

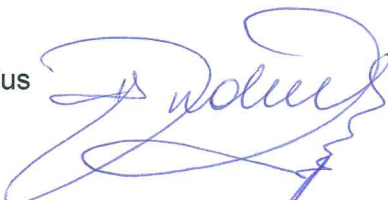
2017-11-17

Nr. 2340-2/17

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 nine month period ended 30 September 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 nine-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 THIRD QUARTER OF 2017 AND NINE-MONTHS PERIOD ENDED 30 SEPTEMBER 2017, PREPARED ACCORDING TO INTERNATIONAL ACCOUNTING STANDARD 34, 'INTERIM FINANCIAL REPORTING' AS ADOPTED BY THE EUROPEAN UNION (UNAUDITED)



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Translation note:


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

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Condensed interim financial information was approved on 17 September 2017 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 Andrulionienė
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)

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

All amounts are in EUR thousand unless otherwise stated

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Notes	At 30 September 2017	At 31 December 2016
ASSETS			
Non-current assets			
Property, plant, and equipment	3	1,114,657	1,020,541
Intangible assets	3	4,594	3,573
Prepayments for property, plant, equipment		4	4
Investments in associates		2,515	2,346
Other non-current financial assets		6,292	5,836
		1,128,062	1,032,300
Current assets			
Inventories		2,639	1,731
Trade and other receivables		49,425	61,092
Prepayments, deferred charges and accrued income		6,517	6,311
		291	-
Cash and cash equivalents		3,515	10,662
		62,387	79,796
Total assets		1,190,449	1,112,096
EQUITY AND LIABILITIES			
Equity			
Share capital	4	259,443	259,443
Revaluation reserve		46,054	49,864
Legal reserve		25,910	25,910
Retained earnings		255,552	287,978
Total equity		586,959	623,195
LIABILITIES			
Non-current liabilities			
Borrowings		143,998	161,650
Deferred income tax liability		11,646	6,955
Deferred income		113,195	113,543
Grants and subsidies		19,833	20,477
Non-current employee benefits		1,621	2,949
Other non-current liabilities		3	3
		290,296	305,577
Current liabilities			
Borrowings		148,782	57,431
Trade and other payables		130,300	86,834
Advance amounts received, accrued charges and deferred income		34,112	32,080
Income tax payable		-	6,979
		313,194	183,324
Total liabilities		603,490	488,901
Total equity and liabilities		1,190,449	1,112,096

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

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

All amounts are in EUR thousand unless otherwise stated

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

	Q1-3 2017	Q3 2017	Q1-3 2016	Q3 2016
Revenue	443,152	137,319	475,888	143,748
Other income	3,102	1,150	2,890	1,076
Purchases of electricity and related services	(273,398)	(88,053)	(281,978)	(86,320)
Purchase (expenses) of natural gas and transmission services	(2,506)	(881)	(2,305)	(676)
Depreciation and amortisation	(37,135)	(12,724)	(34,059)	(11,672)
Employee benefits and related social security contributions	(30,556)	(10,374)	(33,812)	(10,316)
Repair and maintenance expenses	(11,161)	(4,264)	(13,440)	(4,597)
Transport costs	(3,314)	(1,101)	(3,393)	(1,124)
Telecommunications and IT services	(6,757)	(2,415)	(5,874)	(1,551)
Rent and utilities	(3,049)	(1,002)	(3,057)	(1,051)
Impairment and write-off expenses	(1,910)	(1,535)	(2,491)	(734)
Other expenses	(13,279)	(4,763)	(11,982)	(3,958)
Operating profit	63,189	11,357	86,387	22,825
Finance income	856	301	679	204
Finance costs	(1,373)	(525)	(1,678)	(414)
Finance costs – net	(517)	(224)	(999)	(210)
	281	210	-	-
Profit before income tax	62,953	11,343	85,388	22,615
Income tax	(6,273)	(960)	(12,974)	(3,417)
Net profit for the period	56,680	10,383	72,414	19,198
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	56,680	10,383	72,414	19,198
Weighted average number of shares, in thousand	894.630.333	894.630.333	894.630.333	894.630.333
Basic and diluted earnings per share (in EUR) attributable to owners of the Company	0.063	0.012	0,081	0,021

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

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

All amounts are in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Revaluation reserve	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2016		259,443	55,520	25,910	232,940	573,813
Comprehensive income						
Net profit for the period		-	-	-	72,414	72,414
Total comprehensive income for the period		-	-	-	72,414	72,414
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(4,117)	-	4,117	-
Dividends	5	-	-	-	(43,120)	(43,120)
Balance at 31 September 2016		259,443	51,403	25,910	266,351	603,107
Balance at 1 January 2017		259,443	49,864	25,910	287,978	623,195
Comprehensive income						
Net profit for the period		-	-	-	56,680	56,680
Total comprehensive income for the period		-	-	-	56,680	56,680
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(3,810)	-	3,810	-
Dividends	5	-	-	-	(92,916)	(92,916)
Balance at 31 September 2017		259,443	46,054	25,910	255,552	586,959

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

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376 Agonų str. 24, Vilnius, Lithuania
CONDENSED INTERIM STATEMENT OF CASH FLOWS
for the nine-month period ended 30 September 2017

All amounts are in EUR thousand unless otherwise stated

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Notes	Q3 of 2017	Q3 of 2016
Cash flows from operating activities			
Net profit		56,680	72,414
Adjustments for:			
Income tax expense		6,273	12,974
Depreciation and amortisation	3,6	37,997	35,026
Depreciation of grants	6	(862)	(967)
		(281)	-
(Gain)/loss on disposal and write-off of property, plant and equipment		2,828	2,127
Finance (income)		(80)	(679)
Finance costs		597	1,678
Changes in working capital:			
Trade and other receivables		12,119	11,554
Inventories, prepayments, deferred expenses and accrued income		(1,708)	(915)
Trade and other payables, advance amounts received, accrued expenses and deferred income		393	871
Cash generated from operating activities		113,956	134,083
Income tax paid		(5,639)	(25)
Net cash generated from operating activities		108,317	134,058
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(138,527)	(88,046)
Proceeds from sale of property, plant and equipment and investment property		-	11,991
Grants received		222	241
Loans (granted)		(2,919)	-
Loan repayments received		4,482	68
Dividends received		112	58
Interest received		74	120
Net cash used in investing activities		(136,556)	(75,568)
Cash flows from financing activities			
Proceeds from borrowings		128,411	1,500
Repayments of borrowings		(76,515)	(34,947)
Dividends paid to the Company's shareholders		(51,213)	(43,120)
Interest paid		(1,396)	(1,312)
Net cash used in financing activities		(713)	(77,879)
(Decrease) increase in cash and cash equivalents		(28,952)	(19,389)
Cash and cash equivalents at the beginning of the year (including overdraft balance)		10,662	5,836
Cash and cash equivalents at the end of the period (including overdraft balance)		(18,290)	(13,553)

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

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

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

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

As at 30 September 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
			30 September 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 a nine-month period ended 30 September 2017 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applicable to interim financial reporting (International Accounting Standard (IAS) 34, 'Interim financial reporting'). This unaudited condensed interim financial information should be read together with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with IFRS as adopted by the European Union.

Financial year of Company coincides with the calendar year.

The accounting policies applied in the preparation of this condensed interim financial information are consistent with those of the annual financial statements for the year ended 31 December 2016.

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

3 Intangible assets and property, plant, and equipment

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

Company	Intangible assets	Property, plant and equipment
The period ended at 30 September 2017		
Net book value at the beginning of the period	3,573	1,020,541
Additions	2,544	133,422
Sales	-	(40)
Write-offs	-	(2,792)
Amortisation /depreciation	(1,523)	(36,474)
Net book value at 30 September 2017	4,594	1,114,657

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376 Aguonų str. 24, Vilnius, Lithuania
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
for the nine-month period ended 30 September 2017

All amounts are in EUR thousand unless otherwise stated

4 Share capital

As at 30 September 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

	At 30 September 2017	At 30 September 2016
Approved dividends (thousands)	92,916	43,120
Weighted average number of shares (thousands)	894,630	894,630
Approved dividends per share (in EUR)	0.104	0.048

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 nine-month period ended 30 September 2017 is presented below:

Q3 2017	Electricity supply and distribution	Gas distribution	Total
Revenue	410,114	36,140	446,254
Expenses	(326,337)	(17,683)	(344,020)
EBITDA	83,777	18,457	102,234
Depreciation and amortisation	(31,475)	(5,660)	(37,135)
Impairment and write-off expenses	(1,726)	(184)	(1,910)
Operating profit	50,576	12,613	63,189
Finance income	622	234	856
Finance (costs)	(1,147)	(226)	(1,373)
Share of (profit) of associates	238	43	281
Profit before income tax	50,289	12,664	62,953
Income tax	(5,233)	(1,040)	(6,273)
Net profit for the period	45,056	11,624	56,680

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376 Aguonų str. 24, Vilnius, Lithuania
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
for the nine-month period ended 30 September 2017

All amounts are in EUR thousand unless otherwise stated

6 Segment reporting (continued)

Company's information about operating segments for the nine-month period ended 30 September 2016 is presented below:

Q3 2016	Electricity supply and distribution	Gas distribution	Total
Revenue	439,230	39,548	478,778
Expenses	(336,619)	(19,223)	(355,842)
EBITDA	102,611	20,325	122,936
Depreciation and amortisation	(27,806)	(6,252)	(34,059)
Impairment and write-off expenses	(2,439)	(52)	(2,491)
Operating profit	72,366	14,021	86,387
Finance income	563	116	679
Finance (costs)	(1,268)	(410)	(1,678)
Profit before income tax	71,661	13,727	85,388
Income tax	(9,779)	(3,195)	(12,974)
Net profit for the period	61,882	10,532	72,414

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 September of 2017 and the balances arising on these transactions as at 30 September 2017 are as follows:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Parent company Lietuvos energija, UAB	23,067	5,390	892	87
Associates	4,644	-	15,615	-
Lietuvos energija, UAB group companies	15,132	3,930	53,545	30,812
EPSO-G UAB group companies	25,699	5,706	139,134	403
Total	68,542	15,026	209,186	31,302

The Company's transactions with related parties between January and September 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	478	313
Associates	2,565	3	12,634	-
Lietuvos energija, UAB group companies	7,797	9,027	58,604	32,743
EPSO-G UAB group companies	29,484	4,099	143,339	893
Total	40,081	18,952	215,055	33,949

Compensation to key management personnel

Company	2017 Q 3	2016 Q 3
Wages and salaries and other short-term benefits to management personnel	508	395
Whereof: termination benefits	81	-
Number of key management personnel	7	8

Management includes heads of administration and their deputies.

8 Events after the reporting period

Company signed a Proportional Transfer Agreement for Green Bonds (hereinafter referred to as the Agreement) on 13 October, 2017 with Lietuvos Energija, UAB (hereinafter referred to as "Lietuvos energija") for 100 million EUR of the issue of green bonds transfer to the Company.

On 16 October, 2017 the National Control Commission for Prices and Energy (hereinafter – Commission) established electricity distribution price caps for 2018.

Tripartite debt and transfer rights and obligations agreements with Lietuvos Energija, UAB, and creditors of the Company (with each separately): OP Corporate Bank plc and AB SEB bank, were signed on November 8, 2017, by which the Company transfers to Lietuvos energija, UAB, its entire debt obligation, together with all rights and obligations to creditors arising from loan agreements, and Lietuvos Energija, UAB, from the moment the contracts enter into force, take over from the Company all debts to creditors together with all other rights and obligations arising from the loan agreements.

Bilateral loan agreements between Lietuvos energija, UAB, and the Company have also been concluded on November 8, 2017, the essential conditions of which will coincide with the essential conditions of the aforementioned loan agreements.

On 9 November, 2017 the National Control Commission for Prices and Energy (hereinafter – Commission) set the natural gas distribution price cap for 2018.



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ENERGIJOS SKIRSTYMO OPERATORIUS AB INTERIM REPORT

REPORT FOR THE NINE-MONTH PERIOD
ENDED 30 SEPTEMBER 2017



Group of energy companies www.le.lt



Content

INTERIM REPORT

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THE REFERENCE PERIOD COVERED BY THE REPORT

THE REPORT COVERS THE PERIOD BETWEEN JANUARY-SEPTEMBER 2017

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

One can get acquainted with the reports and the documents, on the basis of which it was prepared, on working days Mondays through Thursdays 7.30-16.30, on Fridays 7.30-15.15 at the head office of Energijos Skirstymo Operatorius AB, the Department of Communication (Aguonų St. 24,

Vilnius, Room 535). The report is also available on the website of Energijos Skirstymo Operatorius at www.eso.lt and the website of the AB Nasdaq Vilnius Stock Exchange at www.nasdaqombaltic.com.

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

THE PERSONS RESPONSIBLE FOR THE INFORMATION PROVIDED IN THE REPORT

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

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

The date of signing the report

The report was signed on 17 November 2017.

Due to financial results comparison

Presented the financial results of ESO for nine months of 2016 are compared with a joint LESTO AB (hereinafter – LESTO) and Joint Stock company Lithuania Dujos (hereinafter – Lietuvos Dujos) financial statements, after eliminating intercompany transactions.

MAIN OPERATIONAL AND FINANCIAL FIGURES AND RATIOS

MAIN ACTIVITY INDICATORS OF ESO



Distributed electricity in medium and low voltage grids
(TWh)

+2,88 %
0,19



Public and guaranteed supply
(TWh)

+2,15 %
0,05



Distributed natural gas amount
(TWh)

+2,70 %
0,13



NETWORK QUALITY INDICATORS

ELECTRICITY



SAIDI

min. (with „force majeure“)

-39,15 min.

144,67 ▶ 105,52

2016 m. 9 months

2017 m. 9 months



SAIFI

times. (with „force majeure“)

+0,03 pcs.

0,96 ▶ 0,99

2016 m. 9 months

2017 m. 9 months

GAS



SAIDI

min. (with „force majeure“)

+0,41 min.

0,46 ▶ 0,87

2016 m. 9 months

2017 m. 9 months



SAIFI

times (with „force majeure“)

0,0 pcs.


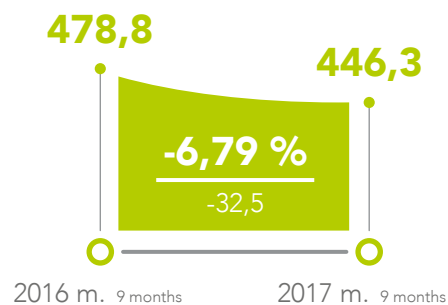
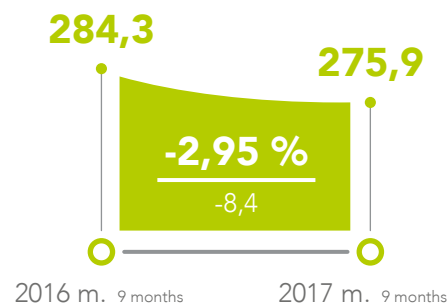
0,05 ▶ 0,05

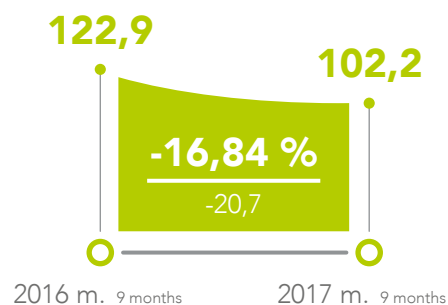
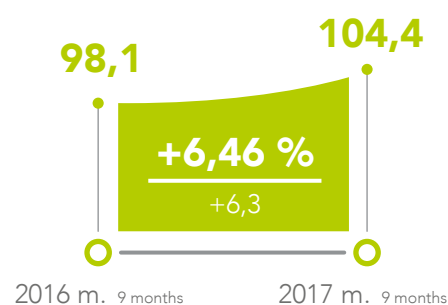
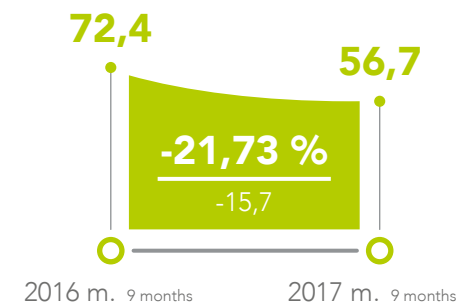
2016 m. 9 months

2017 m. 9 months



KEY FINANCIAL INDICATORS OF ESO

 Revenue (M EUR)

 Purchase of electricity, gas and related services (M EUR)

 Operating expenses (1) (M EUR)

 EBITDA (2) (M EUR)

 Adjusted EBITDA* (M EUR)

 Net profit (loss) (M EUR)

 EBITDA margin (3) (%)


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

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

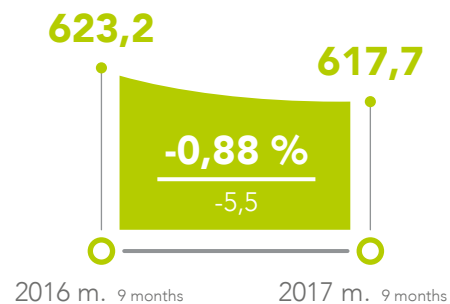
(3) EBITDA margin = EBITDA / revenue;

KEY FINANCIAL INDICATORS OF ESO

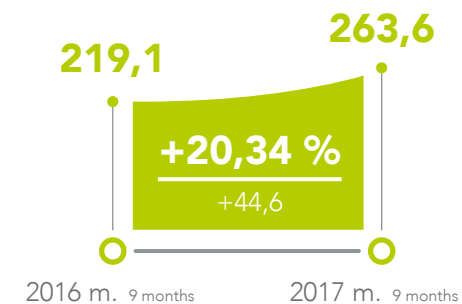
Total assets (M EUR)



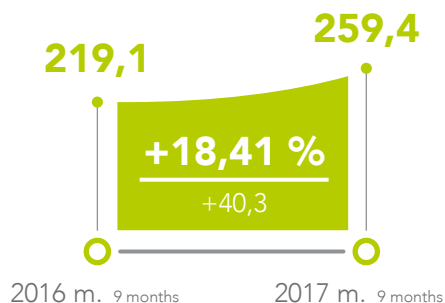
Equity (M EUR)



Financial debt (M EUR)



Net financial debt (4) (M EUR)



Return on equity

(ROE) (5) (%)



Return on assets

(ROA) (%)



Equity level (7) (%)

Net financial debts /
EBITDA of 12 months (times)Net financial debts /
Equity (%)

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

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

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

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

CEO'S FOREWORD

Dear All,

The third quarter of 2017 brought an abundance of news to our clients. As up to present, we have paid particular regard to improving the quality of customer services, developing new services, and upgrading the electricity grid.

With a growing number of meteorological phenomena across Lithuania and recognising the customers' need to obtain information quickly and conveniently, this year we have introduced a 24/7 free phone number **1852** for recording faults. We have also improved the customers' notification of power disconnection via text messages. We are delighted that these changes have already received positive feedback from our customers.

This year we are continuing to increase investment in the safety and reliability of the power distribution grid. In the first nine months of this year, investment in the upgrade of the power distribution grid increased by 52%, as compared to the same time last year, and accounted for almost EUR 73 million. This year we have laid over 1,300 km of underground power cables. This is 2.6 times more than during the respective period last year.

In order to provide the customers with more convenient services, we started offering installation of an internal power grid in September. We have launched this service because we have observed that people were facing inconvenience and extra concerns as they had to find somebody to carry out works and oversee the process. Another innovation that we have introduced in consideration of the customers' queries and wishes is personalised power meter boxes of a chosen colour. From now on, the customers connecting to the power network are able to choose from 8 colour options on offer instead of meter boxes in the usual grey colour. For those willing to have their homes or premises heated using gas, we have introduced an autonomous gas supply system to be installed in just 10 days. Those who have opted for this service will not have to acquire the entire system outright as ESO will allow leasing the equipment for the desired period of time, whereas a smart system will ensure continuous supply of gas.

To mitigate the concerns of new residents when resolving the matters pertinent to power and communication services, in partnership with the telecommunications company Telia we have introduced a joint project of installing power and communication networks. We have installed an underground ESO power grid and Telia fibre in one of the residential neighbourhoods in Vilnius. We are continuing to develop this area



further and we are planning to offer a joint network installation service to all fibre optic broadband providers.

I am particularly pleased that ESO efforts in improving the process of having power connected to new customers have recently been appreciated by the World Bank experts. In the Doing Business 2018 ranking published by the World Bank, Lithuania moved up to the 33rd position in terms of the index pertinent to getting electricity, i.e., by 22 positions higher than a year ago. This is the best result among the Baltic States. Better conditions for having power connected are our contribution to increasing attractiveness of the entire country to investors and improving conditions for the business engaged in development.

Sincerely,
Dalia Andrulionienė
CEO and Chair of the Board

A handwritten signature in black ink, which appears to read 'D. Andrulionienė', followed by a horizontal line.

SIGNIFICANT EVENTS TO THE COMPANY DURING THE REPORTING PERIOD

MODIFICATION OF THE ENERGY OPERATING LICENCE

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

ELECTION OF A MEMBER OF THE BOARD

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

CONCLUSION OF THE LONG-TERM LOAN AGREEMENT

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

INSTALLATION OF THE LNG REGASIFICATION STATION IN DRUSKININKAI

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

RESIGNATION OF A MEMBER OF THE BOARD

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

APPROVAL OF ESO'S AUDITED FINANCIAL RESULTS FOR 2016

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

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

RESOLUTIONS OF THE ORDINARY GENERAL MEETING OF SHAREHOLDERS

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

PUBLIC PROCUREMENT FOR THE INSTALLATION OF THE LNG REGASIFICATION STATION IN DRUSKININKAI

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

CANDIDATE TO THE BOARD OF ENERGIJOS SKIRSTYMO OPERATORIUS AB

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

ELECTION OF A MEMBER OF THE BOARD OF ENERGIJOS SKIRSTYMO OPERATORIUS AB

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

ADOPTION OF A DECISION ON THE REDUCTION OF THE PRICES OF THE NATURAL GAS DISTRIBUTION SERVICE FROM 1 JULY 2017

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

APPROVAL OF THE PRICES FOR THE NATURAL GAS DISTRIBUTION SERVICE BY THE NATIONAL CONTROL COMMISSION FOR PRICES AND ENERGY

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

PASSING OF THE COURT'S RULING

The Company informs that on 20 June 2017 the Lithuanian Supreme Administrative Court passed a ruling whereby the Company's appeal dated 10 February 2016 was rejected in which the Company requested to annul the decision of Vilnius Regional Administrative Court of 26 January 2016 whereby Vilnius Regional Administrative Court rejected the claim of ESO regarding the annulment of resolution No O3-947 of the National Control Commission for Prices and Energy (the Commission) dated 19 December 2014 On the Scheduled Audit of LESTO AB, resolutions No O3-944, O3-945, O3-946 of the Commission dated 19 December 2014 and resolution No O3-960 dated 23 December 2014 and the obligation for the Commission to evaluate revenue unearned by the Company and additional costs incurred due to illegitimate price caps established during the validity period of these resolutions. The Lithuanian Supreme Administrative Court noted that it does not carry out an economic evaluation and investigation which is assigned to the Commission and stated that the ruling of the court of the first instance is legitimate and grounded.

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

REGARDING A PLANNED SEPARATION OF PUBLIC SUPPLY OF ELECTRICITY ENERGY

Company informs, that in the extent of the company group of "Lietuvos energija", UAB, the project of separation of public supply of electricity energy is initiated (hereinafter – Project). During the implementation of the Project, it is planned to separate activities of the Company: public electricity supply shall be separated from electricity distribution, by transferring it to another company controlled by the company group of "Lietuvos Energija", UAB. It is expected that Project will contribute to more efficient and more transparent implementation of European Union policy on the energy sector since energy supply is not a part of the infrastructure segment.

It is noted that no specific management decisions are taken. The Company will inform about any further decisions in accordance with the procedure established by law.

REGARDING THE RESOLUTIONS OF EXTRAORDINARY GENERAL MEETING OF ENERGIJOS SKIRSTYMO OPERATORIUS AB SHAREHOLDERS

On 29 September, 2017 the Extraordinary General Meeting of Shareholders of the Company approved the interim Report of for the period of six months of 2017, approved the set of interim Financial Statements for the period of six months of 2017, audited by "PricewaterhouseCoopers" UAB, the Company's auditor and approved the allocation of dividends in the amount of 0,046 EUR per share for shareholders for the period shorter than financial year as of the end of 30 June 2017.

REGARDING THE RESIGNATION OF THE CHAIRMAN OF THE SUPERVISORY BOARD OF ENERGIJOS SKIRSTYMO OPERATORIUS AB

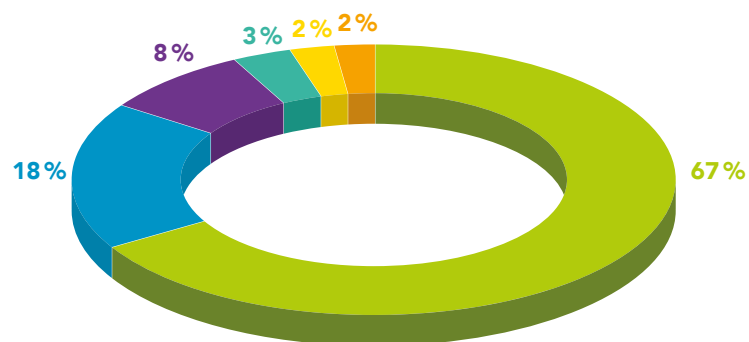
The Company notifies that it has received a notification from Dalius Misiūnas on his resignation from the position of the Chairman of the Supervisory Board. The last serving day of Chairman of the Supervisory Board of the Company is 2017 October 4.

The Company will notify regarding the election of the new member of the Supervisory Board in accordance with the laws.



ANALYSIS OF PERFORMANCE RESULTS

ESO INCOME STRUCTURE

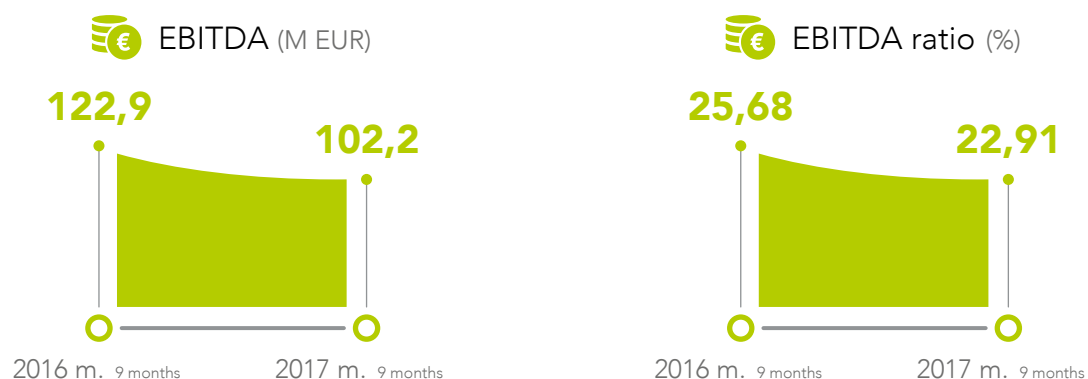


- Income from electricity distribution
- Income from public supply
- Income from gas distribution
- Income from guarantee supply
- Income from new customers connection
- Other income

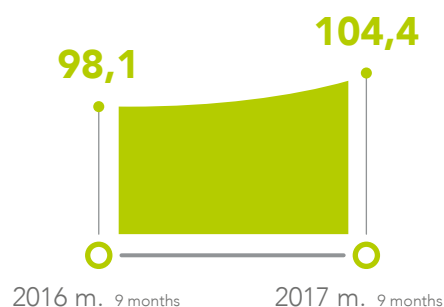
During nine months of 2017 ESO revenue reached EUR 446.3 million. Compared to the January-September of 2016 ESO revenue decreased by 6.8 %. Revenue grew due to increased electricity transmission volume and increased gas distribution volume. The main source of Company's income is income from electricity distribution.

During the nine months of 2017 income from network service made up 67% of total company's income. Income from public supply service consisted 18%, income from gas distribution – 8% from total revenue.

EBITDA* RATIO



Adjusted EBITDA** (M EUR)



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

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

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

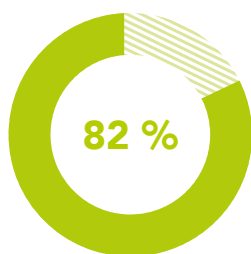
During nine months of 2017 ESO EBITDA amounted EUR 102.2 million, and compared to the same period in 2016, EBITDA decreased by 16.84%.

COSTS

During nine months of 2017 electricity, natural gas purchase and related services costs made up EUR 275.9 million and, compared to the same period of 2016, decreased by 2.9 %.



This was mainly influenced by decreased electricity transport volumes and increased transmission cost as well as higher natural gas volumes. During the reporting period electricity, natural gas purchase and related services costs amounted to EUR 313.0 million, which made up 82% of total ESO costs.

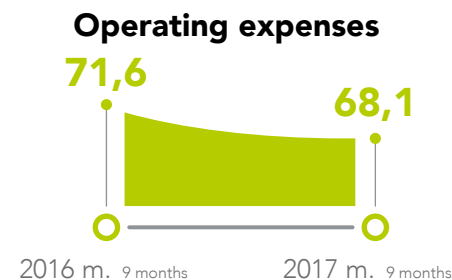
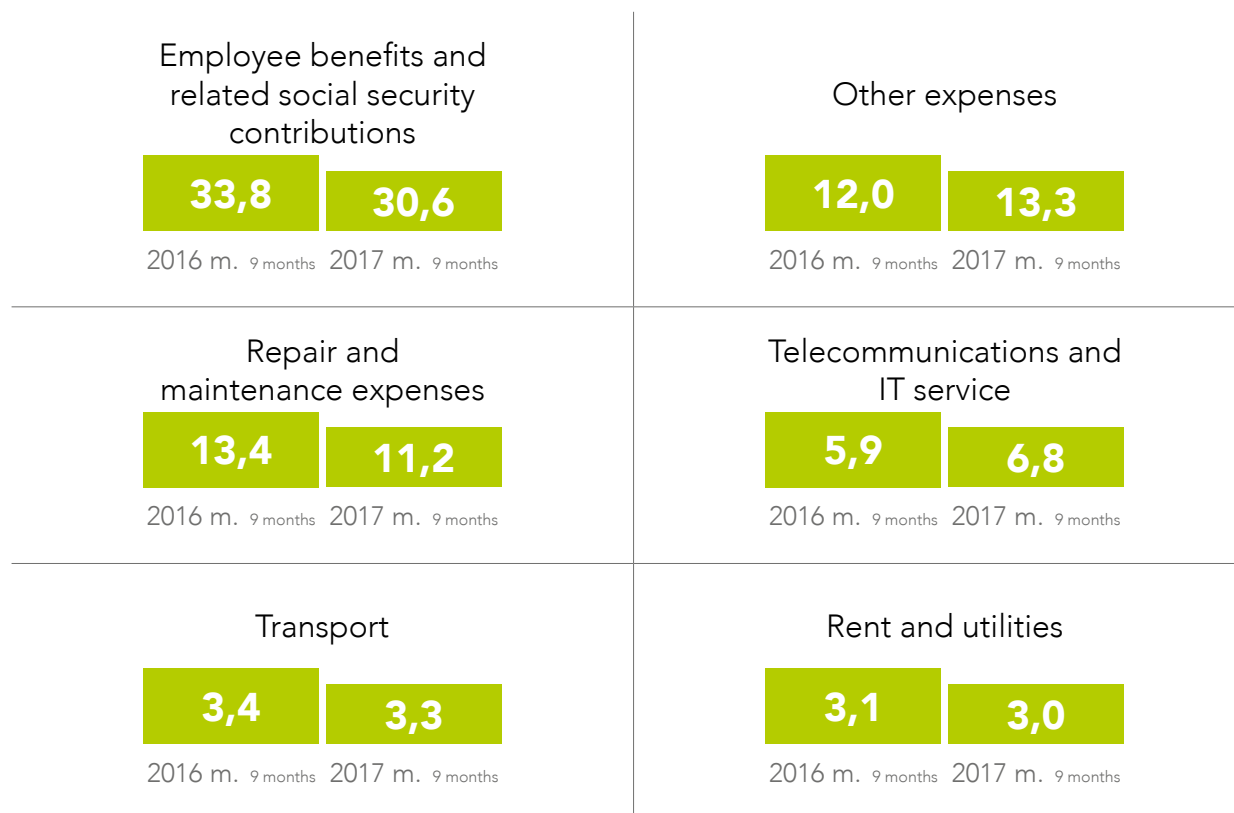


Operating expenses¹ amounted to EUR 68.1 million. Compared with nine months of 2017 operating expenses decreased by 4.8%. Employee benefits and related social security contributions, as well as repair and maintenance expenses, decreased by most - respectively 9.6% and 17.0%.

¹ Operating expenses (OPEX) = operating expenses, excluding the costs of purchase of electricity, natural gas and related services, costs of depreciation,

amortisation and value impairment and costs write-offs of tangible fixed assets

ESO OPERATING EXPENSES IN THOUSAND EUR

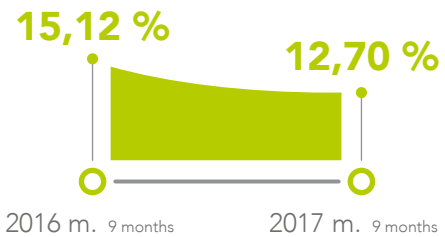


PROFIT, LOSS AND PROFITABILITY RATIOS

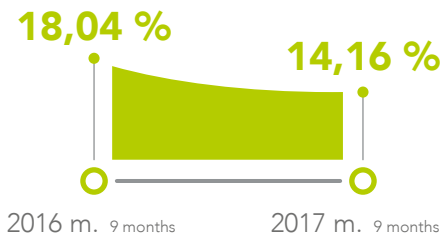
During nine months of 2017 ESO net profit amounted to EUR 56.7 million and compared to the same period in 2016 it increased by 21.7%. Decline of net profit resulted from lower prices of electricity and natural gas established for the Company's customers.

ESO PROFITABILITY RATIOS

Net profit margin (%)



Operating profit margin (%)



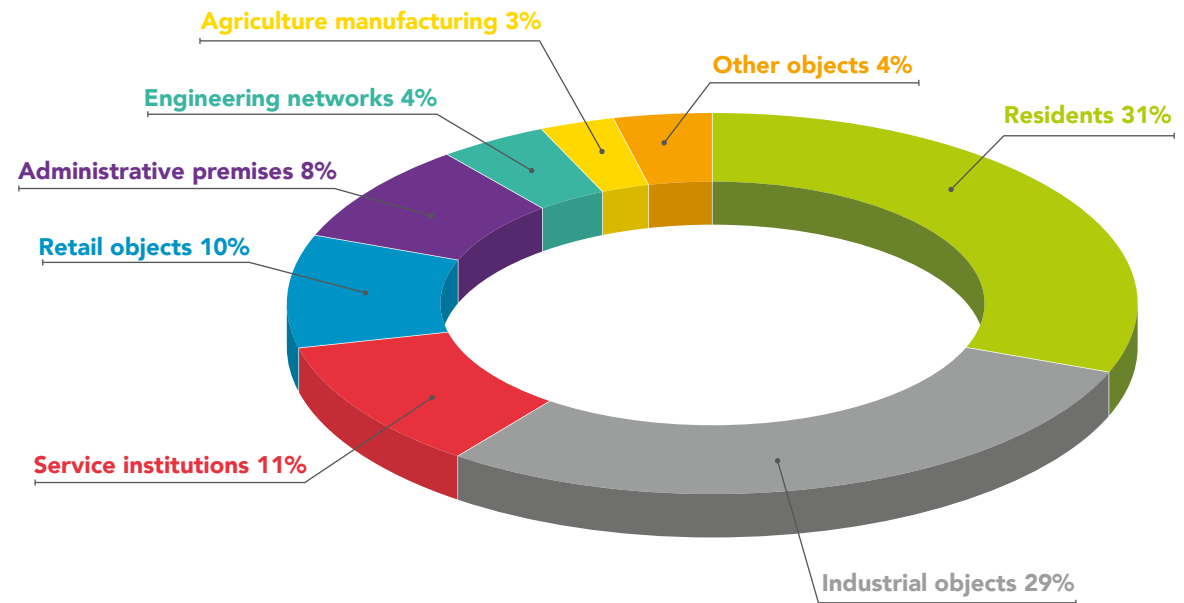
ELECTRICITY DISTRIBUTION

During nine months of 2017 the amount of ESO distributed electricity reached 6.79 billion kWh. Electricity sales made up 35% of this amount. To the rest customers ESO granted only network distribution service.

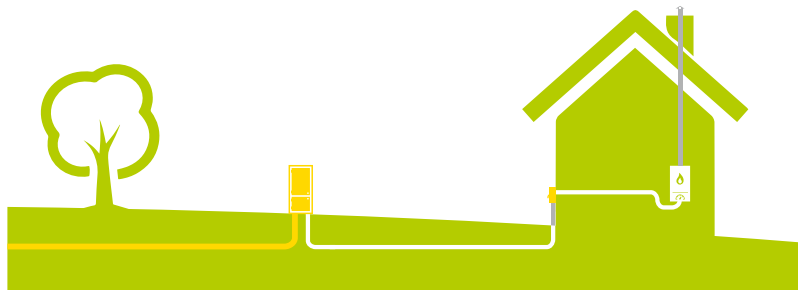
Compared to the same period of 2016, the amount of electricity sold increased by 2%, while the volume of network service increased by 2.86%. Technological losses experienced by the company during the nine months of 2017 amounted to 396 million kWh and this totalled to 5.5% from the amount of electricity received. During the same period of 2016 technological losses totalled 5.8%.

STRUCTURE OF NETWORK SERVICE VOLUMES BY OBJECTS

31 % of ESO electricity network service volume was allocated to residents. Industrial and service institutions consumed 29.3% and 11.3% respectively. Compared to nine months of 2016 data, the structure of electricity network service has not changed.



NATURAL GAS DISTRIBUTION



During nine months of 2017 ESO via its distribution pipelines transported 4.95 billion kWh (467 million cubic meters) of natural gas - about 2.8% more than in 2016 in the same period.

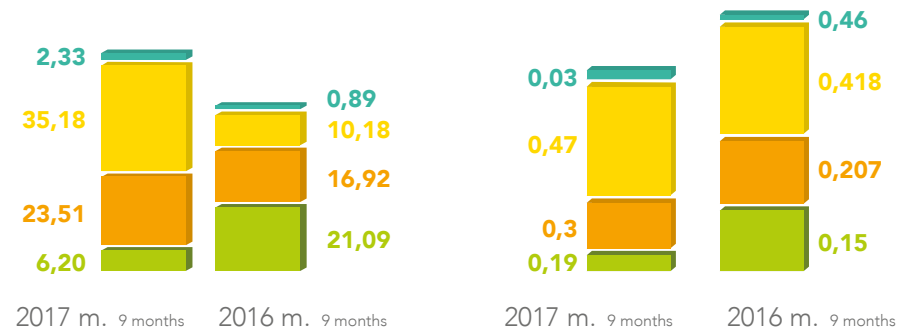


During nine months of 2017 distribution volumes increased mainly due to colder weather during the heating season increased gas consumption demand in heat and power generation plants.

ELECTRICITY DISTRIBUTION NETWORK RELIABILITY INDEXES

During nine months of 2017 with the influence of natural disasters (“force majeure”) the system average interruption duration index (SAIDI) per customer amounted to 105.52 minutes. This is 39.2 minutes more compared to the same period in 2016, when it amounted 144.7 minutes. The system average interruption frequency index (SAIFI) with the influence of natural disasters per customer reached from 0.99 – 0.03 times more compared to 2016 January-September, when it was 0.96 times.

QUALITY OF ELECTRICITY SUPPLY (SAIDI, SAIFI) 2017 JANUARY – SEPTEMBER AND 2016 JANUARY – SEPTEMBER

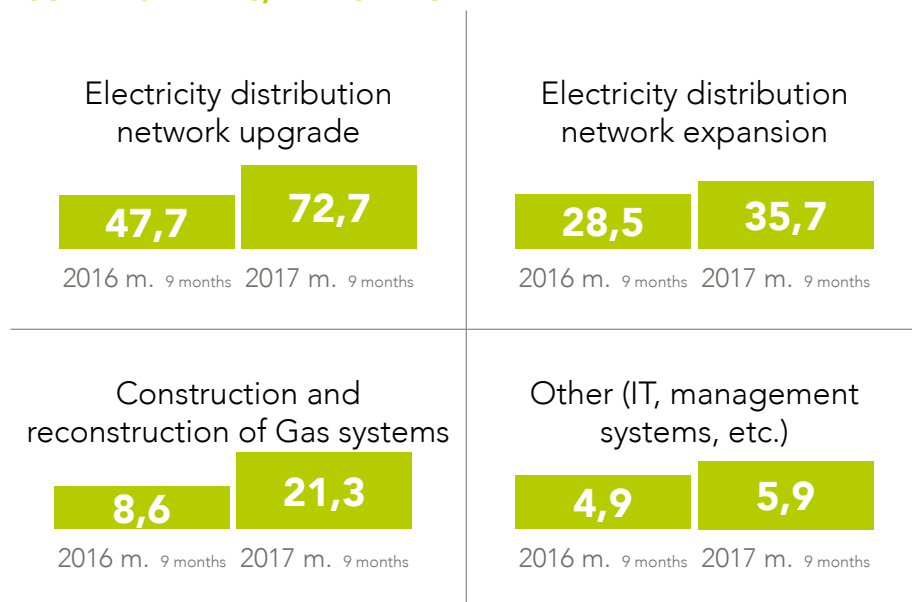


- Undefined
- Responsibility of operator
- External impact
- „Force majeure”

INVESTMENTS

During nine months of 2017 ESO investments in the electricity and gas distribution networks amounted to EUR 135.571 million – 51.3% more than during three quarters of 2016, when it totalled EUR 89.594 million.

ESO INVESTMENTS, MILLION. EUR

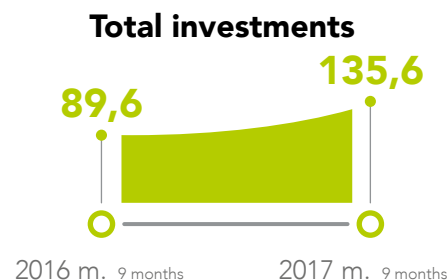


During nine months of 2017 ESO investment in electricity distribution network upgrade amounted to EUR 72.696 million – 52.4% more compared to the same period of 2016. Investments in the electricity distribution network expansion during three quarters of 2017 amounted to EUR 35.671 million, which is 25% more than in the same period of 2016.

During the nine months of 2017 ESO has connected 21.354 thousand new customers, 3% more than in the same period of 2016 when it had 20.729 thousand new customers connected. The permissible power for new customers during the nine months of 2017 was equal to 286,5 thousand kW, which is 13% more than during January-September 2016, when the permissible power was 253.4 thousand kW.

During nine months of 2017 ESO investment in gas systems for construction and reconstruction reached EUR 20.7 million or 152% more compared to the same period in 2016. During nine months of 2017 for new customers connection company has built 251.24 km of distribution pipeline (2016 January-September – 61.2 km) and the connected 9282 clients* to the distribution network – 201% more compared to the same period in 2016 (3086 consumers).

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



FINANCIAL RATIO ANALYSIS

The value of ESO assets at the end of the reporting period made up EUR 1.19 billion. Fixed assets share in total assets was

equal to 94.8 %. Most liquid assets - Cash with cash equivalents accounted to EUR 3.5 million i.e. 5.6% of total current assets.

ESO FINANCIAL LEVERAGE RATIOS

	2017.09.30	2016.12.31
Indebtedness ratio	0,51	0,44
Debt to assets ratio	0,25	0,20
Debt to equity ratio	1,03	0,79
Total liabilities to equity	0,50	0,35
Debt to equity ratio, thousand EUR	289,3	208,4
Net financial debt to equity ratio	0,49	0,33
Long-term debt to equity ratio	0,25	0,26
General solvency ratio	0,97	1,27
Equity to assets ratio	0,49	0,56
Price-earnings ratio*	14,51	8,34
Capitalisation, million EUR*	822,17	771,17

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

As of 30 September 2017 ESO financial debt amounted to EUR 292.8 million. EUR, or it amounted 48.5% all the liabilities. Longterm loans amounted to EUR 144.0 million, 49.2% of total loans. At the end of the reporting period, ESO current liabilities totaled EUR 313.2 million.

ESO LIQUIDITY RATIOS

	2107.09.30	2016.12.31
Current liquidity ratio	0,20	0,44
Acid test ratio	0,19	0,43
Cash liquidity ratio	0,01	0,06
Working capital ratio EUR thousand	-250.807	-103.528
Working capital to total assets ratio	-0,21	-0,09

ESO current liabilities exceeded current assets by EUR 250.8 million. Current liquidity ratio - 0.20. Acid ratio is not significantly different from the current liquidity, since reserves amount to only 4.2%. of total current assets. Financial debt, reduced by short-term investments and cash and cash equivalents in size, amounts EUR 289.3 million. The company's net financial debt consists of 49.3% equity.

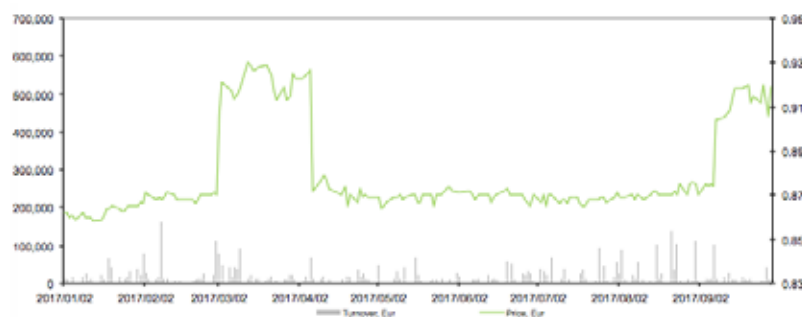
REFERENCES AND ADDITIONAL EXPLANATIONS OF DISCLOSURES IN THE ANNUAL FINANCIAL STATEMENTS

Other information is presented in ESO financial statements: interim financial information for the nine months period ended 30 September 2017

INFORMATION ABOUT THE COMPANY'S SHARE CAPITAL AND SECURITIES

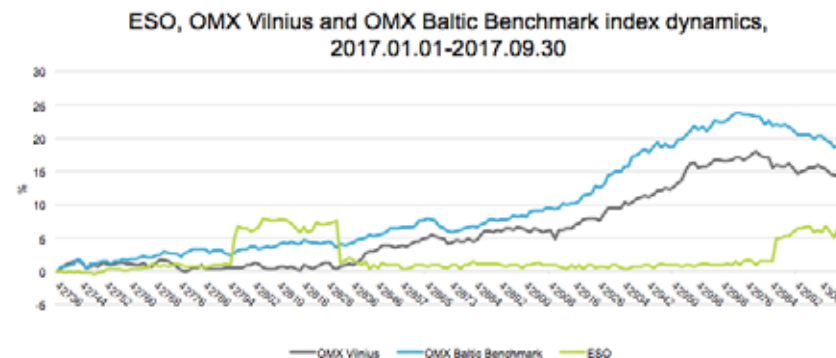
THE STOCK PRICE DYNAMICS AND TURNOVER

ESO stock price dynamics and turnover, 2017-01-01 – 2017-09-30



ESO - the largest company by market capitalization in the NASDAQ Baltic Exchange. As of September 30 2017 ESO capitalization amounted to EUR 822.17 million. During nine months of 2017 ESO shares increased 6.2%. The weighted average of ESO's share price for nine months of 2017 was €0.879.

ESO SHARE PRICES OMX VILNIUS AND OMX BALTIC BENCHMARK INDEX DYNAMICS, 2016-01-01 – 2016-09-30



Since the beginning of 2017 until September 30, the OMX Vilnius index rose 14.92%, the OMX Baltic Benchmark index rose 14.92%, and in the meantime ESO's share price during the nine months of 2017 increased by 6.61% of its initial value.

THE AUTHORIZED CAPITAL STRUCTURE

Share type	Number of shares	Nominal value, EUR	Total nominal value, EUR	Authorized capital, %
Paprastosios vardinės akcijos	894 630 333	0,29	259 442 796,57	100,00

The company's authorized capital amounted to 259,442,796.57 EUR on September 30, 2017. All Company shares are fully paid up.

INFORMATION ABOUT THE ISSUER'S SECURITIES

ESO's shares were listed on AB NASDAQ Vilnius Official Trading List from January 11, 2016. The Company's shares are not traded in other regulated markets.

ISIN code	Trade list	Stock ticker	Number of shares	Par value, EUR	Industry standard by ICB	Supersectors by ICB standard
LT0000130023	BALTIC MAIN LIST	ESO1L	894 630 333	0,29	7000 Utilities	7500 Utilities

SHAREHOLDERS

As of September 30, 2016, the total number of Company shareholders was **8 802**.

After the reorganization of LESTO and Lietuvos Dujos, ESO took over these companies' assets, rights, and obligations. Thus, all of their shareholders became ESO shareholders on December 11, 2015. Lietuvos Energija, UAB owns 94.98% Company shares. Households own 4.04%. Financial institutions, insurance, and other companies own 0.98% of ESO shares.

SHAREHOLDERS WHO OWNED MORE THAN 5% OF THE ISSUER'S AUTHORIZED CAPITAL AS OF SEPTEMBER 30 2017

Shareholder's name (company name, legal form, address, code)	Number of ordinary shares belonging to the shareholder	The authorized share capital, %	Votes granted by owned shares of ownership, %
Lietuvos Energija, UAB, Žvejų g. 14, LT-09310 Vilnius, Company code 301844044	849 743 761	94,98	94,98



DIVIDENDS

On 24 March, 2017 the Ordinary General Meeting of Shareholders of the Company adopted the decision to pay dividends to the Company's shareholders for the period from 2016 July 1 to 2016 December 31 per share amounted to EUR 0.05786.

On 29 September, 2017 The Extraordinary General Meeting of Shareholders of the Company approved the allocation of dividends in the amount of 0,046 EUR per share for shareholders for the period shorter than financial year as of the end of 30 June 2017.

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

INFORMATION ABOUT AGREEMENTS WITH SECURITIES INTERMEDIARIES OF PUBLIC TRADING

ESO authorized securities accounts are administered by SEB Bank.

SEB, AB contact details:

Gedimino Pr. 12, LT-01103 Vilnius;

Tel. 1528 or +370 5268 2800.

SOCIAL RESPONSIBILITY OF THE COMPANY

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

We share the responsibility to contribute to the public welfare through a secure continuous energy distribution and supply activity. Also actively participating in public education for issues of safe and rational use of energy, installing new, promising and efficient technologies, taking care of our customers, employees, communities and encouraging contractors and suppliers' responsibility. Our priorities are:

- Energy efficiency;
- Environmental impact reduction through saving energy;
- Fostering of safe and responsible use of electricity and gas;

ENVIRONMENTAL PROTECTION

Landscape protection. In order to reduce the impact on the landscape, new cables are being laid in place of the old power lines in areas where the former aerial cables were thin and dangerously close to greenery; outdated infrastructure has led to many failures. Cable lines ensure a more reliable supply of electricity and are safer.

Save the environment. The company has over 1.6 million customers and encourages them to abandon paper bills and passbook, moving to remote service channels. 91% of ESO business customers are already moving to electronic invoicing. 89% of ESO electricity private customers and 96% business customers are informed with free SMS messages and e-mails during power disruptions and the expected duration of malfunctions.

PUBLIC INITIATIVES

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

Information security campaign "Safe energy. In spring 2017 a large-scale campaign was launched, which aimed at the safe use of electricity and gas, theft prevention of ESO technological property, in addition providing useful advice to the public. In the media - television, radio, newspapers

and the internet – implemented campaign included safety issues in the fieldwork, with emphasis on the underground electricity and gas network, as well as educational advice on safe behaviour during storms. Also the campaign largely focused on thefts, for which the power supply for clients is interrupted, prevention (educational material, videos, articles). Purposive meetings with the local police, community and media representatives were initiated in most deprived areas.

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

- The implementation of energy efficiency measures;
- To contribute to environmental protection and greenhouse gas (CO₂) emissions reduction;
- Encouraging employees, colleagues, relatives to contribute to the energy-saving society.

Market, customers, and investors

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

TRANSPARENCY, ANTI-CORRUPTION ACTIVITIES

ESO does not tolerate any manifestations of corruption and advocates fair business and transparent communication with public authorities. Zero tolerance corruption policy is valid throughout the entire group of Lietuvos Energija, UAB.

The integrated internal control mechanisms detect possible corruption risks to minimize the risk. Prevention of corruption is one of the company's Prevention Division functions. ESO carries out operational control continuously, improves business processes and takes action to correct detected irregularities, and remove threats to the good name of the company. Company

employees are periodically educated about zero-tolerance policy towards corruption themes – meetings for directors are organized, lectures and discussions are initiated.

The company operates an anonymous trustline 1802. Employees and other persons can report about any ethics violations via email pasitikejimolinija@eso.lt or fill the form of confidence on ESO website.

INCREASED TRANSPARENCY IN PROCUREMENT

ESO is the contracting authority. In the group of Lietuvos Energija, UAB procurement function is centralized in UAB Verslo Aptarnavimo Centras (hereinafter – VAC). VAC carries purchases and provides goods, services or works procurement planning and execution services. Public procurement is centralized, procurement processes - standardized and focused on one online platform.

In order to ensure a transparent and open procurement process and open dialogue, VAC invites suppliers to information meetings, which are presented during the contracting authorities planned high-value purchases.

ESO publishes procurement, except for low-value purchases, technical specifications, via the Central Public Procurement Information System (CVPIIS). Additionally procurement information is being published on website, procurement reports and information about ongoing purchases are being also published.

ACCOUNTABILITY

ESO is an active member of Lithuania Responsible Business Association LAVA and a participant of United Nations „Global Compact“. In order to increase its accountability to the public, the company publishes annual social responsibility progress report, which is published on its website, investors and the „Global Compact“ site profile (www.globalcompact.org).

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

KEY EVENTS AFTER THE REPORTING PERIOD

October 2nd, 2017 The Company signed the agreement on the energy savings on 2 October 2017. Under this agreement, the Company will aim to save 1,6 TWh of the final energy till 31 December 2020.

The agreements with the energy companies are one of the measures indicated into the Law on Efficiency Increase of Usage of Energy. It is calculated that these agreements will help to save around 3 TWh (terawatt hours) of the final energy till 2020th. After the implementation of all measures indicated into the Law, the Lithuania is planning to save 11,674 TWh of the final energy till 2020th.

Most important measures on energy savings planned by the Company – investments into the infrastructure, installation of smart meters and encouragement of development of the producing consumers. Company will continue collaborating with the private companies to decrease their energy consumption.

October 13th, 2017 The Company signed a Proportional Transfer Agreement for Green Bonds (hereinafter referred to as the Agreement) on 13 October, 2017 with Lietuvos Energija, UAB (hereinafter referred to as „Lietuvos energija“) for 100 million EUR of the issue of green bonds transfer to the Company.

Before releasing 300 mln. EUR green bonds issue of Lietuvos Energija a part of its funds - was foreseen to use for long-term investments in the upgrade of distribution networks of the Company.

The contractual maturity date of commitments is no later than 14 July, 2027. The fixed interest rate of the contract coincides with the effective interest rate on the issue of green bonds and amounts to 2.23%. The essential terms of the Agreement coincides with the terms and conditions of Green Bonds. This agreement does not provide any other additional obligations (guarantees, suretyship, pledges, etc.) to enforce obligations.

October 25th, 2017 Vilnius Regional Administrative Court (hereinafter – VRAC) rejected Company's complaint asking to annul the Resolution No. O3-351 „Regarding AB LESTO violation of conditions for regulated activities“ of the National Commission for Energy Control and Prices“ (hereinafter – the Commission) of 04.06.2015, on the basis of which the Commission has imposed a 300 000 Eur fine on the Company and obliged the Company to rectify regulated cost reports for the 2011-2013 year according to the results of cost inspection report of the Commission dated 19 December, 2014, and submit it to the Commission.

The VRAC stated that the fine which was imposed by the Commissions' Resolution No. O3-351, the necessity of its' imposition and the size of the fine are reasonable and just, based on the legitimate Resolution No. O3-947 and on the corresponding legislation regulations which establishes sanction calculation rules.

The VRAC decision can be appealed to the Supreme Administrative Court of Lithuania within a month.

The Company would like to remind that disagreed with the cost inspection report of the Commission dated 19 December, 2014. In Company's opinion, National Commission for Energy Control and Prices improperly conducted the cost inspection and supervision of activities of economic entities, violated the principles of public administration, improperly counted the regulated public supply activities costs and actually attributed ones, that's why there is no legal basis for finding an infringement and the imposition of a sanction on the Company.

Please note that the decision adopted by the VRAC the company's financial results will not be affected.



eso

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