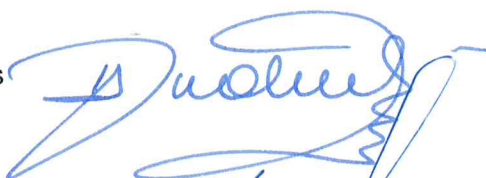


2017-05-15 Nr. 30220-808

CERTIFICATION STATEMENT

Referring to the provisions of the Article 24 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Dalia Andrulionienė, Chief Executive Officer of AB Energijos skirstymo operatorius and, Augustas Dragūnas, Director of Finance and Administration division, and Jelena Mordienė, Head of Reporting Division of Verslo Aptarnavimo Centras UAB, hereby confirm that, to the best of our knowledge, AB Energijos skirstymo operatorius condensed interim financial information for the three month period ended 31 March 2017 prepared according to International Accounting Standard 34 'Interim financial reporting' adopted by the European Union, give a true and fair view of AB Energijos skirstymo operatorius assets, liabilities, financial position, profit or loss for the period and cash flows, the Interim Report for the three-month period includes a fair review of the development and performance of the business.

AB Energijos skirstymo operatorius
Chief Executive Officer



Dalia Andrulionienė

AB Energijos skirstymo operatorius
Director of Finance and
Administration division



Augustas Dragūnas

Verslo Aptarnavimo Centras UAB
Head of Reporting Division, acting
under Order No IS17-20 of 22 February
2017



Jelena Mordienė

2017

ENERGIJOS SKIRSTYMO OPERATORIUS AB

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION FOR THE I
QUARTER OF 2017 AND 3 MONTHS PERIOD ENDED 31 MARCH 2017,
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.

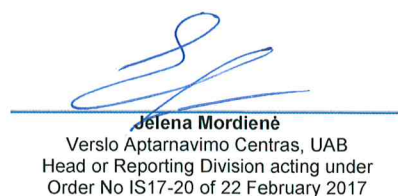
Condensed interim financial information was approved on 15 May 2017 by Energijos Skirstymo Operatorius AB General Manager, Director of Finance and Administration Service and Head of Reporting Division of Verslo Aptarnavimo Centras UAB (acting under Order No IS17-20 of 22 February 2017):



Dalia Andriulionienė
Energijos Skirstymo Operatorius AB
General Manager



Augustas Dragūnas
Energijos Skirstymo Operatorius AB
Director of Finance and Administration
division



Jėlena Mordienė
Verslo Aptarnavimo Centras, UAB
Head of Reporting Division acting under
Order No IS17-20 of 22 February 2017

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376 Agonų str. 24, Vilnius, Lithuania
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
31 March 2017

All amounts are in EUR thousand unless otherwise stated

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Notes	At 31 March 2017	At 31 December 2016
ASSETS			
Non-current assets			
Property, plant, and equipment	3	1,031,005	1,020,541
Intangible assets	3	3,255	3,573
Prepayments for property, plant, equipment		4	4
Investments in associates		2,346	2,346
Other non-current financial assets		6,302	5,836
		1,042,912	1,032,300
Current assets			
Inventories		1,950	1,731
Trade and other receivables		58,327	62,182
Prepayments, deferred charges and accrued income		6,402	6,311
Cash and cash equivalents		3,912	10,662
		70,591	80,886
Total assets		1,113,503	1,113,186
EQUITY AND LIABILITIES			
Equity			
Share capital	4	259,443	259,443
Revaluation reserve		48,591	49,864
Legal reserve		25,910	25,910
Retained earnings		265,993	287,978
Total equity		599,937	623,195
LIABILITIES			
Non-current liabilities			
Borrowings		147,293	161,650
Deferred income tax liability		8,804	6,955
Deferred income		112,977	113,543
Grants and subsidies		20,306	20,477
Non-current employee benefits		2,954	2,949
Other non-current liabilities		3	3
		292,337	305,577
Current liabilities			
Borrowings		62,510	57,431
Trade and other payables		116,492	87,924
Advance amounts received, accrued charges and deferred income		32,155	32,080
Income tax payable		10,072	6,979
		221,229	184,414
Total liabilities		513,566	489,991
Total equity and liabilities		1,113,503	1,113,186

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

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376 Agonų str. 24, Vilnius, Lithuania
CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
31 March 2017

All amounts are in EUR thousand unless otherwise stated

CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Q1 2017	Q1 2016
Revenue	167,639	181,602
Other income	847	849
Purchases of electricity and related services	(100,792)	(107,794)
Purchase (expenses) of natural gas and transmission services	(874)	(919)
Depreciation and amortisation	(12,223)	(11,072)
Employee benefits and related social security contributions	(10,563)	(12,712)
Repair and maintenance expenses	(2,730)	(3,720)
Transport costs	(1,050)	(1,113)
Telecommunications and IT services	(2,031)	(2,315)
Rent and utilities	(1,048)	(912)
Impairment and write-off expenses	749	(1,150)
Other expenses	(4,305)	(4,100)
Operating profit	33,619	36,644
Finance income	245	200
Finance costs	(416)	(473)
Finance costs – net	(171)	(273)
Profit before income tax	33,448	36,371
Income tax	(4,942)	(5,573)
Net profit for the period	28,506	30,798
Other comprehensive income		
Item that will not be reclassified to profit or loss	-	-
Gain on revaluation of property, plant and equipment, net of deferred income tax		
Total comprehensive income for the period	28,506	30,798
Weighted average number of shares, in thousand	894,630	894,630
Basic and diluted earnings per share (in EUR) attributable to owners of the Company	0,032	0,034

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

31 March 2017

All amounts are in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Revaluation reserve	Legal reserve	Retained earnings	Total equity
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
Balance at 1 January 2017		259,443	49,864	25,910	287,978	623,195
Comprehensive income						
Net profit for the period		-	-	-	28,506	28,506
Total comprehensive income for the period		-	-	-	28,506	28,506
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(1,273)	-	1,273	-
Dividends	5	-	-	-	(51,764)	(51,764)
Balance at 31 March 2017		259,443	48,591	25,910	265,993	599,937

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

31 March 2017

All amounts are in EUR thousand unless otherwise stated

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Notes	At 31 March 2017	At 31 March 2016
Cash flows from operating activities			
Net profit		28,506	30,798
Adjustments for:			
Income tax expense		4,942	5,573
Depreciation and amortisation	3,6	12,491	11,373
Depreciation of grants	6	(268)	(301)
(Gain)/loss on disposal and write-off of property, plant and equipment		718	585
Finance (income)		(245)	(200)
Finance costs		416	473
Changes in working capital:			
Trade and other receivables		2,907	(14,052)
Inventories, prepayments, deferred expenses and accrued income		(259)	(318)
Trade and other payables, advance amounts received, accrued expenses and deferred income		(8,793)	7,114
Cash generated from operating activities		40,415	41,045
Income tax paid		(1)	-
Net cash generated from operating activities		40,414	41,045
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(38,256)	(36,394)
Proceeds from sale of property, plant and equipment and investment property		-	11,935
Grants received		98	8
Loans (granted)		(2,919)	-
Loan repayments received		3,580	4
Interest received		27	79
Net cash used in investing activities		(37,470)	(24,368)
Cash flows from financing activities			
Repayments of borrowings		(14,357)	(11,649)
Dividends paid to the Company's shareholders		(3)	(22)
Interest paid		(416)	(473)
Net cash used in financing activities		(14,776)	(12,144)
(Decrease) increase in cash and cash equivalents		(11,832)	4,533
Cash and cash equivalents at the beginning of the year (including overdraft balance)		10,662	5,836
Cash and cash equivalents at the end of the period (including overdraft balance)		(1,170)	10,369

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:

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

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

As at 31 March 2017 and 31 December 2016 Company's investments in associates comprised of the following:

Associate	Country	Year of acquisition	Company's ownership interest (%)		Profile of activities
			31 March 2017	31 December 2016	
Technologijų ir Inovacijų Centras, UAB	Lithuania	2013	29,012%	29,012%	Information technology and telecommunication, and other services provided to the shareholders
Verslo Aptarnavimo Centras, UAB	Lithuania	2014	22,25%	22,25%	Customer service, public procurement organisation and performance, accounting and personnel administration services.

The results of operations of the associates for the three-month period ended 31 March 2017 and the retained result of the associates until 31 December 2016 attributable to the Company comprised as follows:

	Acquisition cost	Ownership interest (%)	Company's share of the results of operations of the associates until 31 Dec 2016	Company's share of the results of operations of the associates for the nine-month period ended 31 March 2017
Technologijų ir inovacijų centras, UAB	1,877	29,01	311	88
Verslo aptarnavimo centras, UAB	129	22,25	29	31
Total	2,006		340	119

2 Accounting principles

Company's condensed interim financial information for a three-month period ended 31 March 2017 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 2016, 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 for the year ended 31 December 2016.

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.

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 2017		
Net book value at the beginning of the period	3,573	1,020,541
Additions	230	23,125
Sales	-	(16)
Write-offs	-	(702)
Amortisation /depreciation	(548)	(11,943)
Net book value at 31 March 2017	3,255	1,031,005

4 Share capital

As at 31 March 2017 and at 31 December 2016, 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

The ordinary general meeting of shareholders of Energijos Skirstymo Operatorius AB was held on 24 March 2017 where it was decided to approve the profit appropriation for July–December 2016 and to allocate EUR 0.05786 per share in dividends, in total EUR 51,765 thousand in dividends.

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

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 2017 is presented below:

Q1 2017	Electricity supply and distribution	Gas distribution	Total
Revenue	148,416	20,070	168,486
Expenses	(117,527)	(5,866)	(123,393)
EBITDA	30,889	14,204	45,093
Depreciation and amortisation	(10,357)	(1,866)	(12,223)
Impairment and write-off expenses	771	(22)	749
Operating profit	21,303	12,316	33,619
Finance income	144	101	245
Finance (costs)	(347)	(69)	(416)
Profit before income tax	21,100	12,348	33,448
Income tax	(4,205)	(737)	(4,942)
Net profit for the period	16,895	11,611	28,506

For the three-month period ended 31 March 2017

All amounts are in EUR thousand unless otherwise stated

6 Segment reporting (continued)

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

Q1 2016	Electricity supply and distribution	Gas distribution	Total
Revenue	159,659	22,792	182,451
Expenses	(126,870)	(6,714)	(133,585)
EBITDA	32,789	16,078	48,866
Depreciation and amortisation	(9,031)	(2,041)	(11,072)
Impairment and write-off expenses	(1,066)	(85)	(1,150)
Operating profit	22,692	13,952	36,644
Finance income	164	36	200
Finance (costs)	(361)	(112)	(473)
Profit before income tax	22,495	13,876	36,371
Income tax	(4,236)	(1,337)	(5,573)
Net profit for the period	18,259	12,539	30,798

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 2017 and the balances arising on these transactions as at 31 March 2017 are as follows:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Parent company Lietuvos energija, UAB	49,366	5,563	251	30
Associates	2,105	11	4,662	-
Lietuvos energija, UAB group companies	4,993	7,118	18,002	16,161
EPSO-G UAB group companies	27,355	5,887	54,404	106
Total	83,819	18,579	77,319	16,297

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

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Parent company Lietuvos energija, UAB	235	5,823	452	110
Associates	2,565	3	4,353	-
Lietuvos energija, UAB group companies	7,797	9,027	20,053	17,914
EPSO-G UAB group companies	29,484	4,099	55,650	212
Total	40,081	18,952	80,508	18,236

Compensation to key management personnel

Company	2017 Q I	2016 Q I
Wages and salaries and other short-term benefits to management personnel	148	117
Whereof: termination benefits	56	-
Number of key management personnel	7	9

Management includes heads of administration and their deputies.

8 Events after the reporting period

On 26 April, 2017 the Supervisory Board of the Company adopted a decision to elect Saulius Vaičekas as the new member of the Board in charge of the area of network operations from the end of the meeting of the Supervisory Board of the Company that elected him until the end of the term of office of the current Board of Directors. The newly elected member of the Board will take the office of the Director of Network Operations Division.

2017

ENERGIJOS SKIRSTYMO
OPERATORIUS AB
INTERIM REPORT

REPORT FOR A THREE-MONTH PERIOD ENDED 31 MARCH 2017



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INTERIM REPORT

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Translation note:

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Reporting period covered by the report

The report covers the period from January to March 2017.

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

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

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

Persons responsible for information provided in the report

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

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

Report's signing date

The report was signed on 15 May 2017.

Regarding the comparability of financial results

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

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

Key operating indicators of ESO

		2017 3 months	2016 3 months	Change	
				+/-	%
Operating indicators					
Distributed electricity via medium and low voltage networks	TWh	2.46	2.38	0.08	3.4
Public and guaranteed supply of electricity	TWh	0.88	0.85	0.03	2.7
Distributed volume of natural gas	TWh	2.82	2.90	0.08	-2.9
Supply quality indicators of the network					
ELECTRICITY					
SAIDI, min. (with <i>force majeure</i>)		22.52	35.97	-13.45	
SAIFI, units (with <i>force majeure</i>)		0.23	0.28	-0.05	
GAS					
SAIDI, min. (with <i>force majeure</i>)		0.087	0.227	-0.14	
SAIFI, units (with <i>force majeure</i>)		0.001	0.003	-0.002	

Key financial indicators of ESO

		2017 3 months	2016 3 months	Change	
				+/-	%
Revenue	EUR '000	168,486	182,451	-13,965	-7.65
Purchase of electricity, gas and related services	EUR '000	101,666	108,713	-7,047	-6.48
Operating expenses (1)	EUR '000	21,727	24,872	-3,145	-12.64
EBITDA (2)	EUR '000	45,093	48,866	-3,773	-7.72
EBITDA margin (3)	%	26.76	26.78		
Adjusted EBITDA*	EUR '000	46,920	42,757	4,163	9.74
Net profit (loss)	EUR '000	28,506	30,798	-2,292	-7.44

		2017 m. 3 mėn.	2016 m. 12 mėn.	Change	
				+/-	%
Total assets	EUR '000	1,113,503	1,113,186	317	0.03
Equity	EUR '000	599,937	623,195	-23,258	-3.73
Borrowings	EUR '000	209,803	219,081	-9,278	-4.23
Borrowings, net (4)	EUR '000	205,891	208,419	-2,528	-1.21
Return on equity ratio (ROE) (5)	%	15.37	15.46		
Return on assets (ROA) (6)	%	8.18	8.44		
Equity ratio (7)	%	53.88	55.98		
Borrowings, net / 12-month EBITDA	times	1.29	1.44		
Borrowings, net / Equity	%	34.32	33.44		

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

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

(3) EBITDA margin = EBITDA / Revenue;

(4) Borrowings, net = borrowings - cash and cash equivalents - short-term investments and term deposits - a portion of non-current other financial assets representing investments in debt securities;

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

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

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

* The Company adjusted EBITDA due to the difference between the actual profit and previous reporting periods profits, National Commission for Energy Control and Prices (hereinafter - the Commission) for the corresponding periods of permitted investment returns.

CEO FOREWORD

Dear all,

We started the year 2017 by reducing the service prices for our customers. Since January electricity prices for residents decreased on average by 5%. Electricity prices for residents have been decreasing for the fourth year in a row, and since 2013, the average electricity price for residents has decreased by more than one fifth. Similarly, the year started with good news to gas customers. In January, for the first time since 2012, gas distribution prices were reduced both for private and commercial customers. This year popularity of gas continue to hit record highs, as during the first quarter of the year we signed more than 3,200 gas connection contracts, i.e. by 1.7 times more than last year. The first 75 applications for connection to gas pipelines were received in Tauragė that was gasified as recently as 2016. Since the beginning of the year we started offering a new service – installation of internal gas network. Thus, our customers now can order a full-scale gas introduction package, connection to the gas distribution networks, and the installation of the internal network at the customer's private premises. Within the first three months of the year we signed more than 200 contracts regarding the installation of internal networks.



But that is not the only new service that we introduced since the beginning of the year. We were happy to see real estate developers to be the first to show an interest in the new electricity metering automation service, and install smart meters in the newly built multi-apartment houses.

For the purpose of a further improvement of customer servicing we progressed in enhancing internal processes and the relevant legal environment. Since the beginning of the year we no longer request our customers to handle contracts with ESO in case of a change of premises. The administrative burden was somewhat relieved for people who have decided to get connected to gas supply, as now they are no longer required to arrive to the service centre to sign a statement on the boundaries of responsibility. The amendments to the Law on Natural Gas approved late in March by the Seimas will be a significant impetus in simplifying and accelerating the gas introduction process on average 55 days.

This year we continue looking for means to enhance our performance efficiency and ensure most advantageous prices for our customers. The operating costs of ESO in the course of the year continued decreasing and shrank by 12.6%, or more than EUR 3 million, i.e. from EUR 24.9 million to EUR 21.7 million. Our savings in operating costs can directly affect the service prices, and thus create added value for our customers.

This year we continued increasing investment in safety and reliability of power distribution networks. During the first quarter of the year our investment in the upgrading of the power grid increased by 57% and exceeded EUR 12 million. This will enhance the reliability of the network, and prevent electricity interruption.

The organisation is constantly progressing, and the ambitious objectives the Company has set will ensure its sustainable development, new generation services for our customers, simple and convenient solutions, a reliable and safe energy distribution to match everybody's needs.

Yours sincerely,

Dalia Andrulionienė, CEO and Chairwoman of the Board

THE MOST SIGNIFICANT EVENTS DURING THREE MONTHS OF 2017

Regarding the modification of energy operating licence

National Commission for Energy Control and Prices has approved the modification on Company's Energy operating licence No L2-GDS-09 by expanding the territory of regulated activity with the new territory, i. e Tauragė district municipality. The mentioned approval shall entitle the Company to ensure the provision of natural gas distribution services in Tauragė district municipality.

Member of the Board has been elected

On 20 January, 2017 the Supervisory Board of the Company adopted a decision to elect Mr. Ignas Pranskevičius as the new member of the Board of Directors in charge of the area of services and development.

Regarding long-term loan agreement

On 27 January, 2017 the Company and AB SEB bank (hereinafter – SEB) signed a long-term agreement for 77 million EUR loan. The funds will be used to refinance the Company's financial liabilities and also, for the working capital needs. Maturity of the loan will be 10 years. The base interest rate - 3 months EURIBOR.

Regarding the installation of the LNG regasification station in Druskininkai

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

Regarding member of the Board resignation

On 28 February, 2017 the Company received a notification of resignation of Mr. Dalius Svetulevičius from the post of a member of the Company's Board. On 8 March, 2017 the Supervisory Board adopted the decision to recall Mr. Dalius Svetulevičius from the Board.

Regarding the resolutions of Supervisory Board

On 8 March, 2017 the Supervisory Board of the Company approved the Annual report and Annual Financial Statements of for the year 2016 audited by the audit company PricewaterhouseCoopers UAB and approved the profit (loss) allocation of the year 2016.

ESO audited financial results of 2016 has been approved

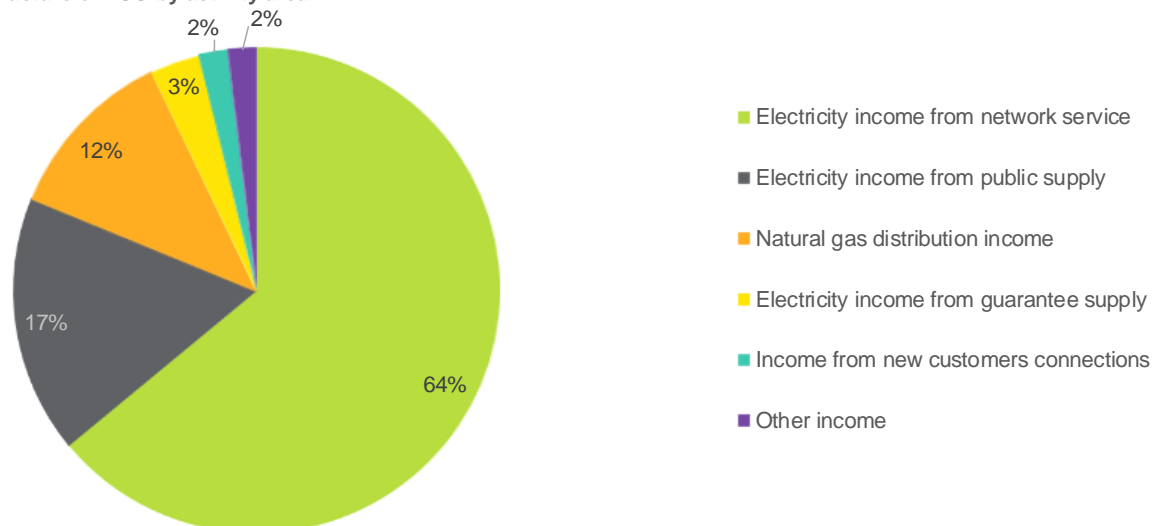
On 24th March, 2017 during the Ordinary General Meeting of ESO Shareholders the Company's audited Annual Financial Statements and Annual report has been approved.

Regarding the resolutions of Ordinary General Meeting of Energijos Skirstymo Operatorius AB Shareholders

The Ordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB, held on 24 March, 2017, approved the Annual report and Annual Financial Statements for the year 2016 audited by the company PricewaterhouseCoopers UAB and approved the profit (loss) allocation of the year 2016.

THE ANALYSIS OF FINANCIAL AND OPERATING INDICATORS

Revenue structure of ESO by activity area



ESO's revenue for 2017 three months reached EUR 168.5 million, which is a 7.65% less compared to 2016 three months. Revenue decreased due to lower electricity and natural gas distribution service prices to the customers. Electric power distribution is the main source of the Company's revenue. During three months of 2017, distribution revenue comprised 64%, revenue from public supply of electricity represented 17% and revenue from natural gas distribution made up 12% of the Company's total revenue.

EBITDA* indicator

	31 Mar 2017	31 Mar 2016
EBITDA, EUR '000	45.093	48.866
EBITDA margin, %	26,76	26,78
Adjusted EBITDA**	46.920	42.757

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

** The Company adjusted EBITDA due to the difference between the actual profit and previous reporting periods profits, National Commission for Energy Control and Prices (hereinafter - the Commission) for the corresponding periods of permitted investment returns. The difference was due to the Company's effective activity and other factors.

The Company does not evaluate the Commission's established incentive mechanism to influence adjusted EBITDA, according which return on investment for 2016 and 2017 can be increased due to operational efficiency, which the Company will have to justify to the Commission.

During three months of 2017 the Company's earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted EUR 45.1 million and was 7.7% lower than in January–March 2016.

Expenses

During January-March 2017, purchases of electricity, natural gas or related services made up EUR 101.7 million and decreased by 6.5% compared to the same period of 2016. This was mainly influenced by lower electricity price. During the

reporting period, expenses for purchase of electricity, natural gas or related services as well as depreciation and amortisation expenses amounted to EUR 113.9 million or 84% of total ESO's costs.

In January – March 2017, operating expenses¹ decreased by 12.6% compared to the same period of 2017 and amounted to EUR 21.7 million. Employee benefits and related social security contributions, as well as repair and maintenance expenses saw the highest decline, i.e. a 16.9% and 26.6% decrease, respectively.

ESO operating expenses, EUR '000

	31 Mar 2017	31 Mar 2016
Employee benefits and related social security contributions	10.563	12.712
Other expenses	4.305	4.100
Repair and maintenance expenses	2.730	3.720
Telecommunications and IT services	2.031	2.315
Transport	1.050	1.113
Rent and utilities	1.048	912
Operating expenses	21.727	24.872

Profit (loss) and profitability ratios

During three months of 2017 net profit of ESO decreased by 7.44% compared to the same period of 2016 and amounted to EUR 28.5 million. Growth of net profit resulted from higher revenue and lower operating expenses.

ESO profitability ratios

	31 Mar 2017	31 Mar 2016
Net profit margin, %	16,92%	16,88%
Operating profit margin, %	19,95%	20,08%

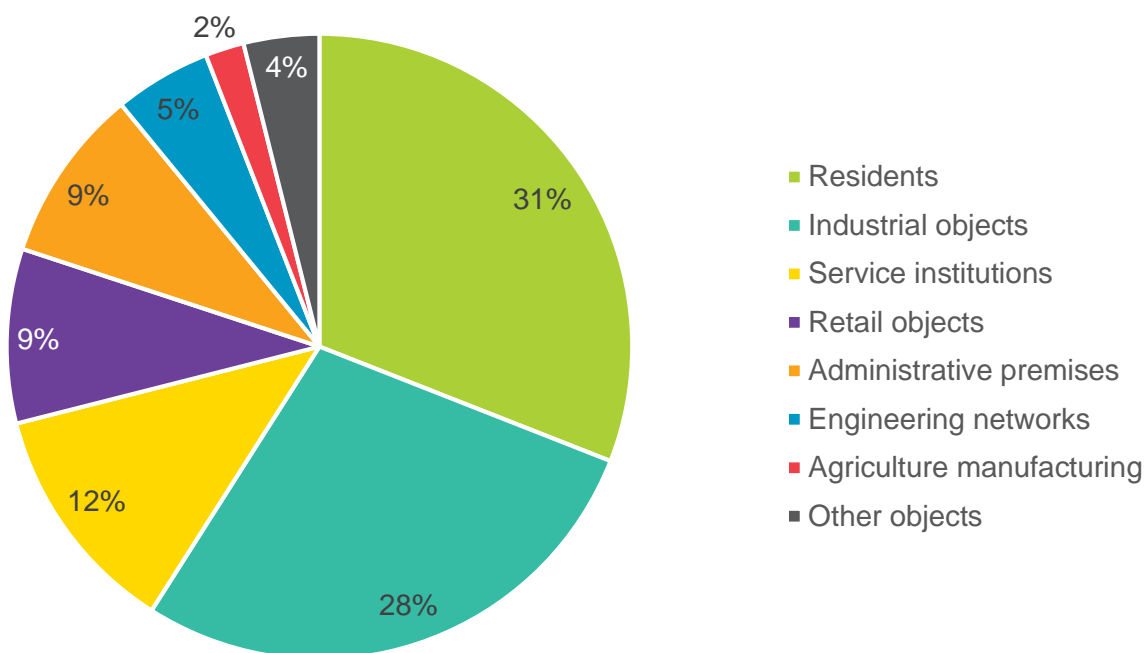
Electricity distribution

During three months of 2017, ESO distributed 2.455 billion kWh of electricity to its customers. Electricity sales made up 35.7% of this amount. The remaining customers of ESO were provided only with the distribution service. The amount of electricity sold increased by 2.7%, while the volume of electricity distributed increased by 3.4% compared to the same period of 2016. Technological losses in distribution equipment incurred by the Company during three months of 2017 amounted to 162 million kWh or 6.2% of the amount of electricity received. During the same period of 2016, technological losses totalled 7.3%.

Electricity distribution volume by object

Nearly 31% of electricity distributed by ESO were consumed by residents. Industrial objects and service institutions consumed 27.8% and 11.6%, respectively, of electricity distributed. There were no changes in the structure of electricity distribution by object as compared to data of three months of 2016.

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



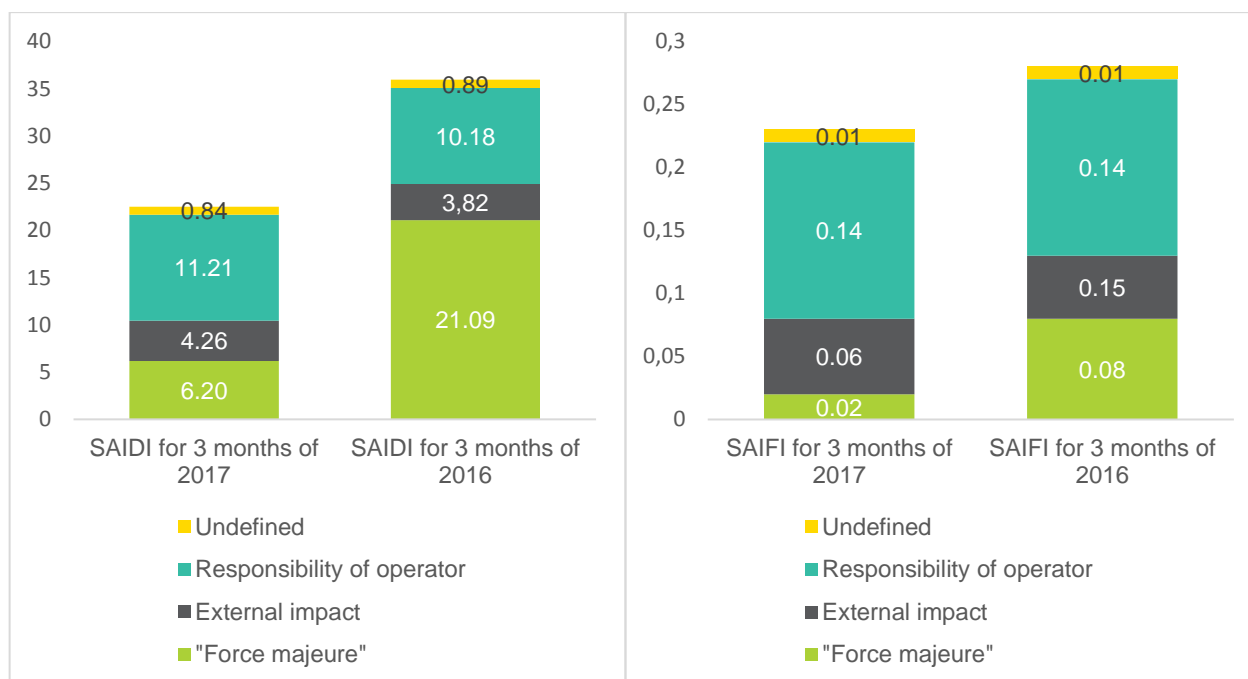
Natural gas distribution

During three months of 2017 ESO transported 2.8 billion kWh (267 million cubic meters) of natural gas through the gas distribution pipelines, which is approx. 2.9% less than in 2016. During three months of 2017, gas distribution volumes decreased mainly due to a lower gas consumption by heat and electric power generation plants as a result of warmer weather during the heating season.

Electricity supply quality indices (SAIDI, SAIFI)

During three months of 2017 the system average interruption duration index (SAIDI with *force majeure*) per customer was equal to 22.52 minutes. This is 13.45 minutes less compared to 2016 when it was equal to 35.97 minutes. During three months of 2017 the system average interruption frequency index (SAIFI with *force majeure*) per customer reached 0.23 times, which is 0.05 time less compared to the same period of 2016 when it was equal to 0.28 times.

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



Investments

During three months of 2017 ESO's investments in the electricity and gas distribution networks amounted to EUR 23.175 million, which is 28.4% more than in the same period of 2016 when they were equal to EUR 18.053 million.

ESO's investments, EUR million

	3 months of 2017	3 months of 2016
Renewal of the electricity distribution network	12.412	7.899
Expansion of the electricity distribution network	6.996	6.955
Construction and reconstruction of gas systems	3.276	1.483
Other (IT, management systems, etc.)	0.492	1.716
Total investments	23.175	18.053

During three months of 2017 ESO's investments allocated for the renewal of the electricity distribution network amounted to EUR 12.412 million, which is 57.1% more compared to January-March of 2016. During January-March months of 2017 investments in the expansion of the electricity distribution network amounted almost EUR 7 million – nearly the same as in 2016 the same period.

During three months of 2017 ESO connected 5.443 thousand new customers to the electricity distribution network, which is 13% more than during January-March in 2016 when 4.807 thousand new customers were connected. The admissible electric power of objects of newly connected customers was equal to 72.6 thousand kW, which is 9% more than in the first , quarter of 2016, when the admissible power was equal to 66.5 thousand kW.

During first quarter of 2017 ESO's investments in the construction and reconstruction of gas systems amounted to EUR 3.3 million or 2.2 time more compared to 2016 January-March when they reached 1,5 million. During three months of 2016 the Company constructed 47.5 km of the gas distribution pipeline (2016 January-March: 18.1 km) for the connection of new customers to the gas network and connected 2.309 customers* to the gas pipelines, which is 3.3 times more than in the same period of 2016 when 698 customers were connected.

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

Analysis of financial indicators

At the end of the reporting period, the Company's assets amounted to EUR 1.11 billion. Non-current assets accounted for 93.7% of the total assets. Cash and cash equivalents, i.e. the most liquid assets, amounted to EUR 3.9 million or 5.5% of the total current assets.

ESO's financial leverage ratios

	31 Mar 2017	31 Dec 2016
Debt ratio	0.46	0.44
Debt to assets ratio	0.19	0.20
Liabilities to equity ratio	0.86	0.79
Debt to equity ratio	0.35	0.35
Net borrowings, EUR million	205.9	208.4
Net borrowings to equity ratio	0.34	0.33
Long-term debt to equity ratio	0.25	0.26
General solvency ratio	0.86	0.79
Equity to assets ratio	0.54	0.56
Share price to earnings ratio*	28.97	-
Capitalisation, EUR million*	825.74	-

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

At the end of March 2017, ESO's borrowings amounted to EUR 209.8 million and accounted for 40.9% of total liabilities. Non-current borrowings amounted to EUR 147.3 million or 70.2% of total borrowings. At the end of the reporting period, ESO's current liabilities totalled EUR 221.2 million.

ESO's liquidity ratios

	31 Mar 2017	31 Dec 2016
Current ratio	0.32	0.44
Quick ratio	0.31	0.43
Cash ratio	0.02	0.06
Working capital, EUR thousand	-150,638	-103,528
Working capital to total assets ratio	-0.14	-0.09

ESO's current liabilities exceeded current its current assets by EUR 150,6 million. Current ratio is equal to 0.32. Quick ratio does not significantly differ from the current ratio, because inventories represent only 2.8% of total current assets. Borrowings, as reduced by the amount of short-term investments and cash and cash equivalents, are equal to EUR 205.9 million. The Company's net borrowings account for 34.4% of its equity.

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

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

FACTORS AFFECTING THE COMPANY'S FINANCIAL INDICATORS

Operating environment

The main influence for electricity consumption makes GDP growth. GDP growth in 2017 is forecast to rise to 1.8% for the EU as a whole and to 1.6% for the euro area, according to the European Commission's forecast issued in winter 2017. Meanwhile, in 2018 economic growth is expected to reach 1.8% and 1.8%, respectively².

The Lithuanian economy will grow by 2.9% in 2017 and 2.8% in 2018, according to the European Commission's forecast.³ In their forecasts, the economists of the Lithuanian banks also project that the Lithuanian economy will grow. According to the SEB Bank analysts' forecasts issued in January 2017, Lithuania's gross domestic product will increase by 2.5% in 2017 and will increase by 3.0% in 2018⁴. In November 2016, the analysts of Swedbank AB also published the Lithuanian economic outlook: they expected that the gross domestic product would grow by 2.8% in 2017 and 2.5% in 2018⁵. According to the March 2017 forecast issued by the Bank of Lithuania, the Lithuanian gross domestic product will grow by 2.8% in 2017 and will grow by 2.2% in 2018⁶.

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

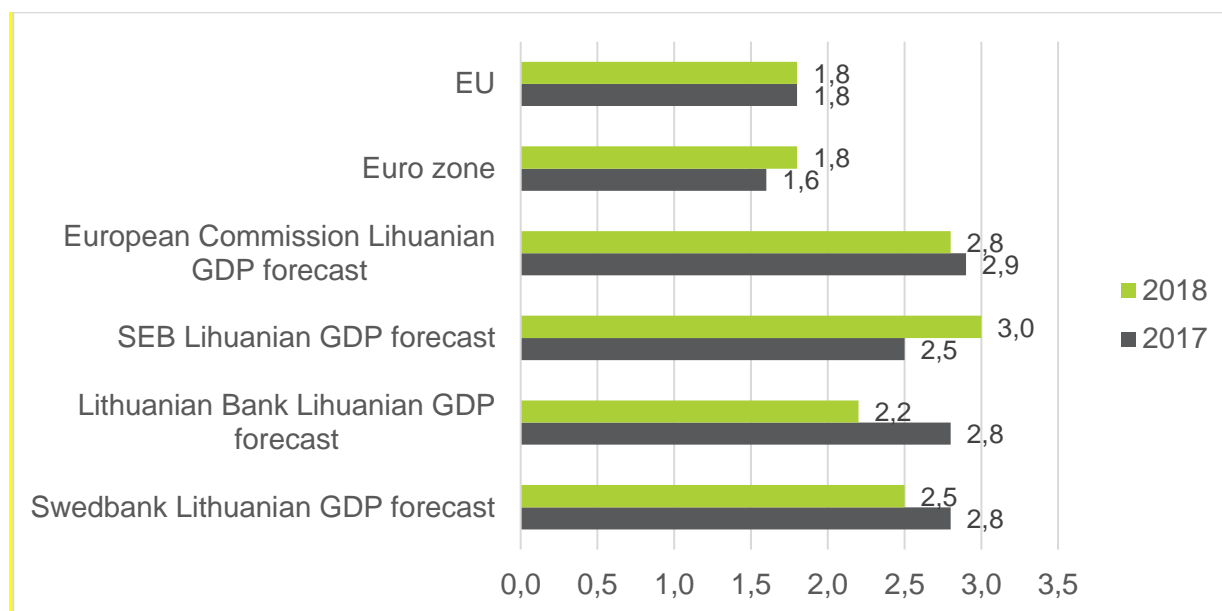
³ Source of data: European Commission. European Economic Forecast Winter 2017

⁴ Source of data: SEB Bankas. Lithuanian Macroeconomic Review No 64, January 2017

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

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

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

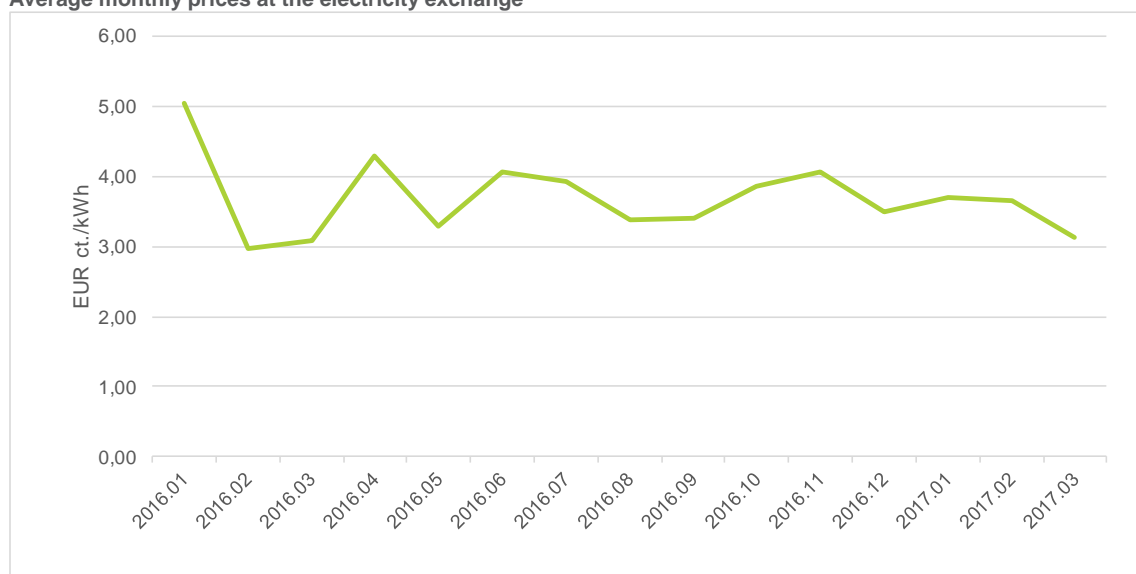


Electricity consumption is closely linked with the growth of a gross domestic product, therefore economic growth also impacts the performance of ESO. Taking into account macroeconomic forecasts for 2017 presented by economists we hold the opinion that a higher volume of electricity will be distributed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

Situation in the electricity market

The average price of electricity in power exchange Nord Pool trade zone in Lithuania in January, 2017 was 26.6 % lower, in February – 22.9 % higher, in March – 1.6 % higher than in 2016 respectively⁷.

Average monthly prices at the electricity exchange



⁷ Source of data: Electricity Market Review, March 2017 [interactive]. Viewed on 10 May 2017. Access through the internet: <http://www.litgrid.eu/index.php/elektros-rinka/rinkos-apzvalgos/798>

The Company's strategy and objectives

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

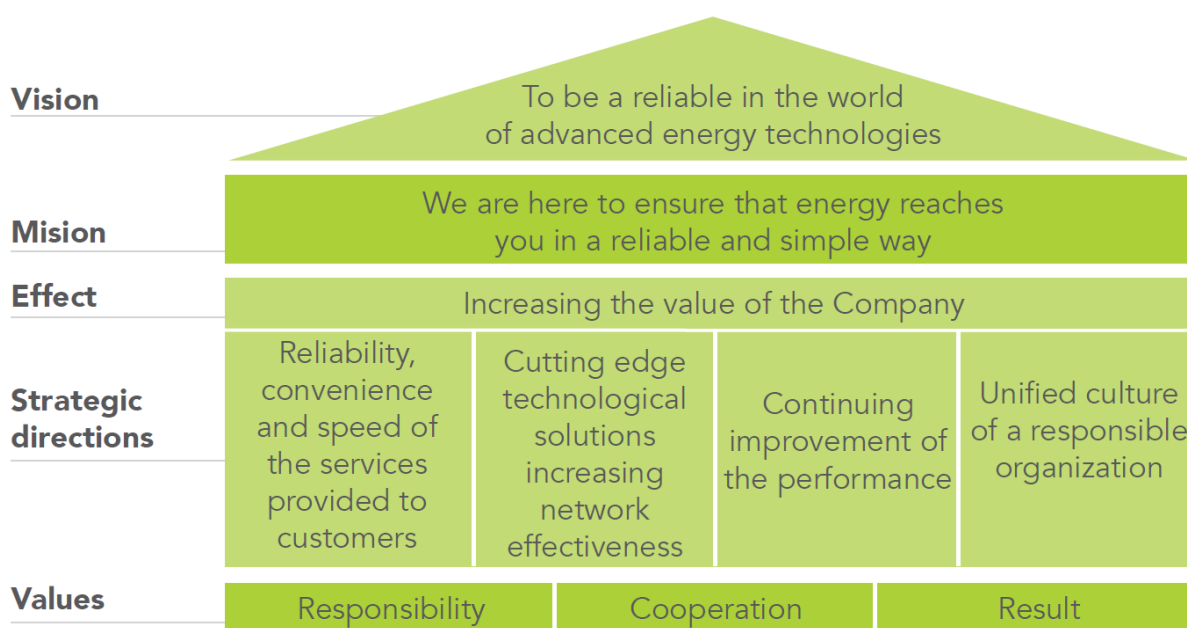
The strategy outlines a further enhancement of operational efficiency and reduction of operating expenses by more than 10% by 2020. A safe and reliable provision of electricity and natural gas distribution services will be achieved by making investments, which are estimated to be increased by 45% by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

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

By 2020, the Company plans to shorten the time for new customer connections to the natural gas distribution network by half: from 177 to 85 days. The time for new customer connections to the electricity distribution network is expected to be shortened from 66 to 50 days. The shortening of the process of new customer connection to the electricity network will improve the country's ranking in the World Bank's index *Doing Business* as getting electricity is one of its component indicators.

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

ESO's operational strategy scheme



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

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

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

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

Stakeholders

In order to balance the implementation of the strategic directions the Company first takes into account the interests and expectations of stakeholders. During the internal and external analysis the following key stakeholders were identified: customers, society, employees, regulators and contractors. The Company's strategic directions should reflect interests of key stakeholders. The presented scheme shows ESO stakeholders' needs conveyed through the strategic directions. Each strategic direction is associated with one or more stakeholders. According to this rationale, specific objectives and indicators are provided to monitor the fulfilment of stakeholders' interests.

Investment plans

Modernisation of the electricity distribution network

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

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

Investments aimed at improving the quality of the electricity supply voltage are expected to reach EUR 132 million. This will allow to solve the problem of a poor supply voltage for 41 thousand customers by fixing nearly 9.1 thousand kilometres of lines affected by voltage fluctuation. ESO plans to allocate EUR 34 million for the implementation of the smart grid projects.

Seven projects are expected to be implemented by 2025 including the automation of the grid, pilot projects of smart reading devices, a single dispatcher centre and installation of the system for the management of the distribution network.

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

Modernisation of the gas distribution network

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

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

Risks and uncertainty factors and their management

Risk management policy

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

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

The main risk management principles of ESO are as follows:

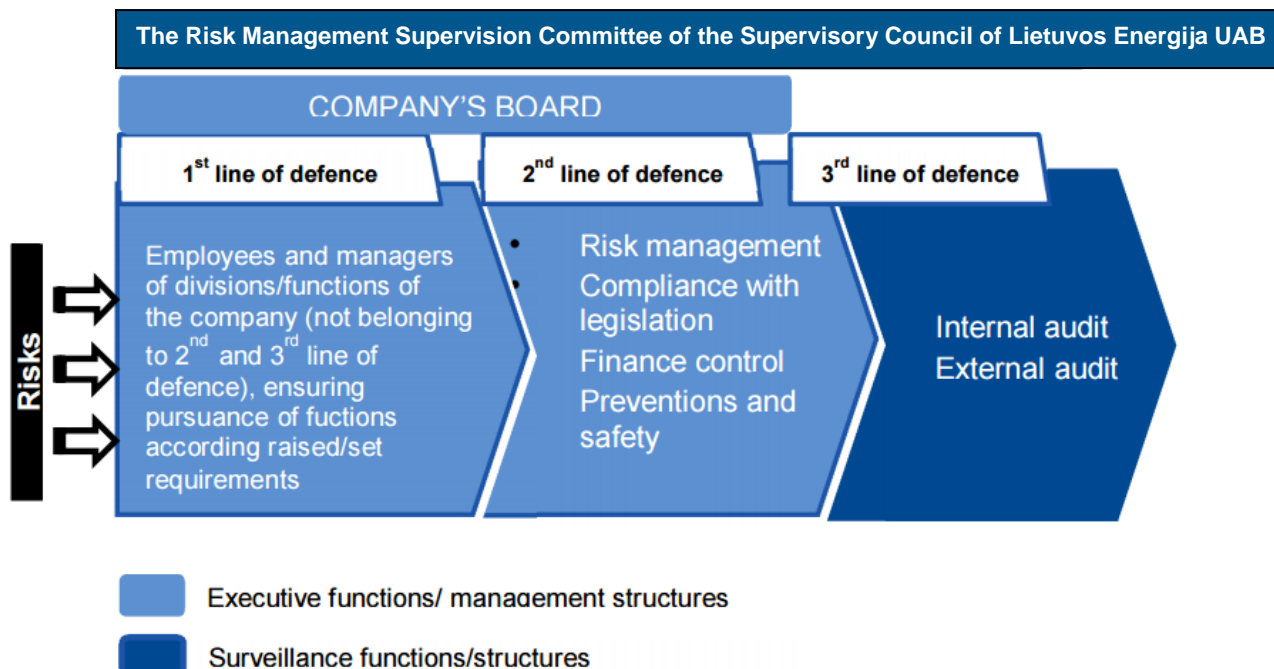
- risk management creates and protects the value created, management scenarios and measures are selected in such a way as to contribute to the achievement of the Company's objectives and performance improvement;
- risk management is integrated in the Company's business processes and linked to the operational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

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

Risk management and control model

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

Risk management and control scheme



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

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

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

The Company's Board of Directors, in performing the functions of a risk management committee, is responsible for a proper risk management and control within the first and second lines of defence. The third line of defence includes: the Internal Audit Department of Lietuvos Energija UAB and the external audit firm. The Internal Audit Department assesses the effectiveness and efficiency of risk management and internal control and makes recommendations for the improvement of risk management and control. The Company's hired external audit firm delivers an opinion on the correctness of the Company's financial statements, and risk management and internal control effectiveness at least once a year. The head of

the Internal Audit Department is accountable to the Supervisory Council of Lietuvos Energija UAB and regularly informs the Company's Board and the Supervisory Council on the effectiveness of the Company's risk management and internal control and implementation of the internal audit recommendations. The Company's employee responsible for risk management regularly provides summarised information on risk management and control to the head of risk management function at Lietuvos Energija UAB. The Risk Management Supervision Committee of the Supervisory Council of Lietuvos Energija UAB monitors the effectiveness of the risk management and control system at all three lines of defence according to the established competence.

Key operational risks and their management

The key risks to which the Company is exposed are:

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

Strategic risk management

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

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

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

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

In performing the functions of electricity and natural gas distribution, public and guaranteed supply of electricity, the Company seeks to comply with the highest standards of reputation. This objective is reflected by the Company's mission, vision,

strategic objectives and values. The heads of the Company pay great attention to the communication of the Company's mission, vision, values and strategic objectives to employees. In addition, the Company carries out social projects consolidating the Company's image as a socially responsible company.

Compliance / legal risk management

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

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

Operational risk management

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

Financial risk management

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

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

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

Interest rates risk

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

Foreign exchange risk

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

INFORMATION ON THE COMPANY'S AUTHORISED SHARE CAPITAL AND SECURITIES

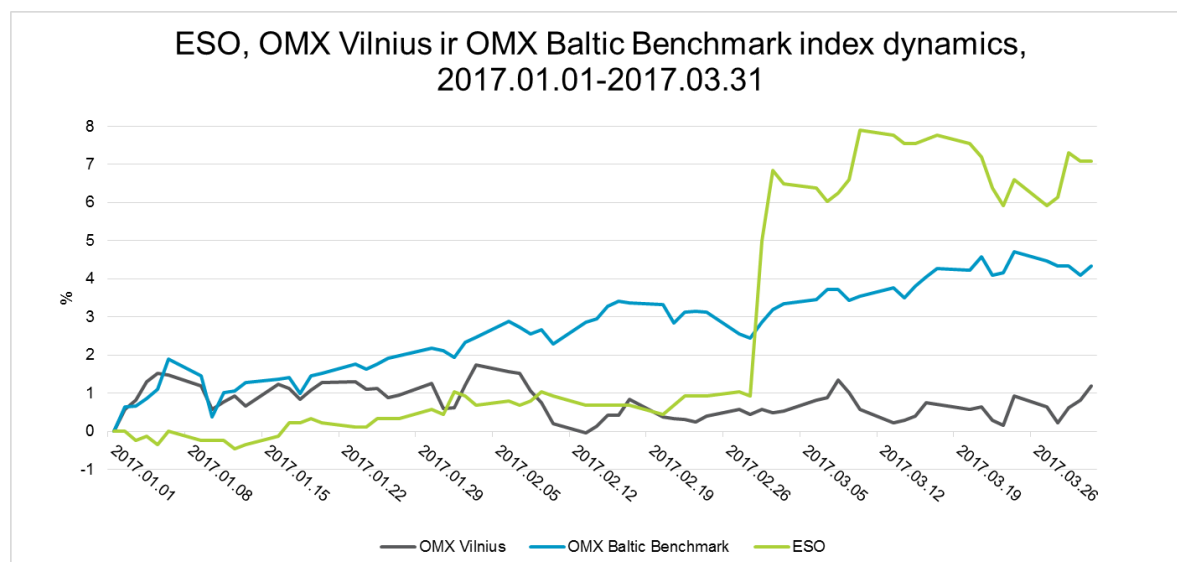
Share price dynamics and turnover

Dynamics of the price of ESO's shares and turnover in shares during the period from 1 January 2017 to 31 March 2017



ESO is the largest company listed on the NASDAQ Baltic stock exchange in terms of the market capitalisation. On 31 March 2017, ESO's capitalisation amounted to EUR 825.74 million. During three months of 2017, the price of shares of ESO increased by 6.6%. The lowest ESO share price was recorded on 13 January, 2017, the price of ESO share was EUR 0.858. The highest point (EUR 0.93) during the reporting period was reached on 13 March, 2017. In 2017 January - March, the average weighted price per share amounted to EUR 0.888.

Dynamics of the price of ESO's shares and OMX Vilnius and OMX Baltic Benchmark indices during the period from 1 January 2017 to 31 March 2017



During three months of 2017, the OMX Vilnius index increased by 1.19%, the OMX Baltic Benchmark index rose by 4.35%, while the price of ESO's shares increased by 7.08% of its initial value from 2017 January 1st.

Structure of the authorised share capital

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

As at 31 December 2016, the Company's authorised share capital amounted to EUR 259,442,796.57. All the shares issued by the Company are fully paid.

Information on the issuer's securities

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

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

Shareholders

As of 31 March 2017, the total number of the Company's shareholders was 9,096.

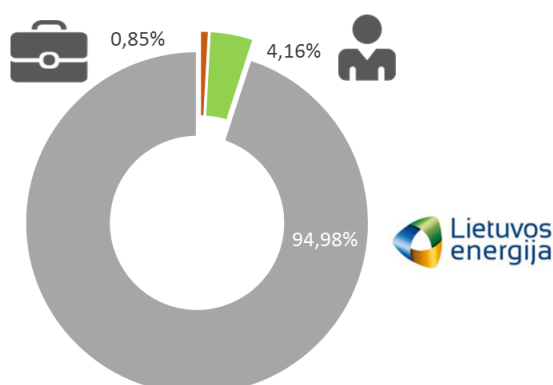
During the reorganisation of LESTO and Lietuvos Dujos, ESO took over assets, rights and obligations of these companies. Consequently, all entities that held shares of LESTO and Lietuvos Dujos as at 11 December 2015 became the shareholders of ESO.

Lietuvos Energija UAB holds 94.98% of the Company's shares. Households own 4.16%, and financial institutions, insurance, and other companies hold 0.85% of ESO's shares.

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

Country	Number of shareholders
Lithuania	8 800
Estonia	101
Russia	49
Latvia	42
Belorussia	39
USA	16
Other	49
Total	9 096

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



Shareholders owning more than 5% of the issuer's authorised share capital as at 31 Mar 2017

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

Dividends

A decision was passed at the September 26, 2016, Extraordinary General Meeting of Shareholders of the Company to pay dividends to shareholders for the period from January 1, 2016, to June 30, 2016. Profit share for dividend pay-out amounted to €12.5 million. Dividends for the six-month period from 2016 January 1 to June 30 amounted to €0.014 per share.

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

As of December 27th, 2016 the Board of Lietuvos Energija, UAB, which owns 94.98% of the Company's shares, approved the dividend policy of Lietuvos Energija, UAB group of companies; it sets common principles of net profit allocation for all the group of companies. In accordance with the new order the Company's proposal for dividends will depend on the Company's rate of return on equity, the financial ability to pay dividends, ongoing economic projects of State importance and other factors.

Information on agreements with intermediaries of public trading in securities

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

The contact details of SEB Bankas AB:

Gedimino Ave. 12, LT-01103 Vilnius;

Telephone: 1528 or +370 5 268 2800.

CUSTOMER SERVICE, SERVICE ASSESSMENT

Number of customers being serviced

On 31 March 2017, ESO had 1.6 million (31 March 2016: 1.582 million) contracts on purchase and sale of electricity concluded with private customers and 69.68 thousand (31 March 2016: 66.5 thousand) contracts on electricity supply or distribution services concluded with commercial customers.

As of 31 March 2017, approx. 566.4 thousand of private customers and approx. 9.8 thousand of commercial customers were connected to the ESO's gas distribution networks for whom the provision of a distribution service was ensured.

Development of service channels

During first quarter of 2017, the number of customers using remote service channels increased (a new self-service website www.manogile.lt and customer service short number 1802), and electricity consumer flows to the customer service centres in smaller towns declined. As of 31 March 2017, self-service website www.manogile.lt had 400 thousand registered private customers.

During first quarter of 2017 more than 297 thousand (2016 Q1: 344 thousand) customers were serviced at short customer service number 1802.

During first quarter of 2017 more than 56 thousand (2016 Q1: 71 thousand) customers were serviced at the customer service centres. Since 1 March 2017 customers are served in five major cities of Lithuania.

Operation and development of electricity and gas metering devices

During first quarter of 2017 ESO replaced 28.297 thousand units of metering devices that no longer meet the meteorological requirements, where of 23.509 thousand units of electricity meters and 4.788 thousand units of natural gas meters. The Company installed 4.679 thousand units of electricity metering devices and 1.692 thousand units of natural gas metering devices for new customers.

By regularly renewing metering devices being operated, the Company and its authorised persons during the first quarter of 2017 inspected more than 272 thousand units of electricity meters and more than 22 thousand units of natural gas meters. During first quarter of 2017 the Company also installed 147 controlling metering devices in 10 kV voltage network, thereby increasing their number up to 1 521. This accounts for 44% of the total 10 kV voltage network.

By investing in the modernisation and automation of the electricity and natural gas metering equipment during the first quarter of 2017 ESO connected 1 598 electricity metering devices installed at the objects of commercial customers to the existing automated data reading systems. As a result, the number of operated electricity meters that are scanned remotely reached 31.371 thousand and the number of respective natural gas meters remained unchanged and is equal to 1,212. The automation of metering devices allows to automatically submit bills for electricity consumed to commercial customers and establish a precise amount of natural gas consumed by a commercial customer.

Since January 2017 the Company began a cost-benefit analysis, which will assess the smart metering pilot project and based on the results it will be decided whether to install smart meters in whole Lithuania. The cost-benefit analysis should be completed by fall of 2017.

Since the beginning of 2017 the Company launched a new electricity metering automation service. Customers, who booked the service, every hour gets metering data transmitted remotely. They also do not need to declare the readings and get more opportunities to understand their energy consumption habits so to make rational energy saving decisions. The customers can see the exact data on when and how much they consume energy on self-service site www.manogile.lt.

Management of customer settlements

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

Market liberalisation

As of 31 March 2017 independent suppliers supply electricity to 68 815 objects of commercial customers. In accordance with the Plan on the Development of the Lithuanian Electricity Market, which was approved by the Government of Lithuania on 8 July 2009, an independent electricity supplier was chosen as of 31 March 2017 by:

- About 96% of objects whose admissible power was 400 kW and more;
- About 86% of objects whose admissible power was 100 kW and more;
- About 75% of objects whose admissible power was 30 kW and more;
- About 55% of objects whose admissible power was less than 30 kW.

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

SOCIAL RESPONSIBILITY OF THE COMPANY

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

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

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

Environmental protection

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

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

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

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

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

Promotion of energy efficiency – *Not More Than Needed*. Promotion of rational use of energy is one of the priority directions of ESO's social responsibility contributing to the conservation of environment and energy resources as well as the implementation of the country's obligations under the European Union's climate change programs. The project is aimed at creating traditions of rational living by looking for solutions on rational use of electricity, with a particular focus on consumption by businesses and industrial entities.

In autumn 2016, the cycle of free-of-charge events *Not More Than Needed by Industry 2016* was organised in five regions: Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys. During these events practical advisory presentations on the application of energy efficiency solutions in business were delivered.

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

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

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

The annual energy efficiency conference is a part of ESO initiated energy saving initiative "Not More Than Needed". The event aims to bring together energy, energy efficiency solutions providers, business and academic community, the debate and the valuable experiences allow to increase business efficiency, resources directed towards useful and environmentally friendly.

Every year during the event awards are announced and presented to the companies, signatories to the Green Protocol, which conducted their activities in the most efficient manner in terms of energy. This year's award won "Orion Global Pet", which is a part of global network "Indorama Ventures". The technical director of "Orion Global Pet" Arūnas Jonuška presented company's experience. With applied energy saving measures the output electricity consumption of over ten years decreased by as much as 45% per ton of production. The factory's total electricity consumption during the same period also fell more than a third.

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

National educational programme *Sustainable School*. In order to raise awareness of schools and contribute to the creation of a sustainable, energy-efficient and environmentally-friendly society, ESO together with partners invited educational institutions of the country to participate in a one-year educational programme *Sustainable School*. The project was elected as the best social responsibility initiative of 2014 during the Swedish business award ceremony held in 2015. The implementation of the project is being continued (see more at www.darnimokykla.lt).

The project *Sustainable School* is implemented by public institution Pakuočių Tvarkymo Organizacija, companies Schneider Electric Lietuva UAB, Mano Būstas LT UAB and the National Consumer Federation.

Support. Through the support fund of “Lietuvos energija” group ESO provides support for public programs and activities, which are significant for public. The budget of the fund consists of all group companies’ contributions to up to 1% of consolidated group companies’ net profit. Applications for the support may be filled annually, according to established procedures and deadlines.

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

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

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

Transparency, anti-corruption activities

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

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

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

Increase of transparency in public procurements

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

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

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

Accountability

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

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

THE COMPANY AND ITS MANAGEMENT BODIES

The Company's organisational structure

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

Energijos Skirstymo Operatorius AB started its operations on 1 January 2016 after the merger of LESTO and Lietuvos Dujos. ESO is part of Lietuvos Energija UAB, a state-owned group of companies, which is one of the largest energy company groups in the Baltic countries. On 1 January 2016, ESO took over from LESTO and Lietuvos Dujos all their assets, rights and obligations as well as all non-current and current assets, non-current and current financial and other obligations, amounts

receivable and payable under the agreements signed by LESTO and Lietuvos Dujos, including any other otherwise arising obligations.

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

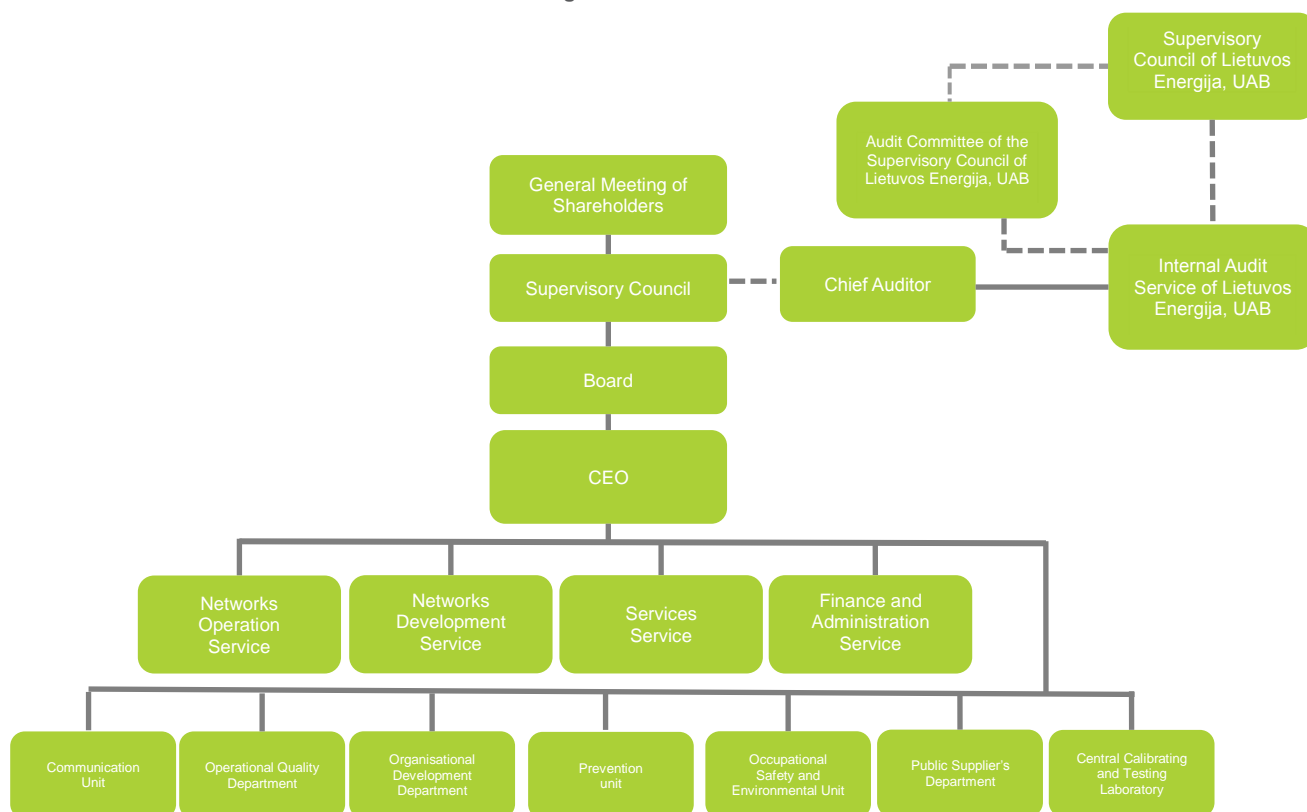
The main functions of ESO are electricity supply and distribution, distribution of natural gas, guaranteed supply of electricity and gas, connection to electricity and gas supply, operation, maintenance, management and development of electricity and gas distribution networks ensuring their safety and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

Main information about related companies

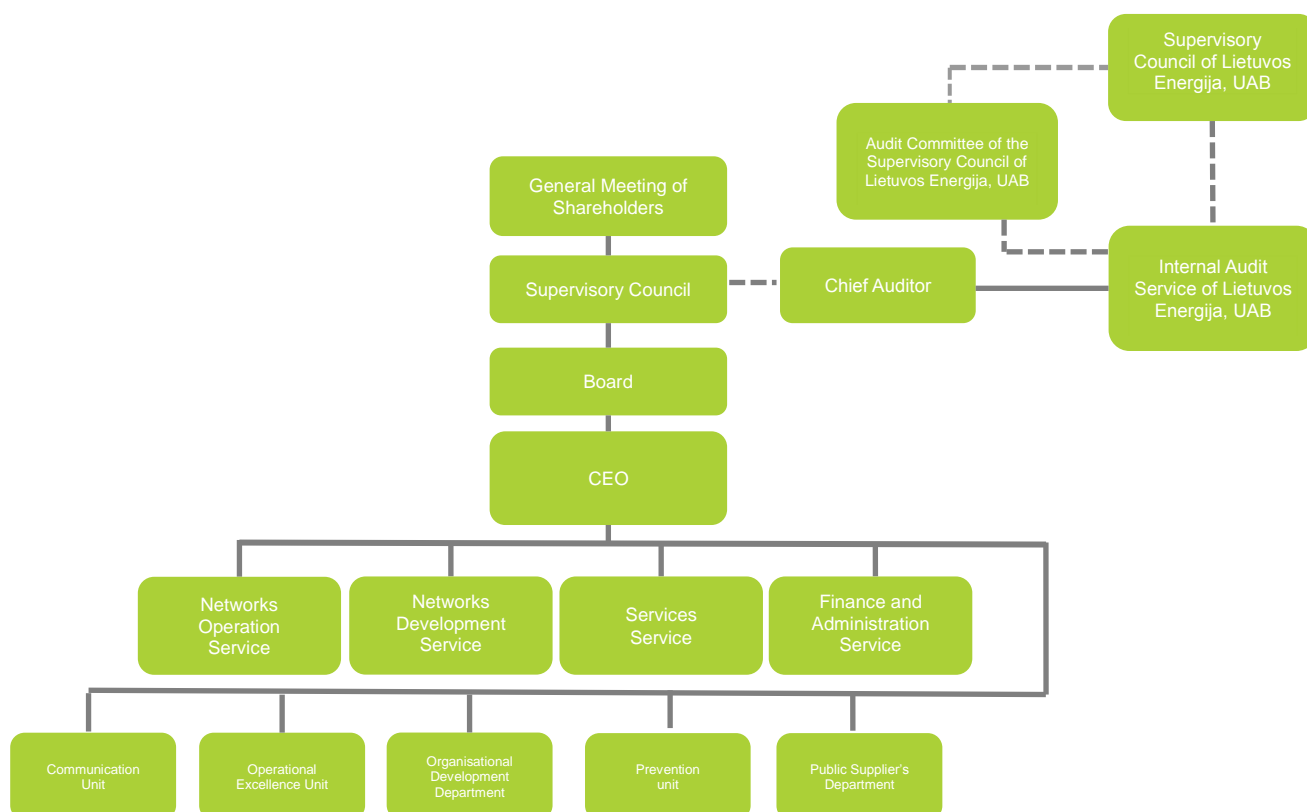
At the date of signing of the report ESO jointly with other companies controlled Verslo Aptarnavimo Centras UAB and Technologijų ir Inovacijų Centras UAB.

	Technologijų ir Inovacijų Centras UAB	Verslo Aptarnavimo Centras UAB
Address	A. Juozapavičiaus g. 13, Vilnius	P. Lukšio g. 5B, Vilnius
Registration date	4 December 2013	30 July 2014
Company code	303200016	303359627
Telephone	(8 5) 278 2272	(8 5) 259 4400
Fax	(8 5) 278 2299	(8 5) 259 4401
Email	info@etic.lt	vac@le.lt
Website	www.etic.lt	http://vac.le.lt
Ownership interest held by ESO, %, at 1 January 2017	29.01	22.25
Ownership interest held by ESO, %, at 31 March 2017	29.01	22.25
Principal activities	Provision of information technology and telecommunication services for the companies of the energy sector	Provision of services of organisation and performance of public procurements, accounting, administration of employment relationship, customer service, human resources administration, legal services, consultations and trainings on operational efficiency

ESO's management structure until 04.30



ESO's management structure from 05.01



ESO's management

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

General Meeting of Shareholders

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

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

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

The Company's Supervisory Council

The Supervisory Council of ESO is a collegial supervisory body.

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

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

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



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



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



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

In this position from:
3 December 2015

End of term of office:
3 December 2019

In this position from:
3 December 2015

End of term of office:
3 December 2019

In this position from:
3 December 2015

End of term of office:
3 December 2019.

Educational background

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

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

Vilnius University, qualification of an economist

Principal workplace

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

„Lietuvos energija“, UAB
Organizacinio vystymo direktorė

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

Per 2016 m. sausio-gruodžio mėnesius stebėtojų tarybos nariams priskaičiuotos pinigų sumos, EUR

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477.84

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

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

Member of the Board of ISM
University of Management and
Economics

* According to the ESO's Articles of Association agreements may be concluded with the members of the Supervisory Council regarding the activity related to the Supervisory Council, which establish members' rights, obligations and responsibility. Based on the decision of the general meeting of shareholder remuneration may be paid to independent members of the Supervisory Council for their activity in the Supervisory Council. The terms of the agreements concluded with the members of the Supervisory Council and the independence criteria are established by the general meeting of shareholders according to the requirements of legal acts and the good corporate management practice. On 3 December 2015, the agreements on the activity of the member of the ESO's Supervisory Council were concluded with Dr Dalius Misiūnas, Ilona Daugėlaitė and independent member of the Supervisory Council Petras Povilas Česna. ESO has neither transferred management of assets nor issued guarantees to the members of the bodies. During three months of 2017, the Company did not grant any loans to the members of the management bodies, nor provided any guarantees or sureties to secure the fulfilment of their obligations.

Audit Committee

On 27 August 2013, the Supervisory Council of Lietuvos Energija, UAB established the Audit Committee which was assigned with the functions of the examination and submission of proposals to the Supervisory Board regarding issues that fall within the competence of the Audit Committee and issues which are referred to the Audit Committee by the Supervisory Council. The activity of the Audit Committee is applicable to Lietuvos Energija, UAB and its directly and indirectly controlled subsidiaries, including ESO and legal entities of other legal form, in which Lietuvos Energija, UAB may have direct or indirect ultimate impact.

The main functions of the Audit Committee are as follows:

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

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

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

Full name	Share of issuer's authorised share capital held, %	Term of office	Workplace
Rasa Noreikienė (Chair of the committee)	0	August 2013 – August 2017	Ministry of Economy of the Republic of Lithuania (Until 13/12/2016)
Aušra Vičkačkienė	0	August 2013 – August 2017	Property Management Department Under the Ministry of Finance
Danielius Merkinas (independent member)	0	August 2013 – August 2017	Nordnet UAB
Gintaras Adžgauskas	0	August 2013 – August 2017	Lithuanian Committee of the World Energy Council

Irena Petruškevičienė
(independent member)

0

October 2014 –
August 2017

Audit Development
Committee of the
European Commission

The Company's Board

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

The competence of the Board, the procedure of decision-making, election and removal of its members are established by laws, other legal acts and the Company's Articles of Association. The Board is composed of five members who are elected by the Supervisory Council for a term of four years. The Chairman of the Board is elected from the members of the Board.

On 1 January 2017 the Company's Board consisted of chairwoman Dalia Andrulionienė and members of the Board – Augustas Dragūnas, Rytis Borkys and Dalius Svetulevičius. On 20 January, 2017 the Supervisory Board of the Company adopted a decision to elect Mr. Ignas Pranskevičius as the new member of the Board of Directors in charge of the area of services and development. On 8 March, 2017 the Supervisory Board, considering a notification of resignation of Dalius Svetulevičius from the member of the Company's Board, submitted on 28 February, 2017, adopted the decision to recall Mr. Dalius Svetulevičius from the Board of ESO from the end of the meeting of the Board of Supervisors of the Company that recalled him.

At the end of the reporting period the Company's Board was as follows: Chair of the Board Dalia Andrulionienė and members Augustas Dragūnas, Rytis Borkys and Ignas Pranskevičius. On 26 April, 2017 the Supervisory Board of the Company adopted a decision to elect Saulius Vaičekas as the new member of the Board in charge of the area of network operations from the end of the meeting of the Supervisory Board of the Company that elected him until the end of the term of office of the current Board of Members. The end term of the current Board of Members is 3 December, 2019.

During the reporting period, 5 sittings of the Board of ESO were held and all of them were attended by all members of the Board.



Dalia Andrulionienė (born in 1971) Chair of the Board Chief Executive Officer	Ignas Pranskevičius (born in 1985) Member of the Board**	Augustas Dragūnas (born in 1981) Member of the Board	Rytis Borkys (born in 1969) Member of the Board	Saulius Vaičekas (born in 1979) Member of the Board***
In this position from: 25 November 2016*	In this position from: 20 January 2017	In this position from: 19 November 2016	In this position from: 3 December 2015	In this position from: 26 April 2017
End of term of office: 3 December 2019	End of term of office: 3 December 2019	End of term of office: 3 December 2019	End of term of office: 3 December 2019	End of term of office: 3 December 2019
Educational background				
ISM University of Management and Economics, BI Norwegian Business School, Master's degree in Management; Vilnius University, Master's degree in Economics	ISM University of Management and Economics, BI Norwegian Business School, Master's degree in Management; Vilnius University,	Vilnius University, Master's degree in Business Management and Administration	Kaunas University of Technology, higher university education in engineering	Kaunas University of Technology Master's degree of International Trade and bachelor's degree of Electricity Engineering

	Master's degree in Economics																		
Principal workplace and position held																			
ESO's Chief Executive Officer		ESO's Services Director		ESO's Finance and Administration Service Director		ESO's Networks Development Service Director		ESO's Networks Operation Service Director											
Information on payments to ESO's Board members during the three months of 2017																			
4 344		2074.39		2607		2607		—											
Participation in the activities of companies and organisations and percentage of share capital and voting rights of other companies held in excess of 5%																			
Name of a company, institution, organisation, position held		Share of capital and votes held, %		Name of a company, institution, organisation, position held		Share of capital and votes held, %		Name of a company, institution, organisation, position held		Share of capital and votes held, %									
ESO's Chief Executive Officer		-		ESO's Services Director		-		ESO's Finance and Administration Service Director		-		ESO's Networks Development Service Director		0.0001		ESO's Networks Operation Service Director		-	
Member of the Board of Verslo Aptarnavimo Centras		-				-		Member of the Board of Technologijų ir Inovacijų Centras		-									
Member of the Board of Lithuanian National Energy Association																			
Lietuvos energija Support Fund, Member of the Board (from 8 May 2017)		-																	

*A member of the Company's Board Dalia Andrulionienė is from 3 December 2015.

** On 20 January 2017 Ignas Pranskevičius was elected as the Company's Board member, who will to be in charge of the provision and development of services.

*** On 26 April 2017 Saulius Vaičekas was elected as the Company's Board member, who will to be in charge of the network operation service.

Chief Executive Officer

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

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

	Remuneration, in EUR	Other payments, in EUR
Dalia Andrulionienė, CEO***	13 524	—

*ESO has neither transferred management of assets nor issued guarantees to the members of the bodies. During January-March 2017, the Company did not grant any loans to the members of the management bodies, nor provided any guarantees or sureties to secure the fulfilment of their obligations.

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

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

Employees of the Company

The Company's personnel policy focuses on a continuous professional development of employees and formation of an organisational culture ensuring the creation of higher added value for customers, partners and society. The Company had 2,520* employees as of 31 March 2017.

Structure of the Company's employees by category:

Category of employees	Number of employees, at 31 March 2017
Chief executive officer (CEO)	1
Top-level managers	6
Medium-level managers	153
Experts, specialists, workers	2,360
Total number of employees	2,520

Structure of the Company's employees by educational background:

Education	Number of employees, at 31 March 2017
Higher education	1,504
Advanced vocational education	837
Secondary and vocational education	179

* Actual number of employees; it does not include employees who are in pregnancy and childbirth or parental leave and military service.

Remuneration system

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

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

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

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

Average salary of the Company's employees

Category of employees	Average salary, in EUR (Before tax)
	January–March 2017
Chief executive officer (CEO)	5.590
Top-level managers	4.743
Medium-level managers	2.048
Experts, specialists	1.030
Workers	760
Total average	1.045

Collective employment agreement

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

Trade unions

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

Development of competences

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

During January-March of 2017 189 participants attended the compulsory vocational training programmes, at the end of which certificates permitting to perform special works were issued. Employees were trained to work as an operator of emergency diesel electric power station, a high-altitude worker, an operator of lifting platforms and their equipment, a cutter of branches of trees, bushes; learned the skills of first aid and hygiene and attended other programmes.

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

The Company seeks to encourage the engagement of the organisation's employees, i.e. lecturers within the organisation with specific knowledge and skills able to share them with others, in the programmes for competence development, also invests in the training of staff. During the first quarter of 2017 1,539 participants attended internal training courses. A large part of these trainings was dedicated to the development of energy services related personnel aiming to increase safety of works and quality of customer service. In order to ensure the effectiveness of internal processes, employees are introduced to the initiatives and programmes implemented by the Company, for example, the programmes on operational excellence and employee performance management.

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

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

Internship opportunities

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

Other committees

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

Risk Management Supervision Committee

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

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

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

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

Full name	Share of issuer's authorised share capital held, %	Term of office	Workplace
Antanas Danys (Chairman of the Committee)	0	2013 September – 2017 August	Director of Grinvest PTE.LTD, Development Director at Kaštonų Kalva UAB
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

Appointment and Remuneration Committee

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

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

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

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

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

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

MATERIAL EVENTS IN THE COMPANY'S ACTIVITIES

Material events in the reporting period

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

Information on material events announced by ESO from 1 January 2017

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

28 February 2017	Regarding member of the Board resignation
2 March 2017	Regarding the Ordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB
8 March 2017	Regarding the recall of the Member of the Board
8 March 2017	Regarding the resolutions of Energijos Skirstymo Operatorius AB Supervisory Board
24 March 2017	Regarding the resolutions of Ordinary General Meeting of Energijos Skirstymo Operatorius AB Shareholders

Material events after the end of the reporting period

On 5 April, 2017, The Company informs that due to high prices it declined participants' proposals in the public call, which was announced on 3rd February, 2017 on Procurement Information System (CVPIs), for tenders to install of the LNG regasification station in Druskininkai. The Company is currently considering various alternatives in order to create the necessary infrastructure and to take necessary measures to ensure the continuous, reliable and safe natural gas supply before the next heating season in Druskininkai.

On 26 April, 2017 the Supervisory Board of the Company adopted a decision to elect Saulius Vaičekas as the new member of the Board in charge of the area of network operations from the end of the meeting of the Supervisory Board of the Company that elected him until the end of the term of office of the current Board of Directors. The newly elected member of the Board will take the office of the Director of Network Operations Division.