

Lietuvos bankas
Žirmūnų street 151,
LT-09128 Vilnius

31-05-2016

Nr. 60010-987

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, Director of Service Division, acting as Chief Executive Officer of Energijos Skirstymo Operatorius AB, and, Augustas Dragūnas, director of Finance and Administration division of Energijos Skirstymo Operatorius AB, and Giedruolė Guobienė, Head of Reporting, Tax Accounting and Control Division of Verslo Aptarnavimo centras UAB acting under Order No V-050A of 25 March 2016, hereby do confirm that, to the best of our knowledge, unaudited „Energijos Skirstymo Operatorius AB financial statements of the three months of the year 2016 have been 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 Energijos Skirstymo Operatorius AB.

Director of Service
Division, acting as Chief
Executive Officer



Dalia Andrulionienė

Director of Finance and
Administration division



Augustas Dragūnas

Verslo aptarnavimo
centras UAB Head of
Reporting, Tax
Accounting and Control
Division acting under
Order No V-050A of 25
March 2016



Giedruolė Guobienė

2016

ENERGIJOS SKIRSTYMO OPERATORIUS AB

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION FOR THE
THREE MONTH PERIOD ENDED 31 MARCH 2016, PREPARED ACCORDING
TO INTERNATIONAL ACCOUNTING STANDARD 34, 'INTERIM FINANCIAL
REPORTING' AS ADOPTED BY THE EUROPEAN UNION (UNAUDITED)



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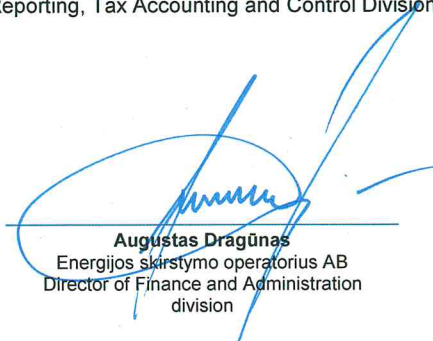
Translation note:

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

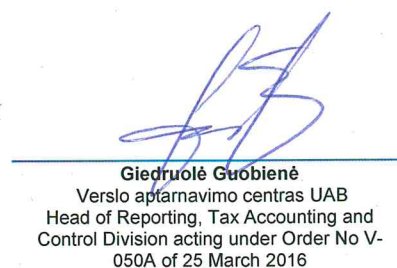
Condensed interim financial information was approved on 31 May 2016 by Energijos Skirstymo Operatorius AB Chief Executive Officer, Director of Finance and Administration Service and Head of Reporting, Tax Accounting and Control Division of Verslo Aptarnavimo Centras UAB acting under Order No V-050A of 25 March 2016:



Dalia Andrulionienė
Energijos skirstymo operatorius AB
Director of Service division,
Acting Chief Executive Officer



Augustas Dragūnas
Energijos skirstymo operatorius AB
Director of Finance and Administration
division



Giedruolė Guobienė
Verslo aptarnavimo centras UAB
Head of Reporting, Tax Accounting and
Control Division acting under Order No V-
050A of 25 March 2016

31 March 2016

All amounts are in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Notes	Company	
		2016-03-31	2015-12-31
ASSETS			
Non-current assets			
Property, plant, and equipment	3	929.079	921.797
Intangible assets	3	3.313	3.612
Prepayments for property, plant, equipment		1.267	1.267
Investments in associates		2.018	2.018
Deferred income tax assets		-	1.978
Non-current amounts receivable		10.700	10.633
		946.377	941.305
Current assets			
Inventories		1.845	2.544
Trade and other receivables		88.372	100.817
Prepayments, deferred charges and accrued income		5.760	5.497
Prepaid income tax		-	1.604
Cash and cash equivalents		10.369	26.961
		106.346	137.423
Total assets		1.052.723	1.078.728
EQUITY AND LIABILITIES			
Total equity attributable to owners of the Company			
Share capital		259.443	259.443
Revaluation reserve		54.309	55.520
Legal reserve		25.910	25.910
Retained earnings		234.353	232.940
Total equity		574.015	573.813
LIABILITIES			
Non-current liabilities			
Borrowings		137.595	147.576
Deferred income tax liability		3.056	2.505
Deferred income		116.574	117.569
Grants and subsidies		21.091	21.384
Non-current employee benefits		2.480	2.481
Other non-current liabilities		69	57
		280.865	291.572
Current liabilities			
Borrowings		76.615	99.404
Trade and other payables		95.291	89.876
Advance amounts received, accrued charges and deferred income		24.374	23.941
Income tax payable		1.563	122
		197.843	213.343
Total liabilities		478.708	504.915
Total equity and liabilities		1.052.723	1.078.728

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

For the three-month period ended 31 March 2016

All amounts are in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Company	
	2016 Q I	2015 Q I
Revenue	182.451	175.719
Other income	-	822
Purchase of electricity and other related services	(107.794)	(95.231)
Purchases of natural gas and transmission services	(919)	(1.664)
Depreciation and amortisation	(11.072)	(11.112)
Employee benefits and related social security contributions	(12.712)	(14.480)
Repair and maintenance expenses	(3.720)	(5.625)
Transportation expenses	(1.113)	(1.146)
Telecommunications and IT services	(2.315)	(1.893)
Rent and utility services	(912)	(748)
Impairment expenses and write-offs	(1.150)	(662)
Other expenses	(4.100)	(2.783)
Operating profit	36.644	41.197
Finance income	200	169
Finance costs	(473)	(892)
Finance costs – net	(273)	(723)
Profit before tax	36.371	40.474
Income tax	(5.573)	(4.615)
Net profit	30.798	35.859
Other comprehensive income (expenses)	-	-
Total comprehensive income for the period	30.798	35.859
Weighted average number of shares (thous.)	894.630	894.630
Basic and diluted earnings per share attributable to the shareholders of the Company (in EUR)	0,034	0,040

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

For the three-month period ended 31 March 2016

All amounts are in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

Company	Notes	Share capital	Revaluation reserve	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2015		259.103	65.996	25.910	208.701	559.710
Comprehensive income						
Net profit for the period		-	-	-	35.859	35.859
Total comprehensive income for the period		-	-	-	35.859	35.859
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(1.972)	-	1.972	-
Result of conversion of nominal value of shares to the euros		340	-	-	-	340
Balance at 31 March 2015		259.443	64.024	25.910	246.532	595.909
Balance at 1 January 2016		259.443	55.520	25.910	232.940	573.813
Comprehensive income						
Net profit for the period		-	-	-	30.798	30.798
Total comprehensive income for the period		-	-	-	30.798	30.798
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(1.211)	-	1.211	-
Dividends	5	-	-	-	(30.596)	(30.596)
Balance at 31 March 2016		259.443	54.309	25.910	234.353	574.015

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

For the three-month period ended 31 March 2016

All amounts are in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Company	
	2016 Q I	2015 Q I
Cash flows from operating activities		
Net profit	30.798	35.859
Adjustments for:		
Income tax expense	5.573	4.615
Depreciation and amortisation	11.373	11.295
Depreciation of grants	(301)	(183)
(Gain)/loss on disposal and write-off of property, plant and equipment	585	(382)
Finance (income)	(200)	(169)
Finance costs	473	892
Changes in working capital:		
Trade and other receivables	(14.052)	6.556
Inventories, prepayments, deferred expenses and accrued income	(318)	(661)
Trade and other payables, advance amounts received, accrued expenses and deferred income	7.114	(3.893)
Cash generated from operating activities	41.045	53.929
Income tax paid	-	(2.472)
Net cash generated from operating activities	41.045	51.457
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(36.394)	(35.899)
Proceeds from sale of property, plant and equipment and investment property	11.935	16
Grants received	8	587
Loan repayments received	4	7
Interest received	79	9
Net cash used in investing activities	(24.368)	(35.280)
Cash flows from financing activities		
Repayments of borrowings	(11.649)	(7.899)
Dividends paid to the Company's shareholders	(22)	(7)
Interest paid	(473)	(536)
Net cash used in financing activities	(12.144)	(8.442)
(Decrease) increase in cash and cash equivalents	4.533	7.735
Cash and cash equivalents at the beginning of the year (including overdraft balance)	5.836	11.050
Cash and cash equivalents at the end of the period (including overdraft balance)	10.369	18.785

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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

1 General information

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

Agumonų str. 24,
 LT-03212 Vilnius,
 Lithuania.

The Company was established by the way of merger of LESTO AB and Lietuvos dujos AB. Following the terms of reorganization, approved by the extraordinary shareholders meeting of LESTO AB and Lietuvos dujos AB held at 3 December 2015, a transfer-acceptance statement was signed on 31 December 2015. On the basis of this statements the Company took over all the assets, rights and obligations of LESTO AB and Lietuvos dujos AB. The moment of the take-over of the assets, rights and obligations was 31 December 2015, 00:00 am.

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

The Company had no subsidiaries as of 31 March 2016. At 31 March 2015 the Company has sold its subsidiary Elektros tinklo Paslaugos UAB, and ate 27 April 2015 – ordinary shares of subsidiary NT Valdos, UAB.

As at 31 March 2016 and 31 December 2015 Company's investments in associates comprised of the following:

Associate	Country	Year of acquisition	Company's ownership interest (%)		Profile of activities
			31 March 2016	31 December 2015	
Technologijų ir inovacijų centras, UAB	Lithuania	2013	29,012%	29,012%	Information technology and telecommunication, and other services provided to the shareholders
Verslo aptarnavimo centras, UAB	Lithuania	2014	22,25%	22,25%	Organisation and execution of public procurement procedures, accounting and personnel administration services provided to the shareholders

This condensed interim financial information is a stand-alone Company's condensed interim financial information, as at 31 March 2016 the Company had no subsidiaries and share of results of associates is not significant in the opinion of management. Results of associates for the three-month period ended 31 March 2016 and accumulated share of results of associates attributable to the Company at 31 December 2015 is as follows:

	Acquisition cost	Ownership interest (%)	Share of results of associates attributable to the Company at 31 December 2015	Share of results of associates for the three-month period ended 31 March 2016 attributable to the Company
Technologijų ir inovacijų centras, UAB	1.898	29,01	199	111
Verslo aptarnavimo centras, UAB	120	22,25	(28)	(2)
Total	2.018		171	109

Comparative information as of 31 December 2015 and for the three-month period ended 31 March 2015 is prepared by merging LESTO AB and Lietuvos dujos AB financial information after elimination of intercompany balances.

2 Accounting principles

Company's condensed interim financial information for a three-month period ended 31 March 2016 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applicable to interim financial reporting (International Accounting Standard (IAS) 34, 'Interim financial reporting'). This unaudited condensed interim financial information should be read together with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with IFRS as adopted by the European Union.

Financial year of Company coincides with the calendar year.

The accounting policies applied in the preparation of this condensed interim financial information are consistent with those of the annual financial statements of LESTO AB and Lietuvos dujos AB for the year ended 31 December 2015.

Income taxes for the interim reporting periods have been estimated using the tax rate that would be applicable to the estimation of income taxes on the expected gross profit for the year.

For the three-month period ended 31 March 2016

All amounts are in EUR thousands unless otherwise stated

3 Intangible assets and property, plant, and equipment

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

Company	Intangible assets	Property, plant and equipment
The period ended at 31 March 2016		
Net book value at the beginning of the period	3.612	921.797
Additions	239	17.927
Sales	-	(13)
Write-offs	-	(572)
Reclassifications from inventories	-	775
Depreciation / amortisation	(538)	(10.835)
Net book value at 31 March 2016	3.313	929.079

4 Share capital

As at 31 March 2015, the Company's authorised share capital comprised 894.630.333 ordinary registered shares with par value of 0,29 Eur each. All the shares are fully paid.

5 Dividends

On 29 March 2016 the Ordinary General Shareholders Meeting of Energijos skirstymo operatorius AB has approved appropriation of profit for July – December 2015 and decided to pay out dividends in amount 0,0342 EUR per share.

6 Segment reporting

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

According to the management, the Company has two operating segments - supply and distribution of electric power and gas distribution. The Company has a single geographical segment – territory of Republic of Lithuania. The chief operating decision-maker monitors the results with reference to the financial reports that have been prepared using the same accounting policies as those used for the preparation of the financial statements in accordance with IFRS, i.e. information on profit or loss, including the reported amounts of income and expenses, assets and liabilities.

Company's information about operating segments for the three-month period ended 31 March 2016 is presented below:

2016	Supply and distribution of electric power	Gas distribution	Total
Revenue	159.659	22.792	182.451
Expenses	(136.967)	(8.840)	(145.807)
Whereof depreciation and amortisation expenses	(9.031)	(2.041)	(11.072)
Operating profit	22.692	13.952	36.644
Finance income	164	36	200
Finance (expenses)	(361)	(112)	(473)
Profit before income tax	22.495	13.876	36.371
Income tax			(5.573)
Net profit			30.798

Company's information about operating segments for the three-month period ended 31 March 2015 is presented below:

2015	Supply and distribution of electric power	Gas distribution	Total
Revenue	155.763	20.778	176.541
Expenses	(124.297)	(11.047)	(135.344)
Whereof depreciation and amortisation expenses	(8.814)	(2.298)	(11.112)
Operating profit	31.466	9.731	41.197
Finance income	147	22	169
Finance (expenses)	(782)	(110)	(892)
Profit before income tax	30.831	9.643	40.474
Income tax			(4.615)
Net profit			35.859

7 Related-party transactions

The Company's related parties are:

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

Purchase and sale of goods and services:

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

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Parent company Lietuvos energija, UAB	29.608	34.725	452	110
Associates	2.277	-	4.353	-
Lietuvos energija, UAB group companies	4.859	6.280	20.053	17.914
Litgrid AB group companies	25.941	5.198	55.650	212
Total	62.685	46.203	80.508	18.236

The Company's transactions with related parties between January and March of 2015 and the balances arising on these transactions as at 31 December 2015 are presented below:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Parent company Lietuvos energija, UAB	263	34.682	194	7.695
Associates	2.175	-	2.227	-
Lietuvos energija, UAB group companies	11.227	20.127	30.345	14.398
Litgrid AB group companies	25.300	4.573	43.657	1.397
Total	38.965	59.382	76.423	23.490

Compensation to key management personnel

Company	2016 Q I	2015 Q I
Wages and salaries and other short-term benefits to management personnel	117	240
Number of key management personnel	6	17

Management consists of heads of administration and their deputies.

8 Events after the reporting period

On 21 April 2016 the National Control Commission for Prices and Energy (hereinafter – Commission) considered the issue of Energijos Skirstymo Operatorius, AB violation according to the routine inspection report of regulated activities of public limited liability company Lietuvos Dujos, AB during the period 2009-2013.

The Commission disapproved the imposition of sanctions for the Company according to the conclusions presented in the routine inspection report of Lietuvos Dujos, AB.

2016

ENERGIJOS SKIRSTYMO
OPERATORIUS AB
INTERIM REPORT

REPORT FOR THE THREE-MONTH PERIOD ENDED 31 MARCH



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INTERIM REPORT

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The reference period covered by the report

The report covers the period between January-March 2016.

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

One can get acquainted with the reports and the documents, on the basis of which it was prepared, on working days Mondays through Thursdays 7.30-16.30, on Fridays 7.30-15.15 at the head office of Energijos Skirstymo Operatorius AB, the Department of Communication (Aguonų St. 24, Vilnius, Room 535). The report is also available on the website of Energijos Skirstymo Operatorius at www.eso.lt and the website of the AB Nasdaq Vilnius Stock Exchange at www.nasdaqomxbaltic.com.

All the public announcements which Energijos Skirstymo Operatorius AB must publish according to the existing legislation of the Republic of Lithuania are published on the Company website at (www.eso.lt) the website of AB Nasdaq Vilnius at (www.nasdaqomxbaltic.com).

The persons responsible for the information provided in the report

Position	Name and surname	Phone number
Director of Service Division, Acting Chief Executive Officer	Dalia Andrulionienė	(8 5) 277 7524
Director of Finance and Administration Division	Augustas Dragūnas	(8 5) 277 7524
Director of the Finance Department	Artūras Paipolas	(8 5) 277 7524

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

The date of signing the report

The report was prepared and signed on 31 May 2016.

Due to financial results comparison

Presented the financial results of ESO for 2016 the first quarter are compared with a joint LESTO AB and Joint Stock company Lithuania Dujos financial statements, after eliminating mutual transactions.

KEY OPERATIONAL AND FINANCIAL FIGURES AND RATIOS

ESO key activity indicators

		2016	2015	Change	
		I Q	I Q	+/-	%
Activity indicators					
Distributed electricity in medium and low voltage grids	TWh	2,38	2,23	0,14	6,4
Public and guaranteed supply	TWh	0,85	0,84	0,01	0,9
Distributed natural gas amount	TWh	2,9	2,65	0,25	9,4
Network quality indicators					
<i>Electricity</i>					
SAIDI, min. (with „force majeure“)		35,97	37,65	-1,68	
SAIFI, times (with „force majeure“)		0,28	0,32	-0,04	
<i>GAS</i>					
SAIDI, min. (responsibility of the operator)		0,152	0,083	0,069	
SAIFI, times (responsibility of the operator)		0,0016	0,0009	0,0007	

ESO key financial indicators

		2016	2015	Change	
		I Q	I Q	+/-	%
Sales revenue	thousand EUR	182.451	176.541	5.910	3,35
Purchases of electricity and gas, other related services	thousand EUR	108.713	96.895	11.818	12,20
Operating costs (1)	thousand EUR	24.874	26.675	-1.801	-6,75
EBITDA (2)	thousand EUR	48.865	52.971	-4.106	-7,75
EBITDA margin (3)	%	26,78	30,00		
Net profit (loss)	thousand EUR	30.798	35.859	-5.061	-14,11
		2016	2015	Change	
		3 months	3 months	+/-	%
Total assets	thousand EUR	1.052.723	1.078.728	-26.005	-2,41
Equity	thousand EUR	574.016	573.813	203	0,04
Financial debt	thousand EUR	214.210	246.980	-32.770	-13,27
Net financial debt (4)	thousand EUR	203.841	220.019	-16.178	-7,35
Return on equity (ROE) (5)	%	21,46	25,00		
Return on assets (ROA) (6)	%	11,70	13,30		
Equity capital level (6)	%	54,53	53,19		
Net financial debts / EBITDA of 12 months	%	140,77	-		
Net financial debt / Equity	%	35,51	38,34		

(1) Operating expenses (OPEX) = operating expenses, excluding the costs of purchase of electricity and related services, costs of depreciation, amortisation and value impairment and costs write-offs of tangible fixed assets;

(2) EBITDA (earnings before interest, taxes, depreciation and amortisation) = pre-tax profit (loss) + finance costs – finance income – received dividends + costs of depreciation and amortisation + value impairment costs + write-offs of tangible fixed assets;

(3) EBITDA margin = EBITDA / revenue;

(4) Net financial debts = financial debts – cash and cash equivalents – short-term investments and time deposits – share of other non-current financial assets comprising investments in debt securities;

(5) Return on equity (ROE) = net profit (loss) for the reporting period *4 / equity capital in the end of the reporting period;

(6) Return on assets (ROA) = net profit (loss) for the reporting period *4 / total assets in the end of the reporting period;

(7) Equity capital level = equity capital at the end of period / total assets at the end of period.

CEO'S ADDRESS TO THE SHAREHOLDERS OF THE COMPANY

Dear all,

Electricity and gas distribution operator – Energijos Skirstymo Operatorius AB (ESO) is counting the first months of its activities and its first results. From the very first days of our operations we immediately took up some strategic tasks, such as our objective to shorten the time for connection to electricity and gas networks, continue improving the network reliability indicators by increasing investments in smart and leading-edge technologies, and further improving the quality of the services and customer servicing.



After all the customer servicing operations have been transferred to the common service centre Gilė, since the beginning of the year our customers using electricity and gas can easier handle any issues within a single platform. The improvements further triggered a start of the smart app Gilė that enables our customers to avail themselves of the services anywhere as long as there is an internet connection.

One of the main objectives of ESO is to foster its performance efficiency and cut down its operating costs. This is our immediate and direct contribution to lower service prices for our customers. During Q1, the operating expenses of ESO, as compared to a consolidated result of LESTO and Lietuvos Dujos decreased by EUR 2 m, or 6.8%.

Because of the lower temperatures as compared to the previous seasons, the last winter significantly increased the electricity and gas distribution volumes. Therefore, ESO's income this year was higher than that of LESTO and Lietuvos Dujos for the same period in 2015.

We believe that gas consumption volumes will continue increasing, as we have been observing an increased interest of our residents and businesses in cheaper gas. The record-high number of applications to introduce gas is just another indication of the trend, as within the three months we received more than 2,000 applications, i.e. twice as much as during the same period last year. Furthermore, an analysis of the different heating method that we have carried out in cooperation with Vilnius Gediminas Technical University showed that gas heating is the method requiring least investment and time.

At the same time, we are revising out electricity and gas introduction procedures. To simplify the electricity introduction process for our customers at the beginning of the year we developed a calculator of the price for a connection to the power networks; the calculator is accessible at www.eso.lt/prijungimoskaiciuokle. Considering their individual needs and the provided information our private and corporate customers will be able to estimate the fee for the connection of a new object to our power networks.

We are increasing the value created for the benefit of our customers not only by offering to them new instruments in the electronic environment, but also by improving the introduction reliability indicators. Despite the numerous tricks the nature played last winter we managed to improve the electricity supply reliability indicators. This only demonstrates that the electricity distribution network that is currently undergoing modernisation is becoming even more resilient to natural phenomena.

We are at the very beginning of the path, and that is only part of the assignments that we managed to accomplish within that short period. We will continue putting all our efforts to become a reliable partner to our customers who is always beside them.

Yours sincerely,
Liudas Liutkevičius

Chairman of the Board and CEO of Energijos Skirstymo Operatorius AB

MATERIAL EVENTS TO THE COMPANY DURING THE REPORTING PERIOD

ESO shares listed on the Baltic Main List

On January 5, 2016, Nasdaq Vilnius decided to include AB Energijos Skirstymo Operatorius shares in Baltic Main List from January 11, 2016, at the request of the issuer.

ESO share trading began

On January 11, 2016, the Company's shares began trading on the Nasdaq Stock Exchange in Vilnius. The total Baltic Main List included ESO ordinary shares – 894,630,333 units, par value per share – EUR 0.29. ESO stock symbol – ESO1L.

Concerning the court decision

The Vilnius Regional Administrative Court rejected the company's complaint, which sought annulment of the National Commission for Energy Control and Prices 2014-12-19 ruling "Concerning the AB LESTO scheduled inspection" and resolutions accepted on the basis of this ruling and oblige the Commission to evaluate the company's loss of income and additional costs for the period of validity of the resolutions setting of price ceilings in determining the Company's price ceilings for other periods.

Concerning decisions adopted by the Supervisory Board

Augustas Dragūnas was appointed ESO Board Member as well as Finance and Administration Office Director. The ESO Supervisory Board adopted this decision on Friday, February 19. A. Dragūnas replaced Egle Čiužaitė who was appointed Chairman and Managing Director of Lietuvos Energijos Gamyba, a company owned by the Lietuvos Energija group.

Concerning the decision to terminate judicial proceedings

On 2016-03-03 ESO withdrew its complaint to the Vilnius Regional Administrative Court concerning the 2015-02-20 National Commission for Energy Control and Prices ruling. On 2015-02-20 AB LESTO submitted a complaint to the court, requesting annulment of the 2015-01-19 adopted ruling "On fixing AB LESTO 2016-2020 price ceilings for the distribution of medium and low voltage networks."

Concerning the ordinary general meeting of shareholders

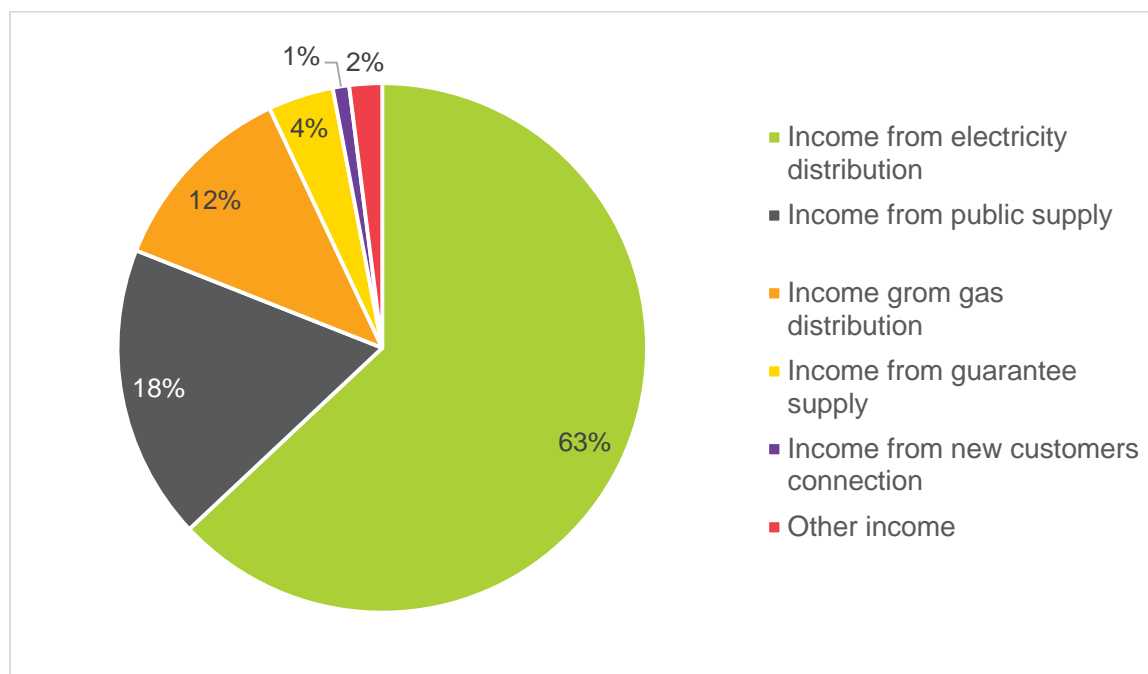
On March 29, 2016, the Company's general meeting of shareholders adopted the following decisions: approval of the 2015 annual reports of the AB LESTO group (consolidated report) and the Lietuvos Dujos stock company. The 2015 AB LESTO and AB Lietuvos Dujos annual reports audited by UAB PricewaterhouseCoopers were approved at the meeting. Also the Company's 2015 profits were distributed: EUR 30.596 mln. devoted for dividends or €0.0342 per share for the period from 2015-07-01 to 2015-12-31.

Concerning the decision to terminate judicial proceedings

March 30, 2016, the Supreme Court of Lithuania (SCL) approved the settlement agreement in the case concerning Lietuvos Dujos stock company's action research. In view of the settlement agreement, SCL ceased the dispute. The case was initiated by the claimant, the Ministry of Energy of the Republic of Lithuania, on March 25, 2011, and was examined in closed court hearings, so the case file is not public.

ANALYSIS OF PERFORMANCE RESULTS

ESO income structure



During three months of 2016 ESO revenue reached EUR 182.5 million. Compared to the January-February of 2015 ESO revenue increased by 3.3 %. Revenue grew due to 6.4 % increased electricity transmission volume and 9.4 % increased gas distribution Volume. The main source of Company's income is income from electricity distribution. During the three months of 2015 income from network service made up 63 % of total company's income. Income from public supply service consisted 18 %, income from gas distribution – 12 % from total revenue.

EBITDA ratio

	2016.03.31	2015.03.31
EBITDA, thousand EUR	48,865	52,971
EBITDA margin, proc.	26,78	30,00

*EBITDA (earnings before interest, taxes, depreciation and amortisation) = pre-tax profit (loss) + finance costs – finance income – received dividends + costs of depreciation and amortisation + value impairment costs + write-offs of tangible fixed assets

ESO EBITDA during the three months of 2016 amounted EUR 48.9 million, and compared to the same period in 2015, EBITDA decreased by 7.75 %.

Costs

During three months of 2016 electricity, natural gas purchase and related services costs made up EUR 108.7 million and, compared to the same period of 2015, increased by 12.2 %. This was mainly influenced by increased electricity transport volumes and increased transmission cost. During the reporting period electricity, natural gas purchase and related services costs made up 82.2 % of total ESO costs. Operating expenses¹ amounted to EUR 24.9 million. Compared with first quarter of 2015 operating expenses decreased by 6.8 %. Employee benefits and related social security contributions, as well as repair and maintenance expenses, decreased by most - respectively 12.2 % and 33.9 %.

ESO operating expenses in thousand EUR

	2016 I Q	2015 I Q
Employee benefits and related social security contributions	12 712	14 480
Repair and maintenance expenses	3 720	5 625
Telecommunications and IT services	2 315	1 893
Transport	1 113	1 146
Rent and utilities	912	748
Other costs	4 100	2 783
Operating expenses	24 872	26 675

Profit, loss and profitability ratios

During the first quarter of 2016 ESO net profit amounted to EUR 30.8 million and compared to the same period in 2015 it fell by 14.1 %. ESO net profit fell due to reduced the difference between the regulator and the real electricity of the purchase price in 2016. Compared to 2015, the regulator set the price in 2016 decreased by 14 %, whereas the real average electricity purchase price - by 1 %.

ESO profitability ratios

	2016.03.31	2015.03.31
Net profit margin, %	16,88	20,31
Operating profit margin, %	20,08	23,34

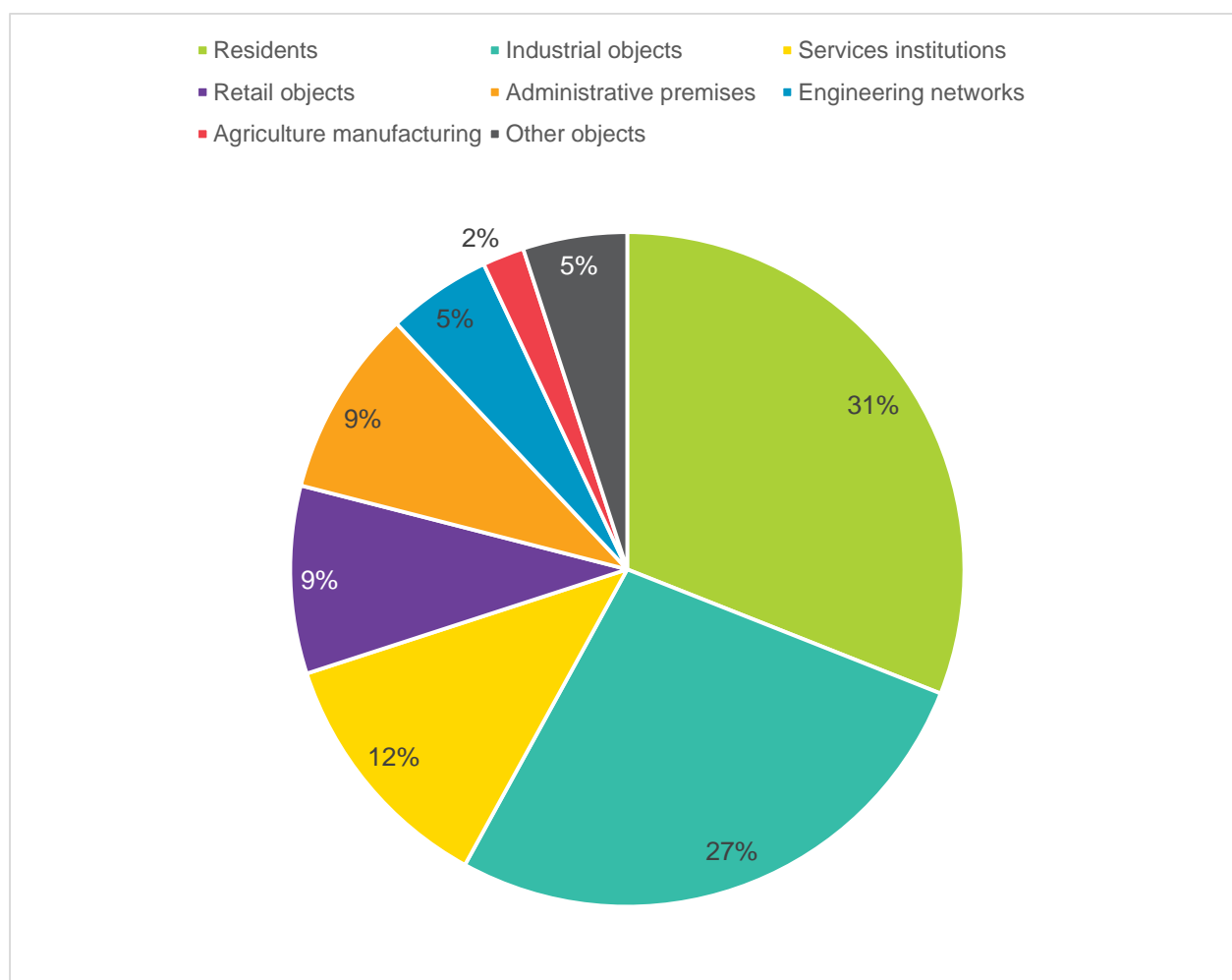
Electricity distribution

During the three months of 2016 the amount of ESO distributed electricity reached 2.375 billion kWh. Electricity sales made up 35.9 % of this amount. To the rest customers ESO granted only network distribution service. Compared to the same period of 2015, the amount of electricity sold increased by 0.9 %, while the volume of network service increased by 6.3 %. Technological losses experienced by the company during the three months of 2016 amounted to 186 million kWh and this totalled to 7.27 % from the amount of electricity received. During the same period of 2015 technological losses totalled 7.18 %.

¹ Operating expenses (OPEX) = operating expenses, excluding the costs of purchase of electricity, natural gas and related services, costs of depreciation, amortisation and value impairment and costs write-offs of tangible fixed assets

Structure of network service volumes by objects

31 % of ESO electricity network service volume was allocated to residents. Industrial and service institutions consumed 27 % and 12 % respectively. Compared to three months of 2015 data, the structure of electricity network service has not changed.



Natural gas distribution

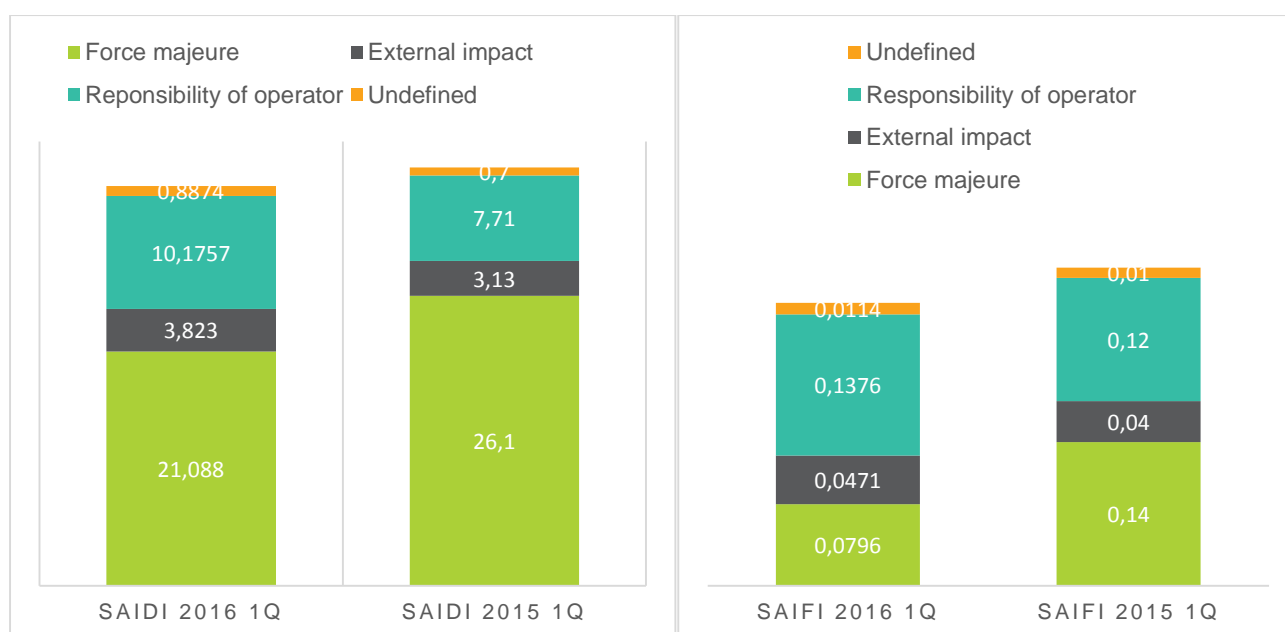
During three months of 2016 ESO via its distribution pipelines transported 2.9 billion kWh (271 million cubic meters) of natural gas - about 9.4 % more than in 2015 in the same period.

During the first quarter of 2016 distribution volumes increased mainly due to colder weather during the heating season increased gas consumption demand in heat and power generation plants.

Electricity distribution network reliability indexes

During three months of 2016 with the influence of natural disasters ("force majeure") the system average interruption duration index (SAIDI) per customer amounted to 35.97 minutes. This is 1.68 minutes less compared to the same period in 2015. The system average interruption frequency index (SAIFI) with the influence of natural disasters per customer reached from 0.28 – 0.04 times less compared to 2015 January-March, when it was 0.32 times.

Quality of electricity supply (SAIDI, SAIFI) 2016 January – March and 2015 January – March



Gas distribution network reliability

During three months of 2016 with the influence of natural disasters ("force majeure") the system average interruption of gas distribution duration index (SAIDI) of per customer amounted to 0.227 minutes and, compared with the same period of 2015, it has increased by 0.098 minutes (SAIDI for the three months of 2015 was equal to 0.129 minutes). The system average interruption frequency index (SAIFI) with the influence of natural disasters ("force majeure") per customer reached 0.003 times and, compared with the same period of 2015, it has slightly increased (SAIFI for the three months of 2015 amounted to 0.001 times).

Investments

During three months of 2016 ESO investments in the electricity and gas distribution networks amounted to EUR 18.053 million - 4.3 % less than during the first quarter of 2015. Lower investments were resulted by cold weather in the beginning of the year, therefore planned investment projects have been moved to other quarters.

ESO investments, thousand. EUR

	2016 I Q	2015 I Q
Electricity distribution network upgrade	7 899	8 486
Electricity distribution network expansion	6 955	8 470
Gas systems for construction and reconstruction	1 483	1 475
Other (IT, management systems, etc.)	1 716	443
All investments	18 053	18 874

During three months of 2016 ESO investment in electricity distribution network upgrade amounted to EUR 7.9 million - 6.9 % less compared to the same period of 2015. Investments in the electricity distribution network expansion decreased by 17.9 % to EUR 6.955 million. The first quarter of 2016 compared to January-March of 2015, investments in IT and management systems increased by 3.9 times - up to EUR 1.7 million. This was resulted by new electricity distribution network management system installation works.

During the three months of 2016 ESO has connected 4,807 new customers, 10.3 % less than in the same period of 2015 when it had 5,364 new customers connected. The permissible power for new customers was equal to 66,551 kW, which is 20.8 % more than in the three months of 2015, when the permissible power was 84,112 kW.

During three months of 2016 ESO investment in gas systems for construction and reconstruction reached EUR 1.5 million euros, or 0.6 % bigger than in 2015 January-March. During three months of 2016 for new customers connection to the gas network ESO invested EUR 1.08 million – 20 % more than at the same time last year (EUR 0.9 million). The company has built 17.6 km of distribution pipeline (2015 January-March - 14 km) and the connected 698 consumers* to the distribution network - 5.2 % less compared to the same period in 2015 (736 consumers).

* For new connected consumers Energijos Skirstymo operatorius AB built a natural gas system, and supporting documents for the end of the reconstruction has been received (consumers do not necessarily contract a natural gas purchase - sales and service contracts).

Financial ratio analysis

The value of ESO assets at the end of the reporting period made up EUR 1.05 billion. Fixed assets share in total assets was equal to 89.9 %. Most liquid assets - Cash with cash equivalents accounted to EUR 10.4 million i.e. 9.8 % of total current assets.

ESO financial leverage ratios

	2016.03.31	2015.12.31
Total liabilities to total assets ratio	45,47%	46,81%
Debt to assets ratio	20,35%	22,90%
Total liabilities to equity	83,40%	87,99%
Debt to equity ratio	37,32%	43,04%
Net financial debt to equity ratio	35,51%	38,34%
Long-term debt to equity ratio	23,97%	25,72%

General solvency ratio	83,40%	87,99%
Equity to assets ratio	54,53%	53,19%
Price-earnings ratio*	25,36	-
Capitalisation, million EUR*	781,012	-

*ESO shares trade on stock exchange began since 01/11/2016

As of 31 March 2016 ESO financial debt amounted to EUR 214.2 million. EUR, or it amounted 44.7 % all the liabilities. Long-term loans amounted to EUR 137.6 million, 64.2 % of total loans. At the end of the reporting period, ESO current liabilities totaled EUR 197.8 million.

ESO liquidity ratios

	2016.03.31	2015.12.31
Current liquidity ratio	0,54	0,64
Acid test ratio	0,53	0,63
Cash liquidity ratio	0,05	0,13
Working capital ratio EUR thousand	-91.496	-75.920
Working capital to total assets ratio	-0,09	-0,07

ESO current liabilities exceeded current assets by EUR 91.5 million. Current liquidity ratio - 0.54. Acid ratio is not significantly different from the current liquidity, since reserves amount to only 1.7 percent. of total current assets. Financial debt, reduced by short-term investments and cash and cash equivalents in size, amounts EUR 203.8 million. The company's net financial debt consists of 35,51 % equity.

References and additional explanations of disclosures in the annual financial statements

Other information is presented in ESO financial statements: interim financial information for the three-month period ended 31 March 2016.

FACTORS AFFECTING THE FINANCIAL INDICATORS OF THE COMPANY

Operating environment

For the fourth year, the European Union's gross domestic product is slowly growing due to increasing consumption. In addition, growth should also lead to low oil prices, favourable financing conditions, and a weaker euro against the dollar. On the other hand, new risks are beginning to emerge, which can affect economic growth: slower growth in China and other developing countries, weak global trade, and geopolitical tensions in the neighbourhood. The European Commission forecast published in February 2016 said that in 2016 the European Union's gross domestic product growth will reach 1.9% and 1.7% in the euro zone. Meanwhile, in 2017 economic growth should reach 2.0% and 1.9% respectively.²

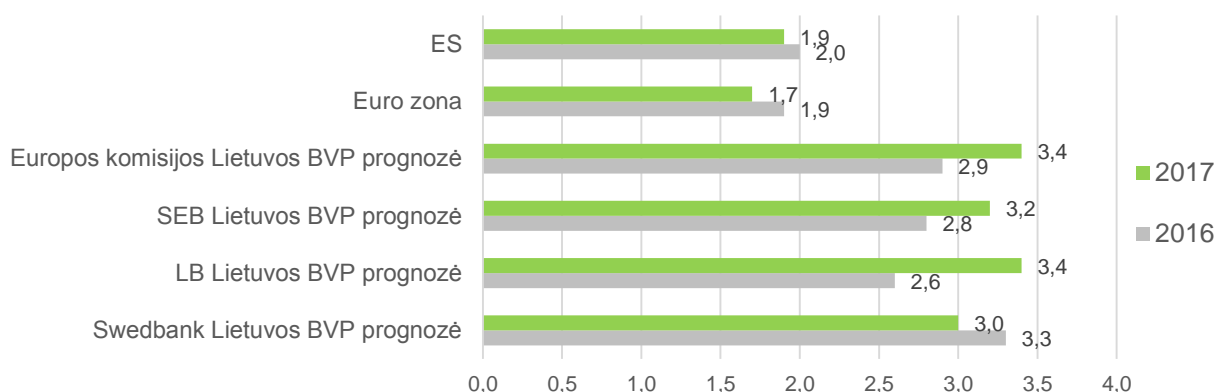
According to European Commission forecasts Lithuanian economic growth due domestic consumption and export growth will increase by 2.9% in 2016, and 3.4% in 2017.³

² Data source: European Commission. European Economic Forecast Winter 2016

³ Data source: European Commission. European Economic Forecast Winter 2016

Lithuania bank economists also predict economic growth in Lithuania in the Lithuanian economic growth prospects published in 2016. According to the SEB Bank analysts' April forecasts, it is expected that Lithuanian's gross domestic product will increase by 2.8% in 2016 and 3.2% in 2017.⁴ In April 2016 Swedbank, AB analysts also published a Lithuanian economic outlook: they expect that gross domestic product growth will reach 3.3% in 2016 and 3.0% in 2017⁵. According to the Bank of Lithuania March 2016 forecast, Lithuanian gross domestic product will grow 2.6% in 2016 and 3.4% in 2017.⁶

The Lithuanian, European Union, and Eurozone gross domestic product growth forecasts for 2016 - 2017 in %.



Because power consumption is closely linked to gross domestic product growth, economic growth affects the performance of the ESO, too. Taking into account the macroeconomic forecasts of economists as well as 2015 results, we can expect growth in electricity transmitted for 2016 and beyond.

The situation in the electricity market

In January - March, 2016, the average price of electricity in the Nord Pool Exchange in the Lithuanian trade zone was lower than the corresponding period last year. Only in January did the average price of electricity in the Nord Pool Exchange in the Lithuanian trade zone increase: it grew by 26.4% compared with the corresponding period of 2015. The average price of electricity in the Nord Pool Exchange in the Lithuanian trade zone decreased by 24.6% in February and 4.3% in March.⁷

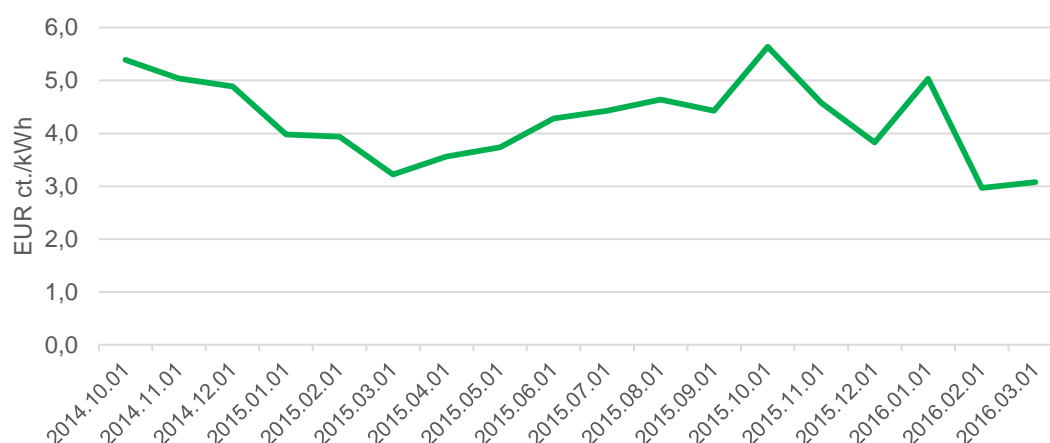
⁴ Data source: SEB Bank. Lithuanian Macroeconomic Review No. 62, April 2016

⁵ Data source: Swedbank economic review. April 2016

⁶ Data source: Bank of Lithuania. Lithuanian economic development and outlook. March 2016

⁷ Data source: Electricity Market Review, March 2016 [online]. Viewed 2016-05-03. Access via the internet: <http://www.litgrid.eu/index.php/elektros-rinka/rinkos-apzvalgos/798>

Average monthly prices at the electricity exchange



Company strategy and objectives

ESO strategy for 2016-2020 will be prepared by the end of third quarter 2016. ESO long-term strategy is being prepared taking into account joint-stock company Lietuvos Dujos long term strategy for 2015-2020 and LESTO AB long term strategy for 2014-2020.

ESO long-term strategy is based on reliability, effectiveness, high reputation and values-based organizational culture.

ESO's mission is to ensure that energy reaches you safely and easily.

ESO vision is a reliable partner in the world of smart energy technology.

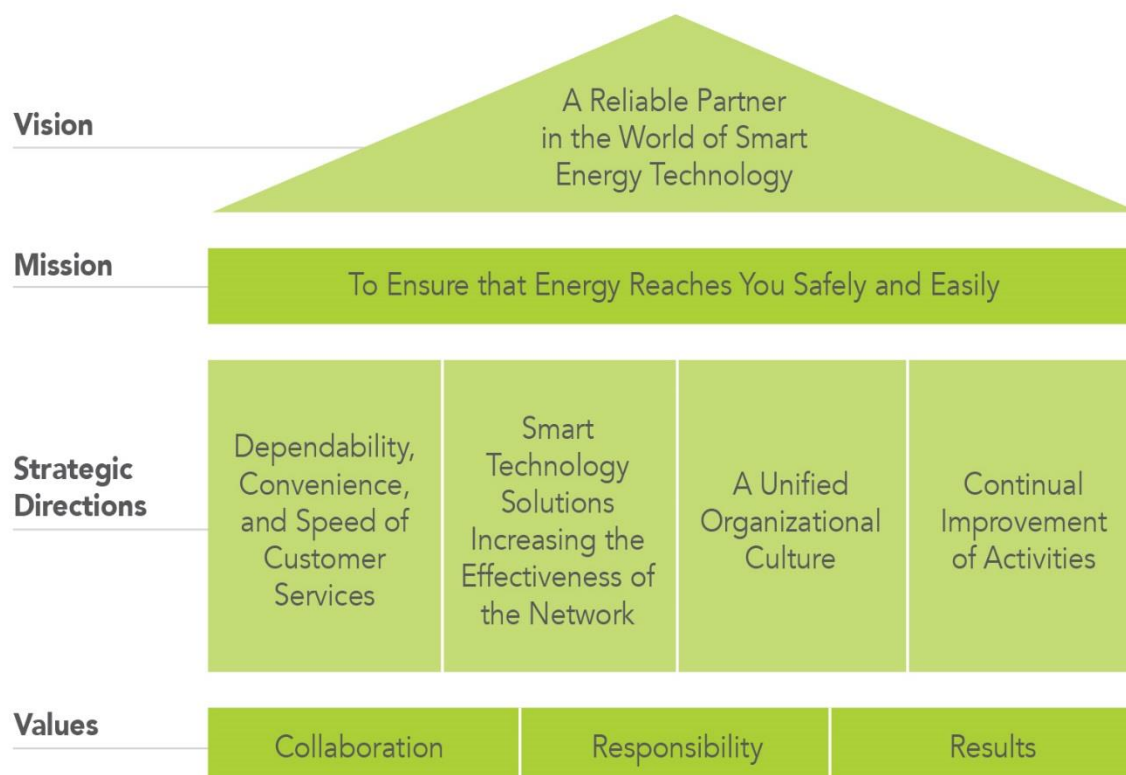
Fulfilment of the mission, the pursuit of the vision ESO bases on the values of cooperation, responsibility and result. The values expressed in terms of the provision that we constantly feel responsibility for actions, working together and always strive for the best results to our stakeholders.

All of these elements are considered fundamental assumptions to achieve the basic strategic goal of increasing the value of the company. Increase of Company value is perceived as a sustainable balance between the strategic directions listed below, which are linked by balanced scorecard methodology to their relevant perspectives:

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

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

ESO strategy scheme



Stakeholders

In order to balance the implementation of the strategic directions in particular we take into account the interests and expectations of stakeholders. During the internal and external analysis these key stakeholders were identified: shareholders, customers, the public, employees, regulators, and contractors.

The Company's strategic directions should reflect key stakeholder interests. An outline schematic shows ESO stakeholder needs conveyed through strategic directions. Each strategic direction is associated with one or more stakeholder. According to this logic, specific objectives and indicators are provided to monitor the assurance of stakeholder interests.

Investment plans

Electricity distribution network modernization

On February 3, 2015, LESTO announced the 2015-2025 investment plan. Over the next decade ESO, which continues LESTO activities, plans fundamentally modernize the distribution network. In order to ensure reliable, safe, and intelligently managed services, the Company plans to invest EUR 1.7 billion into network modernization and renewal by 2025.

The company intends to invest the most – EUR 511 million – into the network's resilience to increased climate phenomena. In this way, overhead lines will be replaced by underground or air-insulated lines. We plan to increase such lines by 25 % to 40 %, or to build 18 thousand kilometres of underground and insulated lines over the next 11 years. They intend to invest

EUR 426 million in the Safe and Reliable Network program. During the program, unsafe transformers, cable lines, and distribution equipment will be replaced with modern, state of the art equipment conforming to standards.

We plan to invest EUR 132 million in voltage quality improvement. This will solve the poor quality voltage problem for 41 thousand customers by taking care of almost 9.1 thousand kilometers of lines affected by voltage fluctuation. ESO intends to invest EUR 34 million into smart network projects. By 2025, we plan to implement 7 projects including network automation, smart metering pilot projects, a unified dispatch centre, and a distribution network management system.

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

Gas distribution network modernization

On December 13, 2015, Lietuvos Dujos released a ten-year investment plan estimating investment of EUR 141.1 million into the network over the next decade. ESO, which continues Lietuvos Dujos activities, plans the largest investments in the development of the distribution system, distribution pipeline reconstruction, and remote data acquisition and control systems modernization.

Ten directions of investment are provided for in the 2016-2025 investment plan. Most of it – EUR 58 million – is earmarked for development of the distribution system, necessary because of the growing number of new natural gas customers. About EUR 21 EUR is planned for investments in remote data acquisition and control system modernization and EUR 20.4 million for the reconstruction of gas distribution pipelines. We plan to allocate EUR 11.7 million of funds to the gas metering system within ten years. The gas pressure control equipment reconstruction gets EUR 7.7 million, closing device modifications and additional installation EUR 6.5 million, and pipeline corrosion protection equipment reconstruction EUR 1.2 million. Planned investments for gas distribution reliability projects are EUR 3.5 million and EUR 0.66 million for distribution pipeline buyout. They plan to allocate EUR 3.9 million funding for technological process modernization.

Risks and uncertainty factors and their management

Risk management policy

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

ESO understands risk as uncertainty as to achievement of the objective, conditioned on potential events and their possible consequences. ESO operational objectives are understood broadly and include both general objectives related to the long-term strategy and action plan, as well as the specific objectives relating to individual Company business processes. The Company's risk management is based on an assessment of the potential adverse impact on the Company and its business function (process) goals and results. Risk identification, analysis, assessment and management is carried out systematically in accordance with the uniform risk management policy for companies in the Lietuvos Energija UAB group. The Company has adopted a risk management procedure and other internal regulations concerning the risk management.

The main principles of ESO risk management:

- risk management creates and protects the value created, and management scenarios and measures are selected in such a way as to contribute to the Company's achievement and performance improvement

- risk management is integrated into the Company business processes and linked to the operational planning process, monitoring the performance of the Company continuously monitoring the level of risk trends
- risk management is an integral part of decision-making
- risk management is adapted to the internal and external environment as well as the nature of the risks
- risk management is systematic, structured, and timely
- risk management is dynamic, responsive to change, and repetitive
- the risk management process is transparent and comprehensive. Personnel at all levels of the Company participate in this process. The risk management committee functions carried out by the Company Board of Directors ensure suitability as well as reliability, and the Supervisory Board of Risk Management Supervision Committee does so at the corporate group level for Lietuvos Energija UAB.

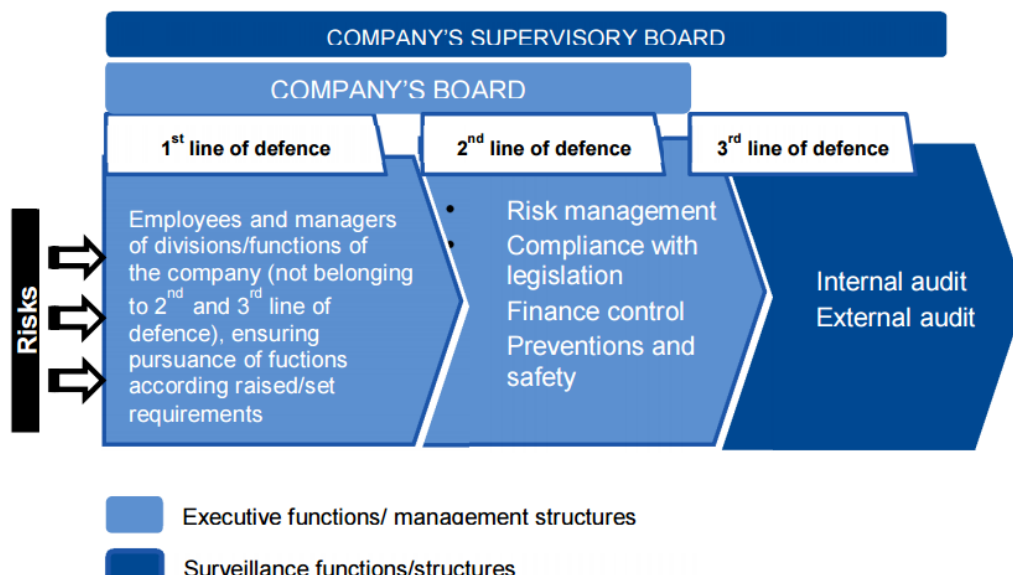
The periodic risk identification and assessment cycle, which measures the residual risk associated with the results of operational functions (processes) and benchmarks strengthening of risk management measures, is held annually during the planning process for operational objectives. Risks (risk factors)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

The Company employee responsible for risk management coordinates the Company's risk management system as well as develops the risk management process. The imposition of measures, their impact on the analysis and evaluation of the Company's business function (process), and appropriate risk management action plan formulation and implementation are the responsibility of the owner or manager of the business process or department to which the results of the risk may have a negative impact.

Risk management and control model

The Company, managing and controlling the risks faced by their activities, apply the three lines of defence principle, establishing a clear responsibility for risk management and control shared between the Company's management as well as supervisory bodies and structural units or functions (see below).

Risk management and control scheme



"The first line of defence" belongs to the Company's district managers and executives (unnamed are the 2nd and 3rd lines of defence), engaged in operational functions falling within their competence and (or) ensuring operational functions according to their goals/set requirements, i.e., contracting and (or) the Company's main activities, management and support processes (not belonging to the 2nd and 3rd line of defence) organizing as well as engaged staff and their managers. Function/operations managers and employees who belong to the 1st line of defence, performing activities falling within their defined competencies as well as reaching for set goals, assume relevant activities/process-related risks and take responsibility for the risk management and internal control of element introduction for process for which they are responsible. "The second line of defence" belongs to the Company's risk management, compliance with legislation, financial control, and prevention and safety functions/departments:

- the individual responsible for risk management is responsible for proper risk management and the creation of the control system, the risk management process, as well as the organization of risk management control
- the Legal Department ensures that the Company's executive and employee solutions meet the requirements of the law
- the Financial Control Unit ensures control of proper use of financial resources
- the Prevention Unit is responsible for organizing the installation as well as control of preventive risk management measures related to the risk of abuse, physical, information, and property safety

The Company's Board of directors, performing the functions of the risk management committee, is responsible for proper risk management and controlling of the 1st and 2nd lines of defence.

"The third line of defence" includes: the Lietuvos Energija, UAB internal audit unit and external auditing company. The internal Audit Unit evaluates risk management and internal control effectiveness and efficiency and makes recommendations for risk management and control improvement. The Company's hired external audit company delivers an opinion on the correctness of the Company's financial statements and risk management and internal control effectiveness at least once a year.

The internal audit unit is accountable to the Lietuvos Energija, UAB Supervisory Board and regularly informs the Company Board and the Supervisory Board on the Company's risk management and internal control effectiveness and internal audit recommendation implementation.

The Company's employee responsible for risk management regularly provides aggregate information on risk management and control to the UAB Lietuvos Energija Risk Manager.

The Lietuvos Energija, UAB Supervisory Board Risk Management Monitoring Committee carries out risk management and control systems monitor the effectiveness of all three lines of defence according to the established competence.

The main risks to Company activities and their management

These are the main risks to Company activities:

- strategic risk
- compliance risk
- operating/operational risk
- financial risk

Strategic risk management

Strategic risk. In the scope of the Company's activities, risks in this group are associated with planning, unfavourable or erroneous operating decisions, improper implementation of decisions or lack of/belated response to political, regulatory, or technological and/or scientific (innovation applicability) developments. Market, reputation, damage to the environment, and natural resources risks arising from improperly defined strategies could also be attributed to this category, depending on the source of risk. The most important macroeconomic risk factor is the cost of energy production (or import) in the emerging market. This price is directly determined by energy cost. Public electricity supply price is regulated and is fixed regardless of the current market price of electricity.

The Company's revenues and profits from transmission and supply activities directly depend on energy transmission/consumption volumes. The country's macroeconomic situation has a direct impact on energy sales, new electricity and gas installation connecting trends, and customer solvency. This risk is managed by the Company conservatively planning energy consumption and sales revenue.

While operating and expanding its current electricity and gas distribution network, ESO buys distribution network equipment and materials whose price depends on market trends. ESO network operation and grid investment costs, which affect the financial results of ESO, depend on the prices of these goods. In order to optimize the investment and the cost of network operation and development, the Company uses the investment ranking method based on objective criteria reflecting the Company's power distribution network operation as well as development priorities.

Political risk factors are also important for Company activities. Electricity distribution and supply is regulated by the Republic of Lithuania Law on Electricity and gas distribution is governed by the Republic of Lithuania Law on Natural Gas. The aforementioned law and other related legislation may affect ESO activities and results. State policy is important in relation to energy prices. Service prices are regulated and price caps are set and controlled by the National Commission for Energy Control and Prices. ESO's performance depends on these decisions. In order to reduce the abovementioned risk's effects on operating results, the Company analyses international energy companies regulatory practice and, if necessary, submit proposals for legislation to the public authorities.

As public and guaranteed supplier of electricity, the Company seeks the highest standard of reputation in its function of electric and gas distribution. This ambition is reflected in the Company mission, vision, strategic objectives, and values. Company leaders try hard to communicate the Company mission, vision, values, and strategic objectives to employees. In addition, the Company carries out social projects, testifying to the Company's socially responsible image.

Compliance / legal risk management

Compliance / legal risk is understood as the risk arising from a changing regulatory, legal environment, or validation of specific changes in specific areas, but they are not properly or promptly transferred to the Company's internal documents.

Or, with regard to the Company's activities, there is no possibility for such requirements to be implemented promptly or fully. Also, this risk group can be associated with compliance risks for a variety of standards and certificates. This is a risk of an increase in losses, loss of prestige, and (or) decrease in confidence, which may be due to external environmental factors or internal factors (such as the internal laws and ethical standard violations, worker abuse cases, and so on).

The Legislation Division is responsible for compliance risk management. In order to minimize the risk of legal compliance, the Company's lawyers participate in the Company's management decision-making, internal legislation, and contract preparation processes.

Operating/operational risk management

Operating/operational risk is understood as the risk of loss/not receiving planned revenues, uncertain business continuity, or to pose a threat to workers and/or the environment, as well as the loss of confidence resulting from inadequate or failed internal procedures, improperly organized and managed processes, staff errors and/or illegal actions and information system failures or from external events. This category includes risks associated with inappropriate human resource management, organization microclimate, employee safety and health, civil, physical, fire safety insecurity, inadequate/insufficient information technology, information security insecurity, improper contract management, inefficient internal control systems, product/service/runaway work quality, customer service quality insecurity, damage to the environment or nature, or inefficient processes. Disruption of energy supply risk management is very important for the Company's activities. One of the key factors characterizing the distribution network operator is power distribution reliability, measured by SAIDI and SAIFI. Due to unpredictable external factors, such as natural disasters, there is a risk that consumers will not be guaranteed a reliable energy supply, ESO will not get the expected income, and relevant troubleshooting will result in additional operating costs. The Company has developed comprehensive emergency management procedures for this risk. Also, in order to improve energy supply quality and reliability, ESO provides the bulk of the total investment for the rehabilitation of distribution networks, power transformer substation reconstruction, and new, durable electric and gas equipment installation meeting current quality standards. They are looking for technological solutions that ensure continuous distribution network control and quick troubleshooting to prevent electric and gas supply disruptions.

Financial risk management

Credit risk is the risk of loss, that clients and (or) the other parties to the transaction will not be able to fulfill their obligations to the Company.

The Company's credit risk consists of temporary and fixed-term funds in banks, investments in debt securities, and consumer obligations to pay for the consumed energy.

The Company has no significant concentration of credit risk, because a large number of consumers of energy leads to a low concentration of credit risk.

The priority investment objective is to ensure security of funds and, in line with this objective, the maximization of return on investment.

Credit risk caused by energy consumers' inability to pay for the consumed energy in due time is managed by the Company's consumer debt management procedures.

The Company does not guarantee obligations of other parties.

Market risk means the losses of future net revenue loss due to the risk of interest rates, exchange rates, stock, and changes in prices of listed items.

Interest rate risk

The Group's and Company's earnings and cash flows from operating activities are in principle not significantly dependent on changes in market interest rates. All of the Group's and Company's loans are at a variable interest rate, which is linked to the Euribor index. The Company manages interest rate risk by using derivative interest rate risk management tools.

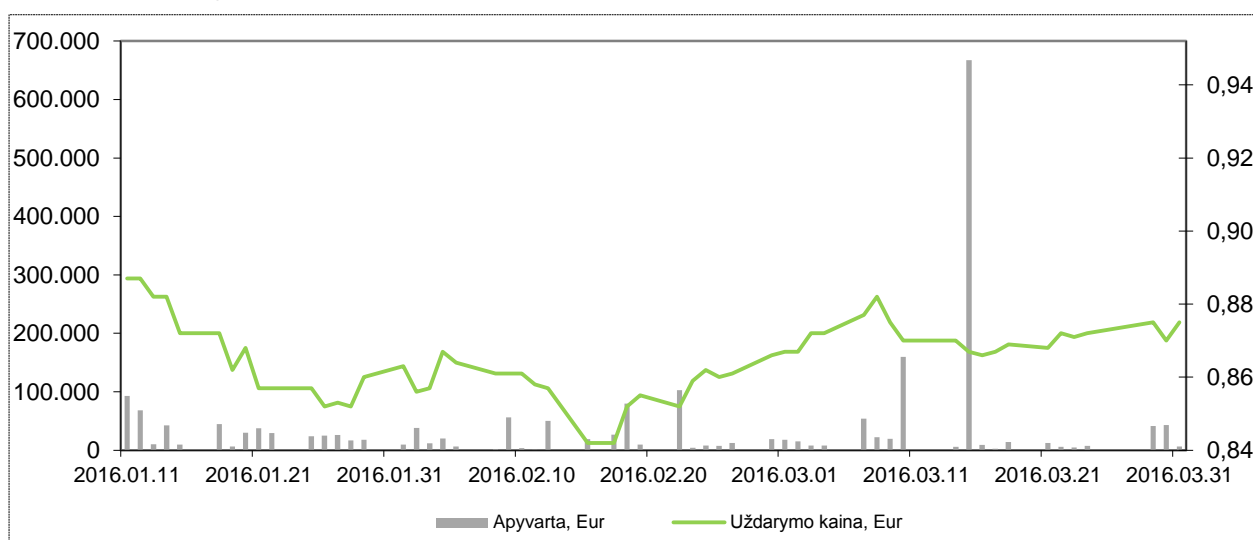
Foreign currency risk

All the Group's and the Company's monetary assets and liabilities are denominated in euros.

Information about the company's share capital and securities

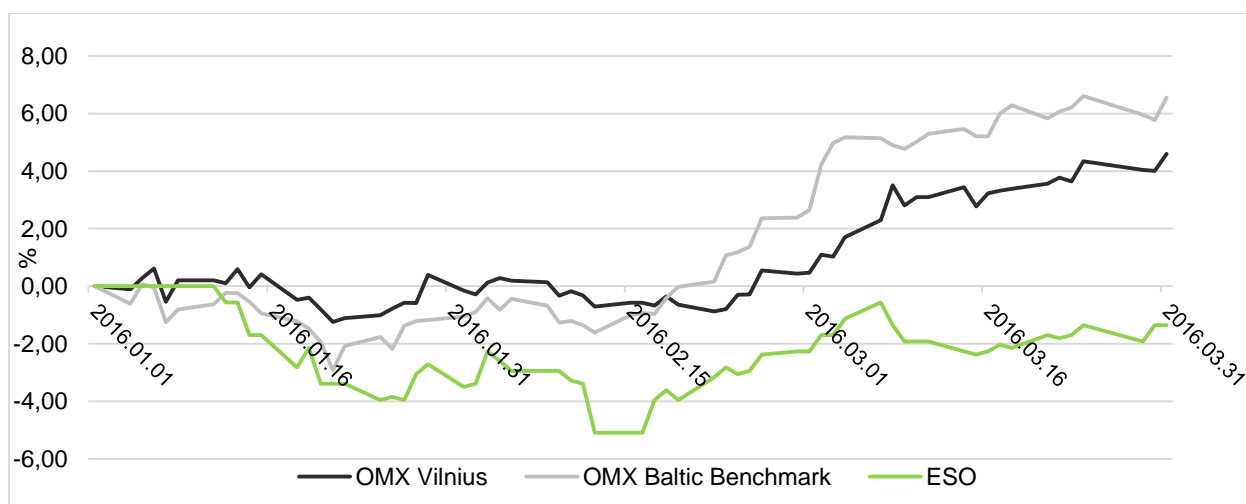
The stock price dynamics and turnover

ESO stock price dynamics and turnover, 2016-01-11 – 2016-03-31



ESO - the largest company by market capitalization in the NASDAQ Baltic Exchange. During the first quarter of 2016 ESO shares fell 1.36 %. The weighted average of ESO's share price for the three months of 2016 was EUR 0.861.

ESO share prices OMX Vilnius and OMX Baltic Benchmark index dynamics, 2016-01-01 – 2016-03-31



From the beginning of 2016 until March 31, the OMX Vilnius index rose 4.60%, the OMX Baltic Benchmark index rose 6.56%, and in the meantime ESO's share price during the three months of 2016 fell by 1.36% of its initial value.

The authorized capital structure

Share type	Number of shares	Nominal value, EUR	Total nominal value, EUR	Authorized capital, %
Ordinary registered shares	894,630,333	0.29	259,442,796.57	100.00

The company's authorized capital amounted to 259,442,796.57 EUR on March 31, 2015. All Company shares are fully paid up.

Rights and obligations granted by share class

All ordinary shares grant the same rights. Property and non-property rights granted by shares are established by laws, regulations, and the articles of association.

Information on major transactions of related parties: specify the amounts of the transactions, the nature of the related party relationship, and other information about the transactions necessary for an understanding of the Company's financial position, if such transactions are material or were concluded under unusual market conditions
The information on related party transactions is provided in Note 28 of the explanatory text accompanying the 2016 audited annual consolidated financial statements.

Significant agreements to which the issuer is a party and which take effect, alter, or terminate upon a change in control of the issuer, as well as their effects, except in cases where disclosure of such agreements could cause significant damage to the issuer

The Company has no significant agreements which take effect, alter, or terminate upon a change in control of the issuer.

Information about damaging transactions concluded on behalf of the issuer during the reporting period, which had or will likely have a negative impact on the issuer's operations and (or) performance, as well as information about transactions concluded in a conflict of interest between the issuer's directors, controlling shareholders, or other related parties obligations to the issuer and their private interests and (or) other duties; it is necessary to reveal the essence of the significant transactions, conditions, conflicts of interest, and the nature of their influence on the transaction

During the reporting period, the issuer did not negotiate any harmful transactions (not complying with the Company's objectives, existing normal market conditions, in breach of the shareholders or other individuals' group interests, etc.), nor any transactions with a conflict of interests between the issuer's directors, controlling shareholders, or other related parties' obligations to the issuer and their private interests and (or) other office.

The procedure for amending the articles of association

ESO articles of association may be amended only by a General Meeting of Shareholders.

Securities transfer restrictions

As of March 31, 2016, no one was aware of any restrictions on the transfer of securities during the reporting period.

Subsidiaries

ESO did not have any subsidiaries as of March 31, 2016.

Information on the company's branches and representative offices

The Company has no branches or representative offices.

Information about the company committees

The Company has no committees.

The number of all acquired and held own shares, their nominal value, and the share capital represented by these shares

As of the reporting period ESO hadn't acquired any of its own shares, nor did it within the three months of 2016.

As of the reporting period the number of all acquired and transferred own shares, their nominal value, and the share capital represented by these shares

The Company did not acquire or transfer any of its own shares within the three months of 2016.

Information about payment for our own shares if they are acquired or disposed of for a fee

The Company did not acquire or transfer any of its own shares within the three months of 2016.

Acquisition of our own shares during the reporting period

The Company did not acquire any of its own shares within the three months of 2016.

Information about the issuer's securities

ESO's shares were listed on AB NASDAQ Vilnius Official Trading List from January 11, 2016.

The Company's shares are not traded in other regulated markets.

ISIN code	Trade list	Stock ticker	Number of shares	Par value, EUR	Industry standard by ICB	Super sectors by ICB standard
LT0000130023	BALTIC MAIN LIST	ESO1L	894,630,333	0.29	7000 Utilities	7500 Utilities

Shareholders

As of March 31, 2016, the total number of Company shareholders was 8,980.

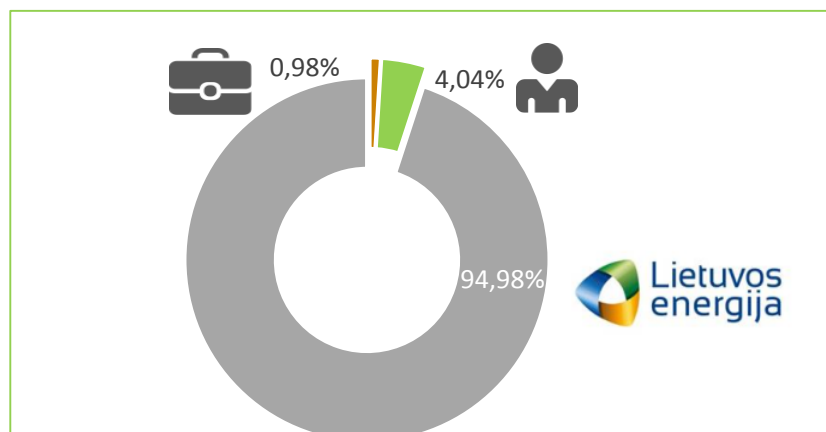
After the reorganization of AB LESTO and Joint Stock company Lietuvos Dujos, ESO took over these companies' assets, rights, and obligations. Thus, all of their shareholders became ESO shareholders on December 7, 2015.

Lietuvos Energija, UAB owns 94.98%. Company shares. Households own 4.04%. Financial institutions, insurance, and other companies own 0.98% of ESO shares.

ESO shareholder number broken down by country, 2016-03-31

State	Shareholder number
Lithuania	8,685
Estonia	83
Russia	49
Latvia	47
Belarus	40
USA	20
Great Britain	10
Other countries	46
Total	8,980

ESO shareholders broken down by groups, 2016-03-31



Agreements between the shareholders of which the issuer is aware and which may restrict transfer of securities and (or) voting rights

Any agreements between the shareholders of the Company, which could lead to the transfer of securities and (or) voting rights are unknown.

Restrictions on voting rights

The Group has no voting rights restrictions.

The Issuer bodies' mandates to issue and buy up the shares of the issuer

Decisions to issue or to buy the issuer's shares may take a general meeting of shareholders of the Republic of Lithuania of Joint Stock Companies in accordance with law.

Shareholders who owned more than 5% of the issuer's authorized capital on March 31, 2016

Shareholder's name (company name, legal form, address, code)	Number of ordinary shares belonging to the shareholder	The authorized share capital, %	Votes granted by owned shares of ownership, %
Lietuvos Energija, UAB Žvejų G. 14, LT-09310 Vilnius Company code 301844044	849,743,761	94.98	94.98

Agreements between the shareholders of which the issuer is aware and which may restrict transfer of securities and (or) voting rights

Any agreements between the shareholders of the Company, which could lead to the transfer of securities and (or) voting rights are unknown.

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Dividends

A decision was passed at the March 29, 2016, General Meeting of Shareholders of the Company to pay dividends to shareholders for the period from July 1, 2015, to December 31, 2015. Profit share for dividend payout amounted to €30.6 mln. Dividends for the six-month period from 2015 July 1 to December 31 amounted to €0.0342 per share.

Agreements with securities intermediaries of public trading

ESO authorized securities accounts are administered by SEB Bank.

SEB, AB contact details:

Gedimino Pr. 12, LT-01103 Vilnius;

Tel. 1528 or +370 5268 2800.

CUSTOMER SERVICE, SERVICE EVALUATION

Served customers

On March 31, 2016, Energijos Skirstymo Operatorius had 1.582 mln. electricity sales contracts with private clients and 66.5 ths. contracts with commercial customers (on March 31, 2015, there were 1.565 mln. contracts with private clients and 66.9 ths. contracts with commercial customers).

Service channel development

During the first quarter of 2016, the number of customers who use remote service channels grew (a new self-service site www.manogile.lt and customer service phone number 1802), and electricity consumer flows to customer service centers in smaller towns declined. At the beginning of 2016, the self-service site was adapted for general electric and gas declaration and payment.

As of March 31, 2016, the self-service site www.manogile.lt has 182 ths. private customers.

In the first three months of 2016, information was provided to more than 343 ths. customers (in the first three months of 2015, it was more than 295 ths. customers) over the 1802 short customer service number. More than 170 ths. customer referrals on various issues were received and resolved (in the corresponding period in 2015 it was 119 ths. customer referrals).

In the first three months of 2016, more than 71,000 electric and gas customers were served in the customer service centers of the seven major Lithuanian cities (in the first three months of 2015 it was 62,801 electricity customers).

Electricity and gas metering operation and development

In the first three months of 2016, the Company changed 29,544 expired metering devices. Of them 23,774 were electricity meters and 5,770 were natural gas metering devices. New customers received 4,235 electricity and 1,247 natural gas meters. Constantly updating the accounting for existing devices, the Company and its authorized individuals also checked more than 300 ths. electric and more than 75 ths. natural gas meters.

By investing in electricity and natural gas metering equipment modernization and automation, the Company connected 402 electricity and 78 gas metering devices to the existing automated data reading system, thereby increasing the Company's operating metering equipment for which data is scanned remotely, increasing the numbers respectively to 27,740 and 1,158. Automation of meters provides the ability to automatically submit bills for electricity consumed to corporate customers or fine-tune corporate customer's consumption of natural gas.

In order to test the effectiveness of smart metering and the benefits for private customers, in May 2015 the Company announced an international tender for the procurement of smart meters. The winner was a consortium of companies consisting of Tecnoline registered in Lithuania and the foreign companies ELKO and ADD-Production. ELKO and ADD-Production are implementing similar projects in Latvia, Slovakia, Poland, and other countries.

A contractor will install 3 ths. smart meters for residents in 2016 which will allow a more rational use of electricity and save household expenses. Typical electricity consumers are selected for participation in the pilot project, so smart meters will be installed in both new and old building blocks of residents in both urban and rural homes during the project. After the installation of smart electricity meter, each Company customer will be able to see the precise details of when and how much energy he consumes on the self-service site at www.manogile.lt. During the pilot project ESO will also receive more accurate information on the power grid, which will allow us to identify the electrical network faults and eliminate them.

Customer billing management

Lithuania joined the Single Euro Payments Area (SEPA) on January 1, 2016. The direct debit offered in Lithuania did not meet the SEPA requirements by this date, so from 2016 it was discontinued. Customer Direct Debit consents have been automatically changed to e. account with an automatic payment agreement, allowing customers to continue to pay for electricity automatically, the monthly amount paid by automatic deduction from the customer's bank account.

ESO has created an opportunity for customers to pay for electricity at the average consumption of electricity. Payment by 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 with multiple properties have the ability to pay for electricity consumption in several dwellings owned by the same consumer (by one account) in one instalment. The monthly payment for electricity is calculated according to the size of the customer's previous electricity consumption average (in kilowatt hours, kWh), which is adjusted according to the customer's declared readings or by periodic meter inspection data. Consumers can find out and check the adjusted average payment online at the renewed self-service site www.manogile.lt, by calling the customer service by phone, or come to the Gilė customer service centre. 20% of ESO customers pay by VAT invoices. In the first three months of 2016 the number of payments made for electricity consumed by VAT invoices increased by 8% compared to the corresponding period for 2015.

Since January 1, 2016, the payment can be made by the electronic equivalent of the settlement book on the self-service portal at www.manogile.lt.

Market liberalization

As of March 31, 2016, independent providers supply electricity to 66,923 properties. In accordance with the Lithuanian Electricity Market Development Plan approved by the Government of Lithuania on July 8, 2009, an independent electricity supplier was chosen on March 31, 2016:

- About 93% of the properties whose maximum power was 400 kW and more
- About 85% of the properties whose maximum power was 100 kW and more
- About 74% of the properties whose maximum power was 30 kW and more
- About 54% of the properties whose maximum power was 30 kW or less

The guaranteed provider (ESO) will continue to supply electricity to the remaining properties.

SOCIAL RESPONSIBILITY OF THE COMPANY

Social responsibility for us is not only ideas and values that we follow in everyday activities and planning for the future. It is also very specific solutions, a part of everyday business and conduct.

We share the responsibility to contribute to society through the implementation of continuous energy distribution and supply activity above all. Also actively participating in civic education for issues of safe and rational use of energy. We hurry to implement and develop new, viable, and sustainable technology.

Environmental protection

Landscape protection. New cables are being laid in place of the old power lines in areas where the former aerial cables were thin and dangerously close to greenery; outdated infrastructure has led to many crashes. Cable lines ensure more reliable power provision to citizens and are more secure, in addition to reducing visual pollution.

Saving paper and informing customers via modern technology. The Company continuously encourages its customers to abandon paper accounts and passbooks, moving to remote service channels, and billing for services by direct debit. 97% of ESO corporate customers have already switched to electronic invoicing. The company informs about 85% of electricity users about malfunctions in the power supply and their estimated duration by sending free SMS messages and e-mails.

Public initiatives

ESO is implementing large-scale long-term social responsibility projects for children, young people, and the general public, which bring together active community target groups, safety and energy efficiency, and environment-friendly ideas.

The national Sustainable School educational program. In order to promote awareness of the school community and to contribute to a sustainable, energy efficient and environmentally friendly the Lithuanian society, the Lithuanian Youth Center and ESO together with partners invited the country's educational institutions to participate in a year-long Sustainable School educational program. In 2015 the project won the Swedish Business Award prize for the best CSR project of 2014, and it is ongoing.

VšĮ Pakuočių Tvarkymo Organizacija and the companies UAB Schneider Electric Lietuva and UAB Mano Būstas LT as well as the National Consumer Federation helped implement the Sustainable School project.

Energy efficiency "To the extent necessary"

Promoting rational use of energy is one of the priority directions of ESO social responsibility, contributing to the environment and energy resources conservation and the country's obligations under the European Union's climate change program. The project is designed to create traditions of a rational living society – here they are looking for rational use of energy solutions, with a particular focus on corporate and industrial consumption.

The rational use of energy "Energy efficiency solutions - competitive business" conference

The EU and the newspaper *Verslo Žinios* (Business News) organized their sixth business conference, which is become something of a tradition, on February 11. Professionals from various sectors shared insights there with more than 220 participants. The conference discussed practical energy efficiency measures, specific electricity and gas infrastructure solutions companies have installed, energy efficiency financing, the European Union Energy Efficiency Directive transferring to national law and other relevant issues.

Every year the event announces the most rational awards given to "Green Protocol" companies: UAB Šiaulių Vandenys was awarded for last year's progress (ISO 5001 2011 energy efficiency standards for installation and the other rational use of energy-enhancing tools), and the "Green Ambassador" title (given to rational consumption enthusiast employees) went to Rasa Pečiulaitė, the UAB Eika Development and Energy Project Manager.

A survey of guests of the event showed that, compared with the previous year, the expectations of the participants of the

conference were met better: the percentage increased by three points (from 93 to 96%).

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 organizations confirm their support for and agree to put into practice environment-friendly ideas:

- implement energy effectiveness measures
- contribute to European and global environmental protection and greenhouse gas (CO₂) emissions reduction
- encourage their staff, colleagues, and loved ones to do so and thus contribute to the development of an energy-saving society

24 new companies joined the initiative during the 1st quarter of 2016 (a total of 212 companies have joined).

Market, customers, and investors

ESO seeks the maximum possible transparency in its relations with all market participants and compliance with the highest ethical standards and principles in its own activities. We make sure of the economic and social benefits of our own activities for the public.

Cooperation with Lithuanian libraries. An agreement was signed in March 2015 with the Lithuanian National Martynas Mažvydas Library to collaborate implementing the "Libraries for Innovation 2" social project enabling the development of general population education projects at the Lithuanian National Martynas Mažvydas as well as public libraries and ensure further computerized self-service website development at www.manogile.lt.

Investor relations. We strive to maintain a close relationship with our existing and potential investors, and to ensure that all their information is equally accessible – it is continuously updated and provided.

At the end of January, at the Nasdaq Baltic Market Awards 2015 event, we won three awards for Lietuvos Dujos and LESTO progress made in improving relations with investors.

Employee involvement in socially responsible activities

We pay special attention to promoting employee engagement. Socially responsible initiatives proposed to employees at the beginning of 2016 received active interest.

Charity fair. Before Easter, the headquarters organized a charity fair, during which the staff bought Mažoji Guboja wares for people with disabilities from the for-profit handicraft center. The center sets aside all funds received during the fair to organize educational activities, excursions, and events for the members.

The Security Agents internal initiative. Starting at end of 2015, we have run the internal "security agents" initiative – employees monitor and report about disordered and potentially dangerous electrical installations after working hours. During the first quarter we received 11 reports with photographs – responsible divisions are notified about them and, in exceptional cases, they are described in the company's intranet. This way colleagues who don't work directly with the network infrastructure learn about it anyway.

The fight against corruption

ESO doesn't not tolerate any manifestations of corruption and advocates fair business and transparent communication with public authorities. The integrated internal control mechanisms detect possible corruption risks to minimize the risk. Prevention of corruption is one of the company's Prevention Division functions. ESO carries out operational control continuously, improves business processes and takes action to correct detected irregularities, and remove threats to the good name of the company.

THE COMPANY AND ITS MANAGEMENT BODIES

The organizational structure of the company

Name of the company	Energijos Skirstymo operatorius AB
Company code	302577612
Authorized capital	EUR 259 442 796,57
Head Office Address	Aguonų St. 24, LT-03212 Vilnius
Phone	(8 5) 277 7524
Fax	(8 5) 277 7514
Email	info@eso.lt
Webpage	www.eso.lt
Legal-organizational form	Joint Stock Company
Date and place of registration	On 11 December 2015 at the Register of Legal Persons of the Republic of Lithuania
The Register in which the data about the company are collected and stored	Register of Legal Persons
Register manager	Public body Centre of Registers

Energijos Skirstymo Operatorius AB (ESO) started its operation on 1 January 2016, by merging AB LESTO and Joint Stock Company "Lietuvos dujos". ESO is part of the state owned company group "Lietuvos energija", UAB, which is one of the largest energy company groups in the Baltic States. On 1 January 2016 ESO overtook the property of LESTO and Joint Stock Company "Lietuvos dujos", as well as the rights and duties, and also all the long-term and short-term property, long-term and short-term financial and other liabilities, amounts receivable and payable according to the contracts concluded by LESTO and "Lietuvos dujos" and the obligations arising on other bases.

ESO owns 121.698 thousand kilometres of electricity lines: 78.7% of them consist of overhead power lines, and 21.3% electric cables. The company also operates the 8.4 thousand kilometres of gas distribution pipelines.

The main functions of ESO: power supply and distribution and distribution of natural gas, guarantee power and gas supply, installation of electricity and gas, operation of electricity and gas distribution network, maintenance, management and development, ensuring their safety and reliability. The geographic market of ESO is Lithuania.

The main information about related companies

On the day of signing the report ESO jointly with other companies managed UAB Verslo aptarnavimo centras and Technologijų ir inovacijų centras UAB.

	Technologijų ir inovacijų centras UAB	Verslo aptarnavimo centras UAB
Address	A. Juozapavičiaus St. 13, Vilnius	P. Lukšio St. 5B, Vilnius
Registration date	4 December 2013	30 July 2014
Company code	303200016	303359627
Phone	(8 5) 278 2272	(8 5) 259 4400
Fax	(8 5) 278 2299	(8 5) 259 4401
Email	info@etic.lt	vac@le.lt
Website	www.etic.lt	http://vac.le.lt
The share of capital hold by ESO, in percent, as of 1 January 2016	29.01	22.25
The share of capital hold by ESO, in percent, as of 31 March 2016	29.01	22.25
The nature of the main activities	Provision of information technology and telecommunication services for the companies of the energy sector	Organization and implementation of public procurement, bookkeeping, industrial relations administration, customer service, human resource administration and provision of legal services.

The Board of Supervisors

The Board of Supervisors of ESO is a collegial supervisory body.

The competence of the Board of Supervisors, the procedures of decision making and electing and recalling the members are laid down by laws, other legislation and the articles of the Company. The Board of Supervisors of ESO consists of three members that are elected in a general shareholders' meeting for a four year term of office. At least a third of the Board of Supervisors of ESO is made of independent members. The Board of Supervisors elect the chairman of the Board of Supervisors from its members.

During the reference period, the composition of the Board of Supervisors did not change. On the day of signing the report, the Board of Supervisors of the Company was made of the chairman of the Board of Supervisors Dalius Misiūnas, members of the Board of Supervisors – Ilona Daugėlaitė and Petras Povilas Čėsna (an independent member). The end of the term of office of the Board of Supervisors is 3 December 2019.

During the reference period there were four meetings of the Board of Supervisors of ESO, all three members of the Board of Supervisors took part in them.



Dr. Dalius Misiūnas (born in 1978)
Chairman of the Board of Supervisors



Ilona Daugėlaitė (born in 1970)
Member of the Board of Supervisors



Petras Povilas Čėsna (born in 1945)
Independent member of the Board of Supervisors

In office from:
In this position from:
3 December 2015

End of term of office:
3 December 2019

In office from:
In this position from:
3 December 2015

End of term of office:
3 December 2019

In office from:
In this position from:
3 December 2015

End of term of office:
3 December 2019

Education

Lund University. Doctoral degree in technological sciences, Lund University, Master's degree in Industry Electrotechnics and Automatics, Kaunas University of Technology, Bachelor Degree in Electric Engineering

Vilnius University,
Master's Degree in Hydrogeology and Engineering

Vilnius University,
Qualified Economist

Main employer

"Lietuvos energija", PLC
Chairman of the Board, Director-General

"Lietuvos energija", PLC
Organization Development Director

Lithuanian Exhibition and Congress
Centre LITEXPO,
Chairman of the Board

Participation in the activities of companies and organizations, share of company capital and votes held is more than 5%

Name of company, body, organization, position	Share of capital and votes held, in percent	Name of company, body, organization, position	Share of capital and votes held, in percent	Name of company, body, organization, position	Share of capital and votes held, in percent
Chairman of the Board of Supervisors of ESO	-	Member of ESO Board of Supervisors	-	Independent member of ESO Board of Supervisors	-

Lietuvos energija", PLC, Chairman of the Board, Director General	-	"Lietuvos energija", PLC Member of the Board, Director of Organizational Development	-	Lithuanian Exhibition and Congress Centre LITEXPO, Chairman of the Board	-
Member of Higher Education Board KTU Alumni Association, President	-	Technologijų ir inovacijų centras PLC, Chairman of the Board	-	Seimas of the Republic of Lithuania, Public Assistant to MP Irena Šiaulienė	-
National Lithuanian Electricity Association, President	-	Duomenų logistikos centras PLC, Chairperson of the Board	-		
Lithuanian Industrialists' Confederation, Vicepresident	-	My spouse holds 3,150 ordinary registered shares of "SOLUTIONLAB PRODUCTION" PLC (company code 300629188)	63		
Association "Eurelectric", member of the Board of Directors	-				

* ESO Articles provide for the following: "Contracts regarding the activities in the board of supervisors may be concluded with the members of the board of supervisors, the Articles shall lay down their rights, duties and liabilities. Independent members of the Board of Supervisors may be paid a remuneration for the activities in the Board of Supervisors by a decision of the general shareholders' meeting. The terms and conditions and the criteria of independence of the members of the Board of Supervisors shall be laid down by the general shareholders' meeting pursuant to the requirements of the legislation and the best practice of company management." The contracts regarding the activity of a member of the ESO Board of Supervisors were concluded with Dr. Dalius Misiūnas, Ilona Daugėlaite and an independent member of the Board of Supervisors Petras Povilas Čėsna on 3 December 2015. ESO has not transferred or granted the guarantees of property management to the members of the bodies. In three months of 2016 the Company did not grant any loans to the members of the Board, guarantees or assurance, whereby the implementation of their obligations would be ensured."

Audit Committee

On 27 August 2013 the Board of Supervisors of "Lietuvos energija", PLC established an audit committee, which was delegated the powers to examine and submit the Board of Supervisors proposals regarding the issues within the competence of the Committee, as well as the issues for which the Board of Supervisors apply to the Committee. The activity of the Audit Committee is applied to "Lietuvos energija" PLC and the subsidiary companies directly or indirectly managed by them, including ESO, and legal persons of other legal form, in which "Lietuvos energija" PLC may have direct or indirect decisive influence.

The main functions of the Audit Committee:

- To monitor the process of preparing financial reports of "Lietuvos energija" PLC and the group of its companies;
- To monitor the efficiency of the internal control and risk management systems of "Lietuvos energija" PLC and the group of its companies, to carry out an analysis and review of the need of these systems and their suitability;
- To monitor how an attested auditor and audit company adhere to the principles of independence and objectivity, to provide related recommendations;
- To monitor the processes of auditing "Lietuvos energija" PLC and the group of its companies, to evaluate the efficiency of the audit and the reaction of the administration to the recommendations that the audit company submitted to the management;
- To monitor the efficiency of the internal audit function of "Lietuvos energija" PLC and the group of its companies, to analyze the need for this function and the suitability, to submit recommendations regarding the necessity for internal audit, for efficiency and on other issues related to internal audit.

On 5 January 2015 the function of internal audit was centralized in the group of companies of "Lietuvos energija". In this way, independence and objectivity of internal audit performance was ensured, and so were a single methodology and accountability ensured. Audit resources and competences are distributed in a more rational way.

Members of the Audit Committee of "Lietuvos energija" PLC at the end of the reference period

Name and surname	Participation in the authorized capital of the issuer (in percent)	Term of office	Employer
Rasa Noreikienė (Chairperson of the Committee)	0	August 2013 – August 2017	Ministry of Economy of the Republic of Lithuania
Aušra Vičkačkienė	0	August 2013 – August 2017	Property Management Department Under the Ministry of Finance
Danielius Merkinas (an independent member)	0	August 2013 – August 2017	"Nordnet" PLC
Gintaras Adžgauskas	0	August 2013 – August 2017	Lithuanian Committee at the World Energy Council
Irena Petruškevičienė (an independent member)	0	October 2014 – October 2018	Audit Development Committee of the European Commission

Board of the Company

ESO Board is a collegial management Body of the Company.

The competence of the Board, the procedures of decision making and selection and recalling of members are laid down by laws, other legislation and the articles of the Company. ESO management is made of five members of the Board that are elected by the Board of Supervisors for a four year term of office. The Board shall elect from its members the chairman of the Board.

On 1 January 2016 the Board of the Company consisted of the Chairman of the Board Liudas Liutkevičius and members of the board – Dalia Andrulionienė, Eglė Čiužaitė, Rytis Borkys and Dalius Svetulevičius. On 19 February 2016 ESO Board of Supervisors adopted a decision to recall Eglė Čiužaitė from the position of the members of the Board of ESO and from 19 February 2016 and until the end of the term of office of the operating ESO Board to elect Augustas Dragūnas to be the member of the Board to be in charge of finances and administration. On the day of signing the report the Board of the Company was made of the Chairman of the Board Liudas Liutkevičius and members of the Board – Dalia Andrulionienė, Augustas Dragūnas, Rytis Borkys and Dalius Svetulevičius. The end of the term of office of the Board is 2 December 2019. During the reference period there were 8 meetings of the ESO Board, all the members of the Board took part in the meetings.



Liudas Liutkevičius
(born in 1980)
Chairman of the Board
Director General

Chairman of the Board:
from 31 December 2015

End of term of office: 2
December 2019



Dalia Andrulionienė
(born in 1971)
Member of the Board

In office from:
3 December 2015

End of term of office:
2 December 2019



Augustas Dragūnas
(born in 1981)
Member of the Board

In office from:
19 February 2016

End of term of office:
2 December 2019



Rytis Borkys
(born in 1969)
Member of the Board

In office from:
3 December 2015



Dalius Svetulevičius
(born in 1974)
Member of the Board

In office from:
3 December 2015

End of term of office:
2 December 2019

In Office of Director General: from 1 January 2016			End of term of office: 2 December 2019		
Education					
Vilnius University, Master Degree in International Business Finance	ISM University of Management and Economics, BI Norwegian Business School, Master Degree in Business Management. Vilnius University, Master Degree in Economics	Vilnius University, Master Degree in Business Management and Administration	Kaunas University of Technology, Higher Education University Degree in Engineering.	Kaunas University of Technology, Master Degree in Measurement Engineering. Vilnius University, Master Degree in Management and Business Administration	
The main employer					
CEO of ESO	Director of ESO Service Division	Director of ESO Finance and Administration Division	Director of ESO Network Development Division	Director of ESO Network Operations Division	
Participation in the activities of companies and organizations, including the share of other company's capital and votes larger than 5%					
Name of company, body, organization, position	Share of capital and votes held, in percent	Name of company, body, organization, position	Share of capital and votes held, in percent	Name of company, body, organization, position	Share of capital and votes held, in percent
ESO Chairman of the Board, CEO	-	Director of ESO Service Division	-	Director of ESO Finance and Administration Division	-
Lithuanian Energy Support Fund, Member of the Board.	-	Verslo aptarnavimo centras PLC, Member of the Board	-	Technologijų ir inovacijų centras PLC, Member of the Board	-
National Lithuanian Energy Association, Member of the Board.	-				
“Security Components” PLC, Director	-				
“Security Components” PLC, Director	-				
Member of KTU Mathematics and Natural Sciences Faculty Council	-				

Chief Executive Officer

Company manager – Chief Executive Officer – is a single person management body of the Company.

The competence of Director General, the procedures of electing and recalling the Director General shall be laid down by the laws, other legislation and the articles of the Company. The Director General shall be elected and recalled and dismissed from the office by the management of the Board. The Director General shall organize the activities of the Company, shall manage it, shall act on behalf of the Company and make single-sided transactions, except for the cases provided for in the articles of the Company and legislation.

From 1 January 2016, according to the decision of the Company, Liudas Liutkevičius is appointed to be the Director General of ESO.

Information about the amounts calculated for ESO CEO during the reference period*

	Wages, EUR
CEO General Liudas Liutkevičius	13,161

*ESO has not transferred or granted any guarantees of property management to members of the bodies. During January-March 2016 the Company did not grant any loans to the members of the management bodies, did not issue any guarantees or assurances, on the basis of which their implementation would be ensured.

Participation of the Director Generali in the activities of companies and organizations, as well as the share of company capital or votes larger than 5%.

Name and surname	Name of company, body, organization, position	Share of capital, in percent	Share of votes, in percent
Liudas Liutkevičius	See the information above	-	-

Agreements between the issuer and the members of the bodies or their employees, providing for compensation in the event they retire or are dismissed without a valid reason, or where their work is terminated due to the change of control of the issuer.

This kind of agreements between the issuer and the members of the bodies or employees have not been concluded.

Employees of the company

The Company's personnel policy focuses on employee professional skills development as well as organizational culture formation, ensuring greater value for customers, partners, and development of society.

After the merger of the two companies synergies were found in joint activities and 72 posts were abolished in Network Operations Division in the first quarter of 2016; the number of employees as of March 31, 2016, was 2,749.

ESO staff structure by the category:

Employee category	Number of employees 2016 03 31
Head of the company	1
Top-level executives	8
Mid-level managers	139
Experts, professionals labourers	2,601
All employees	2,749

ESO staff structure by education:

Education	Number of employees 2016 03 31
Higher	1,278
Advanced	714
High school or vocational	755

We paid great attention to employee performance evaluation in the first quarter 2016, the main objectives of which were the following: evaluate the implementation of objectives set for employees, the effectiveness of their main functions, and competence compliance, as well as to raise new goals and create a plan of education for staff in 2016. This year 64% of employees took part based on job level; next year we hope to include 100% of employees in the performance assessment.

Remuneration system

On February 29, 2016, the ESO staff remuneration procedures were confirmed, the implementation of which has placed us among the country's other cutting-edge companies that compensate their employees for work done by the results achieved, the value created for the organization and team. Hay Group methodology was used creating the remuneration system, which provides objective job assessment according to the required education, problem complexity, and level of responsibility that falls on the position. This system enables the Company to effectively manage costs and ensure that ESO's strategic objectives and business management logic are reflected in the payroll system.

The employee remuneration package consists of financial, non-financial, and emotional remuneration. The financial remuneration system includes the constant monthly remuneration paid to the employee specified in the contract, as well as the variable part of the remuneration paid in accordance with the procedure laid down for results achieved at the company, as well as the Collective Bargaining Agreement and other internal statutory premiums (for overtime, night work, etc.). Non-financial rewards are indirect staff remuneration, which the Company draws on its staff's efforts, engagement, as well as loyalty, employee well-being, and enrichment of Company activities. These are the different Company events, greetings on special occasions, recognition and appreciation rewarding particularly well performing employees, health promotion, staff development, and training. Emotional remuneration is difficult to measure, but the important thing is staff involvement in the company's activities, a factor that includes the company's reputation, organizational culture and values, and career opportunities granted, and this is carried out through various internal communications programs – workers have the opportunity to share ideas, ask questions, get to know their colleagues through the internal website .

ESO average salary

Employee category	The average gross wage, EUR January-March 2016
Head of the company	4,387
Top-level executives	3,568
Mid-level managers	1,834
Experts, professionals	1,000
Labourers	897
All employees	1,034

Collective Bargaining Agreement

At the ESO staff conference on February 12, 2016, a new version of the collective agreement was confirmed, which will provide greater protection to ESO workers and many additional benefits not covered by the Labor Code of the Republic of Lithuania. The objective of the Collective Bargaining Agreement is to ensure effective Company operations and to represent all the Company's employees' right and legitimate interests. Employment, wage, social, economic, and professional conditions and guarantees are established in the contract, i.e. those that are not regulated by laws and other normative legal acts. There are also additional staff guarantees (premiums for accidents, sickness, bereavement cases, support for the birth of a child, additional days of paid leave after the birth of a child, marriage, death of a loved one as well as in other cases).

Trade unions

The Company supports staff joining voluntary trade unions and closely cooperates with them. Meetings to discuss Company strategic projects carried out are organized every quarter. Trade union representatives always participate in the working groups when issues related to employees are examined (employment offices, staff retraining, wages, and social issues).

Development of competences

ESO focuses on staff competence development. Educational plans are drawn up every year, taking into account the company's objectives and staff expertise compliance to achieve these objectives. Throughout training, much attention is paid to effective and high-quality assurance of electrical and gas distribution network maintenance, customer service, and work safety.

488 participants attended the compulsory vocational training in January-March 2016, at the end of which certificates to perform special work were issued. Employees learned how to do the work of an emergency diesel power station operator, high-altitude working laborer, and lifting platform and equipment operator, as well as first aid and hygiene education and other programs.

2,153 participants attended the general training in the first quarter of 2016. General training sessions are organized both for individual employees sent to external supplier organized seminars and conferences (in Lithuania and abroad) and the formation of groups within the Company. The Company seeks to include internal staff in competence development programs – internal lecturers with specific knowledge, skills, and able to share them with others, as well as investing in the training of staff. 2,100 participants attended the internal training sessions during the first quarter of 2016. A large part of the internal training was dedicated to energy personnel development in order to increase safety as well as quality of customer service. In order to ensure the effectiveness of internal company processes, employees are introduced to the initiatives Company is implementing as well as programs, such as operational excellence and employee performance management.

We work closely with training providers preparing training programs and we also perform ongoing training evaluation surveys. ESO also regularly works with manufacturers and equipment suppliers who share their knowledge with employees, presenting innovation in the energy field.

This year, ESO also partially funded 15 employees' studies at Lithuanian higher education institutions in order to raise the skills of workers as well as develop executives' competences. Employees have the opportunity to study programs related with the company's energetics as well as managerial studies.

Internship opportunities

ESO actively cooperates with educational institutions and allows university and college students to apply their theoretical knowledge and gain practical skills. 18 students completed ESO internships throughout Lithuania over the first quarter of 2016. It was not only students who carried out internships at the Company, for whom an internship is compulsory – the

Company carried out a search and selection for motivated and enthusiastic students and gave them the opportunity to intern in the Company on a voluntary basis.

Other committees

At the Lietuvos Energija, UAB group, besides the Audit Committee, there are the Risk Management Supervision and the Nomination and Remuneration Committees.

The Risk Management Supervision Committee

The Risk Management Supervision Committee is responsible for findings and proposals for the operation of the Group's management and control system, the most important risk factors, and the implementation of risk management or preventive measures for the Supervisory Board.

These are the main functions of the committee:

- Observe how risks relevant to achievement of objectives at Lietuvos Energija, UAB and the group of companies are identified, evaluated, and managed
- Assess internal control procedures and the adequacy of the risk management measures for identified risks
- Assess the status of implementation of risk management measures
- Monitor risk management process execution
- Analyze financial opportunities risk management measures
- Assess risks to and the risk management plan of Lietuvos Energija, UAB and the corporate group
- Assess the periodic risk identification and assessment cycle
- Check whether preparation of risk registers takes place and analyze their data, and submit proposals
- Monitor preparation of internal documents related to risk management
- Perform other functions assigned to the competence of Lietuvos Energija, UAB and the Supervisory Board Committee

Lietuvos Energija, UAB risk management supervisory committee members at the end of the reporting period

Full name	Participation in the Issuer's authorized capital (%)	Term of office	Affiliation
Antanas Danys (Committee Chairman)	0	2013 September – 2017 August	VšĮ Lietuvos Junior Achievement
Raimundas Petrauskas (independent member)	0	2013 September – 2017 August	Schmitz Cargobull Baltic, UAB
Donatas Kaubrys (independent member)	0	October 2013 – October 2017	Dovirma, UAB
Tomas Garasimavičius	0	2013 September – 2017 August	Government of the Republic of Lithuania

The Nomination and Remuneration Committee

The nomination and remuneration committee is responsible for conclusions or proposals for board member appointment, removal, or promotion to the supervisory board, as well as for delivery of relevant opinions to the members of the board and their performance assessment. The Committee's functions also include the general remuneration policy making the group of companies, establishment of remuneration size and composition, promotion principles, etc.

These are the main functions of the committee:

- Assess and make proposals on the long-term remuneration policy of Lietuvos Energija UAB and its corporate group (fixed basic salary, performance-based remuneration, pension insurance, other guarantees and forms of remuneration, compensation, severance pay, and other remuneration package components), as well as personal development cost principles
- Assess and make proposals on the bonus policy of Lietuvos Energija UAB and its corporate group

- Monitor the salary and bonus policy of Lietuvos Energija UAB and its corporate group in compliance with international practice and good management practice and provide appropriate proposals for the improvement of salary and bonus policy
- Submit proposals on profit sharing, distribution of distributable profit (loss) of Lietuvos Energija UAB and its corporate group for the financial year
- Assess the Company contracts and managerial contract conditions of Lietuvos Energija UAB and its corporate group
- Assess candidates for Lietuvos Energija UAB and its corporate group, their members and senior management search and selection procedures and qualification requirements
- Constantly assess Lietuvos Energija UAB and its corporate group corporate governance and supervisory bodies' structure, size, composition, and performance
- Oversee how Lietuvos Energija UAB and its corporate group executives and staff are informed about the possibilities for further training and regularly raises
- Monitor and assess Lietuvos Energija UAB and its corporate group continuity of corporate management and supervisory body activity ensuring the implementation of measures
- Perform other functions assigned to the competence of Lietuvos Energija, UAB and the Supervisory Board Committee

Lietuvos Energija, UAB nomination and remuneration committee members at the end of the reporting period

Full name	Participation in the Issuer's authorized capital (%)	Term of office	Affiliation
Aloyzas Vitkauskas (Committee Chairman)	0	2013 August – 2017 August	Ministry of Finance of the Republic of Lithuania
Virginijus Lepeška (independent member)	0	2013 August – 2017 August	UAB Organizacijų Vystymo Centras
Tomas Garasimavičius	0	2013 August – 2017 August	Government of the Republic of Lithuania

ESSENTIAL EVENTS

Key events during the reporting period

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

Since 2016-01-01 ESO has announced this major event information

Date	Key events
2016-01-11	ESO began stock trading in the NASDAQ Vilnius Exchange
2016-02-05	Concerning the court decision
2016-02-15	Preliminary unaudited 2015 LESTO results: EBITDA amounted to €125 mln. and EBITDA margin rose to 21.5%
2016-02-15	Preliminary unaudited 2015 Lietuvos Dujos results: EBITDA grew 18% to €24 mln.
2016-02-19	Concerning the decisions taken by the AB Energijos Skirstymo Operatorius Supervisory Board

2016-02-26	<u>Lietuvos Dujos 2015 results: sales revenue grew 0.6% to €54.9 mln. and EBITDA 18.2% to €24 mln.</u>
2016-02-26	<u>LESTO 2015 results: EBITDA amounted to €124.8 mln. and investment grew 15.9% to €117.6 mln.</u>
2016-03-03	<u>Concerning the decision to terminate judicial proceedings</u>
2016-03-04	<u>Concerning the convening of the AB Energijos Skirstymo Operatorius Ordinary General Meeting of Shareholders</u>
2016-03-09	<u>Concerning AB Energijos Skirstymo Operatorius Supervisory Board decisions</u>
2016-03-29	<u>LESTO 2015 audited operating results have been confirmed</u>
2016-03-29	<u>Lietuvos Dujos 2015 audited operating results have been confirmed</u>
2016-03-29	<u>Concerning the decisions of the AB Energijos Skirstymo Operatorius Ordinary General Meeting of Shareholders</u>
2016-03-31	<u>Concerning the decision to terminate judicial proceedings</u>

Important events after the reporting period

On 21 April, 2016 the National Control Commission for Prices and Energy (hereinafter – Commission) considered the issue of Energijos Skirstymo Operatorius, AB (hereinafter - ESO) violation according to the routine inspection report of regulated activities of public limited liability company Lietuvos Dujos (hereinafter – Lietuvos Dujos) during the period 2009-2013. The Commission disapproved the imposition of sanctions for ESO according to the conclusions presented in the routine inspection report of Lietuvos Dujos.

On 25 May, 2016 the Board of ESO approved the new prices for electricity network services, and the public prices of electricity. After the announcement of National Commission for Energy Control and Prices (hereinafter – NCCP) new prices will apply for the second half of 2016 ESO recounted the public electricity prices after the NCCP lowered the public interest obligations (VIAP), systemic services, electricity market prices and the price cap of public electricity price.

On May 30, 2016 National Commission for Energy Control and Prices announced new prices for electricity network services and the public prices of electricity, which will apply for the second half of 2016.