AB „Energijos
skirstymo operatorius"

eso

06-03-2018 Nr. 30200 - 4164

CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 22 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 acting under Order No IS17-80 of 28 August 2017, hereby do confirm that, to the best of our knowledge AB „Energijos skirstymo operatorius" financial statements for the financial year 2017 are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position, profit or loss and cash flow of AB „Energijos skirstymo operatorius", and that the review of activities and business development as well as the condition of AB „Energijos skirstymo operatorius" together with the description of the principle risks and uncertainties it faces has been described correctly in the AB „Energijos skirstymo operatorius" Report of 2017.

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
Manager of Reporting, acting under
Order No IS17-80 of 28 August 2017 — Evelina Remeikienė

AB Energijos skirstymo operatorius
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03212 Vilnius, Lithuania

Tel. +370 5 277 7524
Fax. +370 5 277 7514
E-mail info@eso.lt
www.eso.lt

Company code 304151376
VAT payment code LT100009860612

The company is registered with and data on it stored at Lithuanian legal person's registry, whose keeper is VĮ Registrų centras

2017

ENERGIJOS SKIRSTYMO OPERATORIUS AB

FINANCIAL STATEMENTS OF THE COMPANY FOR THE YEAR 2017, PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION, ANNUAL REPORT AND THE INDEPENDENT AUDITOR'S REPORT

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Lietuvos energija

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Translation note:

This version of the accompanying documents has been prepared in Lithuanian and English languages. In all matters of interpretation of information, views or opinions, the original language version of the accompanying documents takes precedence over the English version.

CONTENTS

FINANCIAL STATEMENTS

The financial statements were approved on 6 March 2018 by Energijos Skirstymo Operatorius AB Chief Executive Officer, Director of Finance and Administration Service and Head 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** Verslo Aptarnavimo Centras UAB Manager of Reporting acting under Order No IS17-80 of 28 August 2017

Independent auditor's report

To the shareholders of Energijos Skirstymo Opratorius AB

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Energijos skirstymo operatorius AB ("the Company") as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited
The Company's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 statements* 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 statements 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 Statement.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company are in accordance with the applicable law and regulations in the Republic of Lithuania and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014 considering the exemptions of Regulation (EU) No 537/2014 endorsed in the Law of the Republic of Lithuania on the Audit of Financial Statements.

The non-audit services that we have provided to the Company, in the period from 1 January 2017 to 31 December 2017, are disclosed in note 25 to the financial statements.

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

Our audit approach

Overview

Materiality	Overall materiality: EUR 4,220 thousand which represents 5% of profit before tax as explained in section *Materiality* below
Key audit matters	• Value of property, plant and equipment

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Company materiality	EUR 4,220 thousand
How we determined it	Overall materiality represents 5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the generally accepted measure and it is the measure against which the performance of the company is most commonly assessed. We chose 5%, which is within the range of acceptable quantitative materiality thresholds.

pwc

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 211 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Value of property, plant and equipment (refer to notes 3 and 4) Property, plant and equipment is the most significant item of assets on the statement of financial position. As at 31 December 2017 electricity distribution network and other assets are accounted for by the management at revalued amount (net book value of EUR 998,441 thousand), whereas gas distribution network is accounted for at cost less depreciation and impairment (net book value of EUR 190,307 thousand). For assets carried at revalued amount, management has assessed whether the carrying amount does not differ materially from their fair value. For assets carried at cost less depreciation and impairment, management has considered whether indications for further impairment or reversal of impairment loss exist. Management has identified cash generating units as the electricity and gas business segments, and forecasted expected cash flows for each unit. Based on the model, management has determined that fair value of electricity cash generating unit is slightly higher than net book value as at 31 December 2017 and that there is no impairment of gas cash generating unit as at 31 December 2017. The management concluded that as no significant changes in electricity related regulatory and operating environment occurred compared to prior period, the estimated increase in fair value by less than 5% is not material, and, therefore, the management did not account for this increase in the financial statements. .	We obtained, understood and evaluated management's process for the assessment of the fair value of property, plant and equipment. We discussed with management whether significant changes in electricity and gas legal environment and the Company's strategic plans occurred in 2017, that would have a material impact on the Company's future cash flows and asset value. We took into account our knowledge of the Company's business activities and accumulated knowledge related to the industry where the Company operates, including changes in the regulatory environment. Also, we obtained the cash flow models used by management to monitor the value of assets employed in electricity and gas businesses. We tested the models as to whether they are mathematically accurate and that the results are accurately compared to the carrying values of assets; we discussed with management key assumptions, traced them to external or Company's internal information, where appropriate, and assessed sensitivity of the cash flow models to changes in selected assumptions. We also involved PwC valuation expert who assessed the appropriateness of the model used as the basis of the valuation and the reasonableness of the discount rate applied. Our work gave us sufficient audit evidence to conclude that management's judgement on the appropriateness of the carrying values of property, plant and equipment is supportable and appropriate in light of the evidence obtained.

Assessment of values of property, plant and equipment is an area of significant management judgements, and they are, therefore, given special audit attention.

Reporting on other information including the annual report

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

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

In connection with our audit of the financial statements, 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 statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the annual report, we considered whether the annual report includes the disclosures required by Law of the Republic of Lithuania on Financial Reporting by Undertakings implementing Article 19 of Directive 2013/34/EU.

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

- the information given in the annual report for the financial year ended 31 December 2017, for which the financial statements are prepared, is consistent with the financial statements; and
- the annual 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 annual report.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the annual report which 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 statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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 statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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 these financial statements.

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 statements, 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 statements 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 statements, including the disclosures, and whether the financial statements 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and have communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were appointed as auditors of the Company in 2016. Considering reorganisations held in 2009-2016, we conclude that we were first appointed as auditors of the Company for the year 2009. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 9 years.

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

On behalf of PricewaterhouseCoopers UAB

Radzevičienė

Rasa Radzevičienė
Partner
Auditor's Certificate No. 000377

Vilnius, Republic of Lithuania
6 March 2018

All amounts in EUR thousands unless otherwise stated

STATEMENT OF FINANCIAL POSITION

	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Property, plant, and equipment	4	1,188,748	1,020,541
Intangible assets	5	5,451	3,573
Prepayments for non-current assets		3	4
Investments in associates	6	2,382	2,346
Other non-current financial assets	7	849	5,836
		1,197,433	**1,032,300**
Current assets			
Inventories	8	2,135	1,731
Trade and other receivables	9	64,386	61,092
Prepayments, deferred expenses and accrued revenue	10	7,224	6,311
Prepaid income tax		174	-
Cash and cash equivalents	11	6,449	10,662
		80,368	**79,796**
Total assets		**1,277,801**	**1,112,096**
EQUITY AND LIABILITIES			
Equity			
Authorised share capital	12	259,443	259,443
Revaluation reserve	13	44,680	49,864
Legal reserve	13	25,910	25,910
Retained earnings		277,611	287,978
Total equity		**607,644**	**623,195**
LIABILITIES			
Non-current liabilities			
Borrowings	15	239,648	161,650
Deferred income tax liabilities	16	11,368	6,955
Deferred revenue	17	113,202	113,543
Grants and subsidies	18	19,758	20,477
Long-term employee benefits	19	1,763	2,949
Other non-current liabilities		3	3
		385,742	**305,577**
Current liabilities			
Borrowings	15	133,040	57,431
Trade and other payables	20	116,529	86,834
Advance amounts received, accrued liabilities and deferred revenue	21	34,846	32,080
Income tax payable		-	6,979
		284,415	**183,324**
Total liabilities		**670,157**	**488,901**
Total equity and liabilities		**1,277,801**	**1,112,096**

The accompanying notes are an integral part of these financial statements.

All amounts in EUR thousands unless otherwise stated

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2017	2016
Revenue	22	610,735	648,321
Other income		1,574	1,742
Purchases of electricity and related services		(373,808)	(384,634)
Purchase (expenses) of natural gas and transmission services		(3,693)	(3,560)
Depreciation and amortisation		(50,385)	(46,028)
Employee benefits and related social security contributions	23	(43,731)	(47,131)
Repair and maintenance expenses		(15,657)	(18,484)
Transport		(4,453)	(4,540)
Telecommunications and IT services		(8,713)	(7,711)
Rent and utilities		(4,148)	(4,130)
Impairment and write-off expenses	24	(4,339)	(9,300)
Other expenses	25	(18,026)	(16,559)
Operating profit		**85,356**	**107,986**
Finance income	26	1,562	1,335
Finance costs	26	(2,274)	(2,224)
Finance costs – net		**(712)**	**(889)**
Share of profit of associates and joint ventures	6	148	328
Profit before income tax		**84,792**	**107,425**
Income tax	16	(7,240)	(14,923)
Net profit for the period		**77,552**	**92,502**
Other comprehensive income (expenses) **Items that will not be reclassified to profit or loss:**			
Recalculation of the defined benefit plan obligation, net of deferred income tax	19	(187)	-
Other comprehensive income (expenses)		**(187)**	**-**
Total comprehensive income for the period		**77,365**	**92,502**
Weighted average number of shares		894,630,333	894,630,333
Basic and diluted earnings per share (in EUR) attributable to owners of the Company		0.087	0.103

The accompanying notes are an integral part of these financial statements.

All amounts in EUR thousands unless otherwise stated

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		-	-	-	92,502	92,502
Total comprehensive income for the period		**-**	**-**	**-**	**92,502**	**92,502**
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(5,656)	-	5,656	-
Dividends	14	-	-	-	(43,120)	(43,120)
Balance at 31 December 2016		**259,443**	**49,864**	**25,910**	**287,978**	**623,195**
Balance at 1 January 2017		**259,443**	**49,864**	**25,910**	**287,978**	**623,195**
Comprehensive income						
Net profit for the period		-	-	-	77,552	77,552
Recalculation of the defined benefit plan obligation, net of deferred income tax					(187)	(187)
Total comprehensive income for the period		**-**	**-**	**-**	**77,365**	**77,365**
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(5,184)	-	5,184	-
Dividends	14	-	-	-	(92,916)	(92,916)
Balance at 31 December 2017		**259,443**	**44,680**	**25,910**	**277,611**	**607,644**

The accompanying notes are an integral part of these financial statements.

All amounts in EUR thousands unless otherwise stated

STATEMENT OF CASH FLOWS

	Note	2017	2016
Cash flows from operating activities			
Net profit for the period		77,552	92,502
Adjustments for:			
Income tax expenses	16	7,240	14,923
Depreciation and amortisation	4.5	51,534	47,358
Amortisation of grants	18	(1,149)	(1,330)
Share of (profit) of associates and joint ventures	6	(148)	(328)
(Gain)/loss on disposal and write-off of assets		4,547	3,545
Impairment of financial assets at fair value through profit or loss		-	5,560
Finance (income)	26	(1,562)	(1,335)
Finance costs	26	2,274	2,224
Changes in working capital:			
Trade and other receivables		2,694	15,744
Inventories, prepayments, deferred expenses and accrued income		(1,358)	(1,116)
Trade and other payables, advance amounts received, accrued expenses and deferred income		1,575	2,433
Cash generated from operations		**143,199**	**180,180**
Income tax paid		(6,767)	(36)
Net cash flows generated from operating activities		**136,432**	**180,144**
Cash flows from investing activities			
Purchase of property, plant and equipment, and intangible assets		(201,608)	(147,571)
Proceeds from sale of property, plant and equipment		16	-
Disposal of subsidiaries		-	24,444
Grants received	18	444	424
Loans (granted)		(2,919)	(25,146)
Loan repayments received		4,529	23,845
Dividends received	6	112	58
Interest received	26	122	152
Net cash flows used in investing activities		**(199,304)**	**(123,794)**
Cash flows from financing activities			
Proceeds from borrowings	15	203,700	71,500
Repayments of borrowings	15	(61,377)	(78,279)
Dividends paid to the Company's shareholders		(92,579)	(43,008)
Interest paid		(1,740)	(1,737)
Net cash generated from (used in) financing activities		**48,004**	**(51,524)**
Net increase (decrease) in cash and cash equivalents		(14,868)	4,826
Cash and cash equivalents (including the overdraft balance) at the beginning of the period	11	10,662	5,836
Cash and cash equivalents (including the overdraft balance) at the end of the period	**11**	**(4,206)**	**10,662**

The accompanying notes are an integral part of these financial statements.

All amounts in EUR thousands unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Energijos Skirstymo Operatorius AB (hereinafter "the Company") is a public limited liability company registered in the Republic of Lithuania. The Company was registered with the Register of Legal Entities on 11 December 2015. The Company 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 31 December 2017 and 31 December 2016, the Company's shareholder structure was as follows:

	At 31 December 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 31 December 2017, Lietuvos Energija UAB was the parent of the Company. Lietuvos Energija UAB is wholly owned by the Lithuanian Government represented by the Lithuanian Ministry of Finance.

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

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

Associate	Country	Year of acquisition	The Company's ownership interest		Profile of activities
			At 31 December 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 performance, accounting and personnel administration services, customer service

As at 31 December 2017, the Company had 2,503 (31 December 2016: 2,677) employees.

Regulation of the Company's activities

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

The Company carries out the following licensed activities:

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

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

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

1. The setting of price caps in the electricity sector

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

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

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

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

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

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

On 16 November 2017, the Commission established the price caps for household customers who receive electricity via electricity networks for the year 2018 as follows:

- medium voltage networks– 6.511 EUR ct/kWh (excl. VAT) (second half of 2017: 7.102 EUR ct/kWh (excl. VAT));
- Low voltage networks– 8.772 EUR ct/kWh (excl. VAT) (second half of 2017: 9.088 EUR 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 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 9 November 2017, the Commission established the price cap for the natural gas distribution service for the year 2018 as follows:

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

Approval of financial statements

The Company's management approved these financial statements on 6 March 2018. The Company's shareholders have a statutory right to approve or not to approve these financial statements and to require the preparation of a new set of financial statements.

2 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements have been prepared under the historical cost convention, as modified by property, plant and equipment measured at revalued amount and certain financial assets measured at fair value.

All amounts in these financial statements are presented in the euros and they have been rounded to the nearest thousand (in thousand EUR), unless otherwise stated.

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

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

Accounting policies applied in the preparation of these financial statements are consistent with those applied in the previous financial year, except for as follows:

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

The following IFRSs and amendments thereto were adopted by the Company for the first time for the financial year ended 31 December 2017:

Disclosure Initiative – Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. Reconciliation of movements in liabilities arising from financing activities is disclosed in Note 15.

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2017). The amendments have clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax assets for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The amendments have no significant impact on the financial statements of the Company.

Other standards, amendments and interpretations that became effective for the financial year beginning on 1 January 2017 are not relevant to the Company.

b) *New standards, amendments and interpretations that are not yet effective*

Other new standards, amendments and interpretations that are mandatory for annual periods beginning on 1 January 2017 or later and that have not been adopted when preparing these financial statements:

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

- 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 will apply IFRS 9 starting from 1 January 2018, using the modified retrospective approach. The Company does not expect the standard to have a significant impact on the classification of the Company's financial assets as at 31 December 2017: loans and amounts receivable will be continuously classified as to be carried at amortised cost, and financial assets carried at fair value through profit or loss will be continuously recognised as such. The new standard will have no impact on the classification of financial liabilities, as changes affect only the classification of financial liabilities stated at fair value through profit or loss and the Company does not have such liabilities.

The Company does not expect the standard to have any impact on the measurement of its financial assets and financial liabilities, except for that the impairment of amounts receivable will increase by EUR 333 thousand as recalculated according to the requirements of the new standard. In the financial statements for the year 2018, the impact of the standard will be presented by lowering retained earnings (loss) and recognising an additional impairment of amounts receivable.

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.
Amendments to IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the commitment to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

The Company will apply IFRS 15 starting from 1 January 2018 using the modified retrospective approach. The Company does not expect the requirements of the standard to have any impact on the recognition of revenue from electricity transmission and distribution and natural gas distribution, however, there will be changes in the recognition of revenue from connection of new users.

Following the application of IFRS 15 with respect to revenue from new customer (NC) connection to the electricity system, the Company will be required to recognise such revenue over time unlike the currently applied approach (revenue is recognised upon the fulfilment of an obligation). As effective legal acts require that a new customer conclude the transmission or public/guaranteed supply agreement with the Company, it means that a customer's connection to the network is not a separate performance obligation under IFRS 15, but it is interdependent with the electricity transmission service, therefore, NC connection revenue should be recognised over a period during which the electricity distribution service is provided. In view of this change, accrued NC connection revenue that had been recognised as revenue immediately between the period from 2 July 2009 and 31 December 2017 will need to be recalculated retrospectively and recognised over the estimated period of the provision of electricity distribution services to NC. Based on management's judgement such a method of revenue recognition will reduce the Company's retained earnings by EUR 73 million (the amount was determined without taking into consideration the impact of discounting) and will increase deferred revenue by a respective amount. The tax impact is estimated to be equal to EUR 11 million and would be accounted for within retained earnings as well. The entry into force of IFRS 15 will not affect the Company's revenue from NC connection to the electricity networks that were accrued before 1 July 2009, because such revenue were recognised over time.

All amounts in EUR thousands unless otherwise stated

It should be noted that amendments to the Law on Electricity, which regulates the public supply function carried out by the Company, have been currently initiated that could bring significant changes to the regulatory environment. Following the implementation of these amendments the regulatory environment will allow customers to ensure the provision of electricity transmission services without entering into a direct contract with the Company for the provision of services and instead signing a contract with a supply company. In such a case a method for the recognition of revenue from NC connection to the electricity networks could change resulting in NC revenue received being recognised upon the provision of the connection service.

As a result of the application of IFRS 15 in the gas segment, NC connection service revenue that were accrued and recognised in the statement of financial position over the useful life of property, plant and equipment created during the connection (i.e. deferred revenue) will be recognised upon the fulfilment of the connection obligation. Such estimation made by management is based on the fact that the Company's customers have a possibility to ensure the provision of natural gas distribution services by concluding a supply agreement with a natural gas supply company. A majority of the Company's customers make use of such a possibility. Consequently, the sole agreement concluded between the Company and the consumer is the NC connection agreement, under which all obligations assumed with respect to the consumer are deemed to be fulfilled when the connection service has been provided. Based on management's judgement such a method of revenue recognition will increase the Company's retained results by EUR 44 million and will decrease deferred revenue by a respective amount. However, deferred NC connection revenue had impact on the value of property, plant and equipment used in the gas segment (i.e. the impairment test showed that deferred NC connection revenue reduced the carrying amount of property, plant and equipment used in the gas segment). As a result, such an accounting treatment of revenue could have a potential negative impact on the carrying amount of property, plant and equipment as it would exceed the recoverable value and the adjustment to the value would be reported within the Company's retained earnings (deficit) upon the initial adoption of IFRS 15. The total amount of these reclassifications in the gas segment, including a tax impact, would be equal to zero.

The overall impact of the entry into force of IFRS 15 on 1 January 2018 is presented in the table below:

	Electricity segment	Natural gas segment	Total
Property, plant and equipment	-	(44)	(44)
Deferred income tax assets	11	7	18
	11	**(37)**	**(26)**
Deferred revenue	73	(44)	29
Deferred income tax liability	-	7	7
	73	**(37)**	**36**
Retained earnings (deficit)	**(62)**	**-**	**(62)**

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (effective date to be determined by the IASB; not yet adopted by the EU). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary and the shares of the subsidiary are transferred during the transaction. The Company does not expect the amendments to have a significant impact on the financial statements.

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company will apply IFRS 16 starting from 1 January 2019. The Company will capitalise the obligations under non-cancellable operating lease contracts in the statement of financial position.

Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety. Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows: (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. Amendments will have no impact on the Company's financial statement.

Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts – Amendments to IFRS 4 (effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply the temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply overlay approach). The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches. (1) The amended standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued ('overlay approach'). In addition, the amended standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39. The amendments to IFRS 4 supplement existing options in the standard that can already be used to address the temporary volatility. The amendments will have no impact on the Company's financial statement.

Annual improvements to the IFRSs 2014–2016 Cycle (effective for annual periods beginning on or after 1 January 2017 (changes to IFRS 12) or 2018 (changes to IFRS 1 and IAS 28)); adopted by the EU on 7 February 2018). The improvements impact three standards. The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. IFRS 1 was amended to delete some of the short-term exemptions from IFRSs after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that venture capital organisations or similar entities have an investment-by- investment choice for measuring investees at fair value. Additionally, the amendment clarifies that if an investor that is not an investment entity has an associate or joint venture that is an investment entity, the investor can choose on an investment-by-investment basis to retain or reverse the fair value measurements used by that investment entity associate or joint venture when applying the equity method.

Transfers of investment property – Amendments to IAS 40 (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The amendment clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence; a change in intention, in isolation, is not enough to support a transfer.

IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The interpretation clarifies that the date of transaction, i.e the date when the exchange rate is determined, is the date on which the entity initially recognises the non-monetary asset or liability from advance consideration. However, the entity needs to apply judgement in determining whether the prepayment is monetary or non-monetary asset or liability based on guidance in IAS 21, IAS 32 and the Conceptual Framework. The amendments will have no impact on the Company's financial statement.

IFRS 17, Insurance Contracts (effective for annual periods beginning on or after 1 January 2021; not yet adopted by the EU). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare the financial performance of similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. This IFRS will have no impact on the Company's financial position or results of operations.

IFRIC 23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the Interpretation. The Company is assessing the impact of the new interpretation on its financial statements.

Prepayment Features with Negative Compensation – Amendments to IFRS 9 (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Company is assessing the impact of the amendments on its financial statements.

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in the investee. The Company is assessing the impact of the amendments on its financial statements.

Annual Improvements to the IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised

IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Company is assessing the impact of the amendments on its financial statements.

Other standards and their improvements issued but not yet effective are not expected to have significant impact on the Company.

2.2 Investments in associates

Investments in associates over which the Company has a significant influence are accounted for using the equity method, except for the cases when the investment is acquired and held solely for the purpose of selling it in the near future (not later than within 12 months from the date of acquisition) and the management is engaged in active search for buyers.

Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Company's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Company's share of losses in an associate equals to or exceeds its interest in the associate, including all unsecured receivables, the Company does not recognise further losses, unless it has assumed obligations or made payments on behalf of the associate.

At each reporting date the Company reviews investments in associates to assess whether there is objective evidence that investments in associates may be impaired. If such indications exist, the Company calculates the amount of impairment, which is equal to the difference between the replacement cost and the carrying amount of the associate, and recognises this amount under the line item of share of profit (loss) of associates in the statement of comprehensive income.

2.3 Segment reporting

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

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

2.4 Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 years).

(b) Other intangible assets

Intangible assets expected to provide economic benefits to the Company in future periods are stated at acquisition cost, less any accumulated amortisation and impairment losses. Amortisation is calculated on the straight-line method over estimated useful lives of 3 to 4 years.

2.5 Property, plant, and equipment

Property, plant and equipment is shown at revalued amount based on periodic valuations by external independent valuers, less subsequent accumulated depreciation and impairment, except for gas distribution pipelines and their equipment, gas technological equipment and structures that are accounted for under the cost method. Valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the value that would have been established based on the fair value at the balance sheet date. Any accumulated depreciation and impairment at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Categories of property, plant and equipment measured using the cost method are recorded at cost less accumulated depreciation and accumulated impairment losses.

The initial value of property, plant and equipment comprises acquisition cost, including not refundable acquisition taxes and all directly attributable costs associated with the preparation for its intended use, and interest on loans.

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other comprehensive income and shown as revaluation reserve in shareholders' equity. Decreases arising on subsequent revaluation that offset previous increases of the same asset are charged in other comprehensive income and debited against revaluation reserve directly in equity; all other decreases are charged to profit or loss. Increases in the carrying amount that offset previous decreases are recognised in profit or loss. All other increases in the carrying amount arising on revaluations of property, plant and equipment are recognised in other comprehensive income and credited to revaluation reserve directly in equity. Each year the difference between depreciation based on the revalued amount of the asset charged to profit or loss, and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings taking into account the effect of deferred income tax.

All amounts in EUR thousands unless otherwise stated

Depreciation of property, plant and equipment is calculated using the straight-line method to write off the revalued amount of asset to its residual value over the following estimated useful lives:

Buildings	15–60 years
Whereof:	
Engineering constructions	50 years
35-110 kV transformer substation constructions	35 years
6-10 kV electricity distribution constructions	35 years
10/0.4 kV transformer constructions	35 years
Communication and operation system constructions	15–25 years
Structures, equipment, and electricity networks	5–50 years
Whereof:	
35-110 kV transformer substation equipment (excl. constructions)	30 years
6-10 kV distribution equipment (excl. constructions)	30 years
10/0.4 kV capacity transformers	30 years
35 kV cables and lines	40-45 years
0.4-10 kV cables and lines	15–40 years
35-110 kV capacity transformers	40 years
Communication and operation system equipment (excl. constructions)	5–45 years
Hydrotechnical structures and equipment	50–75 years
Gas distribution pipelines and their equipment	13–55 years
Gas technological equipment and structures	18–36 years
Other property, plant and equipment	3–50 years

The residual values and useful lives of property, plant and equipment are reviewed regularly and adjusted, if appropriate, according to the procedure established at the Company.

When assets are written off or otherwise disposed, the acquisition cost and related depreciation charges are not further recognised in the financial statements, and gain or loss on such disposal is recognised in profit or loss. Gain or loss on disposal of property, plant and equipment is determined as the difference between proceeds and the net book value of assets disposed. Upon disposal of revalued asset, the corresponding amount included in revaluation reserve is transferred to retained earnings (deficit).

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are recognised in profit or loss in the period when such costs are incurred.

Construction in progress is reclassified to corresponding categories of property, plant and equipment when it is completed and ready for the intended use.

Borrowing costs directly attributable to the acquisition, construction or production of assets, which are assets that necessarily take a substantial period of time (longer than 6 months) to get ready for their intended use and which exceed EUR 100 thousand in value, are added to the cost of those assets.

2.6 Financial assets

Financial assets are classified the Company as financial assets at fair value through profit or loss, held-to-maturity investments, loans granted and receivables, and available-for-sale financial assets. Regular purchases and sales of financial assets are recognised on the trade date. Financial assets are initially recognised at fair value plus transaction costs, except for the financial assets at fair value through profit or loss.

(a) Loans and receivables

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

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

Impairment loss is recognised when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the amount receivable is impaired. The carrying amount of the asset is reduced, and the amount of the loss is recognised in profit or loss within other expenses. When an amount receivable is uncollectible, it is written off against the allowance account for amounts receivable. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the statement of profit or loss and other comprehensive income.

(b) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are those intended to be held for an indefinite period of time.

Available-for-sale financial assets are initially recognised at fair value plus transaction costs and subsequently remeasured at fair value. Unrealised gains and losses, arising from changes in the fair value are recognised in other comprehensive income, except for impairment losses and foreign exchange gains or losses. When such financial assets are derecognised, the cumulative revaluation result previously recognised in other comprehensive income is recognised in profit or loss in the statement of comprehensive income.

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

(c) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent two sub-categories: financial assets held for trading and financial assets which, at initial recognition, are designated at fair value through profit or loss. The Company does not have any financial assets held for trading and attributes to this category only financial assets which arise from the disposal of business or investments and are classified as non-equity contingent consideration. They are measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Interest income on these financial assets is included in interest income.

2.7 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of the remaining amount of natural gas is established using the weighted average and the cost of all other inventories is estimated using the FIFO method. Acquisition cost of inventories includes purchase price and related taxes (other than those subsequently recovered by the Company from tax authorities), transportation, handling and other costs directly associated with acquisition of inventories. The acquisition cost excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

2.8 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with maturities up to 3 months.

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held in settlement bank accounts, and other short-term highly liquid investments with maturities up to 3 months, and bank overdrafts. In the statement of financial position, bank overdrafts are included in current borrowings.

2.10 Trade receivables

Trade payables are accrued when the other party has performed its obligations under the contract, and are initially recognised at fair value and subsequently estimated at amortised cost using the effective interest rate method.

2.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds and the redemption value is recognised in profit or loss in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 month after the balance sheet date.

Borrowing costs directly attributable to the acquisition, construction or production of assets, which are assets that necessarily take a substantial period of time (longer than 6 months) to get ready for their intended use and which exceed EUR 100 thousand in value, are added to the cost of those assets. Other borrowing costs are recognised as expenses when incurred.

2.12 Income tax

Income tax expense for the period comprises current tax and deferred tax.

(a) Income tax

Current income tax assets and liabilities are recognised to the extent their recovery from or payment to tax authorities is probable. Income tax is determined in accordance with laws on taxes and using the tax rates that have been enacted by the date of the statements of financial position. In 2017, the standard income tax rate in Lithuania was 15% (2016: 15%).

(b) Deferred income tax

Deferred income tax is accounted for using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised on all temporary differences that will increase the taxable profit in future, whereas deferred tax assets are recognised to the extent it is probable that they will reduce the taxable profit in future. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from initial recognition of goodwill (or negative goodwill); or if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are reviewed at each date of the statement of financial position and if it is not probable that the Company will generate sufficient taxable profit to realise these assets, they are reduced to an amount which is likely to reduce the taxable profit in future. Deferred income tax assets and liabilities are estimated using the tax rate that has been applied when calculating income tax for the year when the related temporary differences are to be realised or settled.

Deferred tax assets and liabilities are offset only where they relate to income tax assessed by the same fiscal authority or where there is a right to offset current tax assets and current tax liabilities.

(c) Current tax and deferred tax

Current tax and deferred tax are recognised as income and expenses and included in net profit or loss for the period, except to the extent that they relate to the amounts recognised in other comprehensive income and relate to transactions or events that are recognised directly in equity in the same or the next period.

2.13 Employee benefits

(a) Social security contributions

The Company pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Company pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognised as expenses on an accrual basis and are included in payroll expenses.

(b) Termination benefits

Termination benefits are payable whenever an employee’s employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan and agreements signed with employees without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are recognised at present value discounted using market interest rate.

(c) Pension benefits to employees of retirement age

Each employee of retirement age who terminates his/her employment with the Company upon retirement is entitled to receive a payment equal to 2 monthly salaries as stipulated in the Lithuanian laws. A liability for such pension benefits is recognised in the statement of comprehensive income and it reflects the present value of these earned benefits at the date of the statement of financial position. The aforementioned non-current liability for pension benefits to employees at the date of the statement of financial position is determined with reference to actuary valuations. The present value of the defined non-current liability for pension benefits to employees is determined by discounting the estimated future cash flows using the effective interest rates as set for government debentures denominated in a currency in which the benefits will be paid to employees and that have maturity term similar to that of the related liability.

2.14 Grants

Asset-related grants

Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants relating to purchase of property, plant and equipment are included in non-current liabilities in the statement of financial position and are recognised in the profit or loss account in the statement of profit or loss and other comprehensive income on a straight-line basis over the expected lives of the related assets.

On revaluation of non-current assets, the grants related to non-current assets, for which impairment was recognised and reported in profit or loss, are partly written off.

Income-related grants

Government grants received as a compensation for costs or unearned income for current or previous reporting period, and all grants other than those related to assets, are considered as grants related to income. The income-related grants are recognised as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant. These grants are presented in the statement of comprehensive income, less related expenses.

2.15 Operating lease

(a) Operating lease – where the Company is a lessee

Lease is recognised as operating lease, when all the risks and rewards of ownership of the leased item remain with the lessor. Operating lease payments are recognised as expenses in the statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

(b) Operating lease – where the Company is a lessor

Lease is recognised as operating lease, when the lessor retains all the rewards and risks of ownership of the leased item. Payments received under operating leases are recognised as income on a straight-line basis over the lease term.

2.16 Provisions

Provisions are recognised when the Company has a legal obligation or irrevocable commitment as a result of the event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects that provision amount in part or in full will be compensated, compensation to be received is recorded as a separate asset, but only when it is virtually certain. Expenses related to provisions are recorded in profit or loss in the statement of profit or loss and other comprehensive income, net of compensation receivable. If the effect of the time value of money is material, the amount of provision is discounted using the effective pre-tax discount rate set based on the interest rates for the period and taking into account specific risks associated with the provision as appropriate. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

2.17 Revenue recognition

Revenue of the Company comprises the fair value of the consideration received or receivable for goods and services sold in the ordinary course of business. Revenue is shown net of value-added tax, returns, rebates and discounts.

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities, as described below.

(a) Revenue from sale of electricity

Revenue from sale of electricity to private customers is recognised in the period upon supply of electricity and receipt of payment for electricity supplied. At the end of each reporting period, revenue is accrued to account for electricity supplied but not paid yet.

Revenue from sale of electricity to business customers is recognised upon sale of electricity based on the actual consumption of electricity which is determined according to the readings of electricity meters.

Revenue from sale of electricity is regulated.

(b) Revenue from distribution of natural gas

Revenue from non-household customers for the distribution of natural gas is recognised on a monthly basis referring to the readings of measuring devices provided by users or if users did not provide the readings of measuring devices, referring to the quantities of gas calculated according to the approved methodology for the calculation of quantities of natural gas (an accrual basis).
Revenue from household customers is recognised on a monthly basis referring to the quantities of gas calculated according to the approved methodology for the calculation of quantities of natural gas, i.e. the calculation of revenue takes into account mismatches between quantities of gas declared by household customers and quantities of gas used by them (an accrual basis). Revenue from household consumers do not form a significant part of the gas revenues.

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

Fees received after 1 July 2009 for the connection of new customers, producers and for the dislocation or reconstruction of electricity network objects or facilities upon the request of the customer, producer or any other entity, are recognised as revenue upon connection.

The above-mentioned fees received before 1 July 2009 were initially recognised as accrued deferred revenue and subsequently recognised as revenue on a proportionate basis over the useful life of the newly created property, plant and equipment concerned. The related costs comprising the acquisition cost of property, plant and equipment and other costs were capitalised and are depreciated over the estimated useful life of the assets capitalised.

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

Payments made by users for the connection to the Company's gas system are recorded as deferred revenue in the statement of financial position and recognised as revenue over the depreciation period of the capitalised property, plant and equipment concerned. Such revenue is shown in the line item 'Sales revenue' in the statement of comprehensive income.

(e) Revenue from sale of services

Revenue from sale of services is recognised during the period in which the services have been rendered with reference to the stage of completion of the specific transaction which is determined as a percentage of services actually rendered as compared to the total services to be rendered.

(f) Revenue from sale of goods

Revenue from sale of goods is recognised when all the risks relating to loss of or damage to goods have been transferred to the Company's buyer in accordance with the standard sale terms and conditions (INCOTERMS) agreed with the buyer, the amount of revenue can be measured reliably, and the collection of the related receivable amounts is certain.

(g) Interest income

Interest income is recognised on accrual basis (using the effective interest rate method). Interest received is recorded in profit or loss in the statement of profit or loss and other comprehensive income as finance income.

(h) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.18 Impairment of assets

(a) Financial assets

At each reporting date the Company assesses whether there is an indication that financial assets may be impaired. A financial asset is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial assets. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows, estimated using the original effective interest rate.

The carrying amount of the financial assets measured at amortised cost is reduced by the amount of estimated impairment loss through the use of an allowance account for doubtful debts. The carrying amount of the financial assets measured at fair value is adjusted by directly recording changes in the asset's value. Impaired trade receivables are written-off when they are identified as irrecoverable.

If subsequent to the reporting date the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in the statement of comprehensive income to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date that would have been determined had no impairment loss been recognised for the asset in prior years.

(b) Non-financial assets

The Company's non-financial assets are assessed for impairment when events and circumstances indicate that the value of assets may not be recoverable. Where the carrying amount of an asset exceeds its recoverable amount, impairment loss is accounted for in profit or loss. The recoverable amount is the higher of an asset's fair value, less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The previously recognised impairment loss is reversed when there are indications that recognised loss on impairment of an asset no longer exists or has reduced significantly. Reversal is accounted for in profit or loss under the same item as impairment loss.

2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.20 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary registered shares in issue during the period. Where the number of shares changes without causing a change in the economic resources, the weighted average number of ordinary registered shares is adjusted in proportion to the change in the number of shares as if such change happened at the beginning of the previous reporting period presented. The Company has no dilutive instruments, therefore, basic and diluted earnings per share do not differ.

2.21 Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of income or economic benefits is probable.

2.22 Events after the end of the reporting period

All subsequent events after the end of the reporting period (adjusting events) are accounted for in the financial statements if they relate to the reporting period and have significant impact on the financial statements. All subsequent events that are significant but not adjusting events are disclosed in notes to the financial statements.

2.23 Inter-company offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.24 Regulated activities

The National Commission For Energy Control and Prices regulates the Company's level of profitability by approving the prices of services for the next year. The level of prices depends on expected costs of the next year, expected volume of services provided, the variance between profit earned during the prior periods and the regulated amount of profit and other matters.

Actual costs incurred by the Company during the year may differ from budgeted costs at the time of the approval of prices and the actual volume of services may differ from the expected volume. As a result, the Company's actual profit may deviate from the regulated level and the difference will affect the prices of future services.

The Company does not recognise regulatory assets or liabilities that would be used to adjust the current year profit in order to arrive at the regulated level of profit, if this difference is recovered / returned in the course of service provision in future.

3 Critical accounting estimates

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

The areas where estimates are significant to the financial statements are presented below.

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 Agreement on Sale of Shares 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 (Notes 7, 9). In 2017, the Company and Lietuvos Energija UAB agreed on the removal of conditions related to the calculation of the amount of the premium to the basic sale price. On 19 February 2018, the Company and Lietuvos Energija UAB signed an annex to the amendment of the agreement which stipulates that the amount of the premium to the basic sale price equals to EUR 5,560,000 and is to be paid regardless of whether the normalised EBITDA of NT Valdos UAB reaches the limit specified in the agreement in 2018.

Revaluation and impairment of property, plant and equipment

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

The assessment of the fair value of property, plant and equipment used in the electricity operating segment as at 31 December 2017 included the cash flow forecasts until 2057 as the distribution activity is regulated on the basis of the regulated base of property, plant and equipment, which mostly consists of assets with long useful life (40 years) – electricity lines. The Company has determined that the fair value of property, plant and equipment of electricity operating segment differs from the book value of this property not more than by 5 percent. In the opinion of the management, this difference is not material, therefore the Company's management decided that no adjustments for fair value will be made.

An impairment test for property, plant and equipment used in the gas operating segment (measuring the recoverable amount) was carried out by making cash flow forecasts until 2072 for the natural gas operating segment as the gas distribution activity is regulated on the basis of the regulated base of property, plant and equipment, which mostly consists of assets with long useful life (55 years); a continuous cash flow has been estimated beyond the year 2072. The Company's management found no need to account for an additional provision for impairment of these assets or a reversal of existing impairment.

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 December. 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 December and multiplying the difference by the average rate per 1 kWh (Note 10).

Impairment losses of amounts receivable

Impairment losses of amounts receivable were determined based on management's estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. Recoverability rate depends on economic situation and actions taken to recover significantly overdue amounts receivable.

The Company's amounts receivable are assessed to determine their value and impairment collectively in a group of similar receivables. In case of collectively assessed receivables for impairment, the Company takes into account historical statistics on loss events in the category of similar amounts receivable. The Company reviews annually whether the provisioning rates used for collectively assessed receivables are in line with the historical data of impairment of receivables and approves the provisioning rates for collectively assessed receivables for the upcoming year. Based on the Company's estimates, receivables not past due are also assessed, the recovery of a certain percentage of which is not probable in the future. For further details, see Note 9.

All amounts in EUR thousands unless otherwise stated

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
At 31 December 2015										
Cost	79	20,364	756,315	276,809	9,187	3,836	11,527	6,980	13,571	1,098,668
Accumulated depreciation	-	(1,903)	(33,403)	(76,571)	(3,875)	(1,319)	(4,050)	(1,533)	-	(122,654)
Impairment	-	-	-	(53,572)	(645)	-	-	-	-	(54,217)
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	-	106	554	7	-	1,247	326	462	143,927	146,629
Disposals	-	(1)	(169)	-	-	-	(16)	-	-	(186)
Write-offs	-	(8)	(3,333)	(13)	(1)	-	(4)	(1)	-	(3,360)
Reclassification between groups	-	687	114,039	12,887	1,225	-	743	1,876	(131,457)	-
Reclassification to/from inventories	-	-	-	-	-	-	-	-	775	775
Depreciation charge	-	(1,915)	(33,598)	(4,823)	(606)	(997)	(1,642)	(1,533)	-	(45,114)
Net book amount at 31 December 2016	**79**	**17,330**	**800,405**	**154,724**	**5,285**	**2,767**	**6,884**	**6,251**	**26,816**	**1,020,541**
At 31 December 2016										
Cost	79	21,084	866,233	289,364	10,404	5,070	12,481	9,314	26,816	1,240,845
Accumulated depreciation	-	(3,754)	(65,828)	(84,335)	(4,512)	(2,303)	(5,597)	(3,063)	-	(169,392)
Impairment	-	-	-	(50,305)	(607)	-	-	-	-	(50,912)
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	-	7	415	14	-	-	166	449	221,456	222,507
Disposals	-	-	(85)	-	-	-	-	-	-	(85)
Write-offs	-	(24)	(4,328)	(30)	(56)	-	(15)	(1)	-	(4,454)
Reclassification between groups	-	1,760	163,925	28,911	919	-	1,414	1,926	(198,855)	-
Impairment	-	-	-	-	-	-	-	-	(401)	(401)
Depreciation charge		(2,050)	(37,758)	(5,016)	(637)	(823)	(1,607)	(1,469)	-	(49,360)
Net book amount at 31 December 2017	**79**	**17,023**	**922,574**	**178,603**	**5,511**	**1,944**	**6,842**	**7,156**	**49,016**	**1,188,748**
31 Dec 2017										
Cost	79	22,815	1,024,529	318,195	11,141	5,020	13,576	11,675	49,417	1,456,447
Accumulated depreciation	-	(5,792)	(101,955)	(92,400)	(5,055)	(3,076)	(6,734)	(4,519)	-	(219,531)
Impairment	-	-	-	(47,192)	(575)	-	-	-	(401)	(48,168)
	79	**17,023**	**922,574**	**178,603**	**5,511**	**1,944**	**6,842**	**7,156**	**49,016**	**1,188,748**

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

Structures and machinery comprise objects related to electricity distribution.

Interest capitalised as part of property, plant and equipment amounted to EUR 64 thousand at the Company in 2017. The interest rate was established at 0.82%.

4 Property, plant and equipment (continued)

Assessment of the fair and recoverable values of the Company's property plant and equipment in 2017

At least once a year the Company assesses whether there is any indication that the carrying amount of property, plant and equipment recorded at acquisition cost could be impaired and whether the carrying amount of property, plant and equipment recorded at the revalued amount does not differ materially from their fair value. The Company performs the impairment test and revaluation of assets, if such indications are found.

At the reporting date of 31 December 2017, the Company used the discounted cash flow method to assess the values of the assets. Discounted cash flows were calculated in accordance with the following legal acts and methodologies regulating the activities of natural gas and electricity distribution, public supply and guaranteed supply of electricity in force as at the 31 December 2017 reporting date:

- *Methodology of Setting Price Ceilings of Electricity Transmission, Distribution and Public Supply Services and Public Energy Price Ceilings* ("the Electricity Methodology") approved by the Commission's Resolution No O3-3 of 15 January 2015 and subsequent amendments;

- *Description of Requirements for Accounting Separation and Cost Allocation of Electric Power Sector Companies and Requirements Related to Accounting Separation* ("the Electricity Description") approved by the Commission's Resolution No O3-507 of 18 September 2015 and subsequent amendments;

- *Methodology of Setting the Rate of Return on Investments* ("the WACC Methodology") approved by the Commission's Resolution No O3-510 of 22 September 2015 and subsequent amendments;

- *Methodology of Setting Regulated Prices in the Natural Gas Sector* ("the Gas Methodology") approved by the Commission's Resolution No O3-367 of 13 September 2013 and subsequent amendments;

- *Description of Requirements for Accounting Separation and Cost Allocation of Natural Gas Sector Companies and Requirements Related to Accounting Separation* ("the Gas Description") approved by the Commission's Resolution No O3-112 of 18 July 2013 and subsequent amendments.

According to Company's management, the Company has two cash generating units – electricity supply and distribution (hereinafter – the Electricity Business Segment) and gas distribution (hereinafter – the Gas Business Segment), therefore the revaluations of segment-attributed assets were conducted separately for each segment.

Revaluation of property, plant and equipment attributed to the Electricity Business Segment in 2017

The Electricity Business Segment consists of property, plant and equipment recorded at the revalued amount; its carrying amount totals EUR 989.6 million. The fair value assessment was performed by forecasting cash flows until 2057, as the distribution activity is regulated in accordance with the regulated asset base, which mainly

includes assets with a long period (40 years) of operation, i.e. electricity lines. The main assumptions used in the cash flow forecast were as follows:

Setting the price cap of the electricity distribution service for 2018, in the Certificate of 17 October 2017, the Commission approved the rate of return on investments equal to 4.88% for this period. This rate is used to determine return on investments for the period of 2018–2020. 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 4.89% was used for discounting cash flows;

Terminal value is estimated with the rate of return on investments being equal with the discount rate;

The Company's operating expenses for 2018–2020 are planned according to the Company's long-term plans, while based on management's estimates operating expenses for 2021–2025 are planned according to projected directions for the reduction of operating expenses. Starting from 2026, changes are planned referring to expected changes in the average annual consumer price index and remuneration prevailing during valuation;

A part of operating expenses incurred by the Company is not included in the regulated prices of the distribution and supply activity in accordance with the provisions of the Electricity Description;

It is estimated that in different regulatory periods additional profit will be earned as a result of the planned performance efficiency of the Company (such a possibility is established in the Methodology);

Investments are shown under the reviewed ten-year investment plan for 2017–2026. Starting from 2027, investments are reduced proportionately assuming that all items of technological assets that are currently depreciated or become depreciated over the period until 2057 will be recovered until 2057;

The cost of capital (return on investments and depreciation of non-current assets) is calculated and included, when determining the prices of the distribution services for other regulatory periods, in accordance with the long-run average incremental cost (LRAIC) model approved by the Commission ("the Model") and in view of paragraph 7 of the Electricity Methodology;

Considering that no significant changes occurred in the regulatory environment related to electricity, having assessed all the above-mentioned assumptions and having performed the fair value assessment, the Company has identified that the carrying amount of property, plant and equipment attributed to the Electricity Business Segment as at the reporting date of 31 December 2017 would increase immaterially (up to 5%). Consequently, the Company's management decided not to make adjustments to the fair value of the assets.

Sensitivity analysis. In 2017 the Company performed the sensitivity analysis on the fair value measurement test in respect of changes in unobservable inputs using the following scenarios:

Sensitivity analysis scenario I: the establishment of the level of revenue from 2021 by the Commission and the application of a 10% lower rate of return on investments (i.e. as compared to the forecasted 3.76% rate), equal to 3.38%, would result in the decrease of the fair value of property, plant and equipment down to EUR 900 million.

Sensitivity analysis scenario II: if the rate of return on investments (which currently is equal to 3.76%) was equal to the pre-tax discount rate of 4.89%, starting from the new regulatory period (the year 2021) the fair value of the Company's property, plant and equipment attributed to the Electricity Business Segment would reach EUR 1,434 million.

Sensitivity analysis scenario III: if the pre-tax discount rate was 5%, the value of the assets would remain to be approximately equal to the carrying amount. If a discount rate increased up to 5.2%, the values of the Company's assets would deviate from the carrying amount more than 5% and the Company would revaluate its assets.

Assessment of the recoverable value of property plant and equipment attributed to the Gas Business Segment in 2017

The carrying amount of the property, plant and equipment attributable to the gas business segment is EUR 199.1 million. It comprises property, plant and equipment stated at acquisition cost and revalued amount, i.e. gas distribution pipelines and their equipment, technological gas equipment and structures that are stated using the cost method (the carrying amount equals to EUR 184.1 million) and the remaining assets are recorded at the revalued amount (including construction in progress amounting to EUR 6.2 million and other assets amounting to EUR 8.4 million). The recoverable and fair values of these assets were assessed by forecasting cash flows until 2072, because the gas distribution activity is regulated with reference to the regulated asset base, which mainly consists of assets with long-term useful life, e.g. gas distribution pipelines (55 years). The main assumptions used in the cash flow forecast were as follows:

In setting the price cap of the gas distribution service for 2014–2018, the Commission approved the rate of return on investments equal to 7.09% for this period. This rate is used to determine the return on investments for 2018. Starting from 2019, the rate of return on investments of 3.76% is applied for the entire cash flow forecast period (a new regulatory period) (as calculated according to the calculation data, which is publicly available on the Commission's website);

A pre-tax discount rate of 4.89% was used for discounting cash flows;

Terminal value is estimated with the rate of return on investments being equal with the discount rate;

The Company's operating expenses for 2018–2020 are planned according to the Company's long-term plans, while based on management's estimates operating expenses for 2021–2025 are planned according to projected directions for the reduction of operating expenses. Starting from 2026, changes are planned referring to expected changes in the average annual consumer price index and remuneration prevailing during valuation;

A part of operating expenses incurred by the Company is not included in the regulated prices of the distribution and supply activity in accordance with the provisions of the Gas Description;

Investments are shown under the ten-year investment plan for 2017–2026. Starting from 2027 and until 2072, moderate decrease is expected for each year;

The calculation on the level of revenue included considerations of the new incentive mechanism for greater efficiency in the natural gas segment which will be applied from the new regulatory period (the year 2019). As a result of reduced operating expenses (OPEX) and evidence of increased efficiency, no limitations will be placed on the possibility of receiving an incentive amount of the maximum 4% of return on investments. The incentive amount may comprise from 50% to 100% of the reduced operating expenses (OPEX) and the level of revenue will not be decreased by that amount.

Having assessed all the above-mentioned assumptions and having performed the fair value assessment, the Company has not identified any impairment with respect to property, plant and equipment attributed to the Gas Business Segment as at the reporting date of 31 December 2017, nor any indications of increase thereof and possible reversal of existing impairment.

Sensitivity analysis. The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs using the following scenarios:

Sensitivity analysis scenario I: the establishment of the level of the Company's Gas Business Segment revenue from 2019 by the Commission and the application of a 10% lower rate of return on investments, i.e. equal to 3.38%, the recoverable value of the Company's property, plant and equipment attributed to the Natural Gas Segment would decrease by EUR 20 million.

Sensitivity analysis scenario II: if the rate of return on investments (which currently is equal to 3.76% based on the Company's estimates) was equal to the pre-tax discount rate of 4.89%, starting from the new regulatory period (the year 2019) the recoverable value attributed to the Natural Gas Segment would increase by EUR 60 million and the Company would establish impairment reversal of that amount.

Sensitivity analysis scenario III: if the pre-tax discount rate was 5%, impairment of EUR 5 million would be recorded.

Sensitivity analysis scenario IV: if the changed incentive mechanism for greater efficiency of the Company's operations would not come into force starting from the new regulatory period and the limit of the maximum incentive amount would remain at 4% of return on investments, the recoverable value of property plant and equipment attributed to the Gas Business Segment would decrease by EUR 9 million.

All amounts in EUR thousands unless otherwise stated

The distribution of the fair value of the Company's property, plant and equipment as at 31 December 2017.

Company	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Land	-	-	79	79
Buildings	-	-	17,023	17,023
Structures and machinery	-	474	922,100	922,574
Motor vehicles	-	621	1,323	1,944
Other PP&E, computer hardware and other communication equipment	-	-	13,998	13,998
Construction in progress	-	-	49,016	49,016
Fair value at 31 December 2017	**-**	**1,095**	**1,003,539**	**1,004,634**

If no revaluation had been carried out for PP&E, the net book values of the Company's PP&E would have been as follows as at 31 December 2017 and 2016:

Company	Land	Buildings	Structures and machinery	Motor vehicles	Computer hardware, communica-tion and other office equipment	Other PP&E	Construction in progress	Total
At 31 December 2017	109	31,101	1,072,415	2,050	10,727	7,176	49,027	**1,172,605**
At 31 December 2016	109	34,976	958,370	2,919	12,382	6,329	26,816	**1,041,901**

Revaluation of the Company's property plant and equipment in 2016

At the reporting date of 31 December 2016, the Company used the discounted cash flow method to assess whether the carrying amount of its property, plant and equipment does not materially differ from fair value. Discounted cash flows were calculated in accordance with the legal acts and methodologies regulating the distribution and supply activities in force as at the 31 December 2016 reporting date.

Having assessed all assumptions and having performed the assets' fair value test, the Company has identified that the carrying amount of property, plant and equipment does not materially differ from its fair value/recoverable amount.

The assets attributable to the Company's Electricity Business Segment (Lesto AB) was previously revalued as at 31 December 2014. The fair value was determined with reference to Lesto AB PP&E valuation report by Ernst & Young Baltic UAB. The fair value of assets was determined using the income and cost approach. The revaluation of the buildings and related structures attributable to the Company's Gas Business Segment was previously conducted as at 31 December 2015. The fair value was based on the value determined by independent property valuers Korporacija Matininkai UAB and Ober-Haus UAB real estate. The valuation was performed using the market approach.

The distribution of the fair value of the Company's property, plant and equipment as at 31 December 2016.

Company	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Land	-	-	79	79
Buildings	-	-	17,330	17,330
Structures and machinery	-	452	799,953	800,405
Motor vehicles	-	1,039	1,687	2,726
Other PP&E, computer hardware and other communication equipment	-	-	13,135	13,135
Construction in progress	-	-	26,816	26,816
Fair value at 31 December 2016	-	**1,491**	**859,000**	**860,491**

All amounts in EUR thousands unless otherwise stated

5 Intangible assets

	Patents and licences	Computer software	Other intangible assets	Projects in progress	Total
At 31 December 2015					
Cost	1,164	8,008	226	804	10,202
Accumulated amortisation	(899)	(5,542)	(149)	-	(6,590)
Net book amount at 1 January 2016	**265**	**2,466**	**77**	**804**	**3,612**
Additions	-	7	60	2,138	2,205
Reclassification between groups	-	2,053	13	(2,066)	-
Amortisation	(143)	(2,061)	(40)	-	(2,244)
Net book amount at 31 December 2016	**122**	**2,465**	**110**	**876**	**3,573**
31 Dec 2016					
Cost	1,165	10,003	290	876	12,334
Accumulated amortisation	(1,043)	(7,538)	(180)	-	(8,761)
Net book amount at 1 January 2017	**122**	**2,465**	**110**	**876**	**3,573**
Additions	-	136	-	3,916	4,052
Reclassification between groups	19	2,762	12	(2,793)	-
Amortisation	(99)	(2,028)	(47)	-	(2,174)
Net book amount at 31 December 2017	**42**	**3,335**	**75**	**1,999**	**5,451**
31 Dec 2017					
Cost	1,183	12,887	301	1,999	16,370
Accumulated amortisation	(1,141)	(9,552)	(226)	-	(10,919)
Net book amount at 31 December 2017	**42**	**3,335**	**75**	**1,999**	**5,451**

6 Investments in joint ventures and associates

Investments in associates

Movements of investments in associates in 2017 and 2016 were as follows:

	2017	2016
Carrying amount at 1 January	**2,346**	**2,018**
Dividends received	(112)	-
Profit (loss) from investments in associates	148	328
Carrying amount at 31 December	**2,382**	**2,346**

The condensed statements of financial position and the condensed statements of comprehensive income of the associates for the year 2017 (unaudited data) and the year 2016 (audited data) are presented below.

Condensed	Technologijų ir Inovacijų Centras UAB		Verslo Aptarnavimo Centras UAB	
statement of financial position	2017	2016	2017	2016
Current assets and liabilities				
Cash and cash equivalents	106	298	627	527
Other current assets	3,787	2,681	3,026	1,916
Total current assets	**3,893**	**2,979**	**3,653**	**2,443**
Other current liabilities	(5,361)	(3,221)	(2,706)	(1,795)
Total current liabilities	**(5,361)**	**(3,221)**	**(2,706)**	**(1,795)**
Non-current assets and liabilities				
Property, plant, and equipment	7,111	6,153	1	1
Other non-current assets	1,302	1,019	91	71
Total non-current assets	**8,413**	**7,172**	**92**	**72**
Other non-current liabilities	(153)	(47)	-	-
Total non-current liabilities	**(153)**	**(47)**	**-**	**-**
Net assets	**6,792**	**6,883**	**1,039**	**720**

All amounts in EUR thousands unless otherwise stated

Condensed statement of comprehensive income	Technologijų ir Inovacijų Centras UAB		Verslo Aptarnavimo Centras UAB	
	2017	2016	2017	2016
Revenue	**14,317**	**14,500**	**11,209**	**9,724**
Profit before income tax	**338**	**311**	**547**	**312**
Income tax benefit/(expenses)	(145)	87	(94)	(56)
Profit after income tax	**193**	**398**	**453**	**256**
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**193**	**398**	**453**	**256**

Condensed financial information	Technologijų ir Inovacijų Centras UAB		Verslo Aptarnavimo Centras UAB	
	2017	2016	2017	2016
Net assets at the beginning of the period (1 January)	**6,883**	**6,685**	**720**	**464**
Formation/cancellation of authorised share capital, changes in reserves	-	-	-	-
Dividends	(284)	(200)	(134)	-
Profit (loss) for the period	193	398	453	256
Other comprehensive income	**-**	**-**	**-**	**-**
Net assets at the end of the period (31 January)	**6,792**	**6,883**	**1,039**	**720**
Ownership interest	29%	29%	22%	22%
Investments in the associate	1,877	1,877	129	129
Carrying amount applying the equity method	**2,159**	**2,188**	**223**	**158**

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 assets measured at fair value through profit or loss. Other amounts receivable comprise prepayments for leasehold improvements:

	2017	2016
Non-current portion of mortgage loans granted	271	340
Assets at fair value through profit or loss	-	5,306
Other non-current amounts receivable	578	190
Total	**849**	**5,836**

Assets at fair value through profit or loss consist 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 Valdos UAB, which is to be settled after 31 March 2018.The fair value of the price premium is attributed to Level 3 in the fair value hierarchy.

On 31 December 2016, the Company’s management reviewed the assessment of the amount of the sale price premium and determined that the fair value of the price premium for shares was equal to EUR 5,306 thousand as at 31 December. Impairment of EUR 5,560 thousand was presented in the line item ‘Impairment and write-off expenses’ in the statement of comprehensive income. The result of the discounting of the price premium equal to EUR 652 thousand was presented in the line item ‘Income from financing activities’.
The mortgage loans are repayable in instalments till 2027. These loans are secured over residential housing property. In 2017, the current portion of these loans amounted to EUR 70 thousand (2016: EUR 77 thousand) and was accounted for under trade and other receivables (Note 9). These loans were issued at a fixed interest rate ranging from 0.1% to 1%.

	2017	2016
Fair value of mortgage loans granted	411	520
Carrying amount of mortgage loans granted	341	417

The fair value of mortgage loans was estimated based on discounted cash flows at a rate of 1.59% (31 December 2016: 1.68%). The discount rate corresponds to the interest rate on loans granted to non-financial entities and households as published by the Bank of Lithuania. The fair value of mortgage loans is within Level 3 of the fair value hierarchy. The weighted average effective interest rate used by the Company for discounting of mortgage loans was 7.93% as at 31 December 2017 (2016: 7.82%).

The fair value of other non-current amounts receivable does not significantly differ from the carrying amount.

8 Inventories

	2017	2016
Raw materials and spare parts	1,530	1,186
Natural gas	161	84
Fuel	45	47
Other	571	459
Less: write-down allowance for inventories	(172)	(45)
Total	**2,135**	**1,731**

All amounts in EUR thousands unless otherwise stated

Movements in the impairment allowance for inventories in 2017 and 2016 were as follows:

	2017	2016
Inventory write-down at the beginning of the period	45	38
Increase in inventory write-down	135	29
Write-off/(reversal) of inventory write-down	(8)	(22)
Inventory write-down at the end of the period	**172**	**45**

9 Trade and other receivables

	2017	2016
Trade receivables for electricity	47,769	53,090
Trade receivables for distribution of natural gas	1,508	1,595
Other trade receivables	1,189	547
Short-term loans granted to related parties (*Cashpool*)	-	1,502
Assets at fair value through profit or loss	5,560	-
Trade and other receivables from related parties (Note 28)	10,526	11,143
Current portion of mortgage loans	70	77
Other receivables	3,679	368
Less: impairment allowance for doubtful receivables	(5,915)	(7,230)
Total	**64,386**	**61,092**

The fair values of trade and other receivables approximate their carrying amounts.

Current portions of mortgage loans are disclosed at a net present value and are not past due.

The ageing of trade and other receivables , without deductions for impairment, was as follows:

	2017	2016
Not past due	58,422	54,619
Past due up to 1 month	2,589	2,222
Past due from 1 to 3 months	1,200	1,050
Past due from 3 to 6 months	664	451
Past due from 6 to 12 months	1,323	1,341
Past due over 12 months	6,104	8,639
Total	**70,302**	**68,322**

Trade receivables are non-interest bearing and are normally settled over the term of 25 to 35 days.

The Company does not account for impairment of amounts receivable as regards amounts receivable from public institutions, amounts rewarded, loans granted, amounts receivable from employees, amounts receivable from cash collection institutions.

The breakdown of the provision for impairment of trade receivables by terms of settlement is as follows:

	2017	2016
Not past due	304	322
Past due up to 1 month	151	114
Past due from 1 to 3 months	207	142
Past due from 3 to 6 months	225	148
Past due from 6 to 12 months	621	605
Past due over 12 months	4,407	5,899
Total	**5,915**	**7,230**

All amounts in EUR thousands unless otherwise stated

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

Balance at 1 January 2016	**8,393**
Impairment charge for the year	186
Write-offs	(1,349)
Balance at 1 January 2017	**7,230**
Impairment charge (reversal) for the year	(661)
Write-offs	(654)
Balance at 31 December 2017	**5,915**

10 Prepayments, deferred expenses and accrued revenue

	2017	2016
Accrued revenue from sales of electricity	4,900	4,992
Prepayments for services	1,521	982
Other prepayments, deferred expenses, other accrued revenue	803	337
Total	**7,224**	**6,311**

11 Cash and cash equivalents, and term deposits

Cash and cash equivalents

	2017	2016
Cash at bank	6,449	10,662
Total	**6,449**	**10,662**

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

	2017	2016
Cash and cash equivalents	6,449	10,662
Bank overdraft (Note 18)	(10,655)	-
	(4,206)	**10,662**

Presented below is the analysis of the credit quality of balances of cash and cash equivalents based on ratings established by the rating agency Moody's:

	2017	2016
Aa2	2,955	3004
Aa3	2,290	6,836
A1	1,204	-
A2	-	822
A3	-	-
Total	**6,449**	**10,662**

12 Authorised share capital

As at 31 December 2017, the Company's authorised share capital was divided into 894,630,333 ordinary registered shares with a nominal value of EUR 0.29 each.

13 Reserves

Legal reserve

A legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfers of not less than 5 per cent of net profit are required until the reserve reaches 10 per cent of the share capital. As at 31 December 2017 and 2016, the legal reserve amounted to EUR 25,910 thousand. The legal reserve can be used only to cover the Company's loss. When the legal reserve is used to cover the loss, the legal reserve is re-established from distributable profit in accordance with the procedure set in Article 59(5) of the Law on Companies.

Revaluation reserve

Revaluation reserve arises from revaluation of property, plant and equipment due to the value increase. This reserve cannot be used to cover losses.

	Revaluation reserve	Deferred income tax	Net of deferred income tax
Balance at 1 January 2016	**65,317**	**(9,797)**	**55,520**
Transfer of revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)	(6,654)	998	(5,656)
Balance at 31 December 2016	**58,663**	**(8,799)**	**49,864**
Balance at 1 January 2017	**58,663**	**(8,799)**	**49,864**
Transfer of revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)	(6,099)	915	(5,184)
Balance at 31 December 2017	**52,564**	**(7,884)**	**44,680**

14 Dividends

Declared dividends per share:

	2017	2016
Declared dividends (in EUR thousand)	92,916	43,120
Weighted average number of shares (thousands)	894,630	894,630
Declared dividends per share (in EUR per share)	**0.104**	**0.048**

The ordinary general meeting of the Company's shareholders 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 the Company's shareholders was held on 29 September 2017 where it was decided to approve the profit appropriation for January–June 2017 and to allocate EUR 0.046 per share in dividends, in total EUR 41,153 thousand in dividends.

The ordinary general meeting of the Company's shareholders 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.

The ordinary general meeting of the Company's shareholders was held on 26 September 2016 where it was decided to approve the profit appropriation for January–June 2016 and to allocate EUR 0.014 per share in dividends, in total EUR 12,524 thousand in dividends.

15 Borrowings

	2017	2016
Non-current borrowings		
Borrowings from banks	-	161,650
Borrowings from related parties	239,648	-
	239,648	**161,650**
Current borrowings		
Bank overdraft (Note 11)	10,655	-
Borrowings from banks	-	57,431
Borrowings from related parties	122,385	-
	133,040	**57,431**
Total borrowings	**372,688**	**219,081**

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

Prior to releasing the green bonds issue of EUR 300 million by Lietuvos Energija, a portion of its funds was foreseen to put into use for ESO's long-term investments in the upgrade of its distribution networks.

Liabilities assumed under the Agreement are to be fulfilled by 14 July 2027. The fixed interest rate under the Agreement coincides with the effective interest rate on the green bonds issue and amounts to 2.23%. The essential terms and conditions of the Agreement coincides with the terms and conditions of the green bonds issue. The Agreement does not provide other additional obligations (guarantees, suretyship, pledges, etc.) to enforce obligations.

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

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

All amounts in EUR thousands unless otherwise stated

Refinanced borrowings of the Company bear variable interest rate with repricing period up to 3 months. No assets are provided as collateral for borrowings. The agreements provide partly quarterly repayments.

Non-current borrowings by maturity:

	2017	2016
Between 1 and 2 years	57,402	87,150
Between 2 and 5 years	48,704	74,500
After 5 years	133,542	-
	239,648	**161,650**

The average interest rates (%) at the financial reporting date:

	2017	2016
Bank overdraft	0.55	0.55
Borrowings from banks	-	0.74
Borrowings from related parties	1.2	-

The Company has the following undrawn committed credit facilities expiring within or after one year:

	2017	2016
Committed credit facilities	22,645	60,000

Net debt balances as at 31 December 2017 and 31 December 2016:

	2017	2016
Cash and cash equivalents	6,449	10,662
Borrowings payable within one financial year (including overdraft)	(133,040)	(57,431)
Borrowings payable after one year	(239,648)	(161,650)
Net debt	**(366,239)**	**(208,419)**

Reconciliation of net debt balances and cash flows from financing activities of 2017 and 2016:

	Cash/overdraft	Borrowings	Total
Net debt as at 31 December 2016	**10,662**	**(219,081)**	**(208,419)**
(Decrease) in cash and cash equivalents	(14,868)	-	(14,868)
Loan received	**-**	**(203,700)**	(203,700)
Loan repaid	-	61,377	61,377
Other non-cash changes	-	(628)	(628)
Net debt as at 31 December 2017	**(4,206)**	**(362,032)**	**(366,238)**

16 Income tax

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

	2017	2016
Current year income tax expenses	3,552	8,496
Effect of tax losses taken-over	(726)	-
Deferred income tax expenses	4,414	6,427
Total	**7,240**	**14,923**

All amounts in EUR thousands unless otherwise stated

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	2017	2016
Deferred income tax assets:		
Deferred income tax assets to be realised after more than 12 months	4,185	4,684
Deferred income tax assets to be realised within 12 months	1,624	641
Total	**5,809**	**5,325**
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after more than 12 months	(14,384)	(9,472)
Deferred income tax liabilities to be settled within 12 months	(2,794)	(2,808)
Total	**(17,178)**	**(12,280)**

Deferred income tax assets and deferred income tax liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts offset are presented in the table below:

Deferred income tax assets	Revenue from connection of new customers	Impairment of assets	Revaluation of PP&E and differences due to different depreciation rates	Accrued expenses	Overdeclared electricity	Unused investment relief	Total
At 1 January 2016	**3,135**	**1,299**	**9,197**	**888**	**219**	**1,212**	**15,950**
Income tax (expenses)/income recognised in profit or loss	(182)	(184)	(9,197)	144	6	(1,212)	(10,625)
At 31 December 2016	**2,953**	**1,115**	**-**	**1,032**	**225**	**-**	**5,325**
Income tax (expenses)/income recognised in profit or loss	(183)	(184)	-	(17)	(122)	990	(484)
At 31 December 2017	**2,770**	**931**	**-**	**1,015**	**103**	**990**	**5,809**

Deferred income tax liabilities	Revaluation of PP&E and differences due to different depreciation rates	Investment relief	Write-off of grants	Total
At 1 January 2016	**(12,504)**	**(2,738)**	**(1,235)**	**(16,477)**
Income tax (expenses)/income recognised in profit or loss	3,745	413	39	4,197
At 31 December 2016	**(8,759)**	**(2,325)**	**(1,196)**	**(12,280)**
Income tax (expenses)/income recognised in profit or loss	(5,344)	408	38	(4,898)
At 31 December 2017	**(14,103)**	**(1,917)**	**(1,158)**	**(17,178)**

The amount of income tax expenses reported in the statement of profit or loss and other comprehensive income attributable to the operating result for the year can be reconciled against the amount of income tax expenses that would result from applying the statutory income tax rate of 15 per cent to profit before tax:

	2017	2016
Profit before income tax	84,792	107,425
Income tax calculated at a rate of 15% (2016: 15%)	12,719	16,114
Expenses not deductible for tax purposes	378	1,281
Income not subject to tax	(288)	(285)
Income tax relief for investments	(4,693)	(2,109)
Effect of tax losses taken-over	(726)	-
Adjustments of income tax in respect of prior years	-	11
Support , charity	(150)	(124)
Other	-	35
Total	**7,240**	**14,923**

All amounts in EUR thousands unless otherwise stated

17 Deferred revenue

	2017	2016
Deferred revenue from customer connection fees	112,929	113,258
Deferred revenue from public service obligation (PSO) services	273	285
Total	**113,202**	**113,543**

Deferred revenue from customer connection fees:

	2017	2016
Opening balance	**118,427**	**121,624**
Received during the year	4,988	1,972
Recognised as income in the statement of comprehensive income	(5,243)	(5,169)
Closing balance	**118,172**	**118,427**

	2017	2016
Non-current portion	112,929	113,258
Current portion (Note 21)	5,243	5,169
Total	**118,172**	**118,427**

Payments made by users for the connection to the Company's gas system are recorded as deferred revenue and recognised as revenue over the average useful life of the capitalised property, plant and equipment concerned. Such revenue is shown in the line item 'Sales revenue' in the statement of comprehensive income.

18 Grants

Balance at 31 December 2015	**21,384**
Received	424
Coverage of expenses incurred	(18)
Reversed	17
Amortisation charge	(1,330)
Balance at 31 December 2016	**20,477**
Received	444
Reversed	(14)
Amortisation charge	(1,149)
Balance at 31 December 2017	**19,758**

Grants consist of funds received from the EU Funds for the purpose of acquisition and construction of structures and electricity networks and of property, plant and equipment received at no consideration from the Government of the Republic of Lithuania.

Amortisation of grants is accounted for under the line item 'Depreciation and amortisation' in the statement of profit or loss and other comprehensive income. Depreciation charges of the related property, plant and equipment are reduced by the amount of amortisation of grants.

19 Long-term employee benefits

	2017			2016			
	Benefits to employees of retirement age	Variable component of remuneration	Total	Benefits to employees of retirement age	Variable component of remuneration	Benefits for periods of employment	Total
Opening balance	**2,924**	**25**	**2,949**	**2,247**	**6**	**233**	**2,486**
The change as shown in the item 'Wages and salaries and related expenses' in the statement of comprehensive income	(1,339)	21	(1,318)	210	19	(233)	(4)
The change as shown in the item 'Financing activities – Actuarial (gains) and losses' in the statement of comprehensive income	(55)	-	(55)	467	-	-	467
The change as shown in the item 'Other comprehensive income – Actuarial (gains) and losses' in the statement of comprehensive income	187	-	187	-	-	-	-
Closing balance	**1,717**	**46**	**1,763**	**2,924**	**25**	**-**	**2,949**

All amounts in EUR thousands unless otherwise stated

The principal assumptions used in determining long-term employee benefit obligation of the Company are shown below:

	2017	2016
Discount rate	1.06 %	0.71 %
Annual employee turnover rate	13.6 %	13.53 %
Annual salary increase	4 %	4 %
Average time until retirement (years)	20	20

20 Trade and other payables

	2017	2016
Trade payables	65,286	40,266
Trade payables to related parties (Note 28)	45,414	40,081
Total trade payables	**110,700**	**80,347**
Taxes (other than income tax)	372	1,598
Payroll-related liabilities	2,368	2,073
Other current liabilities	3,088	2,816
Total other amounts payable	**5,828**	**6,487**
Trade and other payables	**116,528**	**86,834**

Other payables amounting to EUR 2,739 thousand as at 31 December 2017 (31 December 2016: EUR 3,671 thousand) are not financial instruments.

Trade payables

The above financial liabilities have the following conditions:

– Trade payables are non-interest bearing and are normally settled within the term of 60 days.
– Other payables are non-interest bearing and have an average settlement term of 6 months.

21 Advance amounts received, accrued expenses and deferred revenue

	2017	2016
Accrued charges	7,280	7,253
Current portion of deferred revenue from connection of new customers	5,230	5,169
Current portion of other deferred revenue	12	12
Advance amounts received	22,323	19,646
	34,845	**32,080**

As at 31 December 2017 and 31 December 2016, advance amounts received comprised advances received for the connection of new customers, advances received for electricity, and overdeclared electricity effects amounting to, respectively, EUR 690 thousand in 2017 and EUR 1,503 thousand in 2016 arising from overdeclared electricity by some private customers as compared to actual consumption.

22 Revenue

	2017	2016
Electricity sales and distribution	539,660	573,602
Natural gas distribution	51,067	57,260
Revenue from connection of new customers	20,008	17,459
Total	**610,735**	**648,321**

All amounts in EUR thousands unless otherwise stated

23 Employee benefits and related social security contributions

	2017	2016
Wages and salaries	31,161	33,763
Termination benefits	2,205	2,110
Social security contributions	10,320	11,087
Change in vacation accrual	45	171
Total	**43,731**	**47,131**

24 Impairment and write-off expenses

	2017	2016
Impairment of financial assets at fair value through profit (loss)	-	5,560
Write-offs of non-current assets and construction in progress	4,472	3,569
Impairment (reversal of impairment) of amounts receivable (Note 9)	661	164
Impairment (reversal of impairment) of inventories	127	7
Impairment (reversal of impairment) of non-current assets and construction in progress	401	-
Total	**4,339**	**9,300**

25 Other expenses

	2017	2016
Customer service expenses	7,525	6,725
Taxes (other than income tax)	3,211	3,424
Maintenance company expenses	3,717	2,754
Consultation services	1,260	782
Payments under the collective agreement and other additional payments	385	368
Personnel development, business trips	447	292
Public relations and marketing	243	258
Insurance, medical care services	227	157
Other expenses	1,011	1,799
Total	**18,026**	**16,559**

All the services the audit company granted to the Company in 2017 are disclosed below.

	2017
Expenses related to audit of financial statements under agreements	46
Expenses related to assurance and other related services	5
Expenses related to consultations on tax issues	
Expenses related to other services	2
Total	**53**

26 Financing activities

	2017	2016
Finance income		
Late-payment interest on trade receivables	1,186	449
Interest income on loans granted	122	176
Dividend income	-	58
Other finance income	254	652
Total	**1,562**	**1,335**
Finance costs		
(Interest) paid on loans	(2,311)	(1,739)
Other (costs)	37	(485)
Total	**(2,274)**	**(2,224)**

27 Basic and diluted earnings per share

Basic

Basic earnings per share are calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2017	2016
Net profit/(loss) attributable to shareholders of the Company (in EUR thousands)	77,552	92,502
Weighted average number of shares (thousands)	894,630	894,630
Basic earnings/(loss) per share (in EUR per share)	**0.087**	**0.103**

Diluted

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As at 31 December 2017, the Company had no dilutive potential ordinary shares issued.

28 Segment reporting

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

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

The table below presents the Company’s information on segments for the year 2017:

2017	Electricity supply and distribution	Gas distribution	Total
Revenue	559,827	52,482	612,309
Expenses	(447,992)	(24,237)	(472,229)
EBITDA	**111,835**	**28,245**	**140,080**
Depreciation and amortisation	(42,768)	(7,617)	(50,385)
Impairment and write-off expenses	(3,668)	(671)	(4,339)
Operating profit	**65,399**	**19,957**	**85,356**
Finance income	1,213	349	1,562
Finance (costs)	(1,899)	(375)	(2,274)
Share of (profit) of associates	238	(90)	148
Profit before income tax	**64,951**	**19,841**	**84,792**
Income tax	(6,042)	(1,198)	(7,240)
Net profit for the period	**58,909**	**18,643**	**77,552**

The table below presents the Company’s information on segments for the year 2016:

2016	Electricity supply and distribution	Gas distribution	Total
Revenue	591,371	58,692	650,063
Expenses	(459,604)	(27,145)	(486,749)
EBITDA	**131,767**	**31,547**	**163,314**
Depreciation and amortisation	(38,634)	(7,394)	(46,028)
Impairment and write-off expenses	(9,208)	(92)	(9,300)
Operating profit	**83,925**	**24,061**	**107,986**
Finance income	1,138	197	1,335
Finance (costs)	(1,786)	(438)	(2,224)
Share of (profit) of associates and joint ventures	267	61	328
Profit before income tax	**83,544**	**23,881**	**107,425**
Income tax	(12,158)	(2,765)	(14,923)
Net profit for the period	**71,386**	**21,116**	**92,502**

All amounts in EUR thousands unless otherwise stated

29 Related-party transactions

The Company's related parties are as follows:

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

Purchase and sale of goods and services:

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

Related parties	Amounts payable and accrued expenses	Amounts receivable and unbilled revenue	Purchases	Sales
Parent company Lietuvos Energija UAB	356,911	5,418	1,965	115
Associates of the Company	4,425	-	20,711	-
Other companies of Lietuvos Energija UAB group	15,386	**7,676**	77,914	44,531
Companies of EPSO – G UAB group	29,924	4,336	195,183	751
Total	**406,646**	**17,430**	**295,773**	**45,397**

Amounts payable to Lietuvos Energija UAB include borrowings, interest payable, and amounts payable for services.

With the purpose to reduce costs of its working capital financing, on 18 May 2016 the Company concluded a not terminated Lietuvos Energija UAB Group intercompany borrowing agreement, according to which it can obtain short term loans from other Group companies. The borrowing limit set until 19 March 2018 is EUR 30,000 thousand. Intragroup borrowing transactions have to be concluded in accordance with market terms and with interest rates, which would be set in the market. Market interest rate is determined for the one year period and coincides with interest rates of commercial banks.

At 31 December 2017, the Company has borrowed EUR 26,670 thousand from related parties.

The company purchased the following goods and services from subsidiaries and associates: leases of assets, information technology and telecommunication services, organization and execution of tenders, accounting and personnel administration services, also construction, reconstruction and maintenance of electric equipment. The main share of purchases from Lietuvos Energija UAB group companies belongs to purchase of electricity. Companies of EPSO – G UAB group provide electricity and gas transmission services, public service offerings (PSO), and carry out contractual works.

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

Related parties	Amounts payable and accrued expenses	Amounts receivable and unbilled revenue	Purchases	Sales
Parent company Lietuvos Energija UAB	235	5,823	6,310	781
Associates	2,565	3	17,925	79
Companies of Lietuvos Energija UAB group	7,797	9,027	82,403	48,414
Companies of EPSO – G UAB group	29,484	4,099	198,742	920
Total	**40,081**	**18,952**	**305,380**	**50,194**

Compensation to key management personnel

Company	2017	2016
Wages and salaries and other short-term benefits to management personnel	612	530
Whereof: termination benefits	81	-
Number of key management personnel	7	7

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

All amounts in EUR thousands unless otherwise stated

30 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 35,689 thousand (31 December 2016: EUR 26,907 thousand). In order to improve the quality of services rendered and the condition of the network, the Company expanded the volume of its investments. The Company's investments amounted to EUR 226 million in 2017 (2016: EUR 149 million), which resulted in increased commitments assumed under the signed contracts.

Operating lease

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017	2016
Within the first year	1.933	2.294
Two to five years	6.088	8.021
Total	8.021	10.315

Rate adjustments due to profit earned in preceding periods exceeding the return on investment permitted by the Commission

Based on Resolution No 03-305 of 14 October 2016 *On the recalculation of price caps for distribution services of Energijos Skirstymo Operatorius AB via medium and low voltage networks for 2017*, the Commission established the price cap for the distribution service for 2017 on the basis of Certificate No O5-258 of 13 October 2016 in which it stated that in the period from 2014 to 2015 the Company earned an additional investment return of EUR 84,961.6 thousand exceeding the level of profit permitted by the Commission. The Commission resolved to adjust the price caps for the distribution services for 2017 by one third of the 2014–2015 investment return presented which exceeds the level of profit permitted by the Commission. Consequently, the Commission decreased the level of revenue from distribution activities for 2017 by EUR 28,320.5 thousand.

Based on Resolution No O3E-447 of 17 October 2017 *On the recalculation of price caps for distribution services of Energijos Skirstymo Operatorius AB via medium and low voltage networks for 2018*, the Commission established the price caps for electricity distribution services for the year 2018 and indicated that the Company's level of revenue generated from electricity distribution activities is to be lowered by part of the 2014–2015 investment return exceeding the level of profit permitted by the Commission, i.e. EUR 43,421.6 thousand, regarding the time value of money of EUR 1,942.8 thousand. The remaining part of the 2014–2015 investment return exceeding the level of profit permitted by the Commission amounts to EUR 13,219.5 million and will be assessed in the upcoming year of the regulatory period, however not later than before the end of the regulatory period (by 2020).

Based on Resolution No O3E-481 of 9 November 2017 *On the adjustment of price caps for natural gas distribution services of Energijos Skirstymo Operatorius AB for 2018*, the Commission established the price cap of the natural gas distribution service to be effective from 1 January 2018 in which it also stated that, while carrying out its natural gas distribution activities, in the period from 2014 to 2016 the Company earned an additional investment return of EUR 27,333 thousand exceeding the level of profit permitted by the Commission. The Commission resolved to adjust the price caps for the natural gas distribution services for 2018 by 50% of the 2014–2016 investment return which exceeds the level of profit permitted by the Commission. Consequently, the Commission decreased the level of revenue from natural gas distribution activities for 2018 by EUR 13,667 thousand. The remaining part of the 2014–2015 investment return exceeding the level of profit permitted by the Commission will be assessed when establishing the price for the natural gas distribution service for future periods.

For 2018, the total confirmed level of revenue from activities in the electricity and natural gas operating segments is EUR 57,088.6 thousand lower due to the difference between the return permitted by the Commission and the Company's actual return, i.e. due to profit to be returned back earned in preceding periods that exceeds the permitted return on investments.

Based on management's estimates, the Company earned excess profit in 2016 and 2017. These amounts will have impact on the revenue and profit generated in 2019 and subsequent periods.

One-off compensation for statutory servitudes

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

The Energy Law also provides that, when signing agreements on the establishment of servitudes after 1 November 2017, the Company will be obliged to pay compensation to or make other arrangements with land owners.

It is expected that one-off compensations for statutory servitudes (which came into effect by 10 July 2004) will be paid from 1 May 2018, after the Lithuanian Government approves the methodology establishing the conditions for the payment of such compensations. The methodology approved by the Lithuanian Government will also lay down the rules on the compensation for contractual servitudes after 1 November 2017.

In the period from 10 July 2004 to 1 November 2017, pursuant to the provisions of the Energy Law that were effective at the time, the construction of new networks could be carried out only under agreement with land owners. As a result, during that period, the Company made arrangements with land owners individually (by means of notarial acts, consent of land owners, etc.), the Energy Law does not provide obligation to the Company to compensate for the servitudes established during this period.

The management currently cannot reliably assess the effect of the 1 November 2017 amendments to the Energy Law on the results of the Company's operations, however, all the expenses related to the compensation for servitudes are expected to be included in the prices for regulated services.

As at 31 December 2017, the Company did not make any provision for the compensation of servitudes, as, with the Lithuanian Government having not yet approved the methodology on the calculation of compensations, it cannot reliably assess the possible amount of compensations since there is no approved methodology establishing the conditions for the payment of such compensations: the process of payment, conditions of payment and related documentation, the formula component for the calculation of compensations for servitudes. In addition, the Company does not have access to reliable data on persons and the servitudes of land they own.

As at the end of 2017, the Company was involved as a defendant in 9 claims on compensations for servitudes, whereof 5 are investigated by the courts of first instance and 3 are investigated by the court of appeals (the Company has filed appeals with the requests for a reduction of the compensation awarded). One claim was closed on 22 January 2018 and a final judgement was passed by the court, whereby the Company was obliged to pay a periodic compensation from the date of filing the claim by the claimant to the date the Lithuanian Government lays down the procedures for the payment of compensations for the establishment of servitudes.

Litigations

Vilniaus Energija UAB (the Claimant) filed a claim to Vilnius Regional Administrative Court, whereby it requested to award damages of EUR 9.284 million from Energijos Skirstymo Operatorius AB. The claimant insisted that it incurred losses of EUR 9.284 million because in 2014 Energijos Skirstymo Operatorius AB purchased only the volume of electricity that was produced under the technical minimum mode at the thermal power plants owned by the claimant. The Company did not account for any provisions related to the claim, because the description of PSO services and other effective legal acts do not stipulate that the Defendant is obliged to purchase the total volume of electricity produced by the Claimant. On 17 March 2017, the Claimant specified the subject matter of the claim and requested to award damages of EUR 10,712 thousand. The case is currently under investigation by the court of appeals. On 18 September 2017, the court of first instance passed the ruling whereby the claim was rejected in full. The Claimant appealed against the court ruling. The date of the court's hearing has not been set yet.

On November 2014 and January 2015, Energijos Skirstymo Operatorius AB filed the complaints to Vilnius Regional Administrative Court requesting to annul the respective resolutions of the National Commission for Energy Control and Prices (the Commission), to oblige the Commission to eliminate the violations, as well as violations committed when determining the price caps for electricity distribution services provided by Energijos Skirstymo Operatorius AB through medium and low voltage networks for the upcoming period. Violations committed when determining the price caps for electricity distribution services resulted in lower revenue from public supply of electricity.
Vilnius Regional Administrative Court passed the rulings whereby the claims were rejected in full. Energijos Skirstymo Operatorius AB appealed against the court rulings. The cases are currently under investigation by the court of appeals. The court hearing was held on 1 February 2018. The court's judgment was supposed to be announced on 21 February 2018, however, due to the illness of a member of the chamber of judges, it was adjourned and will be announced on 13 March 2018. If the court passed a judgment in favour of Energijos Skirstymo Operatorius AB, the price caps would increase and revenue for future periods would surge.

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

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

All amounts in EUR thousands unless otherwise stated

31 Capital risk management

Pursuant to the Lithuanian Law on Companies, the authorised share capital of a public company must be not less than EUR 28.97 thousand and the shareholders' equity should not be lower than 50 per cent of the company's authorised share capital. As at 31 December 2017 and 31 December 2016, the Company complied with these requirements.

On 27 December 2016, the Board of Lietuvos Energija Group approved the dividend policy which establishes the uniform dividend payment principles to be applicable to all companies of the Group. Dividend policy is one of the measures for capital risk management. Based on this policy, the Company plans the distribution of dividends in view of the ratio of return on equity and net profit earned. According to dividend policy, appropriation of profit for the payment of dividends for the financial year or a period shorter than the financial year will depend on the ratio of return on equity, availability of financial resources for payment of dividends, implementation of economic projects important for the State and other significant circumstances. Between 60% and 85% of net profit is appropriated for the payment of dividends, depending on the ratio of return on equity at the end of the reporting period. A company is not obliged to distribute dividends only when it incurs net loss. A company will not pay any dividends when its financial debts at the end of the reporting period are equal to or exceed four times EBITDA amount for the last twelve months as from the end of the reporting period.

Dividends will not be paid if the company's equity (after the payment of dividends) becomes lower than the sum of its share capital, legal reserve, revaluation reserve and reserve for acquisition of own shares, and also if a company becomes insolvent or would become insolvent upon payment of dividends. A company will also be able not to pay dividends if its ratio of financial debts to equity becomes equal to or exceeds 1.0.

When financing its business activities, the Company follows an optimal capital structure management policy seeking to make sure that the equity ratio (equity to assets ratio) exceeds 40%. For the purpose of capital management, the Company's management defines capital as shareholders' equity.

	2017	2016
Equity	607,644	623,195
Assets	1,277,801	1,112,096
Equity ratio (equity to assets ratio)	**48%**	**56%**

32 Financial risk management

Credit risk

In the electricity segment, trade and other receivables are generated from many customers, therefore, there is no significant concentration risk, Credit risk or the risk of counterparties defaulting, is controlled by the application of monitoring procedures.

In the natural gas operating segment, however, trade and other receivables are mostly received from Lietuvos Dujų Tiekimas UAB, which gives rise to a significant concentration risk. Credit risk or the risk of counterparties defaulting, is controlled by the application of measures provided in the cooperation agreement.

The Company does not issue guarantees to secure the fulfilment of obligations of third parties. The maximum exposure to credit risk is represented by the carrying amount of each item of financial assets. Based on the judgement of the Company's management, the maximum risk approximates the amount of mortgage loans, borrowings, trade and other receivables, and cash at bank, less recognised impairment loss at the date of the preparation of the statement of financial position.

Because of the specific character of the Company's operations, no collateral is required from customers.

The Company's treasury management is regulated by the Treasury Management Policy (hereinafter "Policy") of Lietuvos Energija UAB group, approved by the Board of Lietuvos Energija UAB on 29 February 2016, as well as the Company's internal policies. Pursuant to this Policy, free liquid funds can be invested by the Company only in low-risk short-term (with the remaining maturity less than 549 calendar days) money market instruments and debts securities, i.e. term deposits, bonds, Government securities, of reliable financial institutions or entities that have been assigned a long-term credit rating not lower than "A-" according to the rating agency Fitch Ratings (or equivalent rating of other rating agencies). In exceptional circumstances, free liquid funds may be held with other financial institutions that act under the licence issued by the Bank of Lithuania, which entitles them to provide financial services. The Company is allowed to hold funds with such financial institutions the amount not exceeding the amount guaranteed under the Lithuanian Law on Insurance of Deposits and Liabilities to Investors.

The priority objective of investing activities is the ensurance of security of funds and maximisation of return on investments in pursuance of this objective.

As at 31 December 2017, the maximum exposure to credit risk of the Company amounted to EUR 65,760 thousand (31 December 2016: EUR 82,533 thousand) as disclosed in section *Financial instruments by category* of this note.

Interest rate risk

All the Company's borrowings bear variable interest rate linked with EURIBOR and expose the Company to the interest rate risk.

The Company did not have any derivative financial instruments to hedge against interest rate risk.

All amounts in EUR thousands unless otherwise stated

The following table demonstrates the sensitivity of the Company's profit before tax to potential shift in interest rates, with all other variables held constant (by changing the interest rate). There is no impact on the Company's equity, except for impact on current year profit.

	Increase/ decrease, percentage points	Effect on profit before tax
2017		
EUR	0.15	-419
EUR	-0.15	419
2016		
EUR	0.15	-330
EUR	-0.15	330

Foreign exchange risk

All monetary assets and liabilities of the Company are denominated in the euro, therefore, the Company practically is not exposed to the foreign exchange rate risk.

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 to meet its commitments at a given date in accordance with its strategic plans. The Company's current 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 31 December 2017 were 0.27 and 0.26 (31 December 2016: 0.44 and 0.43), respectively.

The financial statements of the Company have been prepared on a going concern basis. Irrespective of the fact that, as at 31 December 2017, the Company's current liabilities exceeded its current assets by EUR 208,585 thousand (31 December 2016: EUR 103,528 thousand), the Company's management is certain that this will not have a significant effect on the Company's ability to continue as a going concern. The difference arises due to the seasonal nature of the Company's investments and contractual works, as well as the significant increase in the volume of investments. It should be noted that the Company's operating cash flows, which amounted to EUR 136,432 thousand in 2017 (2016: EUR 181,144 thousand), will ensure liquidity in the future, and the current level of debt will allow the Company to optimise its share capital structure while financing activities through long-term borrowing solutions, such as long-term loans and agreements on transfer of liabilities relating to bonds. As disclosed in Note 15, to manage short-term cash flow needs, as at 31 December 2017, the Company had EUR 22,645 thousand of undrawn credit facilities according to agreements on bank overdraft and the platform of short-term lending to related parties. Moreover, for the purpose of ensuring liquidity in future periods, in 2018, the Company signed an agreement with Lietuvos Energija UAB on the increase of the limit applicable to the platform of short-term lending to related parties to EUR 50,000 thousand, which is valid until 15 March 2018. In addition, the Company plans to use additional financing by means of the bonds issued by Lietuvos Energija UAB.

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2017 and 2016 based on contractual undiscounted payments.

Company	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Borrowings	92,768	45,784	117,537	144,621	400,710
Trade and other payables	113,415	375	3	-	113,793
At 31 December 2017	**206,183**	**46,159**	**117,540**	**144,621**	**514,503**
Borrowings	14,759	44,138	162,937	-	221,834
Trade and other payables	83,056	107	3	-	83,166
At 31 December 2016	**97,815**	**44,245**	**162,940**	**-**	**305,000**

Fair value

The Company's principal financial assets and liabilities not designated at fair value are trade receivables and other receivables, trade and other payables and non-current and current borrowings.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial asset or financial liability is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

To improve consistency in and comparability of fair value measurements and related disclosures, a fair value hierarchy is established that categorises into three levels the inputs to valuation techniques used to measure fair value.

Level 1 inputs (the highest level of accuracy) are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

The carrying amount of the Company's financial assets and financial liabilities approximates their fair value, except for mortgage loans as disclosed in Note 7.

All amounts in EUR thousands unless otherwise stated

The fair value of borrowings is estimated based on discounted probable future cash flows using prevailing interest rates. The fair value of loans and other financial assets is estimated using market interest rates.
The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

a) The carrying amount of current trade receivables and other receivables, current trade and other payables and current borrowings approximates their fair value.
b) The fair value of non-current borrowings is estimated based on the quoted market price for the same or similar loan or on the current rates available for debt with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts. The fair value of non-current borrowings with fixed interest rate also approximates their carrying amounts.

Financial instruments by category:

	Loans and receivables	Assets at fair value through profit or loss	Total
At 31 December 2017			
Other non-current financial assets (Note 7)	849	-	849
Trade and other receivables (Note 9)	55,745	5,560	61,305
Accrued revenue (Note 10)	4,900	-	4,900
Cash and cash equivalents (Note 11)	6,449	-	6,449
Total	**67,943**	**5,560**	**73,503**
At 31 December 2016			
Other non-current financial assets (Note 7)	530	5,306	5,836
Trade and other receivables (Note 9)	61,043	-	61,043
Accrued revenue (Note 10)	4,992	-	4,992
Cash and cash equivalents (Note 11)	10,662	-	10,662
Total	**77,227**	**5,306**	**82,533**

	Other financial liabilities measured at amortised cost	Liabilities at fair value through profit or loss	Total
At 31 December 2017			
Borrowings (Note 15)	372,688	-	372,688
Trade and other payables (Note 20)	113,790	-	113,790
Other liabilities	3	-	3
Total	**486,481**	**-**	**486,481**
At 31 December 2016			
Borrowings (Note 15)	219,081	-	219,081
Trade and other payables (Note 20)	83,163	-	83,163
Other liabilities	3	-	3
Total	**302,247**	**-**	**302,247**

33 Events after the reporting period

- With respect to the decision of the Board of Lietuvos Energija UAB of 1 February 2018 and the decision of the Board of the Company of 1 February 2018, the Company signed an agreement on the increase of the limit applicable to the platform of short-term lending to related parties to EUR 50 million, which is valid until 15 March 2018.

- On 28 February 2018, the Company and Lietuvos Energija UAB signed a Proportional Transfer Agreement for Green Bonds No 1, whereby the loan granted to the Company was increased from EUR 100 million to EUR 166 million.

- On 19 February 2018, the Company and Lietuvos Energija UAB signed an annex to the amendment of the agreement, which stipulates that the amount of the premium to the basic sale price of NT Valdos UAB is equal to EUR 5,560 thousand (Notes 3 and 7).

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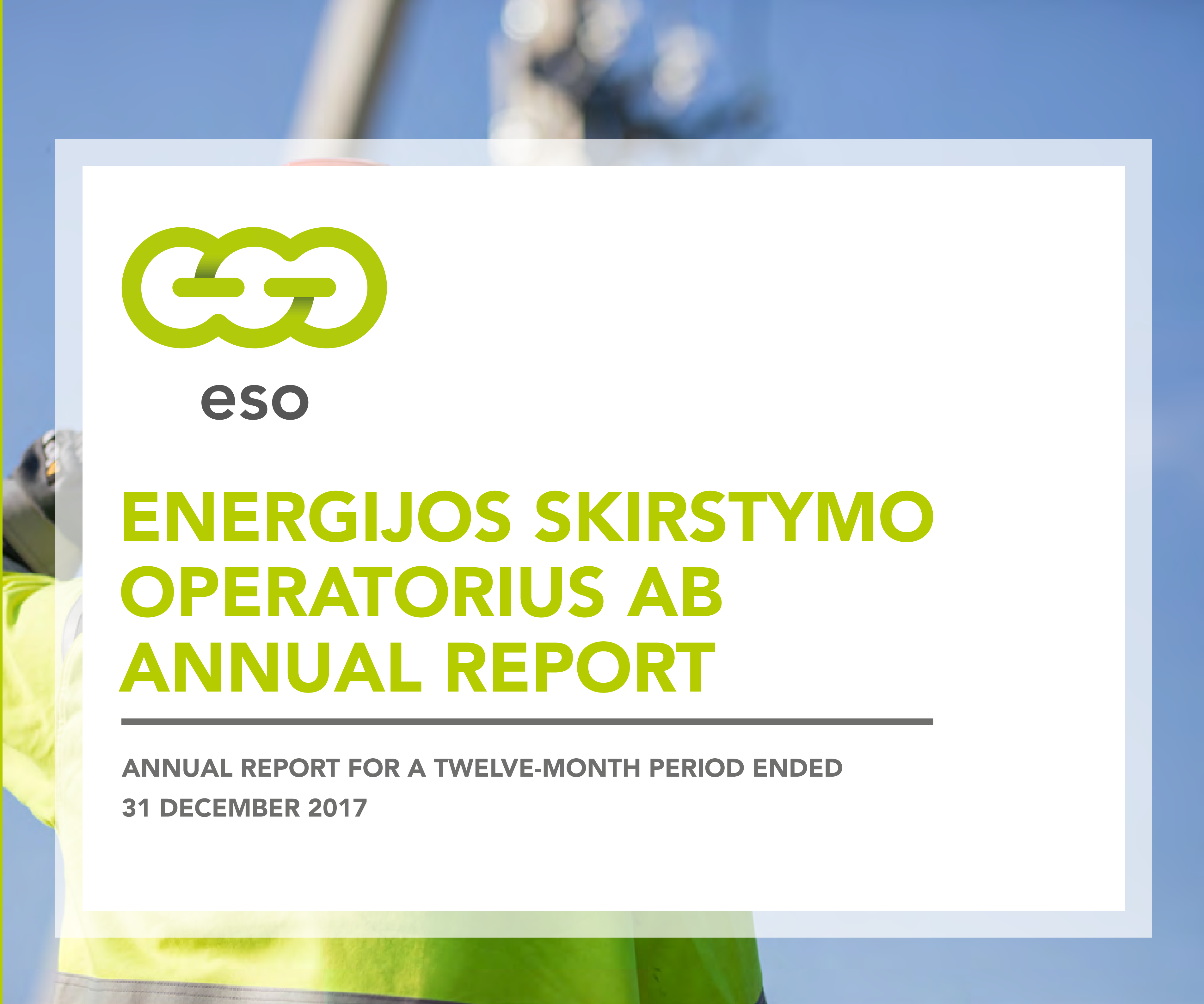


ENERGIJOS SKIRSTYMO OPERATORIUS AB ANNUAL REPORT

ANNUAL REPORT FOR A TWELVE-MONTH PERIOD ENDED 31 DECEMBER 2017

Reporting period covered by the report

The report covers the period from January to December 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, Department of Communication (Aguonų g. 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).

Persons responsible for the information provided 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 pursuant 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 Resolution 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 6 March 2018.

Regarding the comparability of financial results

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

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

KEY OPERATING INDICATORS OF ESO

Operating indicators		**2017 m.**	**2016 m.**	**Change**	
				+/-	**%**
Distributed electricity via medium and low voltage networks	TWh	9.22	8.98	0.24	2.72
Public and guaranteed supply of electricity	TWh	3.22	3.15	0.07	2.28
Distributed volume of natural gas	TWh	7.37	7.39	-0.02	-0.34
Supply quality indicators of the network					
ELECTRICITY					
SAIDI, min. (with force majeure)		137.8	172.9	-35.1	
SAIFI, units (with force majeure)		1.32	1.25	0.07	
GAS					
SAIDI, min. (with force majeure)		1.161	0.529	0.632	
SAIFI, units (with force majeure)		0.007	0.006	0.001	
Key financial indicators of ESO					
Revenue	EUR '000	612,309	650,064	-37,755	-5.81
Purchase of electricity, gas and related services	EUR '000	377,501	388,194	-10,693	-2.75
Operating expenses (1)	EUR '000	94,728	98,555	-3,827	-3.88
EBITDA (2)	EUR '000	140,080	163,315	-23,235	-14.23
EBITDA margin (3)	%	22.88	25.12		
Adjusted EBITDA (4)	EUR '000	150,908	138,948	11,960	8.6
Net profit (loss)	EUR '000	77,552	92,502	-14,950	-16.16

KEY OPERATING INDICATORS OF ESO

Operating indicators		**2017 m.**	**2016 m.**	**Change**	
				+/-	**%**
Total assets	EUR '000	1,277,801	1,112,096	165,705	14.90
Equity	EUR '000	607,644	623,195	-15,551	-2.50
Borrowings	EUR '000	372,688	219,081	153,607	70.11
Borrowings, net (5)	EUR '000	366,239	208,419	157,820	75.72
Return on equity ratio (ROE) (6)	%	12.60	15.46		
Return on assets (ROA) (7)	%	6.49	8.44		
Equity ratio (8)	%	47.55	56.04		
Borrowings, net / 12-month EBITDA	times	2.61	1.28		
Borrowings, net / Equity	%	60.27	33.44		

(1) Operating expenses (OPEX) = operating expenses excluding costs attributable to the purchase of electricity and related services, depreciation and amortisation, impairment and write-off expenses;

(2) EBITDA (earnings before results of financing activities, tax and depreciation and amortization) = profit (loss) before tax + expenses of financing activities - income from financing activities - dividends received + depreciation and amortisation + impairment expenses + write-off expenses;

(3) EBITDA margin = EBITDA / Revenue;

(4) The adjusted EBITDA is calculated by adding the impact of the recalculation of regulated activities revenue generated in prior periods (as established by respective resolutions of the Commission) and by eliminating the difference that arose during the reporting period between the return on investments permitted by the Commission and the return of investments calculated by the management. The management estimates that the adjusted EBITDA indicator more accurately reflects the Company's performance and allows to better compare results between the periods, as it presents the actual amount of revenue earned by the Company during the reporting period, as well as by eliminating the differences arising between the return on investments permitted by the Commission and the actual return on investments of prior periods which might have both a positive and negative effect on the results of the reporting period. The adjusted EBITDA indicator is not calculated using data presented in the financial statements.

(5) 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;

(6) Return on equity (ROE) = net profit (loss) for the reporting period/average of equity at the beginning and at the end of the reporting period;

(7) Return on assets (ROA) = net profit (loss) for the reporting period/average of assets at the beginning and at the end of the reporting period;

(8) Equity ratio = equity at the end of the period / total assets at the end of the period.

CEO'S FOREWORD

Dear all,

The second year of ESO's operations has ended. We are delighted that the company's operating expenses are further reduced and improvement of its operational efficiency contributed towards reduction of service prices for customers – natural gas distribution and electricity prices for customers continue to decline for few years in a row.

ESO's operating expenses declined by 3.8% or more than EUR 3.8 million during 2017. We will continue enhancing efficiency of our operations and look for new synergy opportunities. The operational excellence program based on LEAN principles was started at the company a year ago and it successfully serves as a benchmark for achieving better results across the entire company. By saving operating expenses we can directly influence prices of services and create additional value to our customers.

We are well aware that a quick and easy connection to our distribution networks is of great importance for private customers, therefore in 2017 we devoted large efforts aiming to ensure a more convenient and faster electricity and gas connection process. The average duration of electricity connection decreased to 46 days (from 58 days in 2016), for gas distribution network – the connection time declined by 16 calendar days, from 162 to 146 days.

Our efforts in improving electricity connection conditions resulted in a higher competitiveness ranking assigned to Lithuania. According to Doing Business report issued by the World Bank on 31 October the getting electricity index of Lithuania increased by 22 positions compared to the previous year and now is equal to a score of 33.

Last year in Druskininkai town a project of strategic importance was implemented in the course of which a temporary LNG station was constructed ensuring not only a safe and reliable gas supply to residents, but also expansion of the company's operations. Since last year, we have been providing customers with more additional services - the installation of the internal electricity and gas network, also we have offered a different colour electric cabinet, infrastructure rental and other.

Last year we continued to increase investments in the electricity distribution network's security and reliability. We constructed more than 2 thousand kilometres of underground electricity cables and continued to install elements of the smart network that will enhance the network's reliability and prevent power outages.

Our services are positively assessed by private and corporate customers, which is also confirmed by the customer satisfaction survey results. ESO's customer satisfaction level calculated according to the Global Customer Satisfaction Index (GCSI) methodology reached 78 points in 2017 and was 7 points higher compared to the GCSI index of European energy companies.

The second year of ESO's operations proved that we are able to overcome new challenges, safeguard a sustainable development of the company's activities by identifying an increasing number of synergy opportunities. I firmly believe that in 2018 we will do more with the ESO's team of professionals!

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

THE MOST SIGNIFICANT EVENTS DURING 2017

The Company's energy activity licence extended

On 12 January 2017, the National Commission for Energy Control and Prices changed the Company's energy activity 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.

Member of the Company Board elected

On 20 January 2017, the Supervisory Board of the Company adopted a decision to elect Ignas Pranskevičius as a Member of the Board responsible for service provision and development.

Agreement on the long-term loan concluded

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

Regarding 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 Procurement Information System (CVPIS). According to the Continuous supply of natural gas to consumers in Druskininkai municipality assurance 2016-2017 year action plan, approved by the Ministry of Energy, the LNG regasification facility installation is necessary to ensure a continuous, safe and reliable supply of natural gas to consumers in Druskininkai municipality.

Regarding the resignation of the Member of the Board

On 28 February 2017, the Company received a notification of resignation of Dalius Svetulevičius from the post of a member of the Company's Board. Dalius Svetulevičius was elected to the Company's Board on 3 December 2015 upon decision of the Company's Supervisory Board.

Regarding a tender to install a LNG regasification station in Druskininkai

On 5 April 2017, the Company informed that due to high prices it declined all participants' proposals in the public call – which was announced on 3 February 2017 on the Procurement Information System – for tenders to install the liquefied natural gas (LNG) regasification station in Druskininkai.

Member of the Company's Board elected

On 26 April 2017, the Supervisory Board of the Company adopted a decision to elect Saulius Vaičekauskas as the new member of the Board in charge of the area of network operations. The newly elected member of the Board will take the office as the Director of the Network Operations Service.

First Progress Report on Corporate Social Responsibility published

On 28 April 2017, the Company published the first Progress Report on Corporate Social Responsibility after the merger of electricity and gas companies. The report outlines activities reflecting ESO's responsible approach and its progress achieved over 2016 in relationships with customers, market participants, environment, employees and the public, presents strategic directions of the Company's social responsibility, as well as actions and achievements, and discloses active involvement in the education on safe and rational use of energy.

National Commission for Energy Control and Prices approved natural gas distribution prices

On 31 May 2017, the National Commission for Energy Control and Prices approved natural gas distribution 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 declined in respect of all seven price categories.

Regarding the decision passed by the court

On 20 June 2017, the Supreme Administrative Court of Lithuania rejected the Company's appeal dated 10 February 2016 to repeal the decision of Vilnius Regional Administrative Court dated 26 January 2016 by which Vilnius Regional Administrative Court dismissed ESO's complaint to repeal Resolution No O3-947 Regarding scheduled inspection of LESTO AB of the National Commission for Energy Control and Prices (hereinafter – the Commission) of 19 December 2014, including Resolutions No O3-944, No O3-945, No O3-946 adopted on its basis and the Commission's Resolution No O3-960 of 23 December 2014 and to obligate the Commission to assess income not received by the Company and additional expenses incurred due to illegal upper price limits determined during the period of effect of these resolutions.

Regarding planned separation of public supply of electricity

On 5 July 2017, the Company reported that to the extent of the Group of companies the project on separation of public supply of electrical energy is initiated. During the implementation of the project, it is planned to separate the activities of the Company: public electricity supply shall be separated from electricity distribution by transferring it to another company controlled by the Group of companies. It is expected that the separation of activities will contribute to a more transparent implementation of the European Union's policy on the energy sector since energy supply is not part of the infrastructure segment.

Chairman of the Company's Supervisory Board resigned

On 20 September 2017, Dalius Misiūnas informed the Company of his resignation from the position of the Member (Chairman) of the Supervisory Board. His last serving day in the position of the Member of the Company's Supervisory Board was 4 October 2017.

Extraordinary General Meeting of Shareholders convened

During the Extraordinary General Meeting of Shareholders held on 29 September 2017, a decision was made to pay out dividends to the shareholders of ESO for the period shorter than the financial year allocating EUR 0.046 per share in dividends for the six-month period ended 30 June 2017.

Regarding the signing of the agreement on energy savings with the Ministry of Energy

On 2 October 2017, the Company signed an agreement on energy savings with the Ministry of Energy. Under this agreement, the Company will aim to save 1.6 TWh of final energy by 31 December 2020.

Regarding the signing of the Transfer Agreement for Green Bonds with Lietuvos Energija

On 13 October 2017, the Company signed a Proportional Transfer Agreement for Green Bonds with Lietuvos Energija for the transfer of a EUR 100 million portion of the green bonds issue to the Company.

National Commission for Energy Control and Prices set electricity distribution price caps for 2018

On 16 October 2017, the National Commission for Energy Control and Prices established electricity distribution price caps for 2018: 0.798 EUR ct/kWh for medium voltage electricity distribution network services and 1.716 EUR ct/kWh for low voltage electricity distribution network services.

Regarding the decision passed by the court

On 25 October 2017, Vilnius Regional Administrative Court rejected the Company's complaint of 7 July 2015 to annul Resolution No O3-351 Regarding LESTO AB violation of conditions for regulated activities of the Commission of 4 June 2015, on the basis of which the Commission has imposed a EUR 300,000 fine on the Company and obliged it to rectify regulated cost reports for the years 2011-2013 based on the results of cost inspection approved under the Commission's Resolution No O3-947 Regarding scheduled inspection of LESTO AB, and submit it to the Commission.

Regarding the transfer of long-term loans to Lietuvos Energija

On 8 November 2017, the Company signed tripartite agreements on the transfer of debt and rights and obligations with Lietuvos Energija and the creditors of the Company: OP Corporate Bank Plc and SEB Bankas AB. The Company transfers to Lietuvos Energija its entire debt obligation, together with all rights and obligations to creditors, while Lietuvos Energija, from the moment the contracts enter into force, takes over from the Company all its debts to creditors together with all other rights and obligations arising from loan agreements. By taking these measures, the Company aims to reduce the costs of financing the group's activities and administration.

National Commission for Energy Control and Prices set natural gas distribution price cap for 2018

On 9 November 2017, the National Commission for Energy Control and Prices established the price cap of the natural gas distribution service to be effective for 2018: EUR 5.52 per MWh.

Regarding the consumer education and consultation agreement with the Ministry of Energy

On 13 November 2017, the Company signed an agreement on consumer education and consultation with the Ministry of Energy, on the basis of which the Company undertakes to educate and consult energy consumers on issues relating to energy efficiency improvement directly or through other means of consumer education and consulting.

Regarding the finalised pilot project of smart metering and potential investments for mass roll-out

On 16 November 2017, the Company presented the pilot project of smart electricity metering, launched in 2016, to its private customers. According to the results of the pilot project, Ernst & Young Baltic UAB performed a cost-benefit analysis of the mass roll-out of smart electricity and gas metering in Lithuania which revealed that, preliminarily, the most beneficious scenario for 4 years (for the period of 2019–2022) would require approx. EUR 219 million in investments. Taking into account the potential financial and social long-term benefits for Lithuania, the total economic benefit of the project would be EUR 88 million.

National Commission for Energy Control and Prices approved natural gas distribution prices 2018

On 21 November 2017, the National Commission for Energy Control and Prices approved natural gas distribution prices to be effective from 1 January 2018. The natural gas distribution prices for all seven price groups dropped by 14 to 24 percent compared to the second half of 2017.

Regarding the guaranteed gas supply in Druskininkai municipality

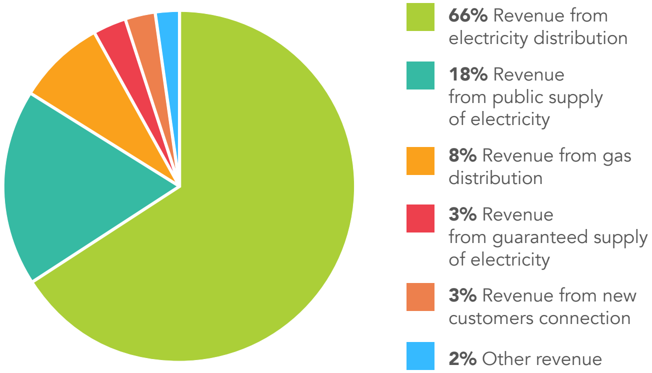
The Company informs that, in accordance with the Law of Natural Gas of the Republic of Lithuania and taking into account the fact that a new supply company Lietuvos Dujų Tiekimas UAB will start supplying natural gas in the region of Druskininkai, it terminates the guaranteed natural gas supply to customers who have not entered into an agreement with the new supplier starting from 1 January 2018. Guaranteed gas supply in Druskininkai municipality was carried out by the Company since 1 November 2016, when the gas supply activity was terminated by Druskininkų Dujos. The Company will continue providing natural gas distribution services in Druskininkai municipality.

National Commission for Energy Control and Prices announced public electricity prices for 2018

On 22 December 2017, the National Commission for Energy Control and Prices announced public electricity prices for 2018. On average, prices for private customers decreased by 1.2%. The prices of electricity to private customers continue to decline for a fifth year in a row.

ANALYSIS OF FINANCIAL AND OPERATING INDICATORS

Revenue structure of ESO by activity area



ESO's revenue for 2017 amounted to EUR 612.3 million, which is a 5.8% decrease compared to 2016. Revenue dropped due to lower electricity and natural gas prices established to the Company's customers. Electric power distribution is the main source of the Company's revenue. In 2017, distribution revenue comprised 66%, revenue from public supply of electricity represented 18% and revenue from natural gas distribution made up 8% of the Company's total revenue.

EBITDA indicator

	31 Dec 2017	31 Dec 2016
EBITDA*, EUR '000	140,080	163,315
EBITDA margin, %	22,88	25,12
Adjusted EBITDA**, EUR '000	150,908	138,948

* EBITDA (earnings before results of financing activities, tax and depreciation and amortisation) = profit (loss) before tax + expenses of financing activities - income from financing activities - dividends received + depreciation and amortisation + impairment expenses + write-off expenses.
** The adjusted EBITDA is calculated by adding the impact of the recalculation of regulated activities revenue generated in prior periods (as established by respective resolutions of the Commission) and by eliminating the difference that arose during the reporting period between the return on investments permitted by the Commission and the return of investments calculated by the management. The management estimates that the adjusted EBITDA indicator more accurately reflects the Company's performance and allows to better compare results between the periods, as it presents the actual amount of revenue earned by the Company during the reporting period, as well as by eliminating the differences arising between the return on investments permitted by the Commission and the actual return on investments of prior periods which might have both a positive and negative effect on the results of the reporting period.
The adjusted EBITDA indicator is not calculated using data presented in the financial statements.

In 2017, the Company's earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to EUR 140.1 million and was 14.2% lower than in January–December 2016. Adjusted EBITDA surged by 8.6% due to increased operational efficiency and larger investments in the modernisation and expansion of networks.

Expenses

In 2017, purchases of electricity, natural gas or related services made up EUR 377.5 million and decreased by 2.8% compared to 2016. This was mainly influenced by reduced 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 427.9 million or 81% of ESO's total costs.

In 2017, operating expenses[1] decreased by 3.9% compared to 2016 and amounted to EUR 94.7 million. Employee benefits and related social security contributions, as well as repair and maintenance expenses saw the highest decline, i.e. a 7.2% and 15.3% decrease, respectively.

[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.

ESO's operating expenses, EUR '000

	31 Dec 2017	31 Dec 2016
Employee benefits and related social security contributions	43,731	47,131
Repair and maintenance expenses	15,657	18,484
Other expenses	18,026	16,559
Telecommunications and IT services	8,713	7,711
Transport	4,453	4,540
Rent and utilities	4,148	4,130
Operating expenses	**94,728**	**98,555**

Profit (loss) and profitability ratios

In 2017, net profit of ESO decreased by 16.2% compared to 2016 and amounted to EUR 77.6 million. Decrease in net profit resulted from lower revenue. Decline in revenue was driven by lower electricity and natural gas prices established for the Company's customers.

ESO's profitability ratios

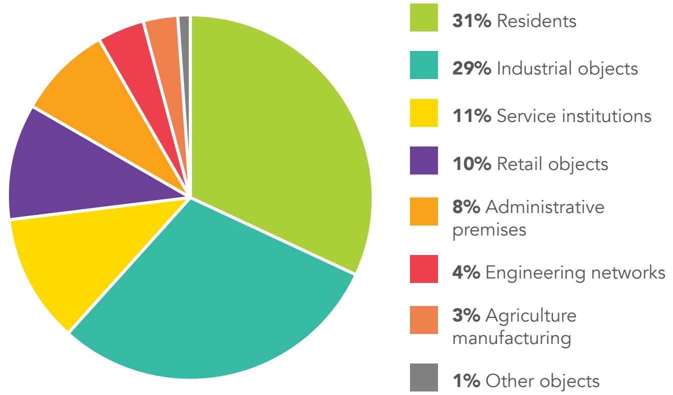
	31 Dec 2017	31 Dec 2016
Net profit margin, %	12.67%	14.23%
Operating profit margin, %	13.95%	16.61%

Electricity distribution

During the twelve months of 2017, ESO distributed 9.220 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 2.34%, while the volume of electricity distributed increased by 2.72% compared to the same period of 2016. Technological costs in distribution equipment incurred by the Company during the twelve months of 2017 amounted to 605 million kWh or 6.16% of the amount of electricity received. During the same period of 2016, technological costs totalled 6.55%.

Electricity distribution volume by object

Residents consumed 30.8% of electricity distributed by ESO. Industrial objects and service institutions consumed 29% and 11.3%, respectively, of electricity distributed. There were no changes in the structure of electricity distribution by object as compared to the data of twelve months of 2016.



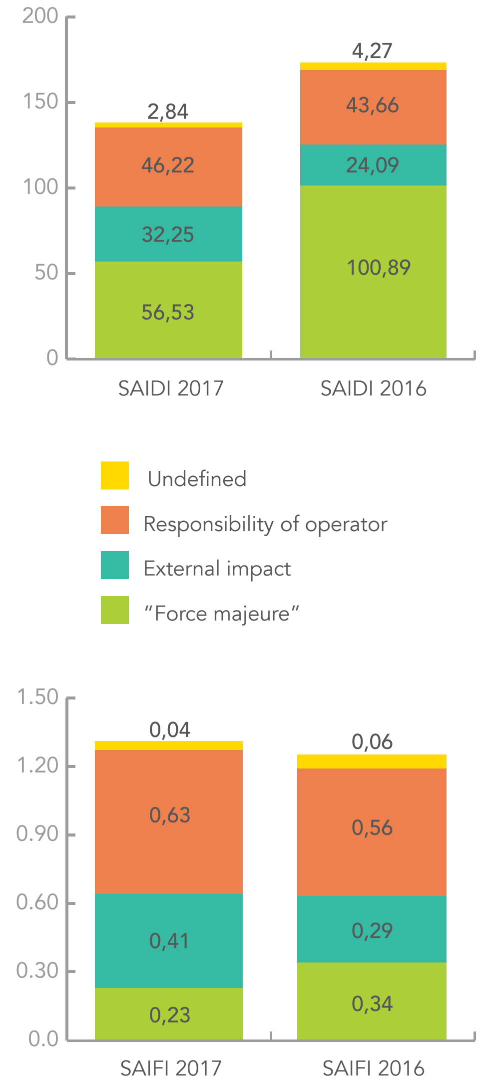
Natural gas distribution

In 2017, ESO transported 7.37 billion kWh of natural gas through the gas distribution pipelines, which is approx. 0.3% less than in 2016. Gas distribution volumes decreased mainly due to slightly lower gas consumption as a result of warmer weather that prevailed in 2017 compared to 2016.

Electricity supply quality indices (SAIDI, SAIFI)

During 2017, the system average interruption duration index (SAIDI with force majeure) per customer was equal to 137.8 minutes. This is 35.1 minutes less compared to 2016 when it was equal to 172.9 minutes. In 2017, the system average interruption frequency index (SAIFI with force majeure) per customer reached 1.32 times, which is 0.07 time more compared to 2016 when it was equal to 1.25 times. In 2017, the operation of the electricity distribution network was significantly affected by more frequent natural disasters caused by highly changeable weather.

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



Investments

In 2017, ESO's investments in the electricity and gas distribution networks amounted to EUR 226.2 million, which is 51.6% more than in 2016 when they were equal to EUR 149,2 million.

ESO's investments, EUR million

	12 months of 2017	12 months of 2016
Renewal of the electricity distribution network	128.192	84.659
Expansion of the electricity distribution network	52.227	39.500
Construction and reconstruction of gas systems	34.931	16.499
Other (IT, management systems, etc.)	10.852	8.531
Total investments	**226.202**	**149.188**

In 2017, ESO's investments allocated for the renewal of the electricity distribution network amounted to EUR 128.192 million, which is 51.4% more compared to 2016. In 2017, investments in the expansion of the electricity distribution network amounted to EUR 52.227 million (2016: EUR 39.500 million).

In 2017, investments in IT, management systems and other assets increased by 27.21% compared to 2016 and amounted to EUR 10.852 million. This increase was caused by the installation works of the new electricity distribution network management system.

In 2017, ESO connected 29.64 thousand new customers to the electricity distribution network, which is 1% more than in 2016 when 29.36 thousand new customers were connected. In 2017, the admissible electric power of objects of newly connected customers was equal to 414.5 thousand kW, which is 13% more than in 2016 when the admissible power was equal to 349.28 thousand kW.

In 2017, ESO's investments in the construction and reconstruction of gas systems amounted to EUR 34.9 million or 111.72% more compared to 2016. In 2017, the Company constructed 372.5 km of the gas distribution pipelines (2016: 109.1 km) for the connection of new customers to the gas network and connected 12,531 customers* to the gas pipelines, which is 137% more than in 2016 when 5,288 customers were connected.

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

Analysis of financial indicators

At the end of the reporting period, the Company's assets amounted to EUR 1.28 billion. Non-current assets accounted for 93,7% of the total assets. Cash and cash equivalents, i.e. the most liquid assets, amounted to EUR 6.4 million or 8,0% of the total current assets.

ESO's financial leverage ratios*

	31 Dec 2017	31 Dec 2016
Debt ratio	0.52	0.44
Debt to assets ratio	0.29	0.20
Liabilities to equity ratio	1.10	0.79
Debt to equity ratio	0.61	0.35
Net borrowings, EUR million	366.2	208.4
Net borrowings to equity ratio	0.60	0.33
Long-term debt to equity ratio	0.39	0.26
General solvency ratio	0.91	1.27
Equity to assets ratio	0.48	0.56
Share price to earnings ratio**	9.92	8.34
Capitalisation, EUR million**	769.38	771.17

* Methodology for the calculation of the indicators is presented at the end of this report.
**Trade in shares of ESO on the stock exchange was started from 11 January 2016.

At the end of 2017, ESO's borrowings amounted to EUR 372.7 million and accounted for 55.6% of total liabilities. Non-current borrowings amounted to EUR 239.6 million or 64.3% of total borrowings. At the end of the reporting period, ESO's current liabilities totalled EUR 284.4 million.

ESO's liquidity ratios

	31 Dec 2017	At 31/12/2016
Current ratio	0.28	0.44
Quick ratio	0.28	0.43
Cash ratio	0.02	0.06
Working capital, EUR thousand	-204,046	-103,527
Working capital to total assets ratio	-0.16	-0.09

ESO's current liabilities exceeded current its current assets by EUR 204.0 million. Current ratio is equal to 0.28. Quick ratio does not differ from the current ratio, because inventories represent only 2.7 of total current assets. Borrowings, as reduced by the amount of short-term investments and cash and cash equivalents, are equal to EUR 366.2 million. The Company's net borrowings account for 60.3% of its equity.

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

Other information is presented in the financial statements of ESO for 2017.

FACTORS AFFECTING THE COMPANY'S FINANCIAL INDICATORS

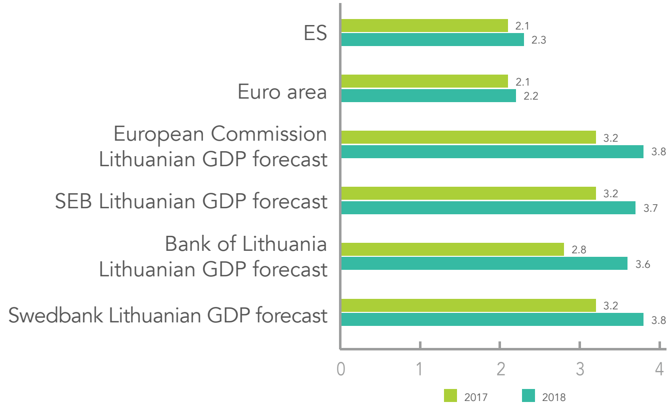
Operating environment

The growth rate of the European economy exceeded all expectations already in the first quarter of 2017. This was mainly due to increasing internal demand, favourable financing conditions and improved situation in the labour market, as well as expanding global economy. The growth tendency is expected to prevail in the upcoming year. GDP growth in 2017 is forecast to amount to 2.3% for the EU as a whole and to 2.2% for the euro area, according to the European Commission's forecast issued in autumn 2017. Meanwhile, in 2017 economic growth is expected to reach 3.5%.[2]

The Lithuanian economy will grow by 3.8% in 2017 and 2.9% in 2017, according to the European Commission's forecast.[3]

In their forecasts, the economists of the Lithuanian banks also project growth of the Lithuanian economy. According to the SEB Bankas analysts' forecasts issued in October 2017, Lithuania's gross domestic product will increase by 3.7% in 2017 and 3.2% in 2018.[4] In January 2018, the analysts of Swedbank AB also published the Lithuanian economic outlook: they expected that the gross domestic product would grow by 3.8% in 2017 and 3.2% in 2018.[5] According to the December 2017 forecast issued by the Bank of Lithuania, the Lithuanian gross domestic product grew by 3.6% in 2017 and will grow by 2.8% in 2018.[6]

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



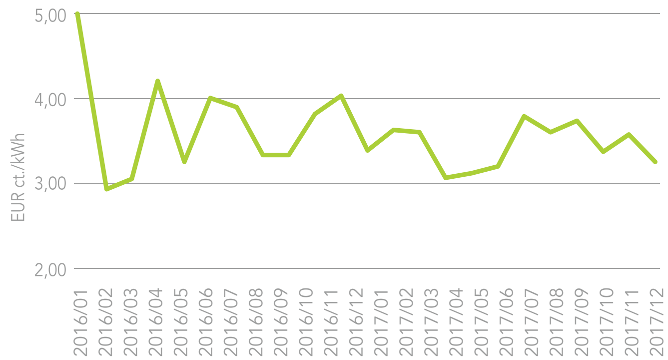
Electricity consumption is closely linked with the growth of a gross domestic product, therefore economic growth also impacts the performance of ESO. Taking into account macroeconomic forecasts for 2018 presented by economists as well as the actual results of operations of ESO for 2017, we hold the opinion that a higher volume of electricity will be distributed in 2018.

Situation in the electricity market

In 2017, the average electricity price on Nord Pool power exchange as per Lithuania price area was lower than in 2016.[7]

[2]Source of data: European Commission. European Economic Forecast Autumn 2017
[3]Source of data: European Commission. European Economic Forecast Autumn 2017
[4]Source of data: SEB Bankas. Lithuanian Macroeconomic Review No 65, September 2017.
[5]Source of data: Swedbank Economic Outlook. January 2018.
[6]Source of data: Bank of Lithuania. Lithuania's Economic Development and Outlook. December 2017.
[7]Source of data: Electricity prices [interactive]. Viewed on 2 Feb 2017. Access through the internet: https://www.nordpoolgroup.com/Market-data1/Dayahead/Area-Prices/LT/Monthly/?view=table.

Average monthly prices on the electricity exchange



The Company's strategy and objectives

On 2 November 2016, ESO's 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, and 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 by 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 respectively decrease by 0.94 times by the year 2020. The Company will also aim to maintain high reliability indices of the natural gas distribution network.

By 2020, the Company plans to shorten the time for new customer connections to the natural gas 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 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

Vision	To be a reliable partner in the world of advanced energy technologies			
Mission	We are here to ensure that energy reaches you in a reliable and simple way			
Effect	Increasing the value of the Company			
Strategic directions	Reliability, convenience, and speed of services provided to customers	Cutting-edge technological solutions increasing network effectiveness	Continuous performance improvement	Unified culture of a responsible organisation
Values	Responsibility	Cooperation	Result	

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

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

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

Stakeholders

In order to balance the implementation of the strategic directions, the Company first takes into account the interests and expectations of its 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 the interests of key stakeholders. The presented scheme shows ESO stakeholders' needs as 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 Safe and Reliable Network programme 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 meets 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 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 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 provides 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 to 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 allocated to the buyout of the gas distribution pipelines. The Company plans to allocate EUR 3.9 million for the modernisation of technological processes.

Risks and uncertainty factors and their management

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

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

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

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

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

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

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

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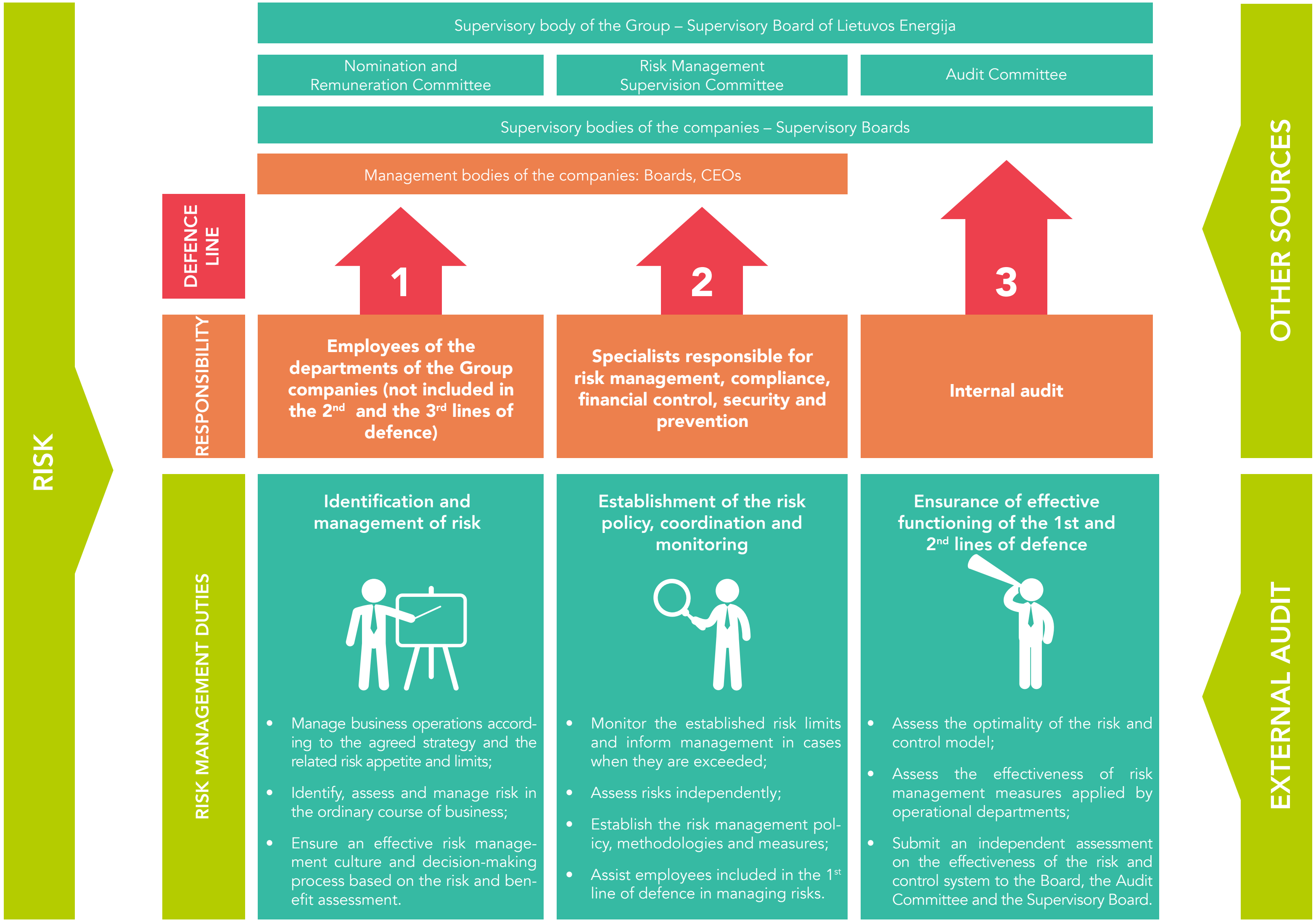


RISK
Supervisory body of the Group – Supervisory Board of Lietuvos Energija
Nomination and Remuneration Committee
Risk Management Supervision Committee
Audit Committee
Supervisory bodies of the companies – Supervisory Boards
Management bodies of the companies: Boards, CEOs
DEFENCE LINE
1
2
3
RESPONSIBILITY
Employees of the departments of the Group companies (not included in the 2nd and the 3rd lines of defence)
Specialists responsible for risk management, compliance, financial control, security and prevention
Internal audit
RISK MANAGEMENT DUTIES
Identification and management of risk
• Manage business operations according to the agreed strategy and the related risk appetite and limits;
• Identify, assess and manage risk in the ordinary course of business;
• Ensure an effective risk management culture and decision-making process based on the risk and benefit assessment.
Establishment of the risk policy, coordination and monitoring
• Monitor the established risk limits and inform management in cases when they are exceeded;
• Assess risks independently;
• Establish the risk management policy, methodologies and measures;
• Assist employees included in the 1st line of defence in managing risks.
Ensurance of effective functioning of the 1st and 2nd lines of defence
• Assess the optimality of the risk and control model;
• Assess the effectiveness of risk management measures applied by operational departments;
• Submit an independent assessment on the effectiveness of the risk and control system to the Board, the Audit Committee and the Supervisory Board.
OTHER SOURCES
EXTERNAL AUDIT

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

Risk factor	Sources of risk	Pagrindinės rizikos valdymo kryptys
Health and safety of employees, contractors, and residents	With regard to the specific character of its business activity, the Company bears the risk of injury to the employees of ESO, its contractors, and residents. This risk remains a priority area every year and the main causes of this risk, in addition to high-risk working environment, stem from the lack of awareness or experience/knowledge.	• Installation of the occupational health and safety management system (OHSAS 18001:2007); • Enhancement of physical safety measures, warning signs; • Regular control and monitoring of occupational safety of employees and contractors; • Motivational and disciplinary system for employees and contractors; • Extensive educational activities.
External regulation	The Company is exposed to regulatory risk due to the constant change of regulatory environment (frequent changes in legislation give rise to erroneous interpretations/misinterpretations). Moreover, the transposition of the Energy Efficiency Directive into the Lithuanian law has imposed unproportionally large obligations on ESO, without any proper incentive mechanisms for the market of energy efficiency services.	• As clear and proper fulfilment of regulatory requirements as possible; • For the purpose of ensuring compliance with new requirements, Group-level organisation of projects engaging the best specialists of the Group with regard to the issue concerned; • Active contribution to the process of public coordination of legal acts; • Initiation of draft amendments to legal acts that are unfavourable to the Company.
Disruptions in services while implementing IT changes (system instability due to high number of changes)	The majority of information systems, in order to make them more efficient, are undergoing extensive changes. Due to a high number of changes, the quality of those changes is not always controlled and the stability of the systems is not always retained (in terms of both functionality errors and optimal functioning).	• Modernisation of information systems, installation of up-to-date specialised IT tools in order to create new possibilities of providing the customers with high-quality services and increasing the efficiency of the Company's processes; • Enhancement of the installation process of IT changes; • Regular monitoring of current changes; • Creation of a model for testing critical systems.
Information security (cyber security)	By observing external factors and the geopolitical situation, the Company understands its strategic importance for the country's security and, by cooperating with external establishments and by introducing internal measures, aims to ensure that both the Company's strategic information and the main management systems are protected from the impact of any external/internal crime.	• Improvement of resistance through tests/trainings; • Data backup; • Enhancement of detection/suspension; • Cooperation with external establishments; • Continuous education of the Company's employees on information security risks, threats, and good practice.

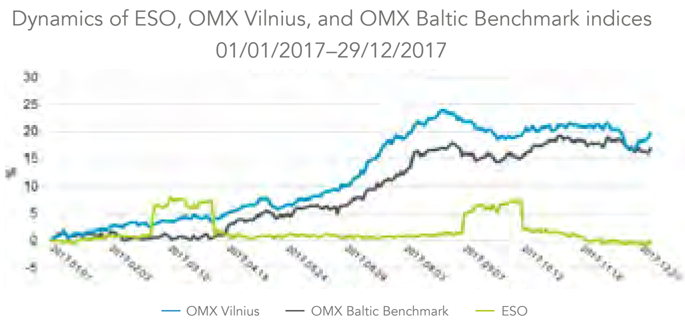
INFORMATION ON THE COMPANY'S AUTHORISED SHARE CAPITAL AND SECURITIES

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 29 December 2017

ESO is the largest company listed on the NASDAQ Baltic stock exchange in terms of the market capitalisation. On 29 December 2017, ESO's capitalisation amounted to EUR 769.38 million. During 2017, the price of ESO's shares decreased by 0.23%. In 2017, the lowest price of ESO's shares was recorded on 14 December 2017 and it was equal to EUR 0.854 per share. The highest point (EUR 0.93) during the reporting period was reached on 10 March 2017. In 2017, the average weighted price per share amounted to EUR 0.869.

Dynamics of the price of ESO's shares and OMX Vilnius and OMX Baltic Benchmark indices during the period from 1 January 2017 to 29 December 2017



During 2017, the OMX Vilnius index increased by 16.97%, the OMX Baltic Benchmark index rose by 19.78%, while the price of ESO's shares declined by 0.23% of its initial value during 2017.

Structure of the authorised share capital

Type of shares	Ordinary registered shares
Number of shares, items	894 630 333
Nominal value, in EUR	0,29
Total nominal value, in EUR	259 442 796,57
Percentage of share capital	100,00

As at 31 December 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	LT0000130023
Trading list	BALTIC MAIN LIST
Securities' abbreviation	ESO1L
Number of shares, items	894 630 333
Nominal value per share, in EUR	0,29
Industry under the ICB standard	7000 Utilities
Supersector under the ICB standard	7500 Utilities

Rights and obligations granted by shares

All ordinary registered shares grant the same rights. Property and non-property rights are defined by laws, other legal acts and the Articles of Association.

Information on major related-party transactions – value of transactions, nature of relationship between related parties, and other information about transactions necessary for the understanding of the Company's financial situation, if such transactions are significant or have been concluded under unusual market conditions

Information on related-party transactions is provided in Note 28 to the audited consolidated annual financial statements for 2017.

Significant agreements to which the Issuer is a party and which would come into effect, change or would be terminated if the control of the Issuer changed, as well as effects thereof, except in cases where revelation thereof would cause considerable damage to the Issuer due to the nature of such agreements

The Company has not entered into significant agreements which would come into effect, change or would be terminated if the control of the Issuer changed.

Information about harmful transactions conducted on behalf of the Issuer during the reporting period, which had or might have negative impact on the Issuer's activity and (or) performance, as well as information about transactions made in the event of a conflict of interests between duties of executives, controlling shareholders or other related parties with respect to the Issuer and their private interests and (or) other duties. It is necessary to disclose the substance, terms and conditions of significant transactions, nature of conflicts of interests and their influence on the transaction.

During the reporting period the Issuer did not conduct any harmful transactions (transactions which do not meet the Company's objectives or existing normal market conditions or which violate the interests of shareholders or other groups, etc.) or any transactions made in the event of a conflict of interests between duties of executives of the Issuer, controlling shareholders or other related parties with respect to the Issuer and their private interests and (or) other duties.

Procedure for amending the Articles of Association

The General Meeting of Shareholders has the right to amend the Articles of Association of ESO.

Restrictions on the transfer of securities

According to the data of 31 December 2017, no restrictions on the transfer of securities were imposed during the reporting period.

Subsidiaries

As at 31 December 2017, ESO had no subsidiaries.

Information on the Company's branches and representative offices

The Company has no branches or representative offices.

Information on the committees established

There are no committees established at the Company.

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

ESO had no own shares before the reporting period and did not acquire any own shares during 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 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 2017.

Reasons for acquisition of own shares by the Company over the reporting period

The Company did not acquire any own shares during 2017.

Shareholders

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

Lietuvos Energija UAB holds 94.98% of the Company's shares. Households own 4.27%, and financial institutions, insurance, and other companies hold 0.75% of ESO's shares.

Distribution of the number of ESO's shareholders by country, at 31 Dec 2017

Country	Number of shareholders
Lithuania	8,444
Estonia	133
Russia	49
Latvia	48
Belarus	40
USA	18
Great Britain	13
Other countries	44
Total	**8,789**

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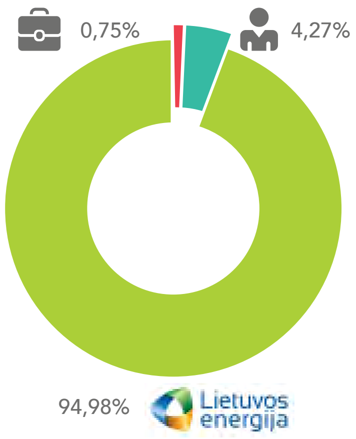
Distribution of ESO's shareholders by category, at 31 Dec 2017



Mutual agreements between the shareholders which are known to the Issuer and due to which the securities transfer and/or voting rights may be subject to limitations

No agreements between the shareholders of the Company due to which the securities transfer and/or voting rights may be subject to limitations are known to the Company.

Restrictions on voting rights

No restrictions on voting rights are present at the Group of companies.

Authorisations granted by the bodies of the Issuer to issue and redeem the shares of the Issuer

Decisions on the issue and redemption of the issuer's shares can be made by the General Meeting of Shareholders in the manner prescribed by the Lithuanian Law on Companies.

Shareholder's name (company name, legal form, registered office address, code)	Lietuvos Energija UAB, Žvejų g. 14, LT-09310 Vilnius, Company code 301844044
Number of ordinary registered shares owned by the shareholder, units	849 743 761
Ownership interest in the authorised capital, %	94,98
Percentage of voting rights conferred by shares owned	94,98

Dividends

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. Profit appropriated for the payment of dividends amounted to EUR 51.8 million. Dividends per share for the six-month period from 1 July 2016 to 31 December 2016 amounted to EUR 0.0579.

On 29 September 2017, a decision was passed at the Extraordinary General Meeting of Shareholders to pay dividends to the Company's shareholders for the period from 1 January 2017 to 30 June 30 2017. Profit appropriation to dividends amounted to EUR 41.2 million. Dividends per share for the six-month period from 1 January 2017 to 30 June 2017 amounted to EUR 0.046. The net profit of ESO for the six months of 2017 amounted to EUR 46.3 million. The dividend/net profit ratio for the six months of 2017 was 0.89.

Information on agreements with intermediaries of public trading in securities

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

CUSTOMER SERVICE, SERVICE ASSESSMENT

Number of customers being serviced

On 31 December 2017, ESO had 1.615 million (31 December 2016: 1.595 million) contracts on purchase and sale of electricity concluded with private customers and 72.798 thousand (31 December 2016: 68.377 thousand) contracts on electricity supply or distribution services concluded with commercial customers.

As at 31 December 2017, approx. 573.6 thousand of private customers and approx. 10 thousand of commercial customers were connected to ESO's gas distribution networks for whom the provision of a distribution service was ensured.

Development of service channels

In 2017, the number of customers using remote service channels (the self-service website www.manogile.lt and the customer service short number 1802) increased, and electricity consumer flows to the customer service centres in smaller towns declined. At the beginning of 2017, the self-service website was upgraded to enable a single declaration and payment for electricity and gas. As at 31 December 2017, the self-service website www.manogile.lt had 518 thousand registered private customers.

In 2017, more than 1.172 thousand (2016: 1.179 thousand) customers were serviced at short customer service number 1802. More than 51 thousand customers used the new free-of-charge telephone number 1852 for recording power supply failures. The free-of-charge telephone number 1852 was brought into use on 15 September 2017. During 2017, more than 210 thousand (2016: 263 thousand) customers were serviced at the customer service centres in the five major Lithuanian cities.

Operation and development of electricity and gas metering devices

In 2017, ESO replaced 112.084 thousand metering devices that no longer meet the meteorological requirements, whereof: 92.960 thousand electricity meters and 19.124 thousand natural gas meters. The Company installed 24.489 thousand electricity metering devices and 7.090 thousand natural gas metering devices for new customers.

By regularly renewing metering devices being operated, the Company and its authorised persons inspected more than 875 thousand electricity meters and more than 95 thousand natural gas meters. In 2017, the Company also installed 1.364 thousand controlling metering devices in the 10 kV voltage network, thereby increasing their number up to 2.738 thousand. This accounts for 77% of the total 10 kV voltage network.

By investing in the modernisation and automation of the electricity and natural gas metering equipment, in 2017 ESO connected 6.702 thousand 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 36.475 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.

In order to test the effectiveness of smart metering devices and their benefits for private customers, in 2017 the Company presented the results of its pilot project. During the implementation of the project, smart meters were installed for 2.927 thousand customers that allow using electricity more efficiently and saving household expenses. The self-service website www.manogile.lt provided customers with exact data on the time of electricity consumption and quantity consumed. During the implementation of the project, participants could choose a four time zone tariff plan adapted to the project, which gave the opportunity to change electricity consumption habits and reduce costs. More than 12% of the project participants selected the four time zone tariff plan. The results of the pilot project revealed that by means of the smart metering system, residents could save at least 7% of electricity. The Company has also evaluated the benefits of the potential mass roll-out of the smart metering system across the country. Based on the analysis performed by EY, preliminary investments of EUR 219 million in the four-year term project would generate an overall economic benefit of around EUR 88 million for the country. The Company will negotiate on the project with the National Commission for Energy Control and Prices as well as other stakeholders.

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 by visiting the customer service centre Gilė. The total of 19% of ESO's customers pay according to VAT invoices issued, whereof 10% make payments according to electronic invoices issued.

Market liberalisation

As at 31 December 2017, independent suppliers supplied electricity to 76,132 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 31 December 2017 by:

- About 95% of objects whose admissible power was 400 kW and more;
- About 86% of objects whose admissible power was 100 kW and more;
- About 76% of objects whose admissible power was 30 kW and more;
- About 60% of objects whose admissible power was less than 30 kW.

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

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CORPORATE SOCIAL RESPONSIBILITY

Preamble

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

The Company assumes the responsibility to contribute to the welfare of society through a secure continuous energy distribution and supply, active participation in public education on the issues of safe and rational use of energy, installation of new, promising and efficient technologies, taking care of customers, employees, communities and promotion of awareness of contractors and suppliers. 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 the impact on landscape, new cables are being installed in place of old electricity overhead lines in areas where wires of existing overhead lines are thin and dangerously close to green spaces, outdated infrastructure has caused many breakdowns. Cable lines ensure a more reliable supply of electricity and are safer.

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

Public initiatives

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

Information security campaign *Safe Energy*. Over the first two quarters of 2017, the Company conducted the large-scale campaign on safe use of electricity and gas, theft prevention of ESO's technological property, and provision of useful advice to the general public. The campaign was launched in spring 2016. In mass media – television, radio, newspapers and the internet – the campaign was aimed at raising public awareness of safety issues related to fieldworks, with emphasis placed on the underground electricity and gas network, as well as educational advice on safe behaviour during storms. The campaign also focused on thefts that cause electricity supply interruptions as well as prevention (educational material, videos, articles).

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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 they accept and agree with the following environment-friendly ideas:

- To implement measures on energy efficiency;
- To contribute to environmental protection and greenhouse gas (CO_2) emission reduction;
- To encourage employees, colleagues, relatives to contribute to the creation of energy-saving society.

Support. ESO provides coordinated support to the projects and programmes of public interest through the Support Foundation of the Lietuvos Energija Group of companies. The budget of the foundation consists of the contributions of all group companies amounting to up to 1% of the consolidated net profit of the Group. Applications to the Support Foundation are submitted once a year following the established procedure and deadlines. The support for the projects of 2018 was announced in November 2017. Support was granted to 41 projects.

Relationship 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.

Transparency, anti-corruption activities

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

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

The Company operates an anonymous trust line 1802. Both the employees of ESO and other persons can report any noted violations of ethics via email pasitikejimolinija@eso.lt or by filling in the trust line form available on ESO's website under the contacts section. In 2017, the trust line was used more than 250 times.

Promotion of transparency in public procurements

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

Accountability

ESO is an active member of the Association for Responsible Business of Lithuania (LAVA) and a participant of the Global Compact, a United Nations initiative. In order to increase its accountability to the society, the Company publishes annual corporate 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

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

Energijos Skirstymo Operatorius AB started its operations on 1 January 2016 after the merger of LESTO 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% of electricity cables. The Company also operates 8.4 thousand kilometres of the gas distribution pipelines.

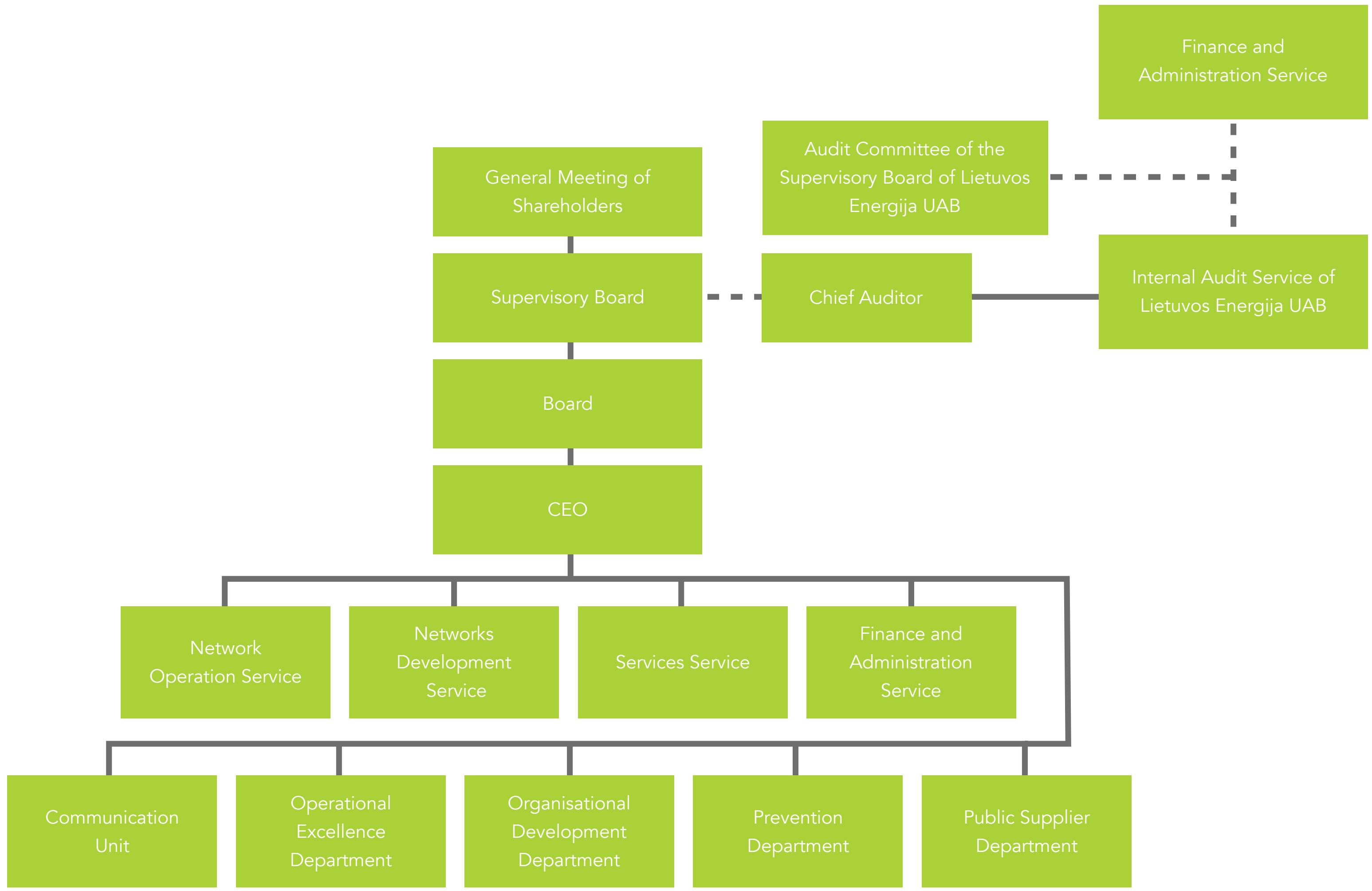
The main functions of ESO include electricity supply and distribution, natural gas distribution, guaranteed electricity and gas supply, connection to electricity and gas networks, ensurance of safe and reliable operation of electricity and gas distribution networks, their operation, maintenance, management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

	UAB Technologijų ir inovacijų centras	UAB Verslo aptarnavimo centras
Address	A. Juozapavičiaus g. 13, Vilnius	P. Lukšio g. 5B, Vilnius
Registration date	4 December 2013	30 July 2014
Company code	303200016	303359627
Telephone	(8 5) 278 2272	(8 5) 259 4400
Fax	(8 5) 278 2299	(8 5) 259 4401
E-mail	info@etic.lt	vac@le.lt
Website	www.etic.lt	http://vac.le.lt
Ownership interest held by ESO, %, at 1 January 2017	29,01	22,25
Ownership interest held by ESO, %, at 31 December 2017	29,01	22,25
Principal activities	Provision of information technology and telecommunication services for the companies in the energy sector	Provision of services of organisation and performance of public procurements, accounting, administration of employment relationships, customer service, administration of human resources, legal services, consultations and trainings on operational efficiency

ESO's management structure



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 Board, a collegial management body – the Board, and a single-person management body – the Chief Executive Officer.

General Meeting of Shareholders

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

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

One Ordinary General Meeting of Shareholders and one Extraordinary General Meeting of Shareholders were held during 2017. The Ordinary General Meeting of Shareholders held on 24 March 2017 was attended by the Company's CEO Dalia Andrulionienė, Finance and Administration Service Director and Board Member Augustas Dragūnas and Member of ESO's Supervisory Board Ilona Daugėlaitė. The Extraordinary General Meeting of Shareholders held on 29 September 2017 was attended by the Company's CEO Dalia Andrulionienė, Finance and Administration Service Director and Board Member Augustas Dragūnas, Board Members Rytis Borkys and Saulius Vaičekauskas, and Member of ESO's Supervisory Board Ilona Daugėlaitė.

The Company's Supervisory Board

The Supervisory Board of ESO is a collegial supervisory body.

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

During the reporting period, the composition of the Supervisory Board underwent changes. At the date of signing of the report, the Company's Supervisory Board had the following members: Ilona Daugėlaitė and Petras Povilas Čėsna (an independent member). On 20 September 2017, Dalius Misiūnas, Member (Chairman) of the Company's Supervisory Board, informed the Company of his resignation from the position of the Member (Chairman) of the Supervisory Board from 4 October 2017. The term of office of the Supervisory Board expires on 3 December 2019.

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

Dr DALIUS MISIŪNAS (born in 1978)
Chairman of the Supervisory Board (until 4 October 2017)

In this position:
From 3 December 2015 until 4 October 2017

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

Principal workplace

–

ILONA DAUGĖLAITĖ (born in 1970)
Member of the Supervisory Board

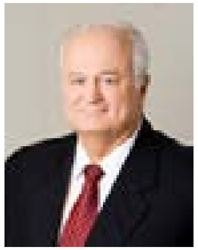
In this position from:	End of term of office:
3 December 2015	3 December 2019

Educational background

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

Principal workplace

Lietuvos Energija, UAB,
Organisational Development Director



PETRAS POVILAS ČĖSNA (born in 1945)
Independent member of the Supervisory Board

In this position:	End of term of office:
From 3 December 2015	1 July 2017

Educational background

Vilnius University,
qualification of an economist

Principal workplace

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

Compensations for members of the Supervisory Board calculated during January–December 2017, in EUR	
–*	
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, %**

Compensations for members of the Supervisory Board calculated during January–December 2017, in EUR	
–	
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, %**
Member of the ESO's Supervisory Board	-
Lietuvos Energija, UAB, Member of the Board (until 1 February 2018), Organisational Development Director	-
Chairwoman of the Board of Technologijų ir Inovacijų Centras UAB	-
Chairwoamn of the Board of Verslo Aptarnavimo Centras UAB	-
Spouse holds 3,150 ordinary registered shares of SOLUTIONLAB PRODUCTION UAB (company code 300629188)	63

Compensations for members of the Supervisory Board calculated during January–December 2017, in EUR	
2259	
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, %**
Independent member of the ESO's Supervisory Board	-

* According to the ESO's Articles of Association agreements may be concluded with the members of the Supervisory Board regarding the activity related to the Supervisory Board, which establish members' rights, obligations and responsibility. Based on the decision of the general meeting of shareholder remuneration may be paid to independent members of the Supervisory Board for their activity in the Supervisory Board. The terms of the agreements concluded with the members of the Supervisory Board and the independence criteria are established by the general meeting of shareholders according to the requirements of legal acts and the good corporate management practice. On 3 December 2015, the agreements on the activity of the member of the ESO's Supervisory Board were concluded with Dr Dalius Misiūnas, Ilona Daugėlaitė and independent member of the Supervisory Board Petras Povilas Čėsna.
ESO has neither transferred management of assets nor issued guarantees to the members of the bodies. During 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.

** until 4 October 2017

Audit Committee

On 13 October 2017, the Supervisory Board 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 Board. 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 Audit Committee formed by the Supervisory Board of Lietuvos Energija UAB on 27 August 2013 was functioning until 16 July 2017.

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 control and risk management systems of Lietuvos Energija UAB and its Group of companies, to analyse and review the need for such systems and their appropriateness;
- to monitor the adherence to the principles of independence and objectivity by the certified auditor and the audit company, to provide related recommendations;
- to monitor the audit performance processes of Lietuvos Energija UAB and the Group of 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 of companies, to analyse the need for such systems and their appropriateness, to provide recommendations on the need for and effectiveness of the internal audit function, as well as other internal audit related matters.

On 5 January 2015, the internal audit function was centralised at the Lietuvos Energija Group, thus ensuring independence and objectivity of the 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 until 16 July 2017.

Full name	Share of Issuer's authorised share capital held, %	Term of office	Workplace
Rasa Noreikienė (Chairwoman of the Audit Committee)	0	August 2013–August 2017	Lithuanian Ministry of Economy (Until 13/12/2016)
Aušra Vičkačkienė	0	August 2013–August 2017	Lithuanian Ministry of Finance, Asset Management Department
Danielius Merkinas (Independent member)	0	August 2013–August 2017	Nordnet UAB
Gintaras Adžgauskas	0	August 2013–August 2017	World Energy Council, Lithuania Committee
Irena Petruškevičienė (Independent member)	0	October 2014–August 2017	European Commission, Audit Progress Committee

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
Irena Petruškevičienė (Chairwoman of the Audit Committee, Independent member)	0	October 2017 – October 2021	European Commission, Member of the Audit Progress Committee
Aušra Vičkačkienė	0	October 2017 – October 2021	Lithuanian Ministry of Finance, Asset Management Department
Danielius Merkinas	0	August 2013–August 2017	Nordnet UAB

The Company's Board

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

On 1 January 2017, the Company's Board had the following members: Chairwoman of the Board Dalia Andrulionienė and members Augustas Dragūnas, Rytis Borkys, and Dalius Svetulevičius. During the sitting of the Company's Supervisory Board held on 20 January 2017, a decision was made to elect Ignas Pranskevičius to the position of the Company's Board member, who will be in charge of the provision and development of services, from the end of the sitting of the Company's Supervisory Board, which has elected him, until the expiry of the term of office of the current Board. On 8 March 2017, the Supervisory Board of Energijos Skirstymo Operatorius AB, considering a notification of resignation of Dalius Svetulevičius from the member of the Company's Board, submitted on 28 February 2017, adopted the decision to recall Dalius Svetulevičius from the Board of Energijos Skirstymo Operatorius AB from the end of the sitting of the Supervisory Board of the Company that recalled him. On 26 April 2017, the Supervisory Board of the Company adopted a decision to elect Saulius Vaičekauskas as the new member of the Board in charge of the area of network operations from the end of the meeting of the Supervisory Board of the Company that elected him until the end of the term of office of the current Board.

At the end of the reporting period, the composition of the Company's Board was as follows: Chairwoman of the Board Dalia Andrulionienė and members Augustas Dragūnas, Ignas Pranskevičius, and Saulius Vaičekauskas. On 10 January 2018, Rytis Borkys informed the Company of his resignation from the position of the Member of the Board from 24 January 2018. The Board's term of office expires on 3 December 2019.

During the reporting period, 24 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) Chairwoman 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	**DALIUS SVETULEVIČIUS** (born in 1974) Member of the Board	**SAULIUS VAIČEKAUSKAS** (born in 1979) Member of the Board**
In this position from: 3 December 2015; 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: Until 24 January 2018	In this position: Until 8 March 2017	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 Measurement Engineering; Vilnius University, Master's degree in Management and Business Administration	Kaunas University of Technology, Master's degree in International Trade and Bachelor's degree in Electrical Engineering
Principal workplace and position held					
ESO generalinė direktorė	ESO's Services Director	ESO's Finance and Administration Service Director	ESO's Networks Development Service Director (until 10 January 2018)	ESO's Networks Operation Service Director (until 28 February 2017)	ESO's Networks Operation Service Director

DALIA ANDRULIONIENĖ (born in 1971) Chairwoman 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		**DALIUS SVETULEVIČIUS** (born in 1974) Member of the Board		**SAULIUS VAIČEKAUSKAS** (born in 1979) Member of the Board**	
Compensations for members of the Board calculated during January–December 2017, in EUR											
17376,00		9895,39		10428,00		10428,00		1738,00		7096,85	
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, %	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 Lithuanian National Energy Association											

*On 20 January 2017, Ignas Pranskevičius was elected as the Company's Board member, who will to be in charge of the provision and development of services.
**On 26 April 2017, Saulius Vaičekauskas was elected as the Company's Board member, who will be in charge 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* and Chief Financier of ESO calculated during the reporting period**

	Remuneration, in EUR	Other payments, in EUR
Dalia Andrulionienė, CEO*	62 027	3 224
Chief Financier**	-	-

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

**As from 2015, the accounting function has been moved from the Company to Verslo Aptarnavimo Centras UAB, and accordingly, the Company no longer has accounting employees, nor the Chief Financier. Verslo Aptarnavimo Centras UAB performs a complete set of accounting services for the Company, starting with the recording of the source documents into the accounting software and ending with the preparation of the financial statements.

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 held, %	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 2,453 employees as at 31 December 2017.

Structure of the Company's employees by category:

Category of employees	Number of employees at 31 Dec 2017
Chief executive officer (CEO)	1
Top-level managers	6
Medium-level managers	187
Experts, specialists, workers	2,259
Total number of employees	**2,453**

Structure of the Company's employees by educational background:

Education	Number of employees at 31 Dec 2017
Higher education	1,438
Advanced vocational education	842
Secondary and vocational education	173

Remuneration system

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

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

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

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

Average salary of the Company's employees

Category of employees	Average salary, in EUR (before tax) January–December 2017
Chief executive officer (CEO)	5,323
Top-level managers	4,779
Medium-level managers	2,038
Experts, specialists	1,058
Workers	785
Total average	1,084

Collective employment agreement

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

Trade unions

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

Development of competences

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

In the period between January and December 2017, 1,488 participants attended the compulsory vocational training programmes, at the end of which certificates permitting to perform special works were issued. Employees were provided training on occupational safety and health, fire safety, operation of flammable gas systems, rotary turbine gas meters, and gas volume correctors, as well as professional and legal basis concerning technical supervision of the construction of special-purpose structures.

In the period between January and December 2017, the general training courses were attended by 3,894 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. In 2017, 3,435 participants attended internal training courses. A large part of these trainings was dedicated to the personnel in charge of the operation of electro-mechanic and gas systems, aiming to improve their qualification, upgrade already acquired skills, and make them acquainted with new methodologies. Trainings on customer service and other trainings organised by the Accounting Department also comprised a significant proportion. In order to ensure the effectiveness of internal processes, employees are introduced to the initiatives and programmes implemented by the Company, for example, the programmes on operational excellence and employee performance management.

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

In 2017, ESO provided partial funding for the studies of 10 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 2017, 31 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 Nomination 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 Board 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 the goals of Lietuvos Energija UAB and the Group of companies;
- to assess the relevance of internal control procedures and risk management measures with respect to 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 the risk management plan of Lietuvos Energija UAB and the Group of 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 Board of Lietuvos Energija UAB.

The composition of the Risk Management Supervision Committee of Lietuvos Energija UAB until 16 July 2017

Full name	Share of Issuer's authorised share capital held, %	Term of office	Workplace
Antanas Danys	0	September 2013 – August 2017	GRINVEST PTE. LTD direktorius, UAB „Kaštonų kalva" plėtros vadovas
Raimundas Petrauskas (Independent member)	0	September 2013–August 2017	Schmitz Cargobull Baltic UAB
Donatas Kaubrys	0	October 2013 – August 2017	„Dovirma", UAB
Tomas Garasimavičius	0	September 2013–August 2017	Government of the Republic of Lithuania

The Risk Management Supervision Committee has not been formed at the date of issue of this report.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for the submission of conclusions or proposals on the matters of appointment, removal or promotion of the Board Members to the Supervisory Board, also for the assessment of activities of the Board and its members and for issuing the respective opinion. The functions of the Committee also cover the formation of the common remuneration policy at the Group level, establishment of the amount and composition of remuneration, principles of promotion, etc.

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

- to make assessments and provide suggestions in relation to the long-term remuneration policy of Lietuvos Energija UAB and its group companies (fixed pay, performance-based pay, pension insurance, other guarantees and remuneration forms, compensations, severance pay, other items of the remuneration package), and the principles of compensation for expenses related to the person's activities;
- to make assessments and provide suggestions in relation to the bonus (tantieme) policy of Lietuvos Energija UAB and its group companies;
- to monitor compliance of the remuneration and bonus (tantieme) policies of Lietuvos Energija UAB and its group companies with international practice and good governance practice guidelines, and provide suggestions for their improvement;
- to provide suggestions in relation to bonuses (tantiemes) upon appropriation of profit (loss) for the financial year of Lietuvos Energija UAB and its group companies;
- to assess the terms and conditions of inter-company agreements between Lietuvos Energija UAB and its group entities and the members of the management bodies of Lietuvos Energija UAB and its group companies;
- to assess the procedures for recruitment and hiring of candidates to the positions of management bodies and top management of Lietuvos Energija UAB and its group companies, and establishment of qualification requirements for them;

- to assess on a continuous basis the structure, size, composition and activities of management and supervisory bodies of Lietuvos Energija UAB and its group companies;
- to oversee the process of notification of the members of management bodies and employees of Lietuvos Energija UAB and its group companies about the professional training opportunities and monitor the progress achieved on a regular basis;
- to oversee and assess the implementation of measures ensuring business continuity of management and supervisory bodies of Lietuvos Energija UAB and its group companies;
- to perform other functions assigned to the Nomination and Remuneration Committee based on the decision of the Supervisory Board of Lietuvos Energija UAB.

The composition of the Nomination and Remuneration Committee of Lietuvos Energija UAB until 16 July 2017

Full name	Share of Issuer's authorised share capital held, %	Term of office	Workplace
Virginijus Lepeška (Chairman of the Committee)	0	August 2013–August 2017	Organizacijų Vystymo Centras UAB
Tomas Garasimavičius	0	August 2013–August 2017	Government of the Republic of Lithuania
Agnė Bagočiutė	0	June 2016–August 2017	Lithuanian Ministry of Finance until 22/12/2016

The composition of the Nomination 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
Daiva Lubinskaitė-Trainauskienė (Chairwoman of the Committee)	0	September 2017 – September 2021	- Independent member, Personnel Director at Thermo Fisher Scientific Baltics UAB, - Member of the Board of the Association of Personnel Management Professionals
Aušra Vičkačkienė (Member of the Commitee)	0	September 2017 – September 2021	Director of the Asset Management Department under the Lithuanian Ministry of Finance
Ramūnas Dilba* (Member of the Commitee)	0	September 2017 – September 2021	Director of the EU Investment Department under the Ministry of Finance

* Former member of the Committee Gediminas Norkūnas, Deputy Director of the State Treasury Department under the Ministry of Finance, was replaced by R. Dilba with effect from 24 November 2017.

MATERIAL EVENTS IN THE COMPANY'S ACTIVITIES

Material events during the reporting period

In executing its duties in accordance with the applicable legislation regulating the securities market, ESO publishes information on material events and other regulated information on the EU-wide basis. Information announced by the Company is available on the Company's website www.eso.lt and the website of NASDAQ 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	ESO 2016 results: operating expenses down by 11.5%, net profit up by 8.2%
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 Board
24 March 2017	ESO audited financial results of 2016 has been approved
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
28 April 2017	ESO Published the First Progress Report on Corporate Social Responsibility
15 May 2017	ESO 2017 Q1 results: operational efficiency continues to grow as prices of services decline
19 May 2017	Regarding the decision of the Board of Energijos Skirstymo Operatorius AB to reduce natural gas distribution prices from July 1, 2017
31 May 2017	NCECP 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 Court Decision
30 June 2017	Preliminary ESO results for five months of 2017: revenue reached EUR 264 million, EBITDA - EUR 68 million
5 July 2017	Regarding a planned separation of public supply of electricity energy
31 July 2017	Preliminary ESO results for six months of 2017: net profit reached EUR 46 million, revenue - EUR 308 million
31 August 2017	ESO 2017 six months results: investments in renewal and development of networks up by 45%
6 September 2017	Regarding the Extraordinary General Meeting of Shareholders
20 September 2017	Regarding the resolutions of the Supervisory Board of Energijos Skirstymo Operatorius AB

20 September 2017	Regarding the resignation of the Chairman of the Supervisory Board of Energijos Skirstymo Operatorius AB
29 September 2017	Regarding the resolutions of Extraordinary General Meeting of Energijos Skirstymo Operatorius AB Shareholders
29 September 2017	Preliminary ESO results for eight months of 2017: revenue reached EUR 398.5 million, EBITDA – EUR 93.2 million
2 October 2017	Regarding the signatures of the agreement on the energy savings with the Ministry of Energy
13 October 2017	Regarding a Proportional Transfer Agreement of the issue of "Lietuvos energija" green bonds transfer
16 October 2017	Regarding the price-setting for electricity distribution price caps and the public electricity price cap for 2018
25 October 2017	Regarding Court Decision
31 October 2017	Preliminary ESO results for nine months of 2017: net profit reached EUR 56.7 million, revenue – EUR 446.3 million
8 November 2017	Energijos Skirstymo Operatorius AB will hold an Investor Conference Webinar to introduce the financial results for the nine months of 2017
8 November 2017	Due to the transfer of long-term loans from AB "Energijos skirstymo operatorius" to UAB "Lietuvos energija"
9 November 2017	Regarding the price setting for Energijos Skirstymo operatorius AB natural gas distribution price cap for 2018
13 November 2017	Regarding the consumer education and consultation agreement with the Ministry of Energy
16 November 2017	Regarding the finalised pilot project of smart metering and potential investments for mass roll-out
16 November 2017	Regarding the public electricity price cap for 2018
17 November 2017	ESO 2017 nine months results: investments in renewal of electricity grid up by 52%
21 November 2017	NCECP Approved Natural Gas Distribution Prices
22 November 2017	Regarding the Board of ESO decision to change electricity prices as of 2018
24 November 2017	Regarding The Guaranteed Gas Supply in Druskininkai Municipality
30 November 2017	Regarding announced electricity prices for 2018
30 November 2017	Preliminary ESO results for ten months of 2017: revenue reached EUR 500.2 million, EBITDA – EUR 115.5 million
19 December 2017	Regarding the public electricity price cap for 2018
20 December 2017	Regarding the Board of ESO decision to change electricity prices as of 2018
22 December 2017	Regarding announced electricity prices for 2018
22 December 2017	Regarding Investor Calendar for 2018

MATERIAL EVENTS IN THE COMPANY'S ACTIVITIES

Material events during the reporting period

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

Information on material events announced by ESO from 1 January 2017

Material events after the end of the reporting period

The Company informed that, on 10 January 2018, it received a notification of resignation of Rytis Borkys from the post of a member of the Company's Board. Rytis Borkys was elected to the Company's Board on 3 December 2015 upon decision of the Company's Supervisory Board.

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Key operating and financial indicators of the Company for the reporting period

CEO's foreword

Most significant events in the reporting period

Analysis of the financial and operating indicators

Factors affecting the Company's financial indicators

Information on the Company's authorised share capital and securities

Customer service, service assessment

Corporate social responsibility

The Company and its management bodies

Material events in the Company's activities

Annexes

Methodology for the calculation of indicators presented in the annual report

ANNEXES

Notice of the compliance with the Corporate Governance Code for the Companies Listed on NASDAQ Vilnius

Energijos Skirstymo Operatorius AB (hereinafter referred to as the Company or ESO), acting in compliance with Article 22(3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of NASDAQ Vilnius AB, hereby discloses how it complies with the Corporate Governance Code for the Companies listed on NASDAQ Vilnius AB as well as its specific provisions or recommendations. In case of non-compliance with this Code or some of its provisions or recommendations, the specific provisions or recommendations that are not complied with are indicated and the reasons for such non-compliance are specified.

Summary of the Corporate Governance Report:

Energijos Skirstymo Operatorius AB (hereinafter referred to as the Company or ESO), acting in compliance with Article 22(3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of NASDAQ Vilnius AB, hereby discloses how it complies with the Corporate Governance Code for the Companies listed on NASDAQ Vilnius AB as well as its specific provisions or recommendations. In case of non-compliance with this Code or some of its provisions or recommendations, the specific provisions or recommendations that are not complied with are indicated and the reasons for such non-compliance are specified.

Summary of the Corporate Governance Report:

The corporate governance model of the energy group was implemented following the governance guidelines approved by the Ministry of Finance of the Republic of Lithuania on 7 June 2013 (link to the document (in Lithuanian)).

Corporate governance activities are focused in the parent company of the Lietuvos Energija Group – Lietuvos Energija, UAB, which coordinates in the Lietuvos Energija Group companies the areas of finance, law, planning and monitoring, human resources, risk management, audit, technology, communication and other common areas.

Activities of companies of the Lietuvos Energija Group in these areas are based on mutual agreement – cooperation focusing on the pursuit of overall result, and is coordinated by policies – general provisions and norms applicable to all Group companies.

The description of the principles of corporate governance of the Lietuvos Energija Group and the system of governance and control can be found via (this link).

More information on the management bodies ant its members, committees etc. is provided in the section "The Company and its Management Bodies" of this annual report and in the table below, in which information on compliance with the Corporate Governance Code for the Companies listed on NASDAQ Vilnius is disclosed.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
Principle I. Basic Provisions The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The main activities of the Company and its strategic framework are publicly displayed on the Company's website and in the Company's interim, annual reports, press releases, etc.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	The Company's management bodies work to the benefit of the Company and its shareholders while doing their best to succeed in the Company's business objectives. The Company's Board of Supervisors and the Board adopts the most important strategic decisions that influence the increase of shareholders' equity (optimization of the Company's functions and structure, other actions that increase the Company's efficiency and cost reduction).
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	Legal acts, statutes and labour regulations regulating activities of the supervisory and management bodies of the Company establish collaboration principles and methods between the supervisory and management bodies of the Company and also ensure that the supervisory and management bodies operate to the best interests of the Company and its shareholders.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, customers, local community), participating in or connected with the company's operation, are duly respected.	Yes	The Company's bodies respect the rights and interests of the persons involved in or related with the Company's performance. Since the foundation of the Company it cooperates and participates in social partnership with the Company's employee representatives (spends funds to execute the collective agreement and to promote employees, etc.). The Company executes its financial and other obligations to creditors. Based on the results of the customer satisfaction research and the tendencies in the good international practice, the Company implements systemic means designed to improve the quality of servicing of the Company's customers. The Company organises social projects involving children, young people, local communities and other social groups. More information on the Company's initiatives is available on the Company's website and in its annual report.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a General Meeting of Shareholders and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	According to the Company's Articles of Association a collegial Company's business supervising body – the Supervisory Board and a collegial Company's management body – the Board are formed.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	According to the Company's Articles of Association, the Board is responsible for the proper strategic management of the Company (it approves operations strategy and budget for the Company's activities, organisational structure of the Company's management, makes decision regarding other issues, specified in the legislation and assigned to the Board competence by the Company's Articles of Association). The Supervisory Board is responsible for the effective supervision of the Company's management bodies (it elects and dismisses Board members; provides the General Meeting of Shareholders with offers and comments on the Company's business strategy, the Company's annual financial statements, the Company's profit (loss) allocation project, the Company's annual report, performance of the Board and the manager of the Company; provides the Company's Board with responses and offers regarding the Company's business strategy and budget for the Company's activities, makes decisions regarding other issues, specified in the legislation and assigned to the Board competence by the Company's Articles of Association).
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Irrelevant	According to the Company's Articles of Association a collegial Company's business supervising body – the Supervisory Board and a collegial Company's management body – the Board are formed.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
2.4. The collegial supervisory body to be elected by the General Meeting of Shareholders should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.[1]	Yes	According to the Company's Articles of Association, the Company elects a collegial Company's business supervising body – the Supervisory Board. The recommendations laid out in the principles III and IV are not implemented fully in the Company, however, the Company complies with all the requirements, as per legal acts, for setting up of a collegial body. It should be noted that the Company is involved in transfer of electricity energy and natural gas to the users via distribution networks, operates, maintains, manages and develops distribution networks, so its activities are strictly regulated by legal acts and supervised by respective state institutions (the National Commission for Energy Control and Prices, and others). In this way, the clarity and timeliness of the above-mentioned decision-making is ensured as well as the principles of the Company's customer non-discrimination, the Company's expenses reduction and other.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.[2]	Yes	According to Article 20 of the Company's Articles of Association, the Company's Supervisory Board consists of 3 (three) members – natural persons. At least 1/3 (one third) of the Supervisory Board should consist of independent members. The Supervisory Board's decisions are accepted and its meeting shall be deemed held, if the meeting is attended by at least half of the Supervisory Board members (article 33.5 of the Company's Articles of Association). According to article 37 of the Company's Articles of Association, the Company's Board consists of 5 (five) members. The Board's decisions are accepted and its meeting shall be deemed held when the meeting is attended by at least 4 (four) or more Board members (article 59.6 of the Company's Articles of Association). From the perspective of the Company, the number of members of the Board and the Supervisory Board is sufficient to ensure the proper Company's business supervision and timely and efficient Company's management.

[1] Provisions of Principles III and IV are more applicable to those instances when the General Meeting of Shareholders elects the supervisory board, i.e. a body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case the company does not form the supervisory board but rather the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board (e.g. formation of the committees), should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; item 4.6 of the Code concerning independence of the collegial body elected by the General Meeting of Shareholders from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

[2] Definitions 'executive director' and 'non-executive director' are used in cases when a company has only one collegial body.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated, however, this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	According to article 20 of the Company's Articles of Association, the members of the Supervisory Board are elected for the maximum term of 4 years, as specified in the Law on Companies of the Republic of Lithuania. Limitations concerning re-election of the members of the Supervisory Board and the Board are not provided in the Company's Articles of Association, nevertheless, limitations provided by valid legal acts are applied to candidates to members of mentioned bodies. The Company's Articles of Association provide a possibility to revoke (dismiss) both the separate members of the collegial boards, and the whole collegial body *in corpore*, without waiting for their mandates' terms to end (articles 26 and 44 of Articles of Association).
2.7. Chairman of the collegial body elected by the General Meeting of Shareholders may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the General Meeting of Shareholders. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The chairman of the Supervisory Board, which is elected by the General Meeting of Shareholders, and the manager of the Company is not the same person. Members and the chairman of the Supervisory Board have never been the members of the Board of the Company or the manager of the Company. The manager of the Company is a member and a chairman of the Board, but this does not create assumptions for possible impartial behaviour, since the Company has a properly installed Company's activities supervising body – the Supervisory Board. Article 23 of the Articles of Association of the Company states that a member of the Supervisory Board may not be a director general, a member of the management board, a member of the Supervisory Body, management body or administration of a legal person carrying out electricity or gas transmission activities, or another person who according to the law is not entitled to perform these duties. The Company also complies with the requirements of Article 31 of the Law on Companies of the Republic of Lithuania.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
Principle III: The order of the formation of a collegial body to be elected by the General Meeting of Shareholders **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.[3]**		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	According to Article 22 of the Company's Articles of Association , each candidate for the Supervisory Board members to the General Meeting of Shareholders is required to submit candidate declaration of interests indicating there any circumstances that could lead to the candidate and the Company's conflict of interest. The Supervisory Board is being elected by the General Meeting of Shareholders, according to the requirements set out by the Law on Companies of the Republic of Lithuania and the Company's Articles of Association.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	Information on the candidates for the Company's Supervisory Board is presented to the shareholders in accordance with the procedure prescribed by the Law on Companies of the Republic of Lithuania at the General Meeting of Shareholders whose agenda includes consideration of the issue on election of the Supervisory Board members. Article 21 of corporate articles of association defines that a person proposing a candidate to members of the supervisory board has the obligation to produce written explanations to the General shareholders' meeting as to the qualifications of each candidate proposed to members of the supervisory board, candidate experience of managerial work, and fitness to hold the office of a member of the supervisory board. Information on candidates to become members of the supervisory board is produced to shareholders before the day of the general shareholders' meeting in accordance with the procedure prescribed in legislation. According to article 22 of the Company's Articles of Association, each candidate for the Supervisory Board shall submit to the General Meeting of Shareholders a declaration of the candidate's interests, specifying all the circumstances that may give rise to a conflict of interests between the candidate and the Company. Upon emergence of new circumstances that may give rise to a conflict of interests between a member of the Supervisory Board and the Company, the member of the Supervisory Board shall immediately notify the Company and the Supervisory Board of such new circumstances in writing. The information on the offices held by the members of the Supervisory Board or their involvement in any other companies is collected, accumulated and disclosed in the annual report as well as on the Company's website.

[3] Attention should be drawn to the fact that in the situation where the collegial body elected by the general shareholders' meeting is the board, it is natural that being a management body it should ensure oversight not of all management bodies of the company, but only of the single-person body of management, i.e. the company's chief executive officer. This note shall apply in respect of item 3.1 as well.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	The information on the candidates for the Company's Supervisory Board members is presented to the General Meeting of Shareholders in accordance with the procedure prescribed by the Law on Companies of the Republic of Lithuania at the General Meeting of Shareholders (see the comment for Item 3.2). The information presented at the General Meeting of Shareholders covers the professional experience of and offices/positions held by the candidates, also any other information evidencing a candidate's competence. The information on the offices held by the members of the Supervisory Board or their involvement in any other companies is collected, accumulated and disclosed in the interim and the annual report as well as on the Company's website.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly.	Yes	According to the Law on Companies of the Republic of Lithuania, the Supervisory Board is elected and its members' competence is being assessed at the General Meeting of Shareholders.
The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of the remuneration policy.	Irrelevant	Since the parent company Lietuvos Energija UAB (hereinafter – LE) has an Audit Committee, there is no separate Audit Committee installed in the Company (see the comment for Item 4.14). LE has also established the Nomination and Remuneration Committee (see the comment for Item 4.13).
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Irrelevant	The members of the Supervisory Board after their election are acquainted with the Company's activities, organizational and management structure, strategy, activities and financial plans. If necessary, in the meetings of the Supervisory Board or individually, the members of the Supervisory Board are regularly informed about the performance of the Company and its changes as well as modifications of legal acts regulating performance of the Company and other circumstances. Up to now the Company had no demand and practice to propose an individual programme to newly elected members of the Supervisory Board to familiarise themselves with the duties, organisation and performance of the Company and to conduct annual inspections.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient[4] number of independent members[5].	Yes	The formation of the Supervisory Board (and election of independent members) belongs to the competence of the General Meeting of Shareholders. Article 20 of the Company's Articles of Association provides that the Company's Supervisory Board is formed of 3 (three) members, of which at least 1/3 (one third) should be independent. At the day this report is filled, there is 1 (one) independent member of the Supervisory Board out of a total of 3 (three) members.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any related company and has not been such during the last five years; He/she is not an employee of the company or any related company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;	Yes	According to article 24 of the Company's Articles of Association, following the requirements provided by legal acts and the Company's good management practice, the criterion of independence is set by the General Meeting of Shareholders. While assessing the independence of members, the Company follows requirements set forth in the Corporate Governance Code for Companies Listed on the Regulated Market approved by NASDAQ Vilnius AB, Item 64 of the procedure of the State property and non-property rights in state-owned enterprises (approved on 6 June 2012 by resolution No. 665 of the Government of the Republic of Lithuania). According to article 22 of the Company's Articles of Association, each candidate for the Supervisory Board shall submit to the General Meeting of Shareholders a declaration of the candidate's interests, specifying all the circumstances that may give rise to a conflict of interests between the candidate and the Company. Upon emergence of new circumstances that may give rise to a conflict of interests between a member of the Supervisory Board and the Company, the member of the Supervisory Board shall immediately notify the Company and the Supervisory Board of such new circumstances in writing. At the moment of submission of the report, there is 1 (one) independent member in the Supervisory Board. See also the Comment for Item 3.6.

[4] The Code does not provide for a concrete number of independent members to comprise a collegial body. Many codes in foreign countries fix a concrete number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, having regard to the novelty of the institution of independent members in Lithuania and potential problems in finding and electing a concrete number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance.

[5] It is notable that in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few major shareholders. But even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
He/she is not receiving or has been not receiving significant additional remuneration from the company or related company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance-based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);		
He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);		
He/she does not have and did not have any material business relations with the company or related company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major customer or organization receiving significant payments from the company or its group;		
He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or related company;		
He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;		
He/she has not been in the position of a member of the collegial body for over 12 years;		

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relatives are considered to be a spouse (common-law spouse), children and parents.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	Yes/No	The formation of the Supervisory Board (and election of independent members) belongs to the competence of the General Meeting of Shareholders (see also the Comment for Item 3.6). According to article 24 of the Company's Articles of Association, following the requirements provided by legal acts and good Company's management practice, the criterion of independence is set by the General Meeting of Shareholders (See also the Comment for Item 3.7). Furthermore, article 23 of the Company's Articles of Association declares, that the position of the Supervisory Board's member cannot be held by: the CEO, a member of the Board, a member of the supervision/management body or administration member of electricity or gas distribution or production (mining) legal person, and any person, that has no right to take this position according to legal acts.
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Yes	The formation of the Supervisory Board (and election of independent members) belongs to the competence of the General Meeting of Shareholders (see also the Comment for Item 3.6). Information on the candidates for the Company's Supervisory Board (including information about the compliance of a candidate with independence requirements) is presented to the shareholders in accordance with the procedure prescribed by the Law on Companies of the Republic of Lithuania at the General Meeting of Shareholders (See also the Comment for Item 3.2). The information concerning elected independent members of the Supervisory Board is provided in the interim and the annual reports of the Company as well as on the Company's website.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Irrelevant	Until now there has not been occasions in the Company when it would be facing the need to apply this recommendation. In the agreement of independent member of the Board activity signed with the independent member of the Supervisory Board there is an obligation to notify the Company and the Supervisory Board in writing about any new circumstances that may give rise to a conflict of interests between a member of the Supervisory Board and the Company.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.[6] The general shareholders' meeting should approve the amount of such remuneration.	Yes	Independent member of the Supervisory Board is remunerated for his/her activities in the Supervisory Board according to the terms and conditions established in the signed agreement on the activity of an independent member of the Supervisory Board. The terms and conditions of the agreement with an independent member of the Supervisory Board are confirmed by the General Meeting of Shareholders (Article 19.1 of the Company's Articles of Association). On 3 December 2015, the General Meeting of Shareholders made the following decisions: to approve the terms and conditions of the agreement on the activities of an independent member of the Supervisory Board and to fix the hourly rate of EUR 43.44 for the independent member of the Supervisory Board for the actual work (before taxes). The General Meeting of Shareholder also decided to limit the maximum payments to the independent supervisory board member to EUR 1,014 (before taxes). The information concerning the remuneration of an independent member of the Supervisory Board is provided in the interim and the annual reports of the Company as well as on the Company's website.

[6] It is notable that currently it is not yet completely clear in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantiems) in the manner prescribed by Article 59 of this Law, i.e. from the company's profit. The current wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (tantiems) should be the only form of the company's compensation to members of the supervisory board or the board. It therefore seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other forms, besides bonuses, although this possibility is not expressly stated either.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring7 of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance[8].	Yes	The collegial body elected by the General Meeting of Shareholders – the Supervisory Board – is responsible for efficient supervision of the performance of the Company's management bodies (it elects members of the Board and revokes them from office, submits proposals and responses to the General Meeting of Shareholders concerning the strategy of the Company, the Company's annual financial reports, the proposed profit (loss) appropriation, the Company's annual report, performance of the Board and the manager of the Company; submits to the Board of the Company proposals and responses concerning the performance strategy of the Company as well as operating budget, takes decisions on other questions attributed to the competence of the Supervisory Board by legal acts and Articles of Association).
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions, (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company not-pertaining body (institution).	Yes	All members of the Supervisory Board act in good will with respect to the Company, with due regard to the Company's interests and public welfare. Members of the Supervisory Board have the right to express their opinion concerning all questions included to the agenda that according to work regulations of the Supervisory Board must be properly reflected in the protocol of the meeting.

[7] See Footnote 3.

[8] See Footnote 3. In the event the collegial body elected by the general shareholders' meeting is the board, it should provide recommendations to the company's single-person body of management, i.e. the company's chief executive officer.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half[9] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	Members of the Supervisory Board are active participants of the meetings of the collegial body and devote sufficient time to perform their duties as members of the collegial body. In 2016 there were 13 (thirteen) Supervisory Board's meetings, and all of them were attended by all 3 (three) members of the Supervisory Board.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	Collegial bodies of the Company follow prescribed recommendations. Before taking decisions the members of the collegial body discuss their influence on the performance of the Company and also on all shareholders. Articles of Association oblige the collegial bodies of the Company and also each of their members to act on behalf of the Company and its shareholders. Communication with the shareholders and obligations for them are determined in accordance with requirements of legal acts.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes/No	Agreements concerning performance in the Supervisory Board are made with the members of the Supervisory Board under the decision made by the General Meeting of Shareholders. Terms and conditions of agreements with members and the Chairman of the Board for their performance in the Board are determined by the Supervisory Board. Terms and conditions of agreement made with the manager of the Company are set by the Board of the Company. Collegial bodies of the Company conclude transactions and approve them by observing the requirements set in legal acts and the Company's Articles of Association.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies.[10] Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it.	Yes	The Company's Supervisory Board is independent from the Company's management bodies in taking their decisions that are significant to the Company's activities and strategy. The Supervisory Board acts independently under the requirements of legal acts and the Company's Articles of Association, as well as according to the guidelines, rules and other performance parameters set by the parent company LE.

[9] It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

[10] In case the company's general meeting elected collegial body is the management board, the recommendation regarding its independence from the company's management bodies applied in regard to the independence from the Head of the company.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	Yes	The Company ensures that the Supervisory Board is supplied with all of the resources required for its activities (monitors technical aspects of the Supervisory Board meetings, provides all the required information and performs other functions specified in the Supervisory Board's Work Regulations).
When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management organs of the company concerned.	No	See the comment for Item 4.13.
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit.	Yes/No	The Supervisory Board acts and makes decisions according to the requirements of the legal acts and the Company's Articles of Association. The Company believes that work of the supervisory board is sufficiently effective, balanced and well organized meaning that the supervisory board can discharge all functions attributed to these committees properly.
Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees[11]. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect.	Yes/No	No special or exclusive voting rights are conferred on independent members of the supervisory board. Independent members of the board can always express their opinion which is then recorded in the minutes of the meeting.

[11] The Law of the Republic of Lithuania on Audit (Official Gazette, 2008, No 82-3233) determines that an Audit Committee shall be formed in each public interest entity (including, but not limited to public companies whose securities are traded in the regulated market of the Republic of Lithuania and/or any other member state).

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.		The Company has no committees formed. The Company's opinion is that the work of the Supervisory Board is sufficiently effective and well-organized, so that the Supervisory Board can properly execute all of the functions, that are assigned to these committees. According to the regulations of the Audit law of the Republic of Lithuania, the public interest company, which is a secondary company and whose financial reports are consolidated, may not follow the Audit law of the Republic of Lithuania requirement to form an Audit Committee, if its parent company has one. Since ESO's parent company LE has formed an Audit Committee, a separate Audit Committee is not formed in the Company. The LE, as a parent company, is also composed of Supervisory Committees for Appointment and Compensation and Risk Management (until 1 September 2017). The Nomination and Remuneration Committee of LE, amongst other functions, provides proposals on the Company's long-term remuneration policy, annual bonuses (tantiems) sharing policy. It also evaluates the conditions set out in the Company's agreements with its management bodies, the procedure of search and selection of candidates to become the members of the Company's management body, as well as top management members, and qualification requirement determination. It constantly evaluates the structure, size, composition and activities of the Company's management and supervision body. The Risk Management Supervision Committee of LE supervises how the Company's objective achievement risks are evaluated and managed, evaluates the internal control procedure and risk management measure adequacy comparing to the identified risks, evaluates risks and the Company's risk management plan, oversees the risk management process implementation.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes/No	See the comments for Items 4.7, 4.12, 4.13, 4.14.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	Yes/No	The Company implements the recommendation through the committees of the supervisory board formed by Lietuvos Energija, UAB. See the comments for Items 4.7, 4.12, 4.13, 4.14.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes/No	See the comments for Items 4.7, 4.12, 4.13, 4.14.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes/No	See the comments for Items 4.7, 4.12, 4.13, 4.14.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	Yes/No	There are no such committees in the company, but indirectly its functions are carried out through the Committee on Appointment and Compensation of Lietuvos Energija, UAB. See the comment for Item 4.7.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company. 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation. 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);	Yes/No	There are no such committees in the company, but indirectly its functions are carried out through the Committee on Appointment and Compensation of Lietuvos Energija, UAB. See the comment for Item 4.7.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
4.14. Audit Committee 4.14.1. Key functions of the audit committee should be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;	Yes/No	See the comment for Item 4.7. According to the regulations of the Audit law of the Republic of Lithuania, the public interest company, which is a secondary company and whose financial reports are consolidated, may not follow the Audit law of the Republic of Lithuania requirement to form an Audit Committee, if its parent company has one. Since the parent company Lietuvos energija UAB has an Audit Committee, there is no separate Audit committee in the Company.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed *inter alia* data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centres and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.		

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
4.14.5. The audit committee should be informed of the internal auditor's work programme, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	The legal acts of the Republic of Lithuania contain no obligation to assess the activities of the Company's Supervisory Board. The activities of the Company's Supervisory Board are assessed by the Company's shareholders in accordance with the procedure established by legal acts.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	According to the Company's Articles of Association and the working procedure regulations of the Supervisory Board and the Board as well as the current practice, this recommendation is implemented.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.[12]	Yes	According to the Company's Articles of Association and the working procedure regulations of the Supervisory Board and the Board, the meetings of the Company's Supervisory Board are held at least once per quarter and the Board – at least once per two weeks. In case of necessity, the Board can define new meeting periodicity.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	According to the Company's Articles of Association and the working procedure regulations of the Supervisory Board and the Board, the members of the collegial body and persons that are invited to such meetings, are informed of them in advance. They are also provided with all of the information and materials, needed to examine the questions, presented in the agenda.

[12] The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	The Company does observe the recommendation. The chairman of the Supervisory Board and the chairman of the Board closely cooperate in resolving issues related to the Company's management. According to Article 33.3 of the Company's Articles of Association, the Supervisory Board is obliged to provide the possibility for the members of the Board and the CEO to attend their meetings and provide explanations, as well as the right to attend for other employees whenever issues, related with their activities, are being discussed.
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The Company's authorized share capital consists of EUR 0.29 nominal value ordinary shares, which provide their holders equal property and non-property rights.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The rights, provided by the shares are indicated in the Company's Articles of Association, which is publicly available on the Company's website.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.[13] All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	The Company's transactions are made according to the order, specified in the Law on Companies of the Republic of Lithuania and the Company's Articles of Association.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	The Company convenes General Meetings of Shareholders and implements other meeting-related procedures in accordance with the procedure established in the Law on Companies of the Republic of Lithuania and creates equal possibilities to its shareholders to participate in the meeting. The shareholders of the Company shall have access to the agenda and materials of the meeting in accordance with the procedure established by legal acts.

[13] The Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-terms assets accounting for more than 1/20 of the company's authorised capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
6.5. If possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and / or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	The Company notifies of a General Meeting of Shareholders being convened and presents to shareholders drafts of proposed decision and any other documents pertaining to the General Meeting of Shareholders being convened also information concerning decisions taken during the General Meeting of Shareholders provides in the manner and under the terms prescribed in legal acts by posting them publicly on the Company's website. All information intended for investors as well as documents are published in Lithuanian and English via informational system of stock-exchange NASDAQ and on the website of the Company. Following the Company's articles of association and other laws, the information is also published in NASDAQ Vilnius Stock Exchange and an e-journal of the Centre of Register.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The Company's shareholders can implement their right to participate in the General Meeting of Shareholders personally and through a representative, in case he/she is properly authorized to represent the shareholder or a voting right transfer contract is signed according to the regulations of the legal acts. The Company provides possibilities for the shareholders to vote by filling in the general vote ballot paper, as it is specified by the Law on Companies of the Republic of Lithuania.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	No	Currently, according to the Company's point of view, there is no need to organize the voting by means of telecommunication facilities, in addition, this would require considerable investments. However, upon the shareholders' request and by taking into account the objective possibilities, the Company would allow to vote by means of telecommunication facilities.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The Company does observe the recommendations. According to article 22 of the Company's Articles of Association, each candidate member of the Supervisory Board is obliged to provide his interest declaration for the General Shareholder Meeting, where he undertakes to specify all of the circumstances, which could lead to the conflict of interest between him and the Company. Upon emergence of new circumstances that may give rise to a conflict of interests between a member of the Supervisory Board and the Company, the member of the Supervisory Board shall immediately notify the Company and the Supervisory Board of such new circumstances in writing. According to article 39 of the Company's Articles of Association, each candidate member of the Board is obliged to provide his interest declaration for the General Shareholder Meeting, where he undertakes to specify all of the circumstances, which could lead to the conflict of interest between him and the Company. In case any new circumstances arise that may cause the above-mentioned conflict, the member of the Board is obliged to immediately inform the Company and the Supervisory Board of them in writing. Apart from that, article 41 of the Company's Articles of Association provides, that the members of the Board cannot be employed or perform any duties, which would be inconsistent with their activities as a member of the Board, including managerial positions in other legal persons (excluding positions and employment in the Company and the Group of companies), employment in state institutions, statute institutions. Members of the Board are prohibited to perform other duties or be employed elsewhere, with the exception of the Company duties and duties in other legal persons, where the Company is a part of and pedagogic, creative activities or copyright activities, which they are allowed to take up only with the prior consent of the Supervisory Board.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	The Company does observe the recommendations.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	The Company does observe the recommendations.
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	According to the laws and the Company's legal acts, regulating the activities of the members of the Company's Supervisory Board and management body, the members of the Company's bodies are obliged to avoid situations, when their personal interests are in conflict with the Company's interests. They are also prohibited to vote, whenever the meeting decides upon questions, related to their responsibilities or their activities in the respective company body.
Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	Yes/No	The general information on the Company's salary policy and the average salary sizes for different groups of the Company's employees are published in the Company's interim and annual reports. According to Article 25(5) of the Law on Energy of the Republic of Lithuania, the Company publicly announces the salary paid to members of the management bodies as well as any other payments related with the function of the management bodies' members.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	See the comment for Item 8.1. The annual report does not include the remuneration policy of the Company's directors for the coming and later years. The interim and annual reports provide information on the amounts of money paid out to the Company's members of the management bodies (salaries, other payments).

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) Remuneration statement should not include commercially sensitive information.	No	See the comment for Item 8.1. The interim and annual reports provide information on the amounts of money paid out to the Company's members of the management bodies (salaries, other payments, tantieme, and other profit related payments). It also contains information on transferred property and guarantees provided to the members of the Company's management bodies as well as other information related with their salaries.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	See the comment for Item 8.1.
8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;	No	See the comment for Item 8.1.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Yes	The procedure for the determination and payment of variable remuneration of employees of AB "Energijos skirstymo operatoras" provides that the Board of the Company, taking into account the opinion of the Supervisory Board, sets the indicators for measuring the general (Company's) objectives of the employees and confirms their fulfillment. The procedure for calculating and assigning the performance indicators of the General Manager of AB "Energijos skirstymo operatorius" and the variable part of the remuneration provides that the variable part of the remuneration is allocated to the Director General for reaching the goals. The objectives (indicators) for the Director General are established and approved by the company's board, taking into account the opinion of the company's supervisory board.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Yes	According to the procedure of Energijos Skirstymo Operatorius AB concerning the determination and payment of employees' variable component of remuneration, the Company's Board, taking into account the opinion of the Supervisory Board, sets the measurement indicators for the employees' general (the Company's) objectives and approves their execution. According to the procedure of Energijos Skirstymo Operatorius AB concerning the determination of the CEO's performance indicators and calculation and allocation of the variable component of remuneration, the variable component of remuneration for the CEO is paid for the execution of objectives (indicators). The objectives (indicators) for the CEO are determined and approved by the Company's Board in accordance with the opinion of the Supervisory Board.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Yes	The remuneration policy of Lietuvos Energija, UAB, provides that the variable part of the remuneration for the top executives is paid out in installments over 2 (two) payments: the first part of the variable remuneration accounting for 80% the total calculated and assigned variable remuneration component (for the purposes (indicators) of the reporting period No 1) is paid within 30 calendar days after the decision on the payment of variable remuneration has been made; the second variable remuneration component accounting for 20% all estimated variable remuneration (for the purposes of the reporting period (indicators) for the purpose of achieving the highest level of loyalty to the company and continuity of performance is postponed and paid after 1 (one) year within 30 calendar days from the decision to pay the variable part of the remuneration for the following year with 80% payout the variable part of the remuneration calculated for the purposes (indicators) achieved during the reporting period of the next year.If next year's company targets (indicators) reaches less than 70%, 20% is set aside. variable remuneration is not paid (and not transferred to other terms)
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	Irrelevant	
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	Irrelevant	See Comment on point 8.1.
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	Yes	See Recommendation 8.1 for a comment.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	See the comment for Item 8.1.
8.13. Shares should not vest for at least three years after their award.	Irrelevant	
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Irrelevant	
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Irrelevant	
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Yes	See the comment for Item 8.1.
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Irrelevant	See the comment for Item 8.1.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	Irrelevant	See the comment for Item 8.1.
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Irrelevant	See the comment for Item 8.1.
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	Irrelevant	See the comment for Item 8.1.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.	Irrelevant	See the comment for Item 8.1.
8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.	Irrelevant	See the comment for Item 8.1.
8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.	Irrelevant	See the comment for Item 8.1.

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PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, customers, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The Company's management system provides protection for the rights of the stakeholders that are protected by laws.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.	Yes	The Company does observe the recommendations. For example, the employee representatives are involved in consultations, negotiations and discussions regarding the Company's business optimization processes. According to the employees' collective agreement, the Company informs representatives of the professional union about the expected changes in the Company, the Company's financial situation and so on. Stakeholders may get involved in the Company's management to the extent prescribed by law.
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	The Company does observe the recommendations.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
Principle X: Information disclosure and transparency **The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		
10.1. The company should disclose information on: 1. The financial and operating results of the company; 2. Company objectives; 3. Persons holding by the right of ownership or in control of a block of shares in the company; 4. Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5. Material foreseeable risk factors; 6.Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7. Material issues regarding employees and other stakeholders; 8. Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.	Yes	The Company's interim and annual reports include information on shareholders, owning more than 5% of the Issuer's share capital. The Company's annual report discloses information regarding the members of the Supervisory Board and the Board as well as CEO. Article 25(5) of the Law of the Republic of Lithuania on Energy, the Company publicly discloses fee for members of the Supervisory and Management Bodies of the Company for the activities of the Board and other payments related to the functions of members of the management bodies. The information mentioned in the recommendation's sub-points 4 and 6 is published to the extent required by applicable legal acts and annual financial report preparation requirements. The Company discloses the information specified in this recommendation (except sub-points 4 and 6), in a number of ways: 1) The information regarding essential events is published according to the requirements of the laws (i.e. elections of the new member of the Supervisory Board and the Board, the Company's financial results); 2) Information is published at the Company's website (i.e. the Company's operational objectives); 3) Information is published in the annual report (i.e. the members of the Company's Supervisory Board and the Board, foreseeable essential risk factors).
10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.	Yes	The Company provides information regarding the consolidated results of the whole group of companies (i.e. the Company and its subsidiaries). Information related to the parent Company Lietuvos Energija UAB is announced by the parent Company itself.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.	Yes	The information specified in item 4 of Recommendation 10.1 is provided in the Company's annual report and at the Company's website. According to Article 25(5) of the Law on Energy of the Republic of Lithuania, the Company publicly announces the salary paid to members of the management bodies as well as any other payments related with the function of the management bodies' members.
10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of recommendation 10.1 is under disclosure.	Yes	The information specified in item 7 of Recommendation 10.1 is disclosed to the extent required by the effective legal acts of the Republic of Lithuania. Information regarding relations of the Company and stakeholders is published in the press-releases and at the Company's website.
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on NASDAQ OMX Vilnius, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company discloses the information via the information disclosure system used by the Vilnius Stock Exchange in the Lithuanian and English languages simultaneously. The Company observes the recommendation and announces its material events before or after a trading session on the Vilnius Stock Exchange, except for the cases provided for by legal acts. The Company does not disclose the information likely to impact the price of the issued by it securities in its comments, interviews or otherwise by the time such information is announced via the information system of the Stock Exchange.

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	In addition to the method of information disclosure referred to Item 10.5, the Company uses various information disclosure instruments (published electronic publications for public announcements published by State Enterprise Center of Registers, news agencies, publicly available Company's website) to ensure, that the disseminated information reaches as many stakeholders as possible. The Company's website provides information in both Lithuanian and English languages.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The Company publishes all of the information, specified in this recommendation on its website.
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	The Company executes its annual financial statement audit. The audit firm also verifies the compliance of the Company's annual report with its audited financial statements.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	No	The audit firm is being selected according to the procedure, laid out in the Public procurement law of the Republic of Lithuania, the selected audit firm is proposed to the General Shareholder Meeting by the Company's Board.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Yes	The Company does observe the recommendations.

METHODOLOGY FOR THE CALCULATION OF INDICATORS PRESENTED IN THE ANNUAL 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