

2016

Energijos Skirstymo Operatorius AB

PROGRESS REPORT ON SOCIAL CORPORATE RESPONSIBILITY

2017 04 28



eso

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ABOUT THE PROGRESS REPORT

Energijos Skirstymo Operatorius AB (hereinafter – ESO, the Company) is a member of the “Global Compact” initiated by the United Nations and submits an annual progress report 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 to participate in the process of solving social and environmental problems, and contribute to the development of society and economic growth.

This is the first Progress Report on social corporate responsibility of ESO established in 2016 upon merging LESTO AB with public company Lietuvos Dujos.

As a separate document, the Progress Report has been prepared by LESTO AB annually, since 2012, and provided in Lithuanian and English. The public company Lietuvos Dujos disclosed activities in social responsibility in the company’s periodic financial statements.

ESO Report for 2016 is published on the Company’s website at www.eso.lt (in the social responsibility section), on the NASDAQ Baltic stock exchange website, as well as the Global Compact website www.globalcompact.org.

This Progress Report presents ESO activities carried out in the field social responsibility in 2016: relations with clients, market participants, activities associated with environmental protection, as well as relations with employees and the public. The Report outlines strategic directions, actions and achievements in the field of social responsibility.

Please email any questions, comments or observations regarding the content and improvement of social responsibility report at ks@eso.lt.

During 2016, no feedback on reports for 2015 or ongoing responsible activities have been received from the stakeholders.

Accountability for Society

Progress Report of ESO responsible activity is prepared in Lithuanian and English. The report is published on the Company’s website at www.eso.lt, website of the securities exchange NASDAQ Baltic, and website of the Global Compact www.globalcompact.org.

ESO announced about this activity in press releases, informs on the website www.eso.lt and the website of the Ministry of Economy “State-Controlled Companies” (<http://vkc.turtas.lt/imoniu-socialine-atsakomybe/apie-imoniu-socialine-atsakomybe>).

ESO report was prepared with consideration to the methodology of Global Reporting Initiative (GRI). No independent audit of this report has been conducted.

CEO’S FOREWORD



Dear Reader,

By introducing the first activity responsibility report of ESO – merged electricity and gas operators – I speak not as a manager of this company, but as one of the more than one and a half million customers daily using gas, electricity and observing how services provided by ESO become easier and faster accessible, help save my time, finance, and energy.

I believe that a responsible attitude and transparent responsibility, perception of one’s impact on the environment and an endeavour to reduce it create a value to society and the market – therefore we try to share it actively. Our services help leading an easier and more comfortable life at home, and seeking a competitive advantage in business.

The year 2016 clearly demonstrated the synergy and value of the merger of the organisation contributing to the saving of resources and energy – an important goal of the operator in creating a sustainable and responsible environment.

We seek that every ESO employee would follow a responsible approach to customers and environment, as the territory of our activities covers the whole country. Besides, it is very important that our attitude towards quality and responsibility, especially when talking about safe work and environmental protection, would be very important values for both, our partners, contractors, and suppliers.

By renewing the infrastructure of electricity and gas grids under our management, we implement innovations and optimise operational resources – this enables us to ensure a high quality of services, reduce prices, save resources. One of the innovations successfully developed since the middle of 2016 – a pilot smart accounting project helping residents to save energy, change their consumption habits with the help of modern technologies.

Business has been actively interested in the topic of energy efficiency enhancement – this is evident from conferences generating huge interest we have organised for already six years.

However, it is relevant for us not only to share the accumulated expert experience or innovations implemented in the market. With the change of world trends, growing demand for energy efficiency and renewable sources, it is especially important for us to assume responsibility and leadership, as well as prepare for changes in Lithuania.

Our society has changed too: growing public spirit has manifested in the increasing number of people who do not remain indifferent and notify of any unethical, irresponsible behaviour they have noticed, take care of the safety of our grids infrastructure. It is great that the initiatives of fostering the public spirit and anti-corruption are bearing fruit.

I am pleased that during 2016, a year of changes, we did not deviate from the goal we have set – to organise our activities in a responsible manner, with consideration to communities in which we operate. This is proved by the national award of the most Community-Minded Company received for close and active long-term cooperation. Once again, we will confirm the importance of cooperation and harmonisation with external environment when drafting our 10-year investment plan – we will coordinate it with the stakeholders.

By inviting to become familiar with what we have done in the field of responsible business in 2016 I assure you that ESO will further seek to operate in a responsible and active manner in creating a more sustainable future relying on good practices of electricity and gas operators.

Sincerely

Dalia Andrulionienė
CEO of Energijos Skirstymo Operatorius AB
and Chairwoman of the Board



PRINCIPLES AND PRIORITIES OF RESPONSIBLE ACTIVITY

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

The basis of ESO responsible activity – energy efficiency enhancement by inducing the public and business to save energy resources, as well as to change consumption habits. The substance of bilateral responsible partnership between business and the public – 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 – by ethical behaviour based on partnership on an equal footing with its employees, attention to their work environment and safety. ESO employees transpose such practice to external relationships with customers, society and environment.

ESO also encourages other companies to join the expansion of responsible activities based on sustainable development principles. Cooperation and sharing good practices lead the country and society to social and economic welfare.



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

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

Responsible and sustainable development of ESO means an assurance of the reliability of infrastructure that contributes to the economic and social development without causing imbalance with the environment. The development of innovative technologies carried out in a timely and reasonable way, concerted satisfaction of needs of employees, customers and society reduce an impact on the environment to the maximum extent.

ESO also defines the directions of responsible activities by the UN Global Impact principles and obligations to act responsibly in the Lithuanian Responsible Business Association (LAVA) where it shares the accumulated experience and good practice.

The Company implements these principles through focused daily activity in the following fields:

1. Economic responsibility
2. Employees
3. Environmental protection
4. Society and communities

Priorities of the responsible activity:

- Enhancement of energy efficiency and reduction of the environmental impact by saving energy and resources
- Responsible behaviour with electricity and gas (for both, customers and employees)
- Occupational health and safety



By 2020, it has been planned to cut down the duration of connecting new customers to the electricity and natural gas distribution grid: to the gas grid – from 177 to 85 days, and to the electricity grid – from 66 to 50 days. Upon reducing the process of hooking-up new customers, the results of Lithuania in the World Bank rating *Doing business* will be improved, as one of its constituents is “Getting electricity”.



Economy:

Efficiency
Transparency
Market



Environment:

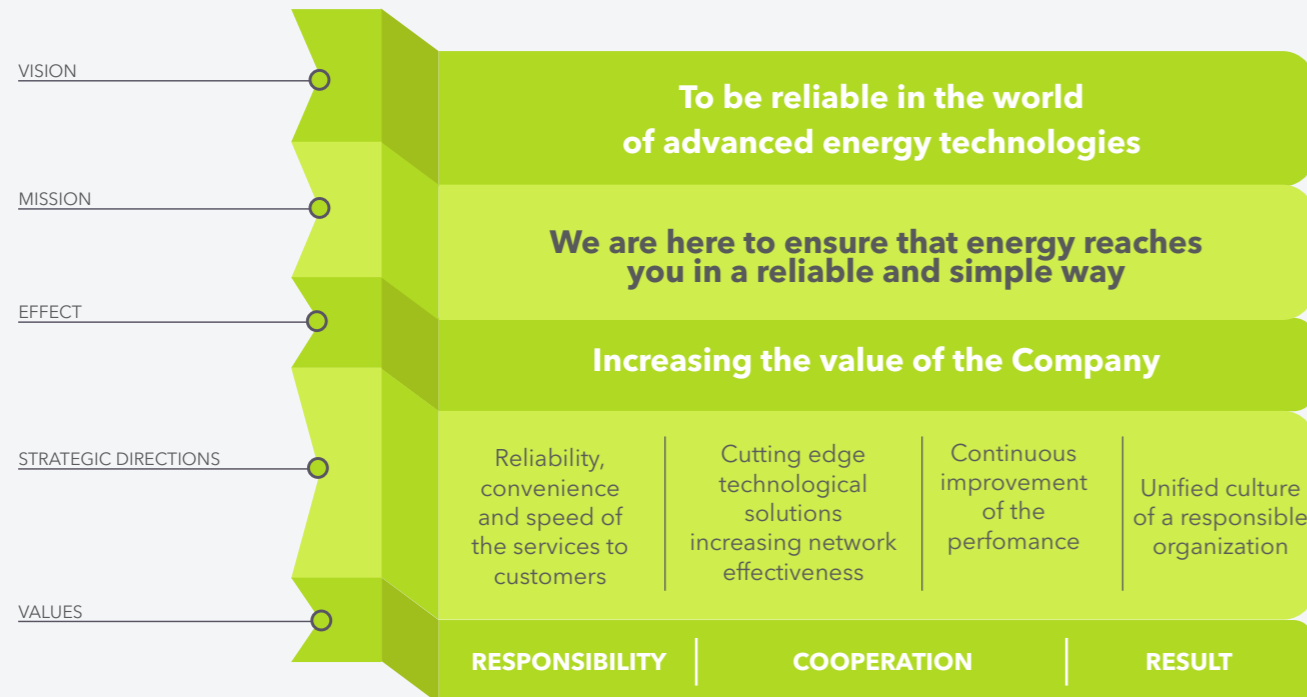
Equipment
Resources
Services



Social area:

Employees
Community
Society

Scheme of ESO Operational Strategy



ESO Values, Strategy and Objectives

ESO bases the implementation of its mission, achievement of its vision and all activities by the following core values:

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

These values express the approach that we constantly feel responsibility for our actions, work concertedly and always seek the best result for stakeholders in a responsible way.

ESO long-term operation strategy for the years 2016–2020 is based on the organisational culture relying on service reliability, expeditiousness, effectiveness, common values, high reputation and continuous improvement.

The strategy foresees that operational efficiency will be further enhanced and by 2020 operating expenses will reduce by more than 10 percent. Seeking to ensure quality, safe provision of electricity and gas distribution services, it has been planned to increase

investment by 45 percent until 2020 and to channel funds to the improvement of technical condition of the electricity and gas distribution grids.

ESO will seek to improve substantially reliability of the electricity distribution grid. It is planned that by 2020, the system average interruption duration index (SAIDI¹ with force majeure) will reduce to 87 min, the system average interruption frequency index per customer (SAIFI² with force majeure) will reduce accordingly to 0.94 time. ESO will seek also to maintain high reliability indicators of the natural gas distribution grid.

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.

¹SAIDI – System Average Interruption Duration Index

²SAIFI – System Average Interruption Frequency Index



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;**
- **Society**
- **Employees**
- **Shareholders**
- **Regulator**
- **Contractors**

ESO strategic directions reflect interests of the most important stakeholders. Each strategic direction is associated with one or several stakeholders.



ESO defines its responsibility and in its activities relies on the following documents:

- Documents valid for companies of Lietuvos Energija groups:
 - Social responsibility policy
 - Zero tolerance to corruption policy
 - Employee safety and health policy
 - Human resources management policy
 - Information security policy
 - Aid granting policy
 - Customer service standard
- ESO Collective agreement

ABOUT THE COMPANY

ESO has become operational since 1 January 2016, after the merger of the electricity distribution operator LESTO AB and the public 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 the public 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; besides, the Company 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.

Shareholders

Based on data as of 31 December 2016, the number of ESO totalled 8,841.

Lietuvos Energija UAB holds 94.98 percent of the Company's shareholders, households – 4.24 percent. Financial institutions, insurance and other companies hold 0.77 percent of ESO shares.

ESO Key Performance Indicators

ESO net profit in 2016 amounted to EUR 92.5 million and was bigger by 8.2 percent than in 2015, when the consolidated net profit of LESTO AB and the public company Lietuvos Dujos in 2015 amounted to EUR 85.5 million. The growth of net profit determined increased income and reduced operating expenses.

Last year ESO income amounted to EUR 650.1 million and was bigger by 1.9 percent than in 2015, when they equalled to EUR 637.9 million. Income grew due to bigger distribution volumes of electricity and natural gas. In 2016, the company's operating costs totalled EUR 98.6 million – 11.5 percent less than in 2015, when they equalled EUR 111.3 million. In 2016, ESO distributed to customers 8.98 billion kWh of electricity and 7.39 billion kWh of natural gas – more by 5.2 percent and 8.3 percent accordingly than in the year 2015.

In 2016, ESO paid to the state budget EUR 61.8 million in taxes.

See Chapter "Analysis of financial and operating results" of ESO audited annual report for 2016 (page 56)

92,5 m €

Net
profit

61,8 m €

Taxes for
a state

8,98 B kWh

Distribution
of electricity

7,39 B kWh

Distribution
of natural
gas

Quality of Electricity Supply

The impact of force majeure, the system average interruption duration index (SAIDI) per consumer amounted to 172.9 min during 2016, and, as compared with 2015, increased by 66.4 min (in 2015, SAIDI amounted to 106.5 min).

The system average interruption frequency index (SAIFI), bearing the impact of force majeure during 2016, was bigger by 1.25 time – more by 0.19 time than in 2015, when it was 1.06 time.

Grid supply quality indicators	2016	2015	Change
ELECTRICITY			66,4
SAIDI, min. (with „force majeure“)	172,9	106,5	0,19
SAIFI, psc. (with „force majeure“)	1,25	1,06	
GAS			-0,505
SAIDI, min. (with „force majeure“)	0,529	1,034	-0,001
SAIFI, psc. (with „force majeure“)	0,006	0,007	

For more detailed information see ESO audited Annual report for 2016, Chapter "Quality of Electricity Supply" (page 59).

CORPORATE GOVERNANCE

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

- General meeting of shareholders;
- Collegial supervisory body – the Supervisory Board;
- 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 shareholder had any special control rights, and the rights of all shareholders were equal. The Company's management bodies established proper conditions to exercise the shareholder rights during the reporting period.

Supervisory Board

Supervisory Board of ESO – a collegial supervisory body. The Supervisory Board 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 Board elects from its members a chairperson of the Supervisory Board.

See Chapter "Supervisory Board of the Company" of ESO audited annual report for the year 2016 (page 83).

CORPORATE GOVERNANCE



GENERAL MEETING OF
SHAREHOLDERS



COLLEGIAL SUPERVISORY BODY –
THE SUPERVISORY BOARD



COLLEGIAL MANAGEMENT BODY –
THE BOARD



SINGLE-PERSON MANAGEMENT
BODY – CEO

Audit committee

The 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 efficiency of the internal control and risk management systems of Lietuvos Energija UAB and companies in its group of companies, 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 complies with the principles of independence and objectiveness, to submit relevant recommendations;
- to observe processes of audit conduction at Lietuvos Energija UAB and companies of its group of companies, to assess the efficiency of audit and 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 of companies, to analyse the need for this function and the suitability thereof, to submit recommendations on the necessity of the internal audit function, efficiency and other issues associated with internal audit.

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

See Chapter "Audit Committee" of ESO audited annual report for 2016 (page 83)

The Board of the Company

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

See chapter "The Board of the Company" of ESO audited annual report for 2016 (page 84)

CEO

The manager of the Company – CEO – is single-person management body of the Company. The CEO's competence, election and withdrawal procedure 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.

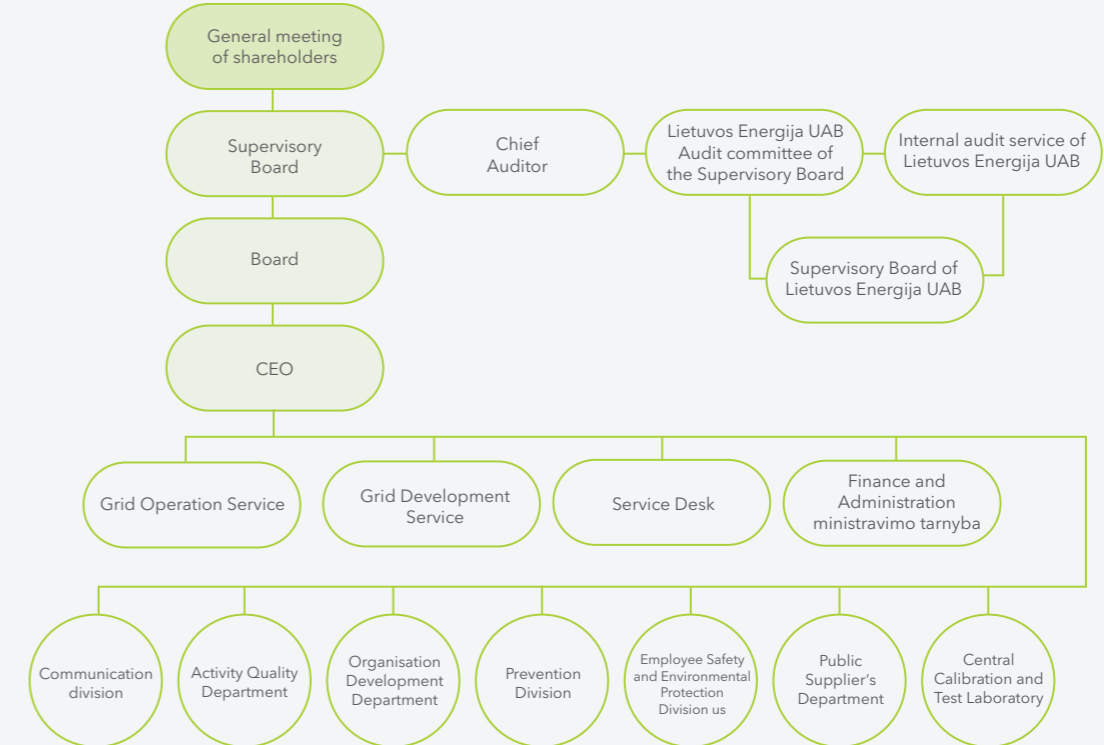
See Chapter "CEO" of ESO audited annual report for 2016 (page 86)

Membership in Organisations

In 2016, ESO participates in activities of the following Lithuanian and international organisations:



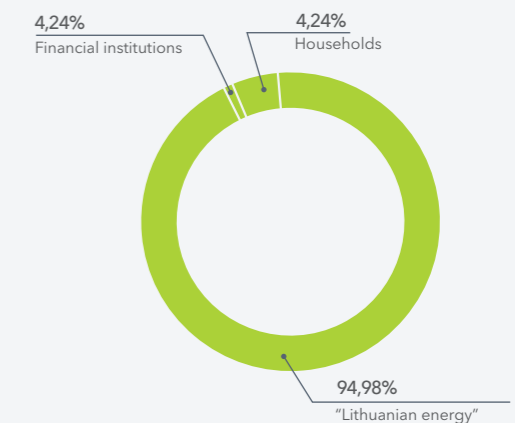
ESO Governance Structure



Shareholders Structure

Country	Number of shareholders
Lithuania	8549
Estonia	84
Russia	49
Latvia	41
Belarus	39
USA	17
The Great Britain	11
Other countries	51
Total	8 841

Distribution of the shareholders by groups



Shareholders who held more than 5 percent of the issuer's authorised capital as of 31 December 2016

Shareholder's name, surname (company's name, legal form, legal office, code)	Number of ordinary registered shares belonging by the right of ownership to the shareholder, psc.	Available share of the authorised capital, percent	Share of votes carried by the shares held, percent
Lietuvos Energija UAB, Žvejų str. 14, LT-09310 Vilnius, Enterprise code 301844044	849 743 761	94,98	94,98

Description of the Supply Chain

ESO performs the functions of distribution of electricity and natural gas, and guarantee supply, also the function of a public electricity supplier. ESO activity is regulated, therefore when acquiring electricity or natural gas the Company must comply with the price level estimated by the National Commission for Prices and Energy Control by making objective assessments.

The Company purchases electricity and natural gas necessary for residents, companies or its own needs seeking the best acquisition price. The major part of electricity is acquired at exchange prices where every hour a different price is formed, depending on the formed supply (production) and demand (need/consumption); besides, electricity is bought up under bilateral contracts from the producers connected to the Company's distribution grid (the majority of whom use energy from renewable resources).

Natural gas for technological needs and assurance of the guarantee gas supply under bilateral contracts. Besides, ESO has a possibility to acquire gas also in the gas exchange.

ESO also acquires different goods, services and works necessary for assuring an effective operation of the Company from suppliers operating on the market. Such purchases are carried out in accordance with the Law on Public Procurement. During 2016, Verslo Aptarnavimo Centras UAB (VAC), which performs the purchase function for the Company, executed over 1,700 public procurements and signed over 170 agreements.

Risk Assessment, Adherence to the Precautionary Principle

Risk is understood at ESO as an effect of uncertainty on objectives. Uncertainty is explained as a condition associated with the shortage of information for perceiving a possible effect or probability of event (if full information on risk probability and effect is available, then this is deemed an event). An effect is explained as a deviation from expectations that may be both, positive and negative. Objectives are understood as being of different level, from individual employees to the Company's strategic ones (strategic, organisational, project, product, processes, etc.).

Risk identification, analysis and management are carried out systemically, in accordance with the uniform Risk Management policy in Lietuvos Energija group of companies, and the Risk Management Procedure approved in the Company, also other internal legal acts associated with risk management. The Company's risk management system is based on COSO (Committee of Sponsoring Organizations of the Treadway Commission) ERM (Enterprise Risk Management), AS/NZS ISO 31000:2009 (Risk Management – Principles and Guidelines), ISO/IEC 27005:2011 (Information Technology – Security Techniques – Information Security Risk Management) principles.

See ESO audited annual report for 2016 (page 66).

TRANSPARENCY

Transparent, honest and open business activity is one of the most important elements of the irreproachable business reputation. Business communities that implement corruption prevention measures in their activity, 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.

ESO takes special care of the transparency of procurements. 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 requirements, participating suppliers must provide proof confirming that for at least 5 years the supplier did not participate 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 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.

In 2016, while participating in activities of the Lithuanian Responsible Business Association, ESO actively contributed to the creation of the "Anticorruption Manual for Business" initiated by the Special Investigations Service prepared in cooperating by the public and private sectors.

The manual was made public on the International Anticorruption Day – the 9th of December – and is a methodological tool of practical application aimed to help create an anti-corruption business environment, enhance transparency and responsibility.

Corruption Prevention

ESO does not tolerate any manifestations of corruption and supports fair business and transparent collaboration with all stakeholders. Corruption prevention is one of the functions pursued by the Company's Prevention Division.

In 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.

The risk is reduced by complex control mechanisms operating in the Company aimed to identify possible corruption risk factors. The Prevention Division constantly

carries out control over activities and takes actions to eliminate the detected violations, remove pending threats to the Company's reputation.

A trust Line (1802, +370 611 21802) functions in the Company; it is possible to inform also anonymously by e-mail pasitikejimolinija@eso.lt.

In September 2016, ESO also approved the Trust Line Policy outlining the principles of operation thereof, as well as raising awareness of employees and third parties, establishing the conditions for them to express their concern about any noticed possible violations. The Trust Line Policy emphasizes absolute protection of notifiers.

In 2016, 262 notifications relating to possible corruption manifestations were received by the Trust Line:

- In cases when employees go beyond their official capacities and the suspicions turn out to be true after an internal investigation, such employees are immediately dismissed from office.
- In the cases when ESO employees notify themselves about offers from outside to take a bribe

EMPLOYEES

The biggest asset of ESO in seeking the objectives set are its employees. The Company is focused on continuous improvement of employee skills and formation of the organisational culture, thus assuring the creation of greater value to customers, partners and society.

As of 31 December 2016, the number of employees totalled **2 615**³.

Structure of ESO Employees by Categories:

Employee category	Number of employees
	31.12.2016
CEO	1
Top-level management	6
Middle-level management	153
Experts, specialists, blue-collar workers	2 455
All employees	2 615

Structure of ESO employees by education:

Education	Number of employees
	31.12.2016
Higher	1 504
Junior college	891
Secondary and vocational	220

³ The number of actually working staff members is indicated that does not include employees on pregnancy and childbirth, or child-care leave and on military service.



Transparent and clear remuneration system

ESO has installed an innovative employee remuneration system that enables it to align with 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 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 effectively manage the Company's costs and ensures that ESO strategic objectives and business management logics 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 and non-financial remuneration; also an emotional satisfaction of employees if important. The financial remuneration system covers a part of the remuneration indicated in the agreement payable on a monthly basis, whereas upon achievement of the set operating results – a variable part of the remuneration, and benefits stipulated in the Collective agreement (for overtime, night work, etc.).

A non-financial remuneration is an indirect form of reward to employees, used for fostering the employees' efforts, involvement and loyalty, enriching the employees' welfare and activities in the Company. These are different events and activities for employees, acknowledgement and evaluation of their achievements, health promotion, education of employees, etc.

An emotional satisfaction of employees is deemed a factor having to have huge significance for the employees' involvement, covering also the Company's reputation, organisational culture, values and provided career opportunities, different programmes for the promotion of internal development, possibilities to implement one's ideas, etc.

Trade Unions

The Company supports the clustering of employees into volunteer trade unions and closely cooperates with them, maintains a constructive social dialogue. Once a quarter meetings are organised aimed to discuss strategic projects carried out in 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.

In total, 7 trade unions which bring together approximately 20 percent of the Company's employees operate in the Company.

A joint representation of trade unions has been formed out of them. The chairwoman of the joint representation, Ms. Dalia Jakutavičė took part in preparing legislative proposals for the social model in 2016.

Members of trade unions actively participate in different events and training organised by professional unions or their associations. In 2016, trade unions organised for their members a sports game of Industry trade union employees, a professional mastery competition, seminars on labour law issues. A part of trade union members attended international seminars organised by the European Trade Union Institute, visited different energy companies in Poland.

Collective Agreement

In 2016, ESO renewed its collective agreement ensuring greater protection and additional benefits for employees. The goal of the collective agreement – to represent rights and legitimate interests of all employees. The agreement establishes labour, remuneration, social, economic and professional conditions and guarantees that are not regulated by the laws and other regulatory enactments. Employees are applied additional guarantees (benefits

in case of accident, disease, death of family members, support after the birth of a child, additional days of paid leave after the birth of a child, contracting a marriage, etc.).

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 the matching of employee competence. Especially much attention is devoted to the training ensuring an effective and quality maintenance of electricity and gas distribution grids, customer service and occupational safety.

In 2016, mandatory professional training was attended by 1556 employees⁴ who received permits authorising to perform special works.

Employees attended programmes for emergency electrical plant diesel operator, steeplejack, operator of lifting platforms and its equipment, cutter of tree and bush branches, emergency aid and hygiene skills, as well as participated in other programmes.

In 2016, 2,739 participants attended training for the general competency development. General training are organised by both, sending individual employees to seminars and conferences organised by external suppliers (in Lithuania and abroad), and forming groups inside the Company.

ESO involves into the competency development programmes internal lecturers having specific knowledge and skills, as well as capable of sharing them with others, also invest into the ability of these employees to conduct training. During 2016, 3,273 participants attended internal training. A great part of such internal training was intended for the development of energy staff in order to enhance the quality of occupational safety and customer service.

To ensure the efficiency of internal processes of the company, employees are familiarised with initiatives and programmes implemented in the Company, for example, operational excellence, employee activity management programmes.

In 2016, ESO employees studied for 40,693 hours. The number of training hours per employee – 19.06 hours.

Training was attended by 2,135 ESO employees. This accounts for nearly 80 percent of the total number of employees.

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

In 2016, ESO also partly funded studies of 15 employees at Lithuanian higher education institutions seeking to improve staff qualification and develop leadership competences. Employees have a possibility to study in energy and managerial study programmes associated with the Company's activity.

In 2016, two ESO employees achieved excellent results in master's studies in leadership at ISM University of Management and Economics: Darius Bagdonas was recognised the best graduate of master's studies in leadership, and Ignas Pranskevičius – the person who wrote the best final master's thesis.

⁴Here and anywhere else in the chapter "Staff Competency Development", training participants are called not unique ESO employees, but the total number of participants is indicated, i.e. a part of employees could have participated in training more than once.

Average remuneration of ESO employees

Employee category	Average remuneration, EUR	
	2016 January-December	
CEO	6 472	
Top-level management	4 754	
Middle level management	2 036	
Experts, specialists	1 017	
Blue-collar workers	760	
All employees	1 033	

Employees trainings 2016

40 700
Training hours

19,06 hours
Per person



30 %

trainees who were
employed by ESO



272
new employees

Traineeship and Employment Opportunities

ESO actively cooperates with educational institutions and establishes the conditions for students of universities and colleges to apply theoretical knowledge and to acquire practical skills. During 2016, 46 students went on placement in ESO in the whole Lithuania. 45 of them were citizens of Lithuania, and 1 – of Jordan.

The youngest trainee was 20 years, and the oldest – 30 years. Traineeships lasted from one month to half a year. The ratio of male and female trainees – 31 / 15 (67 percent / 33 percent). The most popular traineeship periods – summer and winter seasons.

ESO is an open organisation and provides the young specialists with possibilities to disclose their abilities: 14 trainees after the traineeship became permanent ESO staff members. This accounts for as many as 30 percent of all trainees.

Practical training in the Company is attended not only by students who are organised compulsory traineeship, but also motivated and enthusiastic students are provided with an opportunity to have a job placement voluntarily.

Every year ESO together with Lietuvos Energija group of companies participates in career fairs of vocational training schools, interactively present their activity, communicate with students.

In total, in 2016 272 got a job at ESO, of which – 83 employees (64 men and 19 women) within the age range from 22 to 25 years. The most plentiful share of employed specialists were of the engineering profile.

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 department activities. The newcomers get introduced to the energy sector’s structure, strategic directions, mission, vision, values, the most important principles of energy sector operation, other fundamentals of activities. Newcomers are also set plans of goals for the probationary period.

The management assigns a mentor to 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.

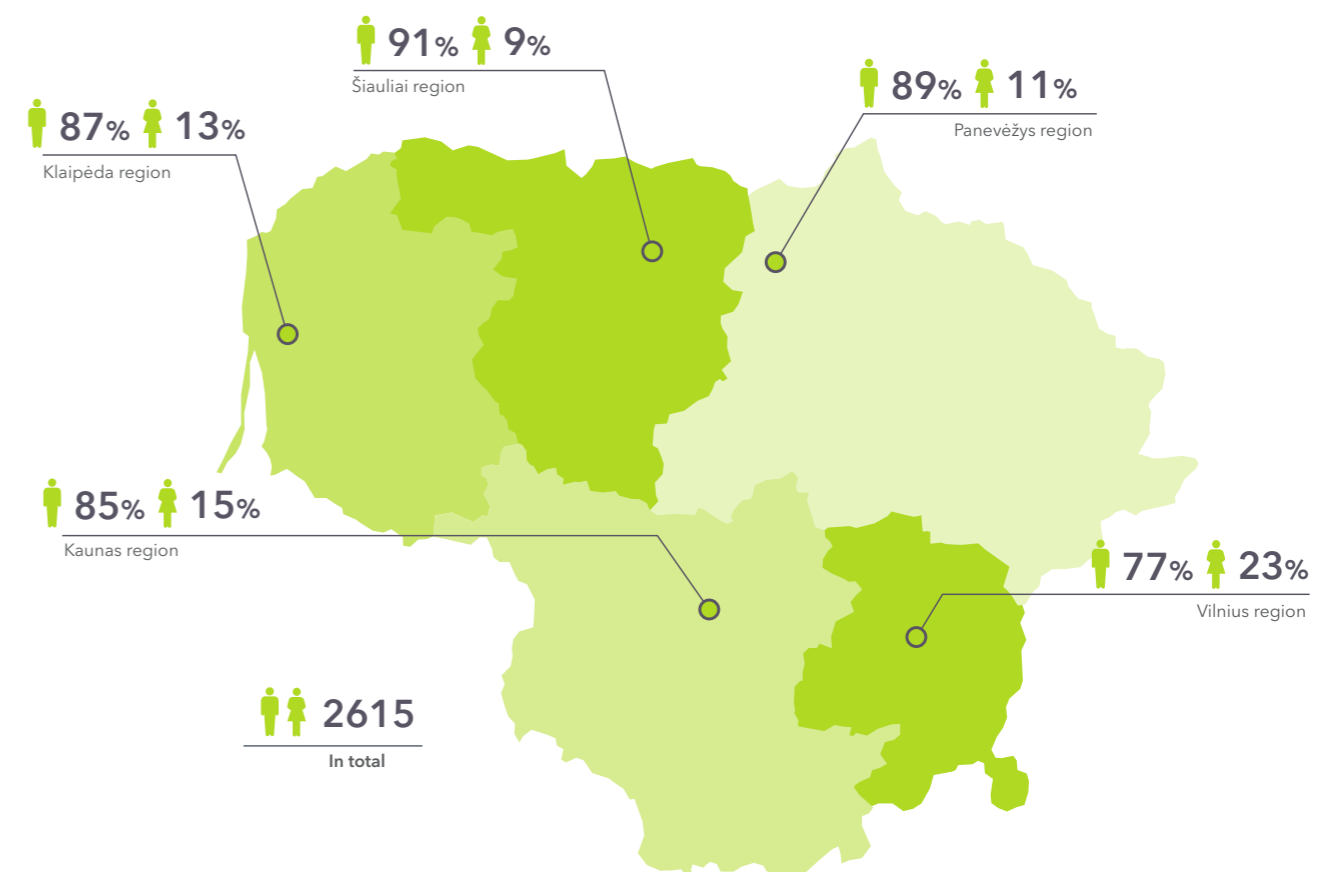
In 2016, no cases of discrimination or other incidents associated with violations of human rights were established.

Diversity and 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.

At the end of 2016, ESO employed 615,2 staff members: men – 2,215; women – 400. The average staff age – 45 years: women’s – 41 year, men’s – 46 years.

Distribution of Staff Members by Region and Gender (2016):



The distribution of gender among the Company’s top-level executives: at the end of 2016, the position of ESO CEO and chairperson of the Board was occupied by a woman; out of 11 managers of the units subordinate to the CEO, women occupied two positions.

The average staff age
– 45 years

46 years 41 year

The average service
record of ESO staff
member – 15 years

15 years 11 years

The ratio of lower-level unit managers at the end of 2016: 314 men and 26 women held managing positions.

Management System for Employees Activity and Improvement thereof

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.

Annual Conversation

An annual conversation – 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, career are discussed.

In 2016, slightly more than 30 percent of ESO employees participated in the annual conversation process. A relatively small number of annual conversations may be accounted for by changes due to the merger of two companies. Meanwhile in 2017, also a system of quarterly conversations has already been implemented.

Operational Excellence

Seeking to implement the defined strategic direction of continuous performance improvement, in 2016 the Company started to implement an Operational Excellence programme based on the principles of LEAN, Six Sigma methodologies. The programme has been planned to gain a momentum and reach all units of the Company during 2017, and it will be continuing.

It has been planned that during 2017 the Company will consistently review and purify the processes of its activities, will use a *whiteboard* system during meetings, will familiarise 50 percent of employees with the instruments being implemented at the time of special training, and will introduce 900 improvements.

Main Directions of Operational Excellence:

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 and Safety

By taking care of employees we organise regular medical examinations. In 2016, medical examinations were performed for 1,651 employee. This accounts for more than 60 percent of all ESO employees.

Staff members working outdoors are vaccinated against tick-borne encephalitis (in 2016, 833 employees were vaccinated). All wishing employees are vaccinated against the flu (772 employees).

	Medical examination	Medical examination of drivers	Vaccination against tick-borne encephalitis	Flu
	Number of vaccinated employees			
Vilnius region	475	61	340	222
Kaunas region	392	106	129	210
Klaipėda region	327	122	129	85
Šiauliai region	197	46	83	35
Panevėžys region	260	107	152	220
In total	1 651	442	833	772



Training on occupational safety and health are regularly organised in the Company, also notices, reminders on prophylaxis are published, handouts are prepared (memos about flu prophylaxis, exercise, work with the computer, adequate reaction to work outdoors in hot or cold periods). It was laid down in the Collective Agreement that if he feels not too good, an employee may take two days of leave a year for prophylaxis reasons.

In gas activities pursued by ESO, a certified occupational safety and health management system BS OHSAS 18001 has been implemented. In 2016, an independent oversight audit by an external institution did not identify incompliance and the certificate validity was renewed.

In 2016, a course on requirements of this standard was heard by 17 Company employees. Greater attention was devoted to the work performance procedure of the Company's contractor organisations, identification of hazards, conduction of safety days.

In 2016, implementation of the management system was started and is planned to be finished during the first quarter 2017 in the electricity distribution field.

The implemented and certified management system will help not only insure smooth compliance with legal requirements, but also better manage the Company's environmental protection aspects, constantly assess efficiency, develop and improve processes associated with environmental protection, meet additional obligations to customers and society.

Health Promotion

ESO promotes a healthy lifestyle, sports activity and taking care of physical health among employees. In 2016, the Company established favourable conditions for employees to go in for sports in 19 cities of Lithuania. Employees could selectively attend a swimming pool, sports club, or play basketball. During 2016, 882 employees registered for sports activities.

In team-building events, much attention is also devoted to sports activity and different disciplines, promotion of healthy lifestyle.

Professional Mastery

The Company pays great attention to employees' professional competence and occupational safety. One of the measures inducing employees' willingness to improve and to test their knowledge – professional mastery competitions. In May 2016, in Panevėžys, a joint competition of electricity and gas field specialists took place for the first time, where employees and competition guests tried out their hand in disciplines associated with daily activities as power engineers.

Experience acquired inside the Company is handy also in international professional mastery competitions. In August 2016, a joint ESO team of Kaunas and Klaipėda dispatcher management divisions participated in competitions in Latvia from which they came back with an award in the discipline. In total, 37 teams from the entire Baltic Region participated in these competitions.

In 2016, a project on the training ground designated for the improvement of professional skills was started in Panevėžys, which is planned to be finished in the autumn of 2017. In this training ground, ESO employees, also partners and contractors will be able to train their professional skills, and to perform simulated work assignments practically, etc.

Education of Contractors

ESO teaches not only its employees who perform enhanced risk jobs, but also contractors whose activity constitute a substantial part of the whole technological works of the Company. During 2016, 6 educational cartoons were created or renewed: for specialists in the electricity field: "Preparation for Work", "Use of Safety Measures", "Work in Power Lines", for specialists in the gas field: "Work in the Environment of Natural Gas" and "Work in Excavations and Wells". These cartoons were shared publicly.

A tradition has become also professional mastery competitions in which ESO employees and contractors' representatives try out their hand in professional disciplines of different fields, demonstrate their abilities and competence.



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.

Market Liberalisation

A free electricity market has operated in Lithuania since 2010. According to the electricity market development plan all consumers may freely choose an independent electricity supplier.

The Company also very actively cooperates with producing consumers and seek to establish favourable conditions for their integration into the electricity distribution grid.

On 31 December 2016, independent suppliers supplied electricity to 68,124 objects of commercial customers (in 2015, their number was 66,354). According to the electricity market development plan approved by the Government of the Republic of Lithuania of 8 July 2009, as of 30 September 2016, an independent electricity supplier has been selected by:



To the remaining objects, electricity is further supplied by the guarantee supplier whose function is performed by ESO.

Investors

In the event "Nasdaq Baltic Market Awards 2015" held in January 2016, three awards were won for progress achieved by the public company Lietuvos Dujos and LESTO AB during 2015 in improving relationships with investors.

ESO also participated in the meeting of managers of the companies recorded on the exchange lists with investors organised by the securities exchange NASDAQ Vilnius on 30 November 2016.

By publishing operating results for 6 months of 2016, ESO, apart from the financial report, also submitted a [video commentary](#) by the Company's CEO.

The Company's information is equally accessible to all shareholders and potential investors. An [Investuotojų Calendar](#) is published on the Company's website. ESO relationships with shareholders published on the Company's website are maintained by the Company's Senior Economist Giedrė Matulevičienė ([giedre.matuleviciene@eso.lt](#)).

In 2016, no violations of rules of the securities exchange were recorded.

Customer Service

As of 31 December 2016, ESO had 1.595 million purchase-sale contracts with private customers and 68,377 thousand electricity supply or transmission service contracts with commercial customers.

Gas



Electricity



On 31 December 2016, about 565.9 thousand private and about 9.6 thousand business customers who were ensured the distribution service were connected to the ESO gas distribution grid. In 2016, an obvious revival of gas consumption was observed. ESO acquired more than 10 thousand new customers (this is more than during 2014 and 2015 altogether).

Customers' Opinion

For the first time, after the merger of LESTO AB and the public company Lietuvos Dujos, a survey of customer satisfaction with service quality was carried out. This year was an excellent period to compare at a different look how the two services provided by the energy operator were assessed by customers: customers using only electricity, and those using both, electricity and gas. The satisfaction level of ESO customers estimated according to the world Global Customer Satisfaction Index methodology is higher by 9 points than the GCSI index of European energy companies.

ESO result in 2016 was 79 points, whereas the average result of European energy companies – 70 points; the average result of world companies– 71. Private customers are more satisfied with services and customer support provided by ESO than corporate customers: the satisfaction index of private customers– 79, and that of corporate customers – 74.

Development of Customer Support Channels

Due to targeted actions taken by ESO during 2016, the number of clients using remote customer support channels (website [www.manogile.lt](#) and customer service numbers 1802 or +370 611 21802) continued to grow, while customer flows to customer service centres in smaller cities have decreased. At the beginning of 2016, the self-service website was adapted for common declaration of readings and payment for electricity and gas, besides convenient tools were installed. At the same time, a new [www.eso.lt](#) website was also developed where one can find a calculator of the most favourable tariff plan and other useful functionalities.

As of 31 December 2016, 407 thousand private customers were registered on the ESO services website [www.manogile.lt](#). This accounts for more than 20 percent of the total number of ESO customers.



During 2016, information by the customer service numbers 1802 or +370 611 21802 was furnished to more than 1,179 million customers (during 2015, information was furnished to 999 thousand customers), over 511 thousand customer queries on different issues were resolved (during the reporting period in 2015 – 479 thousand customer queries).

In 2016, more than 263 thousand customers (249 thousand in 2015) were served in customer service centres located in the seven major Lithuanian cities.



INVESTMENTS AND DEVELOPMENT OF THE GRIDS

Operation and Development of Electricity and Gas Meters

During 2016, ESO installed 23,339 electricity meters (of which 25 percent are intended for electricity accounting in single-phase AC current grids, and 75 percent - in three-phase grids), changed 76,346 electricity meters with an expired metrological verification term (of which 81 percent are used for energy accounting in single-phase AC current grids, and 19 percent - in three-phase grids).

By constantly renewing the operated electricity and gas meters, the Company and its authorised persons has performed operation works for over 1,058 thousand of electricity meters (checking, troubleshooting, control of readings) and operation works for over 127 thousand of gas meters.

By investing into the modernisation and automation of electricity meters, ESO hooked up 2,435 electricity meters to the existing automated data scanning system, thus increasing the number of electricity meters operated in objects of the Company's customers which readings are remotely readable up to 29,773.

Automation of electricity meters provides with the possibility to submit invoices for electricity consumed during a respective period to business customers automatically, without the need to declare the quantity of consumed energy by the customers themselves.

In 2016, the average duration of getting electricity reduced from 78 to 58 calendar days.

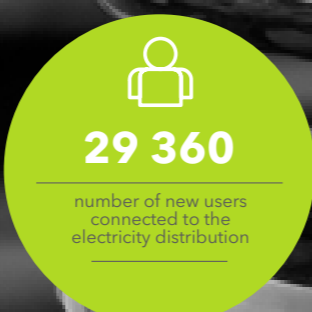
Smart Metering

The pilot project on smart accounting is half-through; customers (3,000 customers participate in the project) may select a plan of four time-zone tariffs specially adapted for this project, inducing to change consumption habits and cut down electricity costs.

At the end of 2016, more than 12 percent of the project participants had chosen this plan. An assessment of consumption habits of the project participants is carried out further.

A cost-benefit analysis commenced at the time of project implementation will help evaluate whether it is worthy to conduct mass installation of smart accounting devices in the entire Lithuania, and in what way this could be done.

The cost-benefit analysis is planned to be finished in the autumn of 2017.



Upgrading of Electricity and Gas Grids

During 2016, ESO investments into electricity and gas distribution grids amounted to EU 149.188 million - 13.4 percent more as compared to 2015, when investments totalled EUR 131.556 million.

ESO investments, million EUR

	2016 12 months	2015 12 months
Renewal of the electricity distribution grid	84,659	70,565
Development of the electricity distribution grid	39,500	42,937
Construction and reconstruction of gas systems	16,499	13,301
Other (IT, management systems, etc.)	8,531	4,754
Total investments	149,188	131,556

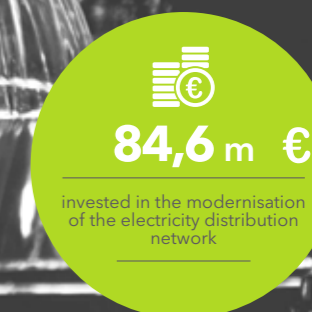
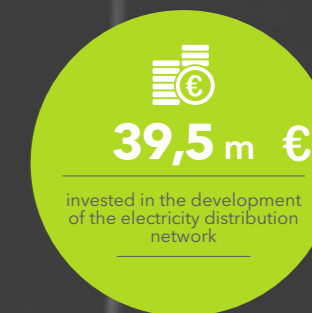
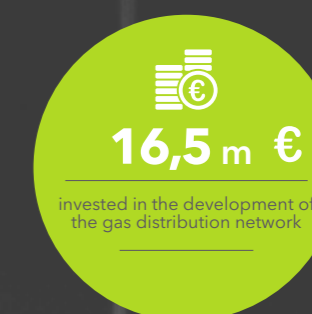
Investments into the Electricity Grid

During 2016, ESO investment into the renewal of the electricity distribution grid equalled EUR 84.659 million - 20 percent more than in 2015. In 2016, the Company invested into the development of the electricity distribution grid 39.5 million, when in 2015, investments totalled EUR 42.937 million.

During 2016, investments into IT and management systems amounted to EUR 8.5 million - 1.8 time more than in 2015. This was determined by installation works of the new control system for the new electricity distribution grid. The new system will enable to ensure a better quality supply and distribution of electricity, greater reliability of the grid and expeditious renewal of energy supply in the event of power failure.

During 2016, ESO hooked up to the electricity distribution grid 29.36 thousand new consumers - 3 percent more than in 2015 years, when 28.50 thousand consumers were hooked up. The permissible consumption power consumption of connected new consumers in 2016 totalled 349.28 thousand kW and was less by 9.7 percent than in 2015, when it equalled 386.86 thousand kW.

A map of objects where the electricity distribution grid is planned to be renewed has been created. The interactive map (www.eso.lt/investicijuzemelapis) provides information on investment projects planned to be implemented in 2017. At the end of 2016, there were 1990 investment projects in total, after the implementation whereof electricity supply reliability and voltage quality will be enhanced.



Investments into the Gas Grid

Development

The ESO gas distribution grid functions in 42 out of 60 municipalities of the country. ESO operates 8.4 thousand km of distributive gas pipelines to which are connected about 560 thousand objects of private and 9.5 thousand of business and public sector customers.

At the end of 2016, ESO finished building a gas pipeline for the distribution of natural gas in Tauragė. This is the 42nd gasified municipality in Lithuania. ESO installed in Tauragė a 5.8 km long distributive gas pipeline. The biggest and main user of this gas pipeline will be one of the major Lithuanian milk processing companies Vilkyskių Pieninė. The milk processing company operating in Tauragė plans to consume more than 6.5 GWh of natural gas.

In 2016, agreements were signed with more than 10 thousand of new customers. This is more than during 2014

and 2015 altogether. It was attractive to get gas also due to both, record-low prices of natural gas, and more convenient and faster gas getting process.

A gas getting process was shortened in 2016 by nearly 54 calendar days – from 216 to 162 days.

Guarantee supply

Another event of no less importance – a loan-for-use agreement signed by ESO and the company Druskininkų Šilumos Tinklai on 26 October 2015 that ensured an uninterrupted guarantee supply of natural gas. Since 1 November 2016, in Druskininkai municipality, due suspension of activities by the previous supplier, the supply of natural gas is now ensured by ESO.

Modernisation

Striving to ensure security and reliability of the natural gas distribution system, modernisation is planned to be continued. Remotely controlled smart control systems and diagnostics equipment are installed in gas pressure regulators. After installing it, ESO will be able to respond more expeditiously to arising disturbances in gas pressure regulation stations, to remotely control gas pressure and this way ensure an interrupted and stable distribution of gas to customers.

ESO also constantly invests into the upgrading and automation of gas meters seeking to determine automatically and precisely the amount of natural gas consumed by a business customer. The number of remotely readable gas meters is – 1212.

The Company operates gas pipelines which age ranges from 50 and more years, therefore especially much attention is paid when assessing the technical condition of gas pipelines to the ageing gas pipelines. If corrosion damages are detected, gas pipelines are reconstructed under the priority procedure. ESO, seeking to maintain

minimum levels of SAIDI and SAIFI indexes, ensure an uninterrupted and reliable gas distribution and avoid interruptions of gas supply due to emergency cases or repair and reconstruction works, invests into projects of assuring the reliability gas distribution (circuiting).

One of the most important constituent parts of the distribution systems is the gas pressure regulators which purpose is to reduce gas pressure down to the established level and to maintain the established gas pressure parameters necessary for gas consumers. Therefore, seeking to enhance the reliability of gas distribution and the safety of operation thereof, ESO invests into the reconstruction of these facilities.

In total during 2016, ESO invested into the gas distribution grid EUR 16.5 million – 24.04 percent more than in 2015.



16,5 m €

Investments in gas distribution network

8 400 km

gas distribution network



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.

Energy efficiency

The promotion of rational energy use is one of the priority directions of ESO responsibility contributing to the preservation of the environment and energy resources, as well as obligations of the country in implementing the European Union climate change policy.

Energy efficiency initiative "As much as needed"

The initiative "As much as needed" implemented by ESO is intended to create public traditions relying on rational behaviour, to suggest rational ways of energy consumption for household and business purposes.

In November 2016, ESO organised a cycle of public regional conferences "As much as needed for the industry 2016". During the events held in five major cities of Lithuania – Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys – representatives and experts of the country's leading companies shared their good experience and practical advice on the enhancement of energy efficiency. In total, 300 participants visited the cycle of regional conferences, the majority of whom were chief power engineers and executives of companies.

Another educational tradition initiated and developed by ESO – an annual conference "Energy Efficiency Solutions for Competitive Business" was organised together with the publication Verslo žinios. In February 2016, already the sixth such conference took place bringing together business, installers of energy efficiency solutions, analysts, power engineers, representatives of the academic society. Guests of the event establish contacts, exchange experience and later apply the knowledge acquired in business.

In the event in 2016, 220 business representatives of the country participated, of whom 96 percent confirmed that the event met their expectations. This is more by three percent as compared to the feedback of conference participants in 2015.

National companies not indifferent to the climate change problem have been invited for already the sixth year to join the initiative of "The Green Protocol".



The good will arrangement "The Green Protocol"

The "Green Protocol" is ESO initiated the only-one such type arrangement in the country, based on which companies and organisations operating in different fields confirm that they have already become familiar with ideas promoting rational consumption of energy, they approve these ideas and undertake to apply them in practices, i. e.:

- 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 2016, this initiative was joined by 25 new companies (at the end of 2016, 205 companies joined the initiative in total). A competition is organised annually, and "The Green Protocol" companies recognised as having consumed energy in the most rational way, as well as the most active disseminators of the energy efficiency ideas in companies are proclaimed. In 2016, an award was given to Šiaulių Vandenys UAB, whereas the title of the "Green Ambassador" went to Ms. Rasa Pečiulaitė, representative of Eika UAB.

The competition winners are traditionally awarded at the time of the aforementioned annual conference "Energy Efficiency Solutions for Competitive Business".

Energy Saving Advice to Residents

Tools aimed to save energy and implement simple, effective solutions for household use have been developed by the Company and published on the website at www.eso.lt:

- Calculator of the most favourable [tariff](#);
- Visual [advice](#) how to use electricity at home sparingly (a visual flat with useful interactive advice is provided);
- By cooperating with the Lithuanian National Consumer Federation, a useful [video](#) memo for energy consumers has been created.

National Educational Programme "A Sustainable School"

In order to raise awareness among school communities and contribute to the development of sustainable, energy-efficient and environmentally friendly Lithuanian society, ESO together with their partners invited Lithuanian educational institutions to participate in the educational programme "A Sustainable School". After the project won in 2015 a prize of the Swedish business awards for the best social responsibility project in 2014, it is currently continued further (see more at www.darnimokykla.lt).

Landscape protection

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, also allow enjoying a more beautiful landscape. In 2016, more than 2 thousand km of underground power cables were laid down, and other technologies of the smart grid were installed further.

By further improving the quality of services, during 2017 ESO plans to implement 94 smart grid installations, and in addition to replace 2.7 thousand km of overhead power lines with the underground ones. Modern technologies will enable to observe in real time the parameters or modes of separate grid elements, to react more expeditiously to non-typical situations, to eliminate breakdowns in electrical installations faster. This way, the quality of services will improve for nearly 100 thousand ESO customers.

In 2016, 32 gas pressure regulators were reconstructed by destroying the old structures and building equipment cabinets that do not deteriorate the landscape.

Modern technologies

Much attention is created also to assuring security of the gas system under ESO management. In case of emergency or improper operation of gas pipelines, damage to the environment is done, economic and social losses are sustained. A possibility to remotely observe, measure and control a gas grid is very important from the environmental point of view, as in the case of gas leak, during repair and reconstruction works, less carbon dioxide causing a greenhouse effect will be emitted into the environment. Therefore, the condition of the gas distribution network is carefully observed and new solutions are implemented.

In 2016, the following smart remote control systems were installed in Vilnius: diagnostics equipment in gas pressure regulators. During 2017-2018, it is planned to install such equipment also in other regions that will enable to ensure not only greater safety and reliability, but also will reduce CO₂ emissions into the environment by approximately 157 t a year.

Environmental protection management system

An international environmental protection management system LST EN ISO 14001 was installed in ESO gas activities. In 2016, an independent oversight audit of the external institution did identify any incompliance and the certificate validity was renewed. During 2016, a training course on requirements of the standard was attended by 17 Company's employees.

In 2016, greater attention was paid to waste sorting and use of chemical substances: it is observed how hazardous and non-hazardous waste is sorted out and stored, whether employees are familiarised with data safety sheets of chemical substances, whether they meet the newest requirements of the EU Regulation concerning Registration, Evaluation, Authorisation and Restriction of Chemicals, how chemical substances are stored, alternatives for replacing hazardous chemical substances with more environmentally friendly ones are searched for.

Implementation of the management system was started in 2016, and it is planned to be finished in the first quarter of 2017 in the electricity distribution field. The implemented and certified management system will help not only ensure smooth compliance with legal requirements, but also better manage the Company's environmental protection aspects, constantly assess efficiency, develop and improve processes associated with environmental protection, fulfil additional obligations to the customers and society.

Management of atmosphere pollution

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 1 electric vehicle and 33 natural-gas powered vehicles. For comparison: CO₂ emissions of this fuelled driven 80 kW power vehicle- 157 g/km, meanwhile that of petrol-driven 59 kW power vehicle - 191 g/km, whereas that of diesel-driven 55 kW power vehicle 167 g/km.

Wind and solar plants have been installed in three ESO objects. These renewing energy sources enable to charge batteries powering the remote data collection and control equipment.

One of the most important objectives of the Company in controlling and reducing environmental pollution with the help of technical means is to control possible leaks 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, etc. To ensure safety and reliability of the gas system, 10.3 km of polyethylene gas pipelines were inserted in 2016.

2000 km

Underground power cables

93 %

Number of business customers switched to electronic bills

Saving of resources

The Company constantly encourages its customers to refuse of paper bills and utility payment books.

Customers may bring meter readings to the place of payment simply by writing them down on a piece of paper or record it in any other convenient way, or simply pay electronically in the ESO self-service system. Thus, step-by-step a transition is made to remote service channels.

Nearly 93 percent of ESO business customers have already switched to electronic bills.

About 89 percent of private and about 96 percent of business customers who have furnished their contact data in ESO self-service system are informed about a planned or occurred interruption of power supply, also estimated duration of its elimination by free notifications by SMS messages and e-mails.

About 35 percent of letters to partners, contractors, customers, suppliers are sent by ESO by e-mail. This percentage has grown constantly. For example, in the central office in Vilnius or Klaipėda region, the percentage of letters sent by e-mail ranges from 60 to 70 percent, whereas in other regions, still the major part is constituted by letters sent by regular post.

In September 2016, changes on the submission of technical documentation after executing repair and maintenance works both, in the gas and electricity part, became effective. Now the Company's contractors submit all technical documentation in the electronic format. Besides, in September 2016 the Company switched to the signing of statements of accomplished works in the electronic space, therefore there is no need to print them. Contractors are encouraged to submit VAT invoices only in the electronic format.

Familiarisation with internal legal acts (arrangements, process schemes, policies, procedures etc.) approved in the Company are carried out in the electronic space. Requests for vacations, orders on business trips are filled out and approved also in the special electronic space.

A tool of the Company's internal communication- a newsletter intended for employees - was also prepared in the electronic format in 2016.

SOCIETY AND COMMUNITIES

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.

Cooperation with Lithuanian libraries

In March 2015, by cooperating with the National Martynas Mažvydas library an agreement was signed

on which basis cooperation was continued by implementing a social project "Libraries for Progress 2" seeking to ensure further development of computerised workstations of the self-service website www.manogile.lt.

Events of Energetics for the Public

Day of Energetics. On 17 April, the National Lithuanian Electricity Association (NLEA), which unites the country's biggest energy companies including ESO, traditionally celebrates the Day of Energetics 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.

TEDxVilnius. On 2 April 2016, the sixth 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 share the good energy. More than 800 event participants visited the stand. The educational TEDxVilnius events was broadcasted directly on the internet. .

Researchers' Night. On 30 September, an event intended for science enthusiasts and the public "The Researchers Night" took place that offered more than 300 free events in the whole Lithuania. This initiative was jointed together with Lietuvos Energija group also by ESO which offered to visit unique objects under the Company's management. ESO suggested seeing live how the Central calibration and test laboratory in Vilnius distinguished for accuracy and precision looks like, where the verification and calibration of measuring of instruments for gas accounting, pressure, temperature, gas concentration and electrical quantities are carried out, also control of gas quality parameters transported by natural gas grids is performed. Panevėžys residents and guests could visit the site of practical training for gas installers - the only one in the Baltic States where professional gas installers try out and may demonstrate professional skills in different simulations requiring fast reaction and precision in eliminating gas leaks.

Public Opinion

Lithuanian resident opinion survey showed that people positively assess ESO activities. The majority of the respondents indicated that the most important qualities of ESO activity are reliability (39 percent), efficiency (37 percent), fast elimination of breakdowns (37 percent), professionalism (30 percent).

28 percent of the respondents stressed that it is important for them that the Company would take care of customers and responded to their needs.

Informational Safety Campaign "Safe Energy"

In the spring of 2016, a broad range information campaign focused on behaviour with electricity and gas by additionally giving useful advice to the public was launched. The campaign carried out through the media – television, radio, press and internet – covered the safety things associated with the beginning of outdoor works, by emphasizing overhead and undergrounds electricity and gas grids, also educational advice on safe behaviour during storms near the electricity grid. ESO operatives recorded themselves how they eliminate the effects of storms on the electricity grid. The Company shares this vide material with the publicly. Pic

At the end of summer, a part of the campaign was intended for farmers –about safe behaviour near energy objects during harvesting, also adequate maintenance of the so-called "electrical shepherds". 2 posters were created that were shared in meetings with communities.

In the autumn of 2016, a safe gas heating campaign aimed to educate the public how to prepare properly for a heating season, and on regular maintenance of equipment using gas took place. The campaign was conducted on the internet, by employing different educational type infographics and other visual measures. Together with the State Labour Inspectorate (VEI), a public event for the media representatives was organised during which time it was shown how ESO dispatcher or gas emergency service operate, also the main things residents should know when using natural gas in household were stressed.

Support

ESO grants support to projects, programmes and activities significant for the public only in a coordinate way, through the Support Fund of Lietuvos Energija group of companies what enables to ensure the transparency of support allocation and implementation of social responsible measures.

By decision of the shareholder of Lietuvos Energija group (the Ministry of Finance) the budget of the Support Fund may be formed by contributions of all companies of the group amounting to 1 percent of the consolidated net profit of the group of companies assessed by eliminating the result of non-typical activity.

In 2016, Lietuvos Energija Support Fund allocated nearly 620 thousand euros for 25 activities and projects that best met the Fund's criteria and priorities. In 2016, for the national-level support, three priority directions for allocating support were set: support of children with oncological diseases, science and sports.

In 2016, also a new priority area of support was established – fostering of science and innovations.

The Support Fund supports ideas, research and works of young researchers the implementation whereof would strengthen the position of Lithuania in the international innovation market, help strengthen the Lithuanian education and science system, enhance public interest in science, consolidate long-term cooperation traditions between science, business and the public.

Applications to the Support Fund are submitted once a year within the set deadlines and under the established procedure. It is possible to submit an application for support

via the Lietuvos Energija [website section "Responsible Business"](#). All properly filled out applications are transferred for assessment to the Assessment Committee of the Support Fund that performs quality assessment of applications.

All information on support beneficiaries of Lietuvos Energija Support Fund in 2016, activity report and audit conclusions are published on Lietuvos Energija [website](#).

Preventive education of residents

ESO seeks to promote responsible behaviour with devices of electrical and gas distribution grids, raise residents' awareness of safe behaviour and reduce negative consequences arising due to irresponsible and malicious behaviour.

In 2016, ESO continued active cooperation with the Association of Elders of Local Authorities in Lithuania. In the summer of 2016, in enhanced risk regions where the biggest number of ESO technological property thefts are recorded – in Biržai, Šalčininkai, Pasvalys, Jurbarkas and Trakai – an informational theft prevention campaign took place during which time the existing situation was introduced, and a discussion on thefts from ESO transformer stations, accident prevention topics was held.

Representatives of the Company's Prevention Division met with representatives of 30 different communities: elders, community leaders, police and media representatives.

In 2016, preventive posters regarding thefts of ESO technological property and careless behaviour at the distribution grids were prepared, also wide-range television campaigns were conducted during which 2 video reportages ("Why is it necessary to notify of electricity theft?", "The biggest dangers may be visible") were prepared. These video clips were shown more than 600 times on different television channels of the country.

In June 2016, a non-traditional social experiment was conducted "How passers-by react to the theft of technological property?" during which time they observed how residents during the day time react to suspicious behaviour of strangers in the place of mass gathering.

ESO believes that one of the most important factors in fight against thefts is public spirits of residents. Residents' notifications help identify offenders expeditiously, arrange the damaged equipment before electricity or natural gas supply to residents is interrupted.

Based on received notices, 7 illegal electricity consumption cases, and 12 cases of illegal use of natural gas were detected.

In 2016, as compared to 2015, the total number of losses caused by thefts in the electricity and gas field markedly reduced, and the number of losses increased in the only one Klaipėda region.

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.

On 14 September 2016, ESO and the State Labour Inspectorate (SLI) signed a cooperation agreement under which they agreed to exchange information on noticed cases of illegal work or illegal hook-up to the electricity and gas grids.

The agreement lays down that upon suspecting or noticing by ESO, in which roughly 90 percent of objects the repair and reconstruction works are carried out by contractors who won public procurement, any violations of employment relationships or occupational safety, they must be immediately reported to the LSI.

On its own turn, SLI inspectors undertake to monitor whether there are no breaks in electricity, gas installation, and whether there are no illegal hook-ups. ESO is expeditiously informed on suspicions or noticed violations.

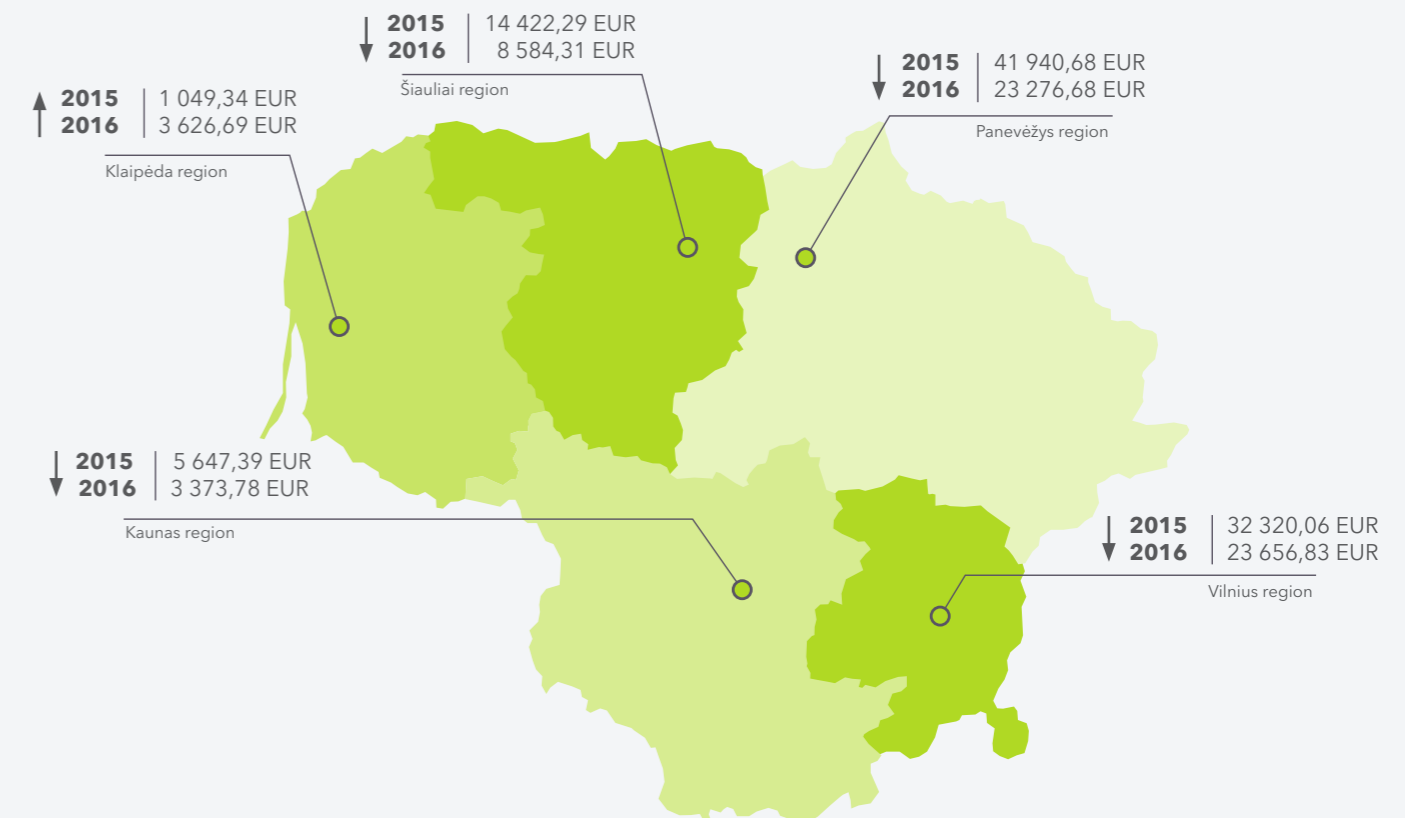
"Energy to School"

An active cooperation is maintained also with educational institutions. The new initiative of 2016 – "Energy to School".

An idea to implement this initiative and to promote education of the young generation appeared with consideration to the available information that also minors are involved into criminal activity. During 2016, employees of the Company's Prevention Division visit 14 different educational institutions operating in problem regions.

Topics of thefts from transformer stations, accidents were discussed with schoolchildren during meetings. More than 700 schoolchildren participated in meetings with employees of the Prevention Division.

Dynamics of thefts in the regions in 2015-2016



CONTENT OF THE REPORT AND LIMITS OF THE ASPECTS

The content of the report was prepared with regard to activities conducted by ESO, long-term strategy and upon assessment of the aspects most important for the Company long-term, also enforced policies.

The information provided reflects both, positive and negative aspects of the organisation's responsible efficiency. Information is aimed to be provided in such a way as it would be possible to compare it with the efficiency of other organisations.

The provided information is sufficiently precise and detailed, understandable and clear to enable the parties concerned to assess activities of the organisation. The report was submitted on time, according to the established schedule.

Information of the report is collected, analysed and disclosed in order to make sure of its quality and significance of the aspects. It is noteworthy that the determination of limits and significance aspects by including the parties concerned after the merger of companies was not performed, therefore this is planned to be done in 2017-2018.

Important aspects for ESO:



Economy:

Economic efficiency, market, indirect economic impacts



Environment:

Operated equipment, products and services



Social area:

Education and training, local communities, non-discrimination

Aspects Significant for the Company's Stakeholders

	 CUSTOMERS	 SOCIETY	 REGULATORS	 ENERGY SECTOR	 SHAREHOLDERS
Assurance of electricity and gas distribution activity	+	+	+	+	+
Operation efficiency and transparency	+	+	+	+	+
Fast restoration of electricity and gas distribution grids after accidents	+	+	+	+	+
Safety of facilities of the electricity and natural gas grids	±	+		+	+
Expeditious informing and fast problem solving Op	+	+	+	+	+
Reduction of visual pollution	+	+		+	
Partnership in carrying out energy efficiency research and social responsibility projects	+	+		+	+
Impact of electricity and gas grids on fauna and nature		+	+		+
Equipment noise level		+			

Limits of significance aspects internal and external environment of the Company

Significant aspects	Limits of aspects	Affected group
Economic efficiency	Organisation's internal and external environment	Shareholders
Market	Organisation's external environment	Customers, shareholders, energy sector
Indirect economic effects	Organisation's external environment	Customers, shareholders, energy sector
Biological diversity	Organisation's external environment	Regulators, society, shareholders
Products and services	Organisation's external environment	Customers, society, shareholders
Education and training	Organisation's internal environment	Employees, society
Non-discrimination	Organisation's internal and external environment	Employees, regulators
Local communities	Organisation's external environment	Society, shareholders

Involvement of Stakeholders

ESO seeks to create a dialogue with parties interested in its activity. The Company identified the following stakeholders:



Main Requirements for Identification of Stakeholder groups and their Selection

The main strategic direction of the Company - 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 2016-2020, also invited to participate in the dialogue in the year 2017, when approving an ESO 10-year investment plan.

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 ESU investment plan, included into the surveys of stakeholders also questions about specific fields of responsibility.

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GRI 102-1	Name of the company	4
GRI 102-2	Activity, main trademarks and services of the Company	10
GRI 102-3	Main legal office address of the Company	13
GRI 102-4	Countries where the Company operates	13
GRI 102-5	Ownership type and legal form	10
GRI 102-6	Markets in which the Company operates (according to geographic limits, sectors, customers, etc.)	10
GRI 102-7	Size of the Company	10
GRI 102-8	Number of employees	15
G4-11	The percentage of all employees covered by the collective contract agreements	16
GRI 102-9	Organisation's supply chain	14
GRI 102-10	Significant changes during the reporting period (regarding the Company's size, structure)	10
GRI 102-11	Compliance with the precautionary principle	14
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Ethics and Integrity		
GRI 102-16	Values, standards and norms related to behaviour or ethics codes	8
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G4-33	Organisation's policy and practice due to external audit of the report	4
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G4-34	Company's management structure, including top-level committees	11-13

List of the company's effects and specific indices			
Impact	Description, disclosed governance method and indicator	External verification	Page / Source
Economy			
Economic efficiency	Direct economic benefit received and distributed	Performed	Annual report
Market	Comparison of employees' remuneration with the minimum wages	Not performed	Social responsibility report
Indirect economic effects	Development and impact of investment into the infrastructure and services	Performed	Annual report
Environmental protection			
Biological diversity	Conserved or restored habitats	Not performed	Social responsibility report
Products and services	Environmental impact mitigation measures for the company's products and services	Not performed	Social responsibility report
Social field			
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	Performed	Annual report
Non-discrimination	Number of discrimination incidents and actions taken to solve incidents related with human rights violations	Not performed	Social responsibility report
Local communities	Units in which local communities are involved by assessing the impact or development programmes	Not performed	Social responsibility report

