

2018

# ENERGIJOS SKIRSTYMO OPERATORIUS AB

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION FOR THE  
THIRD QUARTER OF 2018 AND NINE-MONTHS PERIOD ENDED 30  
SEPTEMBER 2018, PREPARED ACCORDING TO INTERNATIONAL  
ACCOUNTING STANDARD 34, 'INTERIM FINANCIAL REPORTING' AS  
ADOPTED BY THE EUROPEAN UNION (UNAUDITED)



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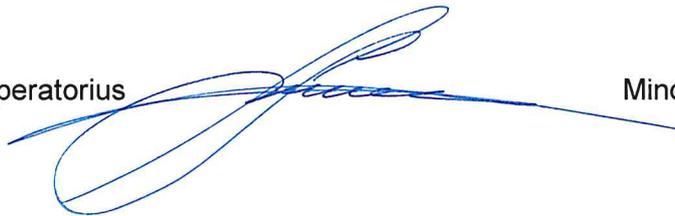
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2018-10-30 Nr. 18KR-SD-16046

## CERTIFICATION STATEMENT

Referring to the provisions of the Article 24 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, Mindaugas Keizeris, General Manager of AB Energijos skirstymo operatorius and, Artūras Paipolas, Finance department director, acting Director of Finance and Administration division, 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 nine month period ended 30 September 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 nine-month period includes a fair review of the development and performance of the business.

AB Energijos skirstymo operatorius  
General Manager



Mindaugas Keizeris

AB Energijos skirstymo operatorius  
Finance department director,  
acting Director of Finance and  
Administration division



Artūras Paipolas

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



Giedruolė Guobienė

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 was approved on 30 October 2018 by Energijos Skirstymo Operatorius AB General Manager, Finance department director (acting Director of Finance and Administration division) and Head of Accounting services Center of Verslo Aptarnavimo Centras UAB (acting under Order No IS18-77 of 13 August 2018):



**Mindaugas Keizeris**  
Energijos skirstymo operatorius AB  
General Manager



**Artūras Paipolas**  
Energijos Skirstymo Operatorius AB  
Finance department director, acting Director of  
Finance and Administration division



**Giedrūolė Guobienė**  
Head of Accounting services Center of Verslo  
Aptarnavimo Centras UAB acting under Order  
No IS18-77 of 13 August 2018

**ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376** Agonų str. 24, Vilnius, Lithuania  
**CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION**  
**30 September 2018**

All amounts are in EUR thousand unless otherwise stated

**CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION**

	Notes	At 30 September 2018	At 31 December 2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant, and equipment	3	1,291,099	1,188,748
Intangible assets	3	33,672	5,451
Prepayments for property, plant, equipment		3	3
Investments in associates		2,548	2,382
Other non-current financial assets		763	849
		<b>1,328,085</b>	<b>1,197,433</b>
<b>Current assets</b>			
Inventories		4,143	2,135
Trade and other receivables		63,501	64,386
Prepayments, deferred charges and accrued income		7,182	7,224
Prepaid income tax		2,242	174
Cash and cash equivalents		6,055	6,449
		<b>83,123</b>	<b>80,368</b>
<b>Total assets</b>		<b>1,411,208</b>	<b>1,277,801</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	4	259,443	259,443
Revaluation reserve		41,299	44,680
Legal reserve		25,944	25,910
Retained earnings		193,813	277,611
<b>Total equity</b>		<b>520,499</b>	<b>607,644</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		462,885	239,648
Deferred income tax liability		1,013	11,368
Deferred income		142,195	113,202
Grants and subsidies		21,368	19,758
Non-current employee benefits		1,996	1,763
Other non-current liabilities		3	3
Provisions		28,725	-
		<b>658,185</b>	<b>385,742</b>
<b>Current liabilities</b>			
Borrowings		68,076	133,040
Trade and other payables		115,313	116,529
Advance amounts received, accrued charges and deferred income		49,135	34,846
		<b>232,524</b>	<b>284,415</b>
<b>Total liabilities</b>		<b>890,709</b>	<b>670,157</b>
<b>Total equity and liabilities</b>		<b>1,411,208</b>	<b>1,277,801</b>

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

**ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376** Agonų str. 24, Vilnius, Lithuania  
**CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**for the nine-month period ended 30 September 2018**

All amounts are in EUR thousand unless otherwise stated

**CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	Notes	Q1-3 2018	Q3 2018	Q1-3 2017	Q3 2017
Revenue	6	448,788	143,223	443,152	137,319
Other income		6,793	3,317	3,102	1,150
Purchases of electricity and related services		(323,446)	(111,968)	(273,398)	(88,053)
Purchase (expenses) of natural gas and transmission services		(3,067)	(1,098)	(2,506)	(881)
Depreciation and amortisation		(41,559)	(14,176)	(37,135)	(12,724)
Employee benefits and related social security contributions		(31,370)	(9,816)	(30,556)	(10,374)
Repair and maintenance expenses		(10,575)	(4,919)	(11,161)	(4,264)
Transport costs		(3,581)	(1,222)	(3,314)	(1,101)
Telecommunications and IT services		(6,972)	(2,428)	(6,757)	(2,415)
Rent and utilities		(3,054)	(1,018)	(3,049)	(1,002)
Impairment and write-off expenses		(3,614)	(1,011)	(1,910)	(1,535)
Other expenses		(12,921)	(4,394)	(13,279)	(4,763)
<b>Operating profit</b>		<b>15,422</b>	<b>(5,510)</b>	<b>63,189</b>	<b>11,357</b>
Finance income		64	17	856	301
Finance costs		(4,317)	(1,635)	(1,373)	(525)
<b>Finance costs – net</b>		<b>(4,253)</b>	<b>(1,618)</b>	<b>(517)</b>	<b>(224)</b>
Share of profit of associates and joint ventures		268	155	281	210
<b>Profit before income tax</b>		<b>11,437</b>	<b>(6,973)</b>	<b>62,953</b>	<b>11,343</b>
Income tax		(608)	(33)	(6,273)	(960)
<b>Net profit for the period</b>		<b>10,829</b>	<b>(7,006)</b>	<b>56,680</b>	<b>10,383</b>
<b>Other comprehensive income (expenses)</b>					
<b>Items that will not be reclassified to profit or loss:</b>					
Recalculation of the defined benefit plan obligation, net of deferred income tax		(116)	-	-	-
<b>Total comprehensive income for the period</b>		<b>10,713</b>	<b>(7,066)</b>	<b>56,680</b>	<b>10,383</b>
Weighted average number of shares, in thousand		894,630	894,630	894,630	894,630
Basic and diluted earnings per share (in EUR) attributable to owners of the Company		0.012	(0.008)	0.063	0.012

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

**ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376 Agonų str. 24, Vilnius, Lithuania**  
**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY**  
**for the nine-month period ended 30 September 2018**

All amounts are in EUR thousands unless otherwise stated

**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY**

	Notes	Share capital	Revaluation reserve	Legal reserve	Retained earnings	Total equity
<b>Balance at 1 January 2017</b>		<b>259.443</b>	<b>49.864</b>	<b>25.910</b>	<b>287.978</b>	<b>623.195</b>
<b>Comprehensive income</b>						
Net profit for the period		-	-	-	56.680	56.680
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>56.680</b>	<b>56.680</b>
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(3.810)	-	3.810	-
Dividends	5	-	-	-	(92.916)	(92.916)
<b>Balance at 30 September 2017</b>		<b>259.443</b>	<b>46.054</b>	<b>25.910</b>	<b>255.552</b>	<b>586.959</b>
<b>Balance at 1 January 2018</b>		<b>259,443</b>	<b>44,680</b>	<b>25,910</b>	<b>277,611</b>	<b>607,644</b>
Impact of accounting policy changes adapting new IFRS's		-	-	-	(62,654)	(62,654)
<b>Restated balance at 1 January 2018</b>		<b>259,443</b>	<b>44,680</b>	<b>25,910</b>	<b>214,957</b>	<b>544,990</b>
Net profit for the period		-	-	-	10,829	10,829
Remeasurement of defined benefit plan's liability, net of deferred income tax effect		-	-	-	(116)	(116)
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>10,713</b>	<b>10,713</b>
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(3,381)	-	3,381	-
Formation of reserves		-	-	34	(34)	-
Dividends	5	-	-	-	(35,204)	(35,204)
<b>Balance at 30 September 2018</b>		<b>259,443</b>	<b>41,299</b>	<b>25,944</b>	<b>193,813</b>	<b>520,499</b>

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

**ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376** Agonų str. 24, Vilnius, Lithuania  
**CONDENSED INTERIM STATEMENT OF CASH FLOWS**  
**for the nine-month period ended 30 September 2018**

All amounts are in EUR thousand unless otherwise stated

## CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Notes	At 30 September 2018	At 30 September 2017
<b>Cash flows from operating activities</b>			
Net profit		10,829	56,680
<b>Adjustments for:</b>			
Income tax expense		608	6,273
Depreciation and amortisation	3,7	42,384	37,997
Depreciation of grants		(825)	(862)
Share of (profit) of associates and joint ventures		(268)	(281)
(Gain)/loss on disposal and write-off of property, plant and equipment		3,319	2,828
Finance (income)		(64)	(80)
Finance costs		4,317	597
<b>Changes in working capital:</b>			
Trade and other receivables		491	12,119
Inventories, prepayments, deferred expenses and accrued income		(1,486)	(1,708)
Trade and other payables, advance amounts received, accrued expenses and deferred income		12,558	393
<b>Cash generated from operating activities</b>		<b>71,863</b>	<b>113,956</b>
Income tax paid		(1,128)	(5,639)
<b>Net cash generated from operating activities</b>		<b>70,735</b>	<b>108,317</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(208,165)	(138,527)
Proceeds from sale of property, plant and equipment and intangible assets		112	-
Grants received		2,435	222
Loans (granted)		-	(2,919)
Loans repayments received		-	4,482
Dividends received		102	112
Interest received		64	74
<b>Net cash used in investing activities</b>		<b>(205,452)</b>	<b>(136,556)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		252,701	128,411
Repayments of borrowings		(80,702)	(76,515)
Dividends paid to the Company's shareholders		(22,626)	(51,213)
Interest paid		(4,395)	(1,396)
<b>Net cash used in financing activities</b>		<b>144,978</b>	<b>(713)</b>
<b>(Decrease) increase in cash and cash equivalents</b>		<b>10,261</b>	<b>(28,952)</b>
Cash and cash equivalents at the beginning of the year (including overdraft balance)		(4,206)	10,662
<b>Cash and cash equivalents at the end of the period (including overdraft balance)</b>		<b>6,055</b>	<b>(18,290)</b>

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

**ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376 Agonų str. 24, Vilnius, Lithuania**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION**  
**for the nine-month period ended 30 September 2018**

All amounts are in EUR thousand unless otherwise stated

## NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 1 General information

Energijos skirstymo operatorius, AB (hereinafter – the Company) is a public limited liability company registered in the Republic of Lithuania. The Company was registered with the Register of Legal Entities on 11 December 2015. The Company commenced its operations from 1 January 2016. Shares of the Company have been listed on the main list of NASDAQ OMX Vilnius Stock Exchange since 17 January 2016. The address of the Company's registered office is as follows:

Agonų str, 24,  
 LT-03212 Vilnius,  
 Lithuania,

The Company's core line of business is electricity supply and distribution, and natural gas distribution.

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

	At 30 September 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%
<b>Total</b>	<b>894,630,333</b>	<b>100%</b>	<b>894,630,333</b>	<b>100%</b>

As at 30 September 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 September 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
			30 September 2018	31 December 2017	
Technologijų ir Inovacijų Centras, UAB	Lithuania	2013	29,012%	29,012%	Information technology and telecommunication, and other services provided to the shareholders
Verslo Aptarnavimo Centras, UAB	Lithuania	2014	22,25%	22,25%	Customer service, public procurement organisation and performance, accounting and personnel administration services,

### 2 Accounting policies

Company's condensed interim financial information for the nine-month period ended 30 September 2018 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applicable to interim financial reporting (International Accounting Standard (IAS) 34, *Interim financial reporting*).

This unaudited condensed interim financial information should be read in conjunction with the condensed interim financial information for the second quarter of 2018 and six-month period ended 30 June 2018 and 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. Financial year of Company 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.

**ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376 Aguonų str. 24, Vilnius, Lithuania**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION**  
**for the nine-month period ended 30 September 2018**

All amounts are in EUR thousand unless otherwise stated

### 3 Intangible assets and property, plant, and equipment

Movements in the Company's account of the intangible assets and property, plant and equipment are presented below:

Company	Intangible assets	Property, plant and equipment
<b>The period ended at 30 September 2018</b>		
Net book value at the beginning of the period	5,451	1,188,748
Additions	30,830	189,069
Sales	-	(112)
Write-offs	-	(3,319)
Impairment	-	(43,512)
Amortisation /depreciation	(2,609)	(39,775)
<b>Net book value at 30 September 2018</b>	<b>33,672</b>	<b>1,291,099</b>

### 4 Share capital

As at 30 September 2018 and at 31 December 2017, the Company's authorised share capital comprised 894,630,333 ordinary registered shares with par value of 0,29 Eur each. All the shares are fully paid.

### 5 Dividends

Approved dividends per share

	At 30 September 2018	At 30 September 2017
Approved dividends (thousands)	35,204	92,916
Weighted average number of shares (thousands)	894,630	894,630
<b>Approved dividends per share (in EUR)</b>	<b>0.039</b>	<b>0.104</b>

The ordinary general meeting of shareholders of Energijos Skirstymo Operatorius AB was held on 28 September 2018 where it was decided to approve the profit appropriation for January–June 2018 and to allocate EUR 0.014 per share in dividends, in total EUR 12,525 thousand in dividends.

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 29 September 2017 where it was decided to approve the profit appropriation for January–June 2017 and to allocate EUR 0.046 per share in dividends, in total EUR 41,153 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.

### 6 Revenue

	At 30 September 2018	At 30 September 2017
Electricity sales and distribution	409,863	397,478
Natural gas distribution	28,151	35,261
Revenue from connection of new customers	10,774	10,413
<b>Total</b>	<b>448,788</b>	<b>443,152</b>

### 7 Segment reporting

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

According to the management, the Company has two operating segments - supply and distribution of electric power and gas distribution. The Company has a single geographical segment – territory of 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, assets and liabilities. The chief operating decision-maker does not analyse the assets and liabilities of the segments

Company's information about operating segments for the nine-month period ended 30 September 2018 is presented below:

**ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376 Aguonų str. 24, Vilnius, Lithuania**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION**  
**for the nine-month period ended 30 September 2018**

All amounts are in EUR thousand unless otherwise stated

2018	Electricity supply and distribution	Gas distribution	Total
Revenue	421,592	33,989	455,581
Expenses	(376,903)	(18,083)	(394,986)
<b>EBITDA</b>	<b>44,689</b>	<b>15,906</b>	<b>60,595</b>
Depreciation and amortisation	(35,870)	(5,689)	(41,559)
Impairment and write-off expenses	(3,574)	(40)	(3,614)
<b>Operating profit</b>	<b>5,245</b>	<b>10,177</b>	<b>15,422</b>
Finance income	53	11	64
Finance (costs)	(3,563)	(754)	(4,317)
Share of (profit) of associates	223	45	268
<b>Profit before income tax</b>	<b>1,958</b>	<b>9,479</b>	<b>11,437</b>
Income tax	(507)	(101)	(608)
<b>Net profit for the period</b>	<b>1,451</b>	<b>9,378</b>	<b>10,829</b>

Company's information about operating segments for the nine-month period ended 30 September 2017 is presented below:

2017	Electricity supply and distribution	Gas distribution	Total
Revenue	410,114	36,140	446,254
Expenses	(326,337)	(17,683)	(344,020)
<b>EBITDA</b>	<b>83,777</b>	<b>18,457</b>	<b>102,234</b>
Depreciation and amortisation	(31,475)	(5,660)	(37,135)
Impairment and write-off expenses	(1,726)	(184)	(1,910)
<b>Operating profit</b>	<b>50,576</b>	<b>12,613</b>	<b>63,189</b>
Finance income	622	234	856
Finance (costs)	(1,147)	(226)	(1,373)
Share of (profit) of associates	238	43	281
<b>Profit before income tax</b>	<b>50,289</b>	<b>12,664</b>	<b>62,953</b>
Income tax	(5,233)	(1,040)	(6,273)
<b>Net profit for the period</b>	<b>45,056</b>	<b>11,624</b>	<b>56,680</b>

## 8 Related-party transactions

The Company's related parties are:

- 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 September of 2018 and the balances arising on these transactions as at 30 September 2018 are as follows:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Parent company Lietuvos energija, UAB	541,201	-	5,288	-
Associates	4,409	1	15,859	-
Lietuvos energija, UAB group companies	11,215	3,750	74,571	24,745
EPSO-G UAB group companies	26,062	5,850	142,786	4,002
<b>Total</b>	<b>582,887</b>	<b>9,601</b>	<b>238,504</b>	<b>28,747</b>

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

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Parent company Lietuvos energija, UAB	356,911	5,418	892	87
Associates	4,425	-	15,615	-
Lietuvos energija, UAB group companies	15,386	7,676	53,545	30,812
EPSO-G UAB group companies	29,924	4,336	139,134	403
<b>Total</b>	<b>406,646</b>	<b>17,430</b>	<b>209,186</b>	<b>31,302</b>

**ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376 Aguonų str. 24, Vilnius, Lithuania**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION**  
**for the nine-month period ended 30 September 2018**

All amounts are in EUR thousand unless otherwise stated

*Compensation to key management personnel*

<b>Company</b>	<b>As at 30 September 2018</b>	<b>As at 30 September 2017</b>
Wages and salaries and other short-term benefits to management personnel	350	508
Whereof: termination benefits	24	81
Number of key management personnel	5	7

Management includes heads of administration and their deputies.

## 9 Events after the reporting period

On 21 September 2018 the Company concluded the transaction on sale purchase of business segment whereby the Company as of 1 October 2018 shall transfer the business segment of the public supply of electric energy with the related assets, rights and duties (hereinafter – the Business segment) to Lietuvos Energijos Tiekimas UAB (hereinafter – LDT). The Decision of the Board of the Company regarding the conclusion of the contract on the sale was approved by the Supervisory Board of the Company on 29 August 2018 on the basis of positive opinion of the Audit Committee of the parent company Lietuvos Energija UAB. After the operations of the public supply of electric energy being sold to LDT, the Company will continue generating proceeds for the distribution and guarantee supply of electric energy and natural gas, operation, maintaining, control and development of electricity and natural gas grids, ensuring their safety and reliability. No tangible assets owned by the Company were being used for carrying out the operations of the Business segment under the sale contract. The value of the Business segment being sold was determined by an independent property valuer UAB Ernst & Young Baltic. 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 can be adjusted.

On 2 October 2018 Mr. Mindaugas Keizeris was elected as the Chairman of the Board and the Chief Executive Officer of the Company by the Supervisory Board. From 8 October 2018 Mindaugas Keizeris started performing duties of the Chief Executive Officer of the Company. Until the date hereof, Director of Finance and Administration Division of the Company Augustas Dragūnas temporarily continued performing duties of the Chief Executive Officer of the Company.

On 17 October 2018 the National Control Commission for Prices and Energy (hereinafter – Commission) established electricity distribution price caps for 2019: in medium - voltage networks 0,862 EUR ct/kWh, in low - voltage networks 1,871 EUR ct/kWh. The main influence on changes in the electricity distribution price caps is due to the planned compensation cost of servitudes and increased electricity price for the purchase of electricity for technological losses. Currently electricity distribution price cap in medium-voltage networks is 0,798 EUR ct/kWh, in low-voltage networks – 1,716 EUR ct/kWh.

Mr. Ignas Pranskevičius resigned from the position of the member of the Board of the Company as of 1 November 2018. He was elected the member of the Board of the Company on 20 January 2017 and was in charge of the area of services provision.

\*\*\*\*\*

2018

ENERGIJOS SKIRSTYMO  
OPERATORIUS AB  
INTERIM REPORT

REPORT FOR THE NINE-MONTH PERIOD ENDED 30<sup>TH</sup> OF SEPTEMBER  
2018



eso



Group of energy  
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**The reference period covered by the report**

The report covers the period between January-September 2018.

**Information on the fact where and when one can get acquainted with the report and the documents that were used for the preparation of the report, and the mass media in which all the public reports of the company were published.**

One can get acquainted with the reports and the documents, on the basis of which it was prepared, on working days Mondays through Thursdays 7.30-16.30, on Fridays 7.30-15.15 at the head office of Energijos Skirstymo Operatorius AB, the Department of Communication (Aguonų St. 24, Vilnius, Room 535). The report is also available on the website of Energijos Skirstymo Operatorius at [www.eso.lt](http://www.eso.lt) and the website of the AB Nasdaq Vilnius Stock Exchange at [www.nasdaqomxbaltic.com](http://www.nasdaqomxbaltic.com). All the public announcements which Energijos Skirstymo Operatorius AB (hereinafter – ESO or the Company) must publish according to the existing legislation of the Republic of Lithuania are published on the Company website at ([www.eso.lt](http://www.eso.lt)) the website of AB Nasdaq Vilnius at ([www.nasdaqomxbaltic.com](http://www.nasdaqomxbaltic.com)).

**The persons responsible for the information provided in the report**

Position	Name and surname	Phone number
Chief Executive Officer	Mindaugas Keizeris	(8 5) 277 7524
Director of Finance and Administration Division	Augustas Dragūnas	(8 5) 277 7524
Director of the Finance Department	Artūras Paipolas	(8 5) 277 7524

The report of ESO has been prepared according to the Law on Securities of the Republic of Lithuania, the Rules for the Preparation and Submission of the Periodic and Additional Information approved by Decision No. 03-48 of 28 February 2013 (with subsequent amendments and supplements) of the Board of the Bank of Lithuania, other laws and legislation currently in force.

**The date of signing the report**

The report was signed on 30 October 2018.

## KEY OPERATING AND FINANCIAL INDICATORS OF THE COMPANY

## Key operating indicators of ESO

			During 9 months of 2018	During 9 months of 2017	Change	
					+/-	%
<b>Operating indicators</b>						
Distributed electricity via medium and low voltage networks	TWh		7.04	6.79	0.25	3.68
Public and guaranteed supply of electricity	TWh		2.45	2.38	0.07	2.94
Distributed volume of natural gas	TWh		5.09	4.95	0.14	2.83
<b>Supply quality indicators of the network</b>						
Electricity	SAIDI (with <i>force majeure</i> )	min	66.98	114.94	-47.96	
	SAIFI (with <i>force majeure</i> )	times	0.91	1.02	-0.11	
Gas	SAIDI (with <i>force majeure</i> )	min	0.384	0.868	-0.484	
	SAIFI (with <i>force majeure</i> )	times	0.005	0.005	0	

## Key financial indicators of ESO

			During 9 months of 2018	During 9 months of 2017	Change	
					+/-	%
Revenue	EUR '000		455,581	446,254	9,327	2.1
Purchase of electricity, gas and related services	EUR '000		326,513	275,904	50,609	18.3
Operating expenses (1)	EUR '000		68,473	68,116	357	0.5
EBITDA (2)	EUR '000		60,595	102,234	-41,639	-40.7
EBITDA margin (3)	%		13.30	22.91		
Adjusted EBITDA*	EUR '000		121,405	104,397	17,008	16.3
Net profit (loss)	EUR '000		10,829	56,680	-45,851	-80.9
			At 30 September 2018	At 30 September 2017	Change	
					+/-	%
Total assets	EUR '000		1,411,208	1,190,449	220,759	18.5
Equity	EUR '000		520,499	586,959	-66,460	-11.3
Borrowings	EUR '000		530,961	293,254	237,706	81.1
Borrowings, net (4)	EUR '000		524,906	289,739	235,166	81.2
Return on equity ratio (ROE) (5)	%		5.72	12.90		
Return on assets (ROA) (6)	%		2.44	6.79		
Equity ratio (7)	%		36.88	49.31		
Borrowings, net / 12-month EBITDA	times		5.33	2.03		
Borrowings, net / Equity	%		100.85	49.36		

(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 LETTER

Dear All,

During the 3<sup>rd</sup> quarter, Energijos Skirstymo Operatorius (hereinafter – ESO) implemented a significant change – a part of the ESO public supply business was assigned to Lietuvos Energijos Tiekimas, together with all the assets, rights and duties attributed to this activity. After the separation, ESO purified its activity and is further carrying out its core activity: distributes electricity and gas, supervises the distribution grids, takes care of the rectification of grid faults and connection of new customers, as well as ensures guaranteed supply of electricity and natural gas.

In the market, electricity prices remained high like during the preceding months of 2018. They have reached nearly EUR 60 per megawatt hour (MWh). The price increased due to the changed ratio of the electricity demand and supply. The third quarter was untypically hot not only in terms of the price, but also the weather. Production volumes in hydro-power plants in Nordic countries dropped, whereas electricity from fossil fuel increased. The beginning of autumn, declined generation by wind power plants and repair works of nuclear power stations in the Nordic countries, as well as ongoing repairs of the NordBalt link did not allow the prices to drop down further.

Such a market change affects the pricing of electricity distribution. Upon expiry of the 3<sup>rd</sup> quarter and its reporting period, the National Commission for Energy Control and Prices set a price cap for 2019 for electricity distribution by medium voltage grids 8 percent higher than this year, whereas by low voltage grids – 9 percent higher. The biggest effect on price changes was made by costs of compensation for easements and electricity acquisition costs for the grid's own technological needs due to 20 percent increase in the electricity market price.

While matching the need for investment into grid renewal and ensuring its reliability with optimal infrastructure costs for each energy consumer, as well as considering increasing electricity wholesale prices, ESO will seek further to ensure with rational costs not only modernisation and reliability of the grid, but also to invest into enhancement of smartness and digitization.

The impact of the average outage duration of electric power utilities (SAIDI) together with natural disasters (force majeure) during January-September 2018 amounted to 66.98 minutes per consumer and, as compared with the same period in 2017, reduced by 47.96 minutes. The duration of fault rectification plummeted significantly – from 3.6 hours during 9 months up to hardly 1.7 hour this year. The impact of the average number of unscheduled long interruptions per consumer (SAIFI) with natural disasters (force majeure) during January-September 2018 amounted to 0.91 time - less by 0.11 time as compared in 2017. The positive change resultant from increasingly bigger investments into the underground electricity grid that is more resistant to natural disasters.

The Company's adjusted EBIDTA in January-September 2018 amounted to EUR 121.4 million, and, as compared with the analogous period of preceding years increased by EUR 17.0 million or 16.3 percent. Such a growth rate may be accounted for by increasingly more effective operation of the Company and increased investments into the renewal and upgrading of the grids.

This year we have focused on the plans for the development of electricity and gas grids, whereas on 17 July 2018 ESO Supervisory Council approved the Company's investment plan for 2018-2027. During 10 years, ESO will invest EUR 2.1 billion into the enhancement of grid reliability, safety and smartness, connection of new consumers. These investments will allow to improve significantly the grid reliability during storms, will establish conditions to receive precise information in real time, as well as strength the grid security.

By the end of the year we will seek to finish preparing updated operation planning documents of the company guided by the goals set out in the renewed strategy LE 2030 of the Lithuanian energy sector and Lietuvos Energija Group that manages the company. It has been planned to concentrate in a focused manner on ensuring the grid reliability by evaluating the smart accounting intended to be installed and a Data Hub project designed in parallel. By the way, by implementing a unique public procurement – acquisition of a smart accounting system – ESO invited Lithuanian and foreign companies to become familiar also with the smart accounting development plans in Lithuania. Preparation for the ESO smart electricity meter tenders has received huge attention of Lithuanian and foreign potential manufacturers and suppliers. This gives hopes that creation of the smart grid will proceed smoothly, transparently, and effectively.



Sincerely,  
CEO and Chairman of the Board Mindaugas Keizeris  
Energijos Skirstymo Operatorius AB

## SIGNIFICANT EVENTS TO THE COMPANY DURING THE REPORTING PERIOD

### Regarding resignation from the Board of Enerģijos skirstymo operatorius AB

Company informed that on 10 January, 2018 the Company received Mr. Rytis Borkys's notification of resignation from the member of the Company's Board position. Pursuant to the Republic of Lithuania Law on Companies, the last day of term of office of Mr. Rytis Borkys as the member of the Company's Board will be 24 January, 2018. Mr. Rytis Borkys was elected to the Company's Board on 3 December 2015 upon decision of the Company's Supervisory Board.

### Regarding a Proportional Transfer Agreement of the issue of Lietuvos Energija Green Bonds Transfer

On the 28th of February, 2018 Company signed a Proportional Transfer Agreement for Green Bonds (hereinafter referred to as the Agreement) on 13 October, 2017 with Lietuvos Energija, UAB (hereinafter referred to as Lietuvos Energija) for EUR 100 million of the issue of Green Bonds transfer to the Company. This amendment increases the amount of the loan granted to the Company from EUR 100 million to EUR 166.288 million. Other terms of the contract are not subject to change. Additional funds will be allocated to ESO's long-term investment in the upgrade of distribution networks in accordance with the Lietuvos Energija Green Bond framework.

### Regarding the Ordinary General Meeting of Shareholders of Enerģijos Skirstymo Operatorius AB

The General Meeting of Shareholders of AB "Enerģijos skirstymo operatorius" was held on 30 March, 2018 at 09.00 at the registered office premises located at Aguonų str. 24, Vilnius.

### Regarding Court Decision

On the 13 March, 2018 Supreme Administrative Court of Lithuania (hereinafter – SACL) partially complied with the Company's appeal against Vilnius Regional Administrative Court decision dated 22 December, 2015 by which Vilnius Regional Administrative Court dismissed the Company's complaint asking to repeal part of the Resolution No. O3-841 of the National Commission for Energy Control and Prices of 17.10.2014 that extended regulatory period for 2015 year, and the Commission's Resolution No. O3-845 of 17.10.2014 which recalculated upper price limits for 2015 year. The SACL decision was final and is not subject to appeal.

### Member of the Board of Enerģijos Skirstymo Operatorius AB has been elected

The Company informed that on 14 March, 2018 the Supervisory Board of the Company adopted a decision to elect Ovidijus Martinonis as the new 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 of Directors. Till now Ovidijus Martinonis led Company's metering management department.

### Regarding forthcoming transfer of public electricity supply activities

On 21st March 2018 the Company received a letter from "Lietuvos Energija", UAB, which holds 94.98 percent of Company's shares, about forthcoming changes. The letter states that the Project Management Committee of "Lietuvos energija" decided to separate the public electricity supply activities carried out by the subsidiary AB "Enerģijos skirstymo operatorius" (ESO) from the electricity distribution business and for a fee (through the sale of the business part) transfer it to another company of the "Lietuvos energija" group – UAB "Lietuvos dujų tiekimas".

### 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.

### Regarding the investment plan of 2017 alignment

On 22nd March 2018 the National Commission for Energy Control and Prices and has approved the Company's 2017 investment projects submitted for a commonly agreed list of investments, the total value of which is over EUR 137.8 million (EUR 129.023 thousand – for electricity sector, – EUR 8.782.73 – natural gas sector).

### ESO audited financial results of 2017 has been approved

On 30th March, 2018 during the Ordinary General Meeting of ESO Shareholders the Company's audited Annual Financial Statements and Annual report has been approved. Electricity and gas distribution company Enerģijos Skirstymo Operatorius (ESO), which is a part of the largest Lithuania's energy group Lietuvos Energija, during the second year of operation has significantly increased – up to 51.6 percent – investments into gas and electricity distribution network modernisation and development. Continuously reduced costs and more efficient activity has contributed to reduced prices for customers – natural gas distribution and electricity prices has declined for a several years in a row.

### 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.

### **On Establishment of Limited Partnership**

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

### **Regarding the convening of the extraordinary general meeting of shareholders and the decision to abandon the public electricity supply licence**

The Company informs, that on 10 July 2018 the Board of ESO passed a decision to convene an extraordinary general meeting of shareholders of the Company and to apply to the National Commission for Energy Control and Prices regarding the revocation of the issued energy operations licence granting the right engage in the activity of the public supply of electricity.

### **10-year Investment Plan of Enerģijos Skirstymo Operatorius has been approved**

The Company informs that on 17 July 2018 the Supervisory Board of the Company passed a decision to approve the investment plan of ESO for the following 10 years (hereinafter – 10YIP). 10YIP provides that ESO investments will be allocated to increase reliability, safety of the network and smart grid solutions over the next 10 years. In 2018–2027 ESO investments will be targeted at three programs - reliable and climate impact-resilient grid; remotely controlled grid; smart grid. It is planned to allocate 2.1 billion euro of total investments in these three directions and the connection of new customers to the distribution networks during 2018-2027. It should be noted that the 10YIP of ESO cannot be considered as a commitment to invest.

### **Regarding the revocation of the public electricity supply licence**

On 31 July 2018 the National Commission for Energy Control and Prices (hereinafter – NCC) has adopted a decision on revocation of the issued energy operations licence granting the right to the Company to engage in the activity of the public supply of electricity as of 1 October 2018. The decision to apply to the NCC regarding the revocation of the issued energy operations licence was passed by the Board of the Company on 10 July 2018 in preparation for the segregation of the public electricity supply activity. It is planned that the public electricity supply activity that the Company is currently engaged in will be for a consideration (by selling part of the business) transferred to UAB Lietuvos Dujų Tiekimas, another company governed by the Lietuvos Energija Group. Once the public electricity supply operations are segregated, ESO will continue to be engaged in its key activities – distribute electricity and gas, and maintain the distribution networks, will ensure elimination of any faults of the network, as well as the connection to the network of all new customers, and guaranteed supply.

### **Regarding the resignation by agreement of the parties of Dalia Andrulionienė, Chairwoman and CEO of ESO**

The Company notifies that on 1<sup>st</sup> August, 2018 it has received a notification from Mrs. Dalia Andrulionienė on her resignation from the position of the Chairwoman of the Board of the Company from 10<sup>th</sup> August, 2018. By the agreement of the parties, Mrs. Dalia Andrulionienė will resign from the position of Chief Executive Officer of ESO also on 10<sup>th</sup> August, 2018 onwards. We hereby notify, that Mr. Augustas Dragūnas, Member of the Board and Director of Finance and Administration Division of ESO, will temporarily take the position of acting Chief Executive Officer of the Company from 10<sup>th</sup> August, 2018. ESO will notify regarding the election of the new Chairman of the Board and Chief Executive Officer in accordance with the laws.

### **Regarding the resolutions of Extraordinary General Meeting of Enerģijos Skirstymo Operatorius AB Shareholders**

As it was announced in the notifications of material events on 10 July, 2018 and 31 July, 2018, the segregation of the public electricity supply operations carried out by the Company from the electricity distribution activity is being implemented. The Extraordinary General Meeting of Shareholders of Enerģijos Skirstymo Operatorius AB, held on 6 August, 2018, approved a new version of the Company's Articles of Association by specifying the objectives and the object of the Company's activities defined in the Articles of Association.

### **Chairman of the Board of Enerģijos Skirstymo Operatorius AB elected**

We hereby inform that on 10th August, 2018 the Board of the Company elected Mr. Augustas Dragūnas as a Chairman of the Board. As previously announced, after the resignation of Mrs. Dalia Andrulionienė from the position of the Chairwoman of the Board and the resignation by the agreement of parties from the position of Chief Executive Officer of the Company from 10th August, 2018, Mr. Augustas Dragūnas, Member of the Board and Director of Finance and Administration Division, will take the position of acting Chief Executive Officer of the Company from 11th August, 2018.

#### **Regarding the signing of the Transfer Agreement for Green Bonds with “Lietuvos Energija”, UAB**

On 28 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.

#### **Supervisory Board of the ESO adopted some Resolutions**

On September 17, 2018 the Supervisory Board of the ESO adopted the following Resolutions: Approve the interim Report of ESO for the period of six months of 2018. Approve the set of interim Financial Statements of the ESO for the period of six months of 2018, audited by “PricewaterhouseCoopers” UAB. Approve the draft resolution for the allocation of dividends for the period shorter than the financial year – to allocate dividends to the shareholders of ESO in the amount of 0,014 EUR per ESO share for the period shorter than financial year as of the end of 30 June 2018 and submit this opinion to the Extraordinary General Meeting of Shareholders of Energijos skirstymo operatorius AB, which will be held on 28 September 2018.

#### **Regarding the conclusion of the transaction on the sale of share of business**

The Company hereby informs that on 21 September 2018 it concluded a transaction on sale purchase of business segment whereby ESO as of 1 October 2018 shall transfer the business segment of the public supply of electric energy with the related assets, rights and duties (hereinafter – the Business segment) to Lietuvos Dujų Tiekimas, UAB (hereinafter – LDT). The Decision of the Board of the Company regarding the conclusion of the contract on the sale of the public electricity supply operations with LDT was approved by the Supervisory Board of the Company on 29 August 2018 on the basis of positive opinion of the Audit Committee of the parent company Lietuvos Energija, UAB. 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.

#### **Regarding the resolutions of Extraordinary General Meeting of ESO Shareholders**

The Extraordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB, held on 28 September, 2018, approve the interim Report, Regarding the approval of the set of interim Financial Statements, approve the set of interim Financial Statements of the ESO for the period of six months of 2018, audited by “PricewaterhouseCoopers” UAB, the Company’s auditor and approve the allocation of dividends in the amount of 0,014 EUR per share for shareholders of ESO for the period shorter than financial year as of the end of 30 June 2018.

#### **Amended Articles of Association of ESO have been registered**

Given that since 1 October 2018 the Company has transferred a business segment of public electricity supply to Lietuvos Energijos Tiekimas UAB, on 1 October 2018, the Register of Legal Entities registered the amended Articles of Association of the Company. As has been informed earlier, while implementing separation of the public electricity supply operations carried out by the Company from the electricity distribution activity, the Extraordinary General Meeting of Shareholders of the Company, held on 6 August 2018, approved a new version of the Company’s Articles of Association by specifying the objectives and the object of the Company’s activities defined in the Articles of Association.

#### **M. Keizeris has been elected as the Chairman of the Board and the Chief Executive Officer of ESO**

The Company informs that on the 2nd of October, 2018, the Supervisory Board of the Company adopted a decision to elect Mindaugas Keizeris as the new Chairman of the Board and the Chief Executive Officer. His term of office starting is on 8th of October, 2018. Until the date hereof, Director of Finance and Administration Division of the Company Augustas Dragūnas shall temporarily continue performing duties of the Chief Executive Officer of the Company.

#### **Regarding the price-setting for electricity distribution price caps for 2019**

On 17 October, 2018 the National Control Commission for Prices and Energy (hereinafter – Commission) established electricity distribution price caps for 2019: in medium - voltage networks 0,862 EUR ct/kWh, in low - voltage networks 1,871

EUR ct/kWh. The main influence on changes in the electricity distribution price caps is due to the planned compensation cost of servitudes and increased electricity price for the purchase of electricity for technological losses. Based on the set electricity distribution price cap, the Board of the Company will decide on the mentioned specific services prices for the year of 2019.

**Ignas Pranskevičius, member of the Board, resigns from the Board as of 1st November, 2018**

The Company received the resignation letter from the member of the Board Mr. Ignas Pranskevičius. He was elected the member of the Board of the Company on 20th January, 2017, and was responsible for the area of service provision. Ignas Pranskevičius resigns from the Board and the position of the Services Director of the Company as of 1st November, 2018.

## ANALYSIS OF PERFORMANCE RESULTS

### Revenue

#### Revenue structure of ESO by activity area, %

	During 1–9 months of 2018	During 1–9 months of 2017
Revenue from electricity transmission	68	67
Revenue from public electricity supply services	16	18
Revenue from gas distribution	6	8
Revenue from guaranteed electricity supply	4	3
Connection of new customers	2	2
Other finance income	3	2

During January–September 2018, ESO's revenue totalled EUR 455.6 million, which is 2.1% 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–September 2018, distribution revenue comprised 68.2% of the Company's total revenue. Revenue from public supply of electricity represented 16.1% and revenue from natural gas distribution made up 6.2% of the Company's total revenue.

### EBITDA

#### ESO's EBITDA ratio

	During 1–9 months of 2018	During 1–9 months of 2017
EBITDA, EUR '000	60,595	102,234
EBITDA margin, %	13.30	22.91
Adjusted EBITDA**, EUR '000	121,405	104,397

\* 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.

During January–September 2018, the Company's earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to EUR 60.6 million, which is 40.7% less than in January–September 2017. Adjusted EBITDA increased by 16.3% due to the Company's investments implemented.

### Expenses

During January–September 2018, expenses for purchase of electricity, natural gas or related services totalled EUR 326.51 million, which is 18.3% 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 368.1 million or 83.6% of ESO's total costs.

Operating expenses<sup>1</sup> amounted to EUR 68.5 million, which is 0.5% 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 customer service expenses, which surged by 2.7% and 5.8% respectively.

<sup>1</sup> 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.

**ESO's operating expenses, EUR '000**

	During 1–9 months of 2018	During 1–9 months of 2017
Employee benefits and related social security contributions	31.370	30.556
Repair and maintenance expenses	10.575	11.161
Other expenses	7.105	7.784
Telecommunications and IT services	6.972	6.757
Customer service	5,816	5.495
Transport	3.581	3.314
Rent and utilities	3.054	3.049
<b>Total operating expenses</b>	<b>68.473</b>	<b>68.116</b>

**Profit (loss) and profitability ratios**

During January–September 2018, ESO's net profit totalled EUR 10.8 million, which is 80.9% less than in the same period in 2017. The decrease in net profit was mainly influenced by higher electricity purchase price.

**ESO's profitability ratios, %**

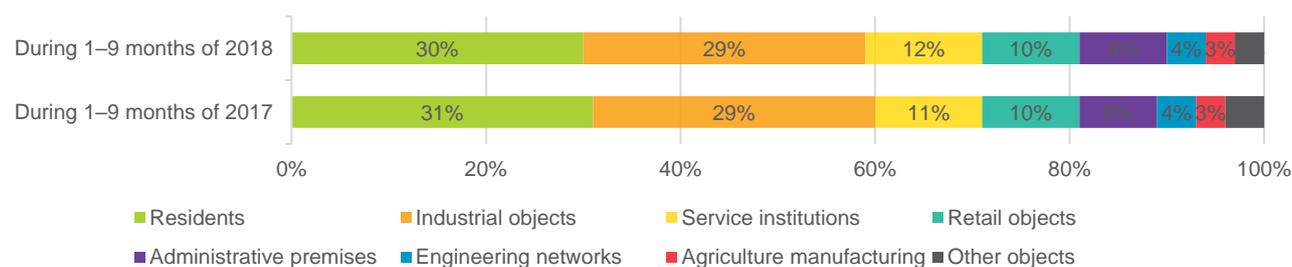
	During 1–9 months of 2018	During 1–9 months of 2017
Net profit margin	2.38	12.70
Operating profit margin	3.39	14.16

**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–September 2018, the Company transmitted 7.04 billion kWh of electricity (January–September 2017: 6.79 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 2.9 %, while the volume of electricity distributed increased by 3.7% compared to the same period of 2017. Technological costs in distribution equipment incurred by the Company during January–September 2018 amounted to 456.3 million kWh or 6.1% 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 the 1st of 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–September 2018 was consumed by residents. Industrial objects and service institutions consumed 29.3% and 11.6%, respectively, of electricity distributed. There were no significant changes in the structure of electricity distribution by object as compared to the data of January–September 2017.

**Electricity distribution volume by object**



## Natural gas distribution

The company operates gas distribution pipelines with the length about 9 thousand kilometres. During January–September 2018, ESO transported 5.1 billion kWh (482 million cubic metres) of natural gas via gas distribution pipelines, which is 2.8% more than in the same period in 2017.

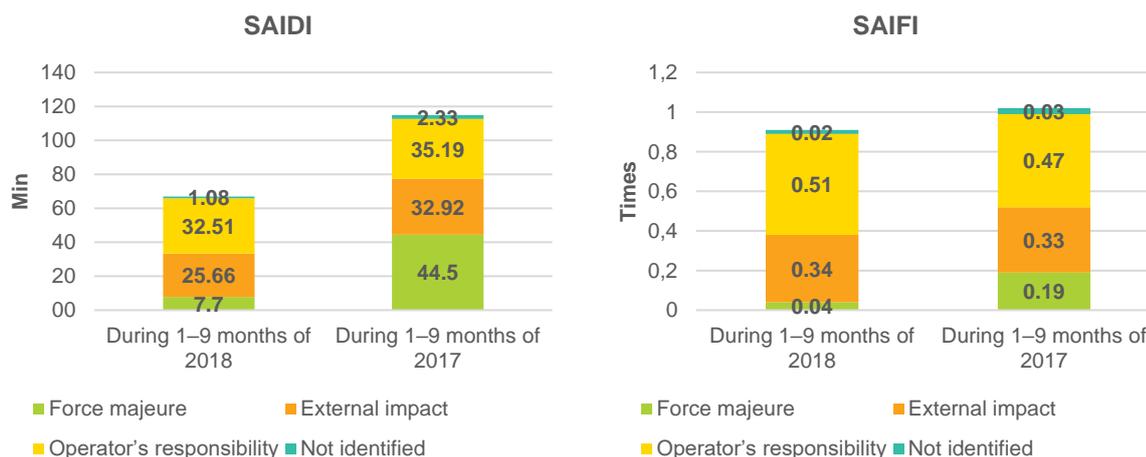
Gas distribution volumes increased during January–September 2018 mostly due to higher gas consumption as a result of colder winter season than in 2017 and changes of production plans in industrial companies.

## Electricity supply quality indices (SAIDI, SAIFI)

During January–September 2018, the system average interruption duration index (SAIDI with force majeure) for the electricity network per customer reached 66.98 minutes, which is 47.96 minutes less compared to the same period in 2017 (January–September 2017: SAIDI was 114.94 minutes). The main reason is the significantly shorter duration of the removal of breakdowns. During the nine months of 2018, electricity network breakdowns were removed by ESO in as little as 1.7 hours, on average, from the moment of registration. This would have taken 3.6 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–September 2018, the system average interruption frequency index (SAIFI with force majeure) per customer reached 0.91 times, which is 0.11 time less compared to 2017 when it was equal to 1.02 times. The positive change in this indicator was caused by increasing investments in an underground electricity network that is more resilient to natural disasters.

## Electricity supply reliability indices



## Investments

During January–September 2018, ESO's investments in the electricity and gas distribution networks amounted to EUR 191.580 million, which is 41.3% more than during January–September 2017, when they were equal to EUR 135.571 million.

## ESO's investments, EUR '000

	During 1–9 months of 2018	During 1–9 months of 2017
Renewal of the electricity distribution network	88,585	72,696
Expansion of the electricity distribution network	60,999	35,671
Construction and reconstruction of gas systems	36,765	21,329

Other (IT, management systems, etc.)	5,230	5,875
<b>Total investments</b>	<b>191,579</b>	<b>135,571</b>

During January–September 2018, ESO's investments allocated for the renewal of the electricity distribution network amounted to EUR 88,585 million, which is 21.9% more compared to During January–September 2017. In January–September 2018, investments in the expansion of the electricity distribution network amounted to EUR 61.0 million, which is 71.0% more than in the same period of 2017.

During January–September 2018, ESO connected 23,060 new customers to the electricity distribution network, which is 7.99% more than in January–September 2017, when 21,354 new customers were connected. During January–September 2018, the admissible electric power of objects of newly connected customers was equal to 296 thousand kW, which is 3.2% more than during January–September 2017, when the admissible power was equal to 287 thousand kW.

During January–September 2018, ESO's investments in the construction and reconstruction of gas systems amounted to EUR 36.765 million or 72.4% more compared to January–September 2017, when investments totalled EUR 21.329 million. During January–September 2018, ESO constructed 391,0km of the gas distribution pipeline (262.3km in the respective period of 2017). During January–September 2018, ESO connected 8,753 new customers to the natural gas distribution network, which is 5.7% less than in the same period of 2017, when 9,282 customers were connected.

### Analysis of financial indicators

The Company's assets at the end of the reporting period amounted to 1.41 billion. EUR: 94.1% total assets comprised fixed assets. The liquid assets - cash and cash equivalents - amounted to 6.1 mln. Euro, or 7, 3% of total current assets.

#### ESO's financial leverage ratios\*

	At 30 September 2018	At 30 September 2017
Debt ratio	0.63	0.51
Debt to assets ratio	0.38	0.25
Liabilities to equity ratio	1.71	1.03
Debt to equity ratio	1.02	0.30
Net borrowings, EUR million	524.91	289.74
Net borrowings to equity ratio	1.01	0.49
Long-term debt to equity ratio	0.89	0.25
General solvency ratio	0.58	0.97
Equity to assets ratio	0.37	0.49
Share price to earnings ratio	68.74	14.51
Capitalisation, EUR million	746.12	822.17

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

At the end of September 2018, ESO's borrowings amounted to EUR 531.0 million and accounted for 59.6% of total liabilities. Non-current borrowings amounted to EUR 462.9 million or 87.2% of total borrowings. At the end of the reporting period, ESO's current liabilities totalled EUR 232.5 million.

#### ESO liquidity ratios ESO's liquidity ratios

	At 30 September 2018	At 30 September 2017
Current ratio	0.36	0.20
Quick ratio	0.34	0.19

Cash ratio	0.03	0.01
Working capital, EUR '000	-149.402	-250.807
Working capital to total assets ratio	-0.11	-0.21

ESO's current liabilities exceeded current its current assets by EUR 149.4 million. Current ratio is equal to 0.36. Quick ratio does not significantly differ from the current ratio, because inventories represent only 5.0% of total current assets. Borrowings, as reduced by the amount of short-term investments and cash and cash equivalents, are equal to EUR 524.9 million. The Company's net borrowings account for 100.8% of its equity.

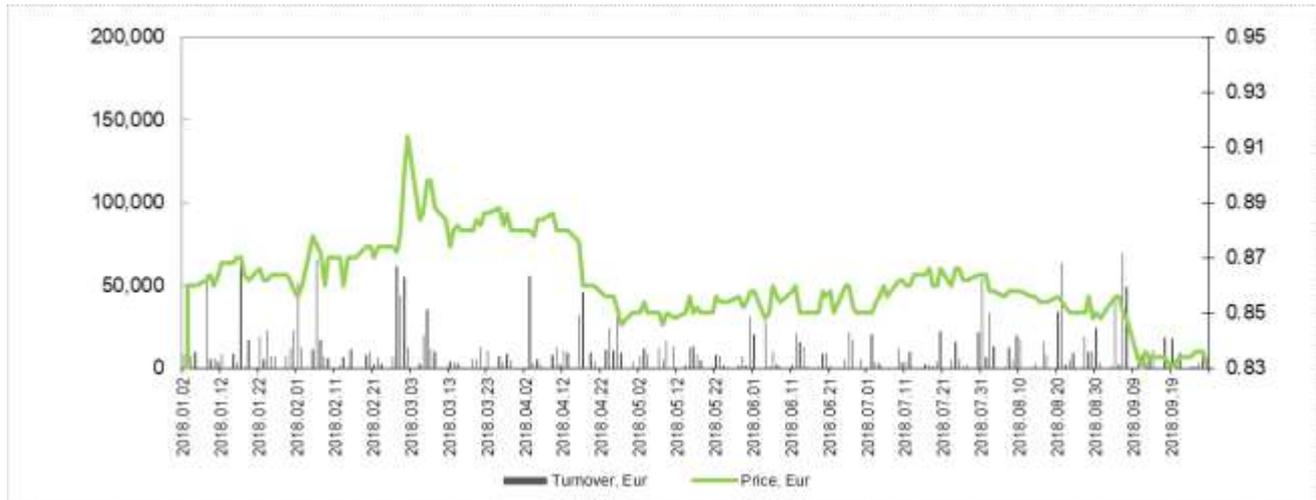
### **References and additional explanations of disclosures in the financial statements and other significant events and their impact on the financial statements**

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

## INFORMATION ABOUT THE COMPANY'S SHARE CAPITAL AND SECURITIES

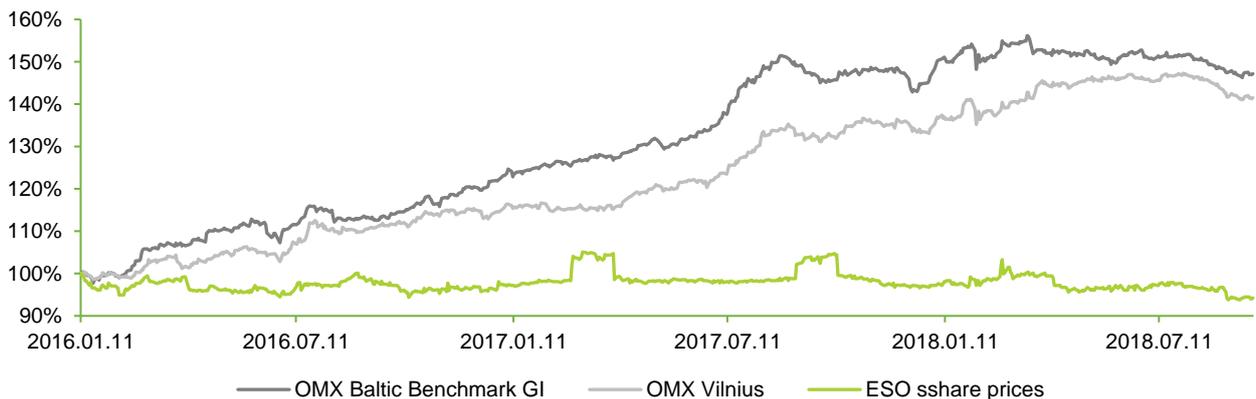
### Authorised share capital and securities

#### 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 746.12 million (9.2% less than as at 30 September 2017). During this period, the lowest price of ESO's shares was recorded on 10 September 2018 and 18 September 2018 and it was equal to EUR 0.83 per share. The highest point (EUR 0.916) was reached on 1 March 2018. During January–September 2018, the average weighted price per share amounted to EUR 0.861.

#### ESO stock prices, OMX Vilnius and OMX Baltic Benchmark indices from the beginning of trading



From the beginning of trade in ESO's shares to the end of September 2018, the OMX Vilnius index increased by 41.54%, the OMX Baltic Benchmark index increased by 47.20%, and the price of ESO's shares decreased by 5.76% from its initial value.

#### 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

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

### Information about the issuer's securities

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.

#### Information about 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

### Ownership structure

As at 30 September 2018, the total number of the Company's shareholders was 8,786. As at 30 June 2018, the total number of the Company's shareholders was 8,838.

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.

#### Shareholders owning more than 5% of ESO's authorised share capital as at 31 October 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

### 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](http://www.eso.lt). The policy establishes uniform net profit appropriation principles applicable to all group companies.

During the Extraordinary General Meeting of Shareholders of the Company held on 30 September 2018, there was a resolution, regarding the allocation of dividends for shareholders of Energijos Skirstymo Operatorius AB for the period shorter than financial year, adopted. The allocation of dividends in the amount of 0,014 EUR per Company's share for shareholders for the period shorter than financial year as of the end of 30 June 2018 has been approved. Shareholders, having the right to receive dividends, are those, who are the shareholders of Energijos Skirstymo Operatorius AB at the end of Company's shareholders' rights accounting day – 12 October 2018. Dividends will be paid in accordance with the provisions of Paragraph 5 of Article 60 of the Law on Companies of the Republic of Lithuania within 1 (one) month from the date of the decision to pay dividends. The payment will be done through the Company's shareholders' securities account managers and through the Company's securities paper accounting officer - SEB bank, AB.

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).

### **Information about agreements with securities intermediaries of public trading**

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.

## CORPORATE SOCIAL RESPONSIBILITY

Social responsibility is not only ideas and values that ESO 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 uninterrupted activity of energy distribution and guaranteed supply, active participation in public education on the issues of safe and rational use of energy, installation of new, promising and efficient technologies, taking care of its customers, employees, communities and promotion of responsibility of contractors and suppliers. ESO's priorities are the following: enhancement of energy efficiency; reduction of environmental impact through sustainable energy use; 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. During the 3<sup>rd</sup> quarter the Company had over 1.6 million customers. The Company encouraged them to abandon paper bills and billing books and shift to remote service channels. More than 90% of ESO's business 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 initiatives which focus on active engagement of target groups of society, as well as ideas on safe and efficient use of electricity. Through the media – television-radio, press and internet – the Company seeks to inform the public on safety principles that must be followed when performing field works. Special attention is devoted to reminding of an underground electricity and gas grid, also dissemination of advice on safe behaviour during storms. Much attention is given to the prevention of thefts that are a cause of disruption in operation of the electricity grid, as well as raising of public awareness. Due to marked increase in thefts during the 3<sup>rd</sup> quarter 2018 in Kaunas district, residents were urged to be more attentive and react to possible offences more actively. Ad hoc meetings with representatives of the police, the community, and media are being held in the problem regions.

“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 society by looking for solutions on rational use of electricity, with a particular focus on consumption by businesses and industrial entities. During the 3<sup>rd</sup> quarter of the current year special attention was devoted to individual recommendations during direct meetings (employees of the Company's Business Solutions Unit visited more than 1,300 companies by the end of the 3<sup>rd</sup> quarter), a conference cycle for industry representatives is planned in autumn (“As must as needed for the Industry 2018”).

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. This year event was attended by 243 representatives of business companies.

Green Protocol. This is an agreement initiated by the Company that has been joined by over 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 (CO<sub>2</sub>) emission reduction; to encourage employees, colleagues, relatives to contribute to the creation of energy-saving society.

### **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. Renunciation of sponsorship was also stipulated in the updated Articles of Association of Lietuvos Energija Group of companies.

In October 2017, the Support Foundation of Lietuvos Energija distributed over 800 thousand euros of support to 41 national and regional projects. All the projects will be implemented by the end of the current year. Each beneficiary of support, upon implementing a support project, had to submit to the Support Foundation an audited report on the use of support. Activities of the Support Foundations are audited by independent auditors annually.

### **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 and lectures and discussions are initiated for employees.

The Company operates an anonymous trust line 1802. Both ESO employees and other persons can report on any noticed breaches of ethics by email [pasitikejimolinija@eso.lt](mailto:pasitikejimolinija@eso.lt) or by filling a trust line form available on ESO's website in the contacts section.

Promotion of transparency in public procurements. ESO is a 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 procurement and provides the services of the planning and performance of public procurement of goods, services or works. The function of public procurement is centralised, procurement processes are standardised and concentrated in a one online 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 draft technical specifications of all its procurements, except for low-value procurements, via the Central Portal of Public Procurement (CPPP) and it also additionally informs about their publication on its websites, provides reports on procurement procedures and information on ongoing 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 that are published on its website in the section for investors and the Global Compact website profile ([www.globalcompact.org](http://www.globalcompact.org)).

The last ESO Progress Report on Corporate Social Responsibility 2017 was published on 24 August 2018.

## THE COMPANY AND ITS MANAGEMENT BODIES

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

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

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

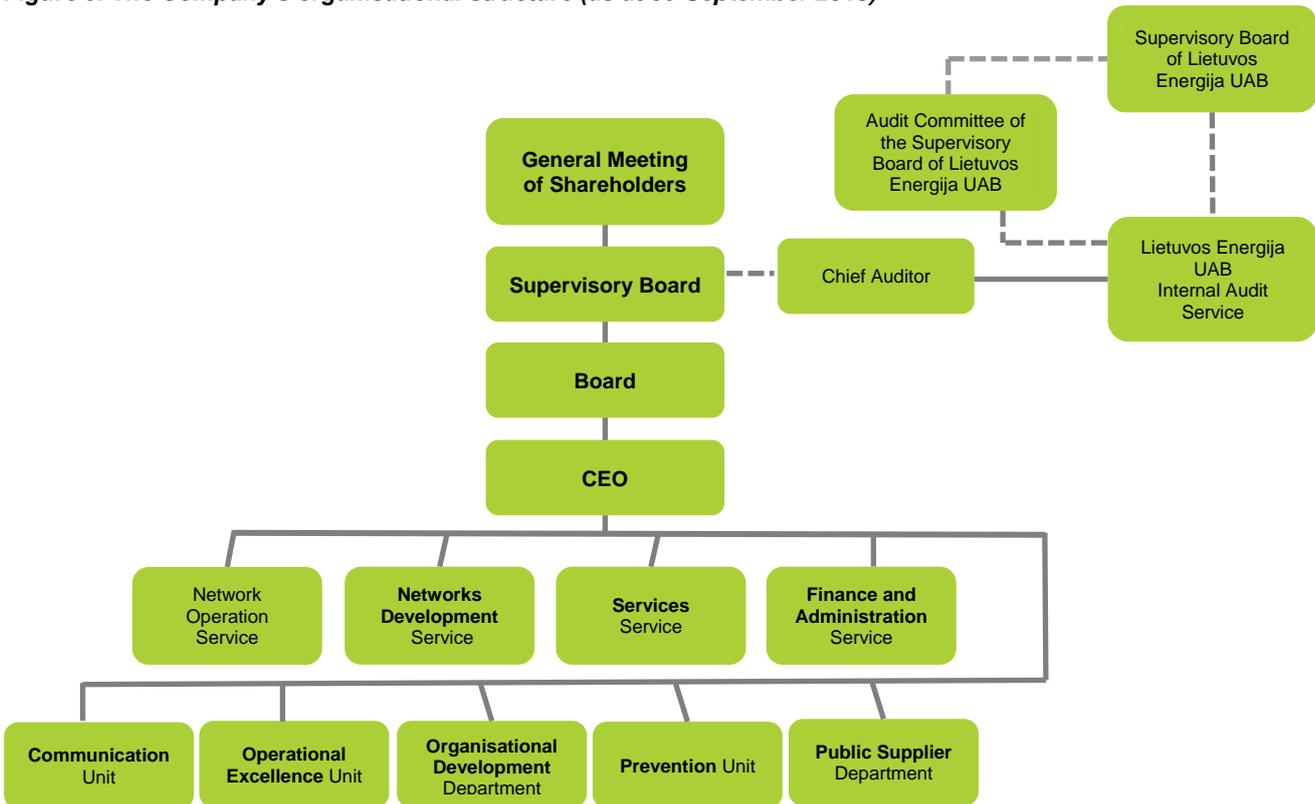
	Technologijų ir Inovacijų Centras UAB	Verslo Aptarnavimo Centras UAB
<b>Ownership interest held by ESO (at 30 September 2018)</b>	29.01%	22.25%
<b>Principal activities</b>	Provision of information technology and telecommunication services for the companies in the energy sector	Provision of services of 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–September 2018.

**Corporate governance**

*Figure 9. The Company’s organisational structure (as at 30 September 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 September 2018)**

		
<p><b>Darius Maikštėnas</b> (born in 1970) The President</p>	<p><b>Darius Kašauskas</b> (born in 1972) Member</p>	<p><b>Kęstutis Betingis</b> (born in 1958) Independent member</p>
<p>In this position from: 30 March 2018</p>	<p>In this position from: 30 March 2018</p>	<p>In this position from: 28 May 2018</p>
<p>End of term of office: 30 March 2022</p>	<p>End of term of office: 30 March 2022</p>	<p>End of term of office: 30 March 2022</p>
<b>Education</b>		

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)

-

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\* 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 Andriulionienė 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, 28 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 September 2018)**

				
<b>Mindaugas Keizeris</b> (born in 1980) Chair of the Board Chief Executive Officer	<b>Augustas Dragūnas</b> (born in 1981) Board member	<b>Ignas Pranskevičius</b> (born in 1985) Board member	<b>Saulius Vaičekauskas</b> (born in 1979) Board member	<b>Ovidijus Martinonis</b> (born in 1984) Member of the Board
In this position from: 8 October 2018	In this position from: 19 February 2016	In this position from: 20 January 2017	In this position from: 26 April 2017	In this position from: 14 March 2018
End of term of office: 3 December 2019*	End of term of office: 3 December 2019	End of term of office: 3 December 2019	End of term of office: 3 December 2019	End of term of office: 3 December 2019
M. Keizeris	A. Dragūnas	I. Pranskevičius	S. Vaičekauskas	O. Martinonis
<b>Education</b>				
Vilnius University, Bachelor of Business Administration and Management; Vilnius University, Master of International Business; Baltic Institute of Corporate Governance, Professional Board Member	Vilnius University, Master's degree in Business Management and Administration	ISM University of Management and Economics, 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
<b>Principal workplace and position held</b>				
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
<b>Participation in the activities of other companies and organisations</b>				
Verslo Aptarnavimo Centras UAB, Board Member; The National Power Association, Board Member	Technologijų ir Inovacijų Centras UAB, Board Member			
<b>Percentage of share capital and voting rights of other companies held in excess of 5%</b>				
–	–	–	–	–
<b>Compensations calculated during January–September 2018, in EUR (for activities in the Board)</b>				
10,603***	6,363****	7,821	7,821	5,719**

\* 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 11 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.

\*\*\* During the period until 10 August 2018 compensations for activities in the Board calculated for Dalia Andrulionienė.

\*\*\*\* During the period from 11 August 2018 until Mindaugas Keizeris has been elected as the Chairman of the Board and the Chief Executive Officer, Augustas Dragūnas amounted to EUR 2429.

## 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–September 2018, in EUR	The variable component of the remuneration paid for the results of the previous year during January–September 2018, in EUR	Total payments in January–September 2018, in EUR
Dalia Andrulionienė, CEO	30,611	14814	45,425
Acting Chief Executive Officer of the Company and Chairman of the Board**, Director of Finance and Administration Division of ESO	34,397	12,783	47,180

\* 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.

\*\* 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 11 August 2018, he was also elected Chairman of the Company's Board.

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
<b>Andrius Pranckevičius</b> 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
<b>Darius Daubaras</b> , Member	–	April 2018– April 2020	Saudi Aramco (an oil and gas industry company), Finance and Development Projects Unit, Project Manager
<b>Šarūnas Rameikis</b> 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
<b>Irena Petruškevičienė</b> Chairperson of the Committee Independent member	–	October 2017– October 2021	European Commission, Audit Progress Committee, Member
<b>Danielius Merkinas</b> Independent member	–	October 2017– October 2021	Nordnet UAB, CEO
<b>Aušra Vičkačkienė</b> Member	–	October 2017– October 2021	Lithuanian Ministry of Finance, Asset Management Department, Director
<b>Ingrida Muckutė</b> Member	–	May 2018– October 2021	The Ministry of Finance of the Republic of Lithuania, Accountability, Audit, Property Valuation and Insolvency Management Division, Head
<b>Šarūnas Radavičius</b> 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
<b>Daiva Lubinskaitė-Trainauskienė</b> 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
<b>Aušra Vičkačkienė</b> Member	–	September 2017– September 2021	Lithuanian Ministry of Finance, Asset Management Department, Director
<b>Ramūnas Dilba</b> Member	–	November 2017– September 2021	Ministry of Finance, European Union Investment Department, Director
<b>Lėda Turai-Petrauskienė</b> 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.

## ESSENTIAL EVENTS IN THE COMPANY'S ACTIVITIES

### Key events during the reporting period

ESO, in carrying out its duties according to the securities market legislation, publishes material events and other regulated information throughout the European Union. The information published is available on the Company's website ([www.eso.lt](http://www.eso.lt)) and the AB NASDAQ OMX Vilnius website ([www.nasdaqomxbaltic.com](http://www.nasdaqomxbaltic.com)).

Since 2018-01-01 ESO has announced this major event information

Date	Notification on material event
2018-01-10	Regarding resignation from the Board of Energijos skirstymo operatorius AB
2018-01-31	Preliminary ESO results for 12 months of 2017: revenue reached EUR 612.3 million, adjusted EBITDA – EUR 151 million
2018-02-13	CORRECTION: Regarding Investor Calendar for 2018
2018-02-28	Preliminary ESO results for 1 month of 2018: revenue reached EUR 57.2 million, adjusted EBITDA – EUR 18.7 million
2018-02-28	CORRECTION: Regarding Investor Calendar for 2018
2018-02-28	ESO 2017 results: 51.6 percent higher investments and decreased prices for customers
2018-02-28	Regarding a Proportional Transfer Agreement of the issue of Lietuvos Energija Green Bonds Transfer
2018-03-01	CORRECTION: Regarding Investor Calendar for 2018
2018-03-06	Regarding the Ordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB
2018-03-13	Regarding Court Decision
2018-03-14	Regarding the resolutions of Energijos Skirstymo Operatorius AB Supervisory Board
2018-03-14	Member of the Board of Energijos Skirstymo Operatorius AB has been elected
2018-03-21	Regarding forthcoming transfer of public electricity supply activities
2018-03-22	Regarding the investment plan of 2017 alignment
2018-03-30	ESO audited financial results of 2017 has been approved
2018-03-30	Regarding the resolutions of Ordinary General Meeting of Energijos Skirstymo Operatorius AB Shareholders
2018-03-30	Preliminary ESO results for 2 months of 2018: revenue reached EUR 111.2 million, adjusted EBITDA – EUR 34.3 million
2018-03-30	ESO's first quarter of 2018 results: rising investment and growing numbers of new customers
2018-05-03	Regarding the Extraordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB
2018-05-28	Regarding the resolutions of Extraordinary General Meeting of Energijos Skirstymo Operatorius AB Shareholders
2018-05-31	Preliminary ESO results for 4 months of 2018: revenue reached EUR 215.8 million, adjusted EBITDA – EUR 64.3 million
2018-06-01	Correction:Preliminary ESO results for 4 months of 2018: revenue reached EUR 215.8 million, adjusted EBITDA – EUR 64.3 million
2018-06-27	Regarding the transaction of vehicles lease services
2018-06-29	ESO preliminary financial results for 5 months of 2018
2018-07-03	On Establishment of Limited Partnership
2018-07-10	Regarding the convening of the extraordinary general meeting of shareholders and the decision to abandon the public electricity supply licence
2018-07-17	10-year Investment Plan of Energijos Skirstymo Operatorius has been approved
2018-07-17	Correction:10-year Investment Plan of Energijos Skirstymo Operatorius has been approved
2018-07-20	CORRECTION: Regarding Investor Calendar for 2018
2018-07-31	ESO preliminary financial results for 6 months of 2018
2018-07-31	Regarding the revocation of the public electricity supply license
2018-08-01	Regarding the resignation by agreement of the parties of Dalia Andrulionienė, Chairwoman and CEO of ESO

2018-08-06	Regarding the resolutions of Extraordinary General Meeting of Energijos Skirstymo Operatorius AB Shareholders
2018-08-10	Chairman of the Board of Energijos Skirstymo Operatorius AB elected
2018-08-28	Regarding the signing of the Transfer Agreement for Green Bonds with "Lietuvos Energija", UAB
2018-08-30	Regarding the separation of electricity public supply business segment
2018-09-05	Regarding the Extraordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB
2018-09-13	Approved ESO investment projects
2018-09-17	Supervisory Board of the Energijos skirstymo operatorius AB Resolutions
2018-09-21	Regarding the conclusion of the transaction on the sale of share of business
2018-09-28	ESO preliminary financial results for 8 months of 2018
2018-09-28	Regarding the resolutions of Extraordinary General Meeting of Energijos Skirstymo Operatorius AB Shareholders

### 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