

2017

Energijos Skirstymo Operatorius AB

CORPORATE RESPONSIBILITY PROGRESS REPORT



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ABOUT THE PROGRESS REPORT

Energijos Skirstymo Operatorius AB (hereinafter – ESO, the Company) is a member of the “Global Compact” initiative initiated by the United Nations and submits an annual progress report which is prepared in accordance with the Global Compact principles and UN Global Reporting Initiative guidelines. These guidelines are recommended to the UN Global Compact members to use as an instrument helping with a company’s sustainable performance measurement, presentation, and accountability to its internal and external stakeholders.

The Global Compact covers the implementation of ten responsible operation principles and obliges member organisations to follow them: not to harm the environment, community and other businesses, and in a joint effort with the United Nations authorities and non-governmental organisations participate in the process of solving social and environmental problems, and contribute to the development of society and economic growth.

This is the second social responsibility Progress report of ESO established in 2016 upon merging LESTO AB and the public limited company Lietuvos Dujos.

The Progress report, as a separate document, has been prepared as a separate document by LESTO AB on an annual basis, since 2012, and has been introduced in the Lithuanian and English languages. The public limited company Lietuvos Dujos has disclosed activities on social responsibility in the company’s periodic financial statements.

ESO report for 2017 has been published on the Company’s website at www.eso.lt (section “Social Responsibility”), website of NASDAQ Baltic securities exchange, as well as Global Compact network at www.globalcompact.org.

This Progress reports presents activities of ESO in 2017 in the field of social responsibility: in relationships with customers, market participants, also in activities related with environmental protection, relationships with employees and society. The report describes strategic directions of the Company’s social responsibility, actions and achievements.

Questions, commentaries and observations regarding the content of social responsibility report and improvement thereof are welcome by email: kommunikacija@eso.lt.

During 2017, no feedback on reports for 2016 or conducted responsible activities has been received from stakeholders.

CEO'S FOREWORD

Dear reader,

As each year, the daily life of our employees is accompanied by ambitious goals leading towards the most important aspiration of ESO - fulfilment of customers' needs. I am pleased that ESO team currently joining together nearly 2,500 experts of their field, accept this challenge each day as their personal goal enabling them to contribute in a responsible way to sustainable development of the energy sector in our country.

By working in concert, we proved by performance results in 2017 that every customer and their needs are important for us. During this year we paid great attention namely to the improvement of customer experience, looked for the best solutions that would ensure positive and quality experience of our customers. Led by this approach we became a universally recognised leader in the energy sector in Lithuania.

We called the last year the Year of Customer for a reason. Together with partners we installed a temporary station of liquefied natural gas in Druskininkai, thus ensuring for the city residents energy independence and a competitive price of gas, like in the whole Lithuania. Besides, we paid great attention to the grid modernization works that allowed providing even better quality services to our customers on a daily basis.

We aspire to be the best not only in our country - by drawing on the good experience from foreign countries and implementing strategic projects we become more visible in the world each year. The international rating "Doing Business" showed that last year, according to the indicator of getting electricity, Lithuania rose up by 22 positions - it would have been impossible to achieve such a result without a professional team and great enthusiasm.

Without doubt, one of the most important priorities of ESO in 2017 was the assurance of employees' safety and health. Each year we take steps in the path of modernity, more effective use of technologies, and having regard to a growing need of employees to get essential occupational safety information through smart devices, we install them in our systems.

Environmental protection and saving of energy resources have remained the issues of topical urgency. Together with the Ministry of Energy of the RL we signed agreements on the implementation of energy efficiency programme in Lithuania - this only confirms strong determination of ESO to spare the environment in which we live.

I am sure that educational and responsible energy consumption means implemented each year reach an increasingly greater number of residents. Based on last year data we may be pleased by a markedly reduced number of electricity and gas thefts, increased habit of society to inform us through the trust line.

Thus, I invite to become familiar with what Energi-jos Skirstymo Operatorius succeeded in achieving during 2017 and assure that the level of ambition in 2018 will be even higher - we will seek to modernize sophisticated processes, will become more convenient for customers and will seek all-rounded organisational transparency every day.

Acting CEO and member of the Board
Augustas Dragūnas

PRINCIPLES AND PRIORITIES OF RESPONSIBLE ACTIVITY

By carrying out activities in a responsible way, ESO seeks to contribute to the creation of sustainable society by ensuring an independent distribution and supply of electricity, as well as distribution of natural gas. At the same time, the Company constantly informs on issues of safe and rational use of energy, also fosters to take an interest in progressive means and technologies.

The basis of ESO responsible activity - energy efficiency enhancement by inducing the society and business to save energy resources and change consumption habits. The substance of the bilateral responsible partnership between business and society - sustainable, safe, and clean environment that we will leave for the future generations.

ESO operates in a socially responsible manner also in other fields, with other stakeholder groups, first of all, ethical behaviour based on partnership on an equal footing with its employees, attention to their work environment and safety. ESO employees convey such practice to external relationships with customers, society and environment.

Expansion of responsible activities in accordance with sustainable development principles. Cooperation and sharing the good practice lead the country and society to social and economic welfare.



It is activities ESO complies with the following sustainable development principles:

- distribution of electricity and natural gas, and electricity supply boosting economic and social development, assurance of reliability by sparing the environment and meeting interests of the target groups;
- efficient use of natural resources for the implemented;
- smart and effective use of energy and reduction of the environmental impact at the time of distribution and use of electricity and natural gas;
- promotion of a sparing approach towards the environment among employees, contractors, suppliers, and society.



ESO priorities in the social responsibility activity:

- Energy efficiency enhancement;
- Environmental impact reduction by saving energy and resources;
- Fostering of safe and responsible behaviour with electricity and gas (for both, customers and employees).

ESO Values, Strategy and Goals

ESO long-term activity strategy for 2016-2020 is based on services reliability, expeditiousness, effectiveness, organisational culture based on common values, high reputation, and consistent improvement.

The strategy foresees that operational efficiency shall be further increased, and by 2020, operating costs will decline by more than 10 percent.

ESO will seek to improve significantly reliability of the electricity distribution grid. By applying state-of the art smart electricity grid technologies and by replacing overhead electricity distribution grid lines by cable electricity lines in a rational way, to seek that by 2020 reliability indicators of the distribution grid operator - the system average interruption duration index (SAIDI), system average interruption frequency index (SAIFI) would improve at least by 25 percent (SAIDI - 100 min., SAIFI - 1 time) (as compared to 2017: SAIDI - 138 min., SAIFI - 1.31 time), by 2030 - at least 50 percent (SAIDI - 70 min., SAIFI - 0.66 time) (as compared with 2017: SAIDI - 138 min., SAIFI - 1.31 time). ESO will seek to maintain also high reliability indicators of the natural gas distribution grid.



It has been planned to shorten the duration of connecting new customers to the electricity and natural gas distribution grid by 2020: of electricity - from 177 to 85 days, and of gas - from 66 to 50 days. Upon shortening the duration of the new customer connection process, Lithuania's result in the World Bank rating "Doing business" will be improved, as one of its constituent is "Getting electricity".

**Economy:**

Efficiency
Transparency
Market

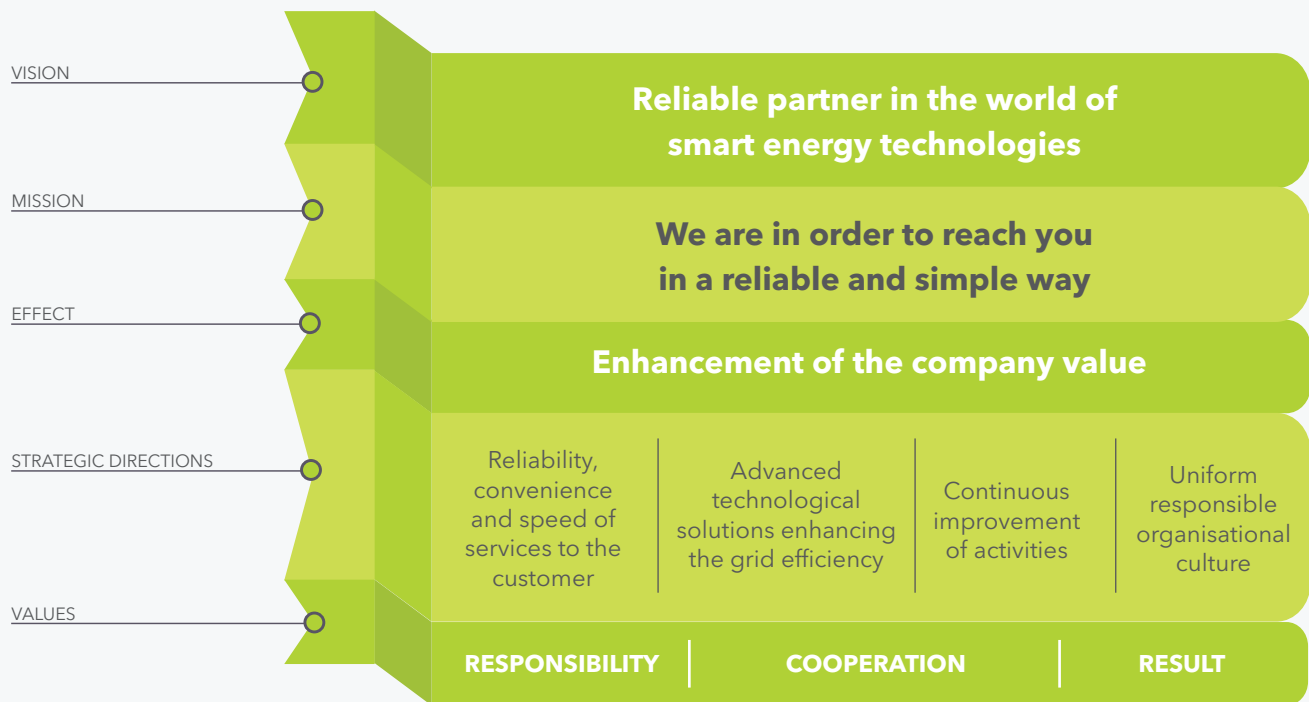
**Environmental protection:**

Equipment
Resources
Services

**Social sphere:**

Employees
Communities
Society

Scheme of ESO Operational Strategy



ESO will seek to maintain a high customer satisfaction level exceeding the average of energy companies in the European countries. It has been planned that the GCSI (Global Customer Satisfaction Index) of ESO customers will remain 80 points in 2020.

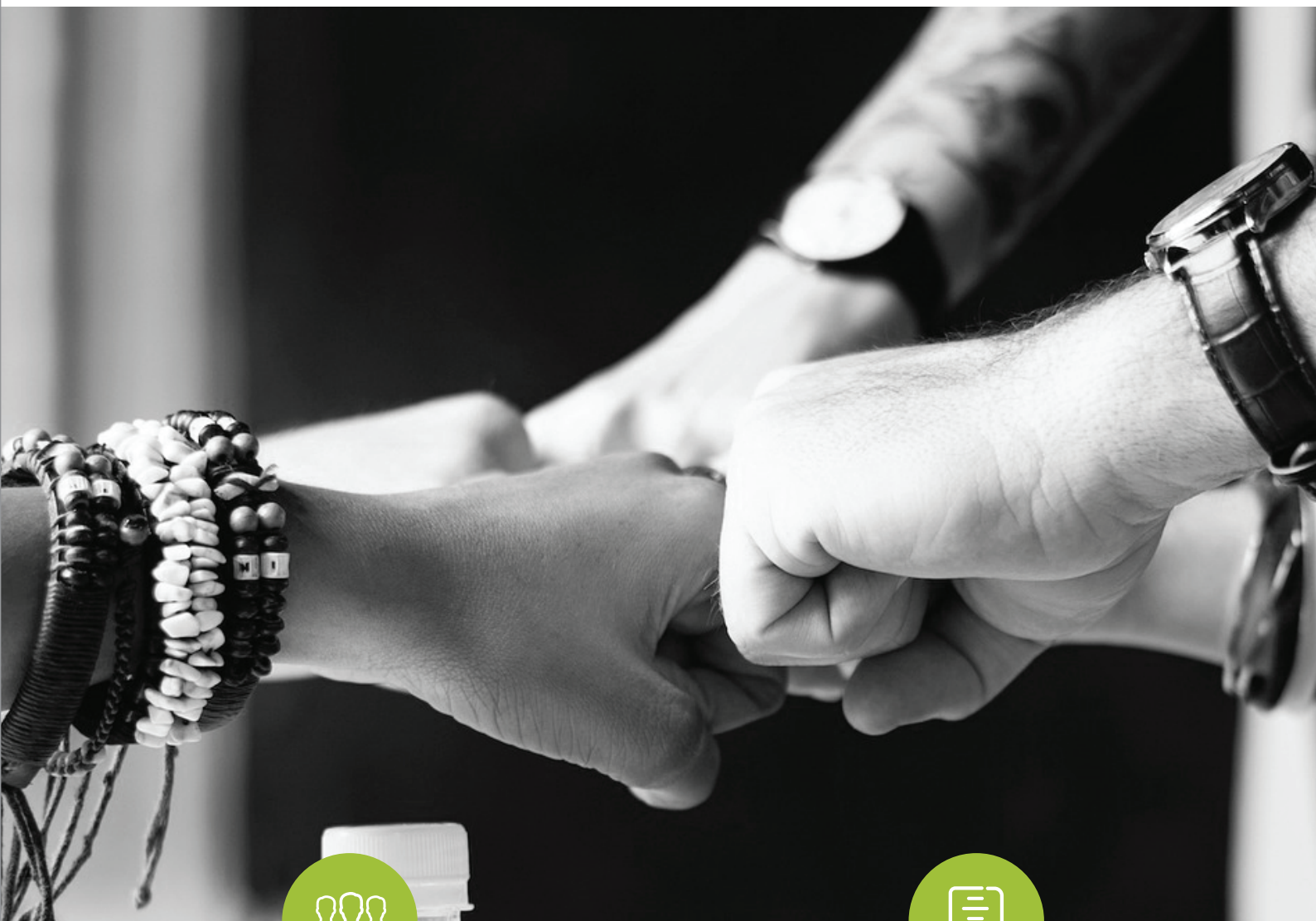
ESO grounds implementation of the mission, aspiring of the vision, and all activities by three crucial values:

- **Responsibility**
- **Cooperation**
- **Result**

By these values the approach is expressed that we constantly feel liability for our actions, work jointly and always seek the best results for stakeholders in a responsible manner.

Enhancement of the company's value is perceived as a sustainable balance between strategic directions that are related by the Balance scorecard with respective perspectives:

- **Customer perspective.** Reliability, convenience and speed of services to the customer;
- **Internal processes perspective.** Advanced technological solutions increasing the grid efficiency;
- **Staff training perspective.** Uniform organisational culture;
- **Finance perspective.** Consistent implementation of these directions will enable to seek in a balanced manner the main strategic goal - value enhancement.



Stakeholders

Balanced implementation of strategic direction is sought with consideration to interests and expectations of shareholder groups.

The following most important shareholder groups have been distinguished:

- | | |
|-----------------------|----------------------------------|
| • Customers | • Regulatory institutions |
| • Society | • Suppliers |
| • Employees | • Energy sector |
| • Shareholders | |

SO strategic directions reflect interests of the most important stakeholders. Each strategic direction is associated with one or several stakeholders. Guided by this, specific goals and indicators have been set to monitor the assurance of stakeholders' interests.



ESO defines its responsibility and is guided in activities by the following documents and principles:

- ESO Collective agreement;
- Documents valid for Lietuvos Energija Group of companies:
 - Customer service standard;
 - Zero tolerance to corruption policy;
 - Human resources management policy;
 - Occupational safety and health policy;
 - Information security policy;
 - Assistance allocation policy;
 - Social responsibility policy;
- UN Global Compact principles.

ABOUT THE COMPANY

ESO has become operational since 1 January 2016 after the merger of the electricity distribution operator LESTO AB and the public limited company Lietuvos Dujos. ESO belongs to Lietuvos Energija UAB group of state-controlled companies – one of the largest groups of energy companies in the Baltic States. ESO took over the property, rights and duties, all current and fixed assets, long-term and short-term financial, other obligations, receivables and payables of LESTO AB and public limited company Lietuvos Dujos according to previously concluded agreements or obligations arising under other grounds.

ESO manages 121,698 thousand km of power lines: 78.7 percent of them consist of overhead power lines and 21.3 percent – of electric cables; the Company also operates 8.4 thousand km of distribution gas pipelines.

The main functions of ESO: supply and distribution of electricity, distribution of natural gas, warranty supply of electricity and gas, connection to electricity and gas supply, operation of electricity and gas distribution networks, maintenance, management and development, assurance of their safety and reliability. The geographic market covered by ESO is the whole territory of Lithuania.

Performance Indicators

In 2017, ESO net profit totalled EUR 77.6 million and was smaller by 16 percent than in 2016.

Last year ESO income amounted to EUR 612.3 million and was smaller by 5.8 percent than in 2016 when they totalled EUR 650 million. In 2017, the Company's operating costs amounted to EUR 94.7 million, which was less by 3.88 percent than in 2016, when their amount equalled to EUR 98.5 million.

In 2017, ESO distributed to customers 9.22 TWh of electricity and 7.37 TWh of natural gas – 2.7 percent more and 0.3 percent less than in 2016, accordingly.

Quality of Electricity Supply

Bearing the effect of force majeure, the system average interruption duration index (SAIDI) during 2017 per consumer equalled to 137.8 min and, compared with 2016, reduced by 35.1 min (in 2016, SAIDI equalled to 172.9 min). The system average interruption frequency index (SAIFI), bearing the impact of force majeure during 2017, equalled to 1.32 time – 0.07 time more than in 2016, when it was 1.25 time.

77,6 mln. €

Net profit

9,22 TWh

Distributed electricity

7,2 mln. €

Taxes for the State

7,37 TWh

Distributed natural gas

CORPORATE GOVERNANCE

According to the valid articles of association, the Company's bodies are:

- General meeting of shareholders;
- Collegial supervisory body – the Supervisory Council;
- Collegial management body – the Board;
- Single-person management body – CEO.

General Meeting of Shareholders

A general meeting of shareholders is the supreme body of the Company. During the reporting period the Company's shareholders had equal rights (property and non-property) laid down in the laws, other legal acts and the Company's Articles of Association. None of the shareholders had any special control rights, and the rights of all shareholders were equal. The Company's management bodies established proper conditions to exercise the shareholders' rights.

Supervisory Council of the Company

Supervisory Council of ESO is a collegial supervisory body. The Supervisory Council of ESO consists of three members who are elected for a four-year term at a general meeting of shareholders. At least one third of the Supervisory Board of ESO consists of **independent** members. The Supervisory Council elects a chairperson of the Supervisory Council from its members.

Audit Committee

Main functions of the audit committee:

- to monitor the process of preparing financial statements of Lietuvos Energija UAB and its group of companies;
- to monitor the efficiency of the internal control and risk management systems of Lietuvos Energija UAB and companies in its group, to perform an analysis and revision of the need for these systems and the suitability thereof;
- to monitor how a certified auditor and audit firm comply with the principles of independence and objectiveness, to provide relevant recommendations;
- to observe the processes of audit conduction at Lietuvos Energija UAB and companies of its group, to assess the efficiency of audit and the reaction of the administration to recommendations submitted by an audit firm to the management;
- to monitor the efficiency of the internal audit function at Lietuvos Energija UAB and companies of its group, to analyse the need for this function and the suitability thereof; to submit recommendations on necessity, efficiency of the internal audit function, and other issues associated with internal audit.

CORPORATE GOVERNANCE



GENERAL MEETING OF SHAREHOLDERS



COLLEGIAL SUPERVISORY BODY – THE SUPERVISORY COUNCIL



COLLEGIAL MANAGEMENT BODY – THE BOARD



SINGLE-PERSON MANAGEMENT BODY – CEO

From 5 January 2015, the internal audit function was centralised at Lietuvos Energija UAB group of companies. This way independence and objectiveness, uniform methodology and accountability of the internal audit activity were ensured. Audit resources and competences are distributed more rationally.

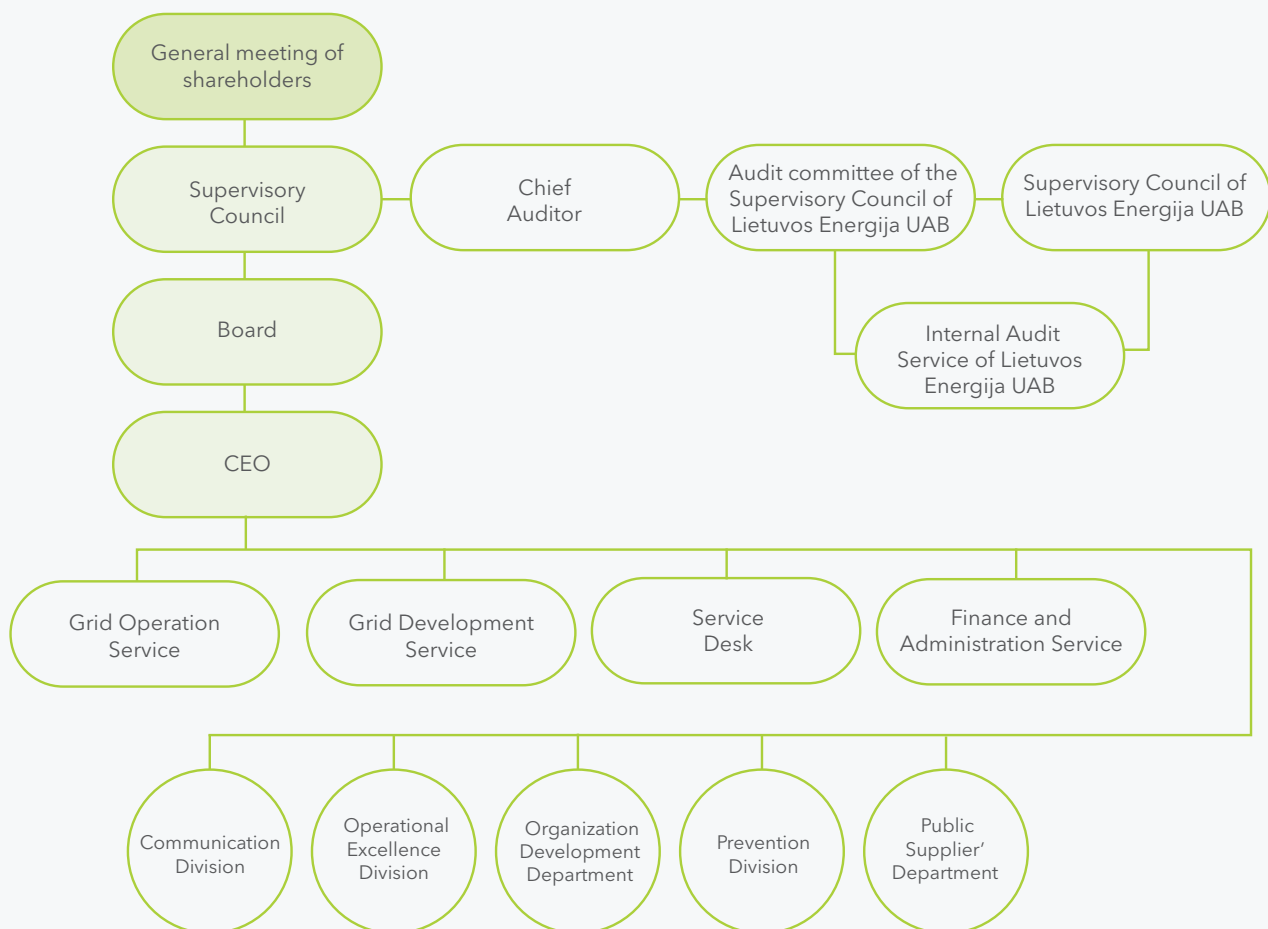
Board of the Company

The Board of ESO is a collegial management body of the Company. The Board of ESO consists of five Board members who are elected by the Supervisory Council for a term of four years. The Board elects a chairperson from among its members.

CEO

The manager of the Company, CEO, is single-person management body of the Company. The CEO's competence, the procedure of his election and withdrawal are established by the laws, other legal acts and the Company's articles of association. The CEO is elected and withdrawn, also dismissed from office by the Board of the Company. The CEO organises daily activity of the Company, manages it, acts on behalf of the Company and concludes transactions at his /her discretion, except for the cases stipulated in the Company's articles of association and legal acts.

ESO governance structure



Shareholders

Based on data of 31 December 2017, the total number of ESO shareholders was 8,789.

Lietuvos Energija UAB manages 94.98 percent of the Company shares. Households – 4.27 percent, Financial institutions, insurance and other companies hold 0.75 percent of ESO shares.

Distribution of the number of ESO shareholders by countries, 31/12/2017

State	Number of Shareholders
Lithuania	8,444
Estonia	133
Russia	49
Latvia	48
Belarus	40
USA	18
Great Britain	13
Other countries	44
In total	8,789

Shareholders who had more than 5 percent of the issuer's authorised capital on 31 December 2017

Shareholder's name, surname (company's name, legal form, legal office, code)	Number of ordinary registered shares owned by shareholder by the right of ownership, psc.	Owned share of the authorised capital, percent	Share of votes carried by the shares owned, percent
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„Lietuvos energija“, UAB,

Žvejų St. 14,
LT-09310 Vilnius,

849,743,761

94,98

94,98

company code 301844044

Membership in organisations

In 2017, ESO participated in activities of the following Lithuanian and international organisations.

National Lithuanian
Energy Association

Association of
HR Professionals

Responsible
Business
Association of
Lithuania (LAVA)

United Nations
"Global
Compact"

Risk Management and Control Model

A risk management model prepared with consideration to the main principles of COSO (Committee of Sponsoring Organizations of the Treadway Commission) and those of AS/NZS ISO 31000:2009 (Risk management - Principles and guidelines) is applied in the whole Group. The main goals of the risk management process in the Company are:

- to achieve the Company's goals together with the controlled, but essentially acceptable deviations from the goals;
- to ensure the provision of maximum correct information to decision-makers, shareholders and other stakeholders;
- to safeguard the Company's reputation;
- to protect interests of shareholders, staff members, customers, stakeholders and society;
- to ensure stability (including financial) and sustainability of the Company.

The risk management principles defined by Lietuvos Energija UAB are uniformly applied in the whole Group of companies. Uniform risk management principles ensure that the management of companies within the Group of companies would be furnished with risk management information covering all fields of activity. Seeking to ensure the practicality of the risk management process, specific fields of activity supplement their activities with detailing principles of risk assessment, monitoring and management.

In order to ensure that risk management information and decisions meet the issues relevant for the Company and implemented changes, each year re-assessment of the Company's risk level is carried out, and risk management actions are provided for. In addition, once a quarter, the Company carries out monitoring of the new risk factors, and, if necessary, envisage additional actions.

A risk appetite and tolerance thresholds are set in the Group of enterprises. Risk appetite is established by evaluating a financial impact of risk and its impact on human safety and health. A tolerance threshold is a risk level which exceeding is not acceptable for the Group of companies and which is expressed by the values of performance results or incidents. The risk appetite and tolerance thresholds at the Group of companies are set and revised once a year by the Board of Lietuvos Energija UAB. Where the Company exceeds the risk appetite and tolerance, plans of actions are drawn up in order to meet the values set. The effectiveness of management plans is evaluated by the Board of the Company, the Supervisory Council and the Risk Management Supervision Committee under the Supervisory Council of the Group of enterprises.

Seeking to manage effectively the risk factors faced, the Company applies the principle of the three lines of defence by setting a clear sharing of responsibilities for risk management and control among the Company's management and supervisory bodies, its structural units or functions.



RESPONSIBILITY BEFORE STAFF MEMBERS

The biggest asset of ESO in seeking the goals set – its staff members. The Company is focused on consistent improvement of employees and formation of the organisation culture ensuring the creation of bigger value to customers, partners and society. On 31 December 2017, the number of employees totalled 2,453.

Structure of ESO employees by categories:

Employee category	Number of employees 31/12/2017
CEO of the company	1
Top level managers	6
Middle level managers	187
Experts, specialists, workers	2 259
Total number of staff	2 453

Structure of ESO employees by education:

Education	Number of employees 31/12/2017
Higher	1,438
Advanced vocational	842
Secondary and vocational	173

Transparent and Clear Remuneration System

ESO has installed an innovative employee remuneration system that enables it to align with those of other leading companies in the country who reward employees according to achieved results, value created for the organisation and the team. When creating this remuneration system, reference was made to the Hay Group methodology that ensures an objective assessment of job positions according to necessary education, complexity of problems and level of responsibility per specific job position. This system enables to manage effectively the Company's costs and ensures that ESO strategic objectives and the business management logic would be reflected in the remuneration system. In 2016, as a result of change of a part of job positions or emergence of the new ones due to the merger of companies, the remuneration system was revised in order to maintain competitiveness in the labour market.

The remuneration package for the Company's employees consists of the financial, non-financial and emotional reward. The system of financial reward includes the fixed part of remuneration payable on a monthly-basis and indicated in the employee's employment contract, a variable part of remuneration based on achievement of the set performance results, extra pay (for overtime, work at night provided for in a collective agreement).

Non-financial reward is an indirect form of employee's remuneration applied by the Company for promoting employees' efforts, involvement and loyalty, as well as enrichment of the employees; welfare and activity in the Company. These are different events of the Company, recognition and appreciation by rewarding staff members who have achieved especially good operating results, promotion of wellness, and education of employees. An emotional reward is hardly measurable, however, this is a factor that has great significance on employees' involvement into activities of the Company that covers reputation of the Company, organisational culture and values, provided carrier opportunities, conducted different internal communication programmes. Employees have an opportunity to share their ideas, give questions of concern to them, and become familiar with colleagues on their intranet.

Average Remuneration of ESO employees

Employee category	Average remuneration, EUR January-December 2017
CEO of the company	5,323
Top level managers	4,779
Middle level managers	2,038
Experts, specialists	1,058
Workers	785
Total number of staff	1,084

Collective Agreement

ESO has signed with a trade union a collective agreement ensuring greater security and additional benefits for employees.

The goal of collective agreement is to ensure efficient work, to represent rights and lawful interests of all employees.

The agreement establishes the conditions of work, remuneration, social, economic and professional guarantees that are not regulated by the laws, other regulatory legal acts. Employees are applied additional guarantees (benefits in case of accidents, sickness, death of family members, support on childbirth, additional days of paid-leave on childbirth, contracting marriage, etc.).



40,7 thousand

Training
hours



19,06 h

per
employee

Employee training in 2017

Trade Unions

The Company supports the clustering of employees into volunteer trade unions and closely cooperates with them. Once a quarter meetings are organised aimed to discuss strategic projects carried out at the Company. If necessary, representatives of trade unions always participate in workgroups when issues associated with employees (working conditions for employees, remuneration, social issues, etc.) are discussed.

Staff Competency Development

ESO pays much attention to the development of employee competences. Training plans are drawn up annually, with consideration to the Company's objectives and competence of employees in seeking these goals. When organising training, much attention is devoted to ensuring an effective and quality maintenance of electricity and gas distribution grids, customer service and occupational safety.

During vocational compulsory training held in January-December 2017 which completion result in the issue of certificates authorising to perform specific works, participation was taken by 1,488 employees. They attended training on occupational safety and health, fire safety, operation of fuel gas systems, rotating gas turbine meters and gas volume computers-correctors, professional and legal knowledge of construction project manager of structures of special significance.



During January-December 2017, general trainings were attended by 2,483 participants

During general trainings, individual employees were sent to seminars and conferences held by external suppliers (in Lithuania and abroad), also groups were formed within the Company.

ESO involves into the competency development programmes internal staff - internal lecturers, having specific knowledge and skills, as well as capable of sharing them with others, also invests into the ability of these employees to conduct training. A great part of such internal training was intended electrical engineering and gas operation staff seeking to advance employees' qualification, improve already acquired skills, become familiar with new work techniques. A great part consisted also of customer service training and the training organised by the Accounting Department. To ensure the effectiveness of internal processes at the company, employees are familiarised with initiatives and programmes implemented in the Company, for example, performance excellence, staff activity management programmes.

When preparing training programmes, close cooperation is maintained with training providers; training assessment surveys are also conducted. Besides, ESO also constantly cooperates with producers, equipment suppliers who share their knowledge with employees by introducing innovations in the energy field.

This year ESO partly funded 10 employees at Lithuanian higher education institutions seeking to improve staff qualification and develop leadership competences. Employees have a possibility to take study programmes on energy and management associated with the Company's activity.

Traineeship and Employment Prospects

ESO actively cooperates with education institutions and establishes conditions for university and college students to apply theoretical knowledge, as well as to acquire practical skills. During 2017, 31 students underwent practice at ESO. Practical training at the Company is undertaken not only by students who are organised compulsory practice, but also motivated and enthusiastic students may have a work placement independently.

Integration of New Employees

In order ensure adequate adaptation process of new employees, the Company organises "Newcomer's Days" when the new employees become acquainted with the Company's management and activities of departments. The newcomers familiarised with the energy sector's structure, strategic directions, mission, vision, values, the most important operation principles in the energy sector, other fundamentals of activities. Newcomers are also set plans of goals for the probationary period.

The management assigns a so-called mentor for the new employees who becomes responsible for providing all kinds of assistance to new employees during their probationary period.



Human Rights Protection

ESO does not tolerate any violation of human rights; it supports fair and transparent remuneration policy, complies with the laws regulating working hours and overtime, respects the right of workers to rest and does not tolerate any kind of harassment or violence. The Company condemns all kinds of discrimination, as well as forced and child labour.

In 2017, no cases of discrimination or other incidents associated with violations of human rights were established.

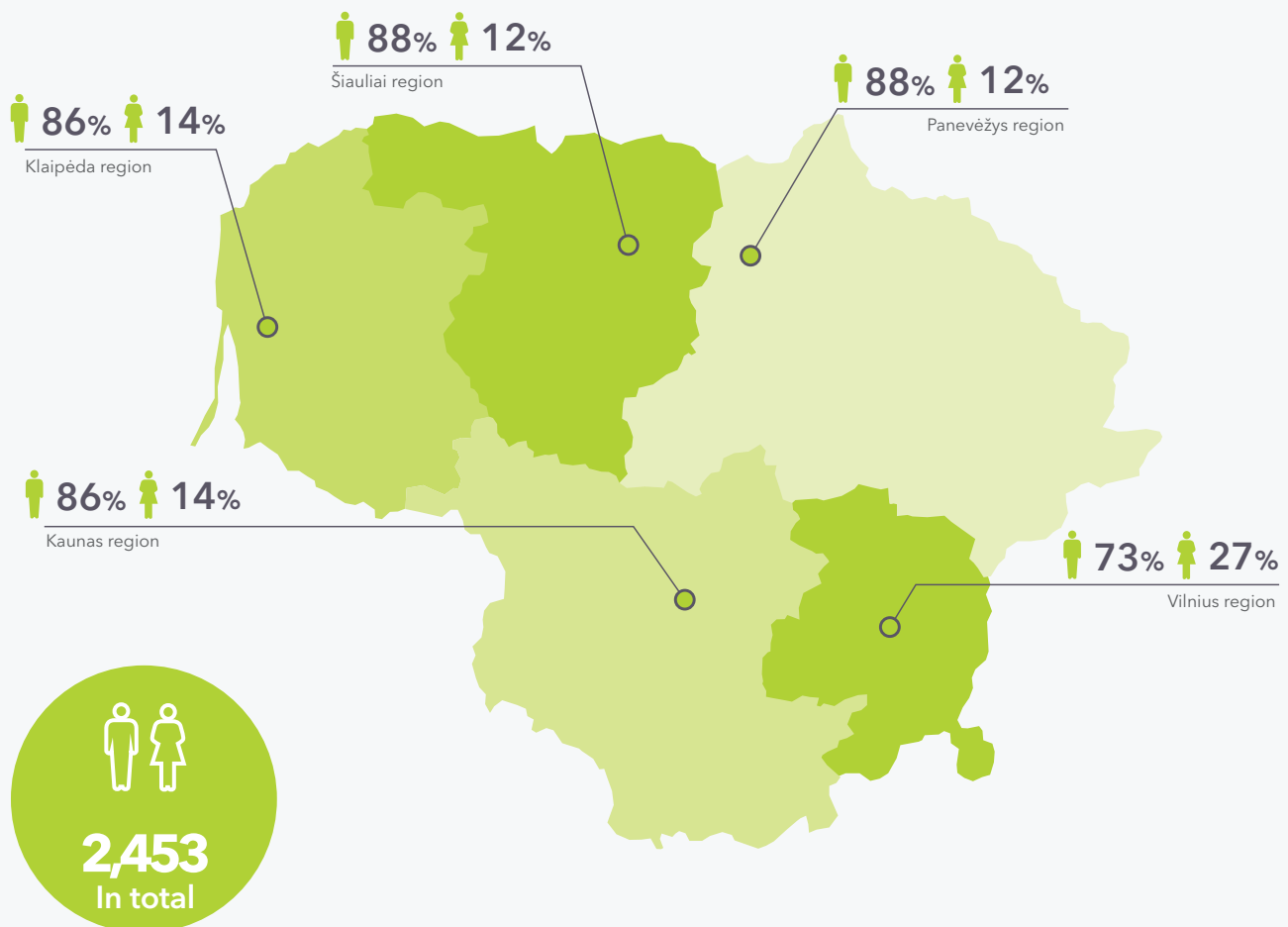
Monitoring of Equal Opportunities

The majority of the Company's employees consists of men. This may be accounted for by the specifics of pursued activities: fewer women choose work of the technical engineering profiles and jobs performed under outdoor conditions and specialities directly associated with them.

The distribution of gender among the Company's top-level executives: at the end of 2017, the position of ESO CEO and chairperson of the Board was occupied by a woman; positions of services directly subordinate to the CEO were held by men (4).

Ratio of lower-level heads of units at the end of 2017: managing positions were held by 163 men and 31 women.

Distribution of employees by region and sex (2017):



At the end of 2017, 2,503 staff members worked at ESO: men - 2,073, women - 432. Staff age average - 45 years: women's age - 41 years, men's age - 46 years. Average length of service of ESO employee is 15 years within the system: women's - 12 years, men's - 15 years.

Staff average age -
45 years

46 41

Average length of
service of ESO staff
member - 15 years

15 12

Management System for Employees Activity and Improvement

The management of employee activity is one of the most important ways of governance and effective management helping to achieve organisation's objectives and create positive relationships among managers and their subordinates, allowing planning employees' career, enhancing their motivation.

An annual conversation is a measure for the employee's activity management ensuring that their personal objectives would be set with consideration to the Company's objectives. The objectives are coordinated, approved and assessed in the electronic system. They should be measurable, specific, defined in terms of time, achievable and motivating. An annual conversation helps assess the achievement of objectives set by the employee and to determine the new ones, forms a feedback culture between the superior and the subordinate. During the conversation, opportunities for the improvement of employee competency, learning, and career are discussed.

In 2017, more than 80 percent of ESO employees participated in the process of annual conversation.

Seeking to implement the strategy of continuous performance improvement, the Company started to implement an Operational Excellence programme based on the principles of LEAN, Six Sigma methodologies. In 2017, the programme gained a momentum and reached all units of the Company during 2017. At the end of 2017 the Company reached the first level of excellence maturity and continues the programme further.

Main directions of operational excellence:

- Reasoned activity and flexible reaction to change by implementing and applying a meeting system for daily activity management;
- Standardisation and improvement of activity processes with consideration to customer needs;
- Fostering and implementation of employees' innovative ideas for improving daily activities seeking to shorten the duration of operations, reduce operating costs, improve occupational and environmental safety, increase customer satisfaction.



Occupational Health

By taking care of employees we organise regular medical examinations. In 2017, medical examinations were performed for 970 employees. Staff members working outdoors are vaccinated against tick-borne encephalitis (753 employees). All wishing employees are vaccinated against the flu (745 employees). Nearly EUR 30 thousand were spent for staff medical service in 2017.

	Health examination	Drivers' health examination	Vaccination against tick-borne encephalitis	Flu
Number of vaccinated employees				
Vilnius region	267	57	247	64
Kaunas region	219	72	148	238
Klaipėda region	155	58	81	133
Šiauliai region	126	31	179	134
Panevėžys region	268	84	98	176
In total	970	302	753	745

It is laid down in the collective agreement that a staff member who does not feel well may take 2 days a year for prophylactic purposes. In 2017, employees could choose additional benefits: health insurance or pension accumulation. In 2017, an assessment of professional risk was performed in 338 workplaces in Vilnius, Kaunas, Klaipėda, and Alytus.

In 2017, an Occupational Safety and Health management programme BS OHSAS 18001 was implemented and certified in all activities of the company. The effective management system will enable to ensure smoother legal requirements and other obligations assumed by ESO, manage hazards and risk, monitor and assess efficiency indicators, improve processes.

Education

The company constantly performs an educational activity within its structure: a section "Work Safely" was created and posted on the intranet where useful information is published, training is organised, different memos are prepared. In 2017, memos on the importance of personal protective equipment (protective clothing), quality sleep, efficient methods to quit smoking, environmental protection in daily life, etc. was published.

ESO educates employee and contractors by engaging more effective methods to this effect:



In 2017, the first video instruction on employee safety and health was created

In 2018, it has been to create other virtual training.

A tradition has also become operational excellence competitions in which ESO employees and contractors' representatives try out their hand in professional disciplines of different fields, demonstrate their abilities and competence. In the autumn of 2018, an opening of the training site for professional qualification improvement after a reconstruction is planned.

Sports Activity

ESO promotes a healthy lifestyle, sports activity and taking care of physical health among employees. In 2017, the Company established conditions for employees to go in for sports in 5 cities of Lithuania where staff members may play basketball or volleyball in gym facilities.



MARKET, INVESTORS AND CUSTOMERS

In the business environment, ESO seeks to maintain transparent relationships with all market participants – customers, partners, investors. Each year care is taken of the safety of energy supply, as well as economic and social benefit for society. ESO pays great attention to the development and upgrading of the electricity and gas distribution grids. An important aspect of this activity is in the field of environmental protection – better conditions to save energy, use it in a more rational way.

In 2017, the Ministry of Energy and ESO signed an agreement on energy savings. The saving initiatives implemented by ESO will help residents and business to save 1.6 TWh energy by 2020. The Company intends to implement measures enhancing energy consumption efficiency for end users, but not creating an additional financial burden. The most important ESO energy saving measures – investments into the infrastructure, smart accounting and fostering the development of producing consumers.

ESO efforts to improve the conditions of getting electricity have raised the rating of competitiveness of the whole Lithuania.

On 31 October 2017, in the rating “Doing Business 2018” announced by the World Bank Lithuania rose to 33rd place by the indicator of getting electricity, higher by 22 positions as compared to that a year ago.

ESO contribution to enhancing attractiveness of the whole country for investors and improving conditions for business engaged in development is better conditions of getting electricity. During recent years ESO connected two the longest lasting electricity getting processes, which enabled to shorten the duration of getting electricity and reduce the price. The World Bank measures the rating of getting electricity by 4 parameters in total: the number if procedures, time of connection, price of works, reliability of the grid, and price of electricity.

Investors

ESO seeks to maintain close relationships with existing and potential investors and ensure equal access to information for all of them.

ESO publishes basis preliminary operating results on a monthly, and detailed financial statements on a quarterly basis, also consistently reflects activities of the company in information circulated through exchange and media.

In November 2017, ESO presented 9-month results on the webinar organised by the exchange that could be accessed by all desiring persons. The Company's Board member and Director of Finance and Administration

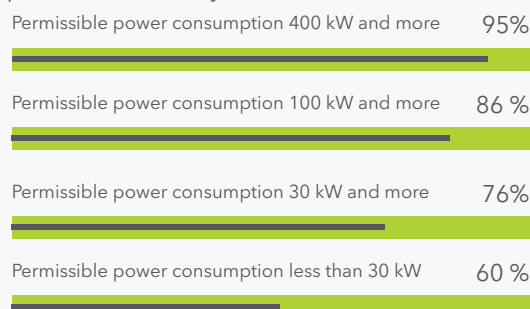
Department Private customers Corporate customers Augustas Dragūnas commented on the company's activity and financial results and answered the participants' questions after his presentation.

All shareholders and potential investors have equal access to information of the Company. ESO contacts with shareholders are maintained by employees of the Finance Department (contacts: Tel. no. +370 612 42767, email: investuotojams@eso.lt).

In 2017, no infringements any the rules of the securities exchange were recorded.

Marker Liberalization and Dialogue

On 31 December 2017, independent suppliers supplied electricity to 76,132 objects of commercial customers. Based on the Plan for the development of the Lithuanian electricity market approved by the Government on 8 July 2009, on 31 December 2017 an independent electricity supplier was chosen by:



To the remaining objects, electricity is further supplied by the guarantee supplier (ESO).

Number of customers served

On 31 December 2017, ESO had 1.615 mln. of electricity purchase-sale agreements with private customers and 72.798 thousand electricity supply or transmission services agreement with commercial customers (on 31 December 2016, it had 1.595 mln. agreements with private customers and 68.377 thousand agreements with commercial customers).

On 31 December 2017, 573.6 thousand private and approximately 10 thousand corporate customers who were ensured the distribution service were connected to the ESO gas distribution network.

Gas		
	Private customers	Corporate customers
	573,6 thousand	10 thousand
Electricity		
	Private customers	Corporate customers
	1,615 mln.	72,798 thousand



Customer Billing Management

During 2017, the number of customers who used remote service channels (self-service website www.manogile.lt. It and customer service number 1802) has increased, whereas customer flows to service centres in smaller towns did not reduce. At the beginning of 2017, the self-service website was adapted for general declaration and payment for electricity and gas. As of 31 December 2017, more than 518 thousand private customers were registered on the self-service website www.manogile.lt.



During 2017, information was furnished by the short customer service number 1802 to more than 1.172 thousand customers (during 2016, information was furnished to 1,179 thousand customers). The free line 1852 for malfunction reporting operated on a 24 h basis launched on 15 September 2017 was used by more than 51 thousand customers. During 2017, more than 210 thousand customers were served at customer service centres located in five major cities of Lithuania (during 2016, 263 thousand customers were served).

Operation and Development of Electricity and Gas Meters

During 2017, ESO replaced 112.084 thousand meters with expired metrological verification deadline, of which - 92.960 thousand electricity and 19.124 thousand - natural gas accounting meters. For new customers the company installed 24.489 thousand meters for electricity and 7,090 meters for natural gas.

By constantly renewing the operated electricity and gas meters, the Company and its authorised persons have performed operation works for over 875 thousand of electricity meters and more than 95 thousand of natural gas meters. During 2017, the Company installed 1,364 control accounting devices in the 10 kV electricity grid, also by increasing their number up to 2,738. This covers 77 percent of the total 10 kV network.

By investing into the modernisation and automation of electricity meters, during 2017 ESO hooked up to the existing automated data scanning systems in 6,702 objects of corporate customers. This way, the number of remote electricity meters operated by the company which data are scanned remotely achieved 36,475. The number of gas accounting meters scanned remotely remained the same - 1,212.

Automation of accounting meters provides with a possibility to bill automatically corporate customers for electricity consumed and to determine precisely the quantity of consumed natural gas.

Seeking to test the effectiveness and benefit to private customers, in 2017 the company presented results of the pilot project it had implemented. 2,927 customers were installed smart meters that enabled to use electricity more rationally and to save household expenses. The company's customers were able to see precise data, when and how much energy they consumed on the website at www.manogile. During the project participants could select a tariff plan adapted for four time zones enabling to change electricity consumption habits and cut down expenses. A four-zone tariff plan was chosen by more than 12 percent of the project participants. Results of the pilot project demonstrated that smart accounting may help residents save at least 7 percent of electricity. The Company evaluated also the benefit of mass installation of smart accounting devices. An analysis conducted by EY demonstrates that preliminary investments of EUR 219 million over a 4- year period would bring the county a total benefit of EUR 88 million. The Company will agree this project with the National Commission for Energy Control and Prices and other stakeholders.

ESO investments, mln. euros

	2017 12 months	2016 12 months
Renewal of electricity distribution grid	128,192	84,659
Development of electricity distribution grid	52,227	39,500
Construction and reconstruction of gas systems	34,931	16,499
Other (IT, control systems, etc.)	10,852	8,531
Total investments	226,202	149,188



SOCIAL INITIATIVES

Energy efficiency initiative "As much as needed"

The fostering of rational energy use is one of the priority directions of ESO social responsibility contributing to saving of environment and energy resources, as well as fulfilment of the country's obligations in performing the European Union climate change programme.

The initiative "As much as needed" is intended to create society traditions guided by rational behaviour, to offer rational ways of energy consumption for business .

In November 2017, ESO arranged a cycle of free public conferences "As much as needed for the industry 2017". During events held in five major cities of Lithuania, Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys, representatives and experts of progressive companies of the country shared the good experience and practical advice on energy efficiency. The cycle of conferences was attended by approximately 310 participants, of which 258 – from unique enterprises, mostly chief power engineers and executives.

One more business education tradition created by ESO is an annual conference "Energy efficiency solutions for competitive business" organised together with the newspaper Verslo žinios. In February 2017, already the sixth conference took place bringing together into one place installers of energy efficiency solutions, analysts, power engineers, representatives of the academic community. Guests of the event establish contacts, exchange experience and later adapt the knowledge acquired in their business. In the event of 2017 participation was taken by 241 representatives of the countries businesses. As compared to 2016, the number of event participants increased by nearly 9 percent.

Good will arrangement "The Green Protocol"

Not-indifferent companies and organisations of the country have been invited for a seventh year in a row to join "The Green Protocol" initiative.

Thus is the only one such type arrangement based on good will initiated by ESO whereby companies and organisations operating in different fields confirm that they are familiar with ideas saving the environment, fostering rational consumption of energy, approve these ideas and commit to apply them in practice.



Goals of the "Green Protocol" arrangement:

- to implement the measures for enhancing the energy consumption efficiency;
- to contribute to the environmental protection and reduction of greenhouse gas emissions (CO₂);
- to induce its employees, colleagues, family members to do this and this way to contribute to the creation of energy-saving society.

During 2017, this initiative was joined by 3 new companies (in total 214 companies have joined it).

Annually, companies are announced and rewarded that achieved the most at the energy efficiency fostering conference "Energy efficiency solutions for competitive business". In 2017, for progress (implementation of the ISO 5001:2011 energy efficiency standard and other measures fostering rational energy consumption) an award was granted to Orion Global Pet UAB.

Energy Saving Advice to Domestic Consumers

In 2017, corporate customers were sent newsletters on the topic of energy efficiency: about smart accounting, electric cars, energy efficiency conference. In total – 3 newsletters have been sent that reached over 1,500 enterprises.

Advice intended for domestic customers on the topic of energy efficiency are published in several channels – 9 stylised notices and advice were published on the social network Facebook.

Large corporate customers were also consulted live, by coming to their place. Customers were told how to use effectively energy resources, what consumption of their company was, advice how to save energy. In 2017 approximately 1,500 customers were visited.

Prevention of Corruption

ESO does not tolerate any manifestations of corruption and supports fair business and transparent communication with state institutions. Risk is reduced by effective complex internal control mechanisms aimed to identify common corruption risk factors. The prevention of corruption is one of the functions entrusted with the Prevention Division. The Prevention Division constantly exercises control over activities and take actions for correcting infringements, eliminating arising threats to the reputation of the Company. On 28 September 2015, a policy of zero-tolerance to corruption became effective in Lietuvos Energija group of companies. The

provisions of this policy have been brought to the attention of all ESO employees. On 5 April 2016, the rules for declaring private interests were approved on which basis all employees annually fill out declarations of private interests that were actively applied for each employee in 2017. The Company seeking to avoid any corruption risk factors cooperates with institutions and is prepared to provide any necessary information or assistance.

In 2017, ESO Prevention Division together with Lietuvos Energija and Prevencijos Tarnyba UAB actively contributed to the implementation of meetings and requirements of strategic significance related with joining by the Republic of Lithuania of the Economic Cooperation and Development Organisation (ECDO). After meetings and presentations on the ongoing corruption measures, both at ESO and Lietuvos Energija Group of Companies, ECDO lit a green light in the field of corruption prevention that was one of the most important spheres as an indicator in order Lithuania could become a member of ECDO.

Transparency

Transparent, fair and open business activity is one of the most important elements of impeccable business reputation.

Sociological and scientific research show that business companies that implement corruption prevention measures in their activity, long term acquire a competitive advantage with respect to other market participants long-term, protect and improve their reputation, are able to attract more investment and establish durable relationships with reliable business partners In accordance with Part 1 of Article 7 of the Law on Public Procurement of the Republic of Lithuania, using the Central Public Procurement Information System ESO announces all of its procurements with the exception of low-value purchases and technical specification projects, and, additionally, provide this information on its website, as well as publishes public procurement reports and provides information about ongoing procurements .

Among other qualification requirements, suppliers participating in procurement must provide proof confirming that for at least 5 years the supplier has not participated in any activities related to corruption, bribery, fraud, tax avoidance or money laundering (as specified in Part 1 of Article 45 of the European Council Directive 2004/18/EC). Companies participating in large public procurement projects, offering labour contracting services must provide relevant evidence of professional qualifications – a certificate of LST EN ISO 9001: 2001 (ISO 9001: 2001) standard or an equivalent standard certificate, or equivalent documents issued in the European Community Member States, certifying that the supplier's quality management system meets the relevant standard.

ENVIRONMENTAL PROTECTION

In its day-to-day activities, the ESO encourages the application of working tools, which reduce costs, quantities of pollution and waste, actively seeks to find ways to reduce the negative impact of energy facilities on people and the environment, invests in environmentally friendly modern technologies, contributes and organises initiatives involving the public and promoting responsible energy consumption.

Landscape Protection

By implementing a EU co-funded project. Instead of the old power lines, ESO constructs new, underground lines in localities where overhead wires became too thin, came dangerously close to plantations, whereas the old infrastructure causes many malfunctions. Cable lines are safer, ensure reliable electricity supply to residents and also allow enjoying a more beautiful landscape.

In 2017, 1,239 pcs. of old-type transformers were replaced with the new ones. In 2017, 20 pcs. of gas pressure regulators were reconstructed by destroying the old structures and building equipment cabinets that do not deteriorate the landscape.

Modern Technologies

In 2017, by continuing the project of a smart remote control system for diagnostics equipment in gas pressure regulators, commenced in 2016, 34% of the equipment was installed. In 2018, installation of the remaining part of the project will be finished that will enable not only to assure greater safety and reliability but will also reduce CO₂ emissions into the environment by approximately 157 t a year.

The goal of the project "Automation of cathodic protection security maintenance of the distribution gas pipelines by installing a remote monitoring and control system" is to enhance security and reliability of the gas distribution system by creating a progressive gas distribution system.

The project intends automation of cathodic protection maintenance of the distribution gas pipelines in 32 municipalities of Vilnius, Kaunas, Klaipėda, Šiauliai, and Panevėžys regions. Upon implementing the project – modernising 100 distribution pipelines by installing elements of the progressive infrastructure, reliability of the distribution system functioning will increase, as well as safe distribution of gas for users in the indicated territories.



In its day-to-day activities, the ESO encourages the application of working tools, which reduce costs, quantities of pollution and waste, actively seeks to find ways to reduce the negative impact of energy facilities on people and the environment, invests in environmentally friendly modern technologies, contributes and organises initiatives involving the public and promoting responsible energy consumption.

Out of 524 cathodic station equipment existing in the whole Lithuania protecting 4,117 km of the steel natural gas distribution pipeline, 144 cathodic station equipment will be renewed and modernised (protecting 1578 km of the steel natural gas distribution pipeline), 436 control measurement stations will be installed.

Environmental Protection Management System

In 2017, an international environmental protection management system LST EN ISO 14001 was installed and certified in all ESO. The implemented management system does not only help ensure smooth compliance with legal requirements, but also help better manage environmental protection aspects in the Company, follow and evaluate efficiency indicators, improve processes related with environmental protection, fulfil additional commitments to customers and society.



Atmospheric Pollution Management

Seeking to pollute the atmosphere from mobile sources to the smallest possible extent, ESO uses economic cars in its activity in order the emissions performance standards would meet high quality requirements of the standard.

The company operates 2 electric vehicles and 17 cars powered by the cleanest fossil fuel - natural gas. For comparison: CO₂ emissions of a 80 kW power vehicle powered by this fuel - 157 g/km, meanwhile that of petrol-powered 59 kW power vehicle - 191 g/km, whereas that of diesel-powered 55 kW power vehicle 167 g/km.

In three ESO objects, wind and solar power plants have been installed. Wind and solar plants are most often installed where there is no access to the electricity grid, whereas for the technological equipment of the gas system electricity is necessary. These renewable energy resources enable to charge batteries powering remote data collection and control equipment.

One of the most important goals of the Company in controlling and reducing air pollution with the help of technological devices is to deal with possible leakages when distributing natural gas.

Seeking to ensure the reliability of gas systems, maintenance of gas pipelines and equipment, repairs, reconstruction and modernisation are carried out. Seeking to prevent interruptions of gas transportation due to fault of third persons, ground excavation works are supervised, information on the performance of ground works in the gas protection zone, etc. is disseminated. To ensure safety and reliability of the gas system, 8.8 km of polyethylene gas pipelines were inserted in 2017.

Saving of Resources

By digitising documents, we reduce the consumption of paper: during 2017, the company used 2.5 t less office paper as compared to 2016. Based on the calculation methodology of the Lithuanian Nature Fund, 60 trees, 125 m³ of water and 6250 W of energy were preserved. We use recycled paper originating from forests managed in a responsible manner certified according to the FMA (Forest Management Agency) standards, not bleached with chlorinated compounds hazardous to the environment.

Upon installing nearly 3000 pilot smart meters in Vilnius, Šiauliai, Alytus, Šilutė, Trakai, Varėna, and Vilnius district in 2016, an analysis was made in 2017 and it was determined that residents save up to 6 percent of electricity a year.

In 2017, the following was preserved:



60
trees



125 m³
water



6250 W
energy

Campaign "Let's Do It 2017"

The environment management initiative "Let's Do It 2017" was joined and rubbish was collected in the spring of 2017 by approximately 200 ESO employees in different regions. Approximately 2 tons of rubbish was collected in total.

Initiative "Security Agents"

In 2017, ESO carried out an internal campaign "Security Agents". This initiative invites employees to notify on possibly unsafe electricity or gas infrastructure objects noticed during off-hours. During 2017, more than 30 notices with indicated facts and pictures illustrating the situation were received. This helped ESO specialists to respond and to deal with the recorded infringements faster.

SOCIETY

ESO implements broad range long-term social responsibility projects aimed at the general public, including the young generation. The company appeals by different means to everyone united by active involvement of local communities, target groups, safe behaviour and efficient energy use, as well as environmental conservation ideas.

Events for Society

On 17 April, the National Lithuanian Energy Association (NLEA), which unites the country's largest energy companies including ESO, traditionally celebrates the Day of Energy and invites the public to free events in the Lithuanian Energy and Technology Museum. Visitors may become familiar with the country's energy history, are involved into interactive games.

On 10 June 2017, the seventh TEDxVilnius conference of progressive ideas and inspiring stories held in Vilnius was also attended by the partner of this event ESO that introduced a stand inviting to commemorate 125th anniversary of the first lit bulb. More than 500 event participants visited the stand. This international scale event also presented different topics: painful personal experiences, psychological problems, propaganda and

political challenges, also inspiring stories were told on the future of humanity, inventions, technological achievements, nature wonders located in different corners of the world. The educational event TEDxVilnius was directly broadcasted on the internet.

Preventive Education of Residents

ESO seeks to foster responsible behaviour with electricity and gas distribution grid equipment, increase residents' awareness on safe behaviour and reduce negative consequences arising due to irresponsible or malicious behaviour of residents

In 2017, ESO continued an active cooperation with the Lithuanian Association of Elders of Local Authorities. Representatives of the Company's Prevention Division met with representatives of more than 40 different communities: elders, community leaders, politics, and media representatives. In the summer of 2017, an information campaign on theft prevention was held in the regions where the biggest number of thefts of ESO technological assets was recorded: in Biržai, Šalčininkai, Pasvalys, Jurbarkas, and Trakai. During the campaign, the current situation was presented and a discussion on the topics of thefts from ESO transformer stations, accident prevention was held. The meetings were attended by representatives of local communities, police, and the media.



ESO believes that the biggest help in fight against thefts is civil spirit of residents. Residents' notices help identify perpetrators in an expeditious manner, repair damaged equipment before the supply of power or natural gas to residents is interrupted.

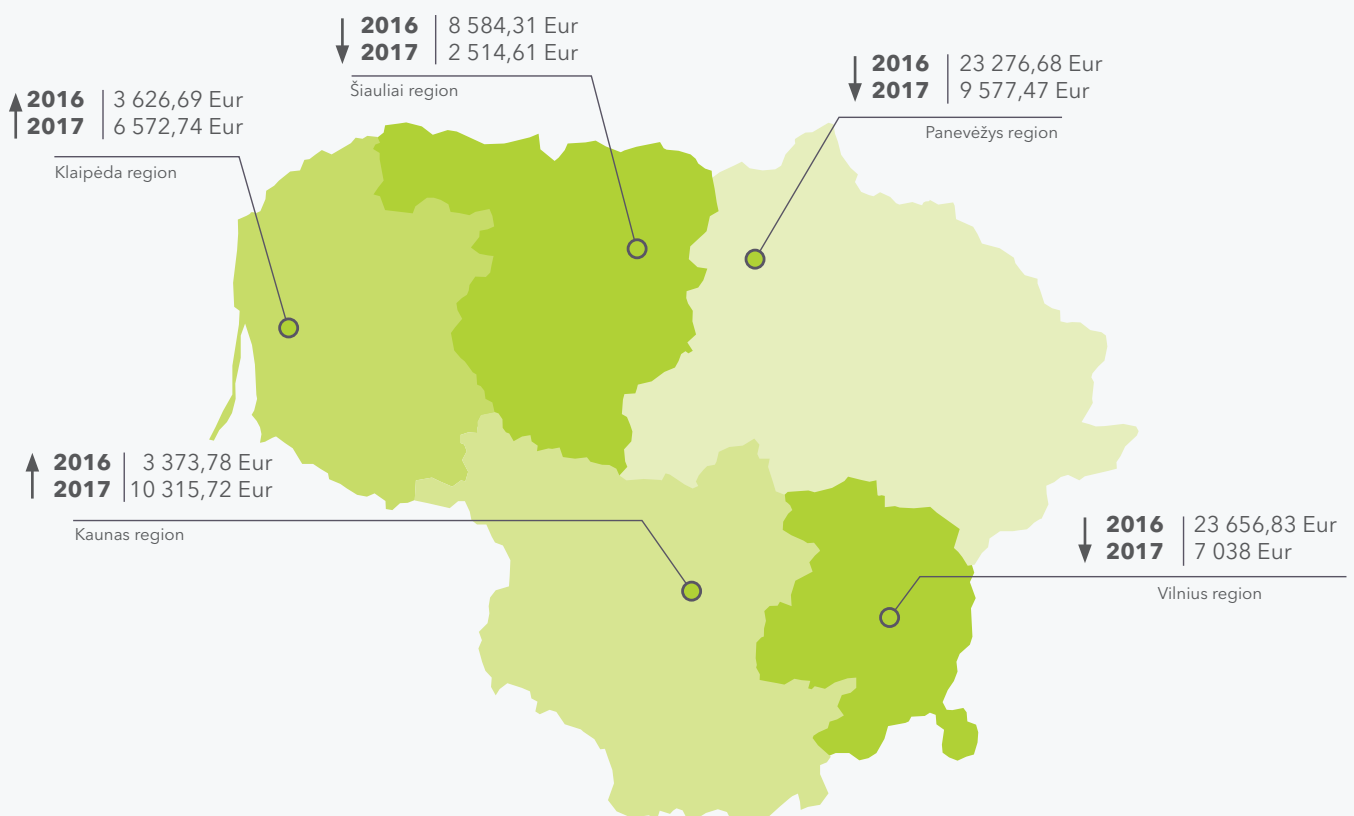
The main channel by which non-indifferent residents may appeal anonymously is the "Trust Line". At any time of the day it is possible to call by the short customer service phone 1802 or +370 611 21802, also write to email: pasitikejimolinija@eso.lt and notify of infringements noticed. In 2017, approximately 250 notices pertaining to possible thefts of electricity and gas grid equipment, fraud and deception, infringements of the zero tolerance to corruption posing risk to the reputation of the company were recorded.

Based on residents' notices, 4 cases of illegal electricity use, 3 cases of illegal gas consumption were recorded. In 2017, as compared to 2016, the total number of thefts in the fields of electricity and gas reduced considerably, except for the only one Klaipėda region where the amounts of losses increased.

Dynamics of Thefts in the Regions in 2017

Seeking to prevent thefts from facilities of distribution grids, ESO cooperates with other large Lithuanian companies which encounter similar problems, also an Association for Recycling and Municipal Waste Management Companies. In all units of the Company nation-wide attempts are made to involve local communities, a dialogue is search; ESO prevention specialists participate in meetings with elders, community leaders, representatives of local authorities and other institutions.

Dynamics of thefts losses by regions 2016-2017



Informational Safety Campaign "Safe Energy"

In July-August 2017, the national scale information safety campaign focused on the regions was carried out.

The main topics introduced to society: electricity thefts, what to do when a storm approaches, what security measures must be taken during its time, safe work near an electricity shepherds, etc. The campaign was developed on a national scale in all Lithuanian regions (in newspapers, magazines, major news portals and the Lithuanian national television).

Public Opinion Surveys

Each year ESO performs a survey intended for assessing customer satisfaction with the service quality.

According to data obtained in 2017, the level of customer satisfaction calculated according to GCSI methodology was higher by 7 points than the GCSI index of European Energy Companies.

ESO result – 78 points, whereas the average of European energy companies – 71, meanwhile the average of work companies – 73. The results demonstrate that private customers are more satisfied with services and service provided by ESO than corporate customers: private customers' satisfaction index – 78, whereas that of corporate customers – 74.

Support

ESO granted support in 2017 through the Support Fund of 'Lietuvos Energija', established in 2014. The fund combined and coordinated all of the Group companies' support for projects and programs relevant to the society. In the summer of 2018, the fund's activities were discontinued.

Responsibility for Society

ESO social responsibility Progress reports are prepared on an annual basis and are available in the Lithuanian and English languages. Reports are announced on the Company's website at www.eso.lt (section Social Responsibility), NASDAQ Baltic exchange website, and the Global Compact website at www.globalcompact.org.

ESO informs on this activity in its press releases, its website at www.eso.lt and website of the Ministry of Economy section "State-owned companies" (<http://vkc.vtf.lt/imoniu-socialine-atsakomybe/apie-isa>).

ESO report is prepared with consideration to the version of the Global Reporting Initiative Standards (GRI). This report meets the requirements of the specified version. No independent audit of this social responsibility Progress report has been conducted.



REPORT CONTENT AND ASPECT LIMITS

The content of the report was prepared with regard to ESO long-term strategy, conducted public opinion surveys on the Company, analyses of media monitoring, and upon assessing the most important aspects for the Company long-term, also policies enforced in the Company.

The information provided reflects both, positive and negative aspects of the organisation's efficiency aspects.

Information was collected and provided sufficiently consistently and in such a way stakeholders would be able to compare it with the efficiency of other organisations. The provided information is sufficiently precise and detailed to enable stakeholders to evaluate activities of the organisation. The report was submitted on time, within the set schedule. All information furnished in the report was presented in an understandable and clear manner. Information of the report is collected, analysed and disclosed in order to make sure of its quality and significance of the aspects.

Aspects significant for ESO company:



Economy:

Economic efficiency, Market,
Indirect economic impacts



Environmental protection:

Biological diversity,
Products and services



Social sphere:

Education and training,
Local communities,
Non-discrimination



						
	CUSTOMERS	SOCIETY	REGULATORY INSTITUTIONS	ENERGY SECTOR	SHAREHOLDERS	FOREIGN INVESTORS
Assurance of electricity and natural gas distribution activity	+	+	+	+	+	+
Operational efficiency and transparency	+	+	+	+	+	+
Fast restoration of electricity and gas distribution grids after emergencies	+	+	+	+	+	+
Security of electricity and natural gas grid equipment	+	+		+	+	+
Expeditious informing and fast problem-solving	+	+	+	+	+	+
Reduction of visual pollution	+	+		+		+
Partnership in conducting electricity efficiency surveys and social responsibility projects	+	+		+	+	+
Impact of electricity and gas grids on animals and nature		+	+		+	+
Noise level of equipment		+				+

Aspects significant for stakeholders:

Limits of significant aspects within the Company and outside its limits

Significant aspects	Limits of the aspect s	Impact group
Economic efficiency	Internal and external	Shareholders
Market	External	Customers, shareholders, energy sector
Indirect economic impacts	External	Customers, shareholders, energy sector
Biological diversity	External	Regulators, society
Products and services	External	Customers, society
Education and training	Internal	Employees
Non-discrimination	Internal and external	Employees, regulators
Local communities	External	Society

Involvement of Stakeholders

ESO seeks to create a dialogue with all stakeholders. Representatives of stakeholders have been also sought to be involved into the preparation of this social responsibility report. The Company identified the following stakeholders:



Main Requirements for Identification of Stakeholder groups and their Selection

The main strategic direction of the Company is to increase the Company's value long-term. 5 main groups of the stakeholders are distinguished and stakeholders are indicated in them. The groups of these stakeholders were analysed when preparing an ESO investment plan for 2018-2027.

Seeking the identified goals, it is important to balance the needs of all stakeholders: shareholders, customers, investors, employees and different society groups. ESO has a crucial importance due to the specificity of its services provided outside the Company - electricity and natural gas distribution activity is significant in all economic levels, therefore also for each resident of the country.

Internal stakeholder groups were selected by relying on the Company's long-term operational strategy. External stakeholder groups were selected on the basis of effective national and EU legal acts regulating the Company's activity, also the Company's experience in cooperating with population groups.

The Company's Attitude towards the Involvement of Stakeholders

ESO seeks to actively cooperate with each identified stakeholder group. Both, the Company's employees and the management were involved into the preparation of this report. Specialists responsible for the development of responsible activity identified with consideration to ongoing activities and cooperation, and, while preparing for the presentation of ESO investment plan, included into the surveys of stakeholders also questions about specific fields of responsibility.

Index according to GRI

List of General Accounting Indicators		
Indicator code according to GRI standards	Description	Page in the Social Responsibility Report
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GRI 102-2	Activity, main trademarks and services of the Company	10
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List of the Company's impacts and specific indicators			
Impact	Description, disclosed governance method and indicator	External inspection	Page / Source
Economy			
Economic efficiency	Direct economic benefit received and distributed	Performed	Annual Report 41
Market	Comparison of employees' remuneration with the minimum wages	Not performed	Social Responsibility Report 18
Indirect economic impacts	Development and impact of investment into the infrastructure and services	Performed	Annual Report 66-69
Environmental Protection			
Biological diversity	Conserved and restored habitats (G4-EN13)	Not performed	Social Responsibility Report 26
Products and services	Environmental impact mitigation measures for the company's products and services (G4-EN27)	Not performed	Social Responsibility Report 27-29
Social Sphere			
Education and training	Programmes intended for improvement of employee skills and lifelong learning assuring the continuity of employee's working capacity and contributing to career management (G4- LA10)	Performed	Annual Report 69-71
Non-discrimination	Number of discrimination incidents and actions taken to solve incidents related with human rights violations (G4- HR3)	Not performed	Social Responsibility Report 15
Local communities	Units in which local communities are involved by assessing the impact or development programmes (G4-SO1)	Not performed	Social Responsibility Report 27-28

