

2018-02-28 Nr. 30200 - 3859

## 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 Evelina Remeikienė Manager of Reporting of Verslo aptarnavimo centras UAB, hereby confirm that, to the best of our knowledge, AB Energijos skirstymo operatorius condensed interim financial information for the year ended 31 December 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 twelve-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  
Manager of Reporting,  
acting under Order No. IS17-80  
(signed 2017 08 28)



Evelina Remeikienė

2017

## ENERGIJOS SKIRSTYMO OPERATORIUS AB

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION FOR THE  
FOURTH QUARTER OF 2017 AND 12 MONTHS OF 2017, PREPARED  
ACCORDING TO INTERNATIONAL ACCOUNTING STANDARD 34, 'INTERIM  
FINANCIAL REPORTING' AS ADOPTED BY THE EUROPEAN UNION  
(UNAUDITED)



eso



Group of energy  
companies

[www.le.lt](http://www.le.lt)

Translation note:


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

# CONTENT

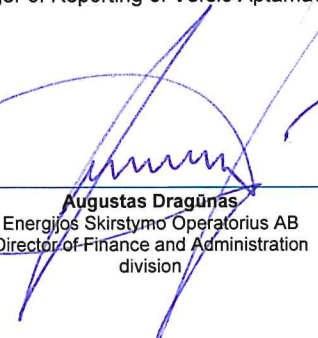
## CONDENSED INTERIM FINANCIAL INFORMATION

Condensed interim statement of financial position	3
Condensed interim statement of profit or loss and other comprehensive income	4
Condensed interim statement of changes in equity	5
Condensed interim statement of cash flows	6
Notes to the condensed interim financial information	7 - 9


Condensed interim financial information was approved on 28 February 2018 by Energijos Skirstymo Operatorius AB General Manager, Director of Finance and Administration Service and Manager of Reporting of Verslo Aptarnavimo Centras UAB (acting under Order No IS17-80 of 28 August 2017).



Dalia Andriulionienė  
Energijos Skirstymo Operatorius AB  
General Manager



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



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

31 December 2017

All amounts are in EUR thousand unless otherwise stated

## CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

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

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



All amounts are in EUR thousand unless otherwise stated

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

	2017	Q4 2017	2016	Q4 2016
Revenue	610,735	165,539	648,321	170,799
Other income	1,574	516	1,742	486
Purchases of electricity and related services	(373,808)	(100,410)	(384,634)	(102,656)
Purchase (expenses) of natural gas and transmission services	(3,693)	(1,187)	(3,560)	(1,255)
Depreciation and amortisation	(50,385)	(13,250)	(46,028)	(11,969)
Employee benefits and related social security contributions	(43,731)	(13,175)	(47,131)	(13,319)
Repair and maintenance expenses	(15,657)	(4,496)	(18,484)	(5,044)
Transport costs	(4,453)	(1,139)	(4,540)	(1,147)
Telecommunications and IT services	(8,713)	(1,956)	(7,711)	(1,837)
Rent and utilities	(4,148)	(1,099)	(4,130)	(1,073)
Impairment and write-off expenses	(4,339)	(2,429)	(9,300)	(6,809)
Other expenses	(18,026)	(4,747)	(16,559)	(4,577)
<b>Operating profit</b>	<b>85,356</b>	<b>22,167</b>	<b>107,986</b>	<b>21,599</b>
Finance income	1,562	706	1,335	656
Finance costs	(2,274)	(901)	(2,224)	(546)
<b>Finance costs – net</b>	<b>(712)</b>	<b>(195)</b>	<b>(889)</b>	<b>110</b>
	148	(133)	328	328
<b>Profit before income tax</b>	<b>84,792</b>	<b>21,839</b>	<b>107,425</b>	<b>22,037</b>
Income tax	(7,240)	(967)	(14,923)	(1,949)
<b>Net profit for the period</b>	<b>77,552</b>	<b>20,872</b>	<b>92,502</b>	<b>20,088</b>
<b>Other comprehensive income</b>				
Recalculation of the established benefit plan obligation net of deferred income tax	(187)	(187)	-	-
	(187)	(187)	-	-
<b>Total comprehensive income for the period</b>	<b>77,365</b>	<b>20,685</b>	<b>92,502</b>	<b>20,088</b>
Weighted average number of shares, in thousand	894.630	894.630	894.630	894.630
Basic and diluted earnings per share (in EUR) attributable to owners of the Company	0.087	0.023	0.103	0.022

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

All amounts are in EUR thousands unless otherwise stated

## CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Revaluation reserve	Legal reserve	Retained earnings	Total equity
<b>Balance at 1 January 2016</b>		<b>259,443</b>	<b>55,520</b>	<b>25,910</b>	<b>232,940</b>	<b>573,813</b>
<b>Comprehensive income</b>						
Net profit for the period		-	-	-	92,502	92,502
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>92,502</b>	<b>92,502</b>
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(5,656)	-	5,656	-
Dividends	5	-	-	-	(43,120)	(43,120)
<b>Balance at 31 December 2016</b>		<b>259,443</b>	<b>49,864</b>	<b>25,910</b>	<b>287,978</b>	<b>623,195</b>
<b>Balance at 1 January 2017</b>		<b>259,443</b>	<b>49,864</b>	<b>25,910</b>	<b>287,978</b>	<b>623,195</b>
<b>Comprehensive income</b>						
Net profit for the period		-	-	-	77,552	77,552
Recalculation of the established benefit plan obligation net of deferred income tax					(187)	(187)
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>77,365</b>	<b>77,365</b>
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(5,184)	-	5,184	-
Dividends	5	-	-	-	(92,916)	(92,916)
<b>Balance at 31 December 2017</b>		<b>259,443</b>	<b>44,680</b>	<b>25,910</b>	<b>277,611</b>	<b>607,644</b>

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

All amounts are in EUR thousand unless otherwise stated

## CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Notes	2017	2016
<b>Cash flows from operating activities</b>			
Net profit		77,552	92,502
<b>Adjustments for:</b>			
Income tax expense		7,240	14,923
Depreciation and amortisation	3,6	51,534	47,358
Depreciation of grants	6	(1,149)	(1,330)
Share of (profit) of associates and joint ventures		(148)	(328)
(Gain)/loss on disposal and write-off of property, plant and equipment		4,547	3,545
Impairment of available-for-sale financial assets		-	5,560
Finance (income)		(1,562)	(1,335)
Finance costs		2,274	2,224
<b>Changes in working capital:</b>			
Trade and other receivables		2,694	15,744
Inventories, prepayments, deferred expenses and accrued income		(1,358)	(1,116)
Trade and other payables, advance amounts received, accrued expenses and deferred income		1,575	2,433
<b>Cash generated from operating activities</b>		<b>143,199</b>	<b>180,180</b>
Income tax paid		(6,767)	(36)
<b>Net cash generated from operating activities</b>		<b>108,317</b>	<b>134,058</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment and intangible assets		(201,608)	(147,571)
Proceeds from sale of property, plant and equipment		16	-
Disposal of subsidiaries		-	24,444
Grants received		444	424
Loans (granted)		(2,919)	(25,146)
Loan repayments received		4,529	23,845
Dividends received		112	58
Interest received		122	152
<b>Net cash used in investing activities</b>		<b>(199,304)</b>	<b>(123,794)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		203,700	71,500
Repayments of borrowings		(61,377)	(78,279)
Dividends paid to the Company's shareholders		(92,579)	(43,008)
Interest paid		(1,740)	(1,737)
<b>Net cash used in financing activities</b>		<b>48,004</b>	<b>(51,524)</b>
<b>(Decrease) increase in cash and cash equivalents</b>		<b>(14,868)</b>	<b>4,826</b>
Cash and cash equivalents at the beginning of the year (including overdraft balance)		10,662	5,836
<b>Cash and cash equivalents at the end of the period (including overdraft balance)</b>		<b>(4,206)</b>	<b>10,662</b>

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

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

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

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

As at 31 December 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 December 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.

### 2 Accounting principles

Company's condensed interim financial information for the year ended 31 December 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
<b>The period ended at 31 December 2017</b>		
Net book value at the beginning of the period	3,573	1,020,541
Additions	4,052	222,507
Sales	-	(85)
Write-offs	-	(4,454)
Impairment	-	(401)
Amortisation /depreciation	(2,174)	(49,360)
<b>Net book value at 31 December 2017</b>	<b>5,451</b>	<b>1,188,748</b>



## 4 Share capital

As at 31 December 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

Approved dividends per share

	2017	2016
Approved dividends (thousands)	92,916	43,120
Weighted average number of shares (thousands)	894,630	894,630
<b>Approved dividends per share (in EUR)</b>	<b>0.104</b>	<b>0.048</b>

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

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

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

## 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 year ended 31 December 2017 is presented below:

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

All amounts are in EUR thousand unless otherwise stated

## 6 Segment reporting (continued)

Company's information about operating segments for the year period ended 31 December 2016 is presented below:

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

## 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 December of 2017 and the balances arising on these transactions as at 31 December 2017 are as follows:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Parent company Lietuvos energija, UAB	356,911	5,418	1,965	115
Associates	4,425	-	21,394	-
Lietuvos energija, UAB group companies	15,386	7,676	77,914	44,531
EPSO-G UAB group companies	29,924	4,336	195,183	751
<b>Total</b>	<b>406,646</b>	<b>17,430</b>	<b>296,456</b>	<b>45,397</b>

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

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Parent company Lietuvos energija, UAB	235	5,823	6,310	781
Associates	2,565	3	17,925	79
Lietuvos energija, UAB group companies	7,797	9,027	82,403	48,414
EPSO-G UAB group companies	29,484	4,099	198,742	920
<b>Total</b>	<b>40,081</b>	<b>18,952</b>	<b>305,380</b>	<b>50,194</b>

### Compensation to key management personnel

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

Management includes heads of administration and their deputies.

## 8 Events after the reporting period

\*\*\*\*\*



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

CEO's foreword

Most significant events in the reporting period

Analysis of the financial and operating indicators

Factors affecting the Company's financial indicators

Information on the Company's authorised share capital and securities

Customer service, service assessment

Corporate social responsibility

The Company and its management bodies

Material events in the Company's activities

Methodology for the calculation of indicators presented in the annual report



eso

# ENERGIJOS SKIRSTYMO OPERATORIUS AB INTERIM REPORT

---

**INTERIM REPORT FOR A TWELVE-MONTH PERIOD ENDED  
31 DECEMBER 2017**



- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

## Reporting period covered by the report

The report covers the period from January to December 2017.

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

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

## Persons responsible for the information provided in the report

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

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

## Report's signing date

The report was signed on 28 February 2017.

## Regarding the comparability of financial results

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

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

### KEY OPERATING INDICATORS OF ESO

Operating indicators		2017 m.	2016 m.	Change	
				+/-	%
Distributed electricity via medium and low voltage networks	TWh	9.22	8.98	0.24	2.72
Public and guaranteed supply of electricity	TWh	3.22	3.15	0.07	2.28
Distributed volume of natural gas	TWh	7.37	7.39	-0.02	-0.34

### Supply quality indicators of the network

#### ELECTRICITY

SAIDI, min. (with force majeure)		137.8	172.9	-35.1	
SAIFI, units (with force majeure)		1.32	1.25	0.07	

#### GAS

SAIDI, min. (with force majeure)		1.161	0.529	0.632	
SAIFI, units (with force majeure)		0.007	0.006	0.001	

### Key financial indicators of ESO

Revenue	EUR '000	612,309	650,064	-37,755	-5.81
Purchase of electricity, gas and related services	EUR '000	377,501	388,194	-10,693	-2.75
Operating expenses (1)	EUR '000	94,728	98,555	-3,827	-3.88
EBITDA (2)	EUR '000	140,080	163,315	-23,235	-14.23
EBITDA margin (3)	%	22.88	25.12		
Adjusted EBITDA (4)	EUR '000	150,908	138,948	11,960	8.6
Net profit (loss)	EUR '000	77,552	92,502	-14,950	-16.16

## KEY OPERATING INDICATORS OF ESO

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

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

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

(3) EBITDA margin = EBITDA / Revenue;

(4) The Company adjusted EBITDA by the difference between the actual profit earned during the reporting and earlier periods and the allowable return on investments for respective periods as established by the National Commission for Energy Control and Prices (hereinafter "the Commission"). The difference is due to improvement of the Company's operational efficiency as well as other factors.

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

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

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



- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword**
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

## CEO'S FOREWORD

Dear all,

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

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

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

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

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

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

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

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



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

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

CEO's foreword

Most significant events in the reporting period

Analysis of the financial and operating indicators

Factors affecting the Company's financial indicators

Information on the Company's authorised share capital and securities

Customer service, service assessment

Corporate social responsibility

The Company and its management bodies

Material events in the Company's activities

Methodology for the calculation of indicators presented in the annual report

## THE MOST SIGNIFICANT EVENTS DURING 2017

### The Company's energy activity licence extended

On 12 January 2017, the National Commission for Energy Control and Prices changed the Company's energy activity licence No L2-GDS-09 by adding a new territory to the activity area defined in the annex to this licence, i.e. the territory of Tauragė region municipality.

### Member of the Company Board elected

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

### Agreement on the long-term loan concluded

On 27 January 2017, the Company and SEB Bankas AB signed an agreement on granting a long-term loan

of EUR 77 million. The proceeds received will be used to refinance the Company's financial liabilities and finance its working capital. The loan repayment term is 10 years and it is subject to a variable interest rate of 3-month EURIBOR.

### Regarding installation of the LNG regasification station in Druskininkai

On 3 February, 2017 a public call for tenders for the installation of the LNG regasification station in Druskininkai was issued on the Procurement Information System (CVPI). According to the Continuous supply of natural gas to consumers in Druskininkai municipality assurance 2016-2017 year action plan, approved by the Ministry of Energy, the LNG regasification facility installation is necessary to ensure a continuous, safe and reliable supply of natural gas to consumers in Druskininkai municipality.

### Regarding the resignation of the Member of the Board

On 28 February 2017, the Company received a notification of resignation of Dalius Svetulevičius from the post of a member of the Compa-

ny's Board. Dalius Svetulevičius was elected to the Company's Board on 3 December 2015 upon decision of the Company's Supervisory Board.

### Regarding a tender to install a LNG regasification station in Druskininkai

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

### Member of the Company's Board elected

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



- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

### First Progress Report on Corporate Social Responsibility published

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

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

On 31 May 2017, the National Commission for Energy Control and Prices approved natural gas distribution prices that were established by the Board of Energijos Skirstymo Operatorius AB on 19 May 2017 to be applicable from 1 July 2017. The prices for the natural gas distribution service declined in respect of all seven price categories.

### Regarding the decision passed by the court

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

### Regarding planned separation of public supply of electricity

On 5 July 2017, the Company reported that to the extent of the Group of companies the project on separation of public supply of elec-

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

### Chairman of the Company's Supervisory Board resigned

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

### Extraordinary General Meeting of Shareholders convened

During the Extraordinary General Meeting of Shareholders held on 29 September 2017, a decision was made to pay out dividends to



the shareholders of ESO for the period shorter than the financial year allocating EUR 0.046 per share in dividends for the six-month period ended 30 June 2017.

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

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

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

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

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

On 16 October 2017, the National Commission for Energy Control and

Prices established electricity distribution price caps for 2018: 0.798 EUR ct/kWh for medium voltage electricity distribution network services and 1.716 EUR ct/kWh for low voltage electricity distribution network services.

#### **Regarding the decision passed by the court**

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

#### **Regarding the transfer of long-term loans to Lietuvos Energija**

On 8 November 2017, the Company signed tripartite agreements on

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

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

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

- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

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

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

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

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

potential financial and social long-term benefits for Lithuania, the total economic benefit of the project would be EUR 88 million.

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

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

### Regarding the guaranteed gas supply in Druskininkai municipality

The Company informs that, in accordance with the Law of Natural Gas of the Republic of Lithuania and taking into account the fact that a new supply company Lietuvos Dujų Tiekimas UAB will start supplying natural gas in the region of Druskininkai, it terminates the guaranteed natural gas supply to customers who have not entered into an agreement with the new supplier starting from

1 January 2018. Guaranteed gas supply in Druskininkai municipality was carried out by the Company since 1 November 2016, when the gas supply activity was terminated by Druskininkų Dujos. The Company will continue providing natural gas distribution services in Druskininkai municipality.

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

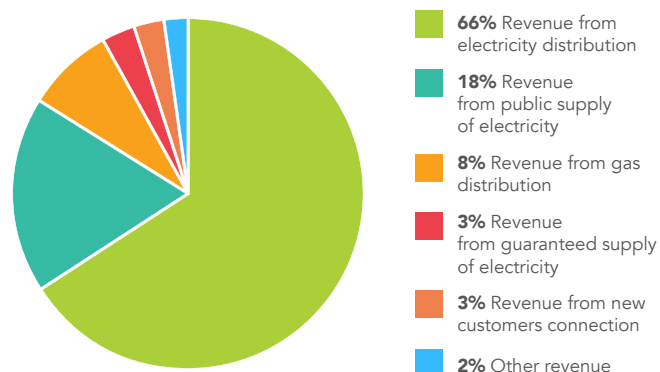
On 22 December 2017, the National Commission for Energy Control and Prices announced public electricity prices for 2018. On average, prices for private customers decreased by 1.2%. The prices of electricity to private customers continue to decline for a fifth year in a row.



- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

## ANALYSIS OF FINANCIAL AND OPERATING INDICATORS

### Revenue structure of ESO by activity area



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

### EBITDA indicator

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

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

\*\* The Company adjusted EBITDA by the difference between the actual profit earned during the reporting and earlier periods and the allowable return on investments for respective periods as established by the National Commission for Energy Control and Prices (hereinafter "the Commission"). The difference is due to improvement of the Company's operational efficiency as well as other factors. The Company does not evaluate the impact of the incentive mechanism established by the Commission on adjusted EBITDA, according to which the allowable return on investments of 2016 and 2017 can be additionally increased due to operational efficiency as proven to the Commission.

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

### Expenses

In 2017, purchases of electricity, natural gas or related services made up EUR 377.5 million and decreased by 2.8% compared to 2016. This was mainly influenced by reduced electricity purchase price. During the reporting period, expenses for purchase of electricity, natural gas or related services as well as depreciation and amortisation expenses amounted to EUR 427.9 million or 81% of ESO's total costs.

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

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



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

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

#### Profit (loss) and profitability ratios

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

#### ESO's profitability ratios

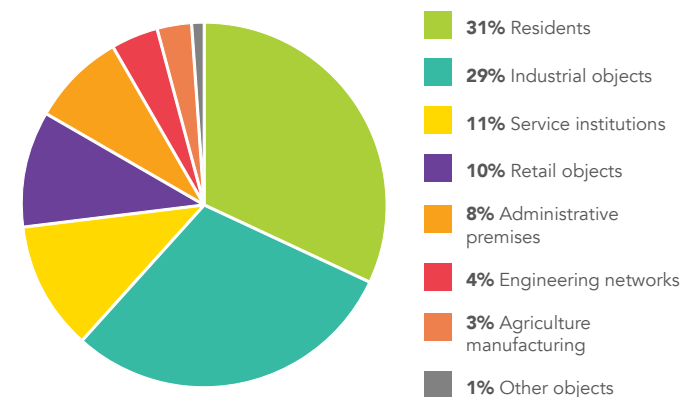
	31 Dec 2017	31 Dec 2016
Net profit margin, %	12.67%	14.23%
Operating profit margin, %	13.95%	16.61%

#### Electricity distribution

During the twelve months of 2017, ESO distributed 9.220 billion kWh of electricity to its customers. Electricity sales made up 35% of this amount. The remaining customers of ESO were provided only with the distribution service. The amount of electricity sold increased by 2.34%, while the volume of electricity distributed increased by 2.72% compared to the same period of 2016. Technological costs in distribution equipment incurred by the Company during the twelve months of 2017 amounted to 605 million kWh or 6.16% of the amount of electricity received. During the same period of 2016, technological costs totalled 6.55%.

#### Electricity distribution volume by object

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



- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

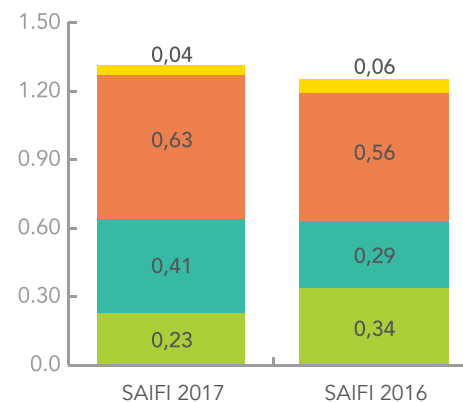
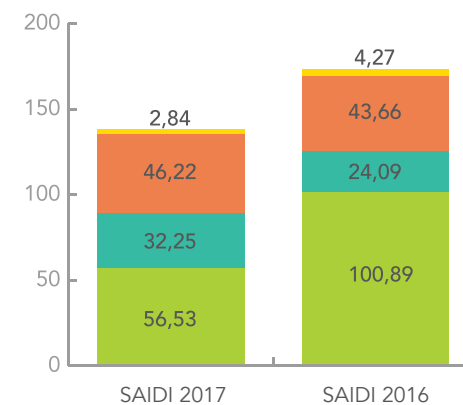
## Natural gas distribution

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

## Electricity supply quality indices (SAIDI, SAIFI)

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

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





- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

## Investments

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

### ESO's investments, EUR million

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

In 2017, ESO's investments allocated for the renewal of the electricity distribution network amounted to EUR 128.192 million, which is 52.4% more compared to 2016. In 2017, investments in the expansion of the electricity distribution network amounted to EUR 52.227 million (2016: EUR 39.500 million).

In 2017, investments in IT, management systems and other assets increased by 19.33% compared to 2016 and amounted to EUR 10.852 million. This increase was caused by the installation works of the new electricity distribution network management system.

In 2017, ESO connected 29.64 thousand new customers to the electricity distribution network, which is 3% less than in 2016 when 29.36 thousand new customers were connected. In 2017, the admissible electric power of objects of newly connected customers was equal to 414.5 thousand kW, which is 13% more than in 2016 when the admissible power was equal to 349.28 thousand kW.

In 2017, ESO's investments in the construction and reconstruction of gas systems amounted to EUR 34.9 million or 152.12% more compared to 2016. In 2017, the Company constructed 372.5 km of the gas distribution pipeline (2016: 109.1 km) for the connection of new customers to the gas network and connected 12,531 customers\* to the gas pipelines, which is 137% more than in 2016 when 5,288 customers were connected.

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

## Analysis of financial indicators

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



- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

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

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

\* Rodiklių skaičiavimo aprašymas pateikiamas šio pranešimo pabaigoje

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

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

#### ESO's liquidity ratios

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

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

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

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

- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

## FACTORS AFFECTING THE COMPANY'S FINANCIAL INDICATORS

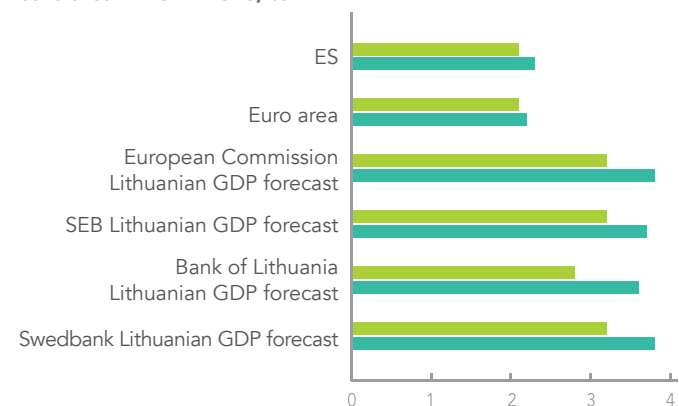
### Operating environment

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

The Lithuanian economy will grow by 3.8% in 2017 and 2.9% in 2018, according to the European Commission's forecast.<sup>3</sup>

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

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



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

### Situation in the electricity market

In 2017, the average electricity price on Nord Pool power exchange as per Lithuania price area was lower than in 2016.<sup>7</sup>

<sup>2</sup>Source of data: European Commission. European Economic Forecast Autumn 2017

<sup>3</sup>Source of data: European Commission. European Economic Forecast Autumn 2017

<sup>4</sup>Source of data: SEB Bankas. Lithuanian Macroeconomic Review No 65, September 2017.

<sup>5</sup>Source of data: Swedbank Economic Outlook. January 2018.

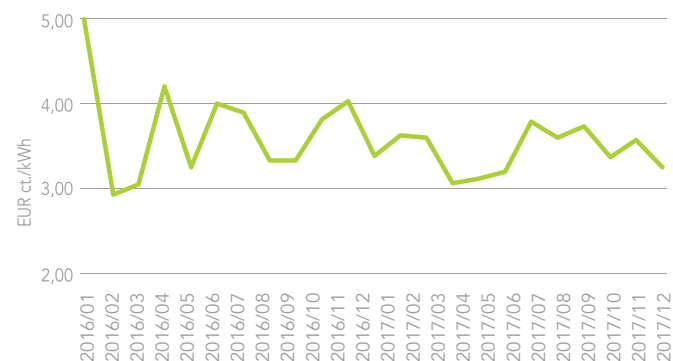
<sup>6</sup>Source of data: Bank of Lithuania. Lithuania's Economic Development and Outlook. December 2017.

<sup>7</sup>Source of data: Electricity prices [interactive]. Viewed on 2 Feb 2017. Access through the internet: <https://www.nordpoolgroup.com/Market-data1/Dayahead/Area-Prices/LT/Monthly/?view=table>.



- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

**Average monthly prices on the electricity exchange**



## The Company's strategy and objectives

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

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

The Company will focus on significantly improving the reliability of the electricity distribution network by 2020. The system average interruption duration index (SAIDI with force majeure) for the electricity network is expected to drop down to 87 minutes and the system average interruption frequency index (SAIFI with force majeure) will respectively decrease by

0.94 times by the year 2020. The Company will also aim to maintain high reliability indices of the natural gas distribution network.

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

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

## ESO's operational strategy scheme





- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

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

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

1. Reliability, convenience, and speed of customer service (customer perspective);
2. Advanced technological solutions which enhance network performance (internal processes perspective);
3. Unified organisational culture (employee training perspective);

4. Continuous improvement of activities (internal processes perspective).

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

#### Stakeholders

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

#### Investment plans

##### Modernisation of the electricity distribution network

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

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

- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

unsafe transformers, cable lines and distribution devices will be replaced with advanced equipment which meets the requirements of modern standards.

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

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

### Modernisation of the gas distribution network

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

The 2016–2025 investment plan provides ten directions for investments. The largest portion of investments (EUR 58 million) is earmarked for the development of the gas distribution system, which is necessary due to a growing number of new natural gas customers. Investments in the modernisation of the remote data collection and control systems are expected to amount to nearly EUR 21 million, and EUR 20.4 million is planned to be allocated for the reconstruction of the gas distribution pipelines. The Company plans to allocate EUR

11.7 million for the modernisation of the gas metering system within ten years. Investments in the reconstruction of the gas pressure regulating equipment are to amount to EUR 7.7 million, investments in the replacement and additional installation of closing devices – EUR 6.5 million, and investments in the reconstruction of corrosion protection equipment for the pipelines – EUR 1.2 million. Investments for the gas distribution reliability projects are projected to reach EUR 3.5 million and EUR 0.66 million is planned to be allocated to the buyout of the gas distribution pipelines. The Company plans to allocate EUR 3.9 million for the modernisation of technological processes.

### Risks and uncertainty factors and their management

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

- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

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

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

The risk management principles established by Lietuvos Energija UAB are consistently applied across the entire Group of companies. The uniform risk management principles ensure that the management personnel of the Group of companies receive risk management

information covering all areas of activities. To ensure the practicality of the risk management process, specific activity areas supplement information on their activities with detailed risk assessment, monitoring, and management principles.

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

Risk appetite and risk tolerance limits are established within the Group of companies. Risk appetite means the level and type of risk that the Group of companies is ready to accept aiming to implement strategic objectives. Risk appetite is determined by assessing financial impact of risk as well as impact on health and safety of persons. Tolerance limit means the level of risk the excess of which is not acceptable for the Group of companies and

which is expressed in the results of operations or values of incidents. The risk appetite and risk tolerance limits of the Group of companies are established by the Board of Lietuvos Energija UAB and reviewed once a year. Where risk appetite and risk tolerance limits are exceeded by the Company, action plans are prepared in order to meet the mentioned thresholds. The effectiveness of the management plans is assessed by the Company's Board, the Company's Supervisory Board and the Group's Risk Management Supervision Committee under the Supervisory Board.

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



- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report



- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

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

Risk factor	Sources of risk	Pagrindinės rizikos valdymo kryptys
Health and safety of employees, contractors, and residents	<p>With regard to the specific character of its business activity, the Company bears the risk of injury to the employees of ESO, its contractors, and residents.</p> <p>This risk remains a priority area every year and the main causes of this risk, in addition to high-risk working environment, stem from the lack of awareness or experience/ knowledge.</p>	<ul style="list-style-type: none"> <li>• Installation of the occupational health and safety management system (OHSAS 18001:2007);</li> <li>• Enhancement of physical safety measures, warning signs;</li> <li>• Regular control and monitoring of occupational safety of employees and contractors;</li> <li>• Motivational and disciplinary system for employees and contractors;</li> <li>• Extensive educational activities.</li> </ul>
External regulation	<p>The Company is exposed to regulatory risk due to the constant change of regulatory environment (frequent changes in legislation give rise to erroneous interpretations/misinterpretations).</p> <p>Moreover, the transposition of the Energy Efficiency Directive into the Lithuanian law has imposed unproportionally large obligations on ESO, without any proper incentive mechanisms for the market of energy efficiency services.</p>	<ul style="list-style-type: none"> <li>• As clear and proper fulfilment of regulatory requirements as possible;</li> <li>• For the purpose of ensuring compliance with new requirements, Group-level organisation of projects engaging the best specialists of the Group with regard to the issue concerned;</li> <li>• Active contribution to the process of public coordination of legal acts;</li> <li>• Initiation of draft amendments to legal acts that are unfavourable to the Company.</li> </ul>
Disruptions in services while implementing IT changes (system instability due to high number of changes)	<p>The majority of information systems, in order to make them more efficient, are undergoing extensive changes. Due to a high number of changes, the quality of those changes is not always controlled and the stability of the systems is not always retained (in terms of both functionality errors and optimal functioning).</p>	<ul style="list-style-type: none"> <li>• Modernisation of information systems, installation of up-to-date specialised IT tools in order to create new possibilities of providing the customers with high-quality services and increasing the efficiency of the Company's processes;</li> <li>• Enhancement of the installation process of IT changes;</li> <li>• Regular monitoring of current changes;</li> <li>• Creation of a model for testing critical systems.</li> </ul>
Information security (cyber security)	<p>By observing external factors and the geopolitical situation, the Company understands its strategic importance for the country's security and, by cooperating with external establishments and by introducing internal measures, aims to ensure that both the Company's strategic information and the main management systems are protected from the impact of any external/internal crime.</p>	<ul style="list-style-type: none"> <li>• Improvement of resistance through tests/trainings;</li> <li>• Data backup;</li> <li>• Enhancement of detection/suspension;</li> <li>• Cooperation with external establishments;</li> <li>• Continuous education of the Company's employees on information security risks, threats, and good practice.</li> </ul>

## INFORMATION ON THE COMPANY'S AUTHORISED SHARE CAPITAL AND SECURITIES

### Share price dynamics and turnover

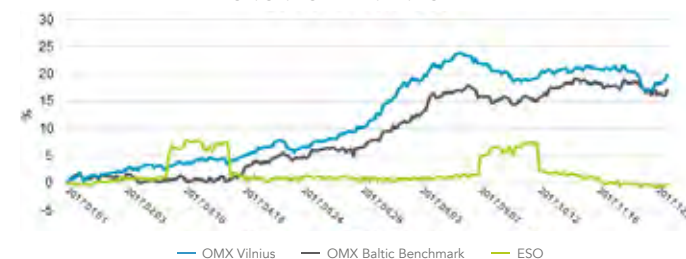
Dynamics of the price of ESO's shares and turnover in shares during the period from 1 January 2017 to 29 December 2017



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

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

Dynamics of ESO, OMX Vilnius, and OMX Baltic Benchmark indices 01/01/2017–29/12/2017



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

### Structure of the authorised share capital

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

As at 31 December 2017, the Company's authorised share capital amounted to EUR 259,442,796.57. All the shares issued by the Company are fully paid.



## Information on the Issuer's securities

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

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

## Rights and obligations granted by shares

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

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

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

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

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

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

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

### Procedure for amending the Articles of Association

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

### Restrictions on the transfer of securities

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

### Subsidiaries

As at 31 December 2017, ESO had no subsidiaries.

### Information on the Company's branches and representative offices

The Company has no branches or representative offices.

### Information on the committees established

There are no committees established at the Company.

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

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

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

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

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

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

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

The Company did not acquire any own shares during 2017.

### Shareholders

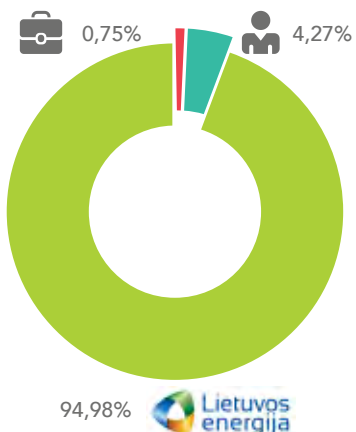
As at 31 December 2017, the total number of the Company's shareholders was 8,789.

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

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

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

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



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

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

#### Restrictions on voting rights

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

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

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

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

#### Dividends

During the Ordinary General Meeting of Shareholders held on 24 March 2017, a decision was made to pay out

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

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

#### Information on agreements with intermediaries of public trading in securities

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



- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

## CUSTOMER SERVICE, SERVICE ASSESSMENT

### Number of customers being serviced

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

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

### Development of service channels

In 2017, the number of customers using remote service channels (the self-service website [www.manogile.lt](http://www.manogile.lt). It and the customer service short number 1802) increased, and electricity consumer flows to the customer service centres in smaller

towns declined. At the beginning of 2017, the self-service website was upgraded to enable a single declaration and payment for electricity and gas. As at 31 December 2017, the self-service website [www.manogile.lt](http://www.manogile.lt) had 518 thousand registered private customers.

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

### Operation and development of electricity and gas metering devices

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

7.090 thousand natural gas metering devices for new customers.

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

By investing in the modernisation and automation of the electricity and natural gas metering equipment, in 2017 ESO connected 6.702 thousand electricity metering devices installed at the objects of commercial customers to the existing automated data reading systems. As a result, the number of operated electricity meters that are scanned remotely reached 36.475 thousand and the number of respective natural gas meters remained unchanged and is equal to 1.212 thousand.

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

- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

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

the National Commission for Energy Control and Prices as well as other stakeholders.

### Management of customer settlements

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

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

### Market liberalisation

As at 31 December 2017, independent suppliers supplied electricity to 76,132 objects of commercial customers. In accordance with the Plan on the Development of the Lithuanian Electricity Market, which was approved by the Government of Lithuania on 8 July 2009, an independent electricity supplier was chosen as at 31 December 2017 by:

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

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

- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

## CORPORATE SOCIAL RESPONSIBILITY

### Preamble

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

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

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

### Environmental protection

**Landscape protection.** Aiming to reduce the impact on landscape, new cables are being installed in place of old electricity overhead lines in areas where wires of existing overhead lines are thin and dangerously close to green spaces, outdated infrastructure has caused many breakdowns. Cable lines ensure a more reliable supply of electricity and are safer. Over the nine months of the reporting year, more than 1,300 kilometres of underground cable lines were constructed, which is 2.6 times more than during the same period in 2016.

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

### Public initiatives

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

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



- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

**Green Protocol.** This is an agreement initiated by the Company (in its sixth consecutive year), the purpose of which is that the signatory companies and organisations confirm they accept and agree with the following environment-friendly ideas:

- To implement measures on energy efficiency;
- To contribute to environmental protection and greenhouse gas (CO<sub>2</sub>) emission reduction;
- To encourage employees, colleagues, relatives to contribute to the creation of energy-saving society.

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

**Relationship with investors.** We strive to maintain close relationships with our existing and potential investors and to ensure that they all have equal access to information, which is regularly updated.

#### Transparency, anti-corruption activities

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

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

cussions 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](mailto:pasitikejimolinija@eso.lt) or by filling in the trust line form available on ESO's website under the contacts section. In 2017, the trust line was used more than 250 times.

#### Promotion of transparency in public procurements

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

#### Accountability

ESO is an active member of the Association for Responsible Business of Lithuania (LAVA) and a participant

- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

of the Global Compact, a United Nations initiative. In order to increase its accountability to the society, the Company publishes annual corporate social responsibility progress reports, which are presented on its website under the section for investors and the Global Compact website profile ([www.globalcompact.org](http://www.globalcompact.org)).

The latest report of the organisation was published on 28 April 2017.

## THE COMPANY AND ITS MANAGEMENT BODIES

### The Company's organisational structure

Name of the company	Energijos Skirstymo Operatorius AB
Company code	304151376
Authorised share capital	EUR 259,442,796.57
Registered office address	Aguonų g. 24, LT-03212 Vilnius

Telephone (8 5) 277 7524

Fax (8 5) 277 7514

E-mail [info@eso.lt](mailto:info@eso.lt)

Website [www.eso.lt](http://www.eso.lt)

Legal-organisational form Public limited liability company

Date and place of registration 11 December 2015, the Lithuanian Register of Legal Entities

Register accumulating and storing data about the Company Register of Legal Entities

Registrar State enterprise Centre of Registers

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

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

ESO operates 121,698 kilometres of electricity lines: 78.7% of them consist of overhead electricity lines, and 21.3% of electricity cables. The Company also operates 8.4 thousand kilometres of the gas distribution pipelines.

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

## Main information about related companies

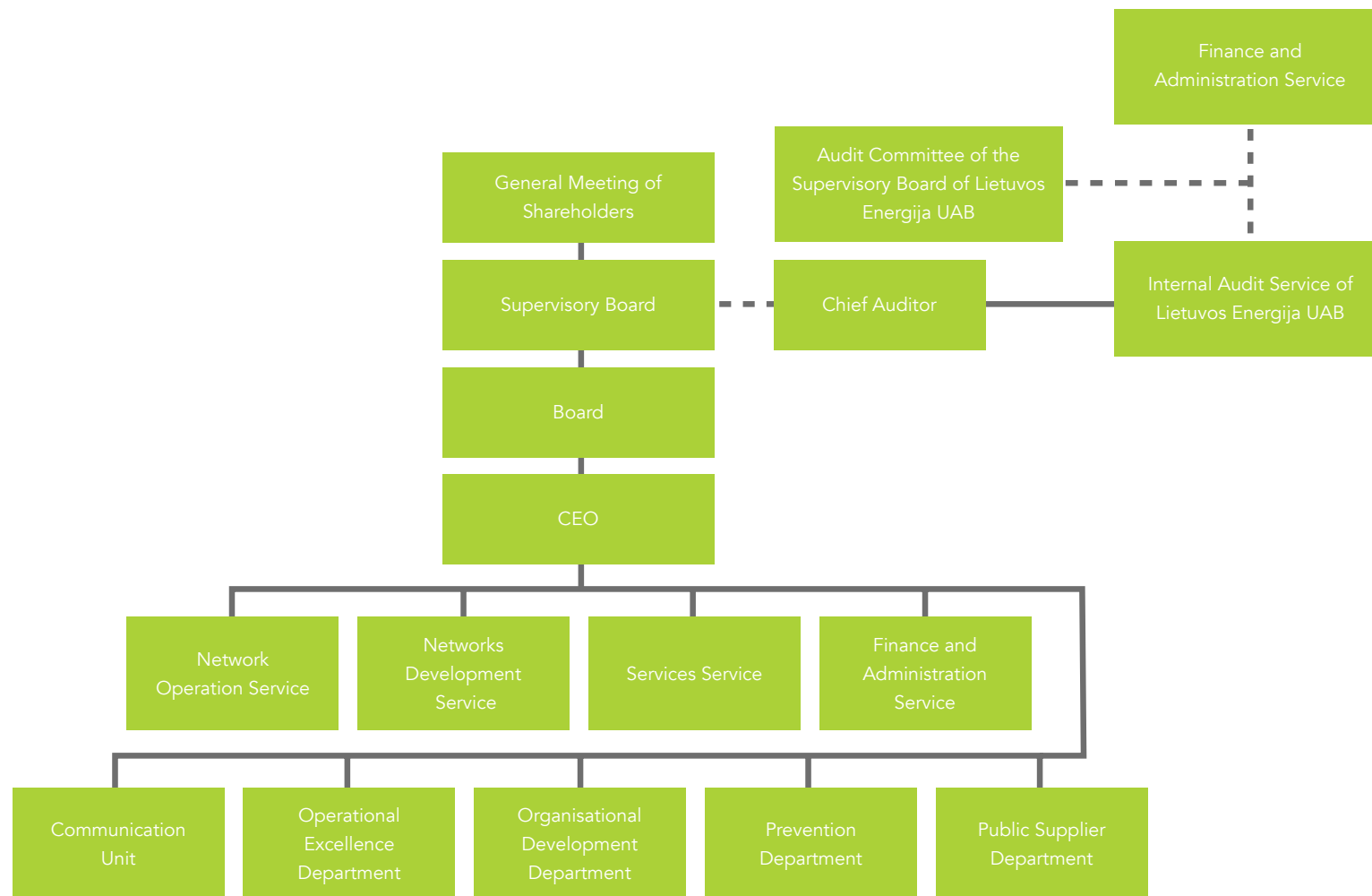
At the date of signing of the report, ESO, jointly with other companies, controlled Verslo Aptarnavimo Centras UAB and Technologijų ir Inovacijų Centras UAB.

	UAB Technologijų ir inovacijų centras	UAB Verslo aptarnavimo centras
Address	A. Juozapavičiaus g. 13, Vilnius	P. Lukšio g. 5B, Vilnius
Registration date	4 December 2013	30 July 2014
Company code	303200016	303359627
Telephone	(8 5) 278 2272	(8 5) 259 4400
Fax	(8 5) 278 2299	(8 5) 259 4401
E-mail	info@etic.lt	vac@le.lt
Website	www.etic.lt	http://vac.le.lt
Ownership interest held by ESO, %, at 1 January 2017	29,01	22.25
Ownership interest held by ESO, %, at 31 December 2017	29,01	22.25
Principal activities	Provision of information technology and telecommunication services for the companies in the energy sector	Provision of services of organisation and performance of public procurements, accounting, administration of employment relationships, customer service, administration of human resources, legal services, consultations and trainings on operational efficiency



- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

## ESO's management structure



- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

## ESO's management

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

## General Meeting of Shareholders

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

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

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

## The Company's Supervisory Board

The Supervisory Board of ESO is a collegial supervisory body.

The competence of the Supervisory Board, the procedure of decision-making, election and removal of its members are established by laws,

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

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

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

- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report



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

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

**Educational background**

Lund University, Doctoral degree in  
Technological Sciences;

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

Kaunas University of Technology,  
Bachelor's degree in Electrical  
Engineering

**Principal workplace**

–



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

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

**Educational background**

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

**Principal workplace**

Lietuvos Energija, UAB,  
Organisational Development Director



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

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

**Educational background**

Vilnius University,  
qualification of an economist

**Principal workplace**

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



- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

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

—\*

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

Name of a company, institution, organisation, position held	Share of capital and votes held, %
---	------------------------------------

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

—\*

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

Name of a company, institution, organisation, position held	Share of capital and votes held, %
---	------------------------------------

Member of the ESO's Supervisory Board	-
---------------------------------------	---

Lietuvos Energija, UAB, Member of the Board (until 1 February 2018), Organisational Development Director	-
--	---

Chairwoman of the Board of Technologijų ir Inovacijų Centras UAB	-
--	---

Chairwoamn of the Board of Verslo Aptarnavimo Centras UAB	-
---	---

Spouse holds 3,150 ordinary registered shares of SOLUTIONLAB PRODUCTION UAB (company code 300629188)	63
--	----

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

2259\*

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

Name of a company, institution, organisation, position held	Share of capital and votes held, %
---	------------------------------------

Independent member of the ESO's Supervisory Board	-
---	---

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

\*\* until 4 October 2017

## Audit Committee

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

The main functions of the Audit Committee are as follows:

- to monitor the process of preparation of financial statements of Lietuvos Energija UAB and the group companies;
- to monitor the effectiveness of internal control and risk management systems of Lietuvos Energija UAB and its Group of companies, to analyse and review the need for such systems and their appropriateness;
- to monitor the adherence to the principles of independence and objectivity by the certified auditor and the audit company, to provide related recommendations;
- to monitor the audit performance processes of Lietuvos Energija UAB and the Group of companies, to examine the effectiveness of audit and response of the administration to the recommendations provided to executive personnel by the audit company;
- to monitor the effectiveness of the internal audit function of Lietuvos Energija UAB and the Group of companies, to analyse the need for such systems and their appropriateness, to provide recommendations on the need for and

effectiveness of the internal audit function, as well as other internal audit related matters.

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

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

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



- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

## **The Company's Board**

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

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

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

During the reporting period, 24 sittings of the Board of ESO were held and all of them were attended by all members of the Board.



- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report



**DALIA ANDRULIONIENĖ**  
(born in 1971)  
Chairwoman of the Board, Chief Executive Officer\*

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



**IGNAS PRANSKEVIČIUS**  
(born in 1985)  
Member of the Board\*

In this position from: 20 January 2017  
End of term of office: 3 December 2019



**AUGUSTAS DRAGŪNAS**  
(born in 1981)  
Member of the Board

In this position from: 19 November 2016  
End of term of office: 3 December 2019



**RYTIS BORKYS**  
(born in 1969)  
Member of the Board

In this position: Until 24 January 2018



**DALIUS SVETULEVIČIUS**  
(born in 1974)  
Member of the Board

In this position: Until 8 March 2017



**SAULIUS VAIČEKAUSKAS**  
(born in 1979)  
Member of the Board\*\*

In this position from: 26 April 2017  
End of term of office: 3 December 2019

#### Educational background

ISM University of Management and Economics, BI Norwegian Business School, Master's degree in Management; Vilnius University, Master's degree in Economics

ISM University of Management and Economics; BI Norwegian Business School, Master's degree in Management; Vilnius University, Master's degree in Economics

Vilnius University, Master's degree in Business Management and Administration

Kaunas University of Technology, higher university education in engineering

Kaunas University of Technology, Master's degree in Measurement Engineering; Vilnius University, Master's degree in Management and Business Administration

Kaunas University of Technology, Master's degree in International Trade and Bachelor's degree in Electrical Engineering

#### Principal workplace and position held

ESO generalinė direktorė

ESO's Services Director

ESO's Finance and Administration Service Director

ESO's Networks Development Service Director (until 10 January 2018)

ESO's Networks Operation Service Director (until 28 February 2017)

ESO's Networks Operation Service Director

<b>DALIA ANDRULIONIENĖ</b> (born in 1971) Chainwoman of the Board, Chief Executive Officer*	<b>IGNAS PRANSKEVIČIUS</b> (born in 1985) Member of the Board*	<b>AUGUSTAS DRAGŪNAS</b> (born in 1981) Member of the Board	<b>RYTIS BORKYS</b> (born in 1969) Member of the Board	<b>DALIUS SVETULEVIČIUS</b> (born in 1974) Member of the Board	<b>SAULIUS VAIČEKAUSKAS</b> (born in 1979) Member of the Board**
---	--	---	--	--	--

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

17376,00	9895,39	10428,00	10428,00	1738,00	7096,85
----------	---------	----------	----------	---------	---------

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

Name of a company, institution, organisation, position held	Share of capital and votes held, %	Name of a company, institution, organisation, position held	Share of capital and votes held, %	Name of a company, institution, organisation, position held	Share of capital and votes held, %	Name of a company, institution, organisation, position held	Share of capital and votes held, %	Name of a company, institution, organisation, position held	Share of capital and votes held, %	Name of a company, institution, organisation, position held	Share of capital and votes held, %
ESO's Chief Executive Officer	-	ESO's Services Director	-	ESO's Finance and Administration Service Director	-	ESO's Networks Development Service Director	0,0001	ESO's Networks Operation Service Director	-		
Member of the Board of Verslo Aptarnavimo Centras	-		-	Member of the Board of Technologijų ir Inovacijų Centras	-						
Member of the Board of Lithuanian National Energy Association											

\*On 20 January 2017, Ignas Pranskevičius was elected as the Company's Board member, who will 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 be in charge of networks operation.

## Chief Executive Officer

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

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

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

### Chief Financier\*\*

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

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

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

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

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

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

## Employees of the Company

The Company's personnel policy focuses on a continuous professional development of employees and formation of an organisational culture ensuring the creation of higher added value for customers, partners and society. The Company had 2,453 employees as at 31 December 2017.

### Structure of the Company's employees by category:

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

### Structure of the Company's employees by educational background:

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



- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

## Remuneration system

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

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

tive employment agreement (for overtime, night work, etc.).

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

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

## Average salary of the Company's employees

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

## Collective employment agreement

ESO has signed a collective employment agreement with social partners which ensures greater protection and more additional benefits to the employees of ESO that are not provided for in the Labour Code of the Republic of Lithuania. The objective of the collective employment agreement is to ensure effective operations of the Company and represent rights and legitimate interests of all employees of the Company. The agreement lays down employment,

- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

remuneration, social, economic and professional conditions, and guarantees that are not regulated by laws or other normative legal acts. Employees are provided with additional guarantees, such as payments in case of accident, sickness, death of a close family member, childbirth grant, additional days of paid leave after the birth of a child, marriage payment and other payments.

#### Trade unions

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

#### Development of competences

ESO gives particular attention to the development of employees' competences. Development plans are drawn up every year taking into account the Company's objectives and the matching of employees'

competences with the achievement of these objectives. The training courses organised focus on effective and high-quality ensurance of the maintenance of the electricity and gas distribution networks, customer service and safety of works.

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

In the period between January and December 2017, the general training courses were attended by 3,894 participants. These courses are organised by sending individual employees to attend seminars and conferences organised by external suppliers (in Lithuania and abroad) and by forming groups within the Company.

The Company seeks to encourage the engagement of the organisation's employees, i.e. lecturers within the organisation with specific knowledge and skills able to share them with others, in the programmes for competence development, also invests in the training of staff. In 2017, 3,435 participants attended internal training courses. A large part of these trainings was dedicated to the personnel in charge of the operation of electro-mechanic and gas systems, aiming to improve their qualification, upgrade already acquired skills, and make them acquainted with new methodologies. Trainings on customer service and other trainings organised by the Accounting Department also comprised a significant proportion. In order to ensure the effectiveness of internal processes, employees are introduced to the initiatives and programmes implemented by the Company, for example, the programmes on operational excellence and employee performance management.

Training programmes are developed in close cooperation with the providers of training programmes, surveys are conducted to assess the quality of trainings. ESO also coop-

- Key operating and financial indicators of the Company for the reporting period
- CEO's foreword
- Most significant events in the reporting period
- Analysis of the financial and operating indicators
- Factors affecting the Company's financial indicators
- Information on the Company's authorised share capital and securities
- Customer service, service assessment
- Corporate social responsibility
- The Company and its management bodies
- Material events in the Company's activities
- Methodology for the calculation of indicators presented in the annual report

erates regularly with manufacturers and suppliers of equipment who share their knowledge with employees by presenting innovations in the field of energy.

In 2017, ESO provided partial funding for the studies of 10 employees at the Lithuanian higher education institutions aiming to improve professional qualification of workers and develop competences of managers. Employees have the opportunity to study the programmes on energy and management that are related to the Company's activities.

### Internship opportunities

ESO actively cooperates with educational institutions and allows university and college students to apply their theoretical knowledge and gain practical skills. In 2017, 31 students completed internship at ESO across the territory of Lithuania. The Company provides students not only with the possibility to complete their mandatory internship, but also welcomes motivated and enthusiastic students who wish to voluntarily enrol in job training with the Company.

### Other committees

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

### Risk Management Supervision Committee

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

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

- to monitor the identification, assessment, and management of risks relevant for the accomplishment of the goals of Lietuvos Energija UAB and the Group of companies;
- to assess the relevance of internal control procedures and risk management measures with respect to identified risks;

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



#### 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	0	2013 m. rugsėjo mėn. – 2017 m. rugpjūčio mėn.	GRINVEST PTE. LTD direktorius, UAB „Kaštonų kalva“ plėtos vadovas
Raimundas Petrauskas (Independent member)	0	September 2013–August 2017	Schmitz Cargobull Baltic UAB
Donatas Kaubrys	0	2013 m. spalio mėn. – 2017 m. spalio mėn.	„Dovirma“, UAB
Tomas Garasimavičius	0	September 2013–August 2017	Government of the Republic of Lithuania

#### Nomination and Remuneration Committee

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

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

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



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

#### Composition of the Nomination and Remuneration Committee of Lietuvos Energija UAB at the end of the reporting period

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





## MATERIAL EVENTS IN THE COMPANY'S ACTIVITIES

### Material events during the reporting period

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

#### Information on material events announced by ESO from 1 January 2017

Date	Material event
12 January 2017	Regarding the modification of energy operating licence
20 January 2017	Member of the Board of Energijos Skirstymo Operatorius AB has been elected
27 January 2017	Regarding long-term loan agreement
31 January 2017	Preliminary ESO results for 2016: net profit up by 8.6% to EUR 92.86 million
3 February 2017	Regarding the installation of the LNG regasification station in Druskininkai
28 February 2017	ESO 2016 results: operating expenses down by 11.5%, net profit up by 8.2%
28 February 2017	Regarding member of the Board resignation
2 March 2017	Regarding the Ordinary General Meeting of Shareholders of Energijos Skirstymo Operatorius AB
8 March 2017	Regarding the recall of the Member of the Board
8 March 2017	Regarding the resolutions of Energijos Skirstymo Operatorius AB Supervisory Board

24 March 2017	ESO audited financial results of 2016 has been approved
24 March 2017	Regarding the resolutions of Ordinary General Meeting of Energijos Skirstymo Operatorius AB Shareholders
5 April 2017	Regarding a public call for tenders to install of the LNG regasification station in Druskininkai
11 April 2017	Regarding the candidate to the Board of Energijos Skirstymo Operatorius AB
27 April 2017	Member of the Board of Energijos Skirstymo Operatorius AB has been elected
28 April 2017	Preliminary ESO results for three months of 2017: revenue decreased due to lowered prices of services
28 April 2017	ESO Published the First Progress Report on Corporate Social Responsibility
15 May 2017	ESO 2017 Q1 results: operational efficiency continues to grow as prices of services decline
19 May 2017	Regarding the decision of the Board of Energijos Skirstymo Operatorius AB to reduce natural gas distribution prices from July 1, 2017
31 May 2017	NCECP Approved Natural Gas Distribution Prices
31 May 2017	Preliminary ESO results for four months of 2017: revenue decreased due to lowered prices of services
21 June 2017	Regarding Court Decision
30 June 2017	Preliminary ESO results for five months of 2017: revenue reached EUR 264 million, EBITDA - EUR 68 million
5 July 2017	Regarding a planned separation of public supply of electricity energy
31 July 2017	Preliminary ESO results for six months of 2017: net profit reached EUR 46 million, revenue - EUR 308 million
31 August 2017	ESO 2017 six months results: investments in renewal and development of networks up by 45%
6 September 2017	Regarding the Extraordinary General Meeting of Shareholders
20 September 2017	Regarding the resolutions of the Supervisory Board of Energijos Skirstymo Operatorius AB



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

30 November 2017	Regarding announced electricity prices for 2018
30 November 2017	Preliminary ESO results for ten months of 2017: revenue reached EUR 500.2 million, EBITDA – EUR 115.5 million
19 December 2017	Regarding the public electricity price cap for 2018
20 December 2017	Regarding the Board of ESO decision to change electricity prices as of 2018
22 December 2017	Regarding announced electricity prices for 2018
22 December 2017	Regarding Investor Calendar for 2018

## MATERIAL EVENTS IN THE COMPANY'S ACTIVITIES

### Material events during the reporting period

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

### Information on material events announced by ESO from 1 January 2017

### Material events after the end of the reporting period

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

## METHODOLOGY FOR THE CALCULATION OF INDICATORS PRESENTED IN THE ANNUAL REPORT

**Debt ratio** = liabilities / assets

**Debt to assets ratio** = borrowings (non-current borrowings + current borrowings) / assets

**Liabilities to equity ratio** = liabilities / equity

**Debt to equity ratio** = borrowings / equity

**Net borrowings** = borrowings – cash and cash equivalents

**Net borrowings to equity ratio** = net borrowings / equity

**Long-term debt to equity ratio** = non-current borrowings / equity

**General solvency ratio** = equity / liabilities

**Equity to assets ratio** = equity / assets

**Share price to earnings ratio** = the price per share at the end of the period / (net earnings/number of shares)

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

**Current ratio** = current assets / current liabilities

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

**Cash ratio** = cash and their equivalents / current liabilities

**Working capital** = current assets – current liabilities

**Working capital to total assets ratio** = working capital / assets