

2017-08-31 Nr. 12000-1549

CERTIFICATION STATEMENT

Referring to the provisions of the Article 23 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Dalia Andrulionienė, Chief Executive Officer of AB Energijos skirstymo operatorius and, Augustas Dragūnas, Director of Finance and Administration division, and Evelina Remeikienė Manager of Reporting of Verslo aptarnavimo centras UAB, hereby confirm that, to the best of our knowledge, AB Energijos skirstymo operatorius condensed interim financial information for the six month period ended 30 June 2017 prepared according to International Accounting Standard 34 'Interim financial reporting' adopted by the European Union, give a true and fair view of AB Energijos skirstymo operatorius assets, liabilities, financial position, profit or loss for the period and cash flows, the Interim Report for the six-month period includes a fair review of the development and performance of the business.

AB Energijos skirstymo operatorius
Chief Executive Officer



Dalia Andrulionienė

AB Energijos skirstymo operatorius
Director of Finance and
Administration division



Augustas Dragūnas

Verslo aptarnavimo centras UAB,
Evelina Remeikienė
Manager of Reporting,
acting under Order No. IS17-80
(signed 2017 08 28)



Evelina Remeikienė

2017

ENERGIJOS SKIRSTYMO OPERATORIUS AB

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION FOR THE SECOND QUARTER OF 2017 AND SIX-MONTH PERIOD ENDED 30 JUNE 2017, PREPARED ACCORDING TO INTERNATIONAL ACCOUNTING STANDARD 34, 'INTERIM FINANCIAL REPORTING' AS ADOPTED BY THE EUROPEAN UNION, AND THE INTERIM REPORT PRESENTED TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT



Group of energy
companies

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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.

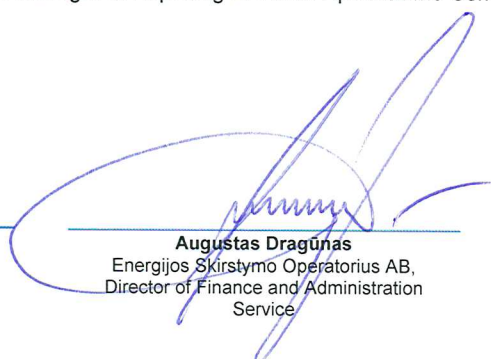
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The condensed interim financial information of Energijos Skirstymo Operatorius AB was approved on 31 August 2017 by the CEO, the Director of Finance and Administration Service, and the Manager of Reporting of Verslo Aptarnavimo Centras UAB (acting under Order No IS17-80 of 28 August 2017).


Dalia Andrulionienė
Energijos Skirstymo Operatorius AB,
Chief Executive Officer


Augustas Dragūnas
Energijos Skirstymo Operatorius AB,
Director of Finance and Administration
Service


Evelina Remeikienė
Manager of Reporting Verslo Aptarnavimo
Centras UAB (acting under Order No IS17-80
of 28 August 2017)



Independent auditor's report

To the shareholders of Energijos Skirstymo Operatorius AB

Our opinion

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

What we have audited

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

- the condensed interim statement of financial position as at 30 June 2017;
- the condensed interim statements of profit or loss and other comprehensive income for the three and six month periods then ended;
- the condensed interim statement of changes in equity for the six month period then ended;
- the condensed interim statement of cash flows for the six month period then ended; and
- the notes to the condensed interim financial information.

Basis for opinion

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

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

Independence

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

Reporting on other information including the interim report

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

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

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

PricewaterhouseCoopers UAB, J. Jasinskio g. 16B, LT-03163 Vilnius, Lithuania
T: +370 (5) 239 2300, F: +370 (5) 239 2301, Email: vilnius@lt.pwc.com, www.pwc.com/lt

PricewaterhouseCoopers UAB, company code 111473315, is a private company registered with the Lithuanian Register of Legal Entities.



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

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

- the information given in the interim report for the six-month period ended 30 June 2017, for which the financial information is prepared, is consistent with the financial information; and
- the interim report has been prepared in accordance with the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

The Company presented the social responsibility report as a part of the interim report.

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

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

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

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

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

Auditor's responsibilities for the audit of the financial information

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

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

- Identify and assess the risks of material misstatement of the financial information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial information, including the disclosures, and whether the financial information represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

On behalf of PricewaterhouseCoopers UAB

A handwritten signature in purple ink, reading 'Radzevičienė'.

Rasa Radzevičienė
Partner
Auditor's Certificate No.000377

Vilnius, Republic of Lithuania
31 August 2017

All amounts in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	At 30 June 2017	At 31 December 2016
ASSETS			
Non-current assets			
Property, plant, and equipment	4	1,067,541	1,020,541
Intangible assets	5	4,515	3,573
Prepayments for non-current assets		4	4
Investments in associates	6	2,305	2,346
Other non-current financial assets	7	6,277	5,836
		1,080,642	1,032,300
Current assets			
Inventories		2,744	1,731
Trade and other receivables	8	47,438	61,092
Prepayments, deferred charges and accrued income		7,024	6,311
Cash and cash equivalents	9	4,218	10,662
		61,424	79,796
Total assets		1,142,066	1,112,096
EQUITY AND LIABILITIES			
Equity			
Authorised share capital	10	259,443	259,443
Revaluation reserve		47,291	49,864
Legal reserve		25,910	25,910
Retained earnings		285,085	287,978
Total equity		617,729	623,195
LIABILITIES			
Non-current liabilities			
Borrowings	12	141,349	161,650
Deferred income tax liabilities		10,346	6,955
Deferred income		113,388	113,543
Grants and subsidies		20,057	20,477
Long-term employee benefits		1,616	2,949
Other non-current liabilities		3	3
		286,759	305,577
Current liabilities			
Borrowings	12	122,285	57,431
Trade and other payables	13	80,041	86,834
Advance amounts received, accrued liabilities and deferred revenue		34,076	32,080
Income tax payable		1,176	6,979
		237,578	183,324
Total liabilities		524,337	488,901
Total equity and liabilities		1,142,066	1,112,096

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

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376, Aguonų g. 24, Vilnius, Lithuania
CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the six-month period ended 30 June 2017

All amounts in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Q1-2 2017	Q2 2017	Q1-2 2016	Q2 2016
Revenue		305,833	138,194	332,140	150,538
Other income		1,952	1,105	1,814	965
Purchases of electricity and related services		(185,345)	(84,553)	(195,658)	(87,864)
Purchase (expenses) of natural gas and transmission services		(1,625)	(751)	(1,629)	(710)
Depreciation and amortisation		(24,411)	(12,188)	(22,387)	(11,315)
Employee benefits and related social security contributions		(20,182)	(9,619)	(23,496)	(10,784)
Repair and maintenance expenses		(6,897)	(4,167)	(8,843)	(5,123)
Transport costs		(2,213)	(1,163)	(2,269)	(1,156)
Telecommunications and IT services		(4,342)	(2,311)	(4,323)	(2,008)
Rent and utilities		(2,047)	(999)	(2,007)	(1,095)
Impairment and write-off expenses		(375)	(1,124)	(1,757)	(607)
Other expenses		(8,516)	(4,211)	(8,023)	(3,923)
Operating profit		51,832	18,213	63,562	26,918
Finance income		555	310	475	275
Finance costs		(848)	(432)	(1,264)	(791)
Finance costs – net		(293)	(122)	(789)	(516)
Share of profit of associates and joint ventures	6	71	71	-	-
Profit before income tax		51,610	18,162	62,773	26,402
Income tax	14	(5,313)	(997)	(9,557)	(3,984)
Net profit for the period		46,297	17,165	53,216	22,418
Other comprehensive income (expenses)		-	-	-	-
Total comprehensive income for the period		46,297	17,165	53,216	22,418
Weighted average number of shares (thousands)		894,630	894,630	894,630	894,630
Basic and diluted earnings per share (in EUR) attributable to owners of the Company		0.052	0.019	0.059	0.025

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

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376, Agonų g. 24, Vilnius, Lithuania
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
for the six-month period ended 30 June 2017

All amounts in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

	Note	Authorised share capital	Revaluation reserve	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2016		259,443	55,520	25,910	232,940	573,813
Comprehensive income						
Net profit for the period		-	-	-	53,216	53,216
Total comprehensive income for the period		-	-	-	53,216	53,216
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(2,434)	-	2,434	-
Dividends	11	-	-	-	(30,596)	(30,596)
Balance at 30 June 2016		259,443	53,086	25,910	257,994	596,433
Balance at 1 January 2017		259,443	49,864	25,910	287,978	623,195
Comprehensive income						
Net profit for the period		-	-	-	46,297	46,297
Total comprehensive income for the period		-	-	-	46,297	46,297
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(2,573)	-	2,573	-
Dividends	11	-	-	-	(51,763)	(51,763)
Balance at 30 June 2017		259,443	47,291	25,910	285,085	617,729

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

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376, Aguonų g. 24, Vilnius, Lithuania
CONDENSED INTERIM STATEMENT OF CASH FLOWS
for the six-month period ended 30 June 2017

All amounts in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Note	1H of 2017	1H of 2016
Cash flows from operating activities			
Net profit for the period		46,297	53,216
Adjustments for:			
Income tax expenses	14	5,313	9,557
Depreciation and amortisation	4,5	24,986	22,991
Amortisation of grants		(575)	(604)
Share of (profit) of associates and joint ventures	6	(71)	-
(Gain)/loss on disposal and write-off of assets		1,623	1,231
Finance (income)		(555)	(475)
Finance costs		848	1,264
Changes in working capital:			
Trade and other receivables		13,867	11,578
Inventories, prepayments, deferred charges and accrued income		(2,320)	(1,621)
Trade and other payables, advance amounts received, accrued charges and deferred income		(8,058)	(10,499)
Cash generated from operations		81,355	86,638
Income tax paid		(4,512)	(25)
Net cash flows generated from operating activities		76,843	86,613
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(77,312)	(65,397)
Proceeds from sale of property, plant and equipment and intangible assets		14	11,937
Disposal of subsidiaries		-	12,212
Grants received		159	138
Loans (granted)		(2,919)	(7,180)
Loans repayments received		4,481	55
Dividends received		112	58
Interest received		44	98
Net cash flows used in investing activities		(75,421)	(48,079)
Cash flows from financing activities			
Proceeds from borrowings		50,000	1,500
Repayments of borrowings		(28,713)	(23,298)
Dividends paid to the Company's shareholders		(51,569)	(30,505)
Interest paid		(851)	(908)
Net cash flows used in financing activities		(31,133)	(53,211)
Net increase (decrease) in cash and cash equivalents		(29,711)	(14,677)
Cash and cash equivalents (including the overdraft balance) at the beginning of the period	9	10,662	5,836
Cash and cash equivalents (including the overdraft balance) at the end of the period	9	(19,049)	(8,841)

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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

1 General information

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

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

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

As at 30 June 2017 and 31 December 2016, the Company's shareholder structure was as follows:

	At 30 June 2017		At 31 December 2016	
	Number of shares held	Ownership interest	Number of shares held	Ownership interest
Lietuvos Energija UAB	849,743,761	94.98%	849,743,761	94.98%
Other shareholders	44,886,572	5.02%	44,886,572	5.02%
Total	894,630,333	100%	894,630,333	100%

As at 30 June 2017 and 31 December 2016, the parent of the Company was Lietuvos Energija UAB. The Government of the Republic of Lithuania represented by the Ministry of Finance of the Republic of Lithuania owns 100% of shares of Lietuvos Energija UAB.

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

As at 30 June 2017 and 31 December 2016, the Company's investments in associates were as follows:

Associate	Country	Year of acquisition	Company's ownership interest (%)		Profile of activities
			At 30 June 2017	At 31 December 2016	
Technologijų ir Inovacijų Centras UAB	Lithuania	2013	29.01%	29.01%	Information technology and telecommunication, and other services to the shareholders
Verslo Aptarnavimo Centras UAB	Lithuania	2014	22.25%	22.25%	Public procurement organisation and implementation, accounting and personnel administration services, customer service

As at 30 June 2017, the Company had 2,574 (31 December 2016: 2,677) employees

Regulation of the Company's activities

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

The Company carries out the following licensed activities:

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

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

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

1. The setting of price caps in the electricity sector

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

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

On 14 October 2016, the Commission established the price caps for the electricity distribution services for the year 2017 as follows:

- electricity distribution services via medium voltage networks – 0.830 euro ct/kWh (excl. VAT) (2016: 1.000 euro ct/kWh (excl. VAT));
- electricity distribution services via low voltage networks – 1.655 euro ct/kWh (excl. VAT) (2016: 1.766 euro ct/kWh (excl. VAT)).

On 14 October 2016, the Commission established the price caps for the electricity public supply services for the year 2017 as follows:

- public electricity supply services – 0.143 euro ct/kWh (excl. VAT) (2016: 0.165 euro ct/kWh (excl. VAT));

On 16 December 2016, the Commission established the public price cap of 7.102 euro ct/kWh (excl. VAT) to private customers who receive electricity via medium voltage network for 2017 (second half of 2016: 7.499 euro ct/kWh (excl. VAT)), and the public price cap of 9.088 euro ct/kWh (excl. VAT) to private customers who receive electricity via low voltage network for 2017 (second half of 2016: 9.530 euro ct/kWh (excl. VAT)).

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

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

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

On 31 October 2016, the Commission established the price cap for the natural gas distribution service for the year 2017 as follows:

- natural gas distribution service – 7.25 euro ct/MWh (excl. VAT) (2016: 7.92 euro ct/MWh (excl. VAT)).

2 Accounting policies

2.1 Basis of preparation

The Company's condensed interim financial information for the three and the six-month periods ended 30 June 2017 has been prepared according to International Financial Reporting Standards as adopted by the European Union and applicable to interim financial reporting (International Accounting Standard (IAS) 34, 'Interim financial reporting').

This condensed interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The Company's financial year coincides with the calendar year.

2.2 Accounting policies

The accounting policies applied in the preparation of the condensed interim financial information are consistent with those that were applied in the preparation of the annual financial statements for 2016.

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

New and amended standards, and interpretations

There were no new standards, amendments and interpretations that were mandatory for the Company with effect from 2017, and that would have a material impact on the Company's financial information.

New standards that are not yet effective

IFRS 9, Financial instruments: Classification and measurement (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
 - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
 - IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
 - Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.
- The Company is currently assessing the impact of IFRS 9 on the Company's financial statements. The assessment is expected to be completed until 31 December 2017.

IFRS 15, Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Company is currently assessing the impact of IFRS 15 on the Company's financial statements. The assessment is expected to be completed until 31 December 2017.

3 Critical accounting estimates

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

The significant management judgements regarding the application of the accounting policies and the main sources for determining uncertainties used in the preparation of this condensed interim financial information are consistent with those of the annual financial statements for the year ended 31 December 2016.

Disposal of NT Valdos UAB

On 27 April 2015, LESTO AB sold to Lietuvos Energija UAB 1,692,666 ordinary registered shares of NT Valdos UAB representing 57.30% of the share capital of NT Valdos UAB. The share sale agreement stipulates that the sale price comprises the basic sale price and the premium to the basic sale price, which will be paid by 31 March 2019. The amount of the price premium depends on the amount of the normalised EBITDA to be achieved by NT Valdos UAB in 2018. The Company accounted for the sale price premium at the highest value as at 31 December 2015 under the line item 'Other non-current financial assets' in the statement of financial position, because, in management's view the maximum financial covenants set forth in the agreement on sale of shares will be met. As at 31 December 2016, the Company recognised impairment in respect of the sale price, because, in management's view, risk exists that the maximum financial covenants set forth in the agreement on sale of shares will not be met. When establishing a probable level of normalised EBITDA for 2018 the Company took into consideration actual results of operations of NT Valdos UAB for 2016 and plans for 2017 as well as forecasts of GDP growth in Lithuania. On 30 June 2017, the Company's management reviewed the assessment of the sale price premium and did not identify any changes compared to the amount recorded on 31 December 2016.

Revaluation and impairment of property, plant and equipment

At the reporting date of 31 December 2016, the Company tested the fair and recoverable values of its assets using the discounted cash flow method. Discounted cash flows were calculated in accordance with the legal acts and methodologies regulating the activities of gas, electricity distribution and supply activity, effective as at 31 December 2016.

The Company assessed whether the fair value of property, plant and equipment of the electricity business segment did not significantly differ from their carrying amount as at 30 June 2017 using the same cash flow model as that used as at 31 December 2016. When reviewing cash flows the Company used the following changed assumptions:

- Between the date of the last valuation of property, plant and equipment and the date of signing of these financial statements the rate of return on investments applied by the Commission for the electricity business segment was changed: a 4.88% rate was set by the Commission for 2018, while a 4.94% rate had been set for 2017. This rate is used to determine the return on investments for the period of 2017–2020. The rate of return on investments of 3.76% is applied for the entire remaining cash flow forecast period (as calculated according to the calculation data, which is publicly available on the Commission's website);
- A pre-tax discount rate of 5.11% was used for discounting cash flows.

Change in the discount rate and rate of return on assets had no significant impact on the value of assets: the fair value of property, plant and equipment of the electricity business segment as at 30 June 2017 and 31 December 2016 differs from the carrying amount of these assets not more than by 5 per cent. In management's view this difference is not material and the Company's management decided not to carry out adjustments to the assets' fair value.

The Company assessed whether the recoverable amount of the assets of the gas business segment did not significantly differ from their carrying amount as at 30 June 2017 using a pre-tax discount rate of 5.11% and the rate of return of 3.76% from 2019. The rate of return on investments set by the Commission for 2017–2018 remained unchanged and was equal to 7.09%. Change in the discount rate and rate of return on assets had no significant impact on the value of assets: the recoverable amount of the assets of the gas distribution business as at 30 June 2017 did not significantly differ from their carrying amount.

Accrued revenue

Revenue received from private customers is recognised based on payments received, therefore at the end of each reporting period the amount of revenue earned but not yet paid by private customers is estimated and accrued by management. Accrued revenue is estimated as 1/3 of payments for electricity received in the last month of the reporting period. Such estimate is based on the Company's historical experience and average settlement term for electricity supplied to private customers. Management has estimated that the majority of private customers declare and pay for electricity consumed on approx. the 20th day of the month, while electricity is supplied for a full month (30 or 31 days). Consequently, the volume of electricity used over the remaining 10 days is proportionally estimated based on the total volume of electricity supplied to the electricity supply network during the month (an actually known variable) and the total volume of electricity declared by private customers during the month of the reporting period and multiplying the difference by the average rate per 1 kWh. The Company reviewed the amount of accrued revenue taking into consideration quantities declared in June and effective tariffs and accrued revenue equal to EUR 4,347 thousand as at 30 June 2017 (31 December 2016: EUR 4,992 thousand).

4 Property, plant, and equipment

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

	Land	Buildings	Structures and machinery	Gas distribution pipelines	Gas technological equipment and structures	Motor vehicles	Computer hardware and other communication equipment	Other PP&E	Construction in progress	Total
Six-month month period ended 30 June 2016										
Net book amount at 1 January 2016	79	18,461	722,912	146,666	4,667	2,517	7,477	5,447	13,571	921,797
Additions	-	32	495	1	-	1,247	-	268	48,706	50,749
Disposals	-	-	(20)	-	-	-	-	-	-	(20)
Write-offs	-	(1)	(1,217)	(8)	-	-	-	-	-	(1,226)
Reclassifications between groups, transferred to intangible assets, inventories, assets held for sale	-	232	40,978	3,807	64	-	135	918	(45,359)	775
Depreciation	-	(946)	(16,328)	(2,295)	(281)	(485)	(819)	(762)	-	(21,916)
Net book amount at 30 June 2016	79	17,778	746,820	148,171	4,450	3,279	6,793	5,871	16,918	950,159
Six-month month period ended 30 June 2017										
Net book amount at 1 January 2017	79	17,330	800,405	154,724	5,285	2,767	6,884	6,251	26,816	1,020,541
Additions	-	4	193	2	-	-	9	16	72,436	72,660
Disposals	-	-	(28)	-	-	-	-	-	-	(28)
Write-offs	-	(2)	(1,550)	(9)	(42)	-	(14)	(1)	-	(1,618)
Reclassifications between groups	-	130	44,244	11,509	175	-	194	683	(56,935)	-
Depreciation	-	(991)	(18,352)	(2,398)	(326)	(422)	(793)	(732)	-	(24,014)
Net book amount at 30 June 2017	79	16,471	824,912	163,828	5,092	2,345	6,280	6,217	42,317	1,067,541

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

Structures and machinery comprise objects related to electricity distribution.

5 Intangible assets

	Patents and licences	Computer software	Other intangible assets	Projects in progress	Total
Six-month month period ended 30 June 2016					
Net book amount at 1 January 2016	265	2,466	77	804	3,612
Additions	-	-	519	-	519
Reclassifications between groups	944	(41)	(99)	(804)	-
Amortisation	(72)	(986)	(17)	-	(1,075)
Net book amount at 30 June 2016	1,137	1,439	480	-	3,056
Six-month month period ended 30 June 2017					
Net book amount at 1 January 2017	1,145	1,521	31	876	3,573
Additions	-	32	-	1,882	1,914
Reclassifications between groups	13	559	-	(572)	-
Amortisation	(59)	(891)	(22)	-	(972)
Net book amount at 30 June 2017	1,099	1,221	9	2,186	4,515

6 Investments in joint ventures and associates

The Company's investments in associates as at 30 June 2017 were as follows:

	Acquisition cost	Ownership interest (%)	Share of results of operations of associates	Carrying amount
Technologijų ir Inovacijų Centras UAB	1,877	29.01	225	2,102
Verslo Aptarnavimo Centras UAB	129	22.25	74	203
Total	2,006		299	2,305

Movements of investments in associates in 2017 were as follows:

	2017
Carrying amount at 1 January	2,346
Dividends paid by associates	(112)
Gain/(loss) on investments in associates	71
Carrying amount at 30 June	2,305

The Company's investments in associates as at 30 June 2016 were as follows:

	Acquisition cost	Ownership interest (%)	Share of results of operations of associates	Carrying amount
Technologijų ir Inovacijų Centras UAB	1,877	29.01	311	2,188
Verslo Aptarnavimo Centras UAB	129	22.25	29	158
Total	2,006		340	2,346

7 Other non-current financial assets

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

	At 30 June 2017	At 31 December 2016
Non-current portion of mortgage loans granted	302	340
Available-for-sale financial assets	5,361	5,306
Other non-current receivables	614	190
Total	6,277	5,836

Available-for-sale financial assets consists of a part of the amount payable by Lietuvos Energija UAB for the premium to the basic sale price established for the shares of NT Valdosa UAB, which is to be settled after 31 March 2019. The amount of the price premium depends on the amount by which the normalised EBITDA of NT Valdosa UAB in 2018 will exceed the limit specified in the agreement. The fair value of the price premium is attributed to Level 3 in the fair value hierarchy.

8 Trade and other receivables

	At 30 June 2017	At 31 December 2016
Trade receivables for sale of electricity	42,855	53,090
Receivables from users of the system (non-household customers) for distribution of natural gas	308	1,595
Other trade receivables	766	547
Short-term loans granted to related parties (cashpool)	-	1,502
Trade receivables and other amounts receivable from related parties	8,861	11,143
Current portion of mortgage loans	72	77
Other amounts receivable	378	368
Less: impairment allowance for doubtful receivables	(5,802)	(7,230)
Total	47,438	61,092

Movements in the Company's impairment allowance account for trade and other receivables in the first half of 2017 and 2016 were as follows:

Balance at 1 January 2016	8,393
Impairment charge for the year	547
Write-offs	(860)
Balance at 30 June 2016	8,080
Impairment charge for the year	802
Write-offs	(1,652)
Balance at 1 January 2017	7,230
Impairment charge for the year	190
Write-offs	(1,618)
Balance at 30 June 2017	5,802

9 Cash and cash equivalents, and term deposits

	At 30 June 2017	At 31 December 2016
Cash at bank	4,218	10,662
Total	4,218	10,662

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

	At 30 June 2017	At 31 December 2016
Cash and cash equivalents	4,218	10,662
Bank overdraft (Note 12)	(23,267)	-
Total	(19,049)	10,662

10 Authorised share capital

As at 30 June 2017 and 31 December 2016, the Company's authorised share capital was divided into 894,630,333 ordinary registered shares with a nominal value of EUR 0.29 each. All the shares have been fully paid.

11 Dividends

Approved dividends per share

	At 30 June 2017	At 30 June 2016
Approved dividends (thousands)	51,763	30,596
Weighted average number of shares (thousands)	894,630	894,630
Approved dividends per share (in EUR)	0.0579	0.0342

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 51,763 thousand in dividends.

The ordinary general meeting of shareholders of Energijos Skirstymo Operatorius AB was held on 29 March 2016 where it was decided to approve the profit appropriation for July–December 2015 and to allocate EUR 0.0342 per share in dividends, in total EUR 30,596 thousand in dividends.

12 Borrowings

	At 30 June 2017	At 31 December 2016
Non-current borrowings		
Bank borrowings	141,349	161,650
Current borrowings		
Bank <i>overdraft</i> (Note 10)	23,267	-
Bank borrowings	99,018	57,431
	122,285	57,431
Total borrowings	263,634	219,081

All borrowings of the Company bear variable interest rate with repricing period up to 6 months. No assets are provided as collateral for borrowings.

Non-current borrowings by maturity:

	At 30 June 2017	At 31 December 2016
Between 1 and 2 years	57,401	87,150
Between 2 and 5 years	83,948	74,500
	141,349	161,650

Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through adequate amounts of committed credit facilities and under the Lietuvos Energija UAB Group account (cashpool) agreement to meet its commitments at a given date in accordance with its strategic plans. The Company's cash flows from operating activities were positive and amounted to EUR 76,843 thousand during the six-month period ended 30 June 2017 (30 June 2016: EUR 86,613 thousand). The Company's management estimates that cash flows generated from operating activities and available borrowing resources will be sufficient to cover its current liabilities. The Company's liquidity (total current assets / total amounts payable within one year and current liabilities) and quick ratios ((total current assets – inventories) / total amounts payable within one year and current liabilities) as at 30 June 2017 were 0.26 and 0.25, respectively (31 December 2016: 0.44 and 0.43, respectively). In order to minimise balances of cash in bank accounts, the Company is using credit lines. As at 30 June 2017, the Company's unwithdrawn balance of the overdraft amounted to EUR 6,733 thousand, the unwithdrawn portion of the long-term credit amounted to EUR 27,000 thousand as at 30 June 2017 and the unwithdrawn limit under the Lietuvos Energija UAB Group account (cashpool) agreement amounted to EUR 30,000 thousand as at 30 June 2017. As at 30 June 2017, the Company's current liabilities exceeded its current assets by EUR 175,685 thousand (31 December 2016: EUR 75,920 thousand).

13 Trade and other payables

	At 30 June 2017	At 31 December 2016
Trade payables	38,575	40,266
Trade payables to related parties	34,630	40,081
Total trade payables	73,205	80,347
Taxes (other than income tax)	1,082	1,598
Employment-related liabilities	3,051	2,073
Other current liabilities	2,703	2,816
Total other amounts payable	6,836	6,487
Trade and other payables	80,041	86,834

14 Income tax

The Company's income tax expense/(income) for 2017 and 2016 comprised as follows:

	At 30 June 2017	At 30 June 2016
Current year income tax	2,647	5,469
Effect of tax losses taken over	(726)	-
Deferred income tax expenses/(benefit)	3,392	4,088
Total	5,313	9,557

On 13 June 2017, the Company took over from the group companies tax losses amounting to EUR 26,246 thousand for a consideration of EUR 3,212 thousand. A consideration for tax losses taken over and reversal of income tax expenses are reported under line item 'Income tax' in the statement of comprehensive income.

15 Segment reporting

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

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

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

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

The table below presents the Company's information on segments for the six-month period ended 30 June 2016:

2016	Electricity supply and distribution	Gas distribution	Total
Revenue	302,210	31,744	333,954
Expenses	(233,231)	(13,017)	(246,248)
EBITDA	68,979	18,727	87,706
Depreciation and amortisation	(18,291)	(4,096)	(22,387)
Impairment and write-off expenses	(1,719)	(38)	(1,757)
Operating profit	48,969	14,593	63,562
Finance income	389	86	475
Finance (costs)	(958)	(306)	(1,264)
Profit before income tax	48,400	14,373	62,773
Income tax	(7,226)	(2,331)	(9,557)
Net profit for the period	41,174	12,042	53,216

16 Related-party transactions

The Company's related parties are as follows:

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

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376, Agonų g. 24, Vilnius, Lithuania
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
for the six-month period ended 30 June 2017

All amounts in EUR thousands unless otherwise stated

Purchase and sale of goods and services:

The Company's transactions with related parties between January and June of 2017 and the balances arising on these transactions as at 30 June 2017 are presented below:

Related party	Amounts payable and accrued expenses	Amounts receivable and other assets	Purchases	Sales
Parent company Lietuvos Energija UAB	327	5,361	613	58
Associates of the Company	2,407	-	9,903	-
Other companies of Lietuvos Energija UAB group	9,591	3,429	35,483	24,354
Companies of EPSO – G UAB group	24,012	6,576	95,689	435
Total	36,337	15,366	141,688	24,847

The amount receivable from Lietuvos Energija UAB comprises available-for-sale financial assets of EUR 5,361 thousand.

Aiming to reduce costs incurred for the funding of a working capital, on 18 May 2016 the Company signed the Lietuvos Energija UAB Group account (cashpool) agreement of an unlimited validity, under which the Company may obtain current loans from other companies of the Group. The internal limit for receiving loans established until 19 March 2018 is EUR 30,000 thousand. The market interest rate is established for the period of one calendar year and is the same as that applied for loans received from commercial banks.

As at 30 June 2017, the Company had no short-term loans granted and had no loans received.

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

The Company's transactions with related parties between January and June of 2016 and the balances arising on these transactions as at 31 December 2016 are presented below:

Related party	Amounts payable and accrued expenses	Amounts receivable and other assets	Purchases	Sales
Parent company Lietuvos Energija UAB	235	5,823	283	221
Associates of the Company	2,565	3	8,624	-
Other companies of Lietuvos Energija UAB group	7,797	9,027	39,606	25,763
Companies of EPSO – G UAB group	29,484	4,099	99,759	612
Total	40,081	18,952	148,272	26,596

Compensation to key management personnel

Company	30 June 2017	30 June 2016
Wages and salaries and other short-term benefits to management personnel	338	259
Whereof: termination benefits	81	-
Number of key management personnel	7	8

Management includes heads of administration and their deputies.

17 Fair value estimation

There were no significant changes in the business and economic environment in the first half of 2017 that could affect the fair value of the Company's financial assets and financial liabilities.

18 Commitments and contingencies

Capital expenditure commitments

In 2017, the Company's capital expenditure commitments assumed under the signed contracts as at the date of the financial statements but not accounted for in the financial statements amounted to EUR 76,289 thousand (31 December 2016: EUR 26,907 thousand).

Litigations

On 27 March 2014, VILNIAUS ENERGIJA UAB brought a claim before Vilnius Regional Court whereby it requested to award damages of EUR 10,712 thousand from Energijos Skirstymo Operatorius AB, to recognise the provisions of the agreement on the purchase and sale of electricity as null and void as of the moment of its conclusion, to oblige the respondent to purchase the supported production volume of electricity.

The oral hearing in Vilnius Regional Court was scheduled to take place on 29 May 2017. The court's hearing was postponed to 28 August 2017 as the court decided to request that Energijos Skirstymo Operatorius AB provide additional evidence relating to electricity prices. The Company's management expects the court to rule in its favour, therefore no liability and expenses were accounted for.

On 17 November 2014, LESTO AB brought a claim before Vilnius Regional Administrative Court whereby it requested to annul resolution No O3-841 of the National Control Commission for Prices and Energy (the Commission) of 17 October 2014 and resolution No O3-845 of 17 October 2014, and to oblige the Commission to eliminate violations made when making calculations. When establishing the price caps for the services of LESTO AB under the resolutions specified in the claim the Commission failed to take into consideration the following:

- a difference of EUR 7,777 thousand which occurred as result of the improper WACC amount applied by the Commission;
 - a difference of EUR 4,638 thousand which occurred as result of an improper application of the principles on permitted return on investments.
- On 22 December 2015, the claim was rejected by Vilnius Regional Administrative Court. The oral hearing in the court during which the appeal of the Company will be investigated is scheduled on 21 September 2017 in the Supreme Administrative Court of Lithuania. If the court rules in favour of Energijos Skirstymo Operatorius AB, the price caps would be increased and higher revenue would be earned in future periods.

In January 2015, LESTO AB brought a claim before Vilnius Regional Administrative Court whereby it requested to annul resolution No O3-947 *On the scheduled audit of LESTO AB* and other related resolutions of the Commission which resulted in:

- lower revenue from electricity distribution services by EUR 16.46 million;
- lower revenue from public electricity supply services by EUR 862.78 thousand;
- lower electricity acquisition costs by EUR 311.63 thousand.

The Company aimed to prove that the Commission did not provide justification for the conclusions of the audit performed, incorrectly estimated costs actually incurred by the Company for the performance of its regulated activity and included in the regulated activity and adopted resolutions indicated in the claim by infringing the requirements of the legal acts and public administration principles. In January 2016, Vilnius Regional Administrative Court passed the ruling whereby the claim was rejected in full. The Company objected to the court's rulings and filed an appeal. The Lithuanian Supreme Administrative Court passed the ruling on 20 June 2017 whereby the Company's appeal was rejected.

In July 2015, LESTO AB filed the complaint to Vilnius Regional Administrative Court with the request to annul the Commission's resolution *On violation of terms and conditions of the regulated activity by LESTO AB* under which the violation made by LESTO AB in respect of the licensed activity was identified, i.e. LESTO AB unjustifiably allocated more costs to the regulated activities of electricity distribution and public supply than the amount that could have been actually allocated, and to recognise the imposed fine of EUR 300 thousand as ungrounded. In its financial statements as at 31 December 2015 the Company accounted for the mentioned fine by recognising expenses and a liability. The investigation of the case has been renewed and the court's hearing is scheduled to be held on 5 October 2017.

19 Events after the reporting period

There were no significant events after the date of the statement of financial position.

2017

ENERGIJOS SKIRSTYMO
OPERATORIUS AB
INTERIM REPORT

REPORT FOR A SIX-MONTH PERIOD ENDED 30 JUNE 2017



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INTERIM REPORT

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Reporting period covered by the report

The report covers the period from January to June 2017.

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

The report and the documents, on the basis of which it was prepared, are available at the head office of Energijos Skirstymo Operatorius AB, the Department of Communication (Aguonų St. 24, Vilnius, Room 535), on working days from Mondays through Thursdays 7:30–16:30, on Fridays 7:30–15:15. The report is also available on the website of Energijos Skirstymo Operatorius AB at www.eso.lt and the website of NASDAQ Vilnius stock exchange at www.nasdaqomxbaltic.com.

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

Individuals responsible for information contained in the report

Position	Full name	Telephone number
Chief Executive Officer	Dalia Andrulionienė	(8 5) 277 7524
Finance and Administration Service Director	Augustas Dragūnas	(8 5) 277 7524
Finance Department Director	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.

Report's signing date

The report was signed on 31 August 2017.

Regarding the comparability of financial results

This report presents the financial results of ESO for the six-month period of 2017.

KEY OPERATING AND FINANCIAL INDICATORS OF THE COMPANY FOR THE REPORTING PERIOD

Key operating indicators of ESO

		6 months of 2017	6 months of 2016	Change	
				+/-	%
Operating indicators					
Distributed electricity via medium and low voltage networks	TWh	4.62	4.49	0.13	2.90
Public and guaranteed supply of electricity	TWh	1.63	1.60	0.03	1.88
Distributed volume of natural gas	TWh	4.00	3.93	0.07	1.78
Supply quality indicators of the network					
ELECTRICITY					
SAIDI, min. (with <i>force majeure</i>)		63.79	114.93	51.14	
SAIFI, units (with <i>force majeure</i>)		0.60	0.66	-0.06	
GAS					
SAIDI, min. (with <i>force majeure</i>)		0.195	0.356	-0.161	
SAIFI, units (with <i>force majeure</i>)		0.002	0.004	-0.002	

Key financial indicators of ESO

		6 months of 2017	6 months of 2016	Change	
				+/-	%
Revenue	EUR '000	307,785	333,954	-26,169	-7.84
Purchase of electricity, gas and related services	EUR '000	186,970	197,287	-10,317	-5.23
Operating expenses (1)	EUR '000	44,197	48,961	-4,764	-9.73
EBITDA (2)	EUR '000	76,618	87,706	-11,088	-12.64
EBITDA margin (3)	%	24.89	26.26		
Adjusted EBITDA* (EUR'000)	EUR '000	75,284	72,016	3,268	4.54
Net profit (loss)	EUR '000	46,297	53,216	-6,919	-13.00
		6 months of 2017	12 months of 2016	Change	
				+/-	%
Total assets	EUR '000	1,142,066	1,113,186	28,880	2.59
Equity	EUR '000	617,729	623,195	-5,466	-0.88
Borrowings	EUR '000	263,633	219,081	44,552	20.34
Borrowings, net (4)	EUR '000	259,415	208,419	50,996	24.47
Return on equity ratio (ROE) (5)	%	14.10	15.46		
Return on assets (ROA) (6)	%	7.76	8.44		
Equity ratio (7)	%	54.09	55.98		
Borrowings, net / 12-month EBITDA	times	1.70	1.44		
Borrowings, net / Equity	%	41.99	33.44		

(1) Operating expenses (OPEX) = operating expenses excluding costs attributable to purchase of electricity and related services, depreciation, 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 in the current and previous reporting periods and the permitted investment return established by the National Control Commission for Prices and Energy (the Commission) for the corresponding periods. The difference arose due to the Company's higher operational efficiency and other factors.

CEO's FOREWORD

Dear All,

This year we continue a consistent improvement of the quality of services and increase of operational efficiency. By better understanding customers' needs and digitising processes we provide services in a more rapid and convenient manner. New services offered to customers save their time and cause less trouble.

ESO was the first company in the Baltic countries that in April started testing smart metering devices which combine electricity and gas. In Vilnius smart metering devices were installed in fifty households using electricity and natural gas. These devices remotely transmit electricity consumption data to the accounting system of ESO. New technological solutions save time as customers no longer need to write down and declare readings.



The data analysis tool was presented to ones who acquired smart electricity meters. This tool will enable to better understand electricity consumption habits, change them and save electricity in such a way. Aiming to improve customer service the process of signing contracts with business customers was simplified resulting in services to companies being provided in a more rapid and convenient manner. Amendments to the Law on Natural Gas adopted in March allowed to significantly simplify and shorten the process of gas introduction. Provision of information to customers is also being improved – at the end of June an interactive map was presented which provides information about disconnected electricity distribution network devices and allows informing about interruptions in supply of electricity.

More efficient performance of the organisation enabled to further reduce prices of the services. ESO's operating expenses continued to decline this year and contracted by EUR 4.7 million. In May due to more effective operations the prices of natural gas distribution services were reduced by 5.7% on average. This is already a second decline from the beginning of 2017. Starting from June the prices of electricity introduction services declined by 15% on average.

Operational efficiency and service reliability will be further improved by the modernisation of electricity and gas distribution networks. We plan to install 14 advanced gas pipeline systems in the gas distribution network by 2018. More funds are invested in the renovation of the electricity network and increase in its resistance to natural phenomena. As we have seen more than a half of all this year's breakdowns in the electricity network was caused by extreme weather events, a number of which is rising in Lithuania. In response to such weather conditions 645 km of underground electricity cables were laid down during the first half of the year alone. The underground network is more resistant to natural phenomena, therefore likelihood of electricity interruption is kept to a minimum. We plan to replace 2,662 km of overhead lines with underground cables in 2017. This is 2.6 times more than in 2016.

The above developments present only a small portion of our operational results that were achieved during the first half of 2017. We will continue our extensive efforts directed towards attending customers' needs and ensuring high quality of services.

Sincerely,

Dalia Andrulionienė, CEO and Chair of the Board

MOST SIGNIFICANT EVENTS DURING SIX MONTHS OF 2017

Modification of the energy operating licence

The National Control Commission for Prices and Energy modified the Company's energy operating licence No L2-GDS-09 by adding a new territory to the activity area defined in the annex to this licence, i.e. the territory of Tauragė region municipality. The mentioned modification of the energy operating licence entitles the Company to ensure the provision of natural gas distribution services in Tauragė region municipality.

Election of a member of the Board

At the sitting of the Company's Supervisory Council held on 20 January 2017 a decision was made to elect Ignas Pranskevičius as a new member of the Board in charge of the area of services and development.

Conclusion of the long-term loan agreement

On 27 January 2017, the Company and SEB Bankas AB signed the agreement for a long-term loan of EUR 77 million. The loan will be used to refinance the Company's financial liabilities and finance the working capital. The loan repayment term is 10 years and it is subject to a variable interest rate of 3 months EURIBOR.

Installation of the LNG regasification station in Druskininkai

On 3 February 2017, a public call for tenders for the installation of the LNG regasification station in Druskininkai was issued on the Central Public Procurement Information System (CVP IS).

Resignation of a member of the Board

On 28 February 2017, the Company received a notification of resignation of Dalius Svetulevičius from the position of a member of the Company's Board. On 8 March 2017, the Supervisory Council decided to revoke Dalius Svetulevičius from the position of a member of the Board from the end of the sitting of the Supervisory Council that revoked him.

Approval of ESO's audited financial results for 2016

The Supervisory Council of the Company approved the Company's annual report for 2016, the set of the annual financial statements for the year 2016 audited by the audit firm PricewaterhouseCoopers UAB, and the proposed profit (loss) allocation of the year 2016.

At the Ordinary General Meeting of ESO's Shareholders held on 24 March 2017 the set of the audited financial statements for the year 2016 and the annual report of ESO were approved.

Resolutions of the Ordinary General Meeting of Shareholders

At the Ordinary General Meeting of Shareholders held on 24 March 2017 the Company's annual report, the set of the annual financial statements for the year 2016 audited by the audit firm PricewaterhouseCoopers UAB and the proposed profit (loss) allocation of the year 2016 were approved.

Public procurement for the installation of the LNG regasification station in Druskininkai

Proposals made by all the participants of the public procurement announced on the Central Public Procurement Information System (CVP IS) on 3 February 2017 for the installation of the LNG regasification station in Druskininkai were rejected by the Company due to too high prices.

Candidate to the Board of Energijos Skirstymo Operatorius AB

On 11 April 2017, the Company received a letter from Lietuvos Energija UAB (Lietuvos Energija), which owns 94.98% of the Company's shares, informing about the decisions made by the Supervisory Council of Lietuvos Energija. The letter indicates that at the sitting of the Supervisory Council of Lietuvos Energija held on 7 April 2017 the candidature of Saulius Vaičekas (activity area – operation of networks) proposed by the Board of Lietuvos Energija to the Company's Board was approved.

Election of a member of the Board of Energijos Skirstymo Operatorius AB

At the sitting of the Company's Supervisory Council held on 26 April 2017 a decision was made to elect Saulius Vaičekas as a member of the Company's Board in charge of the area of networks operation from the end of the sitting of the Company's Supervisory Council that elected him until the expiry of the term of office of the current Board of the Company. A newly elected member of the Board holds a position of the Director of the Company's Networks Operation Service.

Adoption of a decision on the reduction of the prices of the natural gas distribution service from 1 July 2017

In view of decline in operating expenses as a result of higher operational efficiency, on 19 May 2017 the Company's Board made a decision to reduce the price for the natural gas distribution service for all categories of consumers. An average decline in the natural gas distribution price is equal to 5.7%.

Approval of the prices for the natural gas distribution service by the National Control Commission for Prices and Energy

On 31 May 2017, the National Control Commission for Prices and Energy approved the natural gas distribution service prices that were established by the Board of Energijos Skirstymo Operatorius AB on 19 May 2017 to be applicable from 1 July 2017. The prices for the natural gas distribution service decline in respect of all seven price categories. The price for the natural gas distribution service decreases from 5% to 6% depending on the price category. The reason for the price decrease is a higher operational efficiency of the Company. The price for the natural gas distribution service is one of the components of the final gas price.

Passing of the court's ruling

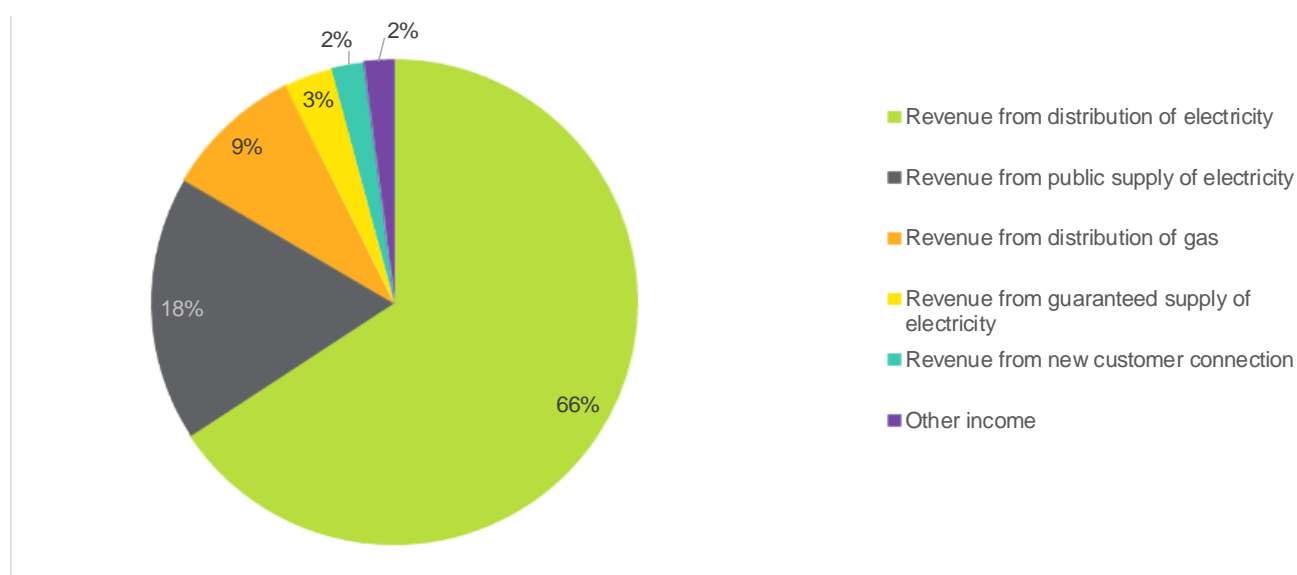
The Company informs that on 20 June 2017 the Lithuanian Supreme Administrative Court passed a ruling whereby the Company's appeal dated 10 February 2016 was rejected in which the Company requested to annul the decision of Vilnius Regional Administrative Court of 26 January 2016 whereby Vilnius Regional Administrative Court rejected the claim of ESO regarding the annulment of resolution No O3-947 of the National Control Commission for Prices and Energy (the Commission) dated 19 December 2014 *On the Scheduled Audit of LESTO AB*, resolutions No O3-944, O3-945, O3-946 of the Commission dated 19 December 2014 and resolution No O3-960 dated 23 December 2014 and the obligation for the Commission to evaluate revenue unearned by the Company and additional costs incurred due to illegitimate price caps established during the validity period of these resolutions. The Lithuanian Supreme Administrative Court noted that it does

not carry out an economic evaluation and investigation which is assigned to the Commission and stated that the ruling of the court of the first instance is legitimate and grounded.

The ruling of the Lithuanian Supreme Administrative Court is final and conclusive. The Company reminds that in the Company's view the Commission did not provide justification for the conclusions of the audit performed, incorrectly estimated costs actually incurred by the Company for the performance of its regulated activity and included in the regulated activity and adopted resolutions under appeal by infringing the requirements of the legal acts and public administration principles. The ruling passed by the Lithuanian Supreme Administrative Court will have no impact on the Company's financial performance

THE ANALYSIS OF FINANCIAL AND OPERATING INDICATORS

Revenue structure of ESO by activity area



ESO's revenue during the period from January to June 2017 reached EUR 307.8 million, which is a 7.84% decrease compared to the same period of 2016. Revenue declined due to lower prices of electricity and natural gas established for the Company's customers. Electric power distribution is the main source of the Company's revenue. During the period from January to June 2017, distribution revenue comprised 66%, revenue from public supply of electricity represented 18% and revenue from natural gas distribution made up 9% of the Company's total revenue.

EBITDA* indicator

	30 Jun 2017	30 Jun 2016
EBITDA, EUR '000	76,618	87,706
EBITDA margin, %	24.89	26.26
Adjusted EBITDA**, EUR '000	75,284	72,016

* 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.

** The Company adjusted EBITDA by the difference between the actual profit earned in the current and previous reporting periods and the permitted investment return established by the National Control Commission for Prices and Energy (the Commission) for the corresponding periods. The difference arose due to the Company's higher operational efficiency and other factors

The Company does not assess the impact of the incentives mechanism established by the Commission on the adjusted EBITDA, based on which the permitted investment return for 2016 and 2017 can be additionally increased due to operational efficiency that is proved by the company to the Commission.

In January–June 2017, the Company's earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted EUR 76.6 million and was 12.64% lower than in January–June 2016. Adjusted EBITDA increased by 4.54% as a result of the investment projects implemented by the Company.

Expenses

In January– June 2017, purchases of electricity, natural gas or related services made up EUR 187.0 million and decreased by 5.2% compared to the same period of 2016. This was mainly influenced by a lower 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 211.4 million or 83% of total ESO's costs.

Operating expenses¹ decreased by 9.7% compared to the same period of 2016 and amounted to EUR 44.2 million. Employee benefits and related social security contributions, as well as repair and maintenance expenses saw the highest decline, i.e. a 14.1% and 22.0% decrease, respectively.

ESO operating expenses, EUR '000

	30 Jun 2017	30 Jun 2016
Employee benefits and related social security contributions	20,182	23,496
Other expenses	8,516	8,023
Repair and maintenance expenses	6,897	8,843
Telecommunications and IT services	4,342	4,323
Transport	2,213	2,269
Rent and utilities	2,047	2,007
Operating expenses	44,197	48,961

Profit (loss) and profitability ratios

In January–June 2017, net profit of ESO decreased by 13.0% compared to the same period of 2016 and amounted to EUR 46.3 million. Decline of net profit resulted from lower prices of electricity and natural gas established for the Company's customers.

ESO profitability ratios

	30 Jun 2017	30 Jun 2016
Net profit margin, %	15.04%	15.94%
Operating profit margin, %	16.84%	19.03%

Electricity distribution

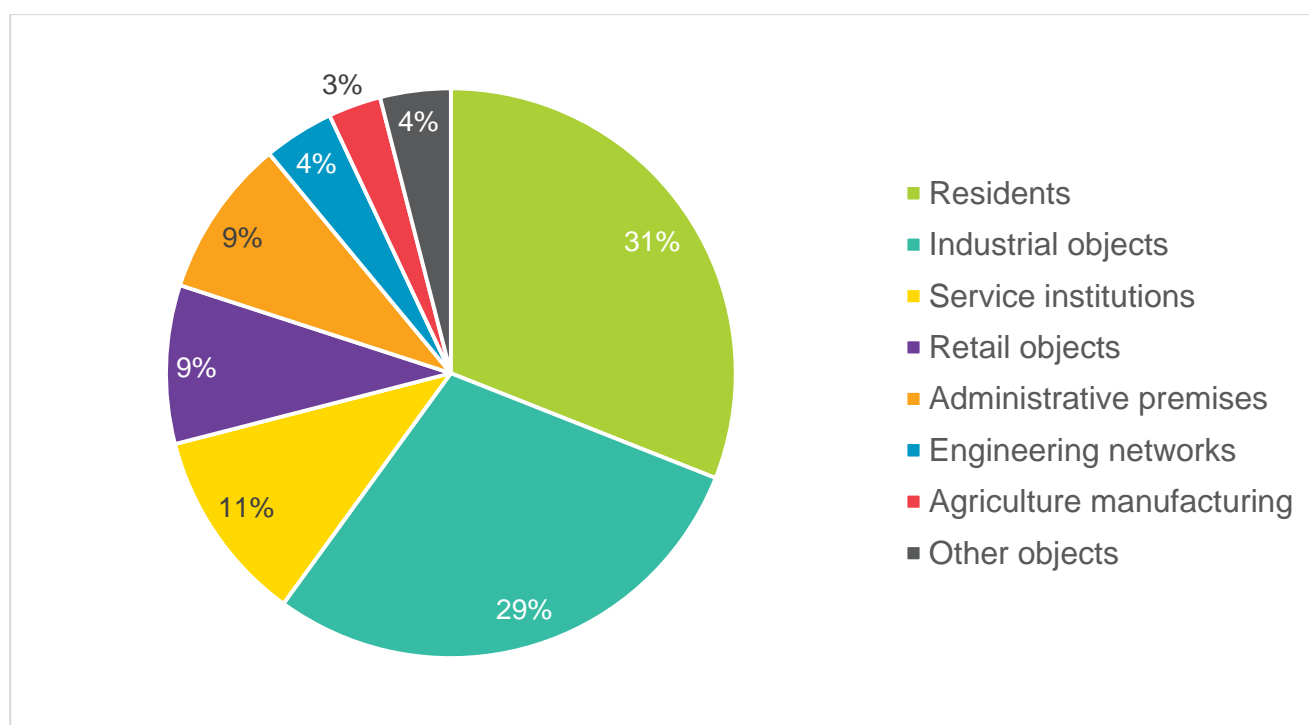
During six months of 2017, ESO distributed 4.620 billion kWh of electricity to its customers. Electricity sales made up 35% of this amount. The remaining customers of ESO were provided only with the distribution service. The amount of electricity sold increased by 1.9%, while the volume of electricity distributed increased by 2.9% compared to the same period of 2016.

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

Technological losses in distribution equipment incurred by the Company during six months of 2017 amounted to 268.2 million kWh or 5.5% of the amount of electricity received. During the same period of 2016, technological losses totalled 7.3%.

Electricity distribution volume by object

Nearly 31% of electricity distributed by ESO were consumed by residents. Industrial objects and service institutions consumed 28.8% and 11.4%, respectively, of electricity distributed. There were no changes in the structure of electricity distribution by object as compared to data of six months of 2016.



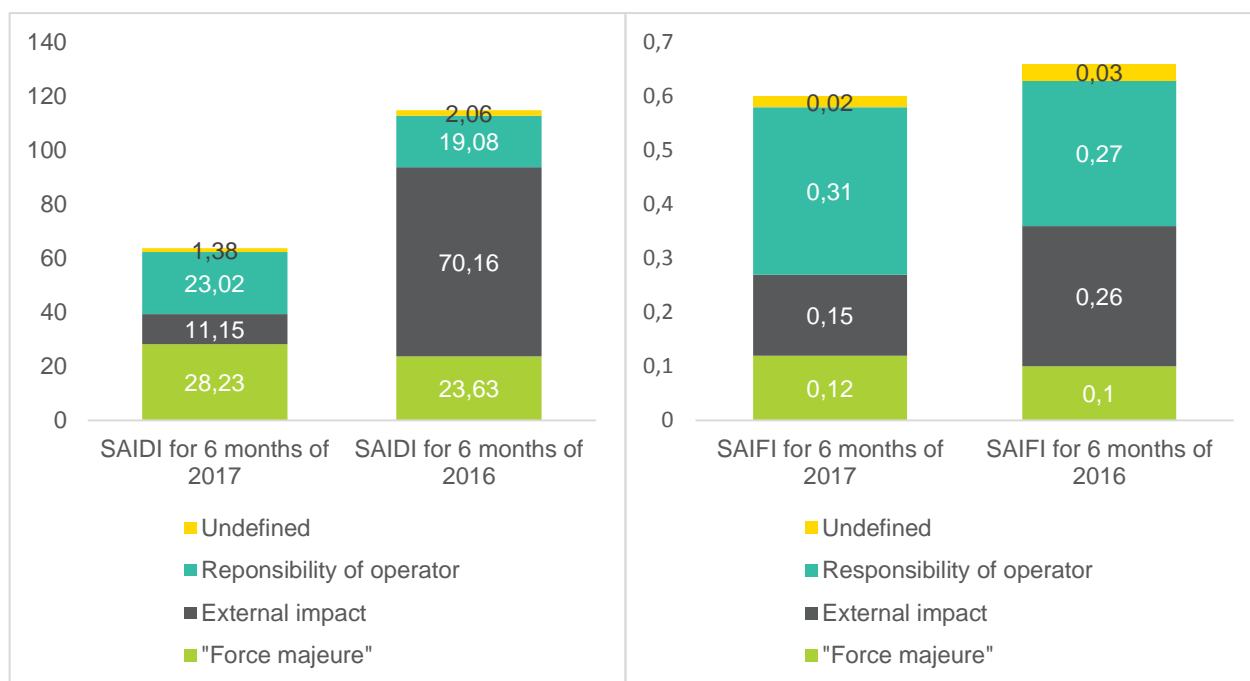
Natural gas distribution

During six months of 2017, ESO transported 4 billion kWh (378 million cubic meters) of natural gas through the gas distribution pipelines, which is approx. 1.8% more than in the same period of 2016. During six months of 2017, gas distribution volumes increased mainly due to a higher gas consumption by heat and electric power generation plants as a result of a longer heating season of 2016.

Electricity supply quality indices (SAIDI, SAIFI)

During six months of 2017, the system average interruption duration index (SAIDI with *force majeure*) per customer was equal to 63.79 minutes. This is 51.14 minutes less compared to the same period of 2016 when it was equal to 114.93 minutes. During six months of 2017, the system average interruption frequency index (SAIFI with *force majeure*) per customer reached 0.60 time, which is 0.06 time more compared to 2016 when it was equal to 0.66 times. The SAIDI and SAIFI indices decreased because of the storm of 17 and 25 June 2016, which was one of the strongest in recent years. The consequences of this storm are classified as an accident, according to the *Regulations on the investigation and recording of electric equipment accidents and disorders of the Republic of Lithuania*.

Electricity supply reliability indices for January–June 2017 and January–June 2016



Investments

During six months of 2017, ESO's investments in the electricity and gas distribution networks amounted to EUR 74.139 million, which is 44.7% more than in the first half of 2016 when they were equal to EUR 51.240 million.

ESO's investments, EUR million

	6 months of 2017	6 months of 2016
Renewal of the electricity distribution network	38.575	25.770
Expansion of the electricity distribution network	20.576	17.234
Construction and reconstruction of gas systems	11.436	4.273
Other (IT, management systems, etc.)	3.552	3.963
Total investments	74.139	51.240

During six months of 2017, ESO's investments allocated for the renewal of the electricity distribution network amounted to EUR 38.575 million, which is 49.7% more compared to January–June 2016. In January–June 2017, investments in the expansion of the electricity distribution network amounted to EUR 20.6 million, which is 19.4% more than in the same period of 2016.

During six months of 2017, ESO connected 12,884 new customers to the electricity distribution network, which is 2.49% more than in January–June 2016 when 12,571 new customers were connected. In the first half of 2017 the admissible electric power of objects of newly connected customers was equal to 161 thousand kW, which is 9.7% more than in the first half of 2016, when the admissible power was equal to 146.8 thousand kW.

In the first half of 2017, ESO's investments in the construction and reconstruction of gas systems amounted to EUR 11.436 million or 2.7 times more compared to January–June 2016 when investments totalled EUR 4.273 million. During six months of 2017, ESO constructed 156.7 km of the gas distribution pipeline (35.4 km in the respective period of 2016). In January–June 2017, ESO connected 5,633* new customers to the natural gas distribution network, which is 3.4 times more than in the same period of 2016 when 1,671 customers were connected.

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

Analysis of financial indicators

At the end of the reporting period, the Company's assets amounted to EUR 1.14 billion. Non-current assets accounted for 94.6% of the total assets. Cash and cash equivalents, i.e. the most liquid assets, amounted to EUR 4.2 million or 6.9% of the total current assets.

ESO's financial leverage ratios¹

	30 Jun 2017	31 Dec 2016
Debt ratio	0.46	0.44
Debt to assets ratio	0.23	0.20
Liabilities to equity ratio	0.85	0.79
Debt to equity ratio	0.43	0.35
Net borrowings, EUR million	259.4	208.4
Net borrowings to equity ratio	0.42	0.33
Long-term debt to equity ratio	0.23	0.26
General solvency ratio	1.18	1.27
Equity to assets ratio	0.54	0.56
Share price to earnings ratio*	16.81	8.34
Capitalisation, EUR million*	778.33	771.17

* Trade in shares of ESO on the stock exchange was started from 11 January 2016

¹ – description of indicators is presented in page 64

At the end of June 2017, ESO's borrowings amounted to EUR 263.6 million and accounted for 50.3% of total liabilities. Non-current borrowings amounted to EUR 141.3 million or 53.6% of total borrowings. At the end of the reporting period, ESO's current liabilities totalled EUR 237.1 million.

ESO's liquidity ratios

	30 Jun 2017	31 Dec 2016
Current ratio	0.26	0.44
Quick ratio	0.25	0.43
Cash ratio	0.02	0.06
Working capital, EUR thousand	-176,154	-103,528
Working capital to total assets ratio	-0.15	-0.09

ESO's current liabilities exceeded current its current assets by EUR 176.2 million. Current ratio is equal to 0.26. Quick ratio does not significantly differ from the current ratio, because inventories represent only 4.5% of total current assets. Borrowings, as reduced by the amount of short-term investments and cash and cash equivalents, are equal to EUR 259.4 million. The Company's net borrowings account for 42.0% 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 the six-month period of 2017.

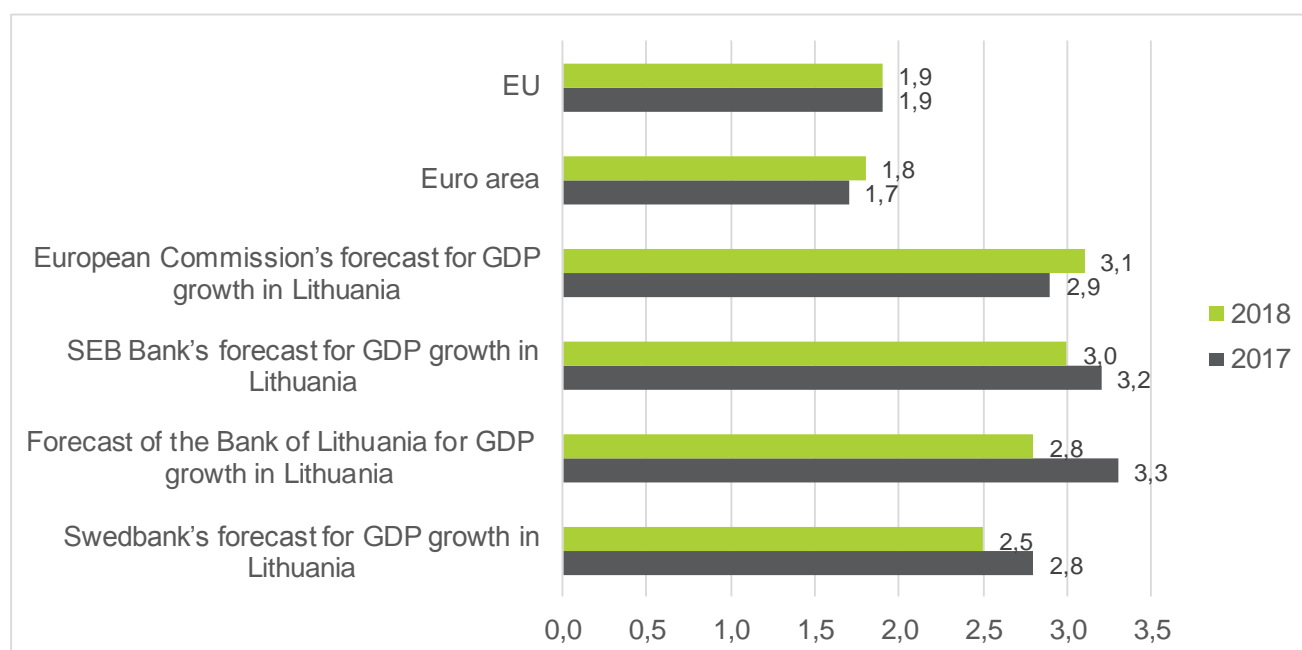
FACTORS DETERMINING THE COMPANY'S FINANCIAL INDICATORS

Operating environment

The major factor affecting electricity consumption patterns is the growth of the gross domestic product. The growth tendency of the gross domestic product in the European Union has been observed for a fifth year in a row. GDP growth in 2017 is forecast to rise to 1.9% for the EU as a whole and to 1.7% for the euro area, according to the European Commission's forecast issued in spring 2017. Meanwhile, in 2018 economic growth is expected to reach 1.9% and 1.8%, respectively.² The Lithuanian economy will grow by 2.9% in 2017 and 3.1% in 2018, according to the European Commission's forecast.³

In their forecasts, the economists of the Lithuanian banks also project that the Lithuanian economy will grow. According to the SEB Bank analysts' forecasts issued in May 2017, Lithuania's gross domestic product will increase by 3.2% in 2017 and by 3.0% in 2018.⁴ In November 2016, the analysts of Swedbank AB also published the Lithuanian economic outlook: they expect that the gross domestic product would grow by 2.8% in 2017 and 2.5% in 2018⁵. According to the June 2017 forecast issued by the Bank of Lithuania, the Lithuanian gross domestic product will grow by 3.3% in 2017 and by 2.8% in 2018.⁶

GDP growth forecast for Lithuania, the European Union and the euro area in 2017–2018, %



Electricity consumption is closely linked with the growth of a gross domestic product, therefore economic growth also impacts the performance of ESO. Taking into account macroeconomic forecasts for 2017 presented by economists as well as the actual results of operations of ESO, we hold the opinion that a higher volume of electricity will be distributed in 2017.

² Source of data: European Commission. European Economic Forecast Spring 2017

³ Source of data: European Commission. European Economic Forecast Spring 2017

⁴ Source of data: SEB Bankas. Macroeconomic Forecasts, May 2017

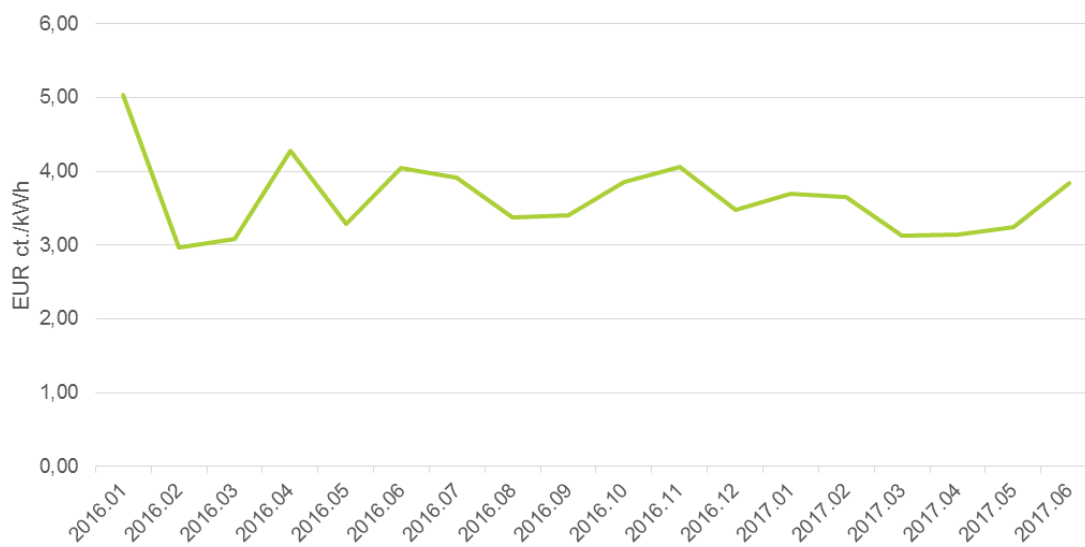
⁵ Source of data: Economic Review of Swedbank. November 2016

⁶ Source of data: Bank of Lithuania. Lithuania's Economic Development and Outlook, June 2017

Situation in the electricity market

In 2017, the average price of electricity in power exchange Nord Pool trade zone in Lithuania decreased by 26.6% in January, in February it increased by 22.9%, in March – increased by 1.6%, in April – decreased by 26.6%, in May – decreased by 1.2%, in June – decreased by 5.2% as compared to respective months of 2016. The average price in the first half of 2017 and in the first half of 2016 was equal to 2.27 ct/kWh and 2.07 ct/kWh, respectively.⁷

Average monthly prices at the electricity exchange



The Company's strategy and objectives

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

The strategy outlines a further enhancement of operational efficiency and reduction of operating expenses by more than 10% by 2020. A safe and reliable provision of electricity and natural gas distribution services will be achieved by making investments, which are estimated to be increased by 45% by 2020, for the improvement of technical conditions of electricity and natural gas networks.

The Company will focus on significantly improving the reliability of the electricity distribution network until 2020. The system average interruption duration index (SAIDI with *force majeure*) for the electricity network is expected to drop down to 87 minutes and the system average interruption frequency index (SAIFI with *force majeure*) will decrease by 0.94 time by the year 2020. The Company will also aim to maintain high reliability indices of the natural gas distribution network.

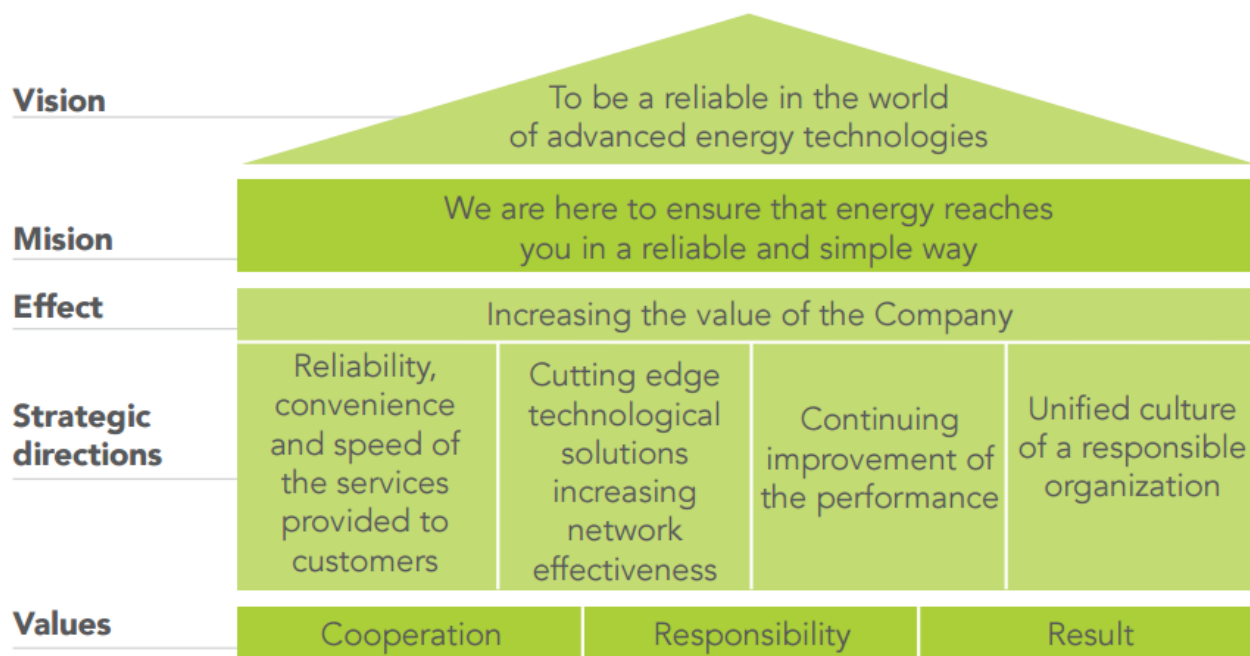
By 2020, the Company plans to shorten the time for new customer connections to the natural gas distribution network by half: from 177 to 85 days. The time for new customer connections to the electricity distribution network is expected to be shortened from 66 to 50 days. The shortening of the process of new customer connection to the electricity network will

⁷ Source of data: Electricity Market Review, June 2017 [interactive]. Viewed on 7 Aug 2017. Access through the internet: <http://www.litgrid.eu/index.php/elektros-rinka/rinkos-apzvalgos/798>

improve the country's ranking in the World Bank's index *Doing Business* as getting electricity is one of its component indicators.

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

ESO's operational strategy scheme



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

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

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

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

Stakeholders

In order to balance the implementation of the strategic directions the Company first takes into account the interests and expectations of stakeholders. During the internal and external analysis the following key stakeholders were identified: customers, society, employees, regulators and contractors. The Company's strategic directions should reflect interests of

key stakeholders. The presented scheme shows ESO stakeholders' needs conveyed through the strategic directions. Each strategic direction is associated with one or more stakeholders. According to this rationale, specific objectives and indicators are provided to monitor the fulfilment of stakeholders' interests.

Investment plans

Modernisation of the electricity distribution network

On 3 February 2015, LESTO announced the investment plan for 2015–2025. Over the next ten years ESO, which continues the activities of LESTO, plans to completely modernise the distribution network. In order to ensure reliable, safe and intelligently managed services, the Company plans to invest EUR 1.7 billion in the modernisation and renewal of the network by 2025.

Investments aimed at increasing the resistance of the network to weather conditions will make up a major share (EUR 511 million) of the total investments. This involves the replacement of overhead lines with underground lines or isolated lines. Over the next 11 years, the portion of such lines is expected to increase from 25% to 40% or underground and isolated lines with the length of 18 thousand kilometres are planned to be constructed. Investments in the programme *Safe and Reliable Network* are expected to reach EUR 426 million. In the course of the programme implementation, unsafe transformers, cable lines and distribution devices will be replaced with advanced equipment which meet the requirements of modern standards.

Investments aimed at improving the quality of the electricity supply voltage are expected to reach EUR 132 million. This will allow to solve the problem of a poor supply voltage for 41 thousand customers by fixing nearly 9.1 thousand kilometres of lines affected by voltage fluctuation. ESO plans to allocate EUR 34 million for the implementation of the smart grid projects. Seven projects are expected to be implemented by 2025 including the automation of the grid, pilot projects of smart reading devices, a single dispatcher centre and installation of the system for the management of the distribution network.

The remaining investments will be allocated for the connection of new customers, investments in IT systems and other measures.

Modernisation of the gas distribution network

On 13 December 2015, Lietuvos Dujos AB announced a ten-year investment plan projecting that its investments in the network will amount to EUR 141.1 million over the next ten years. ESO, which continues the activities of Lietuvos Dujos AB, plans to allocate the largest portion of investments for the development of the distribution system, reconstruction of distribution pipelines and modernisation of the systems of remote data collection and control.

The 2016–2025 investment plan indicates ten directions for investments. The largest portion of investments (EUR 58 million) is earmarked for the development of the gas distribution system, which is necessary due to a growing number of new natural gas customers. Investments in the modernisation of the remote data collection and control systems are expected to amount to nearly EUR 21 million, and EUR 20.4 million is planned to be allocated for the reconstruction of the gas distribution pipelines. The Company plans to allocate EUR 11.7 million for the modernisation of the gas metering system within ten years. Investments in the reconstruction of the gas pressure regulating equipment are to amount EUR 7.7 million, investments in the replacement and additional installation of closing devices – EUR 6.5 million, and investments in the reconstruction of corrosion protection equipment for the pipelines – EUR 1.2 million. Investments for the gas distribution reliability projects are projected to reach EUR 3.5 million and EUR 0.66 million is planned to be assigned to the buyout of the gas distribution pipelines. The Company plans to allocate EUR 3.9 million for the modernisation of technological processes.

Currently, the 10-year investment plan of ESO is being prepared which is planned to be presented in the third quarter of this year.

Risks and uncertainty factors and their management

Risk management policy

The Company's risk management system is based on the principles of COSO (the Committee of Sponsoring Organisations of the Treadway Commission), ERM (Enterprise Risk Management), AS/NZS ISO 31000:2009 (Risk management – Principles and guidelines) and ISO/IEC 27005:2011 (Information technology – Security techniques – Information security risk management).

ESO understands risk as the impact of uncertainty on the achievement of objectives. ESO's operational objectives are understood broadly and include both general objectives related to the long-term strategy and action plan, as well as the specific objectives relating to individual business processes of the Company. The Company's risk management is based on the assessment of a potential adverse or unused positive impact on the goals and results of the Company and its business functions (processes). Risk identification, analysis, assessment and management are carried out systematically in accordance with the uniform risk management policy applied by the companies of the Lietuvos Energija UAB group and other internal regulations concerning risk management, which are directly applicable to all companies of the group.

The main risk management principles of ESO are as follows:

- risk management creates and protects the value created, management scenarios and measures are selected in such a way as to contribute to the achievement of the Company's objectives and performance improvement;
- risk management is integrated in the Company's business processes and linked to the operational planning process, the monitoring of the Company's performance ensures a continuous monitoring of the risk level trends;
- risk management is an integral part of the decision-making process;
- risk management is adapted to the internal and external environment as well as the nature of the risks;
- risk management is systematic, structured, and timely;
- risk management is dynamic, responsive to change, and repetitive;
- risk management process is transparent and comprehensive. Personnel at all levels of the Company are involved in this process. Suitability and reliability are ensured by the Company's Board of Directors, which carries out the functions of a risk management committee, whereas at the Lietuvos Energija UAB group level, suitability and reliability are ensured by the Risk Management Supervision Committee of the Supervisory Council of Lietuvos Energija UAB.

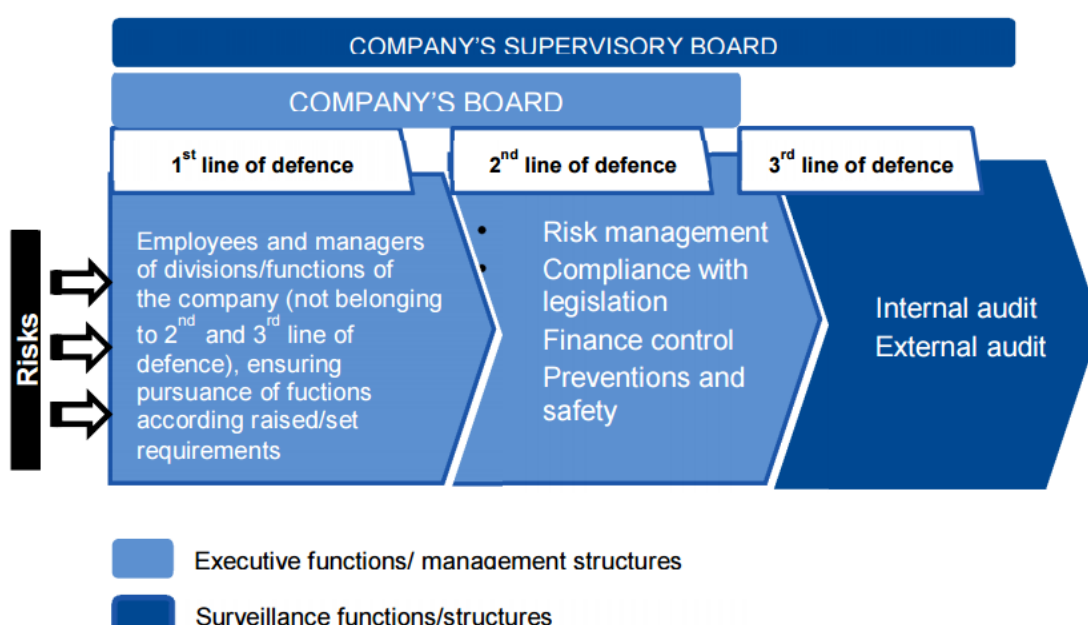
The periodic risk identification and assessment cycle, which measures the residual risk associated with the results of operational functions (processes) and benchmarks strengthening of risk management measures, is held annually during the planning process for operational objectives. Risks (risk factors) that may have an adverse effect on the Company's business objectives and results are determined during this cycle. The risks identified are assessed according to their probability of occurrence and a potential impact on performance goals and results. This way risk management measures are selected for the risks evaluated whose integrated probability and impact assessment exceeds the risk tolerance level. The implementation of the measures should reduce the probability and (or) the impact so that the risk impact on the objectives and results is within the risk tolerance (risk appetite) range. Risk can also be evaluated spontaneously, before making a significant decision for the Company or a significant change in the conditions of internal or external circumstances. Risk management measures are targeted on the avoidance, mitigation, transfer and (or) taking over of risks in view of their impact on the implementation of the Company's objectives, business continuity, taking into account costs of risk mitigation measures as well as their effectiveness. The Company aims to manage all risks that may have a critical impact on performance goals and business continuity, regardless of their probability. Residual risk compliance with risk tolerance, the emergence of new risks, and compliance of risk management measures' introduction with the risk management plan are

reviewed on a quarterly basis. The Company's employee responsible for risk management coordinates the Company's risk management system as well as develops the risk management process. The establishment of measures, analysis and assessment of their impact on the Company's business function (process), preparation and implementation of an appropriate risk management action plan are the responsibility of the owner of a business process or the head of a department, the results of which may be negatively affected by these risks.

Risk management and control model

In managing and controlling risks arising from its activities, the Company applies the three lines of defence principle by establishing a clear segregation of duties for risk management and control between the Company's management and supervisory bodies, structural departments or functions (see the figure below).

Risk management and control scheme



The first line of defence includes executive personnel and employees of the Company's departments (other than those included in the second and third lines of defence) who perform operational functions falling within their competence and (or) ensure the fulfilment of operational functions according to the requirements set for these functions, i.e., executive personnel and employees who conclude agreements and (or) organise and implement the Company's main activities, management and support processes (other than those included in the second and third lines of defence). In performing activities that fall within their competence and aiming to achieve the set objectives, employees and executive personnel of the departments/functions included in the first line of defence assume risks related to a respective activity/process and are responsible for the management of these risks and implementation of internal control measures within the processes which fall within their competence.

The second line of defence includes the Company's functions/departments related to risk management, regulatory compliance, financial control, prevention and security:

- A person responsible for risk management is responsible for a proper development of the risk management and control system, the organisation of a risk management process and risk management control;
- The Group's Legal Service helps to ensure that decisions of the Company's executive personnel and employees comply with regulatory requirements;
- The Finance Department ensures the control of a proper use of financial resources;
- The Prevention Division is responsible for the organisation of the installation and control of preventive risk management measures related to the risk of abuse, physical security, protection of information and property.

The Company's Board of Directors, in performing the functions of a risk management committee, is responsible for a proper risk management and control within the first and second lines of defence. The third line of defence includes: the Internal Audit Department of Lietuvos Energija UAB and the external audit firm. The Internal Audit Department assesses the effectiveness and efficiency of risk management and internal control and makes recommendations for the improvement of risk management and control. The Company's hired external audit firm delivers an opinion on the correctness of the Company's financial statements, and risk management and internal control effectiveness at least once a year. The head of the Internal Audit Department is accountable to the Supervisory Council of Lietuvos Energija UAB and regularly informs the Company's Board and the Supervisory Council on the effectiveness of the Company's risk management and internal control and implementation of the internal audit recommendations. The Company's employee responsible for risk management regularly provides summarised information on risk management and control to the head of risk management function at Lietuvos Energija UAB. The Risk Management Supervision Committee of the Supervisory Council of Lietuvos Energija UAB monitors the effectiveness of the risk management and control system at all three lines of defence according to the established competence.

Key operational risks and their management

The key risks to which the Company is exposed are:

- Strategic risk;
- Compliance / legal risk;
- Operational risk;
- Financial risk.

Strategic risk management

Strategic risk. In the scope of the Company's activities, risks in this category are associated with the planning of activities, unfavourable or erroneous operating decisions, improper implementation of decisions or lack of/delayed response to political, regulatory or technological and (or) scientific (innovation applicability) developments. Market, reputation, damage to the environment and natural resources risks arising from improperly defined strategic directions may also be attributed to this risk category depending on the source of risk. An important macroeconomic risk factor is the generation (or import) price of electricity occurring in the market. This price directly influences the cost of electricity. The price of public supply of electricity is being regulated and fixed irrespective of the electricity price prevailing in the market at that time.

Revenue and profit earned by the Company from distribution and supply operations directly depend on the volumes of electricity distributed/consumed. The domestic macroeconomic situation has a direct impact on electricity sales, connection of electricity and gas equipment of new customers and customer solvency. This risk is managed by the Company conservatively by planning energy consumption and sales revenue.

For the purpose of operating and developing its electricity and gas distribution network, ESO purchases the distribution network equipment and materials, the prices of which depend on market trends. Costs related to the operation of and investments in the network are subject to prices of these goods. These costs affect financial performance of ESO. In order to optimise investments and costs for the network's operation and development, the Company uses the investment ranking method, which is based on objective criteria corresponding to the Company's priorities for the operation and development of the electricity distribution network.

Political risk factors are also important for Company's activities. Electricity distribution and supply is regulated by the Lithuanian Law on Electricity and gas distribution is governed by the Lithuanian Law on Natural Gas. Amendments to the mentioned laws and other related legal acts may affect ESO's activities and results of its operations. The State's policy is important in relation to energy prices. Service prices are regulated and price caps are set and controlled by the National Control Commission for Prices and Energy. The Commission's decisions affect ESO's performance. In order to reduce the

impact of the mentioned risk on its operating results, the Company analyses international practice on the regulation of energy companies and, if necessary, submits proposals to legislative state authorities.

In performing the functions of electricity and natural gas distribution, public and guaranteed supply of electricity, the Company seeks to comply with the highest standards of reputation. This objective is reflected by the Company's mission, vision, strategic objectives and values. The heads of the Company pay great attention to the communication of the Company's mission, vision, values and strategic objectives to employees. In addition, the Company carries out social projects consolidating the Company's image as a socially responsible company.

Compliance / legal risk management

Compliance / legal risk is understood as the risk arising from a changing regulatory, legal environment, or validation of specific changes in specific areas, but they are not properly or promptly transferred to the Company's internal documents. Or, with regard to the Company's activities, there is no possibility for such requirements to be implemented promptly or fully. Also, this risk category can be associated with the risk of compliance with a variety of standards and certificates. This is the risk of an increase in losses, loss of reputation, and (or) decrease in confidence, which may be caused by external environmental factors or internal factors (such as violations of internal legal acts and ethical standards, cases of abuse involving employees, etc.).

The Group's Legal Service is responsible for the management of compliance / legal risk. In order to minimise the compliance / legal risk, the Group's lawyers participate in the decision-making process of the Company's management, preparation of internal legal acts and agreements.

Operational risk management

Operational risk is understood as the risk of incurring losses/not earning revenue planned, failing to safeguard the Company's ability to continue its business activities or posing threat to employees and (or) the environment, as well as losing trust due to improper or unfulfilled internal control procedures, improperly organised and managed processes, employee errors and (or) illegal actions and information system failures or those resulting from external events. This category includes risks associated with an improper management of human resources, the organisation's working environment, failure to ensure occupational safety and health, civil, physical protection, fire prevention, inadequate/insufficient information technologies, failure to ensure information security, improper contract management, inefficient internal control systems, failure to manage the quality of products/services/works, failure to ensure customer service quality, damage to the environment or inefficient processes. The management of risk related to interruptions in energy supply plays a very important role in the Company's activities. Reliability of electricity distribution is one of the major factors describing the activity of the distribution network operator, which is assessed taking into account the duration and frequency of electricity supply interruptions (SAIDI, SAIFI). The unpredictable external factors, like natural disasters, cause the risk of failing to ensure a reliable supply of electricity to consumers, the risk that ESO may not receive expected amount of revenue and that the elimination of breakdown consequences would require additional maintenance expenses. The Company has developed comprehensive emergency management procedures for the management of this risk. Aiming to increase the quality of electricity and reliability of its supply ESO plans to allocate a major part of its total investments for the restoration of the distribution networks, reconstruction of transformer substations and installation of new, long-serving, modern, high quality electricity and natural gas equipment. The Company is also looking for technological solutions that would ensure a day-to-day monitoring of the condition of the distribution networks being operated, rapid elimination of breakdowns and that would prevent electricity and natural gas supply interruptions.

Financial risk management

Credit risk is the risk of incurring losses due to customers' and (or) other counterparties' failure to fulfil their financial liabilities to the Company. The Company's credit risk arises from fixed-term and indefinite-term funds held in bank accounts, investments in debt securities, consumers' obligations to pay for electricity consumed. The Company has no significant concentration of credit risk, because a large number of consumers of energy leads to a low concentration of credit risk.

The priority objective of investing activities is the ensurance of security of funds and maximisation of return on investments in pursuance of this objective. The Company applies the established consumer debt management procedures to manage credit risk arising from delay of energy consumers to pay for services rendered. The Company does not issue guarantees to secure the fulfilment of obligations of third parties.

Market risk is the risk of incurring losses or the risk of loss of future net income due to changes in interest rates, foreign exchange rates, prices of shares and goods traded on stock exchanges.

Interest rates risk

The Company's income and operating cash flows do not, in principle, significantly depend on changes in market interest rates. All the Company's loans and borrowings bear variable interest rate linked with EURIBOR. The Company manages interest rate risk by using derivative financial instruments for interest rates.

Foreign exchange risk

All monetary assets and liabilities of the Company are denominated in the euros.

INFORMATION ON THE COMPANY'S AUTHORISED SHARE CAPITAL AND SECURITIES

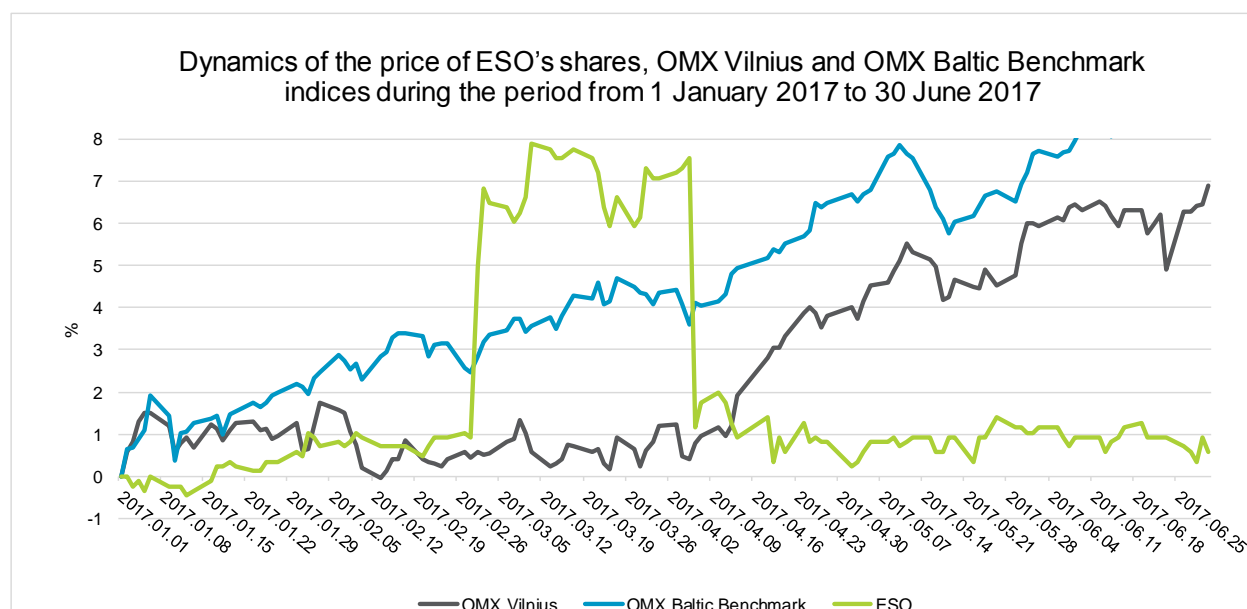
Share price dynamics and turnover

Dynamics of the price of ESO's shares and turnover in shares during the period from 1 January 2017 to 30 June 2017



ESO is the largest company listed on the NASDAQ Baltic stock exchange in terms of the market capitalisation. On 30 June 2017, ESO's capitalisation amounted to EUR 778.33 million. During January–June 2017, the price per share increased by 0.58%. During January– June 2017, the lowest price of ESO's shares was recorded on 13 January 2017 and it was equal to EUR 0.858. The highest price of ESO's shares was observed on 13 March 2017 and it was equal to EUR 0.93. During January– June 2017, the average weighted price per share amounted to EUR 0.881.

Dynamics of the price of ESO's shares and OMX Vilnius and OMX Baltic Benchmark indices during the period from 1 January 2017 to 30 June 2017



From the beginning of 2017 until the end of June, the OMX Vilnius index increased by 6.91%, the OMX Baltic Benchmark index rose by 10.24%, while the price of ESO's shares rose by 0.58% of its initial value.

Structure of the authorised share capital

Type of shares	Number of shares, units	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 June 2017, the Company's authorised share capital amounted to EUR 259,442,796.57. All the shares issued by the Company are fully paid.

Information on 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.

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

Shareholders

As at 30 June 2017, the total number of the Company's shareholders was 8,816.

During the reorganisation of LESTO AB and Lietuvos Dujos AB, ESO took over assets, rights and obligations of these companies. Consequently, all entities that held shares of LESTO AB and Lietuvos Dujos AB as at 11 December 2015 became the shareholders of ESO.

Shareholders owning more than 5% of the issuer's authorised share capital as at 30 June 2017

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

Rights and obligations conferred by the category of shares

Ordinary registered shares confer equal rights. Property and non-property rights conferred by shares are defined by laws, other legal acts and the Company's Articles of Association.

Information about significant related-party transactions: amount of such transactions, the nature of the related party relationship and other information about the transactions necessary for an understanding of the financial position of the Company, if such transactions are material and have not been concluded under normal market conditions
Information on related-party transactions is presented in notes to the interim financial statements for the first half of 2017.

Significant agreements in which the Issuer is a party to and which would come into effect, change or terminate as a result of the change in the control of the Issuer and their impact, save for the cases when the disclosure of such agreements would cause major damage to the Issuer

The Company has concluded no significant agreements which would come into effect, change or terminate as a result of the change in the control of the issuer.

Information on harmful transactions concluded on behalf of the Issuer during the reporting period that had or in future could have a negative impact on the Issuer's operations and/or results of operations, as well as information on transactions concluded in a situation of conflict of interests between the duties of the Issuer's management personnel, controlling shareholders or other related parties to the Issuer and their private interests and/or other duties. The disclosure of the nature, terms of significant transactions, as well as the nature of conflicts of interests and their impact on the transaction is required.

During the reporting period the Issuer did not conclude any harmful transactions (that are not in compliance with the Company's objectives, current normal market conditions, damage interests of shareholders or other groups of individuals, etc.) nor any transactions in a situation of conflict of interests between the duties of the Issuer's management personnel, controlling shareholders or other related parties to the Issuer and their private interests and/or other duties.

Amendment procedure of the Articles of Association

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

Restrictions on transfer of securities

According to the data of 30 June 2017, no restrictions on transfer of securities were imposed during the reporting period.

Subsidiaries

As at 30 June 2017, ESO had no subsidiaries.

Information on the Company's branches and representative offices

The Company has no branches and representative offices.

Information on the committees established at the Company

The Company has no committees established.

Number and nominal value of own shares acquired and held by the Company, and the percentage of authorised share capital they represent

ESO did not acquire its own shares prior to and during the reporting period of 2017.

Number and nominal value of own shares acquired and disposed over the reporting period, and the percentage of authorised share capital they represent

The Company neither acquired nor disposed of its own shares during the first half of 2017.

Information on payment for own shares, provided those shares were acquired or disposed of in exchange for a certain consideration

The Company neither acquired nor disposed of its own shares during the first half of 2017.

The reasons for acquisition of own shares by the Company over the reporting period

The Company did not acquire own shares during the first half of 2017.

Dividends

During the extraordinary general meeting of shareholders held on 26 September 2016, a decision was made to pay out dividends to the Company's shareholders for the period from 1 January 2016 to 30 June 2016. Profit appropriated for the payment of dividends amounted to EUR 12.5 million. Dividends per share for the six-month period from 1 January 2016 to 30 June 2016 amounted to EUR 0.014.

During the ordinary general meeting of shareholders held on 24 March 2017, a decision was made to pay out dividends to the Company's shareholders for the period from 1 July 2016 to 31 December 2016. Dividends per share for the six-month period amounted to EUR 0.05786.

On 27 December 2016, the Board of Lietuvos Energija UAB, a company holding 94.98% of the Company's shares, approved the dividend policy of the Lietuvos Energija group of companies which establishes the uniform net profit appropriation principles to be applicable to all companies of the group. In accordance with the new procedure the Company's proposal regarding the allocation of dividends will depend on the Company's ratio on return on equity, financial capacities to pay dividends, implementation of economic projects important to the State and other circumstances

Information on agreements with intermediaries of public trading in securities

The authorised manager of securities accounts of ESO is SEB Bankas AB.

The contact details of SEB Bankas AB:

Gedimino Ave. 12, LT-01103 Vilnius;

Telephone: 1528 or +370 5 268 2800.

CUSTOMER SERVICE, SERVICE ASSESSMENT

Number of customers being serviced

On 30 June 2017, ESO had 1.6 million (30 June 2016: 1.59 million) contracts on purchase and sale of electricity concluded with private customers and 70.4 thousand (30 June 2016: 67.16 thousand) contracts on electricity supply or distribution services concluded with commercial customers

As at 30 June 2017, approx. 569.3 thousand of private customers and approx. 10 thousand of commercial customers were connected to the ESO's gas distribution networks for whom the provision of a distribution service was ensured.

Development of service channels

In the first half of 2017, the number of customers using remote service channels increased (a self-service website www.manogile.lt and customer service short number 1802), and customer flows to the customer service centres in smaller towns declined. As at 30 June 2017, the self-service website www.manogile.lt had more than 460 thousand registered private customers.

In the first half of 2017, more than 587 thousand (around 685 thousand in the first half of 2016) customers were serviced at short customer service number 1802.

In the first half of 2017, more than 102 thousand (136 thousand in the first half of 2016) customers were serviced at seven customer service centres (at five from 1 March 2017) in the major Lithuanian cities.

Operation and development of electricity and gas metering devices

In the first half of 2017, ESO replaced 55.804 thousand units of metering devices that no longer meet the meteorological requirements, whereof 45.691 thousand units of electricity meters and 10.113 thousand units of natural gas meters. The Company installed 11.075 thousand units of electricity metering devices and 2,202 thousand units of natural gas metering devices for new customers.

By regularly renewing metering devices being operated, the Company and its authorised persons inspected more than 457 thousand units of electricity meters and more than 47 thousand units of natural gas meters during the first half of 2017. During the first half of 2017, the Company also installed 739 controlling metering devices in 10 kV voltage network, thereby increasing their number up to 2,113. This accounts for 61% of the total 10 kV voltage network.

By investing in the modernisation and automation of the electricity and natural gas metering equipment, in the first half of 2017 ESO connected 3,761 electricity metering devices installed at the objects of commercial customers to the existing automated data reading systems. As a result, the number of operated electricity meters that are scanned remotely reached 35.132 thousand and the number of respective natural gas meters remained unchanged and is equal to 1,212 thousand.

The automation of metering devices allows to automatically submit bills for electricity consumed to commercial customers and establish a precise amount of natural gas consumed by a commercial customer.

The cost-benefit analysis of the results of the pilot smart metering project was started in January 2017 and a decision will be made whether the smart metering should be installed in the entire territory of Lithuania. The cost-benefit analysis is expected to be completed in autumn of 2017.

From the beginning of 2017, the Company started the provision of a new service relating to the automation of electricity metering devices. Customers who have ordered the service receive their data remotely every hour. There is also no need to declare readings and more possibilities are provided to understand energy consumption habits, make rational energy saving decision. The self-service website www.manogile.lt provides customers with exact data on the time of electricity consumption and quantity consumed.

Management of customer settlements

ESO has provided customers with the possibility to pay for electricity according to the average quantity of electricity consumed. Payments according to the average consumption helps plan expenses evenly, because the same amount is paid every month despite seasonality and changes in the amount of electricity consumed. In addition, customers possessing several residential properties have the ability to pay for electricity consumed at several residential properties owned by the customer by making a single payment (a single invoice can be issued). Monthly payments for electricity are calculated according to the previous average quantity of electricity consumed by the customer (in kilowatt hours, kWh), which is adjusted in view of the customer's declared readings or data received during a periodic inspection of meters. Customers can find out and check the applied average amount to be paid at the self-service website www.manogile.lt, by calling the customer service number or visiting customer service centre *Gilė*. The total of 21% of ESO's customers pay according to VAT invoices issued, whereof 12% make payments according to electronic invoices issued.

Market liberalisation

As at 30 June 2017, independent suppliers supply electricity to 69,591 objects of commercial customers. In accordance with the Plan on the Development of the Lithuanian Electricity Market, which was approved by the Government of Lithuania on 8 July 2009, an independent electricity supplier was chosen as at 30 June 2017 by:

- About 94% of objects whose admissible power was 400 kW and more;
- About 87% of objects whose admissible power was 100 kW and more;
- About 76% of objects whose admissible power was 30 kW and more;
- About 56% of objects whose admissible power was less than 30 kW.

The guaranteed provider (ESO) continues to supply electricity to the remaining objects.

CORPORATE SOCIAL RESPONSIBILITY

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

The Company shares the responsibility to contribute to the welfare of society through a secure continuous energy distribution and supply, active participation in public education on the issues of safe and rational use of energy, installation of new, promising and efficient technologies, taking care of customers, employees, communities and promotion of awareness of contractors and suppliers.

Our priorities are:

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

Environmental protection

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

Conservation of resources. The Company has over 1.6 million customers and encourages them to abandon paper bills and utility bills and use remote service channels. More than 90% of ESO's commercial customers are already using electronic invoicing. Around 89% of private customers and around 96% of commercial customers are informed about an incurred interruption in supply of electricity and expected duration of its elimination by sending free-of charge notifications by SMS messages and emails.

Public initiatives

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

Information security campaign *Safe Energy*. In 2017 the Company plans to continue a large-scale campaign launched in spring 2016, which is aimed at a safe use of electricity and gas, theft prevention of ESO technological property, provision of useful advice to the general public. In mass media – television, radio, newspapers and the internet – the campaign aimed at informing the public about safety issues related to fieldworks, with emphasis placed on the underground electricity and gas network, as well as giving educational advice on safe behaviour during storms. The campaign will also continue to focus on the prevention of thefts that cause electricity supply interruptions (educational material, videos, articles). Targeted meetings with the representative of local police, community and mass media are planned in the affected regions.

In autumn 2016, the campaign on safe heating with gas was carried out, during which educational material was provided on a proper preparation for the heating season and regular maintenance of gas equipment. The campaign was launched through the internet by using targeted educational charts and other visual means. A public event for the mass media representatives was organised in cooperation with the State Energy Inspection, during which the work of the ESO's dispatch centre and the gas emergency response service was presented and the main issues relevant for residents using natural gas were stressed.

Promotion of energy efficiency – *To the Extent Needed*. 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 programs. The project is aimed at creating traditions of rational living by looking for solutions on rational use of electricity, with a particular focus on consumption by businesses and industrial entities.

In autumn 2016, the cycle of free-of-charge events *To the Extent Needed by Industry 2016* was organised in five regions: Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys. During these events practical advisory presentations on the application of energy efficiency solutions in business were delivered.

- **Green Protocol.** This is an agreement initiated by the Company (in its sixth consecutive year), the purpose of which is that the signatory companies and organisations confirm that they accept and agree with environment-friendly ideas:
 - To implement energy efficiency measures;
 - To contribute to environmental protection and greenhouse gas (CO₂) emissions reduction;
 - To encourage employees, colleagues, relatives to contribute to the creation of energy-saving society.

In 2016, 25 new companies joined the initiative (the total of 205 companies participate in this initiative).

- **Conference on the rational use of energy.** *Energy Efficiency Solutions for Competitive Business*

On 7 February 2017, the business conference, which was initiated by ESO and organised in cooperation with business newspaper *Verslo Žinios*, was held for the seventh time. During the event experts from different industry sectors shared their insights about a sustainable energy consumption with more than 200 conference participants. Practical energy efficiency measures, specific electricity and gas infrastructure solutions implemented by companies and other relevant issues were discussed at the conference. According to the survey of the event's participants, the percentage of participants whose expectations for the conference were met increased by three percentage points (from 93% to 96%).

The annual energy efficiency conference is part of the energy saving initiative *To the Extent Needed* launched by ESO. The aim of this event is to gather energy specialists, promoters of energy efficiency solutions, business and academic communities to enable higher efficiency of business activities with the help of discussions and valuable experiences, steer resources to the right direction and protect environment.

Every year during the event awards are announced and presented to the companies, signatories to the Green Protocol, which conducted their activities in the most efficient manner in terms of energy. This year, Orion Global Pet UAB, a company based in Klaipėda and being a member firm of the global network of Indorama Ventures, was awarded for innovative energy efficiency solutions and excellent results achieved in energy saving. The presentation on the company's experience was also delivered by technical director of this large PET chips production facility Arūnas Jonuška. Energy saving measures applied allowed reducing the quantity of electricity consumed for the production of one ton of products by 45% over the period of 10 years. The overall quantity of electricity consumed by this facility also declined by more than a third during that period.

Cooperation with the Lithuanian libraries. In March 2015, the agreement was signed with Martynas Mažvydas National Library of Lithuania whereby cooperation is continued for the purpose of implementing the social project *Libraries for Innovation 2* in order to ensure a further expansion of computerised locations of self-service website www.manogile.lt.

National educational programme *Sustainable School*. In order to raise awareness of schools and contribute to the creation of a sustainable, energy-efficient and environmentally-friendly society, ESO together with partners invited educational institutions of the country to participate in a one-year educational programme *Sustainable School*. The project was elected as the best social responsibility initiative of 2014 during the Swedish business award ceremony held in 2015. The implementation of the project is being continued (see more at www.darnimokykla.lt). The project *Sustainable School* is implemented by public institution Pakuočių Tvarkymo Organizacija, companies Schneider Electric Lietuva UAB, Mano Būstas LT UAB and the National Consumer Federation.

Sponsorship. ESO provides financial support to projects, programmes and activities that are significant to the society only in a coordinated manner through the sponsorship fund established at the level of the group of Lietuvos Energija companies. The fund's budget is comprised of contributions of all companies of the group representing up to 1% of the consolidated net profit of the group companies. Applications to receive support from the fund are submitted once a year following the established procedure and deadlines.

Market, customers and investors

ESO aims for the maximum possible transparency in its relations with all market participants and compliance with the highest ethical standards and principles in its own activities. The Company cares to ensure that its activities bring economic and social benefits to society.

Updated agreement with the Lithuanian National Consumer Federation. A cooperation is being planned in disseminating information to residents about the rational use of energy and by organising various related initiatives.

Relationships with investors. We strive to maintain close relationships with our existing and potential investors and to ensure that they all have equal access to information, which is regularly updated. In January 2016, three awards were granted for the progress achieved by Lietuvos Dujos and LESTO in strengthening relationship with investors at the stock exchange event Nasdaq Baltic Market Awards 2015.

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, UAB.

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

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

Increase of transparency in public procurements

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

In order to ensure a transparent and open procurement process and open dialogue, VAC invites suppliers to attend communication meetings, during which high-value procurements planned by the organisation are presented.

ESO also publishes technical specifications projects for all procurements, except for low-value purchases, through the means of the Central Public Procurement Information System (CVPIS). Information on their announcement is also presented on the Company's website, procurement reports and information about ongoing purchases are also being published.

Accountability

ESO is an active member of the Lithuanian Responsible Business Association (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 responsibility progress reports, which are presented on its website under the section for investors and the Global Compact website profile (www.globalcompact.org).

The latest report of the organisation was [published](#) on 28 April 2017.

THE COMPANY AND ITS MANAGEMENT BODIES

The Company's organisational structure

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

Energijos Skirstymo Operatorius AB started its operations on 1 January 2016 after the merger of LESTO and Lietuvos Dujos. ESO is part of Lietuvos Energija UAB, a state-owned group of companies, which is one of the largest energy company groups in the Baltic countries. On 1 January 2016, 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 operates 121,698 kilometres of electricity lines: 78.7% of them consist of overhead electricity lines, and 21.3% electricity cables. The Company also operates more than 8 thousand kilometres of the gas distribution pipelines.

The main functions of ESO are electricity supply and distribution, distribution of natural gas, guaranteed supply of electricity and gas, connection to electricity and gas supply, operation, maintenance, management and development of electricity and gas distribution networks ensuring their safety and reliability. The geographical market of ESO is Lithuania.

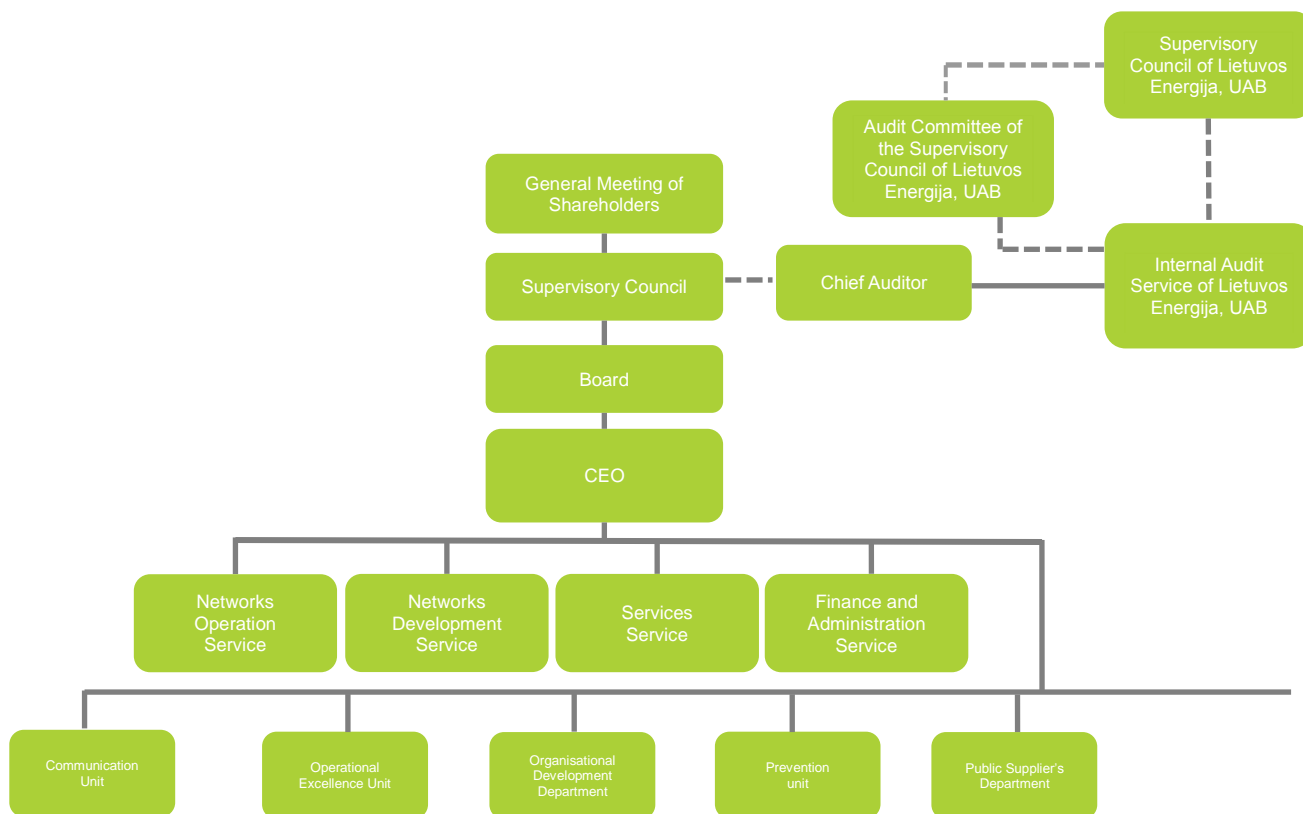
Main information about related companies

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

	Technologijų ir Inovacijų Centras UAB	Verslo Aptarnavimo Centras UAB
Address	A. Juozapavičiaus g. 13, Vilnius	P. Lukšio g. 5B, Vilnius
Registration date	2013 m. gruodžio 4 d.	2014 m. liepos 30 d.
Company code	303200016	303359627
Telephone	(8 5) 278 2272	(8 5) 259 4400
Fax	(8 5) 278 2299	(8 5) 259 4401
Email	info@etic.lt	vac@le.lt
Website	www.etic.lt	http://vac.le.lt
Ownership interest held by ESO, %, at 1 January 2017	29.01	22.25
Ownership interest held by ESO, %, at 30 June 2017	29.01	22.25
Principal activities	Provision of information technology and telecommunication services for the companies of the energy sector	Provision of services of organisation and performance of public procurements, accounting, administration of employment relationship, customer service, human resources administration, legal services, consultations and trainings on operational efficiency

ESO's management structure

In view of the strategic objectives set for the organisation and aiming for higher efficiency in the management of operations the Company changes its organisational structure from 1 May 2017.



ESO's management

At the date of signing of the report, the Company's Articles of Association stipulated that the Company's management bodies include the General Meeting of Shareholders, a collegiate supervisory body – the Supervisory Council, a collegial management body – the Board, and a single-person management body – the Chief Executive Officer.

The Lietuvos Energija, UAB group equal opportunities policy has been introduced at the level of the Lietuvos Energija, UAB group ("the Policy"). The Policy regulates the principles on the implementation of equal opportunities and surveillance of implementation of these principles as well as defines measures for the implementation of these principles within the companies of the Lietuvos Energija, UAB group. The principles of equal opportunities set in the Policy are applicable not only with respect to the recruitment of all employees, but also to the selection of members of the companies' management and supervision bodies.

General Meeting of Shareholders

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

In the first half of 2017, one ordinary general meeting of shareholders was held. The ordinary general meeting of shareholders held on 24 March 2017 was attended by the Company's CEO Dalia Andriulionienė, Finance and Administration Service Director, Board Member Augustas Dragūnas and Member of the ESO's Supervisory Council Ilona Daugėlaitė.

The Company's Supervisory Council

The Supervisory Council of ESO is a collegial supervisory body.

The competence of the Supervisory Council, 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 Council 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 the ESO's Supervisory Council. The Chairman of the Supervisory Council is elected from the members of the Supervisory Council.

During the reporting period, the composition of the Supervisory Council remained unchanged. At the date of signing of the report, the Company's Supervisory Council had the following members: Chairman of the Supervisory Council Delius Misiones and members Ilona Daugėlaitė and Petras Povilas Čėsna (an independent member). The term of office of the Supervisory Council expires on 3 December 2019.

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



Dr Dalius Misiūnas (born in 1978)
Chairman of the Supervisory Council

In this position from:
3 December 2015

End of term of office:
3 December 2019



Ilona Daugėlaitė (born in 1970)
Member of the Supervisory Council

In this position from:
3 December 2015

End of term of office:
3 December 2019



Petras Povilas Čėsna (born in 1945)
Independent member of the Supervisory Council

In this position from:
3 December 2015

End of term of office:
3 December 2019

Educational background

Lund University, Doctoral degree in Technological Sciences;
Lund University, Master's degree in Industrial Electrical Engineering and Automatics;
Kaunas University of Technology, Bachelor's degree in Electrical Engineering

Vilnius University, Master's degree in Hydrogeology and Engineering Geology

Vilnius University, qualification of an economist

Principal workplace

Lietuvos Energija, UAB,
Chairman of the Board, Chief Executive Officer

Lietuvos Energija, UAB,
Organisational Development Director

Exhibition and Congress Centre of Lithuania LITEXPO,
Chairman of the Board

Compensations for members of the Supervisory Council calculated during January–June 2017, in EUR

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868.80

Participation in the activities of companies and organisations and percentage of share capital and voting rights of other companies held in excess of 5%

Name of a company, institution, organisation, position held	Share of capital and votes held, %	Name of a company, institution, organisation, position held	Share of capital and votes held, %	Name of a company, institution, organisation, position held	Share of capital and votes held, %
Chairman of the ESO's Supervisory Council	-	Member of the ESO's Supervisory Council	-	Independent member of the ESO's Supervisory Council	-
Lietuvos Energija, UAB, Chairman of the Board, Chief Executive Officer	-	Lietuvos Energija, UAB, Member of the Board, Organisational Development Director	-	Exhibition and Congress Centre of Lithuania LITEXPO, Chairman of the Board	-
Member of Higher Education Council	-	Chair of the Board of Technologijų ir Inovacijų Centras UAB	-		-
President of the Alumni Association of Kaunas University of Technology	-		-		-
President of the Lithuanian Power Association	-	Member of the Supervisory Council of Elektroninių Mokėjimų Agentūra UAB (until 24/04/2017)	-		-
Vice-president of the Lithuanian Confederation of Industrialists	-	Chair of the Board of Verslo Aptarnavimo Centras UAB	-		-
Member of the Board of Directors of the Association Eurelectric	-	Spouse holds 3,150 ordinary registered shares of SOLUTIONLAB PRODUCTION UAB (company code 300629188)	63		-
Member of the Board of ISM University of Management and Economics	-		-		-

* According to the ESO's Articles of Association agreements may be concluded with the members of the Supervisory Council regarding the activity related to the Supervisory Council, which establish members' rights, obligations and responsibility. Based on the decision of the general meeting of shareholder remuneration may be paid to independent members of the Supervisory Council for their activity in the Supervisory Council. The terms of the agreements concluded with the members of the Supervisory Council 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. On 3 December 2015, the agreements on the activity of the member of the ESO's Supervisory Council were concluded with Dr Dalius Misiūnas, Ilona Daugėlaitė and independent member of the Supervisory Council Petras Povilas Česna. ESO has neither transferred management of assets nor issued guarantees to the members of the bodies. During six months of 2017, 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.

Audit Committee

On 27 August 2013, the Supervisory Council of Lietuvos Energija, UAB established the Audit Committee which was assigned with the functions of the examination and submission of proposals to the Supervisory Board regarding issues that fall within the competence of the Audit Committee and issues which are referred to the Audit Committee by the Supervisory Council. The activity of the Audit Committee 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, UAB may have direct or indirect ultimate impact.

The main functions of the Audit Committee are as follows:

- to monitor the process of preparation of financial statements of Lietuvos Energija, UAB and the Group companies;
- to monitor the effectiveness of internal controls and risk management systems of Lietuvos Energija, UAB and the Group companies, to analyse and review the need for and relevance of these systems;
- to monitor the adherence to the principles of independence and objectivity by the certified auditor and audit company, to provide related recommendations;
- to monitor the audit performance processes of Lietuvos Energija, UAB and the Group companies, to examine the effectiveness of audit and response of the administration to the recommendations provided to executive personnel by the audit company;
- to monitor the effectiveness of the internal audit function of Lietuvos Energija, UAB and the Group companies, to analyse the need for and relevance of this function, to provide recommendations on the need for, effectiveness of the internal audit function, and on other internal audit related matters.

On 5 January 2015, the internal audit function was centralised at the Lietuvos Energija group that ensured independence and objectivity of internal audit function as well as a uniform methodology and accountability. Audit resources and competences are distributed in a more rational way.

The composition of the Audit Committee of Lietuvos Energija, UAB at the end of the reporting period

Full name	Share of issuer's authorised share capital held, %	Term of office	Workplace
Rasa Noreikienė (Chair of the committee)	0	August 2013 – August 2017	Ministry of Economy of the Republic of Lithuania
Aušra Vičkačkienė	0	August 2013 – August 2017	Property Management Department Under the Ministry of Finance
Danielius Merkinas (independent member)	0	August 2013 – August 2017	Nordnet UAB
Gintaras Adžgauskas	0	August 2013 – August 2017	Lithuanian Committee of the World Energy Council
Irena Petruškevičienė (independent member)	0	October 2014 – August 2017	Audit Development Committee of the European Commission

The Company's Board

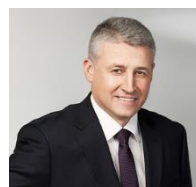
The ESO's Board is a collegial management body of the Company. Powers of the Board members are stipulated in the Company's Articles of Association and the Lithuanian Law on Companies.

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 Council for a term of four years. The Chairman of the Board is elected from the members of the Board.

On 1 January 2017, the Company's Board had the following members: Chair of the Board Dalia Andrulionienė and Board members Augustas Dragūnas, Rytis Borkys and Dalius Svetulevičius. On 20 January 2017, the Supervisory Council of ESO made a decision to elect Ignas Pranskevičius to the position of ESO's Board member, who will be in charge of the provision and development of services, until the expiry of the term of office of the current Board. On 8 March 2017, the Supervisory Council of ESO, in consideration of the notification of resignation of Dalius Svetulevičius from the position of a member of the Company's Board received on 28 February 2017, adopted the decision to revoke Dalius Svetulevičius from the position of a member of the ESO's Board from the end of the sitting of the Supervisory Council that revoked him.

At the end of the reporting period the composition of the Company's Board was as follows: Chair of the Board Dalia Andrulionienė and Board members Augustas Dragūnas, Rytis Borkys, Ignas Pranskevičius and Saulius Vaičekas. Saulius Vaičekas was elected at the sitting of the Company's Supervisory Council held on 26 April 2017. The Board's term of office expires on 3 December 2019.

During the reporting period, 10 sittings of the Board of ESO were held and all of them were attended by all members of the Board.



Dalia Andrulionienė (born in 1971) Chair of the Board Chief Executive Officer	Ignas Pranskevičius (born in 1985) Member of the Board**	Augustas Dragūnas (born in 1981) Member of the Board	Rytis Borkys (born in 1969) Member of the Board	Saulius Vaičekas (born in 1979) Member of the Board*
In this position from: 25 November 2016 End of term of office: 3 December 2019	In this position from: 20 January 2017 End of term of office: 3 December 2019	In this position from: 19 November 2016 End of term of office: 3 December 2019	In this position from: 3 December 2015 End of term of office: 3 December 2019	In this position from: 26 April 2017 End of term of office: 3 December 2019
Educational background				
ISM University of Management and Economics, BI Norwegian Business School, Master's degree in Management; Vilnius University, Master's degree in 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 Business Management and Administration	Kaunas University of Technology, higher university education in engineering	Kaunas University of Technology, Master's degree in International Trade, Bachelor's degree in Electricity Engineering
Principal workplace and position held				
ESO's Chief Executive Officer	ESO's Services Director	ESO's Finance and Administration Service Director	ESO's Networks Development Service Director	ESO's Networks Operation Service Director
Compensations for members of the Board calculated during January–June 2017, in EUR				
8,688.00	4,681.39	5,214.00	5,214.00	1,822.85
Participation in the activities of companies and organisations and percentage of share capital and voting rights of other companies held in excess of 5%				

Name of a company, institution, organisation, position held	Share of capital and votes held, %	Name of a company, institution, organisation, position held	Share of capital and votes held, %	Name of a company, institution, organisation, position held	Share of capital and votes held, %	Name of a company, institution, organisation, position held	Share of capital and votes held, %	Name of a company, institution, organisation, position held	Share of capital and votes held, %
ESO's Chief Executive Officer	-	ESO's Services Director	-	ESO's Finance and Administration Service Director	-	ESO's Networks Development Service Director	0.0001	ESO's Networks Operation Service Director	-
Member of the Board of Verslo Aptarnavimo Centras	-		-	Member of the Board of Technologijų ir Inovacijų Centras	-				
Member of the Board of the Lithuanian Power Association									

*Saulius Vaičekas was elected to the position of the Company's Board member on 26 April 2017 and he is in charge of the area of networks operation.

Chief Executive Officer

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.

Remuneration of the Chief Executive Officer of ESO calculated during the reporting period*

	Remuneration, in EUR	Other payments, in EUR
Dalia Andrulionienė, CEO	40,076.55	–

*ESO has neither transferred management of assets nor issued guarantees to the members of the bodies. During January-June 2017, 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.

CEO's participation in the activities of companies and organisations and percentage of share capital and voting rights of other companies held in excess of 5%

Full name	Name of a company, body, organisation, position held	Share of authorised share capital	Share of voting rights held, %
Dalia Andrulionienė	See the above-presented information		

Agreements between the issuer and the members of the bodies or employees that provide for compensation in case of their resignation or dismissal without a sound reason or in case of termination of their employment as a result of the change in the control of the Issuer

No agreements of this type have been concluded between the issuer and the members of its bodies or employees.

Employees of the Company

The Company's personnel policy focuses on a continuous professional development of employees and formation of an organisational culture ensuring the creation of higher added value for customers, partners and society. The Company had 2,512 employees as at 30 June 2017*.

Structure of the Company's employees by category:

Category of employees	Number of employees, at 30 Jun 2017
Chief executive officer (CEO)	1
Top-level managers	6
Medium-level managers	149
Experts, specialists, workers	2,356
Total number of employees	2,512

Structure of the Company's employees by educational background:

Education	Number of employees, at 30 Jun 2017
Higher education	1,449
Advanced vocational education	852
Secondary and vocational education	211

* Number of actually working employees (excluding those on a maternity and child care leaves or military service)

Remuneration system

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

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

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

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

Average salary of the Company's employees

Category of employees	Average salary (before tax), in EUR
	January–June 2017
Chief executive officer (CEO)	6,043
Top-level managers	4,855
Medium-level managers	2,121
Experts, specialists	1,630
Workers	820
Total average	1,086

Collective employment agreement

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

Trade unions

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

Development of competences

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

In the period between January and June 2017, 838 participants attended the compulsory vocational training programmes, at the completion of which certificates permitting to perform special works were issued. Employees attended professional and legal training courses on safety and health at work, fire prevention, operation of flammable gas systems, rotary turbine gas meters, gas volume computers-correctors, heads of special works related to a special structure.

In the period between January and June 2017, the general training courses were attended by 1,813 participants. These courses are organised by sending individual employees to attend seminars and conferences organised by external suppliers (in Lithuania and abroad) and by forming groups within the Company.

The Company seeks to encourage the engagement of the organisation's employees, i.e. lecturers within the organisation with specific knowledge and skills able to share them with others, in the programmes for competence development, also

invests in the training of staff. During the first half of 2017, 2,021 participants attended internal training courses. A large part of these trainings was dedicated to personnel related to electro-technical and gas operation activities aiming to develop professional qualification, improve skills acquired, familiarise with new work methodologies. A significant attention was devoted to trainings on customer service and trainings organised by the accounting department. In order to ensure the effectiveness of internal processes, employees are introduced to the initiatives and programmes implemented by the Company, for example, the programmes on operational excellence and employee performance management.

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

In the first half of 2017, ESO provided partial funding for the studies of 9 employees at the Lithuanian higher education institutions aiming to improve professional qualification of workers and develop competences of managers. Employees have the opportunity to study the programmes on energy and management that are related to the Company's activities.

Internship opportunities

ESO actively cooperates with educational institutions and allows university and college students to apply their theoretical knowledge and gain practical skills. In the first half of 2017, 19 students completed internship at ESO across the territory of Lithuania. The Company provides students not only with the possibility to complete their mandatory internship, but also welcomes motivated and enthusiastic students who wish to voluntarily enrol in job training with the Company.

Other committees

In addition to the Audit Committee, the Risk Management Supervision Committee and the Appointment and Remuneration Committee are formed at the Lietuvos Energija, UAB group level.

Risk Management Supervision Committee

The Risk Management Supervision Committee is responsible for the provision of conclusions or proposals to the Supervisory Council on the functioning of the management and control system and (or) on key risk factors at the Group level and implementation of measures for risk management or prevention.

The main functions of the Risk Management Supervision Committee are as follows:

- to monitor the identification, assessment and management of risks relevant for the accomplishment of goals of Lietuvos Energija, UAB and the Group companies;
- to assess the relevance of internal control procedures and risk management measures with respect to the identified risks;
- to assess the status of implementation of risk management measures;
- to monitor the implementation of risk management process;
- to analyse financial possibilities for the implementation of risk management measures;
- to assess the risks and risk management plan of Lietuvos Energija, UAB and the Group companies;
- to assess the regular risk identification and assessment cycle;
- to control the establishment of risk registers, analyse their data and provide proposals;
- to monitor the drafting of risk management related internal documents;
- to perform other functions attributed to the competence of the Risk Management Supervision Committee by the decision of the Supervisory Council of Lietuvos Energija, UAB.

Composition of the Risk Management Supervision Committee of Lietuvos Energija, UAB at the end of the reporting period

Full name	Share of issuer's authorised share capital held, %	Term of office	Workplace
Antanas Danys (Chairman of the Committee)	0	2013 September – 2017 August	Grinvest PTE.LTD; Kaštonų Kalva UAB; Kruonis OU; Neo Finance UAB; Asian Pacific Green Energy Pte. Ltd; Powerful United Limited; Misen Enterprises; Argentum mobile
Raimundas Petrauskas (independent member)	0	2013 September – 2017 August	Schmitz Cargobull Baltic, UAB
Donatas Kaubrys (independent member)	0	October 2013 – October 2017	Developer of the supervision project on adapting of structures for disabled people of the Lithuanian Association of People with Disabilities in Klaipėda and Tauragė regions
Tomas Garasimavičius	0	2013 September – 2017 August	Government of the Republic of Lithuania

Appointment and Remuneration Committee

The Appointment and Remuneration Committee is responsible for the provision of conclusions or proposals to the Supervisory Council on the appointment, removal or promotion of the Board members, as well as for the assessment of the activity of the Board and its members and submission of a respective opinion. The Committee's functions also include the formation of the uniform remuneration policy at the Group level, establishment of the amount of remuneration and its components, promotion principles, etc.

The main functions of the Appointment and Remuneration Committee are as follows:

- to assess and provide proposals on the long-term remuneration policy of Lietuvos Energija, UAB and the Group companies (the main fixed part of the remuneration, performance based remuneration, pension insurance, other guarantees and forms of remuneration, compensations, termination benefits, other parts of the remuneration package), principles of compensation for costs related to the individual's performance;
- to assess and provide proposals on the policy of bonuses of Lietuvos Energija, UAB and the Group companies;
- to monitor the compliance of the policy of remunerations and bonuses of Lietuvos Energija, UAB and the Group companies with the international practice and good governance practice recommendations, and provide respective proposals for the improvement of the policy of remunerations and bonuses;
- to provide proposals concerning bonuses upon appropriation of profit (losses) to be appropriated of Lietuvos Energija, UA and the Group companies of the respective financial year;
- to assess the terms and conditions of agreements of Lietuvos Energija, UAB and the Group companies with members of management bodies of the Company and the Group companies;

- to assess the procedures of recruitment and selection of candidates to members of the bodies and management of Lietuvos Energija, UAB and the Group companies and establishment of the qualification requirements;
- to perform regular reviews of the structure, size, composition and activities of the management and supervisory bodies of Lietuvos Energija, UAB and the Group companies;
- to supervise how members of management bodies and employees of Lietuvos Energija, UAB and the Group companies are notified of the professional development possibilities and how they upgrade their skills regularly;
- to supervise and assess the implementation of measures ensuring the continuity of operations of the management and supervisory bodies of Lietuvos Energija, UAB and the Group companies;
- to perform other functions attributed to the competence of the Appointment and Remuneration Committee by the decision of the Supervisory Council of Lietuvos Energija, UAB.

Composition of the Appointment and Remuneration Committee of Lietuvos Energija, UAB at the end of the reporting period

Full name	Share of issuer's authorised share capital held, %	Term of office	Workplace
Virginijus Lepeška (Chairman of the Committee)	0	2013 August – 2017 August	Organizacijų Vystymo Centras UAB; OVC Mokymai UAB; Vilandra UAB; AL Holdingas UAB; Association Mentor Lietuva; Public institution Paramos Vaikams Centras
Tomas Garasimavičius	0	2013 August – 2017 August	Government of the Republic of Lithuania
Agnė Bagočiutė	0	2016 June – 2017 August	Ministry of Finance of the Republic of Lithuania

MATERIAL EVENTS AT THE COMPANY

Material events during the reporting period

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

Information on material events announced by ESO from 1 January 2017

Date	Material event
12 January 2017	Regarding the modification of energy operating licence
20 January 2017	Member of the Board of Energijos Skirstymo Operatorius AB has been elected
27 January 2017	Regarding long-term loan agreement
31 January 2017	Preliminary ESO results for 2016: net profit up by 8.6% to EUR 92.86 million
3 February 2017	Regarding the installation of the LNG regasification station in Druskininkai
28 February 2017	Regarding member of the Board resignation

2 March 2017	Regarding the Ordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB
8 March 2017	Regarding the recall of the Member of the Board
8 March 2017	Regarding the resolutions of Energijos Skirstymo Operatorius AB Supervisory Council
24 March 2017	Regarding the resolutions of Ordinary General Meeting of Energijos Skirstymo Operatorius AB Shareholders
5 April 2017	Regarding a public call for tenders to install of the LNG regasification station in Druskininkai
11 April 2017	Regarding the candidate to the Board of Energijos Skirstymo Operatorius AB
27 April 2017	Member of the Board of Energijos Skirstymo Operatorius AB has been elected
28 April 2017	Preliminary ESO results for three months of 2017: revenue decreased due to lowered prices of services
19 May 2017	Regarding the decision of the Board of Energijos Skirstymo Operatorius AB to reduce natural gas distribution prices from 1 July 2017
29 May 2017	CORRECTION: Reporting dates in 2017
31 May 2017	National Control Commission for Energy and Prices approved natural gas distribution prices
31 May 2017	Preliminary ESO results for four months of 2017: revenue decreased due to lowered prices of services
21 June 2017	Regarding the court's ruling
20 June 2017	Preliminary ESO results for five months of 2017: revenue reached EUR 264 million, EBITDA - EUR 68 million

Material events after the end of the reporting period

On 5 July 2017, the project on the separation of public supply of electricity was initiated within the companies of the Lietuvos Energija UAB group. During the implementation of the project, it is planned to separate the activity of public electricity supply from electricity distribution by transferring it to another company controlled the Lietuvos Energija UAB group. It is expected that the project will contribute to more efficient and more transparent implementation of the European Union policy on the energy sector since energy supply is not a part of the infrastructure segment.

The Company notes that no specific management decisions are taken. The Company will publicly inform about any further actions and adopted decisions in accordance with the procedure established by legal acts.

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 per share at the end of the period / (net earnings/number of shares)

Capitalisation, EUR million = the price per share at the end of the period * number of shares

Current ratio = current assets / current liabilities

Quick ratio = (current assets – inventories) / current liabilities

Cash ratio = cash and their equivalents / current liabilities

Working capital = current assets – current liabilities

Working capital to total assets ratio = working capital / assets