for the application of special land use conditions in the territories specified in the Law on Special Land Use Conditions of the Republic of Lithuania, established in the public interest, which entered into force in 8 April 2020 (hereinafter "the Methodology"). In the light of the letter of The Ministry of Energy of the Republic of Lithuania issued on 18 June 2020, which explains that the provisions of the Methodology apply to both the existing network and the newly built network. In accordance with the provisions of the Methodology, compensation for protection zones would be paid upon registration of protection zones, and the amount of compensation is of an evaluative nature, taking into account the main purpose of the plot, the scope of restrictions, the specific losses incurred and / or incurred by the plot owners based on supporting documents. In view of these Methodological requirements and the data available to the Company, the Company cannot reliably estimate future compensation for registered Special Land Use Conditions (Protected Areas), therefore, this liability does not qualify for recognition under IAS 37 and is therefore not recognised in the financial statements as at 31 December 2020. In addition, the management is not able to provide a quantitative assessment of a contingent liability without having all the necessary information.

3.4 Determining whether the Company acts as a Principal or an Agent – electricity transmission services

In providing electricity transfer services (including both transmission and distribution) to end users (Note 2.16), the Company acquires electricity transmission services from transmission grid operator. Management of the Company analysed related contracts with the electricity transmission grid operator and contracts with customers, also evaluated applicable regulatory environment to conclude whether the Company is acting as a Principal or as an Agent in relation to electricity transmission services, and has considered arguments provided further:

a. In accordance with the legislation, the electricity transfer service comprises of (i) electricity transmission over high voltage grid and (ii) distribution over low and mid-voltage grid services. Electricity distribution services are provided by the Company. Transmission services are provided by transmission system operator.
b. The Company controls transmission services before transferring it to the end customer on the following grounds:
   – The Company is primarily responsible against the end users for electricity transfer 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.

On the basis of the above considerations, the Company's management has identified that the Company acts as a Principal in relation to electricity transmission services acquired from the electricity transmission network operator.

3.5 Determining whether the Company acts as a Principal or an Agent – PSO fees

The Company collects PSO fees through the electricity tariff paid by the customers and transfers them to the PSO fund administrator UAB 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 the PSO is determined by the Government of the Republic of Lithuania.

The Company's management took important decision and concluded that the Company acts as an agent in transactions when collecting PSO fees from customers and transferring these fees to the PSO fund administrator (Note 2.16) for the reasons stated below:

- the Company is not responsible for PSO projects / initiatives, accordingly it is not responsible that PSO fees collected are used for their intended purpose,
- the Company is not exposed to any inventory risk,
- the Company has no legal power to establish pricing of the PSO services.

3.6 Determining whether the Company acts as a Principal or an Agent – gas transmission services

In providing gas transfer services (including both transmission and distribution) to end users (Note 2.16), the Company acquires natural gas transmission services from gas transmission grid operator. Management of the Group analysed related contracts with the gas transmission grid operator and contracts with customers, also evaluated applicable regulatory environment and for the conclusion whether the Company is acting as a Principal or as an Agent in relation to gas transmission services and have considered arguments provided further:

c. The natural gas transfer service comprises of (i) electricity transmission over high-pressure grid and (ii) distribution over low and medium-pressure grid services. Gas distribution services are provided by the Company. Gas transmission services are provided by the gas transmission system operator.

All amounts in thousands of euro unless otherwise stated

d. The Company controls transmission services before transferring it to the end customer on the following grounds:
   – The Company is primarily responsible against the end users for natural gas transfer service towards end customers.
   – The Company bears a risk of loss in case of outage of natural gas, 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.

On the basis of the above considerations, the Company's management has identified that the Company acts as a Principal in relation to natural gas transmission services acquired from the gas transmission network operator.

4 Management of financing risks

The Company are exposed to a variety of financial risks in their operations: market risk (including foreign exchange risk, interest rate risk in relation to cash flows), credit risk and liquidity risk. By managing these risks, the Company seeks to mitigate the effects of factors that might have an adverse effect on the Company's financial performance.

4.1 Market risk

Foreign currency exchange risk

The Company has no significant assets or liabilities denominated in currencies other than the euro. No financial instruments are used to manage foreign currency risk.

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 2020, borrowings with fixed interest rate amounted to EUR 616,288 thousand (31 December 2019 – EUR 554,644 thousand) and all remaining borrowings (Note 16) bear variable interest rate linked with EURIBOR. As at 31 December changes in bear variable interest rate did not affect the Company's profit before tax, as 1 and 3 months EURIBOR value in the reporting period was negative and less than -0.15%.

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	Impact on profit before tax
2020		
EUR	0.15	-
EUR	(0.15)	-
2019		
EUR	0.15	(123)
EUR	(0.15)	123

4.2 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 guarantee obligations of other parties. The maximum exposure to credit risk is represented by the carrying amount of each financial asset: 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.

Due to specific nature of the Company's operations, no collateral is required from customers, except for electricity transmission services provided by independent suppliers (Note 11).

The Company's treasury management is regulated by the Treasury Management Policy (hereinafter "Policy") of AB Ignitis Grupė, approved by the Board of AB 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.

The priority objective of investing activities is to ensure the security of funds and, in line with this objective, to maximise the return on investments.

All amounts in thousands of euro unless otherwise stated

As at 31 December 2020, the maximum exposure to credit risk of the Company amounted to EUR 83,861 (31 December 2019: EUR 70,519 thousand) as disclosed in the section *Financial instruments by category* of Note 36.

4.3 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 liquidity (total current assets / total current liabilities) and quick ((total current assets – inventories) / total current liabilities) ratios as at 31 December 2020 were 0.59 and 0.58, respectively (0.24 and 0.24 as at 31 December 2019).

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 bonds transfer agreements. As referred to in Note 16, as at 31 December 2020, for the purpose of the management of the short-term cash flow needs, the Company had EUR 80,000 thousand unused financing facilities under the agreement regarding the short-term lending to related parties platform (31 December 2019: EUR 51,644 thousand).

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 2020 exceeded current assets by EUR 61,794 thousand (31 December 2019: EUR 232,211 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.

The following table summarizes the maturity profile of financial liabilities as at 31 December 2020 and 2019 based on contractual undiscounted payments:

The Company	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Lease liabilities	-	-	15,269	3,340	18,609
Loans	1,975	22,047	96,090	680,505	800,618
Trade and other payables	53,457	-	-	-	53,457
As at 31 December 2020	**55,432**	**22,047**	**96,090**	**680,505**	**854,074**
Lease liabilities	-	-	19,343	3,445	22,788
Loans	148,944	33,741	76,656	473,271	732,612
Trade and other payables	63,363	-	3	-	63,366
As at 31 December 2019	**212,307**	**33,781**	**96,002**	**476,716**	**818,766**

4.4 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% of the company's authorised share capital. As at 31 December 2020 and 2019, 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 15 December 2020 the Board of AB Ignitis Grupė approved a common dividend policy, which sets uniform principles for the payment of dividends for all the group companies. The dividend policy is one of capital risk management tools. Based on the newly approved policy, distribution of dividends proposed by the Company will depend on the ratio of return on equity and net profit earned. Based on the 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. For the financial year or a period shorter than the financial year, at least 80% of the net profit for the financial period for which the dividends are proposed should be appropriated for the payment of dividends. The Company may be required to pay lower dividends, or it may be proposed not to pay dividends for the reporting period if at least one of the following conditions is met: 1 the Company implements green generation investment projects; 2 the Company's ability to pay dividends is limited by the covenants set out in the financing agreements; 3 the Company implements or participates in the implementation of an economic project of State importance recognised by the decision of the Government of the Republic of Lithuania; 4 the Company's equity, after payment of dividends, would become less than the amount of the Subsidiary's authorised capital, mandatory reserve, revaluation reserve and reserve for acquisition of own shares; 5 the Company is insolvent, or would become insolvent upon payment of dividends; 6 the Company net financial debt (i.e. financial liabilities to credit institutions and other entities and financial leasing liabilities that do not include trade payables) at the end of the reporting period is equal to or greater than the Company's EBITDA for the last twelve months (from the end of the reporting period) multiplied by six (i.e. EBITDA is 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).

When financing its business activities, the Company follows the provisions of the financing strategies of AB Ignitis Grupė (hereinafter "the Group") group companies for 2020–2030 as approved by minutes No. PR_2020_32 of the sitting of the Board of AB Ignitis Grupė dated 1 June 2020. In the ordinary course of business, the debt (net debt, Note 17) to EBITDA ratio must not exceed 5; the ratio of funds from operations (FFO) to net debt in the last twelve months may not be less than 23%. If the Company's performance or shareholders' decision results in the debt-to-EBITDA ratio higher than 5 and/or the FFO-to-debt ratio lower than 23%, the tolerance thresholds of debt-to-EBITDA and 12M FFO-to-debt ratio must be restored within 12 months following the breach reducing the level of the financial debt and restoring EBITDA and/or FFO.

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.

All amounts in thousands of euro unless otherwise stated

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

	As at 31 December 2020	As at 31 December 2019
Net debt (Note 17)	**680,701**	**657,710**
Equity	665,616	663,918
Total equity	665,616	663,918
Equity and net debt	**1,346,317**	**1,321,628**
Ratio (%)	**51**	**50**

All amounts in thousands of euro 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 technologica equipment an installations	Vehicles	Computer hardware and communicatio n equipment	Other property, plant and equipment	Construction-in-progress	Total
As at 31 December 2018										
Acquisition cost or revalued amount	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	**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	-	-	-	-	-	-	-	-	(3,985)	(3,985)
Depreciation change	-	(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 or revalued amount	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)
Net book value as at 01 January 2020	**79**	**25,356**	**1,178,943**	**299,942**	**5,766**	**2,378**	**5,300**	**10,098**	**35,660**	**1,563,522**
Additions	-	6	454			13	232	650	133,377	134,732
Disposals	-	(92)	(66)	-	(6)	(35)	-	-	-	(199)
Write-offs	-	(3)	(3,741)	(191)	(52)	-	(3)	(34)	(35)	(4,059)
Reclassifications between categories	-	1,838	87,358	23,930	1,157	2	5,100	2,290	(121,675)	-
Reclassification (to) from assets held for sale	-	-	(5)	-	-	-	-	-	-	(5)
Impairment	-	-	-	(6,327)**	-	-	-	-	(696)*	(7,023)
Reversals of impairment construction in progress		-	-	-	-	-	-	-	56	56
Depreciation change	-	(4,603)	(58,483)	(8,881)	(602)	(799)	(1,638)	(1,849)	-	(76,855)
Net book value as at 31 December 2020	**79**	**22,502**	**1,204,460**	**308,473**	**6,263**	**1,559**	**8,991**	**11,155**	**46,687**	**1,610,169**
As at 31 December 2020										
Acquisition cost or revalued amount	79	31,481	1,317,799	447,274	13,633	3,148	12,394	14,704	47,327	1,887,839
Accumulated depreciation	-	(8,979)	(113,339)	(120,235)	(6,917)	(1,589)	(3,403)	(3,549)	-	(258,011)
Accumulated impairment	-	-	-	(18,566)	(453)	-	-	-	(640)	(19,659)
Net book value as at 31 December 2020	**79**	**22,502**	**1,204,460**	**308,473**	**6,263**	**1,559**	**8,991**	**11,155**	**46,687**	**1,610,169**

*As at 31 December 2020, the Company carried out the inventory check of construction in progress and determined that some of the projects will not be executed, therefore, an impairment of construction in progress was recognised.

** On 31 December 2020, the Company performed impairment test for the gas business segment and accounted for impairment loss in the amount of EUR 6.327 million. More detailed information provided in the Note below.

All amounts in thousands of euro unless otherwise stated

In 2020, the Company's interest capitalised as part of property, plant and equipment amounted to EUR 385 thousand; the interest rate was established at 1.18% (2019: interest capitalised amounted to EUR 295 thousand; the interest rate was established at 1.97%).

Electricity Business Segment cash generating unit (CGU)

The carrying amount of the Electricity Business Segment CGU was EUR 1,280 million at 31 December 2020 (Electricity Business Segment CGU comprises of property, plant and equipment (incl. construction in progress)) (31 December 2019: EUR 1,244 million). On 31 December 2020, the Company performed an analysis and assessed whether the main assumptions used to determine the fair value of this CGU as at 31 December 2018 changed significantly. Given that no significant changes have taken place in the regulatory environment for electricity and having assessed the main assumptions, the Company has identified that the carrying amount of the Electricity Business Segment CGU as at the reporting date of 31 December 2020 would increase immaterially (less than 5%), hence the management of the Company decided to withhold from making corrections in the fair value of the assets.

The main assumptions evaluated were the following:

- Discount rate (after-tax) as at 31 December 2020 was 4.33% (5.09%, pre-tax) (31 December 2019: 5.07% (after-tax) (5.96% pre-tax)
- WACC (rate of return set by the regulator) in 2021 – 5.34%, 2022–2026 – 4.34% (the average between the rate of return on investments of 3.59% that was newly set by the NERC for the gas sector for regulated period 2019 and the rate of pre-tax return on investments of 5.09% that is estimated by the management in the long term for the electricity sector), from 2027 – 5.09% (approximates the pre-tax discount rate) (on 31 December 2019, respectively: 2020 – 5.28%, 2021–2025 – 4.78%, from 2027 – 5,96%);
- The fair value of these assets was tested by making cash flow forecast for the period until 2060, 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 updated long-term investment forecast of the Electricity Business Segment and its financing in accordance with the Company's updated 10-year investment plan:
- 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 EUR 53 million(plus additional interest of EUR 0.567 million), which reduced 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

As at 31 December 2020, the Company performed the fair value sensitivity analysis in respect of changes in unobservable inputs:

1. 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 long-run average incremental cost (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 450 million.
2. 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 2060) 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.
3. For the purpose of analysis of sensitivity of Rate of Return on Investments (WACC) (from the regulatory period starting 2027) and discount rate changes, the possible decrease or increase in the value of the assets (EUR' million) due to the change in the following assumptions is presented in the table below:

			WACC (pre-tax),%						
			4,07%	**4,58%**	**4,84%**	**5,09%**	**5,34%***	**5,60%**	**6,11%**
		Δ	*-20%*	*-10%*	*-5%*	*0%*	*5%*	*10%*	*20%*
Discount rate (pre-tax), %	**4,07%**	-20%	59	255	356	452	548	649	845
	4,58%	-10%	-156	26	118	207	296	390	571
	5,09%	0%	-338	-169	-83	0	83	169	338
	5,60%	10%	-495	-337	-257	-180	-103	-23	134
	6,12%	20%	-634	-487	-413	-341	-269	-194	-49

* WACC, approved by the NERC for 2021 of the Company's Electricity Business Segment.

If no revaluation had been carried out for property, plant and equipment, the net book values of the Company's property, plant and equipment attributed to the Electricity Business Segment would have been as follows as at 31 December 2020 and 2019:

	Land	Buildings	Structures and machinery	Vehicles	Computer hardware and communication equipment	Other property, plant and equipment	Construction-in-progress	Total
As at 31 December 2019	109	27,976	1,276,159	2,386	8,226	10,098	34,355	1,359,309
As at 31 December 2020	109	25,379	1,294,598	1,558	10,865	11,153	47,327	1,390,989

All amounts in thousands of euro unless otherwise stated

Gas Business Segment cash generating unit (CGU)

The carrying amount of the Gas Business Segment CGU was EUR 262.5 million at 31 December 2020 (Gas Business Segment CGU comprises of property, plant and equipment (incl. construction in progress) – EUR 330 million, excluding grants EUR 6.6 million and part of deferred revenue from new users connections EUR 60.9 million and including the difference between gas related ROA and lease liabilities – EUR 0.03 million) (31 December 2019: EUR 271 million (Gas Business Segment CGU comprises of property, plant and equipment (incl. construction in progress) – EUR 319 million, excluding grants EUR 6 million and part of deferred revenue from new users connections EUR 42 million and including the difference between gas related ROA and lease liabilities – EUR 0 million)). As at 31 December 2020, it was assessed whether there is any indication that the carrying amount of this CGU could be impaired, and one major change in regulatory environment has been identified (because of depreciation). As from the beginning of 2020, new provisions of the State Energy Regulatory Council ruling No O3E-464 of 21 December 2018 "Regarding the description of requirements for natural gas companies' accounting separation and cost allocation approval" (hereinafter – Description) will be applied for acquired (put into operation) assets (due to new customers). Adjustments were made to the provision on the allocation of depreciation cost to regulated price services (products) by introducing prohibition from 2020 onwards to assign part of cost for regulated price services (products) which is calculated based on the value of fixed assets created with funds paid by persons for connection to the operator's gas system. Until the beginning of 2020, there was a provision prohibiting the allocation of regulated price services (products) part of the costs calculated from the value of fixed assets which was paid 100% by customer for connection to the network. Moreover, during the analysis of signs of impairment it was identified that the amount of planned investments in assets of the Gas Business Segment and their financing assumptions changed in the updated Company's 10-year investment plan.

Therefore, in view of the significant regulatory changes due to the depreciation accounting of the Natural Gas Business Segment impairment test was performed using to the following assumptions:

- Depreciation costs on the part paid by new customers for assets that were put into operation before 2020 will be included in the level of revenue from gas distribution services. Depreciation costs on the part paid by new customers for assets that were put into operation after 2020 will not be included in the level of revenue from gas distribution services.
- WACC (rate of return set by the regulator): 2021–-2023 – 3.90%, from 2024 – 5.09% (equal to pre-tax discount rate) (31 December 2019 respectively: 2020–2023 – 3.84%, from 2024 – 5.96%);
- Discount rate (after-tax) as at 31 December 2020 was 4.33% (5.09%, pre-tax) (31 December 2019: 5.07% (after-tax) (5.96% pre-tax));
- The fair value less cost of disposal of these assets was assessed by making cash flow forecast for the period until 2075, because the distribution activity is regulated on the basis of regulated asset base, which mostly consists of assets with long useful life – pipelines (useful life of 55 years);
- the updated long-term investment forecast of the Gas Business Segment and its financing in accordance with the Company's updated 10-year investment plan:
    a. In the light of the 2019, a cost-benefit analysis was carried out for decision not to install smart meters in the Gas Business Segment (if the cost-benefit analysis shows a positive result in the future, smart meters could be introduced; a recommendation for a cost-benefit analysis every four years).
    b. Investments in the connection of new customers are increasing (decreasing after updating the prices under existing contracts, but considering the trend of new customer applications, the amount is planned to be higher), as well as a higher percentage of financing for new customers is planned.

Having performed the value assessment as at 31 December 2020 and assessed all above-mentioned assumptions, the Company has identified that the impairment of assets of Gas Business Segment amounted to EUR 6.327 million as at 31 December 2020.

As at 31 December 2020, the Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. For the purpose of analysis of sensitivity of Rate of Return on Investments (WACC) (from a new regulatory period, i.e. from 2024) and discount rate to changes, the possible decrease or increase in the value of the assets (EUR' million) due to the change in the following assumptions is presented in the table below:

			WACC (pre-tax),%						
			3,56%	**3,90%****	**4,58%**	**5,09%**	**5,60%**	**6,26%**	**6,62%**
		Δ	*-30%*	*-23%*	*-10%*	*0%*	*10%*	*23%*	*30%*
Discount rate (pre-tax), %	**4,07%**	-20%	-20	2	45	78	111	153	177
	4,58%	-10%	-54	-34	6	36	66	105	126
	5,09%	0%	-83	-65	-28	0	28	64	83
	5,60%	10%	-108	-91	-57	-31	-5	28	46
	6,12%	20%	-130	-114	-82	-59	-35	-4	13

** For 2021, the Company's Gas Business Segment is subject to the WACC, approved by the NERC.

As at 31 December 2020 and 2019, 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 property, plant and equipment	Total
As at 31 December 2019	614	15,635	1,247	64	528	181	**18,269**
As at 31 December 2020	4,836	17,330	1,580	352	1,122	499	**25,719**

All amounts in thousands of euro unless otherwise stated

As at 31 December 2020, 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			308,473
Gas technological equipment and installations			6,263
Total			**314,736**

Disposal of property, plant and equipment

During 2020, the Company disposed the property, plant and equipment with a carrying amount of EUR 199 thousand and for the consideration of EUR 716 thousand. (The net carrying amount of the assets disposed in 2019 amounted to EUR 308 thousand, the consideration received – EUR 917 thousand). The net result was recognised in the line item "Other income" in the statement of profit or loss and other comprehensive income.

6 Intangible assets

	Patents and licences	Software	Other intangible assets	Servitudes and protection zones	Projects in progress	Total
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 1 January 2019	**4**	**3,516**	**35**	**28,877**	**3,319**	**35,751**
Additions	-	-	-	9,426	4,127	13,553
Reclassifications between categories	-	3,851	-	-	(3,851)	-
Impairment	-	-	-	-	(35)	(35)
Amortisation	(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 2020	**-**	**2,952**	**4**	**38,303**	**3,560**	**44,819**
Additions	-	-	-	1,169	4,588	5,757
Reclassifications between categories	-	4,064	37	-	(4,101)	-
Amortisation	-	(1,816)	(12)	-	-	(1,828)
Decrease after transfer of an in-kind contribution (Note 8)	-	(943)	-	-	-	(943)
Recalculation of provisions for servitudes and protection zones (Note 3.3)	-	-	-	(4,838)	-	(4,838)
Net book value as at 31 December 2020	**-**	**4,257**	**29**	**34,634**	**4,047**	**42,967**
As at 31 December 2020						
Acquisition cost	213	16,333	282	34,634	4,047	55,509
Accumulated amortisation	(213)	(12,076)	(253)	-	-	(12,542)
Net book value as at 31 December 2020	**-**	**4,257**	**29**	**34,634**	**4,047**	**42,967**

The cost of acquisition of fully amortised intangible asset still in use by the Company was as follows:

	Patents and licences	Software	Other intangible assets	Total
As at 31 December 2019	213	4,867	171	**5,251**
As at 31 December 2020	213	1,512	245	**1,970**

All amounts in thousands of euro unless otherwise stated

7 Right-of-use assets

Dynamics of the Company's right-of-use assets provided below:

	Land	Buildings	Vehicles	Other right-of-use assets	Total
Period ended 31 December 2019					
Opening net book value	-	-	-	-	-
Additions:					
Whereof: recognised as right-of-use asset as at 01/01/2019	1,309	11,943	2,376	236	15,864
Whereof: lease contracts signed from 02/01/2019 to 31/12/2019.	-	6,285	9,340	72	15,697
Write-offs and disposals	-	(6,418)	-	(16)	(6,434)
Depreciation change	(32)	(2,189)	(2,389)	(87)	(4,697)
Net book value 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)
Net book value as at 31 December 2019	**1,277**	**9,621**	**9,327**	**205**	**20,430**
Period ended 31 December 2020					
Opening net book value	**1,277**	**9,621**	**9,327**	**205**	**20,430**
Additions	317	1,357	-	341	2,015
Write-offs and disposals	(151)	(535)	(183)	(260)	(1,129)
Depreciation change	(37)	(2,256)	(2,628)	(157)	(5,078)
Net book value as at 31 December 2020	**1,406**	**8,187**	**6,516**	**129**	**16,238**
As at 31 December 2020					
Acquisition cost	1,475	12,265	11,533	373	25,646
Accumulated depreciation	(69)	(4,078)	(5,017)	(244)	(9,408)
Net book value as at 31 December 2020	**1,406**	**8,187**	**6,516**	**129**	**16,238**

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

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 lease expenses are recognised in the statement of profit or loss and other comprehensive income as follows:

	2020	2019
Lease expenses	215	228
Total	**215**	**228**

8 Investments in associates

Movements of investments in associates in 2020 and 2019 were as follows:

	2020	2019
Carrying amount at 1 January	**2,628**	**2,459**
Increase in issued capital	1.149	-
Dividends received	(194)	(123)
Share of profit/(loss) on investments in associates	139	292
Carrying amount at 31 December	**3,722**	**2,628**

The Company increased its investment in the associate by a contribution in kind made up of intangible assets. Contribution in-kind was estimated by independent appraisers at the value of EUR 1.149 thousand, the remaining asset disposed amounted to EUR 943 thousand (Note 6).

All amounts in thousands of euro unless otherwise stated

The summarised financial information for the associates for the year 2020 (unaudited data) and the year 2019 (audited data) are presented below:

Condensed statement of financial position	UAB Ignitis grupės paslaugų centras As at 31 December 2020	UAB Ignitis grupės paslaugų centras As at 31 December 2019	UAB Verslo Aptarnavimo Centras As at 31 December 2019
Non-current assets	12,124	9,472	2,254
Total non-current assets	**12,124**	**9,472**	**2,254**
Cash and cash Equivalents	942	421	209
Other current assets	8,358	4,765	4,123
Total current assets	**9,300**	**5,186**	**4,332**
Other non-current liabilities	(1,291)	(1,033)	(1,380)
Total non-current liabilities	**(1,291)**	**(1,033)**	**(1,380)**
Current borrowings	(6,527)	(3,315)	-
Other current liabilities	(213)	(2,228)	(4,027)
Total current liabilities	**(6,740)**	**(5,543)**	**(4,027)**
Net assets	**13,393**	**8,082**	**1,179**

As from 1 January 2020, the Company's associates UAB Ignitis Grupė Paslaugų Centras and UAB Verslo Aptarnavimo Centras were reorganized by merging UAB Ignitis Grupė Paslaugų Centras with UAB Verslo Aptarnavimo Centras (Note 1).

9 Inventories

	As at 31 December 2020	As at 31 December 2019
Raw materials and spare parts	1,916	1,562
Natural gas	114	36
Fuel	34	126
Other	310	198
Less: allowance for inventories	(30)	(30)
Total:	**2,344**	**1,892**

The acquisition cost of the Group's inventories carried at net realisable value as at 31 December 2020 amounted to EUR 33 thousand (31 December 2019: EUR 34 thousand). In 2020, EUR 1,626 thousand of natural gas was used for technical purposes (in 2019: EUR 2,589 thousand), EUR 26 thousand of gas was written off due to third party damage (in 2019: EUR 32 thousand).

Movements in the allowance for inventories in 2020 and 2019 were as follows:

	As at 31 December 2020	As at 31 December 2019
Allowance for inventories at the beginning of the period	**30**	**195**
Increase in the allowance for inventories	8	-
Reversal of the allowance for inventories	(8)	(165)
Allowance for inventories at the end of the period	**30**	**30**

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

10 Trade and other receivables

	As at 31 December 2020	As at 31 December 2019
Trade receivables for electricity	38,881	31,132
Trade receivables for distribution of natural gas	1,414	1,173
Other trade receivables	222	819
Trade and other receivables from related parties (Note 34)	36,156	34,746
Current portion of mortgage loans	56	56
Other receivables	633	526
Less: allowance for doubtful trade receivables	(2,466)	(2,707)
Total:	**74,896**	**65,744**

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

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

For the purpose of determining the lifetime expected credit losses of amounts receivable, the Company uses the loss coefficient matrix. The loss ratio 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 forward looking information. The loss ratios are updated during the preparation of the annual financial statements with respect to the impact of forward looking information where forward looking information is indicative of any exacerbation of economic conditions during upcoming years or of customer types. A different loss coefficient matrix is used with regard to household consumers and non-household consumers.

All amounts in thousands of euro unless otherwise stated

In this regard, the following loss ratio matrix was applied by the Company as at 31 December 2020:

	Days past due														
	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 more than 360 days	TOTAL
Loss ratio*	0.08%	1.74%	7.55%	12.16%	14.83%	17.52%	18.14%	18.27%	18.27%	18.27%	18.27%	18.27%	18.27%	67.12%	
Natural persons	174	25	14	7	5	3	2	4	4	4	1	3	2	80	
Impairment	0.14	0.43	1.07	0.87	0.76	0.45	0.42	0.76	0.82	0.77	0.20	0.58	0.44	53.77	**61**
Loss ratio*	0.05%	1.99%	5.42%	8.76%	11.55%	13.71%	15.12%	16.19%	16.82%	17.59%	18.25%	18.83%	19.20%	67.12%	
Legal persons	3.7741	976	315	153	84	70	70	65	76	89	84	48	35	1,025	
Impairment	18.87	19.42	17.05	13.43	9.69	9.62	10.51	10.54	12.86	15.57	15.36	9.02	6.77	688.06	**857**
Loss ratio*	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	
Municipal or state-funded enterprises, institutions and organizations	1,709	8	2	11	6	1	0	0	0	0	0	1	0	11	
Impairment	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	71	45	7	5	5	10	11	11	9	60	22	37	29	1,225	
Impairment	70.74	45.2	7.04	5.05	5.22	10.11	10.62	11.18	8.78	60.09	22.39	36.66	29.41	1,225.33	**1,548**
Total:	**90**	**65**	**25**	**19**	**16**	**20**	**22**	**23**	**22**	**76**	**38**	**46**	**37**	**1,967**	**2,466**

* The average loss ratio applied to the different groups of users

In this regard, the following loss coefficient matrix was applied by the Company as at 31 December 2019:

	Days past due														
	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 more than 360 days	TOTAL
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%	
Natural persons	119	33	48	25	11	8	3	3	-1	2	2	4	2	62	
Impairment	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	
Impairment	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	
Impairment	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	
Impairment	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**

* The average loss ratio applied to the different groups of users

All amounts in thousands of euro unless otherwise stated

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 2020 and 2019 were as follows:

Balance as at 01 January 2019	**2,950**
Impairment charge (reversed) for the year	545
Written-off	(788)
Balance as at 31 December 2019	**2,707**
Balance as at 1 January 2020	**2,707**
Impairment charge (reversed) for the year	299
Written-off	(540)
Balance as at 31 December 2020	**2,466**

11 Other current assets

In 2020 and 2019, other current assets comprised the following items:

	As at 31 December 2020	As at 31 December 2019
Guarantees from independent electricity suppliers	2.787	-
Total:	**2.787**	**-**

The balance of unavailable funds as at 31 December 2020 was EUR 2,787 thousand and consisted of cash from independent electricity suppliers. Amendments to the Law on Electricity related to the liberalisation of the country's electricity market were adopted by the Parliament of the Republic of Lithuania on 7 May 2020. In line with this amendment, the independent electricity suppliers willing to participate in the electricity market are required to provide guarantees. One of the possible forms of providing guarantees is the transfer of funds to the Company's account.

12 Cash and cash Equivalents

Cash, cash equivalents include the following for the purposes of the cash flow statement:

	As at 31 December 2020	As at 31 December 2019
Cash at bank	8,965	4,775
Total:	**8,965**	**4,775**

13 Issued capital

As at 31 December 2020 and 2019, the issued capital of the Company amounted to EUR 259,442,797 and it was divided into 894,630,333 ordinary registered shares with a par value of EUR 0.29 each. All issued shares were fully paid.

14 Reserves

Legal reserve

The legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfers of not less than 5% of net profit are required until the reserve reaches 10% of the share capital. 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. This reserve was fully formed in 2020 and 2019.

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.

All amounts in thousands of euro unless otherwise stated

Movements in the Company's revaluation reserve as at 31 December 2020 and 2019 were as follows:

	Revaluation reserve	Deferred income tax	Net of deferred income tax
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**
Balance at 1 January 2020	**165,905**	**(24,885)**	**141,020**
Transfer from revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)	(16,449)	2,467	(13,982)
Balance at 31 December 2019	**149,456**	**(22,418)**	**127,038**

15 Dividends

Approved dividends per share:

	2020	2019
Declared dividends (EUR'000)	67,991	-
Weighted average number of shares (EUR'000)*	894,630	894,630
Approved dividends per share (EUR)	**0.076**	**0.000**

*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-weighting factor is the number of days that the specific shares are outstanding as a proportion of the total number of days in the period.

The ordinary General Meeting of Shareholders of AB Energijos Skirstymo Operatorius was held on 30 April 2020 where it was decided to approve the profit appropriation for the year 2019 and to allocate EUR 0.076 per share in dividends, in total EUR 67,991 thousand in dividends.

16 Loans

	As at 31 December 2020	As at 31 December 2019
Non-current borrowings		
Borrowings from related parties (Note 34)	657,732	465,633
	657,732	**465,633**
Current borrowings		
Borrowings from related parties (Note 34)	15,549	176,268
	15,549	**176,268**
Total borrowings:	**673,281**	**641,901**

As at 31 December 2020 the loans consist mainly of proportional transfer agreements for Green Bonds with the parent company AB Ignitis Grupė for the transfer of a portion of the Green Bonds issue to the Company.

Borrower (creditor) and type of loan	Date of loan agreement	Non-current portion	Current portion (incl. interest)	Total
Transfer of a portion of AB Ignitis Grupė bonds issue to the Company	30 June 2020	200.000	2.626	202.626
Transfer of a portion of AB Ignitis Grupė Green Bonds issue to the Company	3 July 2018	250.000	3.034	253.034
Transfer of a portion of AB Ignitis Grupė Green Bonds issue to the Company	14 July 2017	166.288	1.876	168.164
AB Ignitis Grupė refinanced loan initially granted by SEB bank	8 November 2017	41.444	7.951	49.395
Cashpool of the Group of Companies of AB Ignitis Grupė	18 May 2016		62	62
Total borrowings:				**673.281**

On 30 June 2020, the Company signed an agreement with the parent company AB Ignitis Grupė for providing a long-term loan of EUR 200 million, which will be used by Company for refinancing of existing short-term financial liabilities and financing projects related to the projects of distribution network reliability and efficiency. The term of loan repayment is 21 May 2030. The fixed interest rate under the agreement coincides with the effective interest rate on the AB Ignitis Grupė issue of Bonds and is set as 2.17%. The essential terms and conditions of the agreement

All amounts in thousands of euro unless otherwise stated

coincides with the terms and conditions of the bonds issue. The agreement does not provide for any other additional obligations (guarantees, suretyship, pledges, etc.) to enforce obligations.

Non-current borrowings by maturity:

	As at 31 December 2020	As at 31 December 2019
From 1 to 2 years	7,901	7,901
From 2 to 5 years	31,606	23,704
More than 5 years	618,225	434,028
Total:	**657,732**	**465,633**

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

	2020	2019
Borrowings from related parties (%)	2,16	1,2

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

	2020	2019
Credit facilities	80,000	51,644

17 Net debt

This section of the Note provides information on the Company's net debt and the reconciliation of changes in net debt to cash flows from financing activities.

For the purpose of net debt calculation, borrowings comprise cash and cash equivalents, debts to financial institutions and other debts relating to financing and lease liabilities.

Net debt balances as at 31 December 2020 and 2019:

	2020	2019
Cash and cash Equivalents	8,965	4,775
Short-term borrowings (including overdraft)	(15,549)	(176,268)
Long-term borrowings	(657,732)	(465,633)
Lease liabilities	(16,385)	(20,584)
Net debt	**(680,701)**	**(657,710)**

Reconciliation of net debt balances and cash flows from financing activities of 2020 and 2019:

	Assets	Lease liabilities		Borrowings			
	Cash and cash equivalents	Non-current lease liabilities	Current lease liabilities	Non-current portion of long-term loan	Current portion of long-term loans	Non-current borrowings	Total
Net debt at 1 January 2019	**(2,266)**	**-**	**-**	**448,534**	**61,387**	**121,543**	**629,198**
Cash changes							
Changes in cash and cash equivalents	(2,509)	-	-	-	-	-	**(2,509)**
Loan received	-	-	-	50,000	-	-	**50,000**
(Repayments) of borrowings	-	-	-	-	(57,401)	-	**(57,401)**
Proceeds from cash-pool (net)	-	-	-	-	-	16,813	**16,813**
Lease payments	-	-	(4,543)	-	-	-	**(4,543)**
Interest paid	-	-	(202)	-	(8,936)	-	**(9,138)**
Non-cash changes							
Interest charged	-	99	103	-	9,961	-	**10,163**
Recognition of lease liabilities under IFRS 16 (first-time adoption on 1 January 2019)	-	11,640	4,224	-	-	-	**15,864**
Lease contracts concluded	-	3,087	6,176	-	-	-	**9,263**
Reclassifications between items	-	729	(729)	(32,901)	32,901	-	**-**
Net debt as at 31 December 2019	**(4,775)**	**15,555**	**5,029**	**465,633**	**37,912**	**138,356**	**657,710**

All amounts in thousands of euro unless otherwise stated

Net debt at 1 January 2020	**(4,775)**	**15,555**	**5,029**	**465,633**	**37,912**	**138,356**	**657,710**
Cash changes							
Changes in cash and cash equivalents	(4,190)	-	-	-	-	-	**(4,190)**
Loan received	-	-	-	200,000	-	-	**200,000**
(Repayments) of borrowings	-	-	-	-	(32,901)	-	**(32,901)**
Proceeds from cash-pool (net)	-	-	-	-	-	(138,356)	**(138,356)**
Lease payments	-	-	(5,096)	-	-	-	**(5,096)**
Interest paid	-	-	(197)	-	(7,853)	-	**(8,050)**
Non-cash changes							
Interest charged	-	-	198	-	12,577	-	**12,775**
Lease contracts concluded	-	896	-	-	-	-	**896**
Reclassifications between items	-	(5,149)	5,149	(7,901)	7,901	-	**-**
Interest VAT	-	-	-	-	(2,087)	-	**(2,087)**
Net debt as at 31 December 2020	**(8,965) -**	**11,302**	**5,083**	**657,732**	**15,549**	**-**	**680,701**

18 Lease liabilities

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

	As at 31 December 2020	As at 31 December 2019
Minimum payments		
Within one year	5,241	5,209
Two to five years	10,028	14,134
After five years	3,340	3,445
Total	**18,609**	**22,788**
Future finance costs		
Within one year	(158)	(180)
Two to five years	(341)	(386)
After five years	(1,725)	(1,638)
Total	**(2,224)**	**(2,204)**
Net book value	**16,385**	**20,584**

19 Income tax

The Company's income tax expense/(income) for 2020 and 2019 comprised as follows:

	2020	2019
Deferred income tax expenses (benefit)	8,590	(22)
Total:	**8,590**	**(22)**

The 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 2020, the Company had EUR 64.4 million unused investment relief, which can be utilised until 31 December 2023. (On 31 December 2019, the Company had EUR 102.47 million unused accrued relief).

Dynamics of deferred income tax assets and liabilities during the reporting period are as follows:

Deferred tax asset	Revenue from connection of new customers	Impairment of inventories and receivables	Accrued expenses	Overdeclared electricity	Asset balances under IFRS 16	Unused investment relief	Total
As at 01 January 2019	**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
As at 31 December 2019	**14,165**	**422**	**888**	**1,194**	**23**	**15,271**	**31,963**
Income tax (expenses)/income recognised in profit or loss	(674)	(40)	392	(475)	(1)	(5,615)	(6,413)
As at 31 December 2020	**13,491**	**382**	**1,280**	**719**	**22**	**9,656**	**25,550**

All amounts in thousands of euro unless otherwise stated

Deferred tax liabilities	Differences in tax and accounting values of property, plant and equipment	Investment relief	Write-off of grants	Total
As at 01 January 2019	**(31,781)**	**(1,562)**	**(2,631)**	**(35,974)**
Income tax (expenses)/income recognised in profit or loss	(4,724)	318	-	(4,406)
As at 31 December 2019	**(36,505)**	**(1,244)**	**(2,631)**	**(40,380)**
Income tax (expenses)/income recognised in profit or loss	(2,535)	273	85	(2,177)
As at 31 December 2020	**(39,040)**	**(971)**	**(2,546)**	**(42,557)**

Deferred income tax assets and deferred income tax liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts that were set-off are provided below.

Deferred income tax recognised in the statement of financial position as at 31 December 2020 and 2019 and at 1 January 2019 comprised the following:

	As at 31 December 2020	As at 31 December 2019
Deferred tax asset	-	-
Deferred tax liabilities	17.007	8.417
Deferred income tax liability, net	**17.007**	**8.417**

Income tax expense disclosed in the statement of profit or loss and other comprehensive income relating to the result of the year may be reconciled to income tax expense that would arise using an enacted income tax rate of 15% applicable to profit before income tax:

	2020	2019
Profit before tax	78,072	34,291
Tax calculated at a rate of 15%	11,711	5,144
Expenses not deductible for tax purposes	214	354
Income not subject to tax	(594)	(463)
Tax incentives for investments	(2,741)	(5,057)
Total:	**8,590**	**(22)**

20 Liabilities under connection contracts with customers

	As at 31 December 2020	As at 31 December 2019
Liabilities under connection contracts with customers	214,963	205,084
Liabilities under contracts on public service obligation (PSO) services	236	248
Total non-current liability under contracts with customers	**215,199**	**205,332**

Liabilities under connection contracts with customers:

	As at 31 December 2020	As at 31 December 2019
Non-current portion	215,199	205,332
Current portion (Note 25)	10,421	9,750
Total liability under connection contracts	**225,620**	**215,082**

	As at 31 December 2020	As at 31 December 2019
At the beginning of the period	**215,082**	**202,846**
Received during the year	20,664	21,668
Recognised as income in the statement of profit or loss and other comprehensive income (Note 26)	(10,126)	(9,432)
At the end of the period	**225,620**	**215,082**

All amounts in thousands of euro unless otherwise stated

21 Government grants

Balance at 31 December 2018	**13,052**
Received	3,178
Amortisation charge	(1,074)
Balance at 31 December 2019	**15,156**
Received	7,211
Amortisation charge	(1,045)
Reversal of grants	(4)
Balance at 31 December 2020	**21,318**

Grants consist of funds received from the EU Funds for the purpose of acquisition and construction of structures and electricity networks, as well as assets received free of charge.

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.

22 Long-term employee benefits

	2020			2019		
	Benefits to employees of retirement age	Variable component of remuneration	Total	Benefits to employees of retirement age	Variable component of remuneration	Total
Opening balance	**2,561**	**14**	**2,575**	**1,672**	**38**	**1,710**
The change as shown in the statement of profit or loss and other comprehensive income under “Employee benefits and related social security contributions”	212	(14)	198	815	(24)	791
The change as shown in the statement of profit or loss and other comprehensive income under “Financing activities – actuarial gain (loss) ”	78	-	78	44	-	44
The change as shown in the statement of other comprehensive income under “Other comprehensive income – Revaluation of the defined benefit plan obligation, net of deferred income tax”	(208)	-	(208)	30	-	30
Separate presentation of current portion in the statement of financial position under “Non-current liabilities – Provisions” (Note 23)	(374)	-	(374)	-	-	-
Balance as at 31 December	**2,269**	**-**	**2,269**	**2,561**	**14**	**2,575**

The main assumptions applied for evaluation of the Company’s obligations to non-current employee benefits are as follows:

	2020	2019
Discount rate	0.20%	0.61%
Annual employee turnover weighted average rate	7.9%	8.6%
Annual salary increase	3%	4%
Average time until retirement (years)	19	20

23 Provisions

The Company’s provisions comprised the following:

	As at 31 December 2020	As at 31 December 2019
Non-current provisions	21,166	23,018
Current provisions	8,916	12,221
Total	**30,082**	**35,239**

All amounts in thousands of euro unless otherwise stated

Dynamics of the Company's provisions during 2020 and 2019 were as follows:

	Provisions for compensations for servitudes	Provisions for registration of protection zones	Current portion of non-current employee benefits	Total
Net book value as at 01 January 2019	**27,982**	**-**	**-**	**27,982**
Increase during the period	-	8,328	-	**8,328**
Discounting effect	324	-	-	**324**
Paid during the period	(931)	-	-	**(931)**
Remeasurement due to changes in assumptions	(464)	-	-	**(464)**
Net book value as at 31 December 2019	**26,911**	**8,328**	**-**	**35,239**
Net book value as at 01 January 2020	**26,911**	**8,328**	**-**	**35,239**
Increase during the period	-	-	374	**374**
Discounting effect	50	-	-	**50**
Paid during the period	(258)	-	**-**	**(258)**
Remeasurement due to changes in assumptions (Note 3.3)	(12,065)	6,742	-	**(5,323)**
Net book value as at 31 December 2020	**14,638**	**15,070**	**374**	**30,082**

24 Trade and other payables

	As at 31 December 2020	As at 31 December 2019
Trade payables	24,532	28,881
Payables to related companies (Note 34)	25,565	31,326
Total trade payables:	**50,097**	**60,207**
Taxes (other than income tax)	2,957	1,749
Payroll-related liabilities	1,427	2,238
Other current liabilities	3,360	3,157
Total trade payables	**7,744**	**7,144**
Trade and other payables	**57,841**	**67,351**

Other payables amounting to EUR 4,384 thousand as at 31 December 2020 (31 December 2019: EUR 3,987 thousand) were 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 30–45 days.
- Other payables are non-interest bearing and have an average settlement term of six months.

25 Accrued expenses and contractual obligations

	As at 31 December 2020	As at 31 December 2019
Accrued expenses	24,594	10,255
Current portion of contract liabilities under connection contracts with customers	10,421	9,750
Contract liabilities under other than under connection contracts	29,510	26,126
Total:	**64,525**	**46,131**

All amounts in thousands of euro unless otherwise stated

Contract liabilities under other than connection contracts comprised the following:

	As at 31 December 2020	As at 31 December 2019
Prepayments for connection of new customers	16,370	15,126
Overdeclared electricity and effect of overdeclaration	3,699	5,789
Prepayments for other services	9,441	5,211
Total:	**29,510**	**26,126**

A breakdown of prepayments for connection of new customers was as follows:

	As at 31 December 2020	As at 31 December 2019
Connection to the electricity network	11,464	10,600
Connection to the gas network	4,906	4,526
Total:	**16,370**	**15,126**

26 Revenue from contracts with customers

In 2020, revenue from contracts with customers comprised the following:

2020	Electricity supply and distribution segment	Gas distribution segment	Total
Revenue from electricity transmission	410,818	-	410,818
Revenue from gas transmission	-	36,359	36,359
Revenue from guaranteed electricity supply	17,930	-	17,930
Revenue from connection of new customers	8,883	1,243	10,126
Income from equipment transfer	5,633	-	5,633
Total:	**443,264**	**37,602**	**480,866**
Moment of revenue recognition:			
At point in time upon rendering the service	5,633	-	5,633
Recognised over time	437,631	37,602	475,233
Total:	**443,264**	**37,602**	**480,866**

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 transmission	-	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**

Contract balances

The Company's trade receivables under contracts with customers comprise trade and other receivables (Note 10).

All amounts in thousands of euro unless otherwise stated

Contract assets

There were no changes in measurement approach or key assumptions related to the assessment of losses on receivables under contracts with customers during the reporting period. Recognised expected credit losses, if any, are disclosed in Note 10.

Contract liabilities

The Company's contract liabilities include liabilities under connection contracts with customers (Note 20), and accrued expenses and other contract liabilities (Note 25).

Transaction price allocation to remaining performance obligations

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 operating liabilities.

Performance obligations

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

27 Other revenue

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

	2020	2019
Property rental income	485	736
Income from past due obligations	703	516
Gain from disposal of property, plant and equipment	517	609
Other income*	2,270	3,845
Total:	**3,975**	**5,706**

*As at 31 December 2020 and 2019, other income consisted mainly of income from the construction of underground gas pipelines and solar power plants.

28 Wages and salaries and related expenses

	2020	2019
Wages and salaries	48,903	44,264
Termination benefits	531	569
Social security contributions	1,028	199
Change in vacation accrual	694	152
Benefits to employees of retirement age (Note 22)	212	815
Total:	**51,368**	**45,999**

29 Impairment and write-off expenses

	2020	2019
Write-offs of non-current assets (Note 5)	4,059	4,305
Impairment of other financial assets	379	-
Impairment of receivables (charge) (Note 10)	299	545
Impairment (reversal of impairment) of inventories (Note 9)	-	(165)
Impairment (reversal of impairment) of non-current assets (Note 5)	6,327	-
Impairment and (reversal of impairment) of construction in progress (Note 5)	640	4,020
Other write-offs	18	7
Total:	**11,722**	**8,712**

All amounts in thousands of euro unless otherwise stated

30 Other expenses

	2020	2019
Maintenance company expenses	4,649	4,304
Taxes (other than income tax)	2,092	3,007
Customer service expenses	2,392	2,806
Consultation services	1,187	1,515
Payments under the collective agreement and other additional payments	732	591
Personnel development, business trips	481	428
Indemnification for damages	193	418
Public relations and marketing	74	400
Insurance, medical care services	195	184
Other costs (income)	2,818	1,841
Total:	**14,813**	**15,494**

All the services the audit company granted to the Company during the 2019–2020 period are disclosed below:

	2020	2019
Expenses related to audit of financial statements (including translation services) under agreements	105	50
Total:	**105**	**50**

31 Financing activities

	2020	2019
Finance income		
Interest income on loans granted	38	27
Total:	**38**	**27**
Finance (expenses)		
Loan interest (expenses)	(12,188)	(9,659)
Interest and discount expenses on lease liabilities	(198)	(202)
Other (costs)/reversal of costs	290	(404)
Total:	**(12,096)**	**(10,265)**

32 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.

	2020	2019
Net profit/(loss) attributable to shareholders of the Company (EUR'000)	69,482	34,313
Weighted average number of shares (units)	894,630,333	894,630,333
Basic earnings/(loss) per share (in EUR per share)	**0.078**	**0.038**

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 2020, the Company had no dilutive potential ordinary shares issued.

33 Segments

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.

Based on the judgement of the management, the Company has two operating segments, i.e. electricity supply and distribution, and gas distribution. All the Company's assets and customers are located in the Republic of Lithuania. The Company's manager monitors the results with reference to the financial statements 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 management does not analyse operating segments on the basis of information about assets and liabilities. Inter-segment transactions are not executed.

All amounts in thousands of euro unless otherwise stated

Information on the Company's segments for 2020 is presented below.

2020	Supply and distribution of electricity	Distribution of gas	Total
Revenue from contracts with customers	443,264	37,602	480,866
Other revenue	2,520	1,455	3,975
Expenses	(276,007)	(24,405)	(300,412)
EBITDA*	**169,777**	**14,652**	**184,429**
Depreciation and amortisation	(70,038)	(12,678)	(82,716)
Impairment expenses and write-offs	(5,130)	(6,592)	(11,722)
Operating profit (loss)	**94,609**	**(4,618)**	**89,991**
Finance income	34	4	38
Finance (expenses)	(9,691)	(2,405)	(12,096)
Share of (profit) of associates	124	15	139
Profit (loss) before tax	**85,076**	**(7,004)**	**78,072**
Income tax	(8,290)	(300)	(8,590)
Net profit	**76,786**	**(7,304)**	**69,482**

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

In 2020, the Company's largest customer in the electricity supply and distribution segment accounted for revenue of EUR 164,088 thousand (in 2019: EUR 132,999 thousand). The Company's largest customer in the gas distribution segment accounted for revenue in the amount of EUR 29,437 thousand (in 2019: EUR 28,764 thousand).

Information on the Company's segments for 2019 is presented below:

2019	Supply and distribution of electricity	Distribution of gas	Total
Revenue from contracts with customers	377,131	36,013	413,144
Other revenue	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 (loss)	**48,371**	**(4,134)**	**44,237**
Finance income	24	3	27
Finance (expenses)	(8,465)	(1,800)	(10,265)
Share of (profit) of associates	263	29	292
Profit (loss) before tax	**40,193**	**(5,902)**	**34,291**
Income tax	20	2	22
Net profit	**40,213**	**(5,900)**	**34,313**

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

34 Related party transactions

The Company's related parties are as follows:

- AB 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).

All amounts in thousands of euro unless otherwise stated

Purchase and sale of goods and services:

The Company's transactions with related parties between January and December 2020 and the balances as at 31 December 2020 arising on these transactions are presented below:

Related Parties	Loans	Payables	Right-of-use assets	Accrued expenses	Receivables	Prepayments and deferred expenses	Purchases	Sales	Loan interest expenses
Parent company AB Ignitis Grupė	673,281	87	40	1	-	-	1,092	-	12,404
Associates	-	4,638	-	354	-	-	17,910	-	2
Group companies of AB Ignitis Grupė	-	1,443	6,569	2,554	32,118	426	22,692	222,940	165
UAB EPSO-G group companies	-	19,397	-	11,353	4,038	342	189,422	630	-
Total:	**673,281**	**25,565**	**6,609**	**14,262**	**36,156**	**768**	**231,116**	**223,570**	**12,572**

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 UAB EPSO-G group provide electricity and gas transmission services, public service offerings (PSO), and carry out contractual works.

Aiming to reduce costs incurred for the funding of its working capital, on 18 May 2016 the Company signed with UAB Ignitis Grupė the Group account (cashpool) agreement of an unlimited validity, under which the Company may obtain current loans from other companies of the Group. The internal lending limit established from 18 May 2020 is EUR 80,000 thousand. The latter limit is valid until 18 May 2021. The interest rate of 0.99% is determined for the one year period and coincides with interest rates of commercial banks.

As at 31 December 2020, the Company did not received any borrowings from cash pool account. As at 31 December 2019, the balance of the borrowings received by the Company from the Group's cash pool account amounted to EUR 138,356 thousand. In table for 2019 presented above, the 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 group companies of UAB Ignitis Grupė.

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

Related Parties	Loans	Payables	Right-of-use assets	Accrued expenses	Receivables	Prepayments and deferred expenses	Purchases	Sales	Loan interest expenses
Parent company AB Ignitis Grupė	608,689	159	65	-	-	-	1,478	-	9,708
Associates	892	4,867	-	90	-	-	18,792	-	3
Group companies of AB Ignitis Grupė	32,320	1,355	11,596	3,959	27,649	-	36,037	188,931	260
UAB EPSO-G 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**

Terms of transactions with related parties

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 2020, the Company had EUR 200 thousand of guarantees paid to AB Litgrid under the electricity balancing service agreement. These guarantees were reported in the line item other non-current receivables in the statement of financial position (On 31 December 2019, was accounted for in the line item "Prepayments, deferred expenses and assets under contracts with customers"). As at 31 December 2020, the Company did not have bad debt allowance for expected credit losses, receivables from related parties.

Compensation to key management personnel

The Company	2020	2019
Wages and salaries and other short-term benefits to management personnel	709	589
Whereof: termination benefits	-	5
Number of key management personnel	6	6

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

35 Contingent liabilities

Capital expenditure commitments

In 2020, 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 24 million (31 December 2019: EUR 28 million).

Rate adjustments due to profit earned in preceding periods exceeding the return on investment permitted by the Commission (2020)

Electricity business segment

Based on its Resolution No O3E-989 of 16 October 2020 "On recalculating the price caps for electricity distribution services provided by AB Energijos Skirstymo Operatorius through medium and low voltage networks for the year 2021", the Council set the price cap for the electricity distribution service for 2021 and, based on its Certificate No O5E-841 of 15 October 2020 "On recalculating the price caps for electricity distribution services provided by AB Energijos Skirstymo Operatorius through medium and low voltage networks for the year 2021". The level of revenue from electricity distribution activities was not reduced by the return on investment that was earned in previous periods in excess of the level set by the Council. The assessment of the return on investment for 2018–2020 will be carried out in 2021, setting the price caps for electricity distribution to be effective for year 2022.

Gas distribution segment

Based on its Resolution No O3E-1010of 23 October 2020 "On the correction of the price caps for natural gas distribution services provided by AB Energijos Skirstymo Operatorius for 2021", the Council set the price cap for the natural gas distribution service to be effective for year 2021 and, based on its Certificate No O5E-838 of 14 October 2020 "On the correction of price caps for natural gas distribution services provided by AB Energijos Skirstymo Operatorius for 2021", the Council stated that the level of revenue from natural gas distribution activities carried out by the Company in 2021 is reduced by EUR 6,884.86 thousand, including the impact of time value of money of EUR 533.51 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 12,703 thousand) will be assessed when establishing the natural gas distribution price for the upcoming periods.

Litigations

The Plaintiff UAB Vilniaus Energija 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 AB Energijos Skirstymo Operatorius 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 PSO provision 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 UAB Vilniaus Energija against the Company and recognised that UAB Vilniaus Energija 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 UAB Vilniaus Energija 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. UAB Vilniaus Energija 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 the Company. This part of the civil claim of UAB Vilniaus Energija was rejected. The judgement of Vilnius Regional Court has not yet become final.

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 UAB Vilniaus Energija 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 UAB Vilniaus Energija alleges it has suffered.

The Court of Appeal of Lithuania passed the ruling on 11 June 2020, whereby it changed the judgement of Vilnius Regional Court of 28 January 2020 and rejected the claim of UAB Vilniaus Energija. The court adjudged losses of EUR 11,250 from UAB Vilniaus Energija for behalf of the Company. The Supreme Court of Lithuania passed the ruling on 22 September 2020, whereby it accepted the cassation appeal of plaintiff UAB Vilniaus Energija. The response to the cassation appeal of UAB Vilniaus Energija was lodged on 21 October 2020. A hearing in the Supreme Court of Lithuania has not yet been scheduled. The Company's management believes that the decision of the Court pf Appeal will be upheld, therefore no provision has been made for this claim.

All amounts in thousands of euro unless otherwise stated

36 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 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 liabilities is based on the quoted market price for the same or similar issues 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 Total	Level 1	Fair value Level 2	Level 3
As at 31 December 2020				
Trade and other receivables (Note 10)	74,896	-	-	74,896
Cash and cash equivalents (Note 12)	8,965	8,965	-	-
Total:	**83,861**	**8,965**	**-**	**74,896**
As at 31 December 2019				
Trade and other receivables (Note 10)	65,744	-	-	65,744
Cash and cash equivalents (Note 12)	4,775	4,775	-	-
Total:	**70,519**	**4,775**	**-**	**65,744**

	Carrying amount Total	Level 1	Fair value Level 2	Level 3
As at 31 December 2020				
Borrowings (Note 16)	673,281	-	-	673,281
Trade and other payables(Note 24)	53,457	-	-	53,457
Total:	**726,738**	**-**		**726,738**
As at 31 December 2019				
Borrowings (Note 16)	641,901	-	-	641,901
Trade and other payables(Note 24)	63,363	-	-	63,363
Other liabilities	3	-	-	3
Total:	**705,267**	**-**	**-**	**705,267**

37 Events after the reporting period

There were no other material subsequent events after the reporting period.

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2020

AB ENERGIJOS SKIRSTYMO OPERATORIUS ANNUAL REPORT

ANNUAL REPORT FOR A FINANCIAL YEAR ENDED 31 DECEMBER 2020

eso

CONTENTS

Reporting period covered by the Annual Report

The Annual Report provides information to shareholders, creditors, and other stakeholders of AB Energijos Skirstymo Operatorius (hereinafter "ESO", "the Company") about the Company's operations during 2020.

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 the information contained in the Annual Report

Position	Full name	E-mail
CEO	Mindaugas Keizeris	investuotojams@eso.lt
Director of Finance and Administration	Augustas Dragūnas	investuotojams@eso.lt
Director of Finance Department	Artūras Paipolas	investuotojams@eso.lt

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 is also available on the website of the Company at www.eso.lt.
- 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.

KEY OPERATING AND FINANCIAL INDICATORS OF THE COMPANY

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

Key operating indicators of ESO[1]						
Operating indicators			**2020**	**2019**	**Change +/-**	**%**
Distributed electricity via medium and low voltage networks		*TWh*	9.55	9.55	0.00	0.00
Guaranteed supply of electricity[2]		*TWh*	0.43	0.47	-0.04	-8.51
Volume of natural gas distributed		*TWh*	7.06	6.97	0.09	1.29
Supply quality indicators of the network						
Electricity	SAIDI (with force majeure)*	minutes	207.7	91.8	115.9	
	SAIFI (with force majeure)*	times	1.34	1.31	0.03	
Gas	SAIDI (with force majeure)**	minutes	1.610	1.249	0.361	
	SAIFI (with force majeure)**	times	0.010	0.008	0.002	
Key financial indicators of ESO[2]						
			2020	**2019**	**Change +/-**	**%**
Revenue from contracts with customers		EUR'000	480,866	413,144	67,722	16.4
Other revenue		EUR'000	3,975	5,706	-1,731	-30.3
Costs for the purchase of electricity, gas and related services[2]		EUR'000	194,476	186,098	8,378	4.5
Operating expenses		EUR'000	105,936	98,182	7,754	7.9
EBITDA		EUR'000	184,429	134,570	49,859	37.1
EBITDA margin		%	38.0	32.1		
Adjusted EBITDA[3]		EUR'000	198,951	180,488	18,463	10.2
Net profit (loss)		EUR'000	69,482	34,313	35,169	102.5
			As at 31/12/2020	**As at 31/12/2019**	**Change +/-**	**%**
Total assets		EUR'000	1,763,523	1,706,606	56,917	3.3
Equity		EUR'000	665,616	663,917	1,699	0.3
Borrowings[4]		EUR'000	689,666	662,485	27,181	4.1
Borrowings, net[4]		EUR'000	680,701	657,710	22,991	3.5
Return on equity (ROE)		%	10.45	5.31		
Return on assets (ROA)		%	4.00	2.05		
Turnover of assets[5]		times	0.27	0.24		
Equity ratio		%	37.74	38.90		
Borrowings, net / 12-month EBITDA[4]		times	3.69	4.89		
Borrowings, net / 12-month adjusted EBITDA[4]		times	3.42	3.64		
Borrowings, net / Equity[4]		%	102.27	99.07		
Free cash flow		EUR'000	56,381	6,804	49,577	728.6

** A storm LAURA raged on March 12-13 and was declared accident by the National Energy Regulatory Council, which led to elimination of 127.2 minutes of SAIDI (66% of the value of the SAIDI indicator for the whole reporting period), and 0.22 times of SAIFI (16% of the value of the SAIFI indicator for the whole reporting period), respectively.*
*** As a result of the fire on 25 November 2020, 732 customers were disconnected from the Company's natural gas distribution system in Alytus district. If it were not for the impact of the incident on gas reliability indicators, the SAIDI figure would be 1.03 minutes in 2020.*

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[1] This Report includes certain historical financial measures of the statements of financial position, profit or loss and other comprehensive income and 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.
[2] Description of ESO's indicators is available at: http://www.eso.lt/en/for-investors/alternative-performance-measures.html
[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' deferred 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] Comparative indicators were recalculated.
[5] Revenue from contracts with customers was used to calculate the ratio.

CEO's FOREWORD

Dear all,

2020 was an extraordinary year for Energijos Skirstymo Operatorius (ESO), as was the case for Lithuania and the rest of the world, filled with continuing challenges, uncertainties and rapidly changing circumstances. For ESO, this period is inseparable from the changes caused by the pandemic: spring to all of us was a time of swift adaptation to the restrictions in everyday life, and discovery of new business models, summer offered lesser restrictions, while autumn and winter brought us not only to the lessons we learned in spring, but made us to respond to new difficulties. Despite these challenges, the Company and its employees managed to cope with the consequences of the pandemic, the environmental challenges to the network, the changing character of operations, and to ensure business continuity. I can safely say that although it required considerable efforts, ESO passed this year-long test and the lessons learned made it stronger and better prepared for future challenges. The outcome of 2020 reflects sustainable continuity of activities with regard to financial and other indexes, when the entire period is considered.

During the period of countrywide quarantine announced at the beginning of the year, when employees started working from home, the implementation of investment projects temporarily slowed down due to the growing uncertainty in the supply chain. With ease of the restrictions we not simply returned to the suspended works, but also advanced the reconstruction works of the network planned for the future so that we could fulfil the planned investments into the network's reliability and connection to new residential and producing users. Thus, we contributed to the implementation of economy inducing measures applied by the State.

The introduction of spring quarantine measures in the country coincided with the testing of the natural disaster for the ESO network: the Company had to face one of the largest natural disasters of the last two decades. The record strength hurricane-force wind of 28-31 m/s left few hundred thousand of residents without electricity in March 2020; however, we mobilised the maximum number of ESO and contractors' crews and managed to handle 90% of the storm's consequences in several days. As it has been evidenced at the begging of 2021, natural disasters becoming more frequent, and therefore integrated and sustainable solutions are needed to prepare to overcome without disproportionate increase of the financial burden on the population.

With regard to other important activities, it should be noted that when the amendments of legal acts entered into force in May 2020, we started the information campaign "Choose a supplier" intended to demonopolise the electricity market. Lithuania has taken the first step in opening up the market to competition. On 10 December 2020, the first stage of this energy reform came to an end, during which the customers consuming more than 5,000 kWh per year chose an independent electricity supplier. The results show a strong involvement of the population: in the period from 1 January 2021, 87% of customers of Phase I have already signed the contracts with independent suppliers. And it is encouraging to see that both the number of independent suppliers in the market and their active competition increases.

As from 1st of July, ESO was delisted from the Official List of Nasdaq Baltic Exchange, however, we remain an open and transparent company that makes its performance results public responsibly.

In 2020, other important projects continued at the same pace: the smart meter installation programme underwent an intensive procurement process – initial offers were received, negotiations were implemented, and finally – the classification of tenderers established at the beginning of 2021. During the DataHub project the necessary functionalities for the market liberalisation were developed along with network automation solutions: all these projects will have a significant continuous effect on the implementation of the ESO strategy. In the final quarter of the year, together with Ignitis Grupė[6] we entered into an agreement with the Ministry of Energy of the Republic of Lithuania on energy saving. Under the trilateral agreement, ESO and Ignitis Grupė undertake to implement means until 2030 that will help to save at least 1.6 TWh of final energy in the devices and objects of end users.

In 2020, the revenue of ESO amounted to EUR 484.8 million – it is 15.8% more than in 2019. Positive impact on the Company's revenue compared to the previous reporting period had on average 11% higher price of power distribution service, approved by the regulatory authority. In 2020, ESO earned EUR 198.9 million in adjusted profit before interest, tax, depreciation and amortization (adjusted EBITDA), which was 10.2% more than a year ago – EUR 180.5 million. Efficient operation of the Company and a growing regulated asset base help to maintain this indicator dynamics.

[6] AB Ignitis Grupė, former UAB Ignitis Grupė until 28 July 2020.

In 2020, the volume of investments in electricity and gas distribution network amounted to EUR 140.444 million – it is 22.5% less than in 2019. During this period, the Company's investments in the development of electricity distribution network and it's reliability enhancement amounted to EUR 49.05 million – 10.5% more than in 2019. In 2020, ESO invested EUR 54.218 million euro into development of electricity distribution network, i.e. new connection points and upgrades. Compared to 2019, investments in this are decreased by 31% due to decrease in new customers connection fees. ESO connected to the electricity distribution network 2.2% more new customers in 2020 than in 2019. Moreover, the number of prosumers connected to the ESO network increased significantly during 2020: at the end of 2019, there were 3.4 thousand prosumers, meanwhile at the end of 2020, their number approximated to almost 8.7 thousand. In 2020, ESO's investments in the construction of gas systems amounted to EUR 21.443 million, which is 52.3% less than in 2019. ESO invested EUR 9.599 million in the reconstruction of gas systems, which is 37 % more than in 2019. During 2020, ESO connected 7,785 new customers to the natural gas distribution network, which is 34% less than in 2019.

A higher scope and intensity of force majeure events, which affect the network reliability level, have remained an important challenge. In 2020, the average duration of unscheduled interruptions of electrical energy distribution (SAIDI), including *force majeure*, per customer, was 207.7 minutes, and compared with the same period of 2019 increased by 115.9 minutes. If influence of the storm Laura on electricity distribution indexes had not been taken into consideration, the significant improvement in electricity supply reliability indicators would have been recorded: SAIDI index would reach 80.5 minutes and, if compared to the same period in 2019, where SAIDI was 91.8 minutes.

In 2020, the average duration of unscheduled interruptions of gas distribution, including *force majeure*, per customer, was 1.61 minutes, and compared with the same period of 2019 increased by 0.36 minutes. The main reason of deteriorating ratios is supply disruptions due to natural gas pipeline damage cases done by third parties, the largest of which is the fire on 25 November 2020 in the Company's natural gas distribution system in Alytus district. If it were not for the impact of the incident on gas reliability indicators, the improvement in gas supply reliability indicators would have been recorded in 2020, compared to 2019.

Considerable market, customer and technological transformations in the energy sector, increasingly frequent and strong environmental challenges inevitably stimulate and force the search for new ways to adapt quickly, adapt to change and consistently maintain strategic lines of business – network reliability, digitalisation and market facilitation. Daily efficient operations, focus on ensuring network reliability, continuous process improvement, integrity of internal systems, reliable data, speed and flexibility – all of which help to ensure that the results of the strategy are achieved. The integral implementation of all strategic directions is focused on creating value for the customer at each point of contact.

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

MOST SIGNIFICANT COMPANY'S EVENTS DURING THE REPORTING PERIOD

Regarding the decision to appeal the judgement
On 6 January 2020, ESO 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
The Company's parent company AB Ignitis Grupė, 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 have 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 AB Ignitis Grupė, 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 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 UAB Vilniaus Energija exercised their right to appeal the judgement of Vilnius Regional Court in 30 days in accordance with legal acts.

Regarding the planned investigation of the Supervision Service of the Bank of Lithuania completed with no infringements
On 27 January 2020, ESO 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. No infringements have been found by the SSBL concerning ESO's accounting and financial reporting compliance with IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers, as well as Annual Report and Corporate Social Responsibility Report compliance 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.

The Court upheld the decision to apply the temporary protection measures
On 13 February 2020, the Vilnius Regional Court issued a ruling that rejected the complaint by ESO and left in effect a decision of the 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.

The amicable settlement agreement reached with minority shareholders of ESO
In order to carry out the processes related to delisting of the Company's shares from the Stock Exchange and compulsory buyout of the shares smoothly, AB Ignitis Grupė entered into an amicable settlement with the Association of Investors that is representing minor shareholders of the Company on 17 March 2020. On the same day, plaintiffs of the above-mentioned cases filed the waivers.

Regarding the resolutions of the Ordinary General Meeting of AB Energijos Skirstymo Operatorius on 30 April 2020
On 17 March 2020, the Company published a notice on convening the Ordinary General Meeting of Shareholders. The Ordinary General Meeting of the Company's Shareholders was convened on 30 April 2020. All statutory information related to the convened Ordinary General Meeting of Shareholders and annexes to issues on the agenda of such meeting shall be announced on the website of the Company www.eso.lt and in the home page of Nasdaq Vilnius following the procedure established by the law.

Regarding the decision adopted by the National Energy Regulatory Council
On 17 March 2020, the National Energy Regulatory Council adopted a decision imposing EUR 62,827.32 sanction on ESO. On 23 August 2019, the Council completed the unplanned inspection of the regulated activities of ESO. The Inspection Committee issued the inspection report which was approved by the Council's decision of 19 September 2019. In the opinion of the Company, the violations identified by the Council were mainly related to the qualification of electricity transmission interruptions (attribution of specific reasons) but did not affect the electricity supply to consumers.

Courts approved waiver of claims of minority shareholders of ESO
On 18 March 2020, the District Court of Vilnius Region issued the resolution upholding the minority shareholders' statements regarding the waiver of their claims and closed the civil proceedings.

Regarding approval of the official tender offer circular of ESO shares
The Supervision Service of the Bank of Lithuania approved the non-competitive official tender circular of AB Ignitis Grupė regarding the Company's shares on 30 March 2020.

The start of the official tender offer for shares of ESO
The official proposal of AB Ignitis Grupė to purchase ESO shares was valid from 3rd April, for 20 days until 22 April (inclusive). The price paid for one share of ESO is 0.880 EUR. The official tender offer was implemented through Nasdaq Vilnius together with SEB bank.

Regarding the ESO Board's opinion regarding the announced official tender offer
The Supervision Service of the Bank of Lithuania approved the non-competitive official tender circular of AB Ignitis Grupė regarding ESO's shares on 30 March 2020. The beginning of the official tender offer – 3 April, 2020, the end – 22 April, 2020. The Board of the Company, having acquainted itself with the submitted official tender circular of AB Ignitis Grupė regarding ESO's shares, adopted its opinion on the official proposal at its meeting on 6 April 2020.

Regarding the end of Ignitis Group official tender offer for shares of ESO
Ignitis Group informs that on 22 April 2020 the official tender offer for the shares of the subsidiary ESO has ended. AB Ignitis Grupė initiated the mandatory repurchase of shares of the subsidiaries and applied to the Supervision Service of the Bank of Lithuania with a request to coordinate the prices of mandatory share repurchase. AB Ignitis Grupė provided the same prices for required share buy-out as those which were paid during the tender offers, i.e. EUR 0.880 per share.

Regarding the resolutions of the Ordinary General Meeting of ESO Shareholders
The following decisions were made at the Ordinary General Meeting of ESO on 30 April 2020: 1. Approve the Annual Report of ESO for the year 2019; 2. Approve the audited Annual Financial Statements of ESO for the year 2019; 3. To allocate the profit (loss) of ESO for the year 2019; 4. Approve the remuneration policy of ESO.

Regarding the extension of the regulatory period of the ceilings for electricity distribution activities
On 30 April 2020, the National Energy Regulatory Council (NERC) amended the Resolution No O3-11 of the National Commission for Energy Control and Prices of 19 January 2015 "On the Recalculation of Price Caps of Services of Distribution via Medium and Low Voltage Networks of AB Lesto for 2016–2020" and extended the regulatory period for electricity distribution services in medium and low voltage networks from 2016–2020 to 2016-2021.

ESO's performance in Q1 2020: going concern ensured and the most powerful storm in two decades
ESO, despite the quarantine challenges in March, ended the first quarter with full business continuity. Revenue in the first quarter amounted to EUR 128.7 million, which is 10.3% more than in the same period of 2019. Compared to the previous reporting period, ESO's revenue was positively impacted by an average 11% increase of the price of the electricity transmission service, which consists of the components of electricity transmission, distribution and public service obligations (PSO), as approved by the regulatory authority.

Report of AB Ignitis Grupė on the implementation of the tender offer for shares of ESO
The Company informs that it received the report of AB Ignitis Grupė on 29 April 2020 on the implementation of the tender offer for shares of ESO. The Report indicates that during the period of the official tender offers from 3 April 2020 to 22 April 2020, the total amount of ESO's shares purchased was 23,932,346 and accounted for 2.68% of the Company's issued capital. Following the official tender offer for shares of ESO, AB Ignitis Grupė owns 97.66% of the shares of the Company, where 2.34% are owned by the other shareholders of the Company.

The Bank of Lithuania approved the prices at which AB Ignitis Grupė will offer the buy-out of ESO shares
AB Ignitis Grupė informed that on 4 May 2020 the Bank of Lithuania approved the prices at which AB Ignitis Grupė purchased the shares of ESO at the time of the mandatory share buy-out. The Bank of Lithuania approved the same prices for the mandatory share buy-out as those which were paid during the tender offers. During the mandatory share buy-out, EUR 0.880 was paid for one share of ESO. The buy-out of the shares of ESO lasted for 90 days. On 18 May 2020, the mandatory buyout of the Company's shares was launched.

Regarding the ESO's request to delist the shares from trading on the Nasdaq Vilnius Stock Exchange
When implementing the resolutions of the General Meeting of Shareholders of 4 December 2019, on 19 May 2020 ESO submitted a request to Nasdaq Vilnius AB to remove the Company's shares from the official trading list of Nasdaq Vilnius Baltic no later than from 1 July 2020 (the last day of being in the official listing – no later than 30 June 2020).

Regarding judgement of the Court of Appeal of Lithuania of 11 June 2020 in the civil case
The Court of Appeal of Lithuania passed the ruling on 11 June 2020, whereby it changed the judgement of the Vilnius Regional Court of 28 January 2020 and rejected the claim of UAB Vilniaus Energija. The Court recognized that UAB Vilniaus Energija had not been discriminated with regard to other combined heat and power plants, as well as supplier of balancing energy, therefore it does not have to compensate the losses claimed by UAB Vilniaus Energija.

Regarding the installation of the Druskininkai liquefied natural gas degasification station
On 25 June 2020, the National energy regulatory council made a decision on the installation of a liquefied natural gas (LNG) degasification station in Druskininkai installation of a degassing plant worth EUR 2.86 million. If the Company installs a permanent LNG degasification station in Druskininkai, the residents of Druskininkai municipality will be provided with an uninterrupted supply and distribution of natural gas.

Regarding the resolutions of the Extraordinary General Meeting of AB Energijos Skirstymo Operatorius
The following resolutions were made at the Extraordinary General Meeting of the Company on 30 June 2020: Approve the new wording of the Articles of Association of ESO; authorise the CEO or another person authorised by him to sign the amended Articles of Association and to perform all actions necessary for the implementation of this resolution.

Regarding the conclusion of a long-term financing agreement with AB Ignitis Grupė
On 29 June 2020, the Company signed an agreement with the parent company AB Ignitis Grupė for providing a long-term loan of EUR 200 million, which will be used by Company for refinancing of existing short-term financial liabilities and financing projects related to the projects of distribution network reliability and efficiency. The term of loan repayment is 21 May 2030. The fixed interest rate coincides with the effective interest rate on the AB Ignitis Grupė issue of bonds and is set as 2.17%. The essential terms and conditions of the agreement coincides with the terms and conditions of the bonds issue. The agreement does not provide for any other additional obligations (guarantees, suretyship, pledges, etc.) to enforce obligations.

ESO opened the permanent liquefied natural gas degasification station
The permanent liquefied natural gas (LNG) degasification station started operating in Druskininkai on the 29th of July. It will safeguard uninterrupted natural gas supply and distribution to the users of this Lithuanian resort, as until now, the residents of Druskininkai have been receiving natural gas through the temporary LNG degasification station that was operating since autumn 2017.

ESO updated the investment plan for 10 years
On 30 July 2020, ESO published updated investment plan for 2020–2029, under which ESO is planning to invest into safeguarding reliability and efficiency of electricity and gas network, network's automation, instillation of smart solutions, and effective market facilitation. The Company provides details on the planned investments in the announced investment plan for 10 years. The investments of 1.91 billion euros are planned to increase reliability, durability and smartness of the ESO network and to connect new users in 2020–2029. The planned investments will be directed to two main programmes in line with the investment priorities: network reliability and efficiency, and market facilitation and customer experiences.

Regarding the claim brought before the Court and the temporary protection measures applied
On 10 August 2020, the minor shareholder of ESO filed the lawsuit to Vilnius Regional Court asking to fix a correct price of ESO shares. Upon his request, the court applied the interim measures and suspended the obligatory buying-out process of ESO shares until the court's ruling on fixing of the share price enters into effect and informed AB Ignitis grupe about this decision. AB Ignitis Grupė believes that the price of ESO shares approved by the Bank of Lithuania and paid during the obligatory buying-out process of ESO shares is correct, it was fixed objectively, in accordance with the Law on Securities and in application of the main rule, how to fix a share price.

ESO's unaudited results of H1 2020: safeguarding the going concern and maintaining the strategical trends of ESO activities
ESO results in H1 2020 reflect the challenges caused by the pandemic and spring storms and safeguarded the Company's going concern. Energy distribution remains the main source of ESO revenues. In the first half of the year, however, the energy distribution was almost two and a half percent lower due to countrywide quarantine. The implementation of the investment projects was slowed down during the quarantine, but when the restrictions were removed, they were restored and the implementation of the works planned for the future was even put forward in order to contribute to fulfilment of the economy-promotion means implemented jointly with the State.

Regarding the ruling of the Supreme Court of Lithuania
On 22 September 2020 the Supreme Court of Lithuania passed the ruling on, whereby it accepted the cassation appeal of plaintiff UAB Vilniaus Energija, by which the plaintiff asks to quash the ruling of the Appeal Court of Lithuania of 11 Jun 2020, a part of judgement of Vilnius Regional Court of 28 Jan 2020, and to satisfy the claim of UAB Vilniaus Energija to

defendant AB Energijos Skirstymo Operatorius regarding adjudgement of losses in the amount of EUR 4,615,200 for year 2014, and losses in the amount of EUR 3,836,900 for year 2015.

ESO investing into modernization of electrical networks
The National Energy Regulatory Council approved the investments submitted for the approval by ESO: the project for 2020–2022 “Modernization of Energy Distribution Networks and their Development through Implantation of Smart Solutions (stage IV)”, the value whereof is EUR 13.013 million, excl. VAT. The investment covers renewal and modernization of 232 transformers and their fixtures. The Company is willing to finance 50% of the investment (EUR 6,666.45 thousand) from the EU funds, under the instrument Electricity Network Modernisation & Development. And the remaining amount of EUR 6,666.45 thousand will be financed through ESO’s capital or outside funding. The investments will allow ensuring a reliable, safe and qualitative electricity supply to ESO users.

Regarding the price-setting for electricity distribution price caps for 2021
On 16 October 2020, the National Energy Regulatory Council established electricity distribution price caps for 2021: in medium-voltage networks 1.167 EUR ct/kWh (change 0.091 ct/kWh); in low-voltage networks 2.171 EUR ct/kWh (change 0.079 ct/kWh). The current electricity distribution price cap for medium-voltage network is 1.076 EUR ct/kWh, for low-voltage network – 2.092 EUR ct/kWh. The increase in the electricity distribution service price cap is driven by the growing regulatory asset base due to the consistent investments in the development and renewal of the electricity distribution network in recent years, as well as smaller forecasted electricity distribution volumes.

Regarding the setting income caps for natural gas distribution for 2021
On 22 October 2020, the National Energy Regulatory Council adopted a decision on the revenue cap for natural gas distribution services, effective in 2021: EUR 39,661,616 (in 2019 – EUR 36,965,476). The income cap of the Company's natural gas distribution service increases mainly due to the lower part of the repayable income in 2014–2018, profits in excess of the allowable return on investment and the higher 2021 return on investment.

The National Energy Regulation Council announced electricity network prices for 2021
On 3 November 2020, the National Energy Regulatory Council announced electricity network prices which were approved by the Board of ESO on 28 November which will apply from 1 January 2020. The prices for transmission services (excluding public service obligation) in 2021, compared to 2020, will decrease, on average, by approx. 2.7% for corporate customers, who receive electricity from the medium-voltage networks, and by approx. 1.2 % for corporate customers, who receive electricity from the low-voltage networks, but it will increase, on average, by approx. 1.5% for private customers. The cost of the electricity network service may vary for specific customers.

Regarding the completed process of mandatory buyout of shares of ESO
AB Ignitis Grupė completed the mandatory buyout of shares of its subsidiary ESO was finished on 3 November 2020. The completed transactions were settled on the second day following the conclusion of the transaction. During the period of the mandatory buyout, which lasted from 18 May 2020 to 3 November 2020, 7,836,051 shares of ESO were purchased, representing 0.88% of the issued capital of ESO. Following the mandatory buyout of shares of ESO, AB Ignitis Grupė owns 98.53% of the shares of the Company, where 1.47% are owned by the other shareholders of the Company.

Outcome of 9 months of 2020 of the ESO activities: reliable distribution of gas and electricity and stable continuity of activities
The outcome of 9 months of 2020 reflects reliable distribution of gas and electricity and stable continuity of activities. Electricity transmission remains the main source of income for ESO. Although the transmission volumes were decreasing because of past and renewed quarantine in the country, but the decrease is not as evident as at the time of the first quarantine – 1.13% less of electricity were transmitted in 9 months.

The National Energy Regulatory Council approved Natural Gas Distribution Prices for 2021
On 19 November 2020, the National Energy Regulatory Council approved natural gas distribution prices set by the Company’s Board on 9 November 2020 which will apply from 1 January 2021. Natural gas distribution prices will increase from 0.6% to 14.9% depending on consumer’s price group, whilst the average gas distribution price for 2021 will increase by 8.4 %, compared to the prices for 2020. Natural gas distribution price is one components of the final gas price.

The National Energy Regulatory Council approved the private customer connection to the gas distribution system fees
On 30 November 2020, the National Energy Regulatory Council approved the fees for private customer connection to the gas distribution system, effective as of 1 January 2021. The connection feel will change for customers with an annual natural gas consumption of over 300 m3: the fixed tariff component, which is applied irrespective of the connection distance, will increase by 2.1% up to EUR 599.34 (excl. VAT), and the variable tariff component, which is calculated for each meter of gas distribution pipeline requested, will increase by 3.02% up to EUR 28.69/m (excl. VAT).

The National Energy Regulatory Council approved a new procedure and pricing for connecting customer to the electricity distribution networks
On 30 December 2020, the National Energy Regulatory Council approved a new procedure and pricing for connecting customer to the electricity distribution networks. Under the new pricing, implementing the Law on Energy of Lithuania and the Methodology for Setting Tariffs of Connection of Electrical Equipment to Power Grids, the proportion of 50% is set for

cost of connecting electrical equipment to the power grid for new customers willing to connect to the grid (excluding socially disadvantaged customers) from 1st February. The socially disadvantaged customers will be subject to 20% contribution.

Key Events after the End of the Reporting Period

The National Energy Regulatory Council approved the fee for the development of technical specifications for the connection of consumers to the electricity distribution networks
On 28 January 2021, the National Energy Regulatory Council approved the fee for the development of technical specifications for the connection of consumers to the electricity distribution networks. A one-off fee of EUR 31.75 (incl. VAT) will be charged when applying for the technical specifications for the connection to the electricity distribution networks. The new procedure aims to ensure that a new customer connection fee will not be imposed on the existing electricity consumers. The change also serves to improve the quality of the technical specification development service.

Classification of tenderers established by AB Ignitis Grupė in the procurement of smart accounting infrastructure of the subsidiary ESO
AB Ignitis Grupė informs that in the procurement of smart accounting infrastructure of the subsidiary AB Energijos Skirstymo Operatorius, the classification of tenderers was established on 9th February, and Sagemcom Energy & Telecom SAS was selected as the supplier who submitted the most economically advantageous tender. It should be noted that the establishment of classification does not necessarily imply that the award decision is taken. It should also be noted that the value of the tender is not equal to the value of the contract, the final contract value will be determined with the conclusion of the contract.

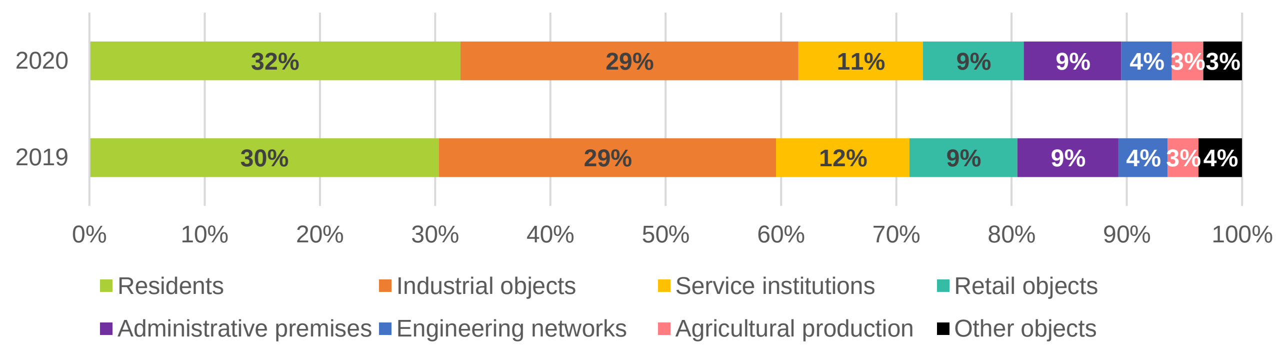
ANALYSIS OF THE OPERATING AND FINANCIAL INDICATORS

Electricity distribution

ESO owns and operates 126.105 thousand kilometres of electricity lines: of which 68% were overhead electricity lines, and 32% – electricity cables. In 2020, the Company distributed to customers 9.55 billion kWh of electricity (2019: 9.55 billion kWh). Guaranteed supply of electricity made up 4.5% of this amount (5% in 2019). The remaining customers of the Company were provided only with the distribution service. The cost of distribution in technological facilities incurred by the Company during 2020 amounted to 588.86 million kWh or 5.81% of the amount of electricity received. During the same period in 2019, these costs totalled 6.29% (641.4 million kWh).

The electricity distributed by ESO during 2020 was consumed by residents at around 32.2%. Industrial sites and service institutions consumed 29.3% and 10.8%, respectively, of electricity distributed. There were no significant changes in the structure of electricity distribution volume by entities as compared to the data of 2019.

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



Electricity supply quality indices (SAIDI, SAIFI)

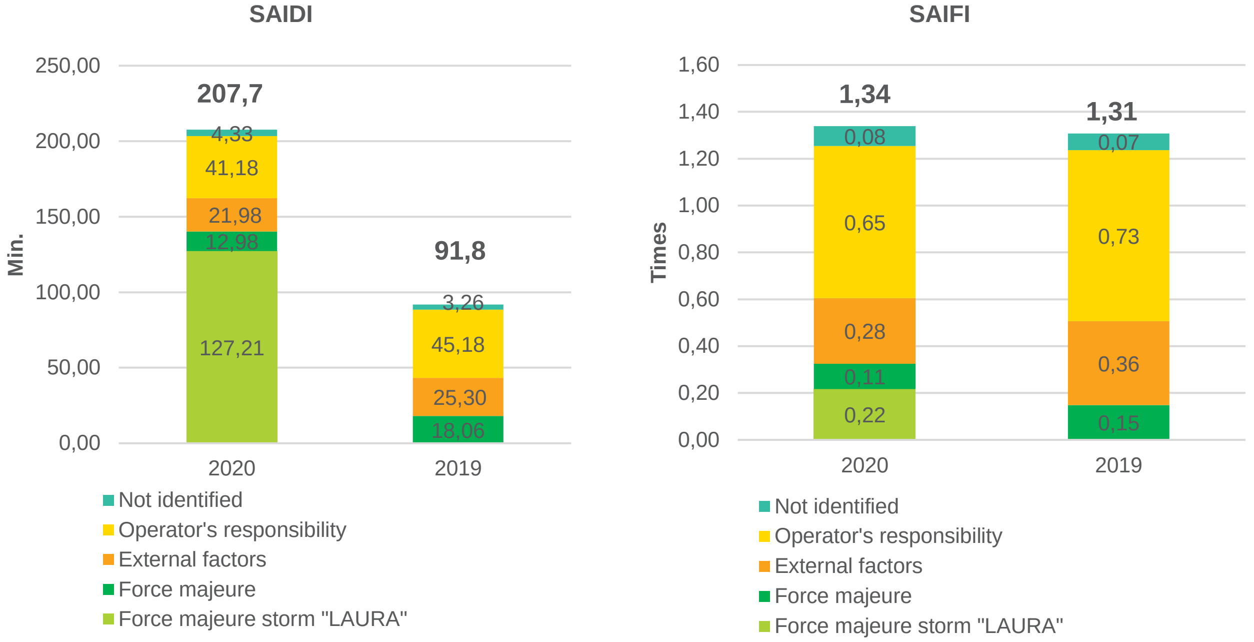
In 2020, the average duration of unscheduled interruptions of electrical energy distribution (SAIDI), including *force majeure*, per customer, was 207.7 minutes, and compared with the same period in 2019 increased by 115.9 minutes (in 2019: SAIDI amounted to 91.8 minutes). In 2020, the average number of unscheduled long interruptions per customer (SAIFI), including *force majeure*, per customer, reached 1.34 times and was by 0.03 times larger than in 2019 when this indicator amounted to 1,31 times.

The significant impact on such a significant deterioration in indicators had a storm LAURA raged on March 12-13, which SAIDI was 127.2 minutes (61% of the value of the SAIDI indicator for the whole reporting period) accordingly SAIFI index reached 0.22 times (16% of the value of the SAIFI indicator for the whole reporting period). The hurricane Erwin of such a scope stroke Lithuania for the last time in 2005. It took two weeks to rectify the electricity network failures. However, at this time, more than 90–99% of the storm's consequences were eliminated and electricity was restored in the record time – only in two or three days.

If the influence of the storm Laura on electricity distribution indexes had not been taken into consideration, the significant improvement in electricity supply reliability indicators, compared with the same period in 2019, would have been recorded: SAIDI index would reach 80.5 minutes and, if compared to the same period in 2019 (91.8 minutes), would have decreased by 11.3 minutes, while SAIFI index would reach 1.12 times, and if compared to the same period in 2019 (1.31 times), it would have decreased by 0.19 times.

The duration of interruptions due to reasons attributable to the operator's responsibility in 2020 amounted to 41.18 minutes, decreased 4 min., whilst in 2019 it was 45.18 minutes.

Figure 2. **Electricity supply reliability indices**



Natural gas distribution

The Company operates gas distribution pipelines with the length of nearly 9.69 thousand kilometres. In 2020, the network of gas distribution pipelines increased by almost 215 km, whilst in 2019 – by 518 km. In 2020, ESO supplied 7.06 billion kWh of natural gas via gas distribution pipelines, which is 1.3% more than in the same period in 2019.

In 2020, gas distribution volumes increased mostly due to lower average outside temperature, compared to the same period in 2019.

Natural gas supply quality indices (SAIDI, SAIFI)

In 2020, the average duration of unscheduled interruptions of gas and electricity distribution (SAIDI), including *force majeure*, per customer, was 1.61 minutes, and compared with the same period in 2019 increased by 0.36 minutes (in 2019: SAIDI amounted to 1.25 minutes). In 2020, the average number of unscheduled long interruptions per customer (SAIFI), including *force majeure*, per customer, reached 0.01 times (in 2019 – 0.008 times). The main reason of deteriorating ratios is supply disruptions due to natural gas pipeline damage cases done by third parties, the largest of which is the fire on 25 November 2020 in the Company's natural gas distribution system in Alytus district, caused by evaporation and transfer into the system triggered by the activities of those who organized and carried out the work. 732 customers were disconnected from the system. If it were not for the aforesaid impact of the incident on gas reliability indicators, the improvement in gas supply reliability indicators would have been recorded in 2020, compared to the same period in 2019.: SAIDI index would reach 1.03 minutes and, if compared to the same period in 2019, would have decreased by 0.22 minutes,

Revenue

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

	2020	2019
Revenue from electricity distribution	84.7	80.2
Revenue from gas distribution	7.5	8.3
Revenue from guaranteed electricity supply	3.7	6.7
Revenue from connection of new customers	2.1	2.3
Other revenue	2.0	2.5

In 2020, ESO's revenue totalled EUR 484.8 million, which is 15.8% more than in 2019. Compared to the previous reporting period, the Company's revenue was positively impacted by an average 11% increase of the price of the electricity transmission service, which consists of the components of electricity transmission, distribution and public service obligations (PSO), as approved by the regulatory authority. Electricity transmission is the main source of the Company's revenue.

During 2020, electricity transmission revenue comprised 84.7% of the Company's total revenue. Revenue from natural gas distribution made up 7.5% of the Company's total revenue.

Expenses

In 2020, the costs of purchase of electricity, natural gas or related services amounted to EUR 194.5 million. Compared with the same period in 2019, these costs increased by 4.5%. This was mainly influenced by increase in the price of the electricity transmission. During the reporting period, the costs of purchase of electricity, natural gas or related services and depreciation and amortisation costs accounted for EUR 277.2 million or for 70.2% of total costs incurred by ESO.

Operating expenses amounted to EUR 105.9 million in 2020, which is 7.9% more compared to the same period in 2019. Employee benefits and related social security contributions increased by 11.7% due to higher bonuses for employees for addressing the effects of the storm Laura, higher holiday reserve costs and lower wage capitalisation for investment projects. Repair and maintenance costs grew by 14.2% as part of works, initially planned for 2021, were actually completed in 2020.

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

	2020	2019	Change
Employee benefits and related social security contributions	51,368	45,999	11.7%
Other expenses	14,813	15,494	-4.4%
Repair and maintenance expenses	24,842	21,745	14.2%
Telecommunications and IT services	9,717	9,058	7.3%
Transport	3,240	3,874	-16.4%
Rental and utilities	1,956	2,012	-2.8%
Operating expenses, total	**105,936**	**98,182**	**7.9%**

EBITDA

Table 4. **EBITDA indicator**

	2020	2019
EBITDA (EUR '000)	184,429	134,570
Recalculation of regulated income of the current period (will be realised in the future periods)[7]	*-56,149*	*-24,817*
Recalculation of regulated income from previous periods (realised in the current period)[8]	*60,867*	*61,724*
Other corrections[9]	*9,795*	*9,011*
Adjusted EBITDA, EUR '000	198,951	180,488
EBITDA margin, %	38.04	32.13
Adjusted EBITDA margin, %	41.03	43.09

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

Below are the certificates issued by the regulator and used as a basis for the recalculation of regulated income of 2020:

- The certificate No O5E-538 of 21 October 2019 "Regarding adjustment of natural gas distribution income cap of AB Energijos Skirstymo Operatorius for 2020" (https://www.regula.lt/SiteAssets/posedziai/2019-10-31/eso_pazyma_1.pdf)
- The certificate No O5E-517 of 16 October 2019 "Regarding the Recalculation of Price Caps of Services of Distribution on Medium and Low Voltage Networks of AB Energijos Skirstymo Operatorius for 2020 (https://www.regula.lt/SiteAssets/posedziai/2019-10-17/eso-kvr.pdf)

[7] 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.

[8] 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.

[9] 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 income generated by the Company for the services provided to the NC during the reporting period when those services were provided, i.e. fulfilment of the contractual connection obligations to the customers. In addition, the discounted cash flow model is used to assess the financial position and asset value of the Company by using NC connection fees actually received during the reporting period (other than deferred income). Other results of irregular activities (one-off or other factors that are not related to the current period) are eliminated as well.

In 2020, the Company's earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to EUR 184.4 million. Compared to 2019, the Company's EBITDA increased by 37.1%. Such dynamics of the index was caused by the increase in electricity distribution revenue due to an average 11% increase of the price of the electricity transmission service.

The Company's adjusted EBITDA increased by 10.2 %. 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

In 2020, ESO's net profit totalled EUR 69.5 million, which is 102.5% more than in 2019. The increase in net profit in 2020 was caused by the same reasons as the growth of EBITDA. The increase in deferred income tax and interest expense had a negative impact on net profit.

Table 5. **ESO's profitability ratios, %**

	2020	2019
Net profit margin	14.33	8.19
Operating profit margin	18.56	10.56

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

Investments

During January– December 2020, ESO's investments in the electricity and gas distribution networks amounted to EUR 140.444 million, which is 22.5% less than in the same period in 2019, where investments amounted to EUR 181,171 million.

Table 6. **ESO investments, EUR '000**

	2020	2019
Renewal of the electricity distribution network	49,046	44,390
Expansion of the electricity distribution network	54,218	79,061
Re-construction of gas systems	9,599	7,005
Construction of gas systems	21,443	44,972
Other (IT, management systems, etc.)	6,138	5,743
Total investments	**140,444**	**181,171**

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

In 2020, ESO's investments allocated for the renewal of the electricity distribution network amounted to EUR 49.05 million, which is 10.5% more than in 2019. In 2020, part of the savings made during the year and funds budgeted for connecting new consumers were re-allocated to the development of the electricity distribution network, investments in modernisation and resilience of the network. In 2020, ESO invested EUR 54.218 million into development of electricity distribution network, i.e. new connection points and upgrades. Compared to 2019, investments in this are decreased by 31.4% due to decrease in new customers connection costs.

In 2020, ESO connected to the electricity distribution network or made capacity upgrades to 41,043 new customers, which is 2.2% more than in 2019, when 40,151 new customers were connected. In 2020, admissible electric power of newly connected customers was 386.2 thousand kW, which is 13.4% less than in 2019 (446.1 thousand kW).

In 2020, ESO's investments in the construction of gas systems amounted to EUR 21.443 million, which is 52.3% less than in 2019, when investments totalled EUR 44.972 million. ESO invested EUR 9.599 million in the reconstruction of gas systems, which is 37 % more than in 2019. In 2019, ESO constructed 206.1 km of the gas distribution pipeline (in 2019: 504.9 km). In 2020, ESO connected 7,785 new customers to the natural gas distribution network, which is 34% less than in the same period in 2019 (11,793 customers were connected).

Analysis of financial indicators

At the end of the reporting period, the Company's assets amounted to EUR 1.76 billion. Non-current assets accounted for 94.9% (EUR 1.67 billion) of the total assets, whereas current asset – EUR 90.1 million. Cash and cash equivalents, the most liquid assets, amounted to EUR 8.9 million or 9.95% of the total current assets.

Table 7. **ESO's financial leverage ratios**

	31 Dec 2020	31 Dec 2019[1]
Net borrowings, EUR million	680.70	657.71
Net borrowings to equity ratio	1.02	0.99
	30 Jun 2020[2]	31 Dec 2019
Share price to earnings ratio	20.82	20.91
Capitalisation, EUR million	787.27	717.49

Description of ESO's indicators is available at: www.eso.lt/lt/investuotojams/alternatyvus-veiklos-rodikliai.html
[1] Comparative indicators were restated.
[2] From 1 July 2020 ESO shares were delisted from Official list (last shares trading in AB Nasdaq Vilnius day was 30 June 2020).

At the end of December 2020, ESO's liabilities totalled EUR 1,097.9 million, of which EUR 924.7 million were non-current liabilities, EUR 151.9 million current liabilities and EUR 21.3 million – grants. Borrowings amounted to EUR 689.7 million and accounted for 62.8% of total liabilities. Non-current borrowings amounted to EUR 669.03 million or 97.01% of total borrowings, current liabilities totalled EUR 20.6 million.

Table 8. **ESO's liquidity ratios**

	As at 31/12/2020	As at 31/12/2019
Current ratio	0.59	0.24
Working capital, EUR '000	-44,003	-44,929
Working capital/Revenue	-0.09	-0.11

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

ESO's current liabilities exceeded its current assets by EUR 61.8 million. The current ratio is equal to 0.59. Borrowings, as reduced by the amount of short-term investments and cash and cash equivalents, are equal to EUR 680.7 million. The Company's net borrowings account for 102.27% of its equity (in 2019: 99.07%).

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 the period from January to December 2020.

FACTORS AFFECTING THE COMPANY'S FINANCIAL INDICATORS

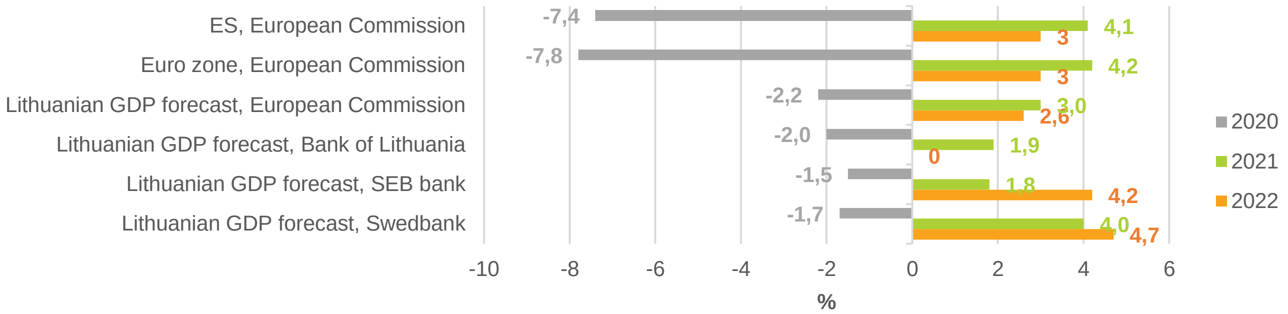
Business environment

COVID-19 pandemic that started in the beginning of 2020 had a strong impact on the global economy. Although the majority of the countries started mitigating the strict self-isolation measures in the second quarter, some restrictions were returned in the end of the third quarter.

In accordance with the forecast of the European Commission published in November 2020[10], the gross domestic product is forecast to grow by 4.1% in the European Union (EU) in 2021, 2022 m. – 3 proc. The economic growth in euro zone should be 4.2% in 2021 and 3% in 2022. The European Commission forecasts[11] that the growth of the Lithuanian economy was going to reach 3% in 2021 and 2.6% in 2022.

As indicated in the Lithuania's economic outlook published by the Lithuanian banks, Lithuania's economic prospects are considered to be positive. In accordance with the forecasts presented by the analysts of SEB bank in September 2020[12], Lithuanian economy will grow by 1.8% in 2021 and 4.2% in 2022. The Swedbank analysts adjusted the Lithuania's economy outlook in November[13]: 4.0 % growth forecasted in 2021 and 4.7% in 2022. The survey of the Bank of Lithuania[14], made in December 2020, showed that Lithuania's GDP in 2020 dropped by 2%, and is expected to grow by 1.9% in 2021. Data for 2022 outstanding.

Figure 3. ***Gross Domestic Product (GDP) Growth Forecasts for the EU, Euro Zone and Lithuania in 2020–2022, %***



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 distributed electricity will increase at a moderate pace in 2021.

Situation in the electricity market

In 2020, the average price of electricity in the Nord Pool's Lithuanian trading zone decreased compared to the year of 2019. In 2020, the average price was 34.02 EUR/MWh, in 2019 it was equal to 46.12 EUR/MWh.[15]

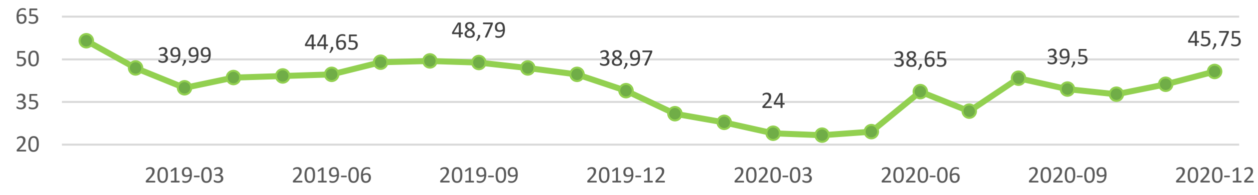
Following the transfer of public supply activities, fluctuations in the purchase price of electricity have a less impact on the Company's results and affects the amount of technological losses and the result of guaranteed supply.

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

	2020			2019		
	Factual information	-1 ct/kWh	+1 ct/kWh	Factual information	-1 ct/kWh	+1 ct/kWh
Impact (EUR'000)	0	-10,156	10,156	0	-11,120	11,120
Average electricity purchase price, ct/kWh	3.81	2.81	4.81	5.00	4.00	6.00

[10] Source: https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin_forecast_autumn_2020_overview_en.pdf
[11] Source: https://ec.europa.eu/economy_finance/forecasts/2020/autumn/ecfin_forecast_autumn_2020_lt_en.pdf
[12] Source: https://www.seb.lt/infobankas/ekonomine-aplinka/makroekonomika/makroekonomikos-prognozes
[13] Source: https://internetbank.swedbank.se/ConditionsEarchive/download?bankid=1111&id=WEBDOC-PRODE67321137
[14] Source: https://www.lb.lt/uploads/publications/docs/27778_ab927ac059af968709e5e9ca33dfb385.pdf
[15] Source: https://www.nordpoolgroup.com/Market-data1/Dayahead/Area-Prices/LT/Yearly/?view=table

Figure 4. **The average price of electricity in the Lithuanian trading zone on the Nord Pool power exchange, EUR/MWh**[16]



Company's strategy and objectives

In pursuing its strategy and goals, ESO follows guidelines published by the Governance Coordination Centre (GCC), OECD and applies strategic and risk management models in line with global practices. ESO prepares and updates its strategy and draws up an operational plan for its implementation, taking into account Ignitis Group strategy and the NEIS (National Energy Independence Strategy). Each year, ESO prepares the long-term financial plan and annual budget in accordance with the strategy, strategic and operational plans, which are drawn up for a period of 4 years. In addition, another strategic planning document is being prepared – a long-term (10-year) investment plan (link), setting out the principles and objectives of the largest investment programmes. The strategies of Ignitis Grupė and group companies are subject to annual review. The strategies are updated if there is a change in circumstances that affect the structure, the areas of activity of the Group companies, and have a significant impact on the forecasted outturn, strategic directions and strategic goals. It is important to note that the Company has specific annual objectives linked to the implementation of the strategy and covers the strategic directions such as network reliability and efficiency, customer experience and market facilitation, sustainable development, people and culture, and financial sustainability and operational efficiency, the implementation and performance of which are monitored on a monthly/quarterly basis.

The parent company AB Ignitis Grupė announced the updated long-term business strategy and the strategic plan for 2020–2023 on 19 June 2020. On the basis of these documents, the reliability, intelligence and efficiency of the network and market facilitation and customer experience remain the key strategic directions of ESO's activities as set out in Figure 5. ESO is planning to update its long-term strategy until 2nd quarter of 2021 on the basis of updated strategy of Ignitis Grupė and the strategic plan for 2021–2024 (link).

Figure 5. **ESO strategic directions and priorities for 2030**

[16] Source: https://www.nordpoolgroup.com/Market-data1/Dayahead/Area-Prices/LT/Monthly/?view=table

Investment plan: modernisation of the electricity and gas distribution networks

Based on the updated long-term business strategy and the strategic plan for 2020-2023 of AB Ignitis Grupė, ESO announced its investment plan of present and planned investments into the investment plan of electricity and gas distribution network (link), on 31 July 2020. The plan specifies that ESO intends to invest EUR 1.91 billion into improvement of the network's reliability, durability, smartness and client's experiences in the next 10 years. In line with the strategic priorities, the planned investments are targeted at two main programmes:

- Network's reliability and efficiency. This programme intends to safeguard continuous and qualitative energy distribution by the network of electricity and gas safe for environment. One of the most important tools of this programme is replacement of airways of electrical grid by underground lines. The priority will be given to replacement of unreliable and emergency airways, wooded territories and solutions, how to improve voltage quality. Besides, unreliable steel pipes of natural gas will be reconstructed, and other unreliable elements of the network of electricity and gas will be replaced and reconstructed. In order to accelerate restoration of energy supply after the failures, it will be continued to install the equipment that ensures the grid's automation and management. In addition, advanced and innovative solutions will be installed in order to safeguard the network's quality and to respond to the growing flows of distributed generation in the ESO network.

- Market's facilitation and customer's experiences. This programme is meant to enable the transformation and development of electricity market and to promote activeness of the customers in selection and changing of the energy supplier. Besides, big attention will be given to integration of generation of renewable sources into the network and development of flexible services. It is especially important to make this change sustainable, so that it would safeguard achievement of the set goals and the network's efficiency; thus, the advantages of production and consumption in the same place will be taken into consideration. The main tool of this programme is installation of smart meters. This technological solution will ensure accuracy and timeliness of data in the ESO network, will create preconditions for more effective investments, and will enable the market to create and provide services of higher quality to users.

In accordance with the Law on Electricity, ESO is updating its 10-year investment plan every second year.

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.

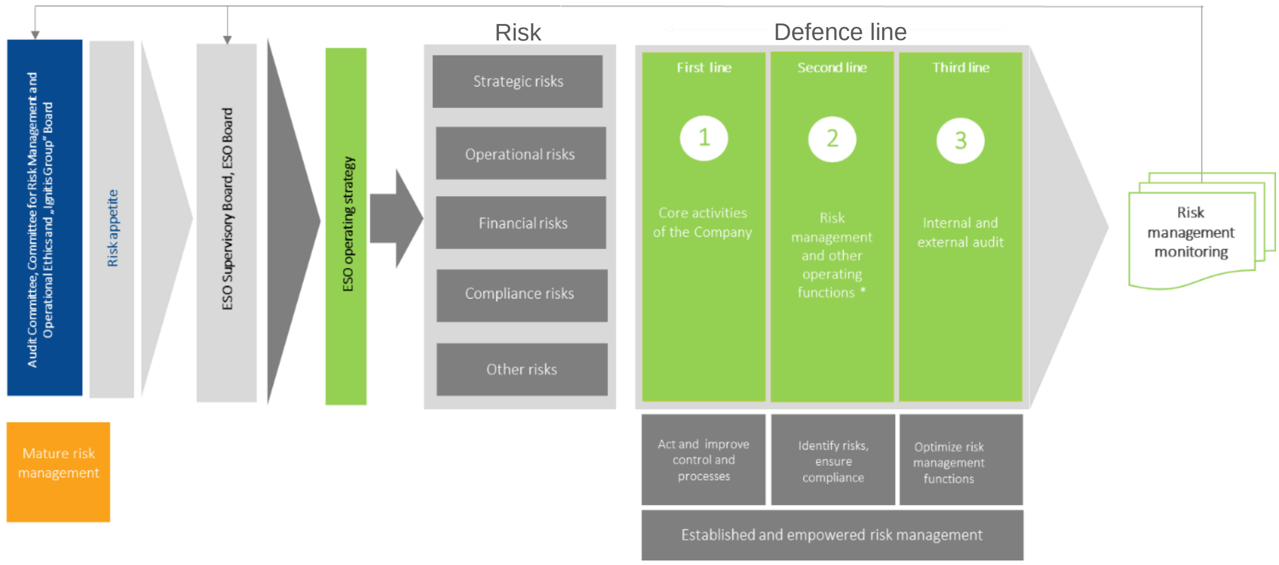
The risk management principles established by Ignitis grupė are consistently applied across the entire Group of companies. The uniform risk management principles ensure that the management personnel of the Group companies receive risk management information covering all areas of activities. To ensure 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. Risk appetite means the level and type of risk that Ignitis Group 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, etc. 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 6).

***Figure 6.* Risk management and control model**



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

As every year, during the risk assessment for 2020 that the Company performed in 2019, 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 2021, 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 Ignitis Grupė and ESO strategy. The list of the main risk factors for 2021 and their management policies is presented in table 10 below.

Table 10. **Risk factors for 2021 and their management policies**

Risk category	Risk factor	Sources of risk	Main risk management policies	Risk level
Strategic/Business/Compliance risks	**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, changes regulatory periods – significant risk of change in regulatory model). (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 and raising issues regarding implementation of legal acts; • 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.	Very high/High
Strategic/Business risks	**Implementation of strategic initiatives/programmes**	In order to achieve the strategy and the objectives set, the Company intends, among other things, to implement strategic initiatives, projects, programmes, the implementation of which ranges from one to several years. Currently, the Company implements strategic projects at national level, such as SMART (Smart Meter Installation) program, Data Hub, Deregulation, etc. Any delays and occurrence of external risks (e.g. regulation, suspension of the procurement procedure due to third parties, COVID-19, etc.) may affect the financing of these initiatives and the plan for the strategic portfolio implementation. Therefore, long-term investment planning, cost control and monitoring remain a priority for the Company.	• Internal control of costs (resources) and investments; • Analysis of the market and external regulation; • Procurement procedure performance control and monitoring; • Monitoring portfolio of strategic initiatives at the level of the Company's Board and Supervisory Board; • Forecasting, monitoring, analysing cash flows.	Very high/High
Operational risk	**Health and safety of employees,**	With regard to the specific character of its business activity, the Company bears the risk of injury to the	• Maintenance of the occupational health and safety management system (OHSAS 18001:2007).	High

	contractors and residents	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. COVID-19 pandemic poses a risk of incapacity, illness to the Company employees, which in turn put the business continuity at risk.	• Implementation of the programme for the strengthening of safety culture. • Regular control and supervision of safety of employees and contractors. • Mobile application installed and further developed 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. • Information system for providing employees with security measures and improving health screening process has been successfully developed further. • The process of mandatory training and certification has been reviewed and a database has been set up to monitor the timely learning of energy workers; • Prominence was given to the control of the COVID-19 pandemic: 1. The occupational risk for COVID-19 has been assessed; 2. Internal legislative framework has been developed to control the pandemic within the organisation; 3. The work has been reorganised in such a way that those who are able by the nature of their work to work outside the office work remotely, the work of all other employees has been reorganised to minimise contact between them; 4. Employees are fully provided with all necessary personal protective equipment and an adequate quantity is maintained in the warehouse. 5. Regular communication about changes; 6. Critical function workers have been vaccinated with pneumococcal vaccine to reduce the consequences of COVID-19 disease.	
Operational risk	**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-	• Through the cooperation with the Meteorological Service, the information on forecasted meteorological events is obtained prior its occurrence which leads to resource mobilisation. • 10-Year investment plan is updated every second year (the planned investments for the	High

		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.	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.	
Operational risk	**Information security (cybersecurity)**	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. The changing geopolitical situation increases the risk of cyber incidents that can affect the reliability of the electricity distribution network.	• The area of digital security in the group of companies of AB Ignitis Grupė is managed centrally by the parent company, therefore, the main competencies, tools and good practices in this area are consolidated; • 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 organisations in the field of cyber security. • Continuous education of the Company's employees and training in the field of digital security. • Measures applied in functional areas of business safety to tackle corruption and cases of potential spying. • Employees of the Group's Digital Security Operations Centre improve their skills by participating in national and international cybersecurity exercises.	High

INFORMATION ON THE COMPANY'S ISSUED CAPITAL AND SECURITIES

Structure of issued capital and securities

As at 31 December 2020, the Company's issued capital amounted to EUR 259,442,796.57. All shares of the Company are paid.

Table 11. **Structure of issued capital**

Class of shares	Number of shares, units	Par value, EUR	Total nominal values, EUR	% of issued 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. From 1 July 2020, ESO shares were delisted from the Official List (the last day of trading on Nasdaq Vilnius was 30 June 2020). 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, units	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

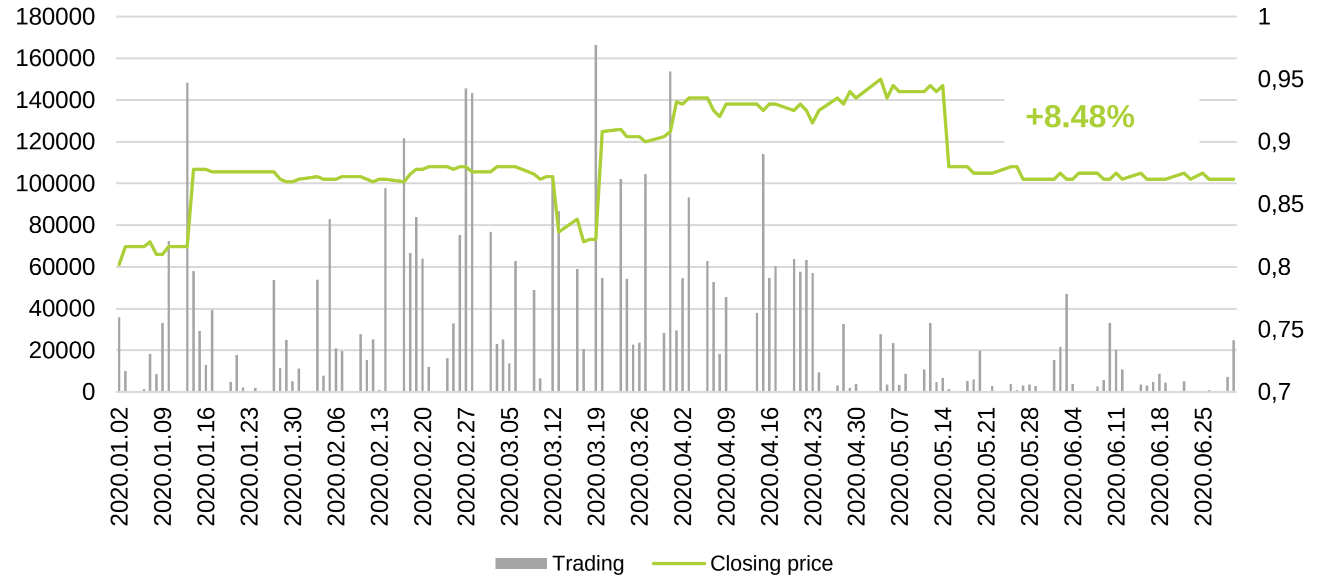
The Company did not acquire its own shares until the end of the reporting period and neither acquired nor disposed of its own shares during the reporting period.

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

		2016	2017 m.	2018	2019	2020 1-6 months
Last trading session price, EUR		0.862	0.86	0.648	0.802	0.875
Maximum price, EUR		0.889	0.93	0.916	0.81	0.95
Minimum price, EUR		0.831	0.854	0.638	0.644	0.760
Average price, EUR		0.86	0.878	0.824	0.733	0.887
Turnover, shares		5,095,099	6,711,700	3,678,206	3,913,034	4,809,028
Turnover, EUR MLN		4.38	5.89	3.03	2.87	4.26
Capitalisation, EUR million	Company	771.17	769.38	579.72	717.49	782.8
	Baltic Main List	5,043.31	5,853.81	5,281.28	5,932.68	5,798.3

The Company's share price and turnover dynamics

Figure 7. **Dynamics of the price of ESO's shares until 30th June**

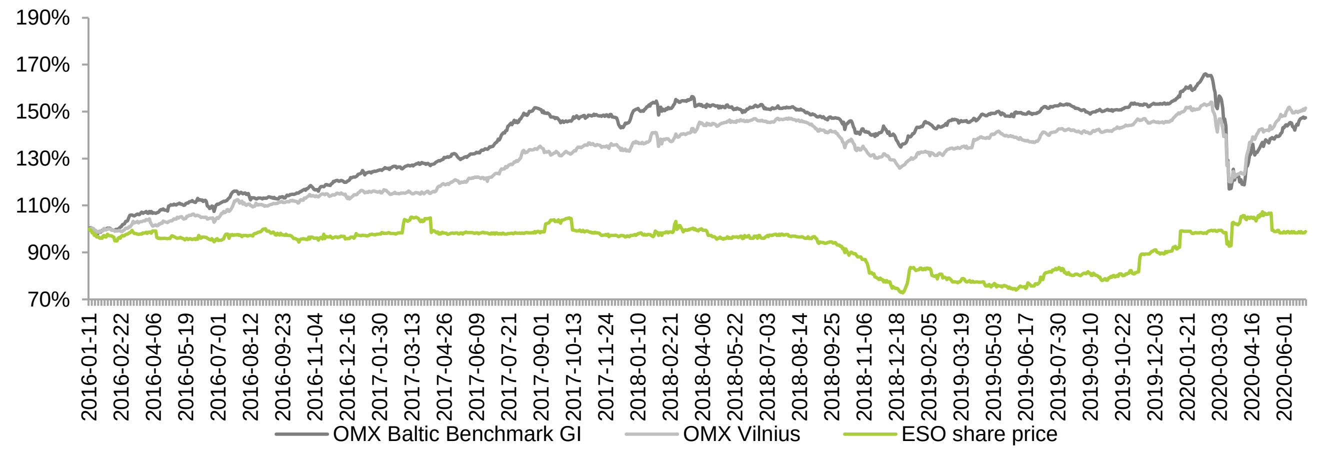


During the reporting period, the price of the Company's shares increased by 8.48%.

Figure 8. **Dynamics of the price of ESO's shares and turnover in shares from the beginning of trading to 30th June**

Since the beginning of trading, the price of the Company's shares dropped by 1.69%.

Figure 9. **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 30 June 2020, the OMX Vilnius index increased by 51.48%, the OMX Baltic Benchmark index increased by 47.38 %, and the price of ESO's shares decreased by 1.13% 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 2020, the Company had 5.330 shareholders in total.

Table 14. **Shareholders owning more than 5% of ESO's issued capital as at 31 December 2020**

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
AB Ignitis Grupė* Žvejų st. 14, LT-09310 Vilnius Company code 301844044	881,512,158	98.53	98.53

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

Table 15. **Breakdown of the Company's shareholders by country as at 31 December 2020**

Country	Number of shareholders, %
Lithuania	99.95
Latvia	0.01
Estonia	0.01
USA	0.00
Other countries	0.02

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 2020, no restrictions on the transfer of securities were imposed during the reporting period.

Information on agreement with intermediary of public trading in securities

AB SEB bankas is authorised to keep and manage the Company's securities accounts.

AB SEB bankas contact details:
Gedimino ave. 12, LT-01103 Vilnius,
Tel. 1528 or +370 5 268 2800.

Dividend policy and dividends

On 4 September 2020, a new dividend policy of Ignitis Group came into force. The new dividend policy defines the procedure for the distribution of dividends.

The ordinary General Meeting of the Company's Shareholders was convened on 30 April 2020. Its agenda contains an issue of payment of dividends for 2019. During the meeting, the Company's profit (loss) appropriation for 2019 was approved. It was decided to pay out dividends in the amount of EUR 67.99 million for the period from 1 January 2019 ended 31 December 2019. Dividends per share for this period amounted to EUR 0.076.

CUSTOMER SERVICE, SERVICE ASSESSMENT

Number of customers being serviced

In 2020, ESO concluded 29,865 more contracts with private customers for connection to ESO's electricity distribution network or 14% more than in 2019, when 26,158 ESO's electricity distribution network service contracts were signed. Last year, 13,060 contracts with business customers were concluded or 4% more than in 2019, when 12,586 contracts with business customers were signed. In 2020, ESO connected 26,757 thousand private customers to the electricity distribution network or 12% more than in 2019 (23,934 customers), and 14,286 thousand business customers or 12% less than in 2019 (16,217 customers).

In 2020, ESO concluded 8,048 contracts with private customers for connection to ESO's gas distribution network or 1.5% more than in 2019, when 7,928 contracts were signed. During 2020, 266 contracts for gas network service were signed with business customers or 18% less than in 2019 (324 contracts). In 2020, 7,565 private gas consumers were connected – 34% less than in 2019 (11,459 private customers). In 2020, 220 business customers, who were provided with distribution and warranty supply service, were connected to the ESO's gas distribution network or 34% less than in 2019 (334 customers).

Operation and development of electricity and gas metering devices

During a 12-month period in 2020, ESO replaced 37.7 thousand units of metering devices that no longer meet the meteorological requirements, whereof: 7.1 thousand units of electricity meters and 30.6 thousand units of natural gas meters. The Company installed 25.17 thousand electricity metering devices and 10.2 thousand natural gas metering devices for new customers.

By regularly renewing metering devices being operated, the Company and its authorised persons inspected more than 614 thousand electricity meters and more than 64.4 thousand natural gas meters during a 12-month period in 2020.

By investing in the modernisation and automation of the electricity metering equipment, during a 12-month period in 2020 ESO connected 8.5 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 52.7 thousand. The number of natural gas meters that are scanned remotely remained unchanged and is equal to 1.257 thousand. The automation of metering devices allows to automatically submit bills for electricity consumed to commercial customers and establish a precise amount of natural gas consumed by a commercial customer.

In order to improve the quality of services, create preconditions for customers to accurately monitor their energy consumption, receive accurate invoices, and save energy by using it rationally, the Company carries out the programme on the implementation of the smart metering system in Lithuania. An investment project envisaging the replacement of existing electricity meters with smart electricity meters was approved by the National Energy Regulatory Council (NERC) in September 2019. The plan is to have smart meters installed for electricity customers with intense electricity consumption (from 1,000 kWh/year) and each business customer in the first stage by the end of 2023.

On 16 January 2020, the NERC assessed the submitted calculations 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 first half of 2019 with intention to purchase smart electricity meters (about 1.2 million pcs.) and IT system for meter management and secure data collection. In 2020, initial offers were received, negotiations were held with suppliers and suppliers were invited to submit final tenders, which were received in January 2021. In 2021, a proof of concept will be performed before signing the contract. The main objective of a proof of concept, which is performed in a compliance stage, is to demonstrate that all components of the Smart Metering Infrastructure offered by the supplier (meters, communication and IT system) function as a unified system and meet the needs of the ESO, as set out in the technical specification. If this phase is successful, the contract is scheduled to be signed in Q2 2021 and the meters will start to be installed in Q4.

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. The number of telephone requests is visibly increasing due to the closure of customer service centres, but the established processes for remote service make it possible to assist customers without the necessity to travel to another city. In 2020, ESO provided information to 700,167 customers having called short customer service number 1852, whilst 603,339 customers were served in 2019. A separate service number 8-626-55565 has been introduced since the end of October 2020 as part of the market liberalisation project. 6,331 client was served until the end of 2020.

As from 2020, ESO customers for infrastructure related services may use only free-of-charge telephone number 1852 and self-service portal. Customers also use the free-of-charge telephone number 1804 of the gas emergency service. For supply issues, customers are served by a public supplier or independent suppliers.

Management of customer settlements

At the end of December 2020, ESO had about 65.5 thousand customers who were provided with distribution and warranty supply service. An average of 54 thousand bills are generated per month, 94% of which, or about 51 thousand, are sent by electronic means (self-service + e-bills in banks). An average of about 7 thousand electronic bills, or 13%, which customers receive in their online banking, are generated per month, and about 6% of bills or 3 thousand 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. As at 31 December 2020, independent suppliers supplied electricity to 80,412 objects of commercial customers, and the guaranteed supply service was provided to 50,757 customers.

A basic version of the data exchange platform (DataHub) for market participants was launched in 2020. This platform has enabled consumers, who have selected an independent supplier, to share their consumption data with independent suppliers (with the consent of consumer) and to obtain a single invoice from the supplier for distribution and supply services. In 2020, over 190 thousand supplier change requests were processed through the DataHub platform, and over EUR 115 thousand rights to review consumption data were awarded to suppliers along with those data. At the end of 2020, the NERC approved investments in the development of the DataHub platform until 2023. By the end of 2020, as part of the private customer market liberalisation programme, 85 thousand customers from Phase I, comprising 98 thousand customers, have selected an independent supplier. The customers (consuming > 1,000 kWh annually) of Phase II need to select independent suppliers until 2021, and all remaining household customers must make a choice by the end of 2022. The programme is on track through an active communication and new independent suppliers appearing in the market. Independent suppliers are chosen ahead of the committed deadlines not only by Phase I customers, but also by customers falling within later phases.

Customer satisfaction

In 2020, the market research company Synopticom conducted an ESO customer satisfaction survey. Customers were asked about the overall satisfaction with the services provided by ESO: connection to the electricity and gas network, capacity upgrade, repair of failures in the electricity and gas distribution network, quality of service channels, etc. A total of 21,884 customers participated in the survey during the year. The study revealed that the average customer rating is a 9 on a scale of 10.

In 2020, ESO, together with market research company Synopticom, also conducted quarterly customer satisfaction surveys using the NPS (net promoter score) methodology. Customers were asked about their overall satisfaction with the Company and how likely they were to recommend ESO. 88,850 customers participated in the survey. The results of the ESO customer satisfaction survey revealed that currently the overall net promoter score (NPS) is 60%. The vast majority (7 out of 10) of customers are satisfied with the Company’s services and service and would recommend ESO to other customers.

SUSTAINABILITY REPORT

Sustainability Report

Sustainability activities and performance of the entire Group of companies, including its subsidiary Energijos Skirstymo Operatorius, are reviewed in the consolidated annual report and the integrated sustainability report of Ignitis Grupė, which is available on the website www.ignitisgrupe.lt. The information contained in the report covers the period from 1 January 2020 to 31 December 2020. ESO does not issue a separate sustainability (social responsibility) report. More information is available on the Company's website www.eso.lt.

Ignitis Group Sustainability Report has been prepared in accordance with the Global Reporting Initiative (hereinafter "GRI Standards") and United Nations Global Compact (UNGC) requirements. The disclosures are guided by the materiality principle of Ignitis Groupand represents compliance and progress regarding the implementation of the United Nations Global Compact (UNGC) principles as well as the Group's contribution to the UN Sustainable Development Goals (SDGs).

Group's sustainability approach

We create an energy-smart world with a strong focus on sustainability. The world runs on energy. Therefore within a group of companies we want to generate, supply, distribute and consume it in a sustainable way. In the long-term strategy, we focus on building a sustainable future. We aim to obtain more energy from renewable energy sources, ensure resilience and flexibility of the energy system, and enable energy transition and evolution.

Figure 10. **Strategy of AB Ignitis Grupė**

Sustainable activity

Sustainability constitutes one of the key elements of Ignitis Group strategy. We take into account environmental, social responsibility and governance (ASV) aspects to create smart energy in our region. In April 2020, our continuous improvement received a rating of A (on a scale of AAA-CCC) in the MSCI ESG Ratings assessment. In September 2020, Sustainalytics, a leading independent provider of ESG and corporate governance ratings, research and analysis, after a complete evaluation of Ignitis Group sustainability progress awarded the Group a medium risk (score of 26.5) ESG rating. With the 2020 interim report, the Group began to publish detailed ESG data. The 2020 Sustainability Report is prepared in accordance with the GRI Core framework as well as Nasdaq ESG guidelines.

In 2020, we made continuous efforts to strengthen sustainability management within the Group. In Q3 of 2020 we published a Sustainability Management Plan, (link), which specified our management approach and international standards towards the strategic sustainability priorities, principles of governance and accountability embedded in the Group's strategy.

Table 16. **Key sustainability topics, governance and accountability principles within the Group of companies**

Main topics	Governance and processes	Accountability
We seek to contribute directly to the implementation of the UN Sustainable Development Goals, and the Paris Agreement	We follow good corporate governance practices and seek to manage our impacts based on the recommendations of international institutions and the scientists.	We seek to disclose the progress by using globally recognized standards and formats suited to a broad range of stakeholder needs.

Measuring progress

We aim to benchmark our continuous improvement using ESG ratings provided by leading ESG ratings agencies

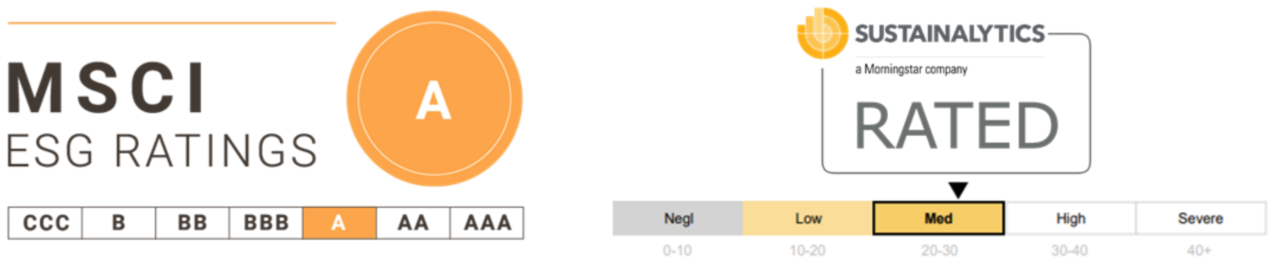


Table 17. **The main ESO stakeholders**

Personnel	Local communities	Suppliers
B2C clients	Regulators	Contractors
B2B clients	State and municipal bodies	Media
Partners	Associations	

Climate impact/ GHG emissions

Ignitis Grupė is committed to reduce net carbon dioxide (CO_2) emissions to zero by 2050. Distribution network losses are seen as one of the significant sources of GHG emissions generated from ESO activities. The Company sets network loss reduction targets on annual basis, and the target to reduce losses by 10 million kWh was already achieved in the third quarter. The updated 10-year ESO Investment Plan includes investments in electricity and gas network upgrade, which will continue to make a significant contribution to the reduction of technological losses in the grid and GHG emissions.

Energy efficiency for society and customers

In October 2020, ESO and other Group companies signed trilateral agreement with the Ministry of Energy by which ESO undertook to implement means until 2030 that will help to save at least 1.6 TWh of final energy. The agreement provides that ESO undertakes to implement energy efficiency measures which will help to save energy in the devices and objects of end users. The 1.6 TWh saving is a highly ambitious target: by comparison, such amount of electricity is consumed by all residents of Lithuania in about half a year.

In October 2019, ESO and other Group companies signed an agreement with the Ministry of Energy by which the companies 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.

ESO target in previous periods (2017–2020) to save a total of 1.536 TWh of final energy in 2020 was exceeded.
The deployment of smart meters is one of the solutions for improving energy efficiency. Smart meters provide far more advantages to the customers – they don't need to write off meter readings manually. A public procurement procedure for smart meters was launched in 2020. The start of deployment is scheduled in 2021. Starting in 2024, as much as 90% of total energy consumption in the distribution network should be accounted for by smart meters.

Table 18. **Significant ESO areas of impact***

Relevance to the Company and society	Environment protection	Social responsibility	Governance
	Climate impact/GHG emissions – decarbonisation of our own operations (reducing CO_2 etc.).	**Occupational health and safety –** achieving safety at work, promoting health and safety of employees and contractors.	**Ensuring access to energy for all** – seamless and quick connection of customers to the network, financial and physical availability of electricity
	Energy efficiency for society and customers – supporting customer energy efficiency and network digitalisation.	**Impact on local communities and community relations –** protection of the health of community members and natural environment, listening to the needs of communities.	**Stable and secure energy system –** ensuring the security and continuous operation of the energy system, network reliability and resilience to atmospheric and other external factors
	Sustainable solutions and services to clients – promotion prosumer activity, other environmentally friendly and energy smart customer solutions.	**Employee engagement and labour relations –** fair employee remuneration and satisfaction, freedom of association.	**Ethics, anti-corruption and transparency –** transparent governance, corruption prevention, fair and ethical business practices.
	Impacts on biodiversity and ecosystems – protection of biodiversity, flora and fauna.	**Competent employees today and in the future –** career and personal development of employees, growing competencies for energy market.	**Responsible and sustainable supply chain –** green procurement practices, social and environmental footprint of suppliers.
	Impact on land, water and air – land, water and air quality, pollution prevention.	**Diversity, equal opportunities, human rights –** ensuring gender equality and equal opportunities, promoting diversity at work.	
	Energy self-consumption – energy efficiency and saving measures in own operations.	**Engagement for societal development –** participation and promotion of civic initiatives and partnerships for the SDGs, volunteering.	
	Materials efficiency and waste management – recycling, reducing the volume of waste generated from activities.		

** For more details on the process of identifying impact areas refer to Annual Sustainability Report of Ignitis Group.*

Sustainable solutions and services to customers

When providing services, ESO aims to take into account the needs of its customers and offer sustainable solutions. In 2020, ESO focused on improving the quality of customer service. As the number of prosumers grows, Lithuania's goal is to have half a million prosumers by 2030, however, the network needs to be prepared accordingly. In 2020, more than 10 thousand prosumers were connected to the network (approx. 8.5 thousand ordinary producing consumers and about 1.5 thousand remote producing consumers). At the end of 2019, 3.4 thousand prosumers were connected to ESO network in Lithuania.

Impacts on biodiversity and ecosystems

Environmental issues at the level of the Group shall be coordinated in accordance with the Group's environmental policy (link), which was developed in 2020 to establish the general provisions and principles of the Environmental Group. The policy includes goals to maintain and modernize all managed facilities, to take care of the protection of landscape and biodiversity and follow the principle of non-disturbance of protected areas, species and habitats of high ecological value. Where this cannot be avoided for objective reasons, all possible measures are implemented necessary to reduce and compensate for the impact.

On 5 January 2021, ESO adopted the Environmental Protection Standard, the purpose of which is to define the implementation of the environmental requirements established in the legal acts of the Republic of Lithuania, ISO 14001:2015 and the Group's environmental policy provisions and principles. The aim is to reduce the Company's overall environmental impact in the most effective way and to ensure compliance implementation.

In order to safeguard reliable and safe electricity supply and to take care of animate nature, ESO has made arrangements with the Environmental Protection Agency 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

Impact on land, water and air

In its activities, ESO seeks to protect the environment, contribute to more sustainable use of natural resources, and implement modern, efficient and environmentally safe technologies in production activities. ESO follows the implemented environmental management system that meet the requirements of the internationally recognized standard ISO 14001:2015.

Energy self-consumption

The Company promotes energy efficiency, contributes to employee education and implements measures to improve energy efficiency. In 2020, ESO implemented an internal energy saving programme. As a result of the programme, as much as 13% of electricity costs were saved compared to the same period in 2019. The amount saved will be allocated for planting trees. It is expected that these savings will turn into more than 4,000 trees that are planned to be planted in the second quarter of 2021.

Materials efficiency and waste management

Each Group company carries out waste management activities in accordance with the Group's environmental policy (link). 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 licensed waste management companies. The Company's partners and contractors are subject to the same conduct of business standards.

Occupational health and safety

The Company adheres to the general provisions and principles of occupational health and safety at work as well as to the provisions of the Group's Zero Tolerance for Accidents at Work Policy (link). Accident prevention, safety and health are in the focus of attention of the Company, therefore it operates in accordance with the occupational safety and health management standard ISO 45001:2018. 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). For more information on all the measures being implemented, see the Ignitis Grupė Annual Report and the Integrated Sustainability Report.

Table 19. **ESO occupational safety and health indicators (2020)**

Incidents and accidents at work (minor, severe or fatal)	5 minor injuries: 3 of them on their way to/from work, 2 of them at work. In 2019, there were 15 minor accidents: 4 of them on their way to/from work, 11 of them at work. The main reason for minor injuries is careless behaviour of employees at workplace, 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	1075 contractors' site was inspected and 592 violations were identified. Operations were suspended 40 times due to complex or serious infringements. Nature: inappropriate registration of works, failure to use of personal protective equipment, improper working environment. 1 minor accident involving contractors' employees was reported.

Impact on local communities and community relations

The Company aims to maintain good relations with the communities in which the Company operates. After the reporting period (January 2021), Community Relations and Engagement Guidelines were adopted by the Group (guidelines). Under these guidelines the Group companies engage communities in their activities and manage relationships with them, apply measures to give effect to these principles within the Group, which strengthen the culture and practices of responsible and sustainable development of business.

Employee engagement and labour relations

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 was signed on 22 December 2020 with all 7 trade unions operating in ESO. In 2020, personnel satisfaction of the entire Group almost doubled, compared to 2019: from 24.5% to 55.8% Improving satisfaction indicator is a strategic goal of each Group company.

Competent employees today and in the future

By creating and nurturing a culture and environment for continuous improvement, taking into the account performance and career goals, new activities, and innovation in work processes, the Company provides opportunities for its employees to engage consistently in their personal growth by developing their professional, soft and management skills In 2020, the trainings were successfully transferred to the virtual environment due to pandemic, and the internal training platform GROW Academy continued to function.

Diversity, equal opportunities and human rights

The Company has created opportunities for people of different age and having different experience to successfully find employment and work. Men account for 80% and women account for 20% of the Company's employees at the end of 2020. This gender distribution remains stable in the Company due to specifics of its activities – women choose technological positions and related professions less frequently.

Engagement for societal development

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.

Ensuring access to energy for all

ESO operates approx. 126,000 km electricity distribution and approx. 9,700 km gas distribution networks. The Company is responsible for ensuring access to energy and a stable, reliable and resilient distribution network. ESO constantly invests in network modernisation, and one of the main goals of ESO's 10-year investment plan is to ensure uninterrupted and high-quality power distribution to the public through a secure electricity and natural gas network.

Stable and secure energy system

Increasing the reliability and resilience of the network to weather and other external factors is a strategic goal of the Company. Under the 10-year investment plan, EUR 1.9 billion will be allocated in 2020–2029 to upgrading the electricity and gas distribution network and managing climate risk. Network reliability indicators (SAIFI and SAIDI) are subject to on-going monitoring, and the extension of the network of underground power lines from 40,380 km to 51,270 km is envisaged until 2029. ESO is also constantly testing innovative solutions, e.g. during the pilot project in 2020, 1,000 km of electricity overhead lines were inspected using LiDAR (Light Detection and Ranging) technology. The Company intends to apply this technology further to inspect 8,000 km of overhead lines in 2021–2022.

Ethics, anti-corruption and transparency

ESO together with all other Group companies, follows ethical operating practices set out in the Group's Code of Ethics link. In accordance with the principle of "Global Compact" in terms of anti-corruption, the Company and its employees follow the Anti-Corruption Policy applicable to the entire Group (link). The Company does not tolerate any forms of corruption. We encourage to report any suspected unethical behaviour of the Group's employees or representatives, any cases of discrimination or corruption and other violations of sustainability principles or concerns to the Trust Line by email pasitikejimolinija@eso.lt, phone 1802 or by filing the Hotline Form, which is available on ESO website next to "Contacts" (link). These contacts are available to employees as well as all stakeholders.

Responsible and sustainable supply chain

The Company is contracting authority. The procurement function of the Group companies is carried out by the Ignitis Grupės Paslaugų Centras UAB (hereinafter "the GPC"). The GPC carries out procurements procedures and provides planning and execution services for the procurement of goods, services or works. All procurements are centralized, the procurement processes are standardized and concentrated on a single online platform. To ensure a transparent public procurement process and open dialogue, every year the Ignitis GPC invites the suppliers to information meetings during which plans, news or changes are presented, high-value procurements planned by the procuring organizations are presented in detail. In 2020, ESO completed 1,168 tenders. During the year, 141 claims were received from suppliers regarding the tenders made by ESO, 19 of them were found to be justified and were satisfied, and 39 claims were partially satisfied.

Recognition

The head of the Company Mindaugas Keizeris became the vice-chairman of E.DSO (European Distribution System Operators), one of the associations of distribution system operators in Europe. ESO involvement in EDSO technical, project or legislative committees, expert groups, and by visiting other distribution operators will provide invaluable experience in acquiring new skills and sharing good practice with other countries.

In 2020, for the first time, ESO has been included in the Good Corporate Governance Index, and has become the best-managed subsidiary among state-owned enterprises. In the index published by the Governance Coordination Centre (GCC), the Company is awarded the highest A+ overall rating.

THE COMPANY AND ITS MANAGEMENT BODIES

Table 20. **Information on the Company and contacts**

Company name	AB Energijos Skirstymo Operatorius
Company code	304151376
Issued capital	EUR 259,442,796.57
Registered address	Žvejų st. 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	Joint stock company
Date and place of registration	11 December 2015, Register of Legal Persons of the Republic of Lithuania
Register accumulating and storing data about the Company	Juridinių asmenų registras
Name of Register of Legal Entities	VĮ Registrų centras

ESO started its operations on 1 January 2016 after the merger of AB LESTO and AB Lietuvos Dujos. 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, assurance of safe and reliable operation of electricity and gas distribution networks, their operation, maintenance, management and development.

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

Information on the Company's branches and representative offices

The Company has no branches or representative offices.

Information about ownership interest in other entities

ESO is part of one of the biggest groups of energy companies in the Baltic countries – AB Ignitis grupė, which owns 98.53% of the Company's issued capital.

As at 31 December 2020, ESO had no subsidiaries.

At the end of reporting period, ESO, jointly with other companies, controlled UAB Verslo Aptarnavimo Centras. It should be noted that ESO also owned shares in UAB Verslo Aptarnavimo Centras until 1 January 2020, which was reorganised by merging with UAB Ignitis grupė paslaugų centras and removed from the Register of Legal Entities. The reorganisation of UAB Verslo Aptarnavimo Centras was completed after UAB Ignitis grupė paslaugų centras was removed from the Register of Legal Entities.

Table 21. **Main information about related companies**

	UAB „Ignitis grupės paslaugų centras“
Address	A. Juozapavičius st. 13, Vilnius
Registration date	2013 m. gruodžio 4 d.
Company code	303200016
Telephone	(8 5) 278 2272
Fax	(8 5) 278 2299
E-mail	ignitis.lt
Website	www.ignitisgrupe.lt

Ownership interest held by ESO (at 31 December 2020)	26.4%
Main business activity	Provision of information technology and telecommunication services to energy companies.

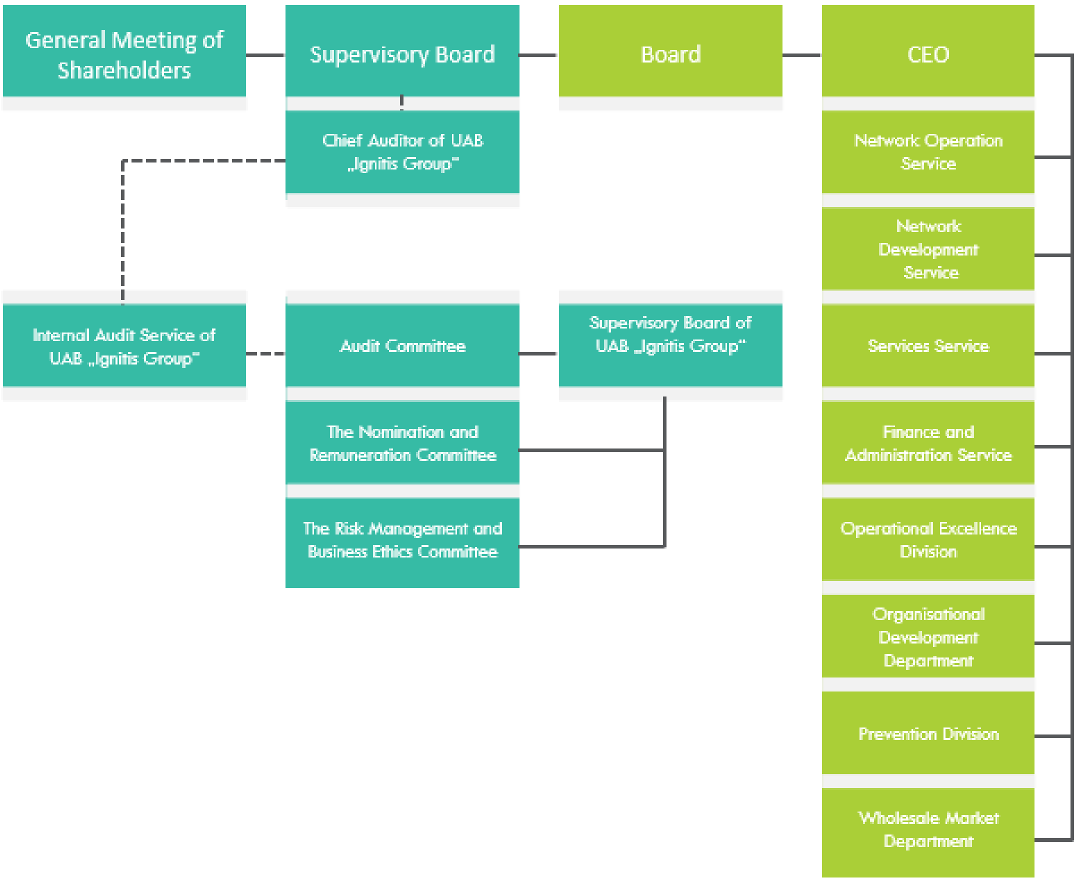
** Following completion of the reorganization procedures of UAB Ignitis Grupės Paslaugų Centras and UAB Verslo Aptarnavimo Centras after the reporting period, as from 1 January 2020 the Company owns 26.3976% of UAB Ignitis Grupės Paslaugų Centras shares.*

Information on major related party transactions

Information on related party transactions is available in the notes to the Annual Financial Statements of 2020.

Corporate Governance

Figure 10. **The Company's organisational structure (as at 31 December 2020)**



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.

Group of companies of AB Ignitis Grupė abides by the equal opportunity policy of AB Ignitis Grupė 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 AB Ignitis Grupė. 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.

The 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 participated at the Annual General Meeting of Shareholders held on 30 April 2020. And this General Meeting of Shareholders adopted the decisions to approve the Annual Report of the Company for the year 2019 and audited Annual Financial Statements of the Company for the year 2019, and to allocate the profit the Company for the year 2019. The dividends are to be paid for the twelve-month period. The Company's remuneration policy has also been approved. 1 shareholder participated at the Extraordinary General Meeting of Shareholders held on 30 April 2020. On 30 June 2020, the Extraordinary General Meeting of Shareholders approved new version of the Company's Articles of Association.

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. ESO'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 consider and approve the strategy of the Company, to analyse and evaluate information on the implementation of the Company's strategy, and to submit this information to the ordinary General Meeting of Shareholders;
- To elect the members of the Board and to remove them from office;
- To supervise the activities of the Board and the CEO of the Company;
- To submit its comments and proposals to the General Meeting of Shareholders on the Company's set of annual financial statements, proposed profit/loss distribution and the annual report of the Company as well as the activities of the Board and the CEO of the Company;
- To submit to the General Meeting of Shareholders its comments and proposals regarding a draft decision on the allocation of dividends for a period shorter than the financial year and the set of interim financial statements and the interim report drawn up for the purpose of adoption of the decision;
- With regard to the report of the Company's Audit Committee, to submit opinion about the transactions planned by the Company with the related party (if they satisfy the criteria discussed in the Company's Articles of Association);
- To submit proposals to the Board and the CEO of the Company to revoke their decisions which are in conflict with 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 to the powers of the Supervisory Board by the Articles of Association of the Company as well as by the decisions of the General Meeting of Shareholders regarding the supervision of the Company's management bodies.

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 2020 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;
- 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 22. **The composition of the Supervisory Board of ESO (as at 31 December 2020)****

				
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 May 2018 End of term of office: 30 March 2022	Elected from: 15 October 2019 End of term of office: 30 March 2022	Elected from: 15 October 2019 End of term of office: 30 March 2022
Education				
Harvard Business School, *General Management Program*); Baltic Management Institute, Master's degree in Business Administration; Kaunas University of Technology, Bachelor's degree in Business Administration	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				
AB Ignitis Grupė, Chairman of the Board, CEO	AB Ignitis Grupė, member of the Board, Finance and Treasury Director	Betingio ir Ragaišio Lawyer Firm, lawyer	UP Consulting Group Ltd, CEO	Deputy Chairwoman of the Lithuanian Energy Workers' Trade Union Federation, 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**
–	Duomenų logistikos centras UAB, Chairman of the Board (until 7 July 2020); Lithuanian Energy Support Foundation, Member of the Board	–	Member of the Association of Chartered Accountants (ACCA) Certified auditor of Lithuania (inactive status) Būsto paskolų draudimas, UAB,	–

	(until 15 October 2020); 288th DNSB Vingis, Member of the Revision Commission;		independent member of the Board.	
Percentage of share capital and voting rights of other companies held in excess of 5%				
–	–	–	–	–
Compensations calculated during January–September 2020, in EUR (for activities in the Supervisory Board)**				
–	–	11,332.51	16,900.00	10,792.59

** In accordance with 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 representatives of the employees of the Company in the Supervisory Board upon the decision of the General Meeting of Shareholders.*

The Company's Board

The Board of ESO is a collegial management body of the Company. The scope of competence and the procedure for making the decisions, election of members and their removal from office is prescribed by law, other legal acts, the Company's Articles of Association, and the Work Regulations of the Board.

The Board adopts decisions on:

- The Company's acting as a founder or a member of a legal person;
- Any transfer to third parties or encumbrance of the Company's shares/interests or rights attached thereto;
- Formation or termination of branches and representatives offices of the Company;
- Bond emissions;
- Operation of facilities owned by the Company and specified in the Lithuanian Law on Enterprises and Facilities of Strategic Importance to National Security and Other Enterprises Important to Ensuring National Security;
- Signing of agreements for the value of in excess of EUR 3 million;
- Other matters provided for in the Articles of Association of the Company.

In certain cases, prior to adopting a decision the Board is required to seek for comments from the Supervisory Board and obtain 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 2020 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;
- The decisions of the Company as a shareholder of GPC regarding voting in the general meetings of shareholders of this company;
- Evaluation of the Company's strategy, 10-year investment plan and approval of these documents;
- 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 31 meetings of the Board were held in 2018. 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 23. **The composition of the Board of ESO (as at 31 December 2020)**

 **Mindaugas Keizeris** Chairman of the Board CEO	 **Augustas Dragūnas** Member of the Board	 **Renaldas Radvila** Member of the Board	 **Virgilijus Žukauskas** Member of the Board	 **Ovidijus Martinonis** Member of the Board
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: 2022 m. gruodžio 27 d.	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 Director of Finance and Administration	ESO's Director of the Services	ESO's Networks Operation Service Director	ESO's Networks Development Service Director
Participation in the activities of other companies and organisations				
UAB Ignitis Grupės Paslaugų Centras, Member of the Board Representative to the European Association of Distribution System Operators (E.DSO) Vice-minister of the European Association of Distribution System Operators (E.DSO) (from 15 October 2020) Member of the Council of the National Lithuanian Energy Association	–	–	–	–

Lithuanian Energy Support Foundation, Chairman of the Board (from 15 October 2020).				
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

The Company's Management

The General Manager of the Company acts as a single-person management body of the Company. The powers 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 24. **Information on the remuneration calculated for the Chief Executive Officer of ESO**

	Remuneration during January–December 2019, in EUR	The variable component of the remuneration for the results of the previous year during January–December 2020, in EUR	Total during January–December 2020, in EUR
Mindaugas Keizeris, CEO	94,353	26,717	121,070

** Excluding employer tax.*

ESO has neither transferred management of assets nor issued guarantees to the members of the bodies. During January-December 2020, 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 AB Ignitis Grupė are formed in the Ignitis group of companies. They have the competence to submit conclusions, opinions and suggestions to the Supervisory Board of AB Ignitis Grupė. 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 AB Ignitis Grupė and it's directly and indirectly controlled subsidiaries, including the Company, as well as other legal persons with different legal status, over which AB Ignitis Grupė directly or indirectly may have significant influence.

The following committees of the Supervisory Board are operating in AB Ignitis Grupė:

- **The Risk management and business ethics supervision committee** is responsible for submission of conclusions and suggestions regarding management and control system in the group of companies and/or status of implementation of the main risk factors and risk management tools to the Supervisory Board; for compliance with business ethics, maintenance of bribery and corruption risk system and submission of recommendations to the Supervisory Board;
- **The Audit committee** is responsible for submission of objective and impartial conclusions and suggestions regarding audit, related party transactions, as provided in the Law on Companies of the Republic of Lithuania, and functioning of internal control system in the group of companies to the Supervisory Board;
- **The Nomination and remuneration committee** is responsible for submission of conclusions and suggestions about appointment, revocation of the management and supervisory bodies of the group of companies, and about incentive issues to the Supervisory Board, as well as for the evaluation of performance of the Board and its members and submission of appropriate opinion. The committee's functions also cover formation of common remuneration policy in the Group companies, determination of the size and composition of remuneration, incentive principles, 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 AB Ignitis Grupė.

Audit Committee

Main functions of the committee:

- To monitor the preparation process of financial statements of AB Ignitis Grupė and the Group companies paying particular attention to assessment of suitability and consistency of applied accounting methods;
- To monitor effectiveness of internal control and risk management systems of AB Ignitis Grupė and the Group companies that affect financial accountability of the audited company;
- To monitor independence and objectivity of auditors and audit companies, and to submit recommendations regarding selection of the audit company;
- To supervise audit processes of AB Ignitis Grupė and the Group companies, to verify audit's effectiveness and reaction of the administration to the recommendations submitted in the management letter by the audit company;
- To monitor effectiveness of internal audit function of AB Ignitis Grupė and the Group companies, to submit recommendations to the Supervisory Board regarding selection, appointment and dismissal of a manager of the Company's Internal Audit Service, to coordinate and evaluate periodically the work of the Company's Internal Audit Service, to discuss verification results, removal of defects and implementation of internal audit plans;
- to approve operational rules of the Company's Internal Audit Service and plan of internal audit;
- To monitor whether the activities of AB Ignitis Grupė and the Group companies are in compliance with the laws of the Republic of Lithuania, other legal acts, Articles of Association and business strategy;
- To provide opinion to the Company's enterprises, whose shares may be sold in the regulated market, regarding transactions with the related party, as provided in paragraph 5 of article 37 of the Law on Companies of the Republic of Lithuania;
- To assess and analyse other issues assigned to the Committee by the Supervisory Board;
- To perform other functions related to the committee's functions and provided in the legal acts of the Republic of Lithuania and the Corporate Governance Code for the Companies listed on Nasdaq Vilnius.

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

Table 25. **Members of the Audit Committee at the end of the reporting period**

Committee member	Number of shares held at the Company (%)	Term of office	Place of employment, position
Irena Petruškevičienė Chairwoman Independent member	–	From October 2017 to October 2021	European Stability Mechanism (ESM), Member of Auditors Board. Lietuvos geležinkeliai, AB, Member of Audit Committee; UAB MAXIMA GRUPĖ, Chairman of Audit Committee.
Danielius Merkinas Independent member	–	From October 2017 to October 2021	NNL Termo UAB, CEO, Chairman of the Board; UAB NNT LT, CEO, Chairman of the Board; - AB Nordnet, Head of Commerce, Chairman of the Board; Mercado prekyba UAB, CEO; UAB Litcargo, Member of the Board - AB Lietuvos paštas, Member of the Board
Aušra Vičkačkienė Member	–	From October 2017 to October 2021	Ministry of Finance of the Republic of Lithuania Assets Management Department, Finance, Director; Member of the Supervisory Board of AB Ignitis Grupė. Valstybės investicijų valdymo agentūra, Member of the Supervisory Board (until 21 October 2020);
Ingrida Muckutė Member	–	May 2018– to October 2021	The Ministry of Finance of the Republic of Lithuania, Head of Reporting, Audit, Property Valuation and Insolvency Management Division
Šarūnas Radavičius Independent member	–	May 2018– to October 2021	AB Lietuvos radijo ir televizijos centras, member of the Audit Committee; MB Saluma owner.

The term of office of the current Audit Committee lasts from 13 October 2017 until 13 October 2021.

Overall 15 meetings of the Audit Committee were held during the reporting period.

Risk Management and Business Ethics Supervision Committee

Main functions of the committee:

- To monitor the way the risks relevant for the achievement of the targets set for AB Ignitis Grupė and the Group's entities 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 AB Ignitis Grupė and the Group's entities;
- 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 tolerance and adequacy of internal documents that regulate fight of the group of companies against bribery and corruption, and to monitor periodically their implementation/compliance;
- To monitor periodically information related to the controlling actions of assurance of business ethics, events and unsolved incidents (security of transparency, prevention of corruption, management/prevention of corruption risk, etc.);
- To perform other functions assigned to the Committee based on the decision of the Supervisory Board of AB Ignitis Grupė.

Table 26. **Members of the Risk Management and Business Ethics Supervision Committee at the end of the reporting period**

Committee member	Number of shares held at the Company (%)	Term of office	Place of employment, position
Andrius Pranckevičius Chairman	–	From April 2018 to April 2022	Linas Agro Group AB, Deputy Chief Executive Officer, Member of the Board; Kekava PF, Chief Executive Officer and Chairman of the Board; AB Linas Agro, Member of the Board; AB Linas Agro Konsultacijos, Chairman of the Board; Lielzeltini SIA, Chairman of the Board; Broileks SIA, Chairman of the Board; Cerova SIA, Chairman of the Board; ŽŪB Žilvista, Member AB Ignitis Grupė Independent Member of the Supervisory Board
Darius Daubaras Independent member	–	From April 2018 to April 2022	Saudi Aramco (petroleum and natural gas company), Finance and Project Development Department Chairman and Independent Member of the Supervisory Board of Ignitis Group
Šarūnas Rameikis Member	–	From April 2018 to April 2022	Law firm Litten, attorney at law.

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

Overall 8 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 AB Ignitis Grupė 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 the Group companies of AB Ignitis Grupė 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 AB Ignitis Grupė 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 the Group companies of AB Ignitis Grupė, 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 the Group companies of AB Ignitis Grupė;
- To oversee and assess the implementation of measures ensuring business continuity of management and supervisory bodies of the Group companies of AB Ignitis Grupė;
- To perform other functions assigned to the Committee by the Supervisory Board of AB Ignitis Grupė.

Table 27. **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	Place of employment, position
Daiva Lubinskaitė-Trainauskienė Chairwoman Independent member	–	September 2017– September 2021	UAB Thermo Fisher Scientific Baltics, Administrative Director; AB Ignitis Grupė, Member of the Supervisory Board;
Aušra Vičkačkienė Member	–	September 2017– September 2021	Lithuanian Ministry of Finance, Asset Management Department, Director AB „Ignitis grupės“, Member of the Supervisory Board Valstybės investicijų valdymo agentūra, Member of the Supervisory Board (nuo 2020-10-21)
Daiva Kamarauskienė Member	–	March 2019– September 2021	Budget Department of the Ministry of Finance of the Republic of Lithuania, Director; Member of the Supervisory Board of AB Ignitis Grupė.
Lėda Turai – Petrauskienė Independent member	–	From April 2018 to September 2021	L-CON Global UAB, leadership training partner, shareholder Management Institute of Finland MIF, coach; Coaching Development Ltd., coach; International Coach Federation, Member of the EMEA Coordination Team; Vilnius International School, Member of the Advisory School Council.

The term of office of the incumbent Nomination and Remuneration Committee is from 13 September 2017 to 21 September 2021.

Overall 16 meetings of the Nomination and Remuneration Committee were held during the reporting period.

Employees of the Company

AB Ignitis Grupė HR policy "People and Culture", which is also applicable to ESO, 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 2020, the actual number of the Company's employees was 2,424*.

Table 28. **Structure of the Company's employees by category (data as at 31 December 2020)**

Education	Headcount
Head of the company	1
Top level executives	5
Mid-level executives	206
Experts, specialists	1,595
Workers	617
Average salary	**2.424***

** 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 29. **Structure of the Company's employees by educational background (data as at 31 December 2020))**

Education	Number of employees, %
Higher	59.08 %
Post-secondary	14.15 %
Secondary/vocational	25 %
Other	1.77 %

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 experience, ideas, rise concerns, get acquainted with the daily activities of other units.

Table 30. **Average salary of the Company's employees January–December 2020**

Employee category	Average fixed monthly remuneration (before taxes, EUR)	The variable part of the remuneration, which is calculated as the average of the variable part of monthly remuneration (before taxes, in EUR)
Head of the Company	7,863	2,226
Top level executives	6,519	1,882
Experts, specialists	3,086	428
Experts, specialists	1,753	129
Workers	1,564	122
Average salary	1,831	157

*The average salary consists of a fixed component and a variable component. * The fixed part of the remuneration consists of: the payment for the time worked, overtime, work on days off and public holidays, annual leave (payment for annual leave of the next month included in the salary of the month with which it was made), additional paid leave, additional days off for parents with children, additional payment for days off according to the procedure of additional benefits, bonuses during the reporting period. Variable part of the remuneration (KAD) deducted proportionally for 1 month (YKAD/12 + QKAD/3 + months KAD)*

Collective agreement

On 22 December 2020, 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, any time, and quickly:

- Employees are trained 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 January– December 2020, 11 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 arrangements

The Company was not a party to any significant arrangements that would take effect, be amended or terminated in the event of changes in the Company's control situation. There were no arrangements between the Company and the members of its management bodies or its employees that would provide for payment of termination benefits in the event of their resignation or dismissal without a valid reason or in the event of termination of their employment as a result of changes in the Company's control situation.

Detrimental transactions

No detrimental transactions were concluded during the reporting period on behalf of the Company (transactions that are not consistent with the Company's objectives or usual market terms and conditions, infringe interests of the shareholders or other stakeholders etc.), which had or potentially may have a negative impact on the Company's performance and/or results of operation, nor were any transactions concluded resulting in conflict of interests between the responsibilities of the Company's management, majority shareholders or other related parties against the Company and their own private interests and/or other responsibilities.

MATERIAL EVENTS AT THE COMPANY

During the reporting period

Information on materials events from 1 July 2020 is available on the Company's website.

Table 31. **Information on material events announced by ESO from 1/12/2020 to 31/12/2020**

Date	Key event
2020-01-06	Regarding the decision to appeal the judgement
2020-01-10	Regarding the information submitted to the Bank of Lithuania about official tender circular
2020-01-14	Update: Regarding the information submitted to the Bank of Lithuania about official tender circular
2020-01-14	Repeat: Update: Regarding the information submitted to the Bank of Lithuania about official tender circular
2020-01-28	Regarding the alignment of investment plan in the electricity sector of 2019
2020-01-29	Regarding judgement of Vilnius Regional Court of 28 January 2020 in the civil case
2020-01-31	ESO preliminary financial results for 12 months of 2019
2020-01-31	Regarding the planned investigation of the Supervision Service of the Bank of Lithuania completed with no infringements
2020-02-13	The Court upheld the decision to apply the temporary protection measures
2020-02-21	Correction: Reporting dates of Energijos skirstymo operatorius in 2020
2020-02-28	EESO 2019 Results: Refinement of Activities and Concentration on Functions of Distribution Network Infrastructure Operator
2020-02-28	ESO preliminary financial results for 1 month of 2020
2020-03-05	CORRECTION: Reporting dates of Energijos skirstymo operatorius in 2020
2020-03-10	2019 audited results of ESO are announced
2020-03-17	Ignitis Group and minority shareholders of its subsidiaries AB ESO reached a settlement
2020-03-17	Regarding the convocation, agenda and proposed draft resolutions of the Ordinary General Meeting of Shareholders of Energijos skirstymo operatorius AB
2020-03-18	Regarding the decision adopted by the National Energy Regulatory Council on 17 March 2020
2020-03-19	Court approved waiver of claims of minority shareholders of AB Energijos Skirstymo Operatorius
2020-03-25	Regarding the resolutions of AB Energijos Skirstymo Operatorius Supervisory Board
2020-03-31	Regarding approval of the official tender offer circulars of AB Energijos skirstymo operatorius
2020-03-31	ESO preliminary financial results for 2 month of 2020
2020-04-02	The start of the official tender offer for shares of ESO
2020-04-06	Regarding the opinion on the announced official tender offer of the board of AB Energijos skirstymo operatorius
2020-04-22	Regarding the Ordinary General Meeting of Shareholders of ESO to be held on 30 April 2020
2020-04-23	Regarding the end of AB Ignitis Grupė official tender offer for shares of AB Energijos skirstymo operatorius
2020-04-30	Regarding the resolutions of Ordinary General Meeting of ESO Shareholders
2020-04-30	Regarding AB Energijos skirstymo operatorius Annual Information 2019
2020-04-30	Regarding the extension of the regulatory period of the ceilings for electricity distribution activities
2020-04-30	ESO's performance for the first quarter of 2020: business continuity ensured and the most powerful storm in two decades
2020-04-30	Report of AB Ignitis Grupė on the implementation of the tender offer for shares of ESO
2020-05-05	The Bank of Lithuania approved the prices at which AB Ignitis Grupė will offer the buy-out of ESO shares
2020-05-18	Regarding the beginning of the processes of mandatory buyout of shares of ESO
2020-05-18	Update: Regarding the beginning of the processes of mandatory buyout of shares of ESO
2020-05-19	Regarding decisions to delist the shares of ESO from the Nasdaq Vilnius Stock Exchange
2020-05-21	Regarding decisions to delist the shares of Energijos Skirstymo Operatorius AB from the Nasdaq Vilnius Stock Exchange

2020-05-29	ESO preliminary financial results for 4 month of 2020
2020-06-08	Regarding the agenda and proposed draft resolutions of the Extraordinary General Meeting of Shareholders of AB “Energijos Skirstymo Operatorius”
2020-06-12	Regarding judgement of the Court of Appeal of Lithuania of 11 June 2020 in the civil case
2020-06-25	Regarding the installation of the Druskininkai liquefied natural gas degasification station
2020-06-30	ESO preliminary financial results for 5 month of 2020
2020-06-30	Regarding the resolutions of Extraordinary General Meeting of AB “Energijos Skirstymo Operatorius” Shareholders
2020-06-30	Regarding the conclusion of a long-term financing agreement with UAB Ignitis Grupė
2020-07-31	ESO preliminary financial results for 6 month of 2020
2020-07-31	Historic day in Druskininkai: Permanent LNG degasification station was opened by ESO
2020-07-31	ESO updated the investment plan for 10 years: reliable, smart and market enabling network
2020-08-13	Regarding the claim brought before the Court and the temporary protection measures applied
2020-08-25	Update: Reporting dates of Energijos skirstymo operatorius in 2020
2020-08-26	ESO’s unaudited results of H1 2020: safeguarding the going concern and maintaining the strategical trends of ESO activities
2020-08-31	ESO preliminary financial results for 7 month of 2020
2020-09-23	Regarding the ruling of the Supreme Court of Lithuania
2020-09-24	Update: Reporting dates of Energijos skirstymo operatorius in 2020
2020-09-28	ESO investing into modernization of electrical networks
2020-09-30	ESO preliminary financial results for 8 month of 2020
2020-10-16	Regarding the price-setting for electricity distribution price caps for 2021
2020-10-22	Regarding the setting income caps for natural gas distribution for 2021
2020-10-30	ESO preliminary financial results for 9 month of 2020
2020-11-03	The National Energy Regulation Council announced electricity network prices for 2021
2020-11-13	Outcome of 9 months of 2020 of the ESO activities: reliable distribution of gas and electricity and stable continuity of activities
2020-11-20	The National Energy Regulatory Council approved Natural Gas Distribution Prices for 2021
2020-12-02	ESO preliminary financial results for 10 month of 2020
2020-12-22	Reporting dates of Energijos skirstymo operatorius in 2021
2020-12-30	ESO preliminary financial results for 11 month of 2020

After the end of the reporting period

Table 32. **Information on material events announced by ESO from 1 January 2021**

Date	Key event
2021-01-28	ESO preliminary financial results for 12 month of 2020

OTHER IMPORTANT INFORMATION

Alternative performance measures

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

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

Notice on the compliance with the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius. The Company's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The employees of the company from which the Company outsources the accounting functions, make sure that the financial statements are prepared properly and that all data are collected in a timely and accurate manner. The preparation of the Company's financial statements, internal control and financial risk management systems, legal acts governing compilation of the financial statements are monitored and managed.

Information about 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 agreements with auditors

The Company has not entered into any additional arrangements with the entity that audited its financial statements.

Annex.

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

AB Energijos Skirstymo Operatorius (hereinafter "the Company", ESO), 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.

Summary of the Corporate Governance Report

AB Energijos Skirstymo Operatorius is a part of AB Ignitis Grupė, the shareholder of which is the State of Lithuania. The Ignitis Group aims at ensuring efficiency and transparency of its operations. For this purpose, governance restructuring was started back in 2013, which resulted in transformation and consolidation of the AB Ignitis Grupė corporate governance.

The new governance structure and model of the AB Ignitis Grupė have been developed on the basis of the most advanced international and national practices, following the recommendations published by the Organisation for Economic Cooperation and Development, having regard to the Corporate Governance Code of companies listed on the Nasdaq Vilnius exchange, Guidelines on the Governance for State-owned Enterprises recommended by the Baltic Institute of Corporate Governance (BICG). The corporate governance model of the Ignitis Group was implemented following the governance guidelines approved by the Ministry of Finance of the Republic of Lithuania on 7 June 2013. The guidelines were updated few times and current applicable version was approved on 7 September 2020 (to open relevant document use this link.

Corporate governance activities are concentrated at the level of the parent company of AB Ignitis Grupė, the responsibilities of which involve coordination of such areas as finance, law, planning and monitoring, human resources, risk management, audit, technology, communication and other common areas.

Activities of the Group entities in these areas are based on mutual agreement, i.e. cooperation with a focus on achievement of common result, and they are coordinated by policies (common provisions and norms) applicable to all Group entities.

For the description of the corporate governance principles and of the governance and control system use this link.

More information on the management bodies ant its members, committees etc. is provided in the section "The Company and its Management Bodies" of this annual re-port and in the table below, in which information on compliance with the Corporate Governance Code for the Companies listed on Nasdaq Vilnius is disclosed.

The Corporate Governance Report was prepared in accordance with the current version of the Corporate Governance Code for the Companies listed on 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	Comment
1.	Principle: 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 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 venue, date, and time of the convened general shareholders' meeting is indicated in order to ensure equal opportunities for all shareholders to participate at the meeting; the procedures of convening and conducting a general shareholders' meeting are implemented under the Lithuanian Law on Companies. The shareholders of the Company are enabled to familiarise themselves with the agenda and documentation under the procedure prescribed by laws.
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	Yes	Following the Lithuanian Law on Companies, the Company places information about the calling of a general shareholders' meeting, its agenda and draft resolutions of the general shareholders' meeting in Lithuanian and English on its publicly accessible website in advance. Information about resolutions adopted by the general shareholders' meeting is published in Lithuanian and English on the website of the Company.

	the company's commercial secrets are not revealed.		
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 may implement their right to participate in the general shareholders' meeting in person and through a representative if the person has an appropriate authorisation or an agreement on the transfer of the right to vote was made with the person in line with the procedure prescribed by laws. The Company enables the shareholders to vote by completing the general voting ballot as prescribed by the Lithuanian Law on Companies.
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	On request of the shareholders and considering objective circumstances, the Company would allow the shareholders to vote using telecommunication terminal equipment, however, it is not applied yet because there is no tool to ensure proper authentication of the participating shareholders.
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 on candidates to become members of the Supervisory Board of the Company and the proposed remuneration to the independent members of the Supervisory Board is provided to shareholders in accordance with the procedure established by the Law on Companies of the Republic of Lithuania in the general shareholders' meeting, the agenda whereof includes the consideration of the issue of the election of members of the Supervisory Board shall also be announced with a notice of the General Meeting of Shareholders being convened. Article 21 of the Company's Articles of Association defines that a person nominating a candidate to the members of the Supervisory Board shall have an 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. Article 22 of the Company's Articles of Association also defines that each candidate to the members of the Supervisory Board must present to the general shareholders' meeting a declaration of interests of the candidate, indicating therein all the circumstances which may lead to a conflict of interests of the candidate and the Company. Upon emergence of new circumstances, which may lead to a conflict of interests of a member of the Supervisory Board and the Company, the member of the Supervisory Board shall notify the Company and the Supervisory Board of such new circumstances in writing without any undue delay. An opinion on the suitability of candidates to the members of the Supervisory Board is submitted by the Selection Commission formed in accordance with the procedure established by legal acts.

			Information about the proposed audit company shall also be announced with a notice of the General Meeting of Shareholders being convened in accordance with the procedure established by legal acts.
1.10.	Members of the Company's collegial management body, heads of the administration 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.

2. Principle: Supervisory Board

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	Collegial bodies of the Company follow the prescribed recommendations. Before taking decisions, members of the collegial bodies discuss their influence to the Company's performance and the Company's 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 and commitments to shareholders are defined in accordance with statutory requirements.
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 Company's Supervisory Board is independent from the Company's management bodies and takes decisions that are significant to the Company's activities and strategy, acts independently in accordance with requirements of legal acts.
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[17] 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. Upon emergence of circumstances, which may lead to a conflict of interests of a member of the Supervisory Board and the Company, the member of the Supervisory Board shall notify the

[17] 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.

		Company and the Supervisory Board of such new circumstances in writing without any undue delay. 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.
2.1.5. 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). 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. The Company's Articles of Association provide a possibility to revoke (dismiss) both separate members of the Supervisory Board and the whole Supervisory Board *in corpore,* without waiting for their mandates' terms to end.

		The members of the Supervisory Board (separate or the body itself) may be dismissed by the General Shareholder Meeting.
2.2.3. Chair of the supervisory board should be a person who's 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. 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	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 2020 there were 13 (fifteen) Supervisory Board's meetings, and all of them were attended by all members of the Supervisory Board.
2.2.5. When it is proposed to appoint a member of the supervisory board, it should be announced which members of the supervisory board are deemed to be independent. The Supervisory Board may decide that, despite the fact that a particular member meets all the criteria of independence, he/she cannot be considered independent due to special personal or company-related circumstances.	Yes	Information on the candidates to the Company's Supervisory Board members (as well as information on the candidate's compliance with the independence requirements) is provided to the General Meeting of Shareholders in accordance with the Law on Companies of the Republic of Lithuania (see commentary on recommendation 1.9).
2.2.6. The amount of remuneration to members of the supervisory board for their activity and participation in meetings of the supervisory board should be approved by the general meeting of shareholders.	Yes	The independent member of the Supervisory Board is remunerated for his/her activity in the Supervisory Board according to the procedure and terms established in the agreement signed with him on activity as an independent member of the Supervisory Board. The conditions of the agreement with the independent member of the Supervisory Board, including amount of remuneration, are 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	The Supervisory Board makes an assessment of its activity every year. The Supervisory Board assesses the organisation of meetings, efficiency, and the need for competences, mutual cooperation, and sufficiency of the information furnished by the management for decision-making. Information on the working procedure regulations of the Supervisory Board, applied practices, adopted decisions is not made publicly available.

3. Principle: The Board

3.1. Functions and liability of the management board

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

3.1.1. The management board should ensure the implementation of the company's strategy approved by the Supervisory Board if the latter has been formed at the Company. In such cases where the Supervisory Board is not formed, the Management Board is also responsible for the approval of the Company's strategy.	Yes	The Company's Management 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 Management Board signed by each member of the Management 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 Management 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[18] 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 Management 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 diversity of qualifications, professional experience and competences should be ensured among the members on the Management Board. 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 Board have experience in the field of energy.

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

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 on candidates to the Management Board of the Company is provided under the procedure established in the laws. An opinion on the suitability of candidates is submitted by the Selection Commission. Information on the candidate's education, work experience, competence, and position held and former positions (CV), declaration of interests and other documents specified in the legal acts are provided at the meeting of the Company's Supervisory Board, which elects the Management Board or its individual members. Information on offices held by members of the Board or their involvement in activities of any other companies is constantly collected, accumulated, and published 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 Management Board after their election are acquainted with the Company's activities, organizational and management structure, strategy, activities and financial plans.
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 members of the Management Board are elected according to the maximum term of office, specified in the Law on Companies of the Republic of Lithuania – for 4 years per term of office. Limitations concerning re-election of the members of the Management Board are not provided in the Company's Articles of Association, nevertheless, limitations provided by valid legal acts are applied to candidates to members of the Board. The Company's Articles of Association provide a possibility to revoke (dismiss) both separate members of the Board and the whole collegial body *in corpore*, without waiting for their mandates' terms to end. The members of the Management Board (separate or the body itself) may be dismissed by the Supervisory Board.
3.2.5. Chair of the Management Board should be a person who's 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 Management Board of the Company do not create preconditions for possible impartiality. The Chairman of the Management 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 2020 there were 31 (thirty one) Management Board's meeting. All elected members of the Company's Board were in attendance in all meetings of the Management Board held in 2020.

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[19], 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 revoke the members of the Management Board, the remuneration of the Management 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 Management Board act in good faith towards the Company and in accordance with the interests of the Company and taking into account the welfare of the society.
3.2.10. 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 Management Board perform an assessment of their activities by completing the questionnaires, which include the evaluation of the work of the Management Board.

4. Principle: 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 the	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.

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

	supervisory board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this.		
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, rules of procedure of the Supervisory Board and the Board of the Company, meetings of the Supervisory Board are held at least once per quarter and meetings of the Board - at least once every two calendar weeks. If necessary, the Board may establish a different periodicity of meetings.
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. Members of the collegial body are informed on the agenda of a meeting in advance. The agenda of the meeting may be supplemented by general agreement, which is provided for in the working procedure regulations of collegial bodies. In the course of the meeting, the agenda is not usually changed. All members of collegial bodies receive the material necessary for decision-making on issues on the agenda in advance and have a possibility to become familiar with them, also to ask questions before the meeting and during the meeting; they have the right to suggest that materials of the issue discussed should be supplemented, or ask to specify it. All members of the collegial bodies are informed about any received comments or specification.
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 this recommendation. The Chair of the Supervisory Board and the Chair of the Board closely cooperate in solving questions related to the management of the Company. 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.

5. Principle: 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 judgement 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[20].	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 AB Ignitis Grupė has a formed audit company, a separate Audit Committee is not set up in the Company. In the parent company, also has Nomination and Remuneration, and Risk Management and Business Ethics Supervision committees, functioning at the Group level.
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 at the parent company AB Ignitis Grupė. Committees consist of at least 3 (three) members by involving also independent members. Chairpersons of all committees are independent members.
5.1.5. The authority of each committee formed should be determined by the collegial body itself. Committees should perform their duties according to the authority delegated to them and regularly inform the collegial body about their activities and performance on a regular basis. The authority of each committee defining its role and specifying its rights and duties should be made public at least once a year (as part of the information disclosed by the company on its governance structure and practice on an annual basis). In compliance with the legal acts regulating the processing of personal data, companies should also include in their annual reports the statements of the existing committees on their composition, the number of meetings and attendance over the year as well as the main directions of their activities and performance.	Yes	The Company implements the recommendation through the committees of the Supervisory Board formed at the parent company AB Ignitis Grupė. Committees are advisory bodies of the Supervisory Board of the parent company. Their regulations are approved and members are appointed by the Supervisory Board. Committees prepare reports on their performance at least 1 (once) every 6 (six) months that are delivered at the meeting of the Supervisory Board of the parent company. The number of meetings, the main directions of the committees are disclosed in the annual report; additionally, the Supervisory Board of the parent company is informed on the number of meetings and the main decisions adopted in them at least once every 6 (six) months.

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

5.1.6. 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 at the parent company AB Ignitis Grupė. All committees are chaired by independent members and include members of the Supervisory Board of the parent company. Other members of the parent company or the Company's Supervisory Board shall have the right to attend committee meetings. If necessary, at the invitation of committees, particular employees or experts attend the meetings.
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 Nomination and Remuneration committees formed at AB Ignitis Grupė. The main functions of the Nomination and Remuneration Committee are described in the Corporate Governance Guidelines and conform to, however, not limited to, the functions laid down in this principle.
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 Nomination and Remuneration committees formed at AB Ignitis Grupė. The Nomination and Remuneration Committee submits an opinion on candidatures to the management and supervision bodies of the Group's companies (if necessary, it may submit an opinion also regarding other candidatures). Decisions on the approval of such candidatures are adopted by the Supervisory Board of the parent company. An opinion on the suitability of the mentioned candidatures is also submitted by the Company's Supervisory and Management Board (including the CEO).
5.3. Remuneration committee.		
5.3.1. 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	Yes	The Company implements the recommendation through the Nomination and Remuneration committees formed at AB Ignitis Grupė. The main functions of the Nomination and Remuneration Committee are described in the Corporate Governance Guidelines and conform to, however, not limited to, the functions laid down in this principle. The Nomination and Remuneration Committee submits an opinion on the guidelines for the top-level management policy to the parent company's Supervisory Board. The Supervisory Board adopts decisions

	allow the company to recover the amounts or suspend the payments by specifying the circumstances under which it would be expedient to do so; 2) submit to the collegial body proposals regarding individual remuneration for members of the collegial bodies and the heads of the administration in order to ensure that they would be consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned; 3) review, on a regular basis, the remuneration policy and its implementation.		on the approval of such remuneration guidelines with consideration to the opinion of the Nomination and Remuneration Committee.
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[21].	Yes	The Company implements the recommendation through the Audit Committee formed at the parent company AB Ignitis Grupė. The main functions of the Audit Committee are described in the Corporate Governance Guidelines and conform to the functions laid down in the legal acts regulating.
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	The Company implements the recommendation through the Audit Committee formed at the parent company AB Ignitis Grupė. All members of the committee are provided with detailed information on specific issues of the Company's accounting system, finances and operations.
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	The Company implements the recommendation through the Audit Committee formed at the parent company AB Ignitis Grupė. Meetings of the Audit Committee are attended by the Head of the Internal Audit Unit, and, if necessary, by other employees when discussing specific issues. The Audit Committee also cooperates with other committees, and, if necessary, joint meetings are organised. If necessary, a meeting of the Audit Committee is attended by representatives of the audit firm conducting an independent audit of financial statements.
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	The Company implements the recommendation through the Audit Committee formed at the parent company AB Ignitis Grupė. The Audit Committee receives the information referred to in this paragraph, submits an opinion on annual plans of internal audit that is approved by the Supervisory Board of the parent company. The Internal Audit Unit informs the Audit Committee on the implementation of internal audit plans and submits reports.
5.4.5.	The Audit Committee should examine whether the Company complies with the applicable provisions regulating the employee's 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	Yes	The Company implements the recommendation through the Audit Committee formed at parent company AB Ignitis Grupė.

[21] *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.*

	investigation of such issues and appropriate follow-up actions.		
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 performance report at least once in every six months, at the time that annual and half-yearly reports are approved.	Yes	The Company implements the recommendation through the Audit Committee formed at parent company AB Ignitis Grupė. The Audit Committee submits its performance reports to the Supervisory Board at least once every 6 (six) months.

6. Principle: Prevention and disclosure of conflicts of interest

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

The Corporate Governance Framework should recognize the rights of stakeholders as established by law and encourage active co-operation 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.

6.1.	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. In accordance with Article 22 of the Articles of Association of the Company, each candidate to the members of the Supervisory Board must present to the general shareholders' meeting a declaration of interests of the candidate, indicating therein all the circumstances which may lead to a conflict of interests of the candidate and the Company. Upon emergence of new circumstances, which may lead to a conflict of interests of a member of the Supervisory Board and the Company, the member of the Supervisory Board shall notify the Company and the Supervisory Board of such new circumstances in writing without any undue delay. According to Article 39 of the Articles of Association of the Company, each candidate to the members of the Board must present to the Supervisory Board a declaration of interests of the candidate, indicating therein all the circumstances which may lead to a conflict of interests of the candidate and the Company. Upon emergence of new circumstances, which may lead to a conflict of interests of a member of the Board and the Company, the member of the Board must inform the Board and the Supervisory Board of such new circumstances in writing without any undue delay. Moreover, Article 41 of the Articles of Association of the Company establishes that members of the Board cannot do such a work or hold such office, which would be incompatible with their activities on the Board, including holding a managerial position in other legal entities (except for an office or work in the company or a group of companies), work in the civil service or statutory service. Members may hold any other position or have other job, except for the position held in the Company and other legal entities the participant whereof the Company is, also engage in educational, creative, or authorship activity only on receipt of prior consent from 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.

7. Principle: 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	On 30 April 2020, General Meeting of Shareholders approved guidelines of remuneration of top-level managers of the group of companies AB Ignitis Grupė, and remuneration policy of AB Ignitis Grupė *in corpore* as AB Energijos Skirstymo Operatorius remuneration policy in accordance with the documents listed in Article 37^3(1) of Law on Companies of the Republic of Lithuania, published on the Company's website.
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 AB Ignitis Grupė defines remuneration components, their maximum amounts, the principles of allocation and payout, which are common for all companies of the Group. According to the provisions of the Remuneration Policy, the variable remuneration component is paid only in case the target achievement value is at least 70 percent. If criteria for the evaluation of performance results are not met, i.e. the goal achievement value is below 70 percent, the variable remuneration component is not paid.
7.3.	With a view to avoid potential conflicts of interest, the remuneration policy should provide that members of the collegial bodies which perform the supervisory functions should not receive remuneration based on the Company's performance.	Yes	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 Company's performance.
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	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.

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.	Yes	The information contained in the Recommendation is provided in the Share Allocation Rules of AB Ignitis Grupė, which apply to the entire group of companies.
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.	Yes	On 30 April 2020, General Meeting of Shareholders approved guidelines of remuneration of top-level managers of the group of companies AB Ignitis Grupė, and remuneration policy of AB Ignitis Grupė *in corpore* as AB Energijos Skirstymo Operatorius remuneration policy in accordance with the documents listed in Article 37[3](1) of Law on Companies of the Republic of Lithuania.

8. Principle: 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 instance, representatives of the employees of the Company participate in consultations, negotiation and meetings regarding the processes of performance optimisation that are implemented at the Company. According to the Company's collective agreement signed with the representatives of the employees of the Company, the Company provides information to the representatives of trade unions about the expected changes in the Company, the Company's financial situation, etc. The shareholders may participate in the management of the Company to the extent provided by laws.
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, trust line answering machine +370 5 255 2555), information can also be provided anonymously by e-mail: pasitikejimolinija@eso.lt.

9. Principle: 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:		
9.1.1.	The financial and operating 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.
9.1.2.	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.
9.1.3.	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.
9.1.4.	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.
9.1.5.	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.
9.1.6.	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.
9.1.7.	related-party transactions;	Yes	The information is published in the Company's interim and annual reports, and on the Company's website.
9.1.8.	main issues related to employees and other stakeholders (for instance, human resource policy, participation of employees in corporate	Yes	The information is published in the Company's interim and annual reports, and on the Company's website.

	governance, award of the company's shares or share options as incentives, relationships with creditors, suppliers, local community, etc.);		
9.1.9.	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.
9.1.10	social responsibility policy, anti-corruption initiatives and measures, major investment projects under way or planned.	Yes	The information is published in the Company's interim and annual reports, and on the Company's website.
	This list should be considered as a minimum list and companies are encouraged not to limit themselves to disclosing the information contained in this list. This principle of the Code does not relieve the Company of the obligation to disclose information prescribed by law.		
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.	Yes	Information related to the parent company AB Ignitis Grupė is announced by the parent company itself.
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 makes the information available on its website in the Lithuanian and English languages simultaneously. The Company does not disclose the information likely to impact the price of the issued by it securities in its comments, interviews or otherwise until such information is made public.

10. Principle: 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.	It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. 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.	Yes	The Company does observe the recommendations.