AB „Energijos
skirstymo operatorius"

eso

2018-09-05 Nr. 18KR-SD-13389

CERTIFICATION STATEMENT

Referring to the provisions of the Article 23 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Augustas Dragūnas, Director of Finance and Administration division, acting Chief Executive Officer and Giedruolė Guobienė, Head of Accounting services Center of Verslo Aptarnavimo Centras UAB acting under Order No IS18-77 of 13 August 2018, hereby confirm that, to the best of our knowledge, AB Energijos skirstymo operatorius condensed interim financial information for the six month period ended 30 June 2018 prepared according to International Accounting Standard 34 'Interim financial reporting' adopted by the European Union, give a true and fair view of AB Energijos skirstymo operatorius assets, liabilities, financial position, profit or loss for the period and cash flows, the Interim Report for the six-month period includes a fair review of the development and performance of the business.

AB Energijos skirstymo operatorius
Director of Finance and
Administration division
Acting Chief Executive Officer

Augustas Dragūnas

Verslo aptarnavimo centras UAB
Head of Accounting services Center,
acting under Order No IS18-77 of 13
August 2018

Giedruolė Guobienė

Klientų aptarnavimas:
Savitarnos svetainė www.manogile.lt
Nemokama elektros sutrikimų linija 1852
Nemokama dujų tiekimo sutrikimo linija 1804
Informacija klientams tel. 1802* arba +370 611 21802
*- apmokestinamas pagal ryšio operatorių planą bei papildomą jų tarifą.

Administracija:
AB „Energijos skirstymo operatorius"
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Rekvizitai:
Įmonės kodas 304151376
PVM mokėtojo kodas LT100009860612
Registrų tvarkytojas VĮ Registrų Centras

2018

ENERGIJOS SKIRSTYMO OPERATORIUS AB

THE COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION

THE COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION FOR THE SECOND QUARTER OF 2018 AND SIX-MONTH PERIOD ENDED 30 JUNE 2018, PREPARED ACCORDING TO INTERNATIONAL ACCOUNTING STANDARD 34, 'INTERIM FINANCIAL REPORTING' AS ADOPTED BY THE EUROPEAN UNION, AND THE INTERIM REPORT PRESENTED TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT

eso

Lietuvos energija

Group of energy companies

www.le.lt

Translation note:

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

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CONDENSED INTERIM FINANCIAL INFORMATION

The condensed interim financial information was approved on 5 September 2018 by the Director of Finance and Administration Service, Acting Chief Executive Officer of Energijos Skirstymo Operatorius AB and the Head of Accounting Services Centre of Verslo Aptarnavimo Centras UAB (acting under Order No IS18-77 of 13 August 2018).

Augustas Dragūnas
Director of Finance and Administration Service and
Acting Chief Executive Officer,
Energijos Skirstymo Operatorius AB

Giedruolė Guobienė
Head of Accounting Services Centre
(acting under Order No IS18-77 of 13 August 2018),
Verslo Aptarnavimo Centras UAB

Independent auditor's report

To the shareholders of Energijos skirstymo operatorius AB

Our opinion

In our opinion, the condensed interim financial information of Energijos skirstymo operatorius AB ("the Company") present fairly, in all material respects, in accordance with International Accounting Standard 34 *Interim financial reporting* as adopted by the European Union.

What we have audited

The Company's condensed interim financial information ("the financial information") comprise:

- the condensed interim statement of financial position as at 30 June 2018;
- the condensed interim statements of comprehensive income for the three and six month periods then ended;
- the condensed interim statement of changes in equity for the six month period then ended;
- the condensed interim statement of cash flows for the six month period then ended; and
- the notes to the condensed interim financial information.

Basis for opinion

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

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

Independence

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

Reporting on other information including the interim report

Management is responsible for the other information. The other information comprises the interim report (but does not include the financial information and our auditor's report thereon) which we obtained prior to the date of this auditor's report.

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

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

With respect to the interim report, we considered whether the interim report includes the disclosures required by the Law of the Republic of Lithuania on Financial Reporting by Undertakings implementing Article 19 of EU Directive no 2013/34.

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

- the information given in the interim report for the six-month period ended 30 June 2018, for which the financial information is prepared, is consistent with the financial information; and
- the interim report has been prepared in accordance with the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

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

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

Management is responsible for the preparation and fair presentation of the financial information in accordance with International Accounting Standard 34 *Interim financial reporting* as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial information that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial information

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

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

- Identify and assess the risks of material misstatement of the financial information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial information, including the disclosures, and whether the financial information represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

On behalf of PricewaterhouseCoopers UAB

Radzevičienė

Rasa Radzevičienė
Partner
Auditor's Certificate No.000377

Vilnius, Republic of Lithuania
5 September 2018

All amounts in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2018	As at 31 December 2017
ASSETS			
Non-current assets			
Property, plant, and equipment	4	1,228,574	1,188,748
Intangible assets	5	34,024	5,451
Prepayments for non-current assets		3	3
Investments in associates	6	2,358	2,382
Other non-current financial assets	7	784	849
		1,265,743	**1,197,433**
Current assets			
Inventories		2,777	2,135
Trade and other receivables	8	58,484	64,386
Prepayments, deferred charges and accrued income		7,715	7,224
Prepaid income tax		2,242	174
Cash and cash equivalents	9	4,151	6,449
		75,369	**80,368**
Total assets		**1,341,112**	**1,277,801**
EQUITY AND LIABILITIES			
Equity			
Authorised share capital	10	259,443	259,443
Revaluation reserve		42,357	44,680
Legal reserve		25,944	25,910
Retained earnings		212,286	277,611
Total equity		**540,030**	**607,644**
LIABILITIES			
Non-current liabilities			
Borrowings	12	277,235	239,648
Deferred income tax liabilities		979	11,368
Deferred revenue	13	140,547	113,202
Grants and subsidies		20,308	19,758
Long-term employee benefits		1,997	1,763
Other non-current liabilities		3	3
Provisions	14	28,725	-
		469,794	**385,742**
Current liabilities			
Borrowings	12	182,115	133,040
Trade and other payables	15	100,862	116,529
Advance amounts received, accrued liabilities and deferred revenue	13	48,311	34,846
		331,288	**284,415**
Total liabilities		**801,082**	**670,157**
Total equity and liabilities		**1,341,112**	**1,277,801**

The accompanying notes form an integral part of this condensed interim financial information.

CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Q1–2 2018	Q2 2018	Q1–2 2017	Q2 2017
Revenue	16	305,565	139,329	305,833	138,194
Other income		3,476	2,336	1,952	1,105
Purchases of electricity and related services		(211,478)	(95,401)	(185,345)	(84,553)
Purchase (expenses) of natural gas and transmission services		(1,969)	(893)	(1,625)	(751)
Depreciation and amortisation		(27,383)	(13,856)	(24,411)	(12,188)
Employee benefits and related social security contributions		(21,554)	(10,565)	(20,182)	(9,619)
Repair and maintenance expenses		(5,656)	(3,319)	(6,897)	(4,167)
Transport costs		(2,359)	(1,209)	(2,213)	(1,163)
Telecommunications and IT services		(4,544)	(2,077)	(4,342)	(2,311)
Rent and utilities		(2,036)	(994)	(2,047)	(999)
Impairment and write-off expenses		(2,603)	(1,238)	(375)	(1,124)
Other expenses		(8,527)	(4,205)	(8,516)	(4,211)
Operating profit		**20,932**	**7,908**	**51,832**	**18,213**
Finance income		47	29	555	310
Finance costs		(2,682)	(1,552)	(848)	(432)
Finance costs – net		**(2,635)**	**(1,523)**	**(293)**	**(122)**
Share of profit of associates and joint ventures	6	113	(32)	71	71
Profit before income tax		**18,410**	**6,353**	**51,610**	**18,162**
Income tax	17	(575)	144	(5,313)	(997)
Net profit for the period		**17,835**	**6,497**	**46,297**	**17,165**
Other comprehensive income/(loss)				-	-
Items that will not be reclassified to profit or loss:					
Recalculation of the defined benefit plan obligation, net of deferred income tax		(116)	(116)	-	-
Total comprehensive income for the period		**17,719**	**6,381**	**46,297**	**17,165**
Weighted average number of shares (thousands)		894,630	894,630	894,630	894,630
Basic and diluted earnings per share (in EUR) attributable to owners of the Company		0.020	0.007	0.052	0.019

The accompanying notes form an integral part of this condensed interim financial information.

All amounts in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Revaluation reserve	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2017		**259,443**	**49,864**	**25,910**	**287,978**	**623,195**
Comprehensive income						
Net profit for the period		-	-	-	46,297	46,297
Total comprehensive income for the period		**-**	**-**	**-**	**46,297**	**46,297**
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(2,573)	-	2,573	-
Dividends	11	-	-	-	(51,763)	(51,763)
Balance at 30 June 2017		**259,443**	**47,291**	**25,910**	**285,085**	**617,729**
Balance at 1 January 2018		**259,443**	**44,680**	**25,910**	**277,611**	**607,644**
Effect of change in accounting policies following the adoption of new IFRS	2	-	-	-	(62,654)	(62,654)
Restated balance at 1 January 2018		**259,443**	**44,680**	**25,910**	**214,957**	**544,990**
Net profit for the period		-	-	-	17,835	17,835
Recalculation of the defined benefit plan obligation, net of deferred income tax		-	-	-	(116)	(116)
Total comprehensive income for the period		-	-	-	**17,719**	**17,719**
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(2,323)	-	2,323	-
Transfers to legal reserve		-	-	34	(34)	-
Dividends	11	-	-	-	(22,679)	(22,679)
Balance at 30 June 2018		**259,443**	**42,357**	**25,944**	**212,286**	**540,030**

The accompanying notes form an integral part of this condensed interim financial information.

All amounts in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Note	1H 2018	1H 2017
Cash flows from operating activities			
Net profit for the period		17,835	46,297
Adjustments for:			
Income tax expenses	17	575	5,313
Depreciation and amortisation	4,5	27,940	24,986
Amortisation of grants		(557)	(575)
Share of (profit) of associates and joint ventures	6	(113)	(71)
(Gain)/loss on disposal and write-off of assets		2,353	1,623
Finance (income)		(47)	(555)
Finance costs		2,683	848
Changes in working capital:			
Trade and other receivables		5,514	13,867
Inventories, prepayments, deferred charges and accrued income		(680)	(2,320)
Trade and other payables, advance amounts received, accrued charges and deferred income		10,449	(8,058)
Cash generated from operations		**65,952**	**81,355**
Income tax paid		(2,068)	(4,512)
Net cash flows generated from operating activities		**63,884**	**76,843**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(129,056)	(77,312)
Proceeds from sale of property, plant and equipment and intangible assets		77	14
Grants received		1,107	159
Loans (granted)		-	(2,919)
Loans repayments received		-	4,481
Dividends received	6	137	112
Interest received		47	44
Net cash flows used in investing activities		**(127,688)**	**(75,421)**
Cash flows from financing activities			
Proceeds from borrowings		162,177	50,000
Repayments of borrowings		(66,352)	(28,713)
Dividends paid to the Company’s shareholders		(22,611)	(51,569)
Interest paid		(1,053)	(851)
Net cash flows generated from/(used in) financing activities		**72,161**	**(31,133)**
Net increase (decrease) in cash and cash equivalents		8,357	(29,711)
Cash and cash equivalents (including the overdraft balance) at the beginning of the period	9	(4,206)	10,662
Cash and cash equivalents (including the overdraft balance) at the end of the period	**9**	**4,151**	**(19,049)**

The accompanying notes form an integral part of this condensed interim financial information.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

1 General information

Energijos Skirstymo Operatorius AB ("the Company") is a public limited liability company registered in the Republic of Lithuania. The Company was registered with the Register of Legal Entities on 11 December 2015. The Company started its activities with effect from 1 January 2016. The shares of the Company have been listed on the main list of NASDAQ OMX Vilnius Stock Exchange since 17 January 2016. The address of its registered office is as follows:

Aguonų g. 24,
LT-03212 Vilnius,
Lithuania.

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

As at 30 June 2018 and 31 December 2017, the Company's shareholder structure was as follows:

	At 30 June 2018		At 31 December 2017	
	Number of shares held	Ownership interest	Number of shares held	Ownership interest
Lietuvos Energija UAB	849,743,761	94.98%	849,743,761	94.98%
Other shareholders	44,886,572	5.02%	44,886,572	5.02%
Total	**894,630,333**	**100%**	**894,630,333**	**100%**

As at 30 June 2018 and 31 December 2017, the parent of the Company was Lietuvos Energija UAB. The Government of the Republic of Lithuania represented by the Ministry of Finance of the Republic of Lithuania owns 100% of shares of Lietuvos Energija UAB.

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

As at 30 June 2018 and 31 December 2017, the Company's investments in associates were as follows:

Associate	Country	Year of acquisition	Company's ownership interest (%)		Profile of activities
			At 30 June 2018	At 31 December 2017	
Technologijų ir Inovacijų Centras UAB	Lithuania	2013	29.01%	29.01%	Information technology and telecommunication, and other services to the shareholders
Verslo Aptarnavimo Centras UAB	Lithuania	2014	22.25%	22.25%	Public procurement organisation and implementation, accounting and personnel administration services, customer service

As at 30 June 2018, the Company had 2,455 (31 December 2017: 2,503) employees

Regulation of the Company's activities

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

The Company carries out the following licensed activities:

- electricity distribution;
- public supply of electricity;
- distribution of natural gas.

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

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

1. The setting of price caps in the electricity sector

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

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

On 16 October 2017, the Commission established the price caps for the electricity distribution services for the year 2018 as follows:

- electricity distribution services via medium voltage networks – 0.798 euro ct/kWh (excl. VAT) (2017: 0.830 euro ct/kWh (excl. VAT));
- electricity distribution services via low voltage networks – 1.716 euro ct/kWh (excl. VAT) (2017: 1.655 euro ct/kWh (excl. VAT)).

All amounts in EUR thousands unless otherwise stated

On 16 October 2017, the Commission established the price caps for the electricity public supply services for the year 2018 as follows:

- public electricity supply services – 0.118 euro ct/kWh (excl. VAT) (2017: 0.143 euro ct/kWh (excl. VAT));

On 16 November 2017, the Commission established the public electricity price cap of 6.511 euro ct/kWh (excl. VAT) to private customers who receive electricity via medium voltage network for 2018 (second half of 2017: 7.102 euro ct/kWh (excl. VAT), and the public electricity price cap of 8.772 euro ct/kWh (excl. VAT) to private customers who receive electricity via low voltage network for 2018 (second half of 2017: 9.088 euro ct/kWh (excl. VAT).

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

The pricing of the natural gas distribution service is regulated by the Commission according to the *Procedure for determining regulated prices in natural gas sector* approved by Resolution No O3-367 of 13 September 2013 of the Commission.

The price cap of natural gas distribution service is established for the regulatory period of 5 years (the 2014–2018 regulatory period is currently applicable to the natural gas sector) and it can be adjusted once per year if there is a change in the inflation level, prices of imported (transported into the country) natural gas, taxes, natural gas quantity for the regulated service, requirements of regulatory legislation, also when the investments agreed with the Commission have been implemented by the natural gas companies or when those companies deviate from the indicators determined under the Procedure for Determining Regulated Prices in Natural Gas Sector approved by Resolution No O3-367 of 13 September 2013 of the Commission.

On 19 November 2017, the Commission established the price cap for the natural gas distribution service for the year 2018 as follows:

- natural gas distribution service – 5.52 euro ct/MWh (excl. VAT) (2017: 7.25 euro ct/MWh (excl. VAT)).

2 Accounting policies

2.1 Basis of preparation

The Company's condensed interim financial information for the three and the six-month periods ended 30 June 2018 has been prepared according to International Financial Reporting Standards as adopted by the European Union and applicable to interim financial reporting (International Accounting Standard (IAS) 34 *Interim financial reporting*).

This condensed interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

When preparing these financial statements the Company adopted for the first time revenue recognition accounting policies consistent with the requirements of IFRS 15 *Revenue from contracts with customers* and accounting policies of financial instruments consistent with the requirements of IFRS 9 *Financial instruments*. The other accounting policies applied in the preparation of the condensed interim financial information, except as described below, are consistent with those that were applied in the preparation of the annual financial statements for 2017. The Company's financial year coincides with the calendar year.

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

On 1 January 2018, the Company adopted IFRS 9 *Financial instruments: Classification and measurement* for the first time. The first-time adoption of the standard had no impact on the measurement of financial assets and financial liabilities, except for increase in impairment of amounts receivable by EUR 334 thousand, which was recalculated under the requirements of the new standard. The impact of the adoption of this standard was reported in the statement of financial position of 2018 by reducing retained earnings and recognising additional impairment of amounts receivable.

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

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

	Note	As at 31 December 2017	IFRS 15	IFRS 9	As at 1 January 2018
ASSETS					
Non-current assets					
Property, plant, and equipment	4	1,188,748	(43,512)	-	1,145,236
Current assets					
Trade and other receivables	8	64,386	-	(334)	64,052
EQUITY AND LIABILITIES					
Equity					
Retained earnings (deficit)		277,611	(62,320)	(334)	214,957
Non-current liabilities					
Deferred income tax liability		11,368	(10,998)	-	370
Deferred revenue	13	113,202	30,683	-	143,885
Current liabilities					
Advance amounts received, accrued liabilities and deferred revenue					
Deferred revenue		5,243	(877)	-	4,366

New standards, amendments to standards and interpretations effective for the annual periods beginning on or after 1 January 2019, yet not applied in preparing these financial statements are as follows:

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company will apply IFRS 16 starting from 1 January 2019. The Company will capitalise the obligations under non-cancellable operating lease contracts in the statement of financial position. At the reporting date, the Company had non-cancellable operating lease agreements amounting to EUR 9.4 million as at 30 June 2018. The Company has also announced about its intentions to conclude a transaction on the lease of vehicles with Transporto Valdymas UAB in 2018. The value of the transaction might reach EUR 26.7 million over the period of five years. The Company's management is assessing the impact of IFRS 16 on its financial statements.

There were no other new standards, amendments and interpretations that were mandatory for the Company with effect from 2018, and that would have a material impact on the Company's financial information.

Income tax in the interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

The Company's management do not believe the other newly published standards, amendments and interpretations that are mandatory for the Company's reporting periods beginning on or after 1 January 2018 will have a material impact on the Company's financial statements.

2.2 Accounting policies

Financial assets

Following the adoption of **IFRS 9**, ***Financial Instruments***, the Company classifies its financial assets into the following 3 new categories:
(i) financial assets subsequently measured at amortised cost;
(ii) financial assets subsequently measured at fair value through other comprehensive income; and
(iii) financial assets subsequently measured at fair through profit or loss.
Financial assets are initially recognised at fair value plus transaction costs, except for the financial assets at fair value through profit or loss.

Subsequent to initial recognition, financial assets are classified into the afore-mentioned categories based on the business model the Company applies when managing its financial assets. The business model applied to the group of financial assets is determined at a level that reflects how all groups of financial assets are managed together to achieve a particular business objective of the Company. The intentions of the Company's management regarding separate instruments has no effect on the applied business model. The Company may apply more than one business model to manage its financial assets.

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

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

At initial recognition, the Company measures financial assets at fair value, except for trade receivables that do not have a significant financing component. At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

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

If the fair value of the financial asset at initial recognition differs from the transaction price, the difference is recognised in profit or loss.

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

Financial assets measured at amortised cost

Loans granted by the Company and amounts receivable are accounted for under the business model the purpose of which is to hold financial assets in order to collect contractual cash flows that can contain cash flows related to the payment of the principal amount and interest inflows.

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

Loans and receivables are initially recognised at cost (the fair value of consideration receivable) and subsequently carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when these assets are derecognised, impaired or amortised.

Financial assets at fair value through profit or loss

The Company measures financial assets, which are stated at fair value in subsequent periods, through profit or loss, using the business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Company does not have any financial assets held for trading and acquired for the purpose of selling in the near term and attributes to this category only financial assets arising from the disposal of business or investments classified as non-equity contingent consideration.

Effective interest method

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

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

Expected credit losses

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

Expected credit losses show the weighted average of credit losses with the respective risks (probability) of a default occurring as the weights.

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

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

The lifetime expected credit losses of trade receivables are assessed based on both the collective and individual assessment basis. The Company's management decides on the performance of the assessment on an individual basis reflecting the possibility of obtaining information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information that would allow to timely determine whether there has been a significant increase in the credit risk of that particular borrower, thus enabling making judgment on the recognition of lifetime expected credit losses in respect of that particular borrower. In the absence of reliable sources of information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information, the Company assesses the debt on a collective basis.

The lifetime expected credit losses of trade receivables are recognised at the recognition of amounts receivable.

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

Credit-impaired financial assets

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

The combined effect of several events that may occur simultaneously or subsequently throughout the term of validity of the agreement on the financial assets may have caused financial assets to become credit-impaired.

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

The Company derecognises loans receivable and trade receivables when it loses the right to receive contractual cash flows from financial assets.

Derecognition of financial assets

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

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

Revenue recognition

The Company recognises revenue at the time and to the extent that the transfer of goods or services promised to customers would show the amount which would correspond to a consideration, the right to which is expected to be obtained by the Company in exchange for those goods or services. When recognising revenue the Company takes into consideration terms of contracts signed with customers and all significant facts and circumstances, including the nature, amount, timing and uncertainty relating to cash flows arising from the contract with the customer.

(a) Sales of electricity

Revenue from sale of electricity to private customers is recognised in each reporting period according to presented VAT invoices, in which the volume of electricity consumed is calculated. The volume of electricity consumed is calculated on the basis of declared or actual readings. If declared or actual readings are not available, revenue from sale of electricity is recognised using the average method.

Revenue from sale of electricity to business customers is recognised when the sale of electricity is made based on the actual consumption of electricity, which is determined based on readings of electric meters.

Revenue from sale of electricity is regulated.

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

With effect from 1 January 2018, fees paid by new customers for connection to the network are recognised as revenue over the period during which the Company ensures the customer’s connection to the electricity distribution networks. Fees received from customers are initially recognised as accrued deferred revenue and subsequently recognised as revenue on a proportionate basis over the period, the duration of which is limited to the useful life of the related newly created property, plant and equipment. Related costs, which include the acquisition cost of property, plant and equipment and other costs, are capitalised and depreciated over the estimated useful lives of the capitalised assets.

Until 1 January 2018, fees paid by new customers for connection to the electricity network were recognised upon the connection of the customer’s equipment to the electricity distribution networks.

On 30 June 2018, the Seimas of the Republic of Lithuania adopted amendments to Law on Electricity No XIII-1456 (hereinafter “the Law”) allowing the Company to properly implement the transfer of the function of the public electricity supply to the group company Lietuvos Dujų Tiekimas UAB (hereinafter “LDT”). The amendments to the Law relevant to the activity of the public electricity supply will come into effect as from 1 September 2018. In view of the changes in the Law and decisions adopted by the management and supervisory bodies of Lietuvos Energija UAB, the Company, and LDT, the transfer of the function of the public electricity supply is scheduled from 1 October 2018. The transfer of the activity of the public electricity supply to another group company of Lietuvos Energija UAB will provide for the creation of additional value to customers, as well as for enhanced concentration of the functions of the companies in respect of core activities carried out, i.e. the distribution and infrastructure activities in respect of the Company, and supply of electricity and natural gas in respect of LDT. Following the implementation of these amendments, the provision of electricity distribution services to customers will be ensured without entering into an electricity purchase and sale agreement with the Company and instead an agreement with a supply company will be signed. The method of recognition of revenue from new customer connection will consequently have to be changed. Revenue from new customer connection is recognised when the connection service is rendered, contrary to the currently applied method of revenue recognition when revenue is recognised throughout the period of provision of the electricity distribution service, since it is interdependent with the electricity transmission service. As from 1 October 2018, new customer connection under IFRS 15 will be treated as a separate performance obligation. This means that as from 1 October 2018, payments received from new customers will be recognised as revenue upon connection of the customer to the electricity distribution networks. Revenue from new customer connection received before 1 October 2018, which is currently accounted for as deferred revenue, will continue to be recognised as revenue over the period. At the present moment the Company’s management assesses the period, over which payments accrued until 1 October 2018 will be recognised as revenue.

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

In the gas segment payments made by new customers for the connection to the Company's gas system are recognised as revenue upon the connection of the customer to the gas distribution network.

Statutory servitudes (intangible assets)

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

Provisions for servitudes

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

3 Critical accounting estimates

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

The significant management judgements regarding the application of the accounting policies and the main sources for determining uncertainties used in the preparation of this condensed financial information are consistent with those of the annual financial statements for the year ended 31 December 2017.

Revaluation and impairment of property, plant and equipment

At the reporting date of 31 December 2017, fair values and recoverable amounts of the Company's assets were tested using the discounted cash flow method. Discounted cash flows were calculated in accordance with the legal acts and methodologies regulating the activities of gas, electricity distribution and supply activity, effective as at 31 December 2017.

The assessment of the fair value of property, plant and equipment used in the electricity operating segment as at 31 December 2017 included the cash flow forecasts until 2057 as the distribution activity is regulated on the basis of the regulated base of property, plant and equipment, which mostly consists of assets with long useful life (40 years) – electricity lines. The Company established that the fair value of property, plant and equipment of the electricity operating segment differs from the carrying amount of these assets not more than by 5 per cent. In management's view this difference is not material and the Company's management decided not to carry out adjustments to the assets' fair value. In 2018, there were no changes that could have an effect on impairment of assets. The Company plans to perform a valuation of assets and account for changes in value as at 31 December 2018. At the reporting date, the Company had initiated the process of the valuation of assets.

The impairment test of the fair value of property, plant and equipment used in the gas operating segment (the establishment of the recoverable amount) included the cash flow forecasts for the natural gas operating segment until 2072 as the gas distribution activity is regulated on the basis of the regulated base of property, plant and equipment, which mostly consists of assets with long useful life (55 years); a continuous cash flow has been estimated beyond the year 2072. The adoption of IFRS 15 *Revenue from contracts with customers* had impact on the results of the test. When performing the impairment test, deferred new customer connection revenue reduced the carrying amount of property, plant, and equipment of the gas segment, therefore such recognition of revenue negatively affected the carrying of property, plant and equipment of the gas segment and it became higher than the assets' recoverable amount. Taking into consideration the results of the test the Company's management recognised additional impairment of EUR 43,512 thousand (Note 4).

Accrued revenue

Revenue received from household customers is adjusted by additionally calculated amounts for electricity consumed but not declared by customers. Accrued sales revenue is calculated as one third of revenue from sale of electricity to household customers earned in the last month of the reporting period. The calculation does not include revenue recognised according to average invoices formed for household customers. The recalculation is carried out in June and December of the current year.

Provisions for compensations for servitudes

On 1 November 2017, amendments to the Law on Energy of the Republic of Lithuania came into effect. The amendments set forth compensation for servitudes established for the construction of electricity networks in land not owned by the operator. The Energy Law provides that the construction of electricity transmission and distribution networks or other types of electricity installations will be subject to the payment of one-off compensation of damages related with the establishment of statutory servitudes (which came into effect by 10 July 2004). On 31 July 2018, the methodology for the calculation of compensations came into force. The methodology sets forth the conditions for the payment of compensations. As at 30 June 2018, the Company recognised intangible assets in the amount of EUR 28,563, provisions in the amount of EUR 28,725 thousand, and discount expenses related to expected compensations on the basis of information on servitudes used in the amount of EUR 162 thousand. The Company calculated a possible amount of compensations based on available information on servitudes used. The amount of compensations was reported at the discounted value using a discount rate of 1.14%.

4 Property, plant, and equipment

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

	Land	Buildings	Structures and machinery	Gas distribution pipelines	Gas technological equipment and structures	Motor vehicles	Computer hardware and other communication equipment	Other property, plant and equipment	Construction in progress	Total
Six-month month period ended 30 June 2017										
Net book amount at 1 January 2017	**79**	**17,330**	**800,405**	**154,724**	**5,285**	**2,767**	**6,884**	**6,251**	**26,816**	**1,020,541**
Additions	-	4	193	2	-	-	9	16	72,436	72,660
Disposals	-	-	(28)	-	-	-	-	-	-	(28)
Write-offs	-	(2)	(1,550)	(9)	(42)	-	(14)	(1)	-	(1,618)
Reclassifications between groups	-	130	44,244	11,509	175	-	194	683	(56,935)	-
Depreciation charge	-	(991)	(18,352)	(2,398)	(326)	(422)	(793)	(732)	-	(24,014)
Net book amount at 30 June 2017	**79**	**16,471**	**824,912**	**163,828**	**5,092**	**2,345**	**6,280**	**6,217**	**42,317**	**1,067,541**
Six-month month period ended 30 June 2018										
Net book amount at 1 January 2018	**79**	**17,023**	**922,574**	**178,603**	**5,511**	**1,944**	**6,842**	**7,156**	**49,016**	**1,188,748**
Additions			245			331	3	146	111,177	111,902
Disposals		(4)	(72)				(1)			(77)
Write-offs		(2)	(2,274)	(26)	(16)		(34)	(1)		(2,353)
Reclassification between groups		509	71,767	17,075	355		1,108	1,075	(91,889)	-
Impairment*				(43,512)						(43,512)
Depreciation charge		(606)	(21,061)	(2,184)	(355)	(363)	(844)	(721)		(26,134)
Net book amount at 30 June 2018	**79**	**16,920**	**971,179**	**149,956**	**5,495**	**1,912**	**7,074**	**7,655**	**68,304**	**1,228,574**

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

Structures and machinery comprise objects related to electricity distribution.

Interest capitalised as part of property, plant and equipment amounted to EUR 190 thousand at the Company in the first half of 2018. The interest rate was established at 0.75%.

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

This change in accounting policies of revenue recognition was applied using the modified retrospective approach, which resulted in increase in the Company's retained earnings by EUR 44 million and decrease in deferred revenue by the respective amount. Deferred NC connection revenue also had impact on the value of property, plant and equipment used in the gas segment because in performing the impairment test deferred NC connection revenue reduced the carrying amount of property, plant, and equipment of the gas segment. When deferred NC connection revenue was reduced to zero, the carrying amount of property, plant and equipment of the gas segment became higher than the recoverable amount of the assets and the value adjustment was reflected through the Company's retained earnings upon the first-time adoption of IFRS 15.

All amounts in EUR thousands unless otherwise stated

5 Intangible assets

	Patents and licences	Computer software	Other intangible assets	Statutory servitudes	Projects in progress	Total
Six-month month period ended 30 June 2017						
Net book amount at 1 January 2017	**1,145**	**1,521**	**31**	**-**	**876**	**3,573**
Additions	-	32	-	-	1,882	1,914
Reclassification between groups	13	559	-	-	(572)	-
Amortisation	(59)	(891)	(22)	-	-	(972)
Net book amount at 30 June 2017	**1,099**	**1,221**	**9**	**-**	**2,186**	**4,515**
Six-month month period ended 30 June 2018						
Net book amount at 1 January 2018	**43**	**3,334**	**75**	**-**	**1,999**	**5,451**
Additions	-	13	-	28,564	1,802	30,379
Reclassification between groups	-	1,145	3	-	(1,148)	-
Amortisation	(28)	(1,753)	(25)	-	-	(1,806)
Net book amount at 30 June 2018	**15**	**2,739**	**53**	**28,564**	**2,653**	**34,024**

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

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

6 Investments in joint ventures and associates

The Company's investments in associates as at 30 June 2018 were as follows:

	Acquisition cost	Ownership interest (%)	Share of results of operations of associates	Dividends received	Carrying amount
Technologijų ir Inovacijų Centras UAB	1,877	29.01	421	(160)	2,138
Verslo Aptarnavimo Centras UAB	129	22.25	180	(89)	220
Total	**2,006**		**601**	**(249)**	**2,358**

Movements of investments in associates in 2018 were as follows:

	2018
Carrying amount at 1 January	**2,382**
Dividends received	(137)
Gain/(loss) on investments in associates	113
Carrying amount at 30 June	**2,358**

The Company's investments in associates as at 31 December 2017 were as follows:

	Acquisition cost	Ownership interest (%)	Share of results of operations of associates	Dividends received	Carrying amount
Technologijų ir Inovacijų Centras UAB	1,877	29,01	365	(82)	2,160
Verslo Aptarnavimo Centras UAB	129	22,25	123	(30)	222
Total	**2,006**		**488**	**(112)**	**2,382**

7 Other non-current financial assets

Other non-current financial assets consist of the non-current portion of mortgage loans granted to private individuals for a period of 25 years and available-for-sale financial assets:

	As at 30 June 2018	As at 31 December 2017
Non-current portion of mortgage loans granted	243	271
Other non-current amounts receivable	541	578
Total	**784**	**849**

8 Trade and other receivables

	As at 30 June 2018	As at 31 December 2017
Trade receivables for electricity	48,136	47,769
Trade receivables for distribution of natural gas	297	1,508
Other trade receivables	819	1,189
Assets at fair value through profit or loss	-	5,560
Trade receivables and other amounts receivable from related parties	8,854	10,526
Current portion of mortgage loans	69	70
Other amounts receivable	6,530	3,679
Less: impairment allowance for doubtful receivables	(6,222)	(5,915)
Total	**58,484**	**64,386**

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

Balance at 1 January 2017	**7,230**
Impairment charge for the first half of the year	190
Write-offs	(1,618)
Balance at 30 June 2017	**5,802**
Impairment charge for the second half of the year	(851)
Write-offs	964
Balance at 31 December 2017	**5,915**
Balance at 1 January 2018	**5,915**
Effect of first-time adoption of IFRS 9	**334**
Restated balance at 1 January 2018	**6,249**
Impairment charge for the first half of the year	672
Write-offs	(699)
Balance at 30 June 2018	**6,222**

9 Cash and cash equivalents, and term deposits

	As at 30 June 2018	As at 31 December 2017
Cash at bank	4,151	6,449
Total	**4,151**	**6,449**

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

	As at 30 June 2018	As at 31 December 2017
Cash and cash equivalents	4,151	6,449
Bank overdraft (Note 12)	-	(10,655)
Total	**4,151**	**(4,206)**

10 Authorised share capital

As at 30 June 2018 and 31 December 2017, the Company's authorised share capital was divided into 894,630,333 ordinary registered shares with a nominal value of EUR 0.29 each. All the shares are fully paid.

11 Dividends

Approved dividends per share:

	As at 30 June 2018	As at 30 June 2017
Declared dividends (in EUR thousand)	22,679	51,763
Weighted average number of shares (thousands)	894,630	894,630
Declared dividends per share (in EUR per share)	**0.025**	**0.0579**

The ordinary general meeting of shareholders of Energijos Skirstymo Operatorius AB was held on 30 March 2018 where it was decided to approve the profit appropriation for July–December 2017 and to allocate EUR 0.02535 per share in dividends, in total EUR 22,679 thousand in dividends.

The ordinary general meeting of shareholders of Energijos Skirstymo Operatorius AB was held on 24 March 2017 where it was decided to approve the profit appropriation for July–December 2016 and to allocate EUR 0.05786 per share in dividends, in total EUR 51,764 thousand in dividends.

12 Borrowings

	As at 30 June 2018	As at 31 December 2017
Non-current borrowings		
Borrowings from related parties	**277,235**	**239,648**
Current borrowings		
Bank overdraft	-	10,655
Borrowings from related parties	182,115	122,385
	182,115	**133,040**
Total borrowings	**459,350**	**372,688**

On 13 October 2017, the Company signed a Proportional Transfer Agreement for Green Bonds (hereinafter "Agreement") with Lietuvos Energija UAB (hereinafter "Lietuvos Energija") for the transfer of a EUR 100 million portion of the green bonds issue to the Company. Under this Agreement, Lietuvos Energija granted a loan of EUR 100 million to the Company.

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

Prior to the issue of green bonds worth of EUR 300 million by Lietuvos Energija UAB, a portion of the issue's funds was planned to be used for ESO's long-term investments in the upgrade of its distribution networks

Obligations assumed under the Agreement are to be fulfilled by 14 July 2027. The fixed interest rate under the Agreement coincides with the effective interest rate on the green bonds issue and is equal to 2.23%. The essential terms and conditions of the Agreement are consistent with the terms and conditions of the green bonds issue. The Agreement does not establish any additional measures (guarantees, suretyship, pledges, etc.) to secure the fulfilment of obligations.

On 8 November 2017, the Company signed trilateral agreements on the transfer of debt and rights and obligations with Lietuvos Energija UAB and the creditors of the Company (separately with each creditor): OP Corporate Bank plc and SEB Bankas AB. The Company transfers to Lietuvos Energija UAB its entire debt obligation, together with all rights and obligations to creditors arising from loan agreements, while Lietuvos Energija UAB, from the moment the contracts enters into force, takes over from the Company all its debts to creditors together with all other rights and obligations arising from loan agreements.

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

Refinanced borrowings of the Company bear variable interest rates with repricing period up to 3 months. No assets are provided as collateral for borrowings. The borrowings are repaid in partial quarterly payments.

Non-current borrowings by maturity:

	At 30 June 2018	At 31 December 2017
Between 1 and 2 years	48,902	57,402
Between 2 and 5 years	32,454	48,704
After 5 years	195,879	133,542

	277,235	**239,648**

Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Company's current (total current assets / total amounts payable within one year and current liabilities) and quick ratios ((total current assets – inventories) / total amounts payable within one year and current liabilities) as at 30 June 2018 were 0.23 and 0.22, respectively (31 December 2017: 0.27 and 0.26, respectively).

The financial statements of the Company have been prepared on a going concern basis. Irrespective of the fact that, as at 30 June 2018, the Company's current liabilities exceeded its current assets by EUR 255,919 thousand (31 December 2017: EUR 208,585 thousand), the Company's management is certain that this will not have a significant effect on the Company's ability to continue as a going concern. This difference arises due to the seasonal nature of the Company's investments and contractual works, as well as the significant increase in the volume of investments. It should be noted that the Company's operating cash flows, which amounted to EUR 63,884 thousand in the first half of 2018 (first half of 2017: EUR 76,843 thousand), will ensure liquidity in the future, and the current level of debt will allow the Company to optimise its share capital structure by financing its business activities through long-term lending facilities, such as long-term loans and agreements on transfer of bonds. For the purpose of managing short-term cash flow needs and ensuring liquidity in future periods, the Company signed an agreement with Lietuvos Energija UAB on the increase of the limit applicable to the platform of short-term lending to related parties to EUR 190,000 thousand, which is valid until 12 March 2019.

13 Deferred revenue

Deferred revenue from customer connection fees

	Q1–2 2018	2017
At the beginning of the period	**118,172**	**118,427**
Effect of first-time adoption of IFRS 15 on deferred revenue of the gas segment	(43,512)	-
Effect of first-time adoption of IFRS 15 on deferred revenue of the electricity segment	73,318	-
Restated balance at 1 January	**147,978**	**118,427**
Received during the year	2,995	4,988
Recognised as income in the statement of comprehensive income	(2,690)	(5,243)
At the end of the period	**148,284**	**118,172**

	As at 30 June 2018	2017
Non-current portion	140,547	112,929
Current portion	7,737	5,243
Total	**148,284**	**118,172**

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

As from 1 January 2018, payments received from the connection to the Company's electricity system are accounted for as deferred revenue and recognised as revenue over the useful life of the capitalised property, plant and equipment concerned, during which the Company ensures the connection of a customer to the electricity distribution network. In the period from 1 July 2009 to 1 January 2018, payments received were recognised as revenue immediately upon the fulfilment of the obligation. Payments received before 1 July 2009 were recognised as accrued deferred revenue and subsequently recognised as revenue on a proportionate basis over the useful life of the related newly created property, plant and equipment.

14 Provisions

	At 30 June 2018	At 31 December 2017
At the beginning of the period	-	-
Provisions for compensations for servitudes	28,564	-
Discounting effect	162	-
At the end of the period	**28,726**	**-**

In 2018, the Company recognised provisions for one-off compensations for third persons for the use of land servitudes (which came into effect by 10 July 2004) (Note 5).

All amounts in EUR thousands unless otherwise stated

15 Trade and other amounts payable

	As at 30 June 2018	As at 31 December 2017
Trade payables	51,633	65,286
Amounts payable to related companies	41,757	45,414
Total trade payables	**93,390**	**110,700**
Taxes, other than income tax	62	372
Employment-related liabilities	4,234	2,368
Other current liabilities	3,177	3,088
Total other amounts payable	**7,473**	**5,828**
Trade and other payables	**100,863**	**116,528**

16 Revenue

	As at 30 June 2018	As at 30 June 2017
Electricity sales and distribution	276,083	270,846
Natural gas distribution	23,115	28,552
Revenue from connection of new customers	6,367	6,435
Total	**305,565**	**305,833**

17 Income tax

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

	As at 30 June 2018	As at 30 June 2017
Current year income tax expenses	75	1,921
Effect of tax losses taken over	(109)	-
Deferred income tax expenses/(income)	609	3,392
Total	**575**	**5,313**

On 10 May 2018, the Company took over tax losses of EUR 6,727 thousand from the Group companies for a consideration of EUR 911 thousand. The consideration for tax losses taken over and reversal of income tax expenses were reported in the 'income tax' line item of the statement of comprehensive income.

18 Segment reporting

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

According to the management, the Company has two operating segments, i.e. supply and distribution of electric power, and distribution of gas. The Company have a single geographical segment – Republic of Lithuania. The chief operating decision-maker monitors the results with reference to the financial reports that have been prepared using the same accounting policies as those used for the preparation of the financial statements in accordance with IFRS, i.e. information on profit or loss, including the reported amounts of income and expenses. The chief operating decision-maker does not analyse operating segments on the basis of information about assets and liabilities.

The table below presents the Company's information on segments for the six-month period ended 30 June 2018.

2018	Electricity supply and distribution	Gas distribution	Total
Revenue	282,905	26,136	309,041
Expenses	(245,935)	(12,188)	(258,123)
EBITDA	**36,970**	**13,948**	**50,918**
Depreciation and amortisation	(23,643)	(3,740)	(27,383)
Impairment and write-off expenses	(2,657)	54	(2,603)
Operating profit	**10,670**	**10,262**	**20,932**
Finance income	39	8	47
Finance (costs)	(2,248)	(434)	(2,682)

Share of (profit) of associates	94	19	113
Profit before income tax	**8,555**	**9,855**	**18,410**
Income tax	(480)	(94)	(575)
Net profit for the period	**8,075**	**9,760**	**17,835**

The table below presents the Company's information on segments for the six-month period ended 30 June 2017.

2017	Electricity supply and distribution	Gas distribution	Total
Revenue	278,597	29,188	307,785
Expenses	(219,689)	(11,478)	(231,167)
EBITDA	**58,908**	**17,710**	**76,618**
Depreciation and amortisation	(20,713)	(3,698)	(24,411)
Impairment and write-off expenses	(273)	(102)	(375)
Operating profit	**37,922**	**13,910**	**51,832**
Finance income	398	157	555
Finance (costs)	(709)	(139)	(848)
Share of profit of associates and joint ventures	63	8	71
Profit before income tax	**37,674**	**13,936**	**51,610**
Income tax	(4,434)	(879)	(5,313)
Net profit for the period	**33,240**	**13,057**	**46,297**

19 Related-party transactions

The Company's related parties are as follows:

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

Purchase and sale of goods and services:

The Company's transactions with related parties between January and June of 2018 and the balances arising on these transactions as at 30 June 2018 are presented below:

Related parties	Amounts payable and accrued expenses	Amounts receivable and other assets	Purchases	Sales
Parent company Lietuvos Energija UAB	443,369	-	3,162	-
Associates of the Company	4,649	60	10,636	-
Other companies of Lietuvos Energija UAB group	28,802	2,796	49,684	19,656
Companies of EPSO – G UAB group	24,286	7,314	95,249	306
Total	**501,106**	**10,170**	**158,731**	**19,962**

The amount payable to Lietuvos Energija UAB comprises loans, interest payable and amounts payable for services.

Aiming to reduce costs incurred for the funding of a working capital, on 18 May 2016 the Company signed the Lietuvos Energija UAB Group account (cashpool) agreement of an unlimited validity, under which the Company may obtain short-term loans from other companies of the Group. The internal lending limit established from 26 June 2018 is equal to EUR 190,000 thousand. The latter limit is valid until 12 March 2019. The market interest rate is established for the period of one calendar year and is the same as that applied for loans received from commercial banks.

Short-term loans received by the Company from the Group's cashpool account amounted to EUR 122,589 thousand as at 30 June 2018.

The Company purchases from associate entities services related to lease of property, IT and telecommunications, organisation and performance of public procurements, accounting and personnel administration, as well as construction, reconstruction and technical maintenance works related to electricity equipment. Purchases of electricity represent a major portion of purchases from the Lietuvos Energija UAB Group. The companies of EPSO – G UAB group provide electricity transmission services and PSO services.

The Company's transactions with related parties between January and June of 2017 and the balances arising on these transactions as at 31 December 2017 are presented below:

Related parties	Amounts payable and accrued expenses	Amounts receivable and other assets	Purchases	Sales
Parent company Lietuvos Energija UAB	356,911	5,418	613	58

All amounts in EUR thousands unless otherwise stated

Associates of the Company	4,425	-	9,903	-
Other companies of Lietuvos Energija UAB group	15,386	**7,676**	35,483	24,354
Companies of EPSO – G UAB group	29,924	4,336	95,689	435
Total	**406,646**	**17,430**	**141,688**	**24,847**

Compensation to key management personnel

Company	As at 30 June 2018	As at 30 June 2017
Wages and salaries and other short-term benefits to management personnel	228	338
Whereof: termination benefits	-	81
Number of key management personnel	7	7

Management in the table above includes heads of administration and their deputies.

20 Fair value estimation

There were no significant changes in the business and economic environment in the first half of 2018 that could affect the fair value of the Company's financial assets and financial liabilities.

21 Commitments and contingencies

Capital expenditure commitments

In 2018, the Company's capital expenditure commitments assumed under the signed contracts as at the date of the financial statements but not accounted for in the financial statements amounted to EUR 38,426 thousand (31 December 2017: EUR 35,689 thousand).

Litigations

Vilniaus Energija UAB (the Claimant) filed a claim to Vilnius Regional Administrative Court, whereby it requested to award damages of EUR 9.284 million from Energijos Skirstymo Operatorius AB. The Claimant insisted that it incurred losses of EUR 9.284 million because in 2014 Energijos Skirstymo Operatorius AB purchased only the volume of electricity that was produced under the technical minimum mode at the thermal power plants owned by the Claimant. The Company did not account for any provisions related to the claim, because the description of PSO services and other effective legal acts do not stipulate that the Defendant is obliged to purchase the total volume of electricity produced by the Claimant. On 17 March 2017, the Claimant specified the subject matter of the claim and requested to award damages of EUR 10.712 thousand. The case is currently under investigation by the court of appeals. On 18 September 2017, the court of first instance passed the ruling whereby the claim was rejected in full. The Claimant appealed against the court ruling. The date of the court's hearing has not been set yet.

In November 2014 and January 2015, Energijos Skirstymo Operatorius AB filed the complaints to Vilnius Regional Administrative Court requesting to annul the respective resolutions of the National Commission for Energy Control and Prices (the Commission), to oblige the Commission to eliminate the violations, as well as violations committed when determining the price caps for electricity distribution services provided by Energijos Skirstymo Operatorius AB through medium and low voltage networks for the upcoming period. Violations committed when determining the price caps for electricity distribution services resulted in lower revenue from the public supply of electricity. Vilnius Regional Administrative Court passed the rulings whereby the claims were rejected in full. Energijos Skirstymo Operatorius AB appealed against the court rulings. The cases are currently under investigation by the court of appeals. On 13 March 2018, the Supreme Administrative Court of Lithuania satisfied the appeal of Energijos Skirstymo Operatorius AB in part: it annulled points 2, 2.1, and 2.2 of the Commission's Resolution No O3-841 of 17 October 2014, by which the regulation period of 2011–2014 of the electricity distribution service was extended for the year 2015, as well as points 1 and 4 of the Commission's Resolution No O3-845 of 17 October 2014, by which the prices for the electricity distribution service were set for the year 2015. As regards the remaining part, the complaint of Energijos Skirstymo Operatorius AB was rejected.

In July 2015, LESTO AB filed the complaint to Vilnius Regional Administrative Court with the request to annul the Commission's Resolution on the Violation of Terms and Conditions of the Regulated Activity by LESTO AB under which the violation made by LESTO AB in respect of the licensed activity was identified, i.e. LESTO AB unjustifiably allocated more costs to the regulated activities of electricity distribution and public supply than the amount that could have been actually allocated, and to recognise the imposed fine of EUR 300 thousand as ungrounded. The investigation of the case was suspended until the ruling is passed in the administrative case where the Company disagrees with the results of the Commission's audit. On 25 October 2017, the court of first instance passed a ruling whereby it rejected ESO's complaint on audit results in its entirety. Disagreeing with the court's ruling, ESO filed an appeal. The case is currently under investigation by the court of appeals. The date of the court's hearing has not been set yet. If the court passed a judgment in favour of Energijos Skirstymo Operatorius AB, the price caps would increase, revenue for future periods would surge, and the fine of EUR 300 thousand which was accounted for in 2015 would be deemed unreasonable.

On 17 October 2017, the claimants Fatima Maria Islam, Birutė Šiokienė, and Pranas Šiokys filed a claim to Vilnius City District Court against the defendant Energijos Skirstymo Operatorius AB (hereinafter "ESO"); the third persons (employees of ESO) include Modestas Auryla and Virgilijus Zubavičius. The claimants seek an order that ESO, the defendant, pay EUR 260 thousand to Fatima Maria Islam, EUR 70 thousand to Birutė Šiokienė, and EUR 70 thousand to Pranas Šiokys (EUR 400 thousand in total) as compensation for the non-material damage caused to the claimants and cover the costs of the court proceedings.By order of 15 December 2017, the court decided to stay the civil proceedings until the enactment of the final procedural judgment in the criminal case wherein the afore-mentioned third persons, employees of ESO, are accused of having committed a homicide of two or more people through negligence. The criminal case is currently under investigation by the court of appeals in respect of the appeals by the prosecutor and the third persons. ESO is not involved as neither the accused, nor any other participant in the criminal proceedings. The Company has not accounted for respective obligations. It is likely it will be awarded to pay damages in the civil proceedings. The management is currently unable to reliably assess the amount thereof.

22 Events after the reporting period

On 3 July 2018, the Company and Public Investment Development Agency ("the VIPA") signed the incorporation documents of the limited partnership Energy Efficiency Financing Platform ("the Limited Partnership"). The Limited Partnership will allocate funds for the implementation of various projects and facilities contributing to increasing end-use energy efficiency and the number of producing consumers. The Company acts as a limited partner of the Limited Partnership, i.e. its liability is limited to the contribution of EUR 10 million, which will be paid for a period of 10 years when necessary.

On 31 July 2018, the Commission passed a decision on the termination of the validity of the energy activity licence, which entitles the Company to engage in electricity public supply activity, with effect from 1 October 2018.

On 10 August 2018, Mrs Dalia Andrulionienė resigned from the position of the Company's CEO. Mr Augustas Dragūnas, the Company's Board member, Director of Finance and Administration Service, serves as the Acting CEO of the Company.

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

On 29 August 2018, the Supervisory Board of the Company approved the decision of the Board of the Company regarding the conclusion of the purchase and sale agreement on the public electricity supply operations (hereinafter – the Business Segment) with Lietuvos Dujų Tiekimas UAB (hereinafter – LDT). On the basis of the valuation conducted by an independent property valuer Ernst & Young Baltic UAB, the price of the Business Segment sold was set at EUR 30,520,000 (thirty million five hundred twenty thousand euros) that LDT shall pay to the Company. Given that the public supply electricity operations constituting the Business Segment are continuous and this causes changes in the Business Segment in the period from the spin-off balance sheet as at 30 June 2018 until the transfer of the Business Segment on 1 October 2018, the price of the Business Segment as specified above might be adjusted.

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2018

ENERGIJOS SKIRSTYMO OPERATORIUS AB INTERIM REPORT

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

eso

Lietuvos energija

Group of energy companies

www.le.lt

CONTENTS

Reporting period covered by the interim report

This interim report presents information designated to the shareholders, creditors, and other stakeholders of Energijos Skirstymo Operatorius AB (hereinafter "ESO") related to the Company's activities during the period from January to June 2018.

Regulation of the interim report

The interim report of ESO has been prepared by the Company's administration in compliance with the Law on Securities of the Republic of Lithuania, the effective version of the *Rules on the Disclosure of Information* as approved by the Board of the Bank of Lithuania, the effective version of the Resolution of the Government of the Republic of Lithuania *On the Approval of the Guidelines for Ensuring the Transparency of Activities of the State-owned Enterprises and Appointment of the Coordinating Authority,* and other legal acts.

Persons responsible for the information provided in the interim report

Position	Full name	Telephone number
Acting Chief Executive Officer, Finance and Administration Service Director	Augustas Dragūnas	(8 5) 277 7524
Finance Department Director	Artūras Paipolas	(8 5) 277 7524

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

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

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

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

KEY OPERATING AND FINANCIAL INDICATORS OF THE COMPANY

Key operating indicators of ESO

			During 6 months of 2018	During 6 months of 2017	Change +/-	Change %
Operating indicators						
Distributed electricity via medium and low voltage networks		*TWh*	4.78	4.62	0.16	3.46
Public and guaranteed supply of electricity		*TWh*	1.65	1.63	0.02	1.23
Distributed volume of natural gas		*TWh*	4.21	4.00	0.2	5.25
Supply quality indicators of the network						
Electricity	SAIDI (with *force majeure*)	min.	31.29	63.79	-32.50	
	SAIFI (with *force majeure*)	times	0.49	0.60	-0.11	
Gas	SAIDI (with *force majeure*)	min.	0.261	0.195	0.066	
	SAIFI (with *force majeure*)	times	0.003	0.002	0.001	

Key financial indicators of ESO

		During 6 months of 2018	During 6 months of 2017	Change +/-	Change %
Revenue	EUR '000	309,041	307,785	1,256	0.4
Purchase of electricity, gas and related services	EUR '000	213,447	186,970	26,477	14.2
Operating expenses (1)	EUR '000	44,676	44,197	479	1.1
EBITDA (2)	EUR '000	50,918	76,618	-25,700	-33.5
EBITDA margin (3)	%	16.48	24.89		
Adjusted EBITDA*	EUR '000	84,247	75,284	8,963	11.9
Net profit (loss)	EUR '000	17,835	46,297	-28,462	-61.5
		At 30 June 2018	**At 30 June 2017**	**Change +/-**	**Change %**
Total assets	EUR '000	1,341,112	1,142,066	199,046	17
Equity	EUR '000	540,030	617,729	-77,699	-13
Borrowings	EUR '000	459,350	263,950	195,400	74
Borrowings, net (4)	EUR '000	455,199	259,732	195,467	75
Return on equity ratio (ROE) (5)	%	8.5	14.1		
Return on assets (ROA) (6)	%	4.0	7.8		
Equity ratio (7)	%	40.27	54.09		
Borrowings, net / 12-month EBITDA	times	4.0	1.7		
Borrowings, net / Equity	%	84.29	42.05		

(1) Operating expenses (OPEX) = operating expenses excluding costs attributable to the purchase of electricity and related services, depreciation and amortisation, impairment and write-off expenses;
(2) EBITDA (earnings before results of financing activities, tax and depreciation and amortization) = profit (loss) before tax + expenses of financing activities - income from financing activities - dividends received + depreciation and amortisation + impairment expenses + write-off expenses;
(3) EBITDA margin = EBITDA / Revenue;
(4) Borrowings, net = borrowings - cash and cash equivalents - short-term investments and term deposits – a portion of non-current other financial assets representing investments in debt securities;
(5) Return on equity (ROE) = net profit (loss) for the last 12-months ⁄ average of equity at the beginning and at the end of the reporting period;
(6) Return on assets (ROA) = net profit (loss) for the last 12-months ⁄ average of assets at the beginning and at the end of the reporting period;
(7) Equity ratio = equity at the end of the period/total assets at the end of the period,
** The Company adjusted EBITDA by the difference between the actual profit earned during the reporting and earlier periods and the allowable return on investments for respective periods as established by the National Commission for Energy Control and Prices (hereinafter "the Commission"). The difference is due to improvement of the Company's operational efficiency as well as other factors.*

CEO's foreword

Dear all,

In the first half of 2018 we were experiencing higher electricity prices. The average wholesale electricity price as per Lithuania price area on the Nord Pool electricity exchange has reached 43.7 EUR/MWh and was nearly 26.8% higher than during the same period of 2017. The price increase was caused by the changed ratio of electricity demand and supply. The first half of the year saw increase in electricity consumption due to weather conditions: a colder than usual first quarter and warmer than usual second quarter of the year. Electricity supply was negatively affected by various factors that occurred during the first half of the year, such as, lower electricity generation volumes both at the wind power plants and at the hydroelectric power plants in the Scandinavian region, repair works at the nuclear power plant in Finland and capacity restrictions of the NordBalt interconnection.

As a result of a higher electricity price in the segment of public electricity supply, expenses of purchasing electricity incurred by the Company rose by around EUR 26.1 million compared to the same period of the previous year. This also had a negative effect on the Company‘s EBITDA indicator, which declined by 33.5% compared to the previous year and totalled EUR 50.9 million. Under the currently effective regulatory framework, higher than projected electricity expenses of the current period will be compensated to the Company in the upcoming periods. Consequently, aiming to provide a more reliable comparison of the Company‘s performance during different periods and without taking into consideration deviations between actual and regulated revenue and impact of one-off factors, the Company‘s adjusted EBITDA totalled EUR 84.2 million and increased by EUR 9.0 million or 11.9% in January-June 2018 compared to the same period of the previous year.

A stable growth in energy consumption by business segment was observed during the first half of this year. During this period the volumes of electricity and natural gas distributed rose by 3.4% and 5.3%, respectively, compared to the same period of the previous year. Higher volumes of energy distribution not only secure a greater financial stability of the Company, but also enhance the competitiveness of the infrastructure operated by the Company and at the same time the whole economy of the country.

During the first six months of this year investments made by the Company increased by even 53.4% from the same period of the previous year and totalled EUR 113.7 million. As a usual practice, a major part of investments, which totalled EUR 56.7 million, was allocated for the renewal, modernisation and higher resilience of the electricity distribution network. Investments designated for the expansion of the electricity and natural gas distribution network amounted to EUR 50.1 million. It is pleasing that investments made in several recent years deliver the desired outcome – reliability indicators of the electricity distribution network continue to improve and the system average interruption frequency index (SAIFI) per customer declined 0.11 time or 18.1% this year.

We have been cooperating closely with meteorologists, digitising management of the dispatch control centres, improving customer service and, of course, organising breakdown removal services more efficiently. During the first six months of 2018, electricity network breakdowns were removed by the Company in as little as 1.4 hours, on average, from the moment of registration. Last year the average time during which breakdowns were removed was 3.5 hours. As a result, the impact of the system average interruption duration index (SAIDI), with *force majeure*, was reduced by half. In future we dare to commit that the maximum duration of the removal of breakdowns will be less than 12 hours and in case it will is longer, compensations will be paid.

Many of Company's services are now provided on a hire-purchase basis. This option can be used not only by customers who introduce electricity or gas to the boundaries of their land plots, but also by those who install an internal electricity or gas network, a solar power plant or order power increase. We hope that the hire-purchase service will ease a financial burden of customers acquiring new housing as this will simplify their expenditure planning and allow solving issues of making their homes move-in ready.

In an effort to promote efficient use of electricity we have analysed consumption patterns of many business customers and provided individual recommendations in order to offer a more favourable tariff plan that would allow reduce costs. A total of 631 companies will save EUR 1.0 million in 2018 by taking into consideration recommendations and changing the tariff plan.

The infrastructure of electricity distribution network is now available for testing of innovative solutions. Developers of innovations can test technological solutions and equipment under real conditions and free of change and the Company will consider applying innovations that proved to be successful on a wider scale.

We are preparing for the implementation of the project initiated by Company's controlling company Lietuvos Energija, UAB, according to which in an effort to identify the most important activities and concentrate the energy supply function with the single company, the public electricity supply activity is planned to be separated from the Company and transferred to another company of the Group – Lietuvos Dujų Tiekimas, UAB. Following the separation of the distribution and supply activities, customers will continue using a single self-service website "manogile.lt", which is becoming more popular and user friendly. The Company will continue performing its main activity – distribution of electricity and gas, maintenance of the distribution networks, removal of breakdowns in the networks and connection of new customers.

During the first half of 2108 intensive discussions on development plans of the electricity and gas network were held and already after the end of the reporting period Company's investment plan for 2018-2027 was announced. The objectives of the investment plan are consistent with the objectives set in the National Energy Independence Strategy. The investment plan focuses on ensuring the best customer experience, price and quality as well as presents indicators established in the Group's new strategy LE2030 prepared by Company's controlling company Lietuvos Energija, UAB.

I hope that together we will be successful in achieving the established objectives.

Yours sincerely,

Augustas Dragūnas
Chairman of the Board,
Acting Chief Executive Officer

SIGNIFICANT EVENTS OF THE REPORTING PERIOD

ESO Board Member R. Borkys resigns
On 10 January 2018, the Company received a notification of resignation of Rytis Borkys from the position of a member of the Company's Board. The last day of his term of office at the Company's Board was 24 January 2018. R. Borkys was elected to the Company's Board on 3 December 2015.

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

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

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

O. Martinonis elected Member of ESO's Board
On 14 March 2018, the Supervisory Board of the Company elected Ovidijus Martinonis as the member of the Board in charge of the area of network development (from the end of the meeting of the Supervisory Board of the Company that elected him until the end of the term of office of the current Board). Until then O. Martinonis led the Company's Metering Management Department.

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

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

Ordinary General Meeting of Shareholders convened
On 30 March 2018, during the Ordinary General Meeting of ESO Shareholders, the Company's audited annual financial statements for 2017 and the annual report were approved and the proposed profit appropriation, with plans to pay-out dividends, was agreed on. The shareholders also approved the new version of ESO's Articles of Association, recalled the incumbent Supervisory Board of ESO *in corpore* (Ilona Daugėlaitė and Petras Povilas Čėsna were then holding a position at the Supervisory Board), and elected Darius Maikštėnas and Darius Kašauskas as the new members of the Supervisory Board for a four-year term of office.

K. Betingis elected as independent member of the Supervisory Board of ESO
During the Extraordinary General Meeting of Shareholders of ESO held on 28 May 2018, a decision was made to elect Kęstutis Betingis as an independent member of the Supervisory Board until the end of the term of office of the current Supervisory Board. Since 2013, K. Betingis has been working as a lawyer. In 2014–2017, he held the position of member of the Board of Litgas, a liquefied natural gas supply and trade company owned by the Lietuvos Energija Group.

Elering and ESO signed agreement on the exchange of smart meter data
On 26 June 2018, Elering, an operator of Estonia's transmission system, and ESO launched the project on the exchange of smart meter data, which is the first project of such kind in Europe. The project will contribute to the harmonisation of data management processes and will ensure that the customers of both countries can receive and use the data on electricity consumption in the common retail electricity market. The regional data exchange platform is expected to stimulate the expansion of energy services in international markets.

Transaction on the services related to the lease of motor vehicles concluded
On 27 June 2018, the Company, in accordance with the results of the public procurement that was executed under the procedures set forth in the Law on Public Procurement of the Republic of Lithuania, as well as with the decisions of the managing and supervisory bodies of the Company, announced of its plans to enter into a transaction with Transporto Valdymas UAB on the services related to the lease of motor vehicles. The value of the transaction might reach EUR 26.7 million (excluding VAT) during the period of five years.

Regarding the signing of the Transfer Agreement for Green Bonds with "Lietuvos Energija", UAB
On 29 August 2018 the Company signed the Contract on the Proportional Transfer of the obligations arising from the Green Bonds issue (hereinafter – the Contract) with Lietuvos Energija, UAB (hereinafter – Lietuvos Energija) providing for the transfer of part of the up to EUR 250 million worth Green Bonds issue to the Company. Before issuing the EUR 300 million worth Green Bonds of Lietuvos Energija part of the proceeds was projected to be used for long-term investments of the Company. The contractual term for the discharge of the obligations is no later than by 10 July 2028.

Regarding the separation of electricity public supply business segment

On 29 August 2018 The Supervisory Board of the Company on the basis of positive opinion of the Audit Committee of the parent company Lietuvos Energija, UAB approved the Decision of the Board of the Company regarding the conclusion of the contract on the sale of the public electricity supply operations (hereinafter – the Business segment) with Lietuvos Dujų Tiekimas, UAB (hereinafter – LDT). On the basis of the valuation conducted by an independent property valuer UAB Ernst & Young Baltic, the price of the Business segment being sold was set at EUR 30,520,000 (thirty million five hundred twenty thousand euros) that the LDT shall pay to the Company. Given that the public supply electricity operations constituting the Business segment are continuous which causes changes in the Business segment in the period from the cut-off balance sheet of 30 June 2018 until the transfer of the Business segment on 1 October 2018, the price of the Business segment as specified below can be adjusted.

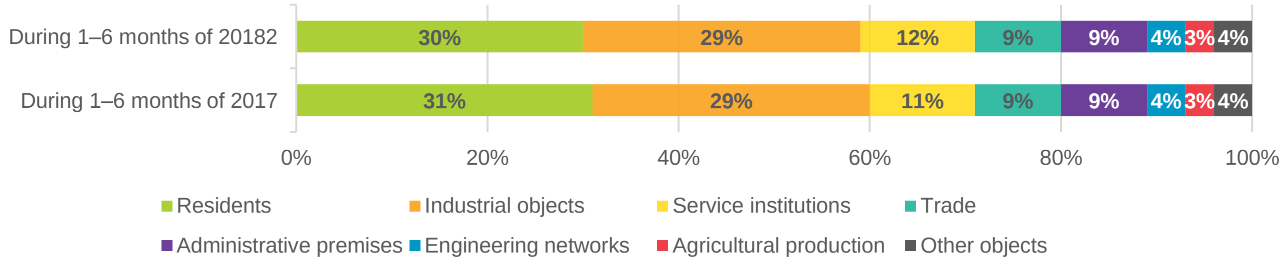
ANALYSIS OF THE OPERATING AND FINANCIAL INDICATORS

Electricity distribution

ESO owns and operates 125 thousand kilometres of electricity lines: 71% of them consist of overhead electricity lines, and 29% of electricity cables. During January–June 2018, the Company transmitted 4.780 billion kWh of electricity (January–June 2017: 4.620 billion kWh). Public and guaranteed supply of electricity made up 35% of this amount. The remaining customers of the Company were provided only with the distribution service. The amount of electricity sold increased by 1.2%, while the volume of electricity distributed increased by 3.5% compared to the same period of 2017. Technological costs in distribution equipment incurred by the Company during January–June 2018 amounted to 324.6 million kWh or 6.4% of the amount of electricity received. During the same period of 2017, technological costs totalled 5.5%. Such an increase was noticed due to the change in revenue recognition principle. From 1 February 2018 revenue is recognized according to the customer's declared readings or data received during a periodic inspection of meters.

Nearly 30% of the electricity distributed by ESO during January–June 2018 was consumed by residents. Industrial objects and service institutions consumed 28.8% and 11.7%, respectively, of electricity distributed. There were no significant changes in the structure of electricity distribution by object as compared to the data of January–June 2017.

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

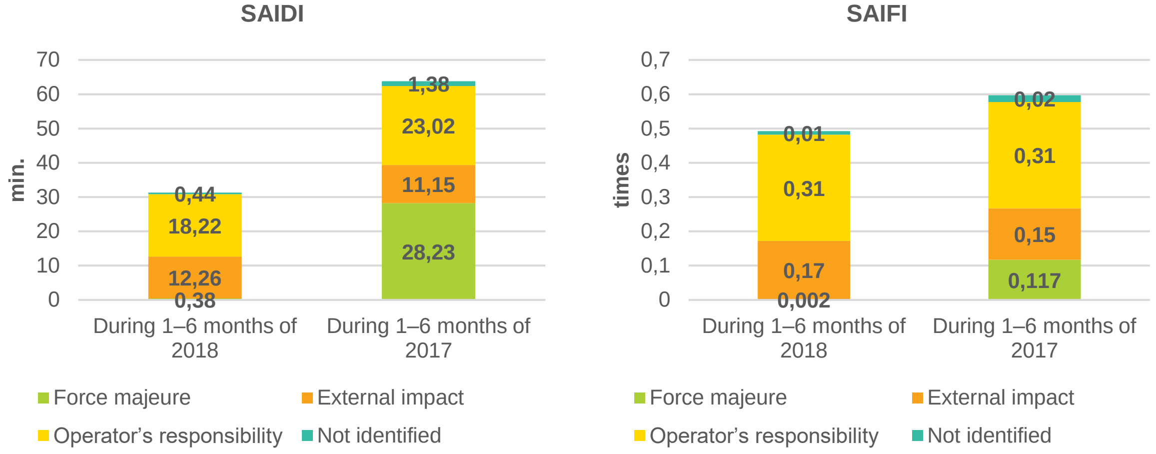


Electricity supply quality indices (SAIDI, SAIFI)

During January–June 2018, the system average interruption duration index (SAIDI with *force majeure*) for the electricity network per customer reached 31.29 minutes, which is 32.5 minutes less compared to the same period in 2017 (January–June 2017: SAIDI was 63.79 minutes). The main reason is the significantly shorter duration of the removal of breakdowns. During the first six months of 2018, electricity network breakdowns were removed by ESO in as little as 1.4 hours, on average, from the moment of registration. This would have taken 3.5 hours last year. The duration of the removal of breakdowns has been shortened as a result of closer cooperation with meteorologists, the digitalisation of the management of dispatch control centres, improved customer service and greater efficiency and effectiveness of the organisation of breakdown removal services.

During January–June 2018, the system average interruption frequency index (SAIFI with *force majeure*) per customer reached 0.49 times, which is 0.11 time less compared to 2017 when it was equal to 0.6 times. The positive change in this indicator was caused by increasing investments in an underground electricity network that is more resilient to natural disasters.

Figure 2. ***Electricity supply reliability indices***



Natural gas distribution

The company operates gas distribution pipelines with the length of more than 8 thousand kilometres. During January–June 2018, ESO transported 4.2 billion kWh (399 million cubic metres) of natural gas via gas distribution pipelines, which is 5.3% more than in the same period in 2017. Gas distribution volumes increased during January–June 2018 mostly due to higher gas consumption as a result of colder winter season than in 2017 and changes of production plans in industrial companies.

Natural gas supply quality indices (SAIDI, SAIFI)

During January–June 2018, the quality of the natural gas supply remained substantially the same as in January–June 2017. During January–June 2018, the system average interruption duration index (SAIDI with *force majeure*) for the gas network per customer reached 0.26 minutes, which is 0.07 minutes more compared to the same period in 2017 (January–June 2017: SAIDI was 0.19 minutes). During January–June 2018, the system average interruption frequency index (SAIFI with *force majeure*) per customer reached 0.003 times (January–June 2017: 0.002 times).

Revenue

During January–June 2018, ESO's revenue totalled EUR 309.0 million, which is 0.4% more than in the same period in 2017. Revenue increased due to higher volumes of electricity and natural gas distributed to the Company's customers. Electric power distribution is the main source of the Company's revenue. During January–June 2018, distribution revenue comprised 68,3% of the Company's total revenue. Revenue from public supply of electricity represented 16,4% and revenue from natural gas distribution made up 7,4% of the Company's total revenue.

Table 1. ***Revenue structure of ESO by activity area, %***

	During 1–6 months of 2018	During 1–6 months of 2017
Revenue from electricity transmission	68	66
Revenue from public electricity supply services	16	18
Revenue from gas distribution	7	9
Revenue from guaranteed electricity supply	3	3
Connection of new customers	2	2
Other finance income	3	2

Expenses

During January–June 2018, expenses for purchase of electricity, natural gas or related services totalled EUR 213.4 million, which is 14.2% more compared to the same period in 2017. This was mainly influenced by increased electricity purchase price. During the reporting period, expenses for purchase of electricity, natural gas or related services, as well as depreciation and amortisation expenses, amounted to EUR 240.8 million or 83,6% of ESO's total costs.

Operating expenses[1] amounted to EUR 44.7 million, which is 1.1% more compared to the same period in 2017. The most significant growth was noted in employee benefits and related social security contributions, as well as telecommunications and IT expenses, which surged by, respectively, 6.8% and 4.7%.

Table 2. ***ESO's operating expenses, EUR '000***

	During 1–6 months of 2018	During 1–6 months of 2017
Employee benefits and related social security contributions	21,544	20,182
Other expenses	8,527	8,516
Repair and maintenance expenses	5,657	6,897
Telecommunications and IT services	4,544	4,342
Transport	2,359	2,213
Rent and utilities	2,035	2,047
Total operating expenses	**44,676**	**44,197**

EBITDA

During January–June 2018, the Company's earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to EUR 50.9 million, which is 33.54% less than in January–December 2017. Adjusted EBITDA increased by 11.91% due to the Company's investments implemented.

Table 3. ***ESO's EBITDA ratio***

	During 1–6 months of 2018	During 1–6 months of 2017
EBITDA, EUR '000	50,918	76,618
EBITDA margin, %	16.48	24.89
Adjusted EBITDA**, EUR '000	84,247	75,284

** EBITDA (earnings before results of financing activities, tax and depreciation and amortisation) = profit (loss) before tax + expenses of financing activities - income from financing activities - dividends received + depreciation and amortisation + impairment expenses + write-off expenses.*
** The Company adjusted EBITDA by the difference between the actual profit earned during the reporting and earlier periods and the allowable return on investments for respective periods as established by the Commission. The difference is due to improvement of the Company's operational efficiency as well as other factors.*
The Company does not evaluate the impact of the incentive mechanism established by the Commission on adjusted EBITDA, according to which the allowable return on investments of 2016 and 2017 can be additionally increased due to operational efficiency as proven to the Commission.

Profit (loss) and profitability ratios

During January–June 2018, ESO's net profit totalled EUR 17.8 million, which is 61.5% less than in the same period in 2017. The decrease in net profit was mainly influenced by higher electricity purchase price.

Table 4. ***ESO's profitability ratios, %***

	During 1–6 months of 2018	During 1–6 months of 2017
Net profit margin	5.77	15.04
Operating profit margin	6.77	16.84

Investments

During January–June 2018, ESO's investments in the electricity and gas distribution networks amounted to EUR 113.738 million, which is 53.4% more than during January–June 2017, when they were equal to EUR 74.139 million.

[1] Operating expenses (OPEX) = operating expenses, excluding expenses attributable to purchase of electricity, natural gas and related services, depreciation, amortisation, impairment and write-off expenses of property, plant and equipment.

Table 5. ESO's investments, EUR '000

	During 1–6 months of 2018	During 1–6 months of 2017
Renewal of the electricity distribution network	56,711	38,575
Expansion of the electricity distribution network	35,125	20,576
Construction and reconstruction of gas systems	18,181	11,436
Other (IT, management systems, etc.)	3,722	3,552
Total investments	**113,738**	**74,139**

During January–June 2018, ESO's investments allocated for the renewal of the electricity distribution network amounted to EUR 56,711 million, which is 47.0% more compared to During January–June 2017. In January–June 2018, investments in the expansion of the electricity distribution network amounted to EUR 35.1 million, which is 70.7% more than in the same period of 2017. During January–June 2018, ESO connected 13,803 new customers to the electricity distribution network, which is 7.13% more than in January–June 2017, when 12,884 new customers were connected. During January–June 2018, the admissible electric power of objects of newly connected customers was equal to 177 thousand kW, which is 10.0% more than during January–June 2017, when the admissible power was equal to 161 thousand kW.

During January–June 2018, ESO's investments in the construction and reconstruction of gas systems amounted to EUR 18.181 million or 59.0% less compared to January–June 2017, when investments totalled EUR 11.436 million. During January–June 2018, ESO constructed 216,18 km of the gas distribution pipeline (156.7 km in the respective period of 2017). During January–June 2018, ESO connected 4,782 new customers[2] to the natural gas distribution network, which is 15.1% less than in the same period of 2017, when 5,633 customers were connected.

Analysis of financial indicators

At the end of the reporting period, the Company's assets amounted to EUR 1.31 billion. Non-current assets accounted for 94.3% of the total assets Cash and cash equivalents, i.e. the most liquid assets, amounted to EUR 4.2 million or 5.5% of the total current assets.

*Table 6. ESO's financial leverage ratios**

	At 30 June 2018	At 30 June 2017
Debt ratio	0.60	0.46
Debt to assets ratio	0.34	0.23
Liabilities to equity ratio	1.48	0.85
Debt to equity ratio	0.85	0.43
Net borrowings, EUR million	455.20	259.73
Net borrowings to equity ratio	0.84	0.42
Long-term debt to equity ratio	0.51	0.23
General solvency ratio	0.67	1.18
Equity to assets ratio	0.40	0.54
Share price to earnings ratio	42.64	16.81
Capitalisation, EUR million	760.44	778.33

** The description of indicators is presented at the end of the report.*

At the end of June 2018, ESO's borrowings amounted to EUR 459.4 million and accounted for 57.3% of total liabilities. Non-current borrowings amounted to EUR 277.2 million or 60.4% of total borrowings. At the end of the reporting period, ESO's current liabilities totalled EUR 331.3 million.

[2] The number of connected customers who were connected after the construction of the natural gas system by Energijos Skirstymo Operatorius AB, for which documents certifying the completion of construction works were obtained (the agreements on purchase and sale of natural gas and service provision are not necessarily concluded by customers).

Table 7. ***ESO's liquidity ratios***

	At 30 June 2018	At 30 June 2017
Current ratio	0.23	0.26
Quick ratio	0.22	0.25
Cash ratio	0.01	0.02
Working capital, EUR '000	-255,919	-176,154
Working capital to total assets ratio	-0.19	-0.15

ESO's current liabilities exceeded current its current assets by EUR 255.9 million. Current ratio is equal to 0.23. Quick ratio does not significantly differ from the current ratio, because inventories represent only 3.7% of total current assets. Borrowings, as reduced by the amount of short-term investments and cash and cash equivalents, are equal to EUR 455.2 million. The Company's net borrowings account for 84.3% of its equity.

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

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

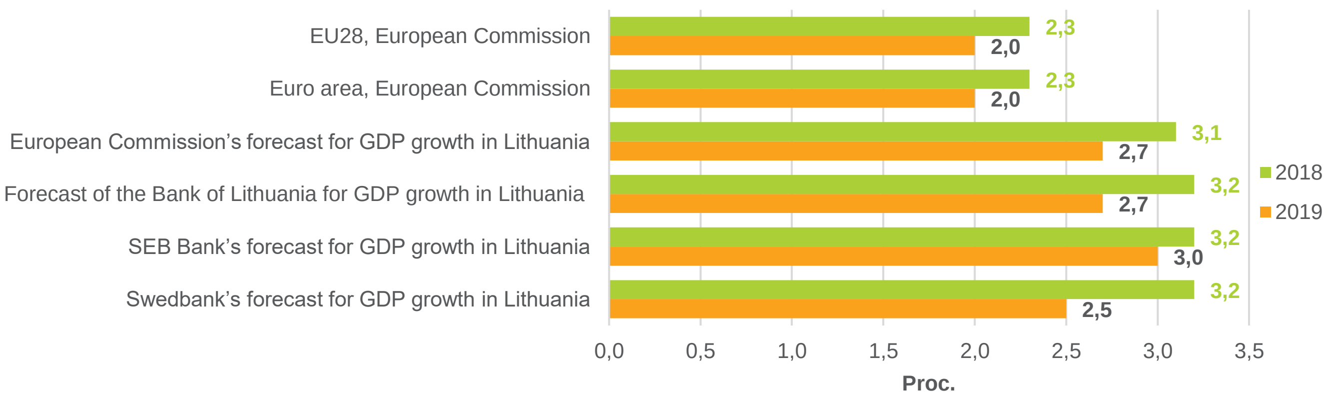
FACTORS AFFECTING THE COMPANY'S FINANCIAL INDICATORS

Operating environment

The major factor affecting electricity consumption is gross domestic product changes. The growth tendency of the gross domestic product in the European Union has been observed for several years in a row. In 2017, GDP growth has been the most prominent in the last 10 years. In 2017, for the first time since 2007, growth was witnessed in all the economies of the European Union members. Growth is expected to continue, yet it will be more moderate. GDP growth in 2018 is forecast to amount to 2.3% for the EU (EU28) as a whole and to 2.3% for the euro area, according to the European Commission's forecast issued in May 2018. Meanwhile, in 2019 economic growth is expected to reach 2.0% and 2.0%, respectively[3]. The Lithuanian economy will grow by 3.1% in 2018 and 2.7% in 2019, according to the European Commission's forecast[4].

The forecasts of the economists of the Lithuanian banks also project growth of the Lithuanian economy. According to the SEB Bankas analysts' forecasts issued in October 2018, Lithuania's gross domestic product will increase by 3.2% in 2018 and 3.0% in 2019.[5] In March 2018, the analysts of Swedbank AB also published the Lithuanian economic outlook: they expected that the gross domestic product would grow by 3.1% in 2018 and 2.5% in 2019.[6] According to the June 2018 forecast issued by the Bank of Lithuania, the Lithuanian gross domestic product will grow by 3.2% in 2018 and 2.7% in 2019.[7]

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



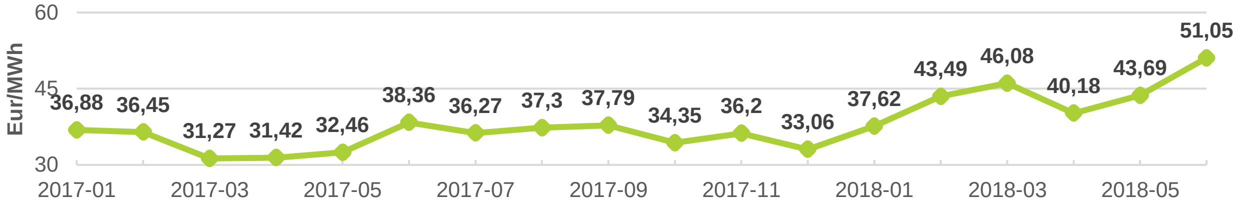
[3] Source of data: European Commission. European Economic Forecast Spring 2018.
[4] Source of data: European Commission. European Economic Forecast Spring 2018.
[5] Source of data: SEB Bankas. Lithuanian Macroeconomic Review, April 2018.
[6] Source of data: Swedbank Economic Outlook. March 2018
[7] Source of data: Bank of Lithuania. The Lithuanian Economic Review, June 2018.

Electricity consumption is closely linked with the growth of a gross domestic product, therefore economic growth also impacts the performance of ESO. Taking into account the macroeconomic forecasts for the years 2018–2019 presented by economists, as well as the actual results of operations of ESO, we hold the opinion that a higher volume of electricity will be distributed in 2018.

Situation in the electricity market

In 2018, the average price of electricity in the Lithuanian trade zone of the Nord Pool power exchange was increasing, as compared to 2017: in January, it was 2.0%, in February – 19.3%, in March – 47.4%, in April – 27.9%, in May – 34.6, in June – 33.1% higher as compared to respective months of 2017. The average price was equal to EUR 43.67/MWh in January–June 2018 and EUR 34.44/MWh in January–June 2017.[8] The rise in the price of electricity in the exchange negatively affects ESO's results.

***Figure 4.* The average price of electricity at the Lithuanian price are of the Nord Pool power exchange**



The Company's strategy and objectives

During January–June 2018, the Company complied with the ESO operational strategy for 2016–2020 as approved by the Company's Board on 2 November 2016. The long-term strategy of ESO, as approved by the Board of the Company, is based on customer service reliability and speed, effectiveness, and organisational culture based on unified values and continuous improvement.

The strategy outlines enhancement of operational efficiency and reduction of operating expenses. A safe and reliable provision of electricity and natural gas distribution services will be achieved by making investments for the improvement of technical conditions of electricity and natural gas networks.

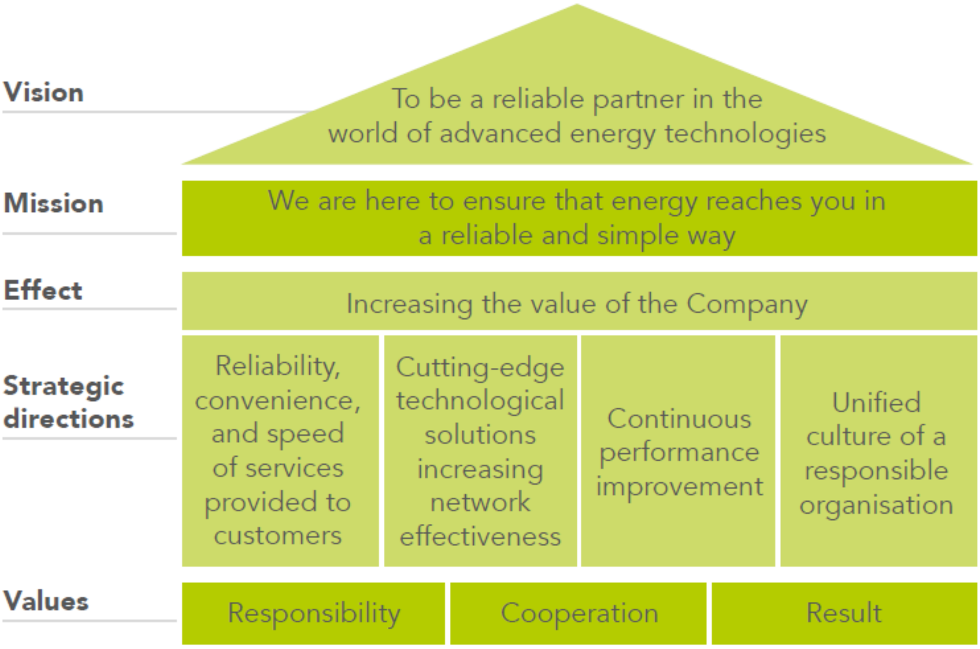
The Company will focus on significantly improving the reliability of the electricity distribution network by 2020. The system average interruption duration index (SAIDI with *force majeure*) for the electricity network is expected to drop down to 100 minutes and the system average interruption frequency index (SAIFI with *force majeure*) will respectively decrease by 1 times by the year 2020. The Company will also aim to maintain high reliability indices of the natural gas distribution network.

By 2020, the Company plans to shorten the time for new customer connections to the natural gas and electricity distribution networks. The shortening of the process of new customer connection to the electricity network will improve the country's ranking in the World Bank's index Doing Business as getting electricity is one of its component indicators.

The Company will aim to maintain a high customer service satisfaction level which is to exceed the European average for energy companies. It is expected that the Company's customer satisfaction index (GCSI) will remain at 80 points in 2020.

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

Figure 5. ESO's operational strategy scheme



The fulfilment of ESO's mission, vision, pursuit of its activities are based on the values of collaboration, responsibility, and performance. These values express a concept that the Company constantly takes responsibility for its actions, cooperates, and always strives to achieve the best results for its stakeholders.

All of these elements are considered the fundamental assumptions for the achievement of the main strategic goal – increase of the Company's value. The increase of the Company's value is perceived as a sustainable balance between the strategic directions listed below, which are linked by the balanced scorecard methodology to their relevant perspectives:

1. Reliability, convenience, and speed of customer service (customer perspective);
2. Advanced technological solutions which enhance network performance (internal processes perspective);
3. Unified organisational culture (employee training perspective);
4. Continuous improvement of activities (internal processes perspective).

A consistent implementation of these directions allows us to contribute to the core strategic objective of the Company – increase of the Company's value (financial perspective) – in a balanced way.

The document of the ESO operational strategy can be found in section *About us* of the Company's website www.eso.lt.

As the Group's parent company "Lietuvos Energija", UAB published its renewed strategy LE2030 on 23 May 2018, the Company's strategy is planned to be reviewed and renewed in 2018 as well.

Investment plan: modernisation of the electricity and gas distribution networks

On 3 February 2015, LESTO, the operator of the electricity distribution network whose activities are being continued by ESO, announced the investment plan for 2015–2025. It was then planned that in order to ensure reliable, safe and intelligently managed services, the Company will invest EUR 1.7 billion in the modernisation and renewal of the network by 2025.

On 13 December 2015, Lietuvos Dujos AB, whose activities are being carried out by ESO, announced a ten-year investment plan projecting that its investments in the network will amount to EUR 141.1 million over the next ten years. The largest portion of investments will be allocated to the development of the distribution system, reconstruction of distribution pipelines, and modernisation of the systems of remote data collection and control.

On 17 July 2018, ESO announced the plan of investments into the electricity and gas distribution network that are being carried out or planned for 2018–2027 (the ten-year investment plan).

The level of investments in ESO's 10-year investment plan for 2018–2027 was established with an aim to reduce quality indicators, i.e. the system average interruption duration index (SAIDI), the system average interruption frequency index (SAIFI), and the maximum duration of the removal of breakdowns. They were established with reference to stakeholders' expectations about the quality of services, as well as Western European countries' good practices. It is expected that SAIDI and SAIFI will be reduced by half following the implementation of the planned investments.

The objectives of ESO’s ten-year investment plan are consistent with the objectives set in the National Energy Independence Strategy. The investment plan focuses on ensuring the best customer experience, price and quality, as well as presents indicators established in the Group’s new strategy LE2030 prepared by ESO’s controlling company Lietuvos Energija. Based on the provisions of the strategy’s direction *Quality and Efficiency*, major investments will be allocated mainly to ensure the reliability and digitalisation of the network.

ESO's investments in 2018–202 will be targeted in three directions. The first direction is reliable and climate impact-resilient network. By replacing overhead lines with underground lines, eliminating unreliable and destructible devices, the strategy aims at ensuring uninterrupted and high-quality energy distribution via environment-friendly electricity and gas networks. The value of investments planned under this direction might total up to EUR 640 million.

The aim of the second direction of investments, which is remotely-controlled grid, is to speed-up the restoration of the energy supply after a disruption, create preconditions for making network management decisions based on real-time information, and to facilitate the integration of renewable energy sources. It is planned to install remotely-controlled equipment and self-healing network equipment, and implement solutions for network monitoring. The value of investments planned under this direction is approx. EUR 582 million.

The third direction of investments is smart network. It is planned to improve the quality of ESO’s services, create preconditions for customers to accurately monitor their energy consumption, receive accurate invoices, and save energy through rational consumption. Consequently, it is planned to install smart meters, upgrade information systems. The value of investments planned under this direction is approx. EUR 336 million.

In addition, according to ESO’s calculations, connection of new customers might require approx. EUR 538 million over the period of then years, thus ESO’s investments might amount up to EUR 2.1 billion in 2018–2027.

Risk and uncertainty factors and their management

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

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

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

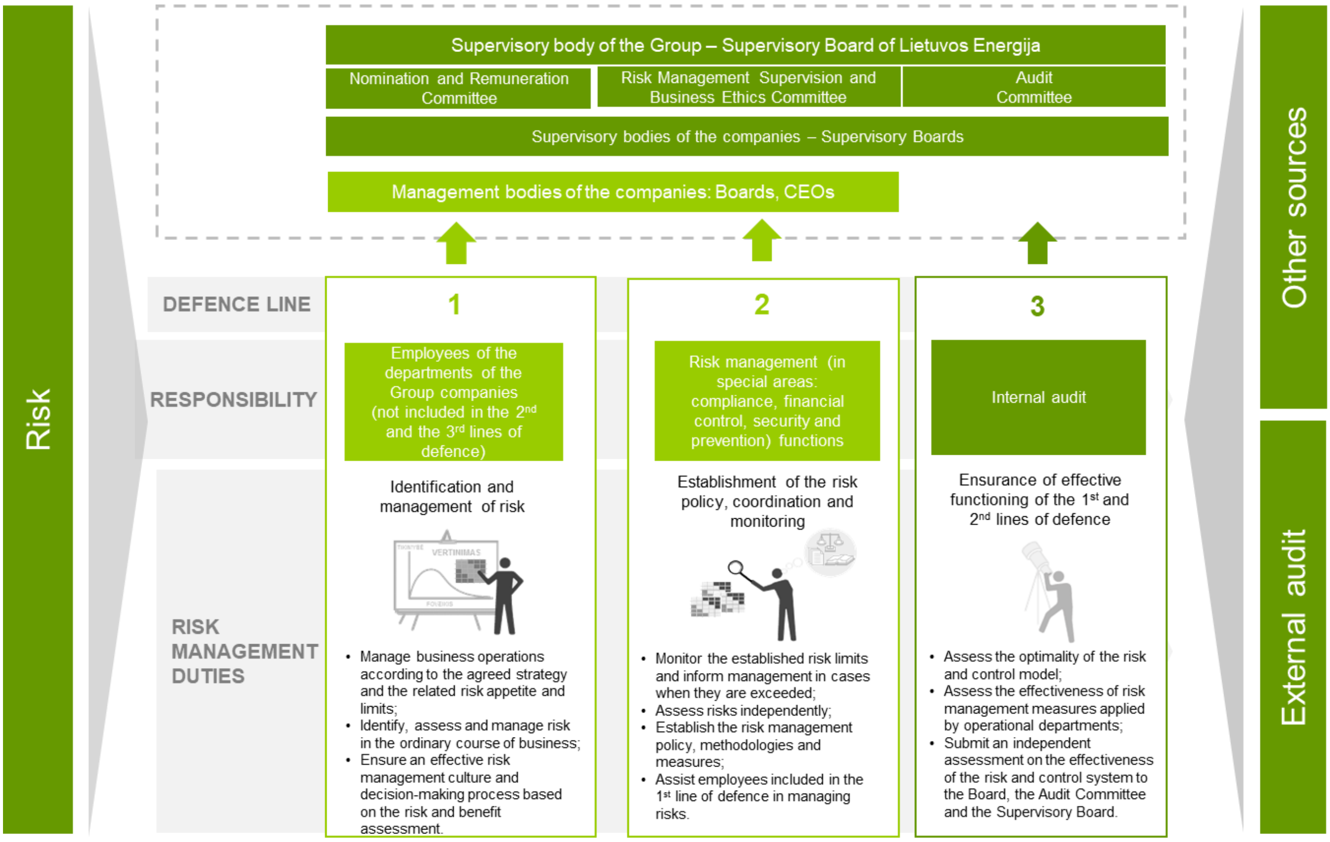
The risk management principles established by Lietuvos Energija are consistently applied across the entire Group of companies. The uniform risk management principles ensure that the management personnel of the Group of companies receive risk management information covering all areas of activities. To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

Aiming to ensure that risk management information and decisions correspond to recent developments and changes in the Company’s activities, the Company’s risk level is re-assessed each year during a specified time period and risk management actions are established. In addition, the Company monitors new risk factors on a quarterly basis and defines additional actions, if needed.

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

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

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



As every year, during the risk assessment for 2018 that the Company performed in 2017, certain areas were identified in which the Company concentrates the main risk management measures and initiatives and coordinates them at the Group level. The main risk factors and management policies for 2018 are listed in Table 8.

Table 8. ***Risk factors for 2018 and their management directions***

Risk factor	Sources of risk	Main risk management policies
Health and safety of employees, contractors, and residents	With regard to the specific character of its business activity, the Company bears the risk of injury to the employees of ESO, its contractors, and residents. This risk remains a priority area every year and the main causes of this risk, in addition to high-risk working environment, stem from the lack of awareness or experience/knowledge.	• Maintenance of the occupational health and safety management system (OHSAS 18001:2007); • Implementation of the programme for the strengthening of safety culture; • Regular control and monitoring of occupational safety of employees and contractors; • Launch of practical training in the Training simulator and implementation of VR training in the second half of 2018; • Enhancement of physical safety measures, warning signs; • Motivational and disciplinary system for employees and contractors;

Risk factor	Sources of risk	Main risk management policies
External regulation (ENEF, ADA)	The Company is exposed to regulatory risk due to the constant change of regulatory environment (frequent changes in legislation give rise to erroneous interpretations/misinterpretations). Moreover, the transposition of the Energy Efficiency Directive into the Lithuanian law has imposed unproportionally large obligations on ESO, without any proper incentive mechanisms for the market of energy efficiency services. The Company is exposed to external regulatory risk due to the reform of legal regulation of personal data protection, the basic legal act of which is the General Data Protection Regulation (hereinafter "GDPR") of the European Union that came into force on 25 May 2018. New rights for individuals as established in the GDPR, stricter requirements for the treatment of consents, and other changes related to the protection of personal data pose a risk of misleading implementation of regulations set forth in the GDPR.	• As clear and proper fulfilment of regulatory requirements as possible; • For the purpose of ensuring compliance with new requirements, Group-level organisation of projects engaging the best specialists of the Group with regard to the issue concerned; development of financial instruments; • Active contribution to the process of public coordination of legal acts; • Initiation of draft amendments to legal acts that are unfavourable to the Company; • The Company has carried out a project on the implementation of GDPR requirements, during which the Company performed the following: - renewal of the Company's document forms (agreements, requests, etc.); - approval of the Company's new internal legal acts (the policy and standards of personal data protection, the publicly available privacy notice, etc.) - implementation of functionalities allowing system users to see only as much data as necessary for the execution of their functions; - designation of data protection executive (officer); - organisation of trainings on personal data protection for the Company's employees; - ensurance of regular monitoring of the compliance of the Company's activities with GDPR requirements, etc.
Disruptions in services while implementing IT changes (system instability due to high number of changes)	The majority of information systems, in order to make them more efficient, are undergoing extensive changes. Due to a high number of changes, the quality of those changes is not always controlled and the stability of the systems is not always retained (in terms of both functionality errors and optimal functioning).	• Modernisation of information systems, installation of up-to-date specialised IT tools in order to create new possibilities of providing the customers with high-quality services and increasing the efficiency of the Company's processes; • Enhancement of the installation process of IT changes; • Regular monitoring of current changes; • Creation of a model for testing critical systems.
Information security (cyber security)	Detection of random (automated) and specialised cyber attacks carried out in a bid to exploit the weak social traits of the Company's employees (curiosity, credulity), vulnerabilities of information systems. Constant arising of new global cyber threats, tendencies of their development. Strong motivation to direct cyber attacks at the Company for its strategic meaning to the country's security.	• Enhancement of cyber attack detection/resistance systems; • Cooperation with external establishments in the field of cyber security; • Education of the Company's employees and training in the field of information security; • Preventive measures to tackle corruption and cases of potential spying; • Professional development of employees in charge of cyber security.
Risk relating to timely performance of contracts	Proper execution of public procurement agreements is essential not only for considerations of the public interest, but for the fulfilment of obligations to ESO's customers as well. ESO constantly monitors changes in the market and seeks to efficiently use existing resources in order to achieve the set objectives.	• Employee training; • Cooperation with external partners; • Enhancement of system functionalities in installing tools for the application of default measures; • Case-law; • Performance improvement by reviewing the terms and conditions of contracts.
Risk relating to purchases	Purchases on behalf of ESO are carried out by the authorised organisation Verslo Aptarnavimo Centras UAB. In performing public procurement procedures, it is aimed to conclude agreements that	• Performance improvement of purchase processes seeking typing, automation, and quality assurance; • Cooperation with external partners; • Constant market analysis and communication; • Implementation of process automation projects;

	ensure the lowest price as well as are the most cost-efficient. The agreements are subject to requirements for quality as well as for terms, therefore, ESO constantly performs the monitoring of the market and changes.	• Case-law.

INFORMATION ON THE COMPANY'S AUTHORISED SHARE CAPITAL AND SECURITIES

Authorised share capital and securities

As at 30 June 2018, the Company's authorised share capital amounted to EUR 259,442,796.57. All the shares issued by the Company are fully paid.

***Table 9.* Structure of the authorised share capital**

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

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

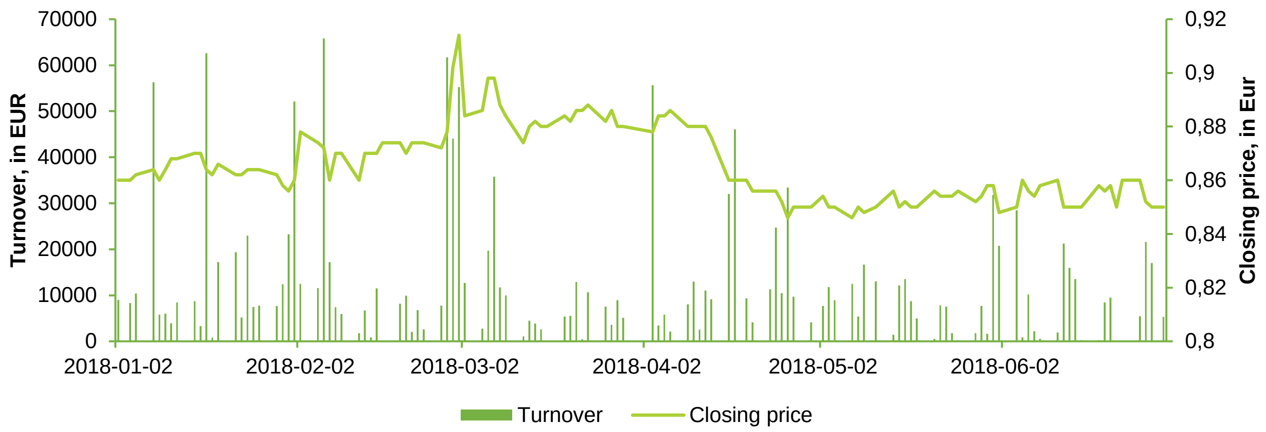
***Table 10.* Information on the Issuer's securities**

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

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

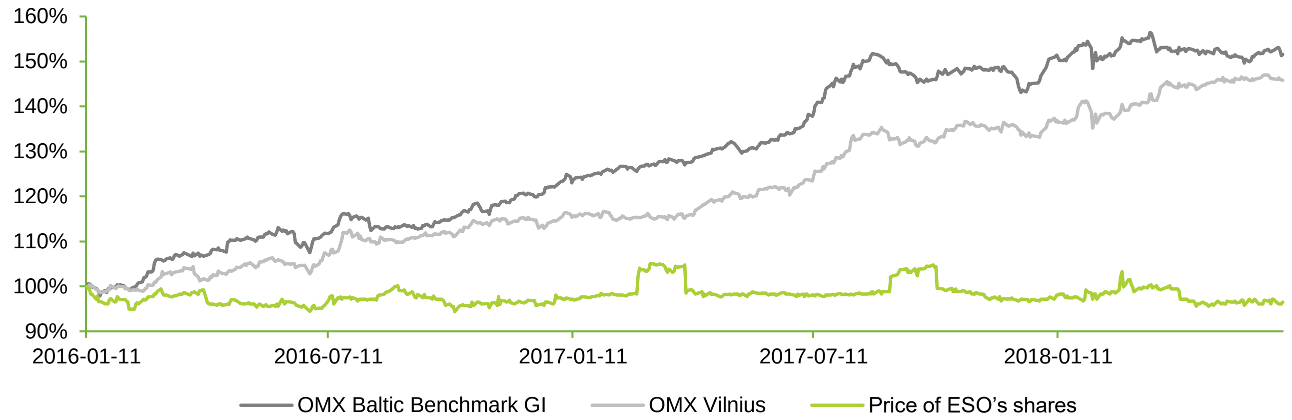
Share price dynamics and turnover

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



ESO is the largest company listed on the NASDAQ Baltic stock exchange in terms of market capitalisation. At the end of the reporting period, ESO's capitalisation amounted to EUR 760.44 million (2.3% less than as at 30 June 2017). During January–June 2018, the price of ESO's share dropped by 0.7%. During this period, the lowest price of ESO's shares was recorded on 26 April 2018 and it was equal to EUR 0.84 per share. The highest point (EUR 0.916) was reached on 28 February 2018. During January–June 2018, the average weighted price per share amounted to EUR 0.867.

***Figure 8.* Dynamics of the price of ESO's shares and OMX Vilnius and OMX Baltic Benchmark indices since the beginning of trade**



From the beginning of trade in ESO's shares to the end of June 2018, the OMX Vilnius index increased by 51.59%, the OMX Baltic Benchmark index increased by 45.78%, and the price of ESO's shares decreased by 3.5% from its initial value.

Ownership structure

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

As at 30 June 2018, the total number of the Company's shareholders was 8,838. As at 31 December 2017, the total number of the Company's shareholders was 8,789.

***Table 11.* Shareholders owning more than 5% of ESO's authorised share capital as at 30 June 2018**

Shareholder's name (company name, legal form, registered office address, code)	Number of ordinary registered shares owned by the shareholder, units	Ownership interest in the authorised capital, %	Percentage of voting rights conferred by shares owned
Lietuvos Energija UAB, Žvejų g. 14, LT-09310 Vilnius, Company code 301844044	849,743,761	94.98	94.98

Rights attached to shares, rights and obligations granted by shares

Ordinary registered shares confer equal rights. Property and non-property rights conferred by shares are defined by laws, other legal acts and the Company's Articles of Association. None of the shareholders of the Company had any special control rights. There were no restrictions regarding voting rights.

Restrictions on transfer of securities

According to the data of 30 June 2018, no restrictions on the transfer of securities were imposed during the reporting period.

Information on agreements with intermediaries of public trading in securities

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

Dividends

The dividend policy of the Lietuvos Energija group of companies, which was approved in 2016 and also applies to the Company, is published on the Company's website at www.eso.lt. The policy establishes uniform net profit appropriation principles applicable to all group companies.

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

Dividends were also paid out based on the decision made at the Extraordinary General Meeting of Shareholders held on 29 September 2017 regarding the payout of dividends to the Company's shareholders for the period shorter than the financial year. Dividends allocated per share for the six-month period ended 30 June 2017 amounted to EUR 0.046 (EUR 41.2 million in total).

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

CUSTOMER SERVICE, SERVICE ASSESSMENT

Number of customers being serviced

On 30 June 2018, ESO had 1.6 million (30 June 2017: 1.6 million) contracts on purchase and sale of electricity concluded with private customers and 73.5 thousand (30 June 2017: 70.4 thousand) contracts on electricity supply or distribution services concluded with commercial customers.

As at 30 June 2018, approx. 578.4 thousand of private customers and approx. 10.5 thousand of commercial customers were connected to ESO's gas distribution networks for whom the provision of a distribution service was ensured.

Operation and development of electricity and gas metering devices

During the first half of 2018, ESO replaced 60.3 thousand metering devices that no longer meet the meteorological requirements, whereof: 50.3 thousand electricity meters and nearly 10 thousand natural gas meters. The Company installed 12 thousand electricity metering devices and 2.6 thousand natural gas metering devices for new customers.

By regularly renewing metering devices being operated, the Company and its authorised persons inspected more than 458 thousand electricity meters and more than 56 thousand natural gas meters during the first half of 2018. During the first half of 2018, the Company also installed 645 controlling metering devices in the 10 kV voltage network, thereby increasing their number up to 3.3 thousand. This accounts for 93% of the total 10 kV voltage network.

By investing in the modernisation and automation of the electricity metering equipment, during the first half of 2018 ESO connected 2.1 thousand electricity metering devices to the existing automated data reading systems. As a result, the number of operated electricity meters that are scanned remotely reached nearly 38.5 thousand. The number of natural gas meters that are scanned remotely remained unchanged and is equal to 1.2 thousand. The automation of metering devices allows to automatically submit bills for electricity consumed to commercial customers and establish a precise amount of natural gas consumed by a commercial customer.

In order to improve the quality of services, create preconditions for customers to accurately monitor their energy consumption, receive accurate invoices, and save energy by using it rationally, the Company carries out the programme on the implementation of the smart metering system in Lithuania. An investment project envisaging the replacement of existing electricity meters with smart electricity meters and thus enabling customers to consume energy more efficiently has been submitted to the Commission for the latter's agreement. Smart natural gas meters are planned to be installed to customers who consume more than 500 m3 of gas per year. These are usually customers who use natural gas for heating.

In 2018, the programme on the implementation of the smart metering system was presented to the Energy Commission of the Seimas of the Republic of Lithuania, the Ministry of Energy of the Republic of Lithuania, independent energy suppliers, and other stakeholders. By following the good practice of foreign countries and adhering to transparency principles, six market consultations were held, which were attended by local and foreign suppliers and manufacturers and produced many useful insights into the technical specifications being drafted. The Company started testing the new NarrowBand-Internet of Things (NB-IoT), which is a low power wide area technology. The technology is new not only in Lithuania, but across the world as well. The technology is being tested in order to make sure it is suitable for the transfer of data from smart meters to the Company's information systems.

Development of service channels

ESO has noticed there are increasingly more customers who use the offered remote service channels. During January–June 2018, the number of customers who use the self-service website www.manogile.lt increased by 9% compared to January–June 2017. Meanwhile, the number of customers who contacted ESO by phone dropped by 6%. The number of customers serviced at the customer service centres in smaller towns declined as well.

During January–June 2018, information via the customer service number 1802 was provided to 552 thousand customers (during the first half of 2017: 587 thousand customers). Customers also use the free-of-charge telephone number 1852 to report power failures, as well as the free-of-charge telephone number 1804 of the gas emergency service.

During January–June 2018, more than 100 thousand (during the first half of 2017: 102 thousand) customers were serviced at the customer service centres in the major Lithuanian cities.

Management of customer settlements

ESO has provided customers with the possibility to pay for electricity according to the average quantity of electricity consumed. Payments according to the average consumption helps plan expenses evenly, because the same amount is paid every month despite seasonality and changes in the amount of electricity consumed. In addition, customers possessing several residential properties have the ability to pay for electricity consumed at several residential properties owned by the customer by making a single payment (a single invoice can be issued). Monthly payments for electricity are calculated according to the previous average quantity of electricity consumed by the customer (in kilowatt hours, kWh), which is adjusted in view of the customer's declared readings or data received during a periodic inspection of meters. Customers can find out and check the applied average amount to be paid at the self-service website www.manogile.lt, by calling the customer service number 1802 or by visiting the customer service centre Gilė. VAT invoices are issued to all ESO customers at the self-service website www.manogile.lt. 9.5% of customers make payments according to electronic invoices issued.

Market liberalisation

As at 30 June 2018, independent suppliers supplied electricity to 62,977 (57%) objects of commercial customers. The guaranteed provider ESO continued to supply electricity to the remaining objects.

Customer satisfaction

Based on the data of the latest GCSI (Global Customer Satisfaction Index) survey, the customer satisfaction level of the electricity and gas distribution company ESO was equal to 78 points in 2017 (2016: 79 points). This result is 7 points higher than the European (71) average and 5 points higher than the global (73) average.

SOCIAL RESPONSIBILITY OF THE COMPANY

Social responsibility is not only ideas and values that the Company follows in its everyday activities and in planning for the future. This involves very specific solutions and is part of everyday business activities and conduct.

ESO assumes the responsibility to contribute to the welfare of society through a secure continuous energy distribution and supply, active participation in public education on the issues of safe and rational use of energy, installation of new, promising and efficient technologies, taking care of customers, employees, communities and promotion of awareness of contractors and suppliers. ESO’s priorities are the following:

- Promotion of energy efficiency;
- Reduction of environmental impact through energy conservation;
- Fostering of safe and responsible use of electricity and gas.

Environmental protection

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

Conservation of resources. The Company has over 1.6 million customers and encourages them to abandon paper bills and utility bills and use remote service channels. More than 90% of ESO’s commercial customers are already using electronic invoicing. All the customers who have provided their data and have ordered the respective service are informed about an incurred interruption of electricity supply and expected duration of its elimination by sending free-of charge notifications by SMS messages and emails.

Public initiatives

ESO implements large-scale long-term social responsibility projects for children, young people and members of the general public, which focus on active engagement of target groups of society and ideas on safe and efficient use of electricity.

Information security campaign *Safe Energy*. The Company continues the implementation of the large-scale campaign, aimed at a safe use of electricity and gas, theft prevention of ESO’s technological property, provision of useful advice to the general public. In mass media – television, radio, newspapers and the internet – the campaign is aimed at raising public awareness of safety issues related to fieldworks, with emphasis placed on the underground electricity and gas network, as well as educational advice on safe behaviour during storms. The campaign also focuses on thefts that cause electricity supply interruptions as well as prevention (educational material, videos, articles). Targeted meetings with representatives of the police, the community, and media are being held in the regions concerned.

***As Much as Needed* for increasing energy efficiency.** The promotion of rational use of energy is one of the priority directions of ESO's social responsibility contributing to the conservation of environment and energy resources as well as the implementation of the country's obligations under the European Union's climate change programmes. The project is aimed at creating traditions of rational living by looking for solutions on rational use of electricity, with a particular focus on consumption by businesses and industrial entities.

***Green Protocol*.** This is an agreement initiated by the Company that have been joined by more than 200 companies. Signatory companies and organisations confirm they accept and agree with the following environment-friendly ideas:

- To implement measures on energy efficiency;
- To contribute to environmental protection and greenhouse gas (CO2) emission reduction;
- To encourage employees, colleagues, relatives to contribute to the creation of energy-saving society.

Conference on rational energy efficiency: *Energy Efficiency Solutions for Competitive Business*. On 27 February 2018, a business conference, which has already become a tradition, was held. The conference was initiated by ESO and organised together with Verslo Žinios. The event brought together specialists from various sectors who shared their insights about the topic of sustainable energy consumption. The annual energy efficiency conference is part of the *As Much as Needed* initiative, which was initiated by ESO to encourage energy saving. The event is aimed at bringing together energy specialists, installers of energy efficiency solutions, representatives of the business and academic society, encouraging discussions, and sharing valuable experiences in order to increase business efficiency, direct resources in a targeted manner, and save the environment.

Recommendations to business companies. For the second year, ESO has been analysing the electricity consumption of business customers and has been providing individual recommendations on the ways these customers could save by choosing a more favourable tariff plan. By taking the offered advice and changing the plan free of charge, 631 companies would save EUR 1.03 million in 2018. Many companies in Lithuania still bear great expenses for electricity only because they have chosen an unsuitable tariff plan. Based on the calculations of energy experts, in April 2018, unsuitable tariff plans were chosen by 4.8 thousand business customers who manage nearly 8 thousand objects that use electricity. All these customers have been provided with individual recommendations.

Sponsorship

On 14 June 2018, an announcement was made about the decision of the Board of Lietuvos Energija to further enhance the implementation of the transparency principle in the Group companies, to no longer allocate support in 2018, and to initiate the cessation of the activities of the Support Foundation of Lietuvos Energija. The support given by the Company used to be allocated via this Foundation as well.

Transparency, anti-corruption activities

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

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

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

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

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

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

Accountability

ESO is an active member of the Association for Responsible Business of Lithuania (LAVA) and a participant of the Global Compact, a United Nations initiative. In order to increase its accountability to the society, the Company publishes annual social corporate responsibility progress reports, which are presented on its website under the section for investors and the Global Compact website profile (www.globalcompact.org).

THE COMPANY AND ITS MANAGEMENT BODIES

*Table 12. **Information about the Company and its contact details***

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

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

ESO owns and operates 125 thousand kilometres of electricity lines: 71% of them consist of overhead electricity lines, and 29% of electricity cables. The company also operates gas distribution pipelines with the length of more than 8 thousand kilometres.

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

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

Information on the Company‘s branches and representative offices

The Company has no branches and representative offices.

Subsidiaries and related companies

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

As at 30 June 2018, ESO had no subsidiaries.

At the date of signing of the report, ESO, jointly with other companies, controlled Verslo Aptarnavimo Centras UAB and Technologijų ir Inovacijų Centras UAB.

Table 13. Main information about related companies

	Technologijų ir Inovacijų Centras UAB	Verslo Aptarnavimo Centras UAB
Address	A. Juozapavičiaus g. 13, Vilnius	P. Lukšio g. 5B, Vilnius
Registration date	4 December 2013	At 30 July 2014
Company code	303200016	303359627
Telephone	(8 5) 278 2272	(8 5) 259 4400
Fax	(8 5) 278 2299	(8 5) 259 4401
E-mail	info@etic.lt	vac@le.lt
Website	www.etic.lt	http://vac.le.lt

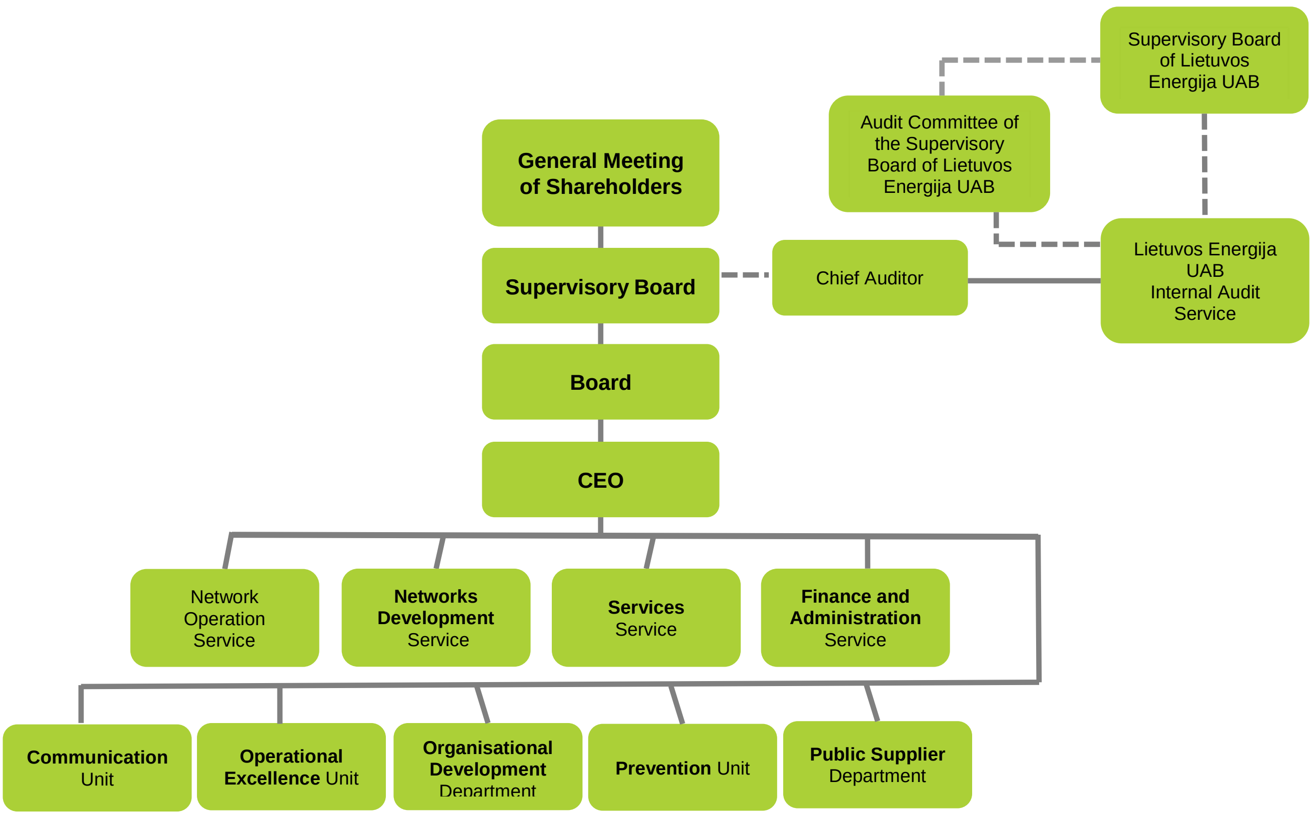
	Technologijų ir Inovacijų Centras UAB	Verslo Aptarnavimo Centras UAB
Ownership interest held by ESO (at 30 June 2018)	29.01%	22.25%
Principal activities	Provision of information technology and telecommunication services for the companies in the energy sector	Provision of services of organisation and performance of public procurements, accounting, administration of employment relationships, customer service, administration of human resources, legal services, consultations and trainings on operational efficiency

Information about significant related-party transactions

Information on related-party transactions is presented in the explanatory notes to the interim financial statements for January–June 2018.

Corporate governance

Figure 9. The Company's organisational structure (as at 30 June 2018)



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

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

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

Amendment procedure of the Articles of Association

The ESO's Articles of Association can be amended only at the General Meeting of Shareholders.

General Meeting of Shareholders

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

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

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

During the first half of 2018, one Ordinary General Meeting of Shareholders and one Extraordinary General Meeting of Shareholders were convened. None of the shareholders of the Company registered to participate in the Ordinary General Meeting of Shareholders held on 30 March 2018 and the Extraordinary General Meeting of Shareholders held on 28 May 2018.

The Company's Supervisory Board

The Supervisory Board of ESO is a collegial supervisory body.

The competence of the Supervisory Board, the procedure of decision-making, election and removal of its members are established by laws, other legal acts, and the Company's Articles of Association. The Supervisory Board of ESO is composed of three members who are elected by the General Meeting of Shareholders for a term of four years. Independent members make up at least a third of ESO's Supervisory Board. The Chairperson of the Supervisory Board is elected from the members of the Supervisory Board.

At beginning of the reporting period, the Company's Supervisory Board comprised Ilona Daugėlaitė and Petras Povilas Čėsna, an independent member. During the reporting period, the following changes were made to the composition of the Supervisory Board:

- during the Ordinary General Meeting of Shareholders of the Company held on 30 March 2018, a decision was passed to recall the incumbent Supervisory Board of *in corpore* and to elect Darius Maikštėnas and Darius Kašauskas for a new four-year term of office;
- during the Extraordinary General Meeting of Shareholders of the Company held on 28 May 2018, a decision was passed to elect Kęstutis Betingis as an independent member of the Supervisory Board until the end of the term of office of the current Supervisory Board.

At the reporting date, the prospective term of office of the incumbent Supervisory Board is 30 March 2022.

During the reporting period, four sittings of the Supervisory Board of ESO were held and all of them were attended by all then elected members of the Supervisory Board.

Table 14. The composition of the Supervisory Board of ESO (as at 30 June 2018)

 **Darius Maikštėnas** (born in 1970) The President	 **Darius Kašauskas** (born in 1972) Member	 **Kęstutis Betingis** (born in 1958) Independent member
In this position from: 30 March 2018 End of term of office: 30 March 2022	In this position from: 30 March 2018 End of term of office: 30 March 2022	In this position from: 28 May 2018 End of term of office: 30 March 2022
Education		
Harvard Business School, General Management Program; Baltic Management Institute, Master's degree in Business Administration; Kaunas University of Technology, Bachelor's degree in Business Management	ISM University of Management and Economics, Doctoral studies of Social Sciences in the field of Economics; ISM University of Management and Economics, BI Norwegian Business School, Master's degree in Management; Vilnius University, Master's degree in Economics	Vilnius University, Master's degree in Law; Lithuanian Institute of Public Administration, the Organisation Leaders Training Programme for Heads of Public Prosecutors (OLYMP-38)
Principal workplace and position held		
Lietuvos Energija UAB, Chairman of the Board, Chief Executive Officer	Lietuvos Energija, UAB, Member of the Board, Finance and Treasury Director	Betingis and Ragaišis law firm, lawyer
D. Maikštėnas	D. Kašauskas	K. Betingis
Participation in the activities of other companies and organisations		
Name of a company, body, organisation, position held	**Name of a company, body, organisation, position held**	**Name of a company, body, organisation, position held**
–	Elektroninių Mokėjimų Agentūra UAB, Member of the Supervisory Board (until 23 March 2018); Duomenų Logistikos Centras UAB, the President of the Board; Lietuvos Energija Support Fund, Member of the Board; Member of the Commission of the 288th Vingis Community Flat Owners revision; Energetikos Paslaugų ir Rangos Organizacija UAB, Chairman of the Board (Member since 19 March 2018, Chairman since 22 March 2018).	–
Percentage of share capital and voting rights of other companies held in excess of 5%		
–	–	–
Compensations calculated during January–June 2018, in EUR* (for activities in the Supervisory Board)		
–	–	–**

** According to the ESO's Articles of Association, agreements may be concluded with the members of the Supervisory Board regarding the activity related to the Supervisory Board, which establish members' rights, obligations and responsibility. Based on the decision of the general meeting of shareholders, remuneration may be paid to independent members of the Supervisory Board for their activity in the Supervisory Board. The terms of the agreements concluded with the members of the Supervisory Board and the independence criteria are established by the general meeting of shareholders according to the requirements of legal acts and the good corporate management practice.*
*** During the reporting period, compensations for activities in the Supervisory Board calculated for Petras Povilas Čėsna, who held the position as an independent member of the Supervisory Board until 30 March 2018, amounted to EUR 1,043.*

The Company's Board

ESO's Board is a collegial management body of the Company.

The authorities of members of the Board are set forth in the Company's Articles of Association and the Law on Companies of the Republic of Lithuania. The competence of the Board, the procedure of decision-making, election, and removal of its members are established by laws, other legal acts, and the Company's Articles of Association. The Board is composed of five members who are elected by the Supervisory Board for a term of four years. The Chairperson of the Board is elected from the members of the Board.

At the beginning of the reporting period, the composition of the Company's Board was as follows: Chairwoman of the Board Dalia Andrulionienė and members Augustas Dragūnas, Rytis Borkys, Ignas Pranskevičius, and Saulius Vaičekauskas. During the reporting period, the following changes were made to the composition of the Board:

- on 10 January 2018, the Company received a notification of resignation of Rytis Borkys from the position of a member of the Company's Board (the last day of his term of office at the Company's Board was 24 January 2018);
- on 14 March 2018, the Supervisory Board of the Company adopted a decision to elect Ovidijus Martinonis as member of the Board until the end of the term of office of the incumbent Board of the Company.

At the reporting date, the prospective term of office of the incumbent Board is 3 December 2019.

During the reporting period, 15 sittings of the Board of ESO were held and all of them were attended by all then elected members of the Board.

Table 15. ***The composition of the Board of ESO (as at 30 June 2018)***

				
Dalia Andrulionienė (born in 1971) Chair of the Board Chief Executive Officer	**Augustas Dragūnas** (born in 1981) Board member	**Ignas Pranskevičius** (born in 1985) Board member	**Saulius Vaičekauskas** (born in 1979) Board member	**Ovidijus Martinonis** (born in 1984) Member of the Board
In this position from: 25 November 2016 End of term of office: 3 December 2019*	In this position from: 19 February 2016 End of term of office: 3 December 2019	In this position from: 20 January 2017 End of term of office: 3 December 2019	In this position from: 26 April 2017 End of term of office: 3 December 2019	In this position from: 14 March 2018 End of term of office: 3 December 2019
D. Andrulionienė	A. Dragūnas	I. Pranskevičius	S. Vaičekauskas	O. Martinonis
		Education		
ISM University of Management and Economics, BI Norwegian Business School, Master's degree in Management; Vilnius University, Master's degree in Economics	Vilnius University, Master's degree in Business Management and Administration	ISM University of Management and Economics, BI Norwegian Business School, Master's degree in Management Vilnius University, Master's degree in Economics	Kaunas University of Technology, Master's degree in International Trade and Bachelor's degree in Electrical Engineering	Kaunas University of Technology, Bachelor's and Master's degrees in Telecommunication and Electronics
		Principal workplace and position held		
ESO's Chief Executive Officer	ESO's Finance and Administration Service Director	ESO's Services Director	ESO's Networks Operation Service Director	ESO's Networks Development Service Director
		Participation in the activities of other companies and organisations		
Verslo Aptarnavimo Centras UAB, Board Member; The National Power Association, Board Member	Technologijų ir Inovacijų Centras UAB, Board Member			
		Percentage of share capital and voting rights of other companies held in excess of 5%		
–	–	–	–	–
		Compensations calculated during January–June 2018, in EUR (for activities in the Board)		
8,688	5,214	5,214	5,214	3,112**

** After the end of the reporting period, on 1 August 2018, the Company received a notification of resignation of Dalia Andrulionienė from the position of the Chairperson and Member of the Board of ESO effective from 10 August 2018. Dalia Andrulionienė resigns from the position of the Chief Executive Officer of ESO by agreement of the parties effective from 10 August 2018 as well. From 10 August 2018, Augustas Dragūnas, Member of the Board of ESO and Finance and Administration Service Director, holds the position as Acting Chief Executive Officer. On 10 August 2018, he was also elected Chairman of the Company's Board.*
*** During the reporting period, compensations for activities in the Board calculated for Rytis Borkys, who held the position at the Board until 27 January 2018, amounted to EUR 673.*

Management of the Company

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

Table 16.* Information on the remuneration calculated for the Chief Executive Officer and Chief Accountant of ESO

	Remuneration during January–June 2018, in EUR	The variable component of the remuneration paid for the results of the previous year during January–June 2018, in EUR	Total payments in January–June 2018, in EUR
Dalia Andrulionienė, CEO	26,538	7,083	33,621

** From 1 December 2014, the accounting function was relocated from the Company to Verslo Aptarnavimo Centras UAB, therefore, the Company does no longer have personnel in charge of accounting functions, including the Chief Financial Officer. Verslo Aptarnavimo Centras UAB provides all accounting services to the Company, starting from entering initial documents to accounting programmes to the preparation of financial statements.*

ESO has neither transferred the management of assets nor issued guarantees to the members of the bodies. During January–June 2018, the Company did not grant any loans to the members of the management bodies, nor provided any guarantees or sureties to secure the fulfilment of their obligations.

Information about the Committees

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

The following committees have been established at Lietuvos Energija:

- **The Risk Management Supervision Committee** is responsible for the submission of conclusions or proposals to the Supervisory Board on the functioning of the management and control system in the group of companies and (or) main risk factors and implementation of risk management or prevention measures;
- **The Audit Committee** is responsible for the submission of objective and impartial conclusions or proposals to the Supervisory Board on the functioning of the audit and control system in the group of companies;
- **The Nomination and Remuneration Committee** is responsible for the submission of conclusions or proposals on the matters of appointment, removal or promotion of the Board Members to the Supervisory Board, also for the assessment of activities of the Board and its members and for issuing the respective opinion. The functions of the Committee also cover the formation of the common remuneration policy at the Group level, establishment of the amount and composition of remuneration, principles of promotion, etc.

The functions of the committees are described in greater detail in the Company's annual reports.

***Table 17.* Members of the Risk Management Supervision and Business Ethics Committee at the end of the reporting period**

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

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

Table 18. Members of the Audit Committee at the end of the reporting period

Committee member	Number of shares held at the Company (%)	Term of office	Name of employer, job position
Irena Petruškevičienė Chairperson of the Committee Independent member	–	October 2017– October 2021	European Commission, Audit Progress Committee, Member
Danielius Merkinas Independent member	–	October 2017– October 2021	Nordnet UAB, CEO
Aušra Vičkačkienė Member	–	October 2017– October 2021	Lithuanian Ministry of Finance, Asset Management Department, Director
Ingrida Muckutė Member	–	May 2018– October 2021	The Ministry of Finance of the Republic of Lithuania, Accountability, Audit, Property Valuation and Insolvency Management Division, Head
Šarūnas Radavičius Independent member	–	May 2018– October 2021	Rodl & Partner UAB, Chief Executive Officer

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

Table 19. Members of the Nomination and Remuneration Committee at the end of the reporting period

Committee member	Number of shares held at the Company (%)	Term of office	Name of employer, job position
Daiva Lubinskaitė-Trainauskienė Chairperson of the Committee Independent member	–	September 2017– September 2021	Thermo Fisher Scientific Baltics UAB, Human Resources Director Association of Human Resource Management Professionals, Member of the Board
Aušra Vičkačkienė Member	–	September 2017– September 2021	Lithuanian Ministry of Finance, Asset Management Department, Director
Ramūnas Dilba Member	–	November 2017– September 2021	Ministry of Finance, European Union Investment Department, Director
Lėda Turai-Petrauskienė Independent member	–	March 2018– September 2021	The International Coach Federation, Coach

The term of office of the incumbent Audit Committee is from 13 September 2017 to 13 September 2021.

Employees of the Company

The Company's personnel policy focuses on a continuous professional development of employees and formation of an organisational culture ensuring the creation of higher added value for customers, partners and society. As at 30 June 2018, the number of the Company's employees was 2,454 (this constitutes the actual number of employees, including employees on maternity leave and parental leave, as well as employees at the military service).

Table 20. Structure of the Company's employees by category

Category of employees	Number of employees At 30 June 2018
Chief executive officer (CEO)	1
Top-level managers	6
Medium-level managers	194
Experts, specialists	1,727
Workers	526
Total average	**2,454**

Table 21. Structure of the Company's employees by educational background

Education	Number of employees At 30 June 2018
Higher education	1,468
Advanced vocational education	816
Secondary and vocational education	170

Remuneration system

ESO has implemented the employee remuneration system placing the Company among the country's most advanced companies that compensate their employees for work according to results achieved, value created for the organisation and the team. The Hay Group methodology was used in developing the remuneration system, which provides an objective assessment of duties according to the required education, complexity of issues and level of responsibility that is assumed under a specific position. This system enables the Company to effectively manage costs and ensures that ESO's strategic objectives and business management logic are reflected in the remuneration system.

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

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

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

Table 21. Average salary of the Company's employees

Category of employees	Average salary, in EUR (before taxes) January–June 2018
Chief executive officer (CEO)	5,513
Top-level managers	4,593
Medium-level managers	2,161
Experts, specialists	1,191
Workers	971
Total average	**1,227**

Collective employment agreement

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

Trade unions

The Company supports employees' participation in voluntary trade unions and cooperates closely with them. Every quarter meetings are organised, during which the implementation of the Company's strategic projects is discussed. Trade union representatives always participate in the working groups when issues related to employees (working conditions, remuneration, social issues) are deliberated.

Development of competences

ESO gives particular attention to the development of employees' competences. Development plans are drawn up every year taking into account the Company's objectives and the matching of employees' competences with the achievement of these objectives. The training courses organised focus on effective and high-quality ensurance of the maintenance of the electricity and gas distribution networks, customer service and safety of works.

In the period between January and June 2018, 1,179 participants attended the compulsory vocational training programmes, at the end of which certificates permitting to perform special works were issued. Employees were provided training on occupational safety and health, fire safety, operation of flammable gas systems, rotary turbine gas meters, and gas volume correctors, as well as professional and legal basis concerning technical supervision of the construction of special-purpose structures.

In the period between January and June 2018, the general training courses were attended by 1,743 participants. These courses are organised by sending individual employees to attend seminars and conferences organised by external suppliers (in Lithuania and abroad) and by forming groups within the Company.

The Company seeks to encourage the engagement of the organisation's employees, i.e. lecturers within the organisation with specific knowledge and skills able to share them with others, in the programmes for competence development, also invests in the training of staff. During the first half of 2018, 1,086 participants attended internal trainings. A large part of these trainings was dedicated to the personnel in charge of the operation of electro-mechanic and gas systems, aiming to improve their qualification, upgrade already acquired skills, and make them acquainted with new methodologies. Trainings on customer service and other trainings organised by the Accounting Department also comprised a significant proportion. In order to ensure the effectiveness of internal processes, employees are introduced to the initiatives and programmes implemented by the Company, for example, the programmes on operational excellence and employee performance management.

Training programmes are developed in close cooperation with the providers of training programmes, surveys are conducted to assess the quality of trainings. ESO also cooperates regularly with manufacturers and suppliers of equipment who share their knowledge with employees by presenting innovations in the field of energy.

During the first half of 2018, ESO provided partial funding for the studies of 5 employees at the Lithuanian higher education institutions aiming to improve professional qualification of workers and develop competences of managers. Employees have the opportunity to study the programmes on energy and management that are related to the Company's activities.

Internship opportunities

ESO actively cooperates with educational institutions and allows university and college students to apply their theoretical knowledge and gain practical skills. During the first half of 2018, 24 students completed internship at ESO across the territory of Lithuania. The Company provides students not only with the possibility to complete their mandatory internship, but also welcomes motivated and enthusiastic students who wish to voluntarily enrol in job training with the Company.

Significant agreements

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

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

Harmful transactions

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

MATERIAL EVENTS IN THE COMPANY'S ACTIVITIES

In executing its duties in accordance with the applicable legislation regulating the securities market, ESO publishes information on material events and other regulated information on the EU-wide basis. Information announced by the Company is available on the Company's website (www.eso.lt) and the website of NASDAQ Vilnius (www.nasdaqbaltic.com).

Material events during the reporting period

Date	Material event
10 January 2018	Regarding resignation from the Board of Energijos skirstymo operatorius AB
31 January 2018	Preliminary ESO results for 12 months of 2017: revenue reached EUR 612.3 million, adjusted EBITDA – EUR 151 million
13 February 2018	CORRECTION: Regarding Investor Calendar for 2018
28 February 2018	Preliminary ESO results for 1 month of 2018: revenue reached EUR 57.2 million, adjusted EBITDA – EUR 18.7 million
28 February 2018	ESO 2017 results: 51.6 percent higher investments and decreased prices for customers
28 February 2018	Regarding a Proportional Transfer Agreement of the issue of Lietuvos Energija Green Bonds Transfer
1 March 2018	CORRECTION: Regarding Investor Calendar for 2018
6 March 2018	Regarding the Ordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB
13 March 2018	Regarding Court Decision
14 March 2018	Regarding the resolutions of Energijos Skirstymo Operatorius AB Supervisory Board
14 March 2018	Member of the Board of Energijos Skirstymo Operatorius AB has been elected
21 March 2018	Regarding forthcoming transfer of public electricity supply activities
22 March 2018	Regarding the investment plan of 2017 alignment
30 March 2018	ESO audited financial results of 2017 has been approved
30 March 2018	Regarding the resolutions of Ordinary General Meeting of Energijos Skirstymo Operatorius AB Shareholders
30 March 2018	Preliminary ESO results for 2 months of 2018: revenue reached EUR 111.2 million, adjusted EBITDA – EUR 34.3 million
30 April 2018	ESO's first quarter of 2018 results: rising investment and growing numbers of new customers
3 May 2018	Regarding the Extraordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB
28 May 2018	Regarding the resolutions of Extraordinary General Meeting of Energijos Skirstymo Operatorius AB Shareholders
31 May 2018	Preliminary ESO results for 4 months of 2018: revenue reached EUR 215.8 million, adjusted EBITDA – EUR 64.3 million
1 June 2018	Correction:Preliminary ESO results for 4 months of 2018: revenue reached EUR 215.8 million, adjusted EBITDA – EUR 64.3 million
27 June 2018	Regarding the transaction of vehicles lease services
29 June 2018	ESO preliminary financial results for 5 months of 2018

Material events after the end of the reporting period

Date	Material event
3 July 2018	On Establishment of Limited Partnership
10 July 2018	Regarding the convening of the extraordinary general meeting of shareholders and the decision to abandon the public electricity supply licence
17 July 2018	10-year Investment Plan of Energijos Skirstymo Operatorius has been approved
17 July 2018	Correction:10-year Investment Plan of Energijos Skirstymo Operatorius has been approved
20 July 2018	CORRECTION: Regarding Investor Calendar for 2018
31 July 2018	ESO preliminary financial results for 6 months of 2018
31 July 2018	Regarding the revocation of the public electricity supply license
1 August 2018	Regarding the resignation by agreement of the parties of Dalia Andrulionienė, Chairwoman and CEO of ESO
6 August 2018	Regarding the resolutions of Extraordinary General Meeting of Energijos Skirstymo Operatorius AB Shareholders
10 August 2018	Chairman of the Board of Energijos Skirstymo Operatorius AB elected
28 August 2018	Regarding the signing of the Transfer Agreement for Green Bonds with “Lietuvos Energija”, UAB
30 August 2018	Regarding the separation of electricity public supply business segment

Methodology for the calculation of indicators presented in the interim report

Debt ratio = liabilities / assets
Debt to assets ratio = borrowings (non-current borrowings + current borrowings) / assets
Liabilities to equity ratio = liabilities / equity
Debt to equity ratio = borrowings / equity
Net borrowings = borrowings - cash and cash equivalents
Net borrowings to equity ratio = net borrowings / equity
Long-term debt to equity ratio = non-current borrowings / equity
General solvency ratio = equity / liabilities
Equity to assets ratio = equity / assets
Share price to earnings ratio = the price of share at the end of the period / (net earnings / number of shares)
Capitalisation, EUR million = the price of share at the end of the period * number of shares
Current liquidity ratio = current assets / current liabilities
Quick ratio = (current assets - inventories) / current liabilities
Cash ratio = cash and cash equivalents / current liabilities
Working capital = current assets - current liabilities
Working capital to total assets ratio = working capital / assets