

2016-08-31 Nr.

CERTIFICATION STATEMENT

Referring to the provisions of the Article 23 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, Liudas Liutkevičius, Chief Executive Officer of AB Energijos skirstymo operatorius and, Augustas Dragūnas, Director of Finance and Administration division, and Giedruolė Guobienė Head of Accounting service center of Verslo aptarnavimo centras UAB, hereby confirm that, to the best of our knowledge, AB Energijos skirstymo operatorius condensed interim financial information for the six month period ended 30 June 2016 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 six-month period includes a fair review of the development and performance of the business.

AB Energijos skirstymo operatorius
Chief Executive Officer

Liudas Liutkevičius

AB Energijos skirstymo operatorius
Director of Finance and
Administration division

Augustas Dragūnas

Verslo aptarnavimo centras UAB,
Giedruolė Guobienė
Head of Accounting service center,
acting under Order No. V-088 (signed
2016 08 29)

Giedruolė Guobienė

2016

ENERGIJOS SKIRSTYMO OPERATORIUS AB

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION FOR THE SECOND QUARTER OF 2016 AND SIX-MONTH PERIOD ENDED 30 JUNE 2016, PREPARED ACCORDING TO INTERNATIONAL ACCOUNTING STANDARD 34, 'INTERIM FINANCIAL REPORTING' AS ADOPTED BY THE EUROPEAN UNION, AND SEMI-ANNUAL REPORT, PRESENTED TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT



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Translation note:

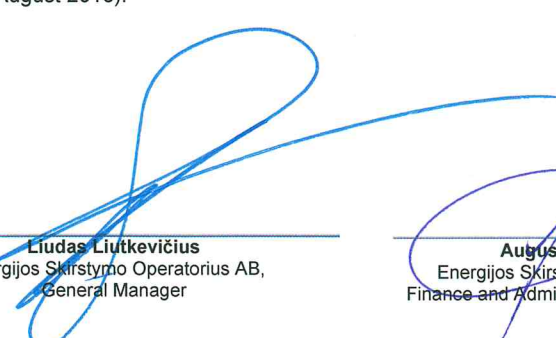
Financial statements have been prepared in Lithuanian and English languages. In all matters of interpretation of information, views or opinions, the Lithuanian language version of the accompanying documents takes precedence over the English language version.


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The condensed interim financial information was approved on 31 August 2016 by Energijos Skirstymo Operatorius AB General Manager, Finance and Administration Service Director, and Head of Accounting Services of Verslo Aptarnavimo Centras UAB (acting under Order No V-0088 of 29 August 2016).


Liudas Liutkevičius
Energijos Skirstymo Operatorius AB,
General Manager


Augustas Dragūnas
Energijos Skirstymo Operatorius AB,
Finance and Administration Service Director


Giedruolė Guobienė
Verslo Aptarnavimo Centras UAB,
Head of Accounting Services of Verslo
Aptarnavimo Centras UAB, acting under
Order No V-0088 of 29 August 2016



Independent Auditor's Report

To the shareholders of Energijos Skirstymo Operatorius, AB

Report on the condensed interim financial information

We have audited the accompanying condensed interim financial information of Energijos Skirstymo Operatorius, AB ("the Company") set out on pages 5 to 23, which comprise the condensed interim statement of financial position as of 30 June 2016 and the condensed interim statements of comprehensive income for the three-month and six-month periods then ended, and the condensed interim statements of changes in equity and cash flows for the six month period then ended, and notes to the condensed interim financial information ("the condensed interim financial information").

Management's responsibility for the condensed interim financial information

Management is responsible for the preparation of this condensed interim financial information in accordance with International Accounting Standard 34, 'Interim financial reporting' as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of condensed interim financial information that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on this condensed interim financial information based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the condensed interim financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the condensed interim financial information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the condensed interim financial information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the condensed interim financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the condensed interim financial information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the condensed interim financial information for the Company is prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim financial reporting' as adopted by the European Union.

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PricewaterhouseCoopers UAB, company code 111473315, is a private company registered with the Lithuanian Register of Legal Entities.



Report on other legal and regulatory requirements

Furthermore, we have read the interim report for the six-month period ended 30 June 2016 set out on pages 24 to 64 and have not noted any material inconsistencies between the information included in it and the audited condensed interim financial information for the six-month period ended 30 June 2016.

On behalf of PricewaterhouseCoopers UAB

A blue ink signature of Rimvydas Jogėla, consisting of several overlapping loops and a long horizontal stroke extending to the right.

Rimvydas Jogėla
Director

A blue ink signature of Vytenis Lazauskas, featuring a large, sweeping loop at the top and several smaller loops below.

Vytenis Lazauskas
Auditor's Certificate No.000536

Vilnius, Republic of Lithuania
31 August 2016

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376, Aguonų g. 24, Vilnius, Lithuania
CONDENSED INTERIM FINANCIAL INFORMATION
30 June 2016

All amounts in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	At 30 June 2016	At 31 December 2015
ASSETS			
Non-current assets			
Property, plant, and equipment	5	950,159	921,797
Intangible assets	6	3,056	3,612
Prepayments for non-current assets		1,267	1,267
Investments in associates	1	2,018	2,018
Deferred income tax assets		-	1,978
Other non-current financial assets	7	10,731	10,633
		967,231	941,305
Current assets			
Inventories	8	1,873	2,544
Trade and other receivables	9	72,274	100,817
Prepayments, deferred charges and accrued income		7,014	5,497
Prepaid income tax		-	1,604
Cash and cash equivalents	10	16,017	26,961
		97,178	137,423
Total assets		1,064,409	1,078,728
EQUITY AND LIABILITIES			
Equity			
Authorised share capital	11	259,443	259,443
Revaluation reserve		53,086	55,520
Legal reserve		25,910	25,910
Retained earnings		257,994	232,940
Total equity		596,433	573,813
LIABILITIES			
Non-current liabilities			
Borrowings	13	129,113	147,576
Deferred income tax liabilities		4,615	2,505
Deferred income		115,692	117,569
Grants and subsidies		20,918	21,384
Long-term employee benefits		2,843	2,487
Other non-current liabilities		69	51
		273,250	291,572
Current liabilities			
Borrowings	13	99,805	99,409
Trade and other payables	14	65,634	89,871
Advance amounts received, accrued liabilities and deferred revenue		25,324	23,941
Income tax payable		3,963	122
		194,726	213,343
Total liabilities		467,976	504,915
Total equity and liabilities		1,064,409	1,078,728

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

All amounts in EUR thousands unless otherwise stated

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

	Q1-2 2016	Q2 2016	Q1-2 2015	Q2 2015
Revenue	332,140	150,538	319,599	143,880
Other income	1,814	965	3,575	2,753
Purchases of electricity and related services	(195,658)	(87,864)	(180,344)	(85,113)
Purchase (expenses) of natural gas and transmission services	(1,629)	(710)	(2,525)	(861)
Depreciation and amortisation	(22,387)	(11,315)	(22,104)	(10,992)
Employee benefits and related social security contributions	(23,496)	(10,784)	(28,510)	(14,030)
Repair and maintenance expenses	(8,843)	(5,123)	(13,005)	(7,380)
Transport costs	(2,269)	(1,156)	(2,326)	(1,180)
Telecommunications and IT services	(4,323)	(2,008)	(3,847)	(1,954)
Rent and utilities	(2,007)	(1,095)	(1,373)	(625)
Impairment and write-off expenses	(1,757)	(607)	(1,844)	(1,182)
Other expenses	(8,023)	(3,923)	(6,779)	(3,996)
Operating profit	63,562	26,918	60,517	19,320
Finance income	475	275	387	218
Finance costs	(1,264)	(791)	(1,419)	(527)
Finance costs – net	(789)	(516)	(1,032)	(309)
Profit before income tax	62,773	26,402	59,485	19,011
Income tax	(9,557)	(3,984)	(8,771)	(4,156)
Net profit for the period	53,216	22,418	50,714	14,855
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	53,216	22,418	50,714	14,855
Weighted average number of shares (thousands)	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	0.059	0.025	0.057	0.017

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

All amounts in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

Company	Note	Authorised share capital	Revaluation reserve	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2015		259,103	65,996	25,910	208,701	559,710
Comprehensive income						
Net profit for the period		-	-	-	50,714	50,714
Total comprehensive income for the period		-	-	-	50,714	50,714
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(4,128)	-	4,128	-
Dividends	12	-	-	-	(40,072)	(40,072)
Result of the conversion of the nominal value of shares to the euro		340	-	-	-	340
Balance at 30 June 2015		259,443	61,868	25,910	223,471	570,692
Balance at 1 January 2016		259,443	55,520	25,910	232,940	573,813
Comprehensive income						
Net profit for the period		-	-	-	53,216	53,216
Total comprehensive income for the period		-	-	-	53,216	53,216
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(2,434)	-	2,434	-
Dividends	12	-	-	-	(30,596)	(30,596)
Balance at 30 June 2016		259,443	53,086	25,910	257,994	596,433

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

All amounts in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Note	At 30 June 2016	At 30 June 2015
Cash flows from operating activities			
Net profit for the period		53,216	50,714
Adjustments for:			
Income tax expenses		9,557	8,771
Depreciation and amortisation	5, 6	22,991	22,474
Amortisation of grants		(604)	(370)
(Gain)/loss on disposal of investments in subsidiaries		-	76
Share of (profit) of associates and joint ventures		-	6
(Gain)/loss on disposal and write-off of assets		1,231	846
Finance (income)		(475)	(387)
Finance costs		1,264	1,413
Changes in working capital:			
Trade and other receivables		11,578	15,714
Inventories, prepayments, deferred charges and accrued income		(1,621)	(1,044)
Trade and other payables, advance amounts received, accrued charges and deferred income		(10,499)	(5,261)
Cash generated from operations		86,638	92,952
Income tax paid		(25)	(2,023)
Net cash flows generated from operating activities		86,613	90,929
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(65,397)	(56,491)
Proceeds from sale of property, plant and equipment and investment property		11,937	1,016
Disposal of investments in subsidiaries		12,212	12,214
(Acquisition) of investment in associates		-	(474)
Grants received		138	3,728
Loans (granted)		(7,180)	-
Loans repayments received		55	33
Dividends received		58	-
Interest received		98	91
Net cash flows used in investing activities		(48,079)	(39,883)
Cash flows from financing activities			
Proceeds from borrowings		1,500	79,500
Repayments of borrowings		(23,298)	(88,087)
Dividends paid to the Company's shareholders		(30,505)	(39,995)
Interest paid		(908)	(1,083)
Net cash flows used in financing activities		(53,211)	(49,665)
Net increase (decrease) in cash and cash equivalents		(14,677)	1,381
Cash and cash equivalents (including the overdraft balance) at the beginning of the period	10	5,836	11,050
Cash and cash equivalents (including the overdraft balance) at the end of the period	10	(8,841)	12,431

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 ("the Company") is a public limited liability company registered in the Republic of Lithuania. The Company was registered with the Register of Legal Entities on 11 December 2015. The Company started its activities with effect from 1 January 2016. The shares of the Company have been listed on the main list of NASDAQ OMX Vilnius Stock Exchange since 17 January 2016. The address of its registered office is as follows:

Aguonų g. 24,
 LT-03212 Vilnius,
 Lithuania.

The Company was established following the reorganisation of LESTO AB and Lietuvos Dujos AB by way of merger. Under the terms and conditions of the reorganisation approved by the decisions of the extraordinary general meetings of shareholders of LESTO AB and Lietuvos Dujos AB dated 3 December 2015, a transfer-acceptance statement was signed on 31 December 2015, on the basis of which the Company took over all the assets, rights and obligations of LESTO AB and Lietuvos Dujos AB. The moment of the take-over of assets, rights and obligations by the Company was 31 December 2015, 24:00.

For the purpose of the condensed interim financial information comparative figures as at 31 December 2015 and for the six-month period ended 30 June 2015 have been prepared by combining the data of the financial statements of LESTO AB and Lietuvos Dujos AB and having eliminated intercompany transactions and balances thereon as disclosed in Note 19. The term "the Company" used in this condensed interim financial information when presenting data as at 31 December 2015 or for the six-month period ended 30 June 2015 means the merged companies LESTO AB and Lietuvos Dujos AB.

The Company's core lines of business include electricity supply and distribution, and natural gas distribution.

As at 30 June 2016 and 31 December 2015, the Company's shareholder structure was as follows:

	At 30 June 2016		At 31 December 2015			
	Energijos Skirstymo Operatorius AB		LESTO AB		Lietuvos Dujos AB	
	Number of shares held	Ownership interest	Number of shares held	Ownership interest	Number of shares held	Ownership interest
Lietuvos Energija UAB	849,743,761	94.98%	570,066,682	94.39%	280,930,066	96.64%
Other shareholders	44,886,572	5.02%	33,877,911	5.61%	9,755,674	3.36%
Total	894,630,333	100%	603,944,593	100%	290,685,740	100%

In calculating the proportion of an exchange of the shares of LESTO AB and Lietuvos Dujos AB for the shares of Energijos Skirstymo Operatorius AB, the values of the companies' shares were used. The shares of LESTO AB and Lietuvos Dujos AB have been exchanged for the shares of Energijos Skirstymo Operatorius AB under the approved reorganisation terms and conditions in the following proportions:

- 1.09206846 shares of Energijos Skirstymo Operatorius AB in return for 1 share of LESTO AB;
- 0.80871354 share of Energijos Skirstymo Operatorius AB in return for 1 share of Lietuvos Dujos AB;

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

As at 30 June 2016, the Company had no subsidiaries. On 31 March 2015, LESTO AB sold ordinary registered shares of subsidiary Elektros Tinklo Paslaugos UAB and on 27 April 2015 it sold ordinary registered shares of subsidiary NT Valdos UAB. As at 31 December 2015 and 2014, Lietuvos Dujos AB had no subsidiaries.

As at 30 June 2016 and 31 December 2015, the Company's investments in associates were as follows:

Associate	Country	Year of acquisition	Company's ownership interest (%)		Profile of activities
			At 30 June 2016	At 31 December 2015	
Technologijų ir Inovacijų Centras UAB	Lithuania	2013	29.01%	29.01%	Information technology and telecommunication, and other services to the shareholders
Verslo Aptarnavimo Centras UAB	Lithuania	2014	22.25%	22.25%	Public procurement organisation and implementation, accounting and personnel administration services to the shareholders

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376, Aguonų g. 24, Vilnius, Lithuania
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
for the six-month period ended 30 June 2016

All amounts in EUR thousands unless otherwise stated

This condensed interim financial information contains the Company's condensed interim financial information, because the Company had no subsidiaries as at 30 June 2016 and the results of operations of the associates were considered by management as not material. The results of operations of the associates for the six-month period ended 30 June 2016 and the retained result of the associates until 31 December 2015 attributable to the Company comprised as follows:

	Cost	Ownership interest (%)	Company's share of the results of operations of the associates until 31 Dec 2015	Company's share of the results of operations of the associates for the six-month period ended 30 June 2016
Technologijų ir Inovacijų Centras UAB	1,898	29.01	199	111
Verslo Aptarnavimo Centras UAB	120	22.25	(28)	(2)
Total	2,018		171	109

As at 30 June 2016, the Company had 2,706 (31 December 2015: 3,149) employees. Decline in the number of employees was caused by the implemented restructuring that allowed reducing the number of staff. Moreover, from 1 January 2016, the Company's customer service functions (management and development of customer service channels, management of customer requests, bookkeeping and collection of payments, management of trade receivables, transmission of notifications to customers, drafting and administration of contracts, performance of other support customer service functions) were transferred to Verslo Aptarnavimo Centras UAB. The total of 240 employees changed working place to Verslo Aptarnavimo Centras UAB from 1 January 2016.

Regulation of the Company's activities

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

The Company carries out the following licensed activities:

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

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

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

1. The setting of price caps in the electricity sector

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

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

On 30 October 2015, the Commission established the price caps for the electricity distribution services for the year 2016 as follows:

- electricity distribution services via medium voltage networks – 1.000 euro ct/kWh (excl. VAT) (2015: 1.178 euro ct/kWh (excl. VAT));
- electricity distribution services via low voltage networks – 1.766 euro ct/kWh (excl. VAT) (2015: 1.550 euro ct/kWh (excl. VAT));

On 30 October 2015, the Commission established the price caps for the public electricity supply services for the year 2016 as follows:

- public electricity supply services – 0.165 euro ct/kWh (excl. VAT) (2015: 0.139 euro ct/kWh (excl. VAT));

On 23 December 2015, the Commission established the public price cap of 8,086 euro ct/kWh (excl. VAT) to household customers who receive electricity via medium voltage network for 2016 (2015: 8.616 euro ct/kWh (excl. VAT)), and the public price cap of 9.852 euro ct/kWh (excl. VAT) to household customers who receive electricity via low voltage network for 2016 (2015: 10,165 euro ct/kWh (excl. VAT)).

2. The setting of price caps in the natural gas sector

The pricing of the natural gas distribution service is regulated by the Commission according to the Procedure for Determining Regulated Prices in Natural Gas Sector approved by Resolution No O3-367 of 13 September 2013 of the Commission.

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376, Aguonų g. 24, Vilnius, Lithuania
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
for the six-month period ended 30 June 2016

All amounts in EUR thousands unless otherwise stated

The price cap of natural gas distribution service is established for the regulatory period of 5 years (the 2014–2018 regulatory period is currently applicable to the natural gas sector) and it can be adjusted once per year if there is a change in the inflation level, prices of imported (transported into the country) natural gas, taxes, natural gas quantity for the regulated service, requirements of regulatory legislation, also when the investments agreed with the Commission have been implemented by the natural gas companies or when those companies deviate from the indicators determined under the Procedure for Determining Regulated Prices in Natural Gas Sector approved by Resolution No O3-367 of 13 September 2013 of the Commission.

On 29 October 2015, the Commission established the price cap for the natural gas distribution service for the year 2016 as follows:

- natural gas distribution service – 7.92 EUR cents/MWh (excl. VAT) (2015: 7.47 EUR cents /MWh (excl. VAT)).

2 Accounting policies

The Company prepared these condensed interim financial statements for the purpose of informing the shareholders.

This condensed interim financial information for the three and six-month periods ended 30 June 2016 has been prepared according to International Accounting Standard No 34, 'Interim financial reporting'. This condensed interim financial information should be read in conjunction with the annual financial statements of LESTO AB and Lietuvos Dujos AB for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

3 Accounting policies

During the merger of LESTO AB and Lietuvos Dujos AB the accounting policies applied by these companies were compared and no differences were identified, therefore there were no changes in the accounting policies following the merger of the companies into Energijos Skirstymo Operatorius AB.

Except as described below, all the accounting policies applied in the preparation of this condensed interim financial information of the Company are consistent with those of the annual financial statements of LESTO AB and Lietuvos Dujos AB for the year ended 31 December 2015.

Income tax

Income tax in the interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

New and amended standards, and interpretations

There were no new standards, amendments and interpretations that were mandatory for the Company with effect from 2016, and that would have a material impact on the Company's financial information.

The Company's management do not believe the newly published standards, amendments and interpretations that are mandatory for the Company's reporting periods beginning on or after 1 January 2016 will have a material impact on the Company's financial statements.

4 Critical accounting estimates

The preparation of the condensed interim financial information requires management to make estimates and assumptions that affect the accounting policies applied and reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

The significant management judgements regarding the application of the accounting policies and the main sources for determining uncertainties used in the preparation of this condensed interim financial information are consistent with those of the annual financial statements of LESTO AB and Lietuvos Dujos AB for the year ended 31 December 2015.

Disposal of NT Valdos, UAB

On 27 April 2015, LESTO AB sold to Lietuvos Energija UAB 1,692,666 ordinary registered shares of NT Valdos UAB representing 57.30% of the share capital of NT Valdos, UAB. The share sale agreement stipulates that the sale price comprises the basic sale price and the premium to the basic sale price, which will be paid by 31 March 2019. The amount of the price premium depends on the amount of the normalised EBITDA to be achieved by NT Valdos UAB in 2018. The Company accounted for the sale price premium under the line item 'Other non-current financial assets' in the statement of financial position, because, management believes that the maximum financial indicators set forth in the sale agreement will be achieved.

Revaluation and impairment of property, plant and equipment

Revaluation and impairment of property, plant and equipment of Lietuvos Dujos AB in 2015

In September 2015, the whole category of buildings owned by Lietuvos Dujos AB (was subject to revaluation with reference to the value determined by independent property valuers – Korporacija Matininkai UAB and Ober-Haus Nekilnojamas Turtas UAB. The valuation was performed using the sales comparison approach. The revaluation results were recorded within other comprehensive income and in profit or loss.

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376, Agonų g. 24, Vilnius, Lithuania
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
for the six-month period ended 30 June 2016

All amounts in EUR thousands unless otherwise stated

At the reporting date of 31 December 2015, the assets of Lietuvos Dujos AB were tested for impairment using the discounted cash flow method. Discounted cash flows were calculated in accordance with the legal acts and methodologies regulating the gas distribution activities, effective as at 31 December 2015.

The impairment test of Lietuvos Dujos AB included the cash flow forecasts until 2070 as the gas distribution activity is regulated on the basis of the regulated asset base, which mostly consists of assets with long useful life (55 years); continuous cash flow has been estimated beyond the year 2070.

Lietuvos Dujos AB did not identify any impairment indications in respect of property, plant and equipment after the completion of the impairment test.

Revaluation of property, plant and equipment of LESTO AB in 2015

At the reporting date of 31 December 2015, LESTO AB used the discounted cash flow method to assess whether the carrying amount of its property, plant and equipment does not materially differ from fair value. Discounted cash flows were calculated in accordance with the legal acts and methodologies regulating the distribution and supply activities, effective as at 31 December 2015.

The assessment of the fair value of property, plant and equipment of LESTO AB as at 31 December 2015 included the cash flow forecasts until 2055 as the distribution activity is regulated on the basis of the regulated asset base, which mostly consists of assets with long useful life (40 years) – electricity lines.

After the completion of the fair value assessment, LESTO AB has identified that the carrying amount of property, plant and equipment does not significantly differ from its fair value

All the above asset valuation assumptions, considering the period from the last valuation date of property, plant and equipment valuation up to 30 June 2016, have not significantly changed, therefore there are indications for possible impairment or changes in fair value of property, plant and equipment of Energijos Skirstymo Operatorius AB.

New customer connection fees

Fees paid by customers received after 1 July 2009 for the connection of new customers and producers to the Company's electricity networks and electricity network facilities or for the dislocation or reconstruction of electricity network facilities on the request of the customer, producer or any other entity, are recognised as revenue upon connection.

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

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

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Accounting methods applied to account for fees paid by new customers for the connection to the electricity and gas system differ depending on the pricing of these services:

- the fee for the connection to the electricity network is determined on the basis of fees and methodologies approved by the Lithuanian legal acts and regulatory authorities; the service is deemed to be provided upon the connection of the customer to the electricity network;
- the fee for the connection non-household customers to the gas system is determined on the basis of fees and methodologies approved by the Lithuanian legal acts and regulatory authorities, however, the connection agreement of the customer who connects a new natural gas system stipulates a minimum quantity of gas to be transported via a non-household customer or new natural gas system and the minimum capacities which ensure that the new customer or new natural gas system connected does not increase the price cap for the existing customers, as well as the procedure for calculating a fee for the minimum quantities of gas to be transported by a non-household customer or natural gas system and for the minimum capacities and the periodicity of payments if a new customer connecting a new natural gas system transports lower quantities or orders lower capacities than those specified in the new customer connection agreement. Upon approval of household customer connection fees, the Commission assesses the return, receivable in 20 year period, on investment used to connect new household customers and impact of the investment on gas distribution price cap (investments should not cause increase in the current price cap) in the same way, as assesses non-household customers, although not every customer individually, rather in total by establishing the general connection fee. In this case the service provided to both non-household and household customer is continuous in nature, related to contractual obligations and future consumption, and therefore revenue is split over the depreciation period of property, plant and equipment concerned.

Accounting for electricity meters

Until 1 January 2016, LESTO AB classified electricity meters as inventories. The Company's management assessed that electricity meters are used for a long period of time, they are controlled by the Company and reviewed individually, their acquisition cost can be reliably determined and therefore management decided to reclassify electricity meters to property, plant and equipment and apply a depreciation period of 8 years for tax purposes. The change is treated as change in accounting estimate and since 1 January 2016 electricity and gas meters are classified within the property, plant and equipment category 'Other property, plant and equipment'.

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5 Property, plant, and equipment

The movements on the Company's property, plant and equipment accounts were as follows:

Company	Land	Buildings	Structures and machinery	Gas distribution pipelines and their equipment	Gas technological equipment and structures	Motor vehicles	Computer hardware and other communication equipment	Other PP&E	Construction in progress	Total
Six-month month period ended 30 June 2015										
Net book amount at 1 January 2015	79	34,666	647,343	141,878	4,612	3,175	1,148	11,406	11,732	856,039
Additions	-	131	87	14	-	-	-	5	45,277	45,514
Disposals	-	(435)	(11)	-	-	(17)	(13)	-	-	(476)
Write-offs	-	(8)	(1,026)	(1)	-	-	-	(5)	-	(1,040)
Reclassifications between groups, transferred to intangible assets, inventories, assets held for sale	-	(1,789)	40,633	2,378	58	69	18	1,565	(45,453)	(2,521)
Depreciation charge	-	(1,416)	(15,544)	(2,089)	(223)	(728)	(231)	(1,478)	-	(21,709)
Net book amount at 30 June 2015	79	31,149	671,482	142,180	4,447	2,499	922	11,493	11,556	875,807
Six-month month period ended 30 June 2016										
Net book amount at 1 January 2016	79	18,461	722,912	146,666	4,667	2,517	7,477	5,447	13,571	921,797
Additions	-	32	495	1	-	1,247	-	268	48,706	50,749
Disposals	-	-	(20)	-	-	-	-	-	-	(20)
Write-offs	-	(1)	(1,217)	(8)	-	-	-	-	-	(1,226)
Reclassifications between groups, transferred to intangible assets, inventories, assets held for sale	-	232	40,978	3,807	64	-	135	918	(45,359)	775
Depreciation	-	(946)	(16,328)	(2,295)	(281)	(485)	(819)	(762)	-	(21,916)
Net book amount at 30 June 2016	79	17,778	746,820	148,171	4,450	3,279	6,793	5,871	16,918	950,159

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

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6 Intangible assets

	Patents and licences	Computer software	Other intangible assets	Projects in progress	Total
Six-month month period ended 30 June 2015					
Net book amount at 1 January 2015	335	2,621	44	176	3,176
Additions	-	19	-	455	474
Amortisation	(76)	(677)	(12)	-	(765)
Net book amount at 30 June 2015	259	1,963	32	631	2,885
Six-month month period ended 30 June 2016					
Net book amount at 01 January 2016	265	2,466	77	804	3,612
Additions	-	-	519	-	519
Reclassification between groups	944	(41)	(99)	(804)	-
Amortisation	(72)	(986)	(17)	-	(1,075)
Net book amount at 30 June 2016	1,137	1,439	480	-	3,056

7 Other non-current financial assets

Other non-current financial assets consist of the non-current portion of mortgage loans granted to private individuals for a period of 25 years and available-for-sale financial assets:

	At 30 June 2016	At 31 December 2015
Non-current portion of mortgage loans granted	383	419
Available-for-sale financial assets	10,348	10,214
Total	10,731	10,633

Available-for-sale financial assets consists of a part of the amount payable by Lietuvos Energija UAB for the premium to the basic sale price established for the shares of NT Valdosa UAB, which is to be settled after 31 March 2019. The amount of the price premium depends on the amount by which the normalised EBITDA of NT Valdosa UAB in 2018 will exceed the limit specified in the agreement.

8 Inventories

	At 30 June 2016	At 31 December 2015
Raw materials and spare parts	1,433	1,296
Electricity meters	-	775
Fuel	148	137
Other	314	374
Less: Write-down allowance of inventories	(22)	(38)
Total	1,873	2,544

As disclosed in Note 4, with effect from 2016 the Company records electricity meters as property, plant and equipment and therefore electricity meters included in inventories as at 31 December 2015 were reclassified to property, plant and equipment.

9 Trade and other receivables

	At 30 June 2016	At 31 December 2015
Trade receivables for sale of electricity	50,396	53,178
Trade receivables and other amounts receivable from related parties	8,788	24,672
Receivable for sale of NT Valdosa	12,244	24,468
Other trade receivables	969	1,529
Loans receivable from related parties	7,180	-
Receivables from users of the system (non-household customers) for distribution of natural gas	308	3,597
Current portion of mortgage loans	78	82
Other amounts receivable	391	1,684
Less: impairment allowance for doubtful receivables	(8,080)	(8,393)
Total	72,274	100,817

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Movements on the Company's impairment allowance account for trade and other receivables in the first half of 2016 and in 2015 were as follows:

Balance at 1 January 2015	8,786
Impairment charge for the half-year	1,433
Write-offs	(228)
Balance at 30 June 2015	9,991
Impairment charge (reversal) for the half-year	(291)
Write-offs	(1,307)
Balance at 1 January 2016	8,393
Impairment charge for the year	547
Write-offs	(860)
Balance at 30 June 2016	8,080

10 Cash and cash equivalents, and term deposits

Cash and cash equivalents

	At 30 June 2016	At 31 December 2015
Cash at bank	16,017	26,961
Total	16,017	26,961

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

	At 30 June 2016	At 31 December 2015
Cash and cash equivalents	16,017	26,961
Bank <i>overdraft</i> (Note 13)	(24,858)	(21,125)
Total	(8,841)	5,836

11 Authorised share capital

As at 30 June 2016, the Company's authorised share capital was divided into 894,630,333 ordinary registered shares with a nominal value of EUR 0.29 each. All the shares have been fully paid. Information on the authorised share capital of LESTO AB and Lietuvos Dujos AB as at 31 December 2015 and reorganisation terms is presented in Note 1.

12 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 LESTO AB was held on 27 April 2015 where it was decided to approve the profit appropriation for the year 2014 and to allocate EUR 0.02 per share in dividends, in total EUR 12,079 thousand in dividends.

The ordinary general meeting of shareholders of Lietuvos Dujos AB was held on 27 April 2015 where it was decided to approve the profit appropriation for 2014 and to allocate EUR 0.0963 per share in dividends, in total EUR 27,993 thousand in dividends.

13 Borrowings

	At 30 June 2016	At 31 December 2015
Non-current borrowings		
Bank borrowings	129,113	147,576
Current borrowings		
Bank <i>overdraft</i> (Note 10)	24,858	21,125
Bank borrowings	74,944	78,279
Interest payable	3	5
	<u>99,805</u>	<u>99,409</u>
Total borrowings	<u>228,918</u>	<u>246,985</u>

All borrowings of the Company bear variable interest rate with repricing period up to 6 months. No assets are provided as collateral for borrowings.

As of 30 June 2016 the Company had an unused *overdraft* facility of EUR 3,500 thousand which was arranged to issue the time-unlimited demand guarantee in favour of AS Nord Pool Spot.

Non-current borrowings by maturity:

	At 30 June 2015	At 31 December 2015
Between 1 and 2 years	73,613	39,926
Later than 1 year and no later than 5 years	55,500	107,650
Total	<u>129,113</u>	<u>147,576</u>

Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through adequate amounts of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Company's liquidity (total current assets / total amounts payable within one year and current liabilities) and quick ratios ((total current assets – inventories) / total amounts payable within one year and current liabilities) as at 30 June 2016 were 0.50 and 0.49, respectively (31 December 2015: 0.64 and 0.63, respectively). In order to minimise balances of cash in bank accounts, the Company is using credit lines. As at 30 June 2016, the Company's unwithdrawn balance of the *overdraft* amounted to EUR 5,142 thousand and the unwithdrawn portion of the long-term credit amounted to EUR 70,000 thousand as at 30 June 2016. As at 30 June 2016, the Company's current liabilities exceeded its current assets by EUR 97,548 thousand (31 December 2015: EUR 76,011 thousand).

14 Trade and other payables

	At 30 June 2016	At 31 December 2015
Trade payables	25,653	40,506
Trade payables to related parties (Note 16)	32,132	38,965
Total trade payables	<u>57,785</u>	<u>79,471</u>
Taxes (other than income tax)	2,510	4,941
Employment-related liabilities	2,455	2,141
Other current liabilities	2,884	3,318
Total other amounts payable	<u>7,849</u>	<u>10,400</u>
Trade and other payables	<u>65,634</u>	<u>89,871</u>

15 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 Board of Directors that makes strategic decisions.

According to the management, the Company has two operating segments, i.e. supply and distribution of electric power, and distribution of gas. The Company have a single geographical segment – 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

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statements in accordance with IFRS, i.e. information on profit or loss, including the reported amounts of income and expenses, assets and liabilities.

The table below presents the Company's information on segments for the six-month period ended 30 June 2016.

2016	Electricity supply and distribution	Gas distribution	Total
Revenue	302,210	31,744	333,954
Expenses	(233,231)	(13,017)	(246,248)
EBITDA	68,979	18,727	87,706
Depreciation and amortisation	(18,291)	(4,096)	(22,387)
Impairment and write-off expenses	(1,719)	(38)	(1,757)
Operating profit	48,969	14,593	63,562
Finance income	389	86	475
Finance (costs)	(958)	(306)	(1,264)
Profit before income tax	48,400	14,373	62,773
Income tax			(9,557)
Net profit for the period			53,216

The table below presents the Company's information on segments for the six-month period ended 30 June 2015.

2015	Electricity supply and distribution	Gas distribution	Total
Revenue	292,555	30,619	323,174
Expenses	(221,556)	(17,153)	(238,709)
EBITDA	70,999	13,466	84,465
Depreciation and amortisation	(17,532)	(4,572)	(22,104)
Impairment and write-off expenses	(1,850)	6	(1,844)
Operating profit	51,617	8,900	60,517
Finance income	372	15	387
Finance (costs)	(1,302)	(117)	(1,419)
Profit before income tax	50,687	8,798	59,485
Income tax			(8,771)
Net profit for the period			50,714

16 Related-party transactions

The Company's related parties are as follows:

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

Purchase and sale of goods and services:

The Company's transactions with related parties between January and June of 2016 and the balances arising on these transactions as at 30 June 2016 are presented below:

Related party	Amounts payable and accrued expenses	Amounts receivable and unbilled revenue	Purchases	Sales
Parent company Lietuvos Energija UAB	61	29,974	283	221
Associates of the Company	1,823	-	8,624	-
Other companies of Lietuvos Energija, UAB group	6,884	2,364	39,606	25,763
Companies of EPSO – G UAB AB group	23,364	7,659	99,759	612
Total	32,132	39,997	148,272	26,596

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

Related party	Amounts payable and accrued expenses	Amounts receivable and unbilled revenue	Purchases	Sales
Parent company Lietuvos Energija UAB	263	34,682	1,521	60,066
Associates of the Company	2,175	-	4,892	-
Other companies of Lietuvos Energija, UAB group	11,227	20,127	71,758	21,507
Companies of EPSO – G UAB group	25,300	4,573	79,077	2,930
Total	38,965	59,382	157,248	84,503

Compensation to key management personnel

Company	1H 2016	1H 2015
Wages and salaries and other short-term benefits to management personnel	259	203
Number of key management personnel	8	6

Management includes heads of administration and their deputies.

17 Fair value estimation

There were no significant changes in the business and economic environment in the first half of 2016 that could affect the fair value of the Company's financial assets and financial liabilities.

18 Commitments and contingencies

Buyout of electricity equipment

In 2016, the Company executed a simplified procedure of the buyout of electricity objects (electricity networks) installed for common use using the funds of homestead owners in line with the deadlines stipulated in Resolution No 1257 of 31 August 2010 of the Lithuanian Government *On the establishment of deadlines for the buyout from cooperatives the electricity transmission and distribution lines, transformer substations, electric facilities and other equipment designated for the transmission and distribution of electricity and installed in the territory of homestead owners using the funds of such homestead owners*, i.e. by 1 July 2011 (had to be bought out until 1 July 2011).

During the first half of 2016, 1 electricity network of common use for the value of EUR 0.001 thousand (2015: 4 electricity networks for the value of EUR 26 thousand) was bought out. During the period from the start date of the buyout procedure until 30 June 2016, 945 electricity networks of common use of homestead cooperatives for the value of EUR 3,459 thousand were bought out. As at 30 June 2016, 9 applications with requests to buyout equipment on concessionary terms remained unsettled with the value of EUR 29 thousand.

Capital expenditure commitments

As at 30 June 2016, the Company's capital expenditure commitments assumed under the signed contracts as at the date of the financial statements but not accounted for in the financial statements amounted to EUR 14,879 thousand (31 December 2015: EUR 11,694 thousand).

Litigations

On 14 July 2014, the Prosecution Service of the Republic of Lithuania filed an indictment to Vilnius City District Court whereby Lietuvos Dujos AB and its former employees were charged with allegedly causing damage in establishing the supply activity tariffs for domestic users. The investigation of the case at Vilnius City District Court was started on 13 August 2014. The Prosecutor General requested the court to impose a fine on Lietuvos Dujos AB amounting to 25,000 times the minimum monthly wage or EUR 950 thousand. Lietuvos Dujos AB objected to the charges and requirements of the Prosecution Service. On 27 February 2015, Vilnius City District Court passed an acquittal whereby it acquitted Lietuvos Dujos AB as it was not established that the acts attributed were made. On 18 March 2015, the Prosecutor General appealed against the acquittal. The case is currently under investigation by the court of appeals; the date of the court's hearing has not been set yet.

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On 18 March 2015, Amilina AB filed a claim to respondent Lietuvos Dujų Tiekimas UAB regarding the amendment to the pricing rules (formulas for the calculation of the price of natural gas established in the agreements) established in the agreements on the natural gas supply dated 19 December 2012 and 6 December 2013 and the awarding of the overpayment for natural gas acquired. The initial claim amount was equal to EUR 1.266 million and consisted of the following two elements: the natural gas price overpayment amounting to EUR 1.254 million and interest amounting to EUR 13 thousand. On 27 July 2015, Amilina AB filed a revised claim by indicating Lietuvos Dujos AB as a second respondent being jointly and severally liable. On 11 April 2016, Amilina AB filed an application on the revision of the object of the claim by reducing the amount of the claim down to EUR 1.049 million (the overpayment for natural gas amounting to EUR 1.038 million and interest amounting to EUR 11 thousand). In the opinion of the Company, the claim is not substantiated, because neither the legal acts nor the agreements on the natural gas supply obliged Lietuvos Dujos AB and Lietuvos Dujų Tiekimas UAB to pay to Amilina AB any amounts due to the change in import prices of natural gas or recalculate the natural gas price in case such changes occur; Lietuvos Dujos AB has properly fulfilled its contractual obligations under the agreements. The case is under investigation by the court of the first instance. The court's hearing is scheduled on 28 September 2016.

On 23 January 2015, Vilniaus Energija UAB filed a claim to respondent Lietuvos Dujų Tiekimas UAB regarding the amendment to the pricing rules (formulas for the calculation of the price of natural gas established in the agreements) established in the agreements on the natural gas supply dated 28 December 2012 and 30 December 2013 and the awarding of the overpayment for natural gas acquired. The initial claim amounted to EUR 19.132 million. On 14 July 2015, Vilniaus Energija UAB filed a revised claim by indicating Lietuvos Dujos AB as a second respondent being jointly and severally liable. On 3 December 2015, Vilniaus Energija UAB filed an application on the revision of the object of the claim by reducing the amount of the claim down to EUR 15.235 million (the overpayment for natural gas amounting to EUR 15.200 million and interest amounting to EUR 35 thousand). On 21 January 2016, the court of the first instance passed the ruling whereby the claim of Vilniaus Energija UAB was rejected. On 19 February 2016, Vilniaus Energija UAB filed an appeal. The case is currently under investigation by the Court of Appeal of Lithuania; the date of the court's hearing has not been set yet.

On 25 March 2011, the Ministry of Energy of the Republic of Lithuania, which held 17.7% of the Company's shares by the right of trust at that date, filed a claim to Vilnius Regional Court in relation to investigation of the legal entity's operations, wherein Lietuvos Dujos AB, the Board Members of Lietuvos Dujos AB delegated by Gazprom OAO, and the Managing Director were indicated as the respondents. In its claim, the Lithuanian Ministry of Energy demanded initiation of investigation of operations of Lietuvos Dujos AB and application of relevant requirements set forth in the claim in case the results of investigation showed that operations of Lietuvos Dujos AB and/or the aforementioned Board Members and/or the Managing Director were inappropriate. During the investigation of the requirement of the Lithuanian Ministry of Energy to commence the investigation of operations of the Company, on 3 September 2012 Vilnius Regional Court ruled in favour of the claimant to initiate investigation of operations of Lietuvos Dujos AB. The Company objected to the ruling of the court of the first instance and filed an appeal against it to the Court of Appeal of Lithuania. The Court of Appeal of Lithuania left the ruling of Vilnius Regional Court unchanged. On 29 April 2013, Lietuvos Dujos AB appealed by cassation to the Lithuanian Supreme Court with request to annul the decision passed by the Lithuanian Court of Appeal on 21 February 2013, and not to proceed with the case or reject it. On 20 November 2013, the Lithuanian Supreme Court suspended a judgement until the final resolution of the civil case by the Lithuanian Supreme Court pertaining to recognition and enforcement of the decision passed by the Arbitration Institute of the Stockholm Chamber of Commerce (Kingdom of Sweden) (hereinafter "the Arbitration"). On 23 October 2015, the Lithuanian Supreme Court passed a ruling whereby it recognised and enforced the decision passed by the Arbitration Tribunal in the Republic of Lithuania and under the ruling of 28 October 2015 renewed the investigation of the case pertaining to the initiation of investigation of operations of the legal entity. On 7 December 2015, the Lithuanian Supreme Court received the request of the Lithuanian Ministry of Energy and Lietuvos Energija, UAB for the inclusion of Lietuvos Energija, UAB as a co-claimant and suspension of the investigation of the case until the passing of the ruling in the case investigated by the Arbitration Court of the Stockholm Chamber of Commerce, which is investigated on the basis of the claim of the Lithuanian Ministry of Energy against Gazprom OAO. On 20 January 2016, the Lithuanian Supreme Court passed a ruling whereby Lietuvos Energija UAB was included as co-claimant in the case and the request for the suspension of the case was rejected. The Lithuanian Ministry of Energy and Lietuvos Energija UAB filed a peace agreement to the court signed between the Lithuanian Ministry of Energy and Lietuvos Energija UAB, the claimants, and Energijos Skirstymo Operatorius AB, the respondent, and the application on the waiver of the claim. On 30 March 2016, the Lithuanian Supreme Court passed a ruling whereby is accepted the waiver of the claim filed by the Lithuanian Ministry of Energy and Lietuvos Energija UAB, approved the peace agreement submitted and discontinued the civil case.

Vilniaus Energija UAB (the claimant) filed a claim to Vilnius Regional Court, whereby it requested to award damages of EUR 9.284 million from the respondent LESTO AB. The claimant insisted that it incurred losses of EUR 9.284 million because for the purpose of ensuring compliance with the Lithuanian Government Resolution No 1051 of 20 November 2013 and the provisions of agreement on purchase/sale of electricity signed with the claimant, in 2014 LESTO AB purchased only that volume of supported electricity, which was produced under the technical minimum mode at the thermal power plants owned by the claimant. The claimant noted that the legal acts stipulated a requirement whereby LESTO AB was obliged to purchase the maximum volume, and LESTO AB failed to comply with such requirement. In its claim, the claimant requested as follows: to recognise the provisions of the agreement on the purchase/sale of electricity signed between the claimant and the respondent on 30 December 2013 as void *ab initio*; to oblige the respondent to purchase the maximum volume of supported electricity in 2014 from the claimant, which was established for the claimant's two thermal power plants by the Lithuanian Government Resolution No 1051 of 20 November 2013; and to award damages of EUR 9.284 million from the respondent. The Company does not agree with the claimant's position, because the description of PSO services and other effective legal acts do not stipulate that the Company is obliged to purchase the total volume of electricity produced. On 11 January 2016, Vilnius Regional Court passed the ruling whereby it suspended the investigation of the case until the Commission establishes the price for the thermal power supplied by Vilniaus Energija UAB for the year 2016.

On November 2014 and January 2015, LESTO AB filed the complaints to Vilnius Regional Administrative Court requesting to annul the respective resolutions of the National Control Commission for Prices and Energy (the Commission), to oblige the Commission to eliminate the violations, and when determining the price caps for electricity distribution services provided by LESTO AB through medium and low voltage networks for the upcoming period to include the following items in the level of revenue used for the price cap calculation:

- difference of EUR 7.78 million for 2015 which occurred as result of the improper WACC amount applied by the Commission;
- difference of EUR 4.64 million for 2015, which occurred as result of the Commission's improper application of requirements set forth in legal acts in respect of allowable return on investment for LESTO AB;
- expenses of EUR 16.46 million which were identified as unsubstantiated during the audit conducted by the Commission, yet which are treated as attributable to regulated activity expenses by LESTO AB.

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In its other claim LESTO AB requested to obligate the Commission to eliminate violations made which resulted in:

- lower revenue of LESTO AB from public electricity supply services for 2015 by EUR 862.78 thousand;
- lower electricity acquisition costs of LESTO AB for 2015 by EUR 311.63 thousand;

The Company disagrees with the approach used by the Commission in interpreting and applying effective laws and other legal acts when passing its resolutions. Due to the mentioned reasons, in the Company's opinion, the price caps for 2015 were calculated by unjustifiably decreasing revenue by the amount of EUR 30.04 million. In case the court passes the ruling in favour of the Company, the above-mentioned amounts would be included in the tariff of the upcoming year resulting in higher revenue and profit of the Company.

In December 2015 and January 2016, Vilnius Regional Administrative Court investigated the cases on their merits and passed the rulings whereby the claims were rejected in their entirety. The Company filed appeals against the court's rulings.

In February 2015, the Company filed the complaint to Vilnius Regional Administrative Court with request to annul the Commission's Resolution on the Establishment of Price Caps for Distribution Services of LESTO AB Via Medium and Low Voltage Networks for 2016-2020 and indicated that as a result of improper application of legislative requirements by the Commission which determine allowable return on investments and required regulated activity costs for LESTO AB, the amount of EUR 11.93 million was not included in the level of revenue used for the price cap calculations for 2016.

In the period from the day on which the complaint was filed to the court, the Commission made substantial changes in the regulatory environment which directly affects the Claimant's position in this case and the requirements presented in the complaint. As a result of this changed regulatory environment (including the resolution against which the appeal was filed) the Company is no longer facing such legal and financial consequences which are indicated in the Company's complaint. Therefore, on 20 February 2016, the Company submitted a request to Vilnius Regional Administrative Court for the withdrawal of the complaint.

In July 2015, LESTO AB filed the complaint to Vilnius Regional Administrative Court with the request to annul the Commission's Resolution on the Violation of Terms and Conditions of the Regulated Activity by LESTO AB under which the violation made by LESTO AB in respect of the licensed activity was identified, i.e. LESTO AB unjustifiably allocated more costs to the regulated activities of electricity distribution and public supply than the amount that could have been actually allocated, and to recognise the imposed fine of EUR 300 thousand as ungrounded.

The investigation of the case has been suspended until the ruling is passed in the administrative case where the Company disagrees with the results of the Commission's audit. In view of the ruling of Vilnius Regional Administrative Court, in its financial statements at 31 December 2015 the Company accounted for the mentioned fine by recognising expenses and a liability.

19 Business combinations

Business combination (merger) between LESTO AB and Lietuvos Dujos AB was accounted for using the predecessor accounting. During the merger process of the companies (neither of the companies being merged gained control over another), the amounts of assets, liabilities, income and expenses of companies being merged for all the periods presented in the financial statements were combined.

Company's condensed interim financial information

The amounts reported in the Company's statement of financial position as at 31 December 2015 and statement of comprehensive income for the six-month period ended 30 June 2015 are equal to the sum of the amounts presented in the respective financial statements of LESTO AB and Lietuvos Dujos AB, after having eliminated inter-company balances and turnovers:

Statement of financial position at 31 December 2015

	LESTO AB	Lietuvos Dujos AB	Elimination of inter-company balances (-)	Enerģijos Skirstymo Operatorius AB
ASSETS				
Non-current assets				
Property, plant, and equipment	761,071	160,726	-	921,797
Intangible assets	3,256	356	-	3,612
Prepayments for non-current assets	-	1,267	-	1,267
Investments in associates	1,374	644	-	2,018
Deferred income tax assets	-	1,978	-	1,978
Other non-current financial assets	10,633	-	-	10,633
	776,334	164,971	-	941,305
Current assets				
Inventories	2,078	466	-	2,544
Trade and other receivables	77,053	23,836	(72)	100,817
Prepayments, deferred charges and accrued income	5,407	90	-	5,497
Prepaid income tax	1,604	-	-	1,604
Cash and cash equivalents	19,027	7,934	-	26,961
	105,169	32,326	(72)	137,423
Total assets	881,503	197,297	(72)	1,078,728

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376, Aguonų g. 24, Vilnius, Lithuania
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
for the six-month period ended 30 June 2016

All amounts in EUR thousands unless otherwise stated

EQUITY AND LIABILITIES

Equity

Authorised share capital	175,144	84,299	-	259,443
Revaluation reserve	55,254	266	-	55,520
Legal reserve	17,491	8,419	-	25,910
Retained earnings	185,186	47,754	-	232,940
Total equity	433,075	140,738	-	573,813

LIABILITIES

Non-current liabilities

Borrowings	147,576	-	-	147,576
Deferred income tax liabilities	2,505	-	-	2,505
Deferred income	79,298	38,271	-	117,569
Grants and subsidies	17,146	4,238	-	21,384
Long-term employee benefits	1,331	1,156	-	2,481
Other non-current liabilities	51	-	-	57
	247,907	43,665	-	291,572

Current liabilities

Borrowings	99,409	-	-	99,409
Trade and other payables	80,871	9,062	(72)	89,871
Advance amounts received, accrued liabilities and deferred revenue	20,231	3,710	-	23,941
Income tax payable	-	122	-	122
	200,521	12,894	(72)	213,343

Total liabilities

	448,428	56,559	(72)	504,915
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Total equity and liabilities

	881,503	197,297	(72)	1,078,728
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Statement of comprehensive income at 30 June 2015

	LESTO AB	Lietuvos Dujos AB	Elimination of inter-company turnovers	Energijos Skirstymo Operatorius AB
Revenue	289,743	29,927	(71)	319,599
Other income	2,889	748	(62)	3,575
Purchases of electricity and related services	(180,344)	-	-	(180,344)
Purchase (expenses) of natural gas and transmission services	-	(2,525)	-	(2,525)
Depreciation and amortisation	(17,532)	(4,572)	-	(22,104)
Employee benefits and related social security contributions	(17,842)	(10,668)	-	(28,510)
Repair and maintenance expenses	(11,955)	(1,061)	11	(13,005)
Transport costs	(2,052)	(274)	-	(2,326)
Telecommunications and IT services	(3,352)	(495)	-	(3,847)
Rent and utilities	(1,308)	(180)	115	(1,373)
Impairment and write-off expenses	(1,850)	6	-	(1,844)
Other expenses	(4,755)	(2,028)	4	(6,779)
Operating profit	51,642	8,878	(3)	60,517
Finance income	372	15	-	387
Finance costs	(1,302)	(117)	-	(1,419)
Finance costs – net	(930)	(102)	-	(1,032)
Profit before income tax	50,712	8,776	(3)	59,485
Income tax	(7,673)	(1,098)	-	(8,771)
Net profit for the period	43,039	7,678	(3)	50,714
Other comprehensive income	-	-	-	-
Total comprehensive income (loss) for the period	43,039	7,678	(3)	50,714

20 Events after the reporting period

There were no significant events after the date of the statement of financial position and until the date of the approval of this interim financial information.

2016

ENERGIJOS SKIRSTYMO
OPERATORIUS AB
INTERIM REPORT

REPORT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016



eso



Group of energy
companies

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Content

INTERIM REPORT

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The reference period covered by the report

The report covers the period between January-June 2016.

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

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

The persons responsible for the information provided in the report

Position	Name and surname	Phone number
Chief Executive Officer	Liudas Liutkevičius	(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 31 August 2016.

Due to financial results comparison

Presented the financial results of ESO for first half 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

		2016	2015	Change	
		H1	H1	+/-	%
Activity indicators					
Distributed electricity in medium and low voltage grids	<i>TWh</i>	4,49	4,25	0,24	5,6
Public and guaranteed supply	<i>TWh</i>	1,60	1,59	0,01	0,7
Distributed natural gas amount	<i>TWh</i>	3,93	3,80	0,13	3,4
Network quality indicators					
<i>ELECTRICITY</i>					
SAIDI, min. (with „force majeure“)		114,9	54,89	60,01	
SAIFI, times. (with „force majeure“)		0,66	0,53	0,13	
<i>GAS</i>					
SAIDI, min. (with „force majeure“)		0,356	0,33		
SAIFI, times (with „force majeure“)		0,004	0,003		

Main financial indicators of ESO

		2016	2015	Change	
		H1	H1	+/-	%
Sales revenue	thousand EUR	333.954	323.174	10.780	3,34
Purchases of electricity and gas, other related services	thousand EUR	197.287	182.869	14.418	7,88
Operating costs (1)	thousand EUR	48.961	55.840	-6.879	-12,32
EBITDA (2)	thousand EUR	87.706	84.465	3.241	3,84
EBITDA margin (3)	%	26,26	26,14		
Net profit (loss)	thousand EUR	53.216	50.714	2.502	4,93
		2016	2015	Change	
		H1	12 months	+/-	%
Total assets	thousand EUR	1.064.409	1.078.728	-14.319	-1,33
Equity	thousand EUR	596.433	573.813	22.620	3,94
Financial debt	thousand EUR	228.918	246.980	-18.067	-7,32
Net financial debt (4)	thousand EUR	212.901	220.024	-7.123	-3,24
Return on equity (ROE) (5)	%	17,84	17,68		
Return on assets (ROA) (6)	%	10,00	9,40		
Equity level (7)	%	56,03	53,19		
Net financial debts / EBITDA of 12 months	times	1,40	1,48		
Net financial debts / Equity	%	35,70	38,34		

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

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

(3) EBITDA margin = EBITDA / revenue;

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

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

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

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

CEO LETTER

Dear All

The first half of the year 2016 was productive and efficient for all of us. It is mostly encouraging and gratifying that the country's population and business are again turning back to natural gas. Thanks to especially attractive prices of cleanest fossil fuel gas prices, we are experiencing the Renaissance of Gas.



In a half-year we signed over 4 thousand contracts on gas introduction. It is more than during the whole last year and twice as much as in the first half of the year 2015. The number of new clients has been rising throughout the whole year, but the highest peak was recorded in May-June. In comparison to last year, the number of contracts increased threefold in these two months.

Accordingly, considering the rapidly growing popularity of electronic services, in May we provided our clients an option to place their orders on gas introduction on our self-service website www.manogile.lt. A customer who has submitted a request to introduce gas can see the conditions of connection to the ESO gas network, confirm the connection contract and monitor the connection process in his/her personal account. Moreover, we have created a calculator to learn the preliminary price of connection to gas network.

We are making maximum efforts to make connection to our networks even simpler and faster. We are working on both internal processes as well as actively proposing legislative changes. We understand the customer needs to receive services from a single source, therefore, we have launched a pilot project in Kaunas. During this project we started to offer internal electricity and gas network installation services to customers in their territory. We can also make all the electrical input related work where electrical input power is up to 500 kW, and the next year we plan to offer this service to larger customers.

In June we finished installation of 3 thousand smart meters to the participants of a smart accounting trial project. During the year we are going to investigate the benefits of smart accounting to the clients and company and, having evaluated the project outcomes, we will consider massive introduction of such meters.

One of the main goals of ESO is to increase operational efficiency and reduce operating costs. This way we are directly contributing to lower prices for our customers. During the first half-year ESO operating costs diminished by almost EUR 7 million or more than by 12% if compared to the consolidated results of LESTO and Lietuvos Dujos.

In the second quarter of this year, the planned investment projects gained momentum. During the first half of this year, the Company investment in electricity and gas distribution networks increased by 11.4% and reached EUR 51.24 million. Major part of the investment – almost EUR 26 million – was assigned to the modernization of electricity distribution network.

The first half of the year 2016 showed that ambitious goals raised by the Company are achievable. We are going to continue our efforts seeking to ensure high quality services, the maximum transparency of the performance and efficiency. We are working to ensure that energy reaches clients in a simple and reliable way.

Yours sincerely,

Liudas Liutkevičius

Chairman of the Board and CEO of ESO

SIGNIFICANT EVENTS TO THE COMPANY DURING THE REPORTING PERIOD

Regarding the decision by National Control Commission for Prices and Energy

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

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

Regarding the change of public electricity price cap for second half of 2016

The Commission on 23 May 2016 decided to change the Commission's decision dated 9 November 2015 when public electricity price ceiling for LESTO consumers buying electricity from medium and low voltage network was set for 2016. According to the Commission's resolution, for the second half of 2016 electricity price cap for consumers in medium voltage networks will amount 7,499 ct/kWh (VAT excluded), in low voltage networks – 9,530 ct/kWh (VAT excluded).

Regarding the Board decision to change electricity prices from the second half of 2016

At its meeting of May 25 the Board of ESO approved the new prices for electricity network services, and the public prices of electricity. After the announcement of the Commission new prices will apply for the second half of 2016

ESO recounted the public electricity prices after the Commission lowered the public interest obligations (VIAP), systemic services, electricity market prices and the price cap of public electricity price.

Regarding announced electricity prices from the second half of 2016

The Commission on May 30, Monday, announced new prices for electricity network services and the public prices of electricity, which will apply for the second half of 2016.

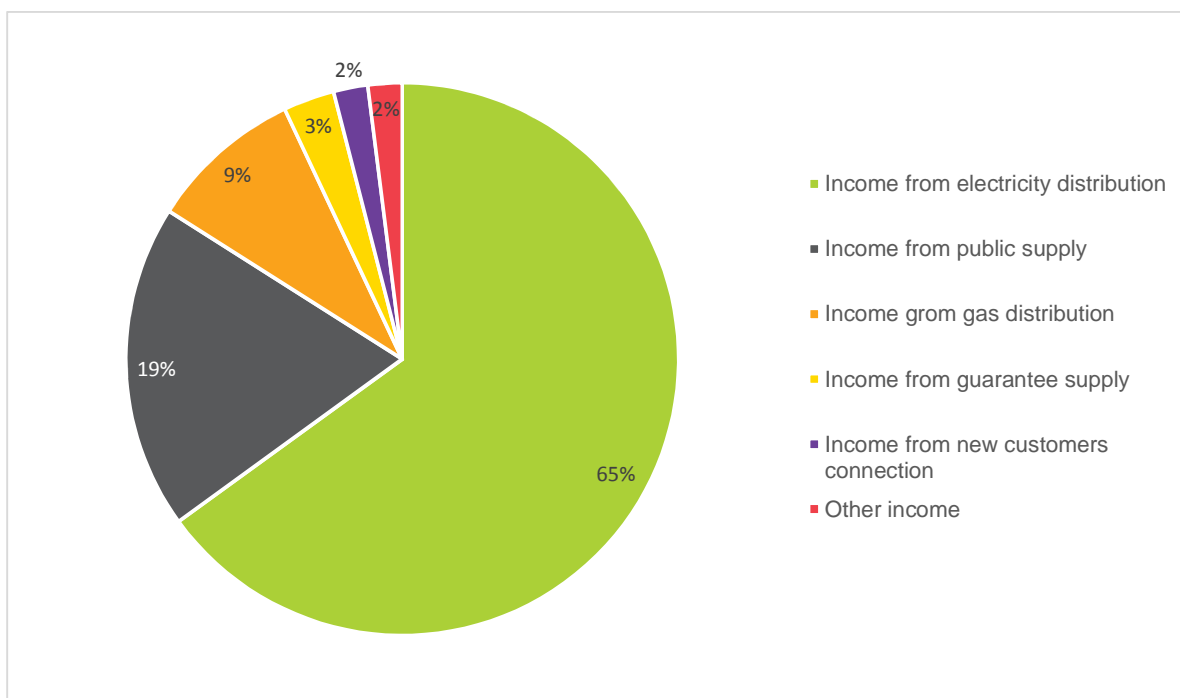
Report on LESTO's social responsibility 2015 published

ESO, which started its operations since January 1, 2016 after a reorganization merging LESTO and Lietuvos Dujos published LESTO Social Responsibility Activity Report 2015. This is the sixth annual report published both in Lithuanian and English.

The 2015 Report provides an overview of LESTO's progress in improving relations with customers and other market participants, the environmental projects in progress, as well as initiatives for employees and the society. The Report also describes LESTO's 2015 programs and achievements in its pursuit of social responsibility objectives.

ANALYSIS OF PERFORMANCE RESULTS

ESO income structure



During six months of 2016 ESO revenue reached EUR 334 million. Compared to the January-June of 2015 ESO revenue increased by 3.3 %. 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 six months of 2016 income from network service made up 65% of total company's income. Income from public supply service consisted 19%, income from gas distribution – 9 % from total revenue.

EBITDA ratio

	2016.06.30	2015.06.30
EBITDA, thousand. EUR	87,706	84,465
EBITDA margin, %	26,26	26,14

*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

During the first half of 2016 ESO EBITDA amounted EUR 87.7 million, and compared to the same period in 2015, EBITDA increased by 3.8 %.

Costs

During the first half of 2016 electricity, natural gas purchase and related services costs made up EUR 197.3 million and, compared to the same period of 2015, increased by 7.9%. This was mainly influenced by increased 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 219.7 million, which made up 81.2% of total ESO costs.

Operating expenses¹ amounted to EUR 49 million. Compared with first half of 2015 operating expenses decreased by 12.3%. Employee benefits and related social security contributions, as well as repair and maintenance expenses, decreased by most - respectively 17.6% and 32%.

ESO operating expenses in thousand EUR

	2016.06.30	2015.06.30
Employee benefits and related social security contributions	23.496	28 511
Repair and maintenance expenses	8.843	13 005
Other expenses	8 023	6 778
Telecommunications and IT service	4.323	3 847
Transport	2.269	2 326
Rent and utilities	2 007	1 373
Operating expenses	48 961	55 840

Profit, loss and profitability ratios

During the first half of 2016 ESO net profit amounted to EUR 53.2 million and compared to the same period in 2015 it increased by 4.9%, when it totalled EUR 50.7 million. Net profit increased due to increased revenue and reduced operating costs.

ESO profitability ratios

	2016.06.30	2015.06.30
Net profit margin, %	15,94%	15,69%
Operating profit margin, %	19,03%	18,73%

Electricity distribution

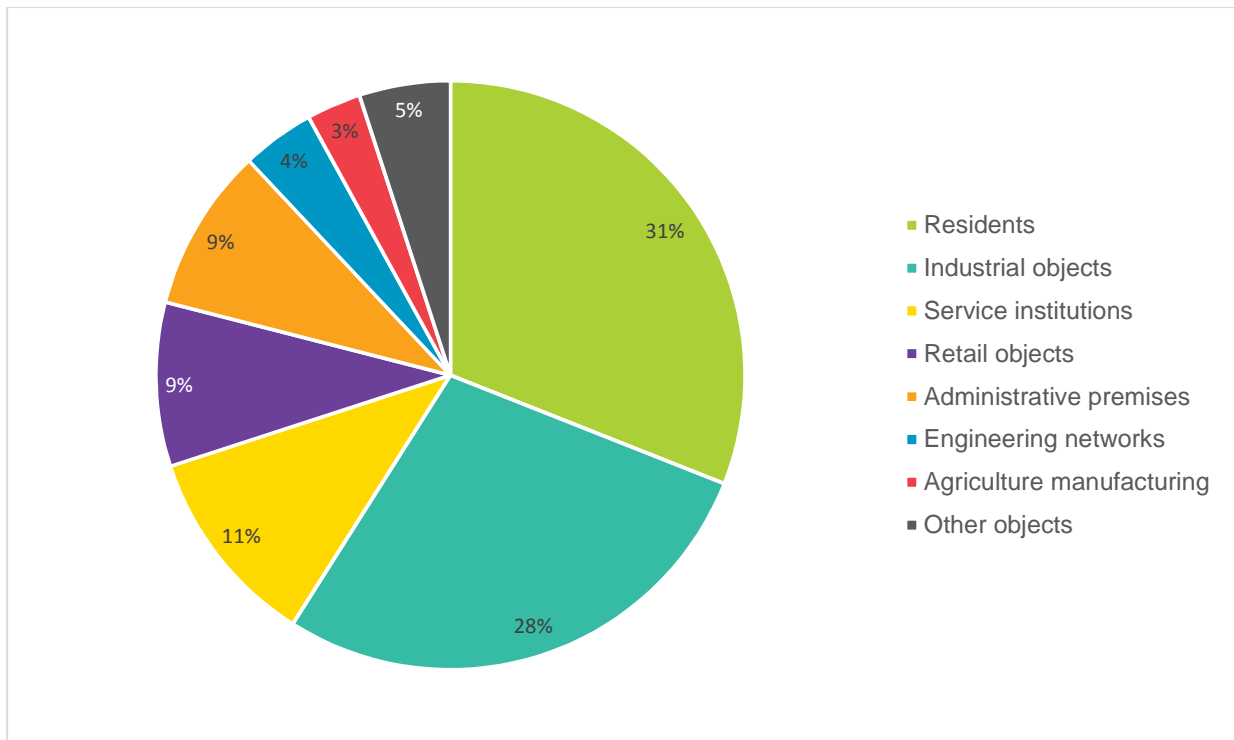
During six months of 2016 the amount of ESO distributed electricity reached 4.488 billion kWh. Electricity sales made up 35.7% of this amount. To the rest customers ESO granted only network distribution service.

Compared to the same period of 2015, the amount of electricity sold increased by 0.7%, while the volume of network service increased by 5.6%. Technological losses experienced by the company during the six months of 2016 amounted to 280 million kWh and this totalled to 5.88 % from the amount of electricity received. During the same period of 2015 technological losses totalled 6.23 %.

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

Structure of network service volumes by objects

31 % of ESO electricity network service volume was allocated to residents. Industrial and service institutions consumed 28% and 11% respectively. Compared to six months of 2015 data, the structure of electricity network service has not changed.



Natural gas distribution

During six months of 2016 ESO via its distribution pipelines transported 3.9 billion kWh (367 million cubic meters) of natural gas - about 3.4% more than in 2015 in the same period.

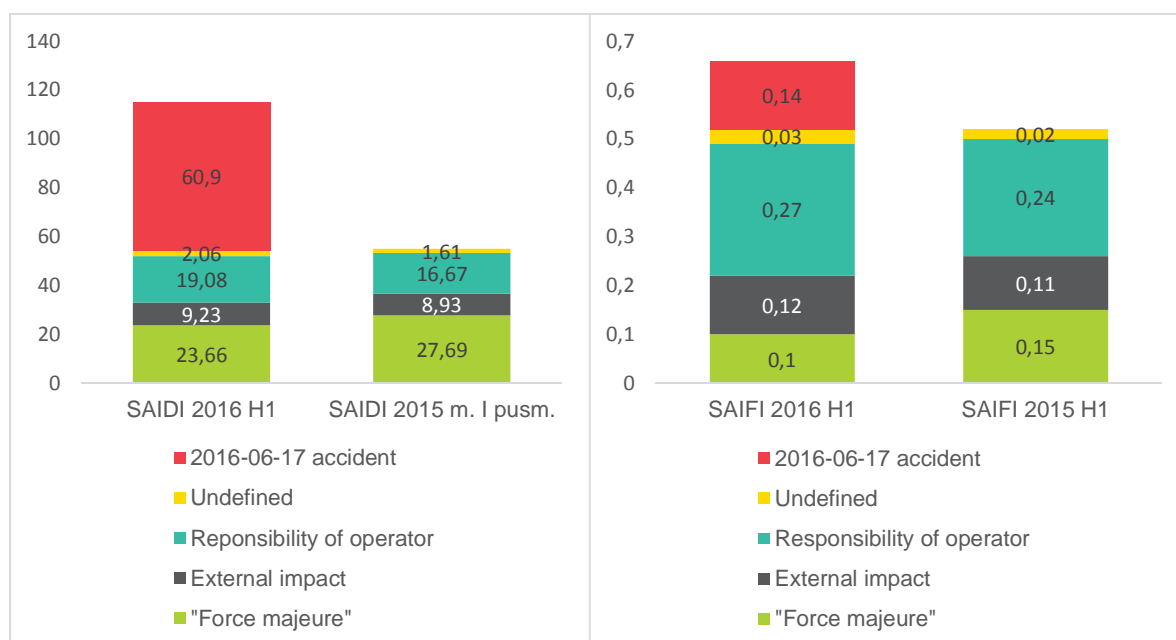
During the first half of 2016 distribution volumes increased mainly due to colder weather during the heating season increased gas consumption demand in heat and power generation plants.

Electricity distribution network reliability indexes

During six months of 2016 with the influence of natural disasters (“force majeure”) the system average interruption duration index (SAIDI) per customer amounted to 114.9 minutes. This is 60.01 minutes more compared to the same period in 2015, when it amounted 54.89 minutes. The system average interruption frequency index (SAIFI) with the influence of natural disasters per customer reached from 0.66 – 0.13 times more compared to 2015 January-June, when it was 0.53 times.

Significant impact on the electricity distribution network operation during the first half of 2015 had more frequent natural disasters, which resulted in very changeable weather, compared to the same period last year. The greatest impact on network reliability indicators had a storm on June 17-18 2016. It was one of the strongest in recent years. The effects of the storm, which were eliminated during June 17-25, were classified as an Accident, according to the regulations of the Republic of Lithuania energy equipment accidents and disorders.

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



Investments

During six months of 2016 ESO investments in the electricity and gas distribution networks amounted to EUR 51.24 million – 11.4% more than during the first half of 2015.

ESO investments, thousand. EUR

	2016 H1	2015 H1
Electricity distribution network upgrade	25 770	21 310
Electricity distribution network expansion	17 234	20 092
Construction and reconstruction of Gas systems	4 273	3 532
Other (IT, management systems, etc.)	3 963	1 059
Total investments	51 240	45 993

During six months of 2016 ESO investment in electricity distribution network upgrade amounted to EUR 25.77 million – 20.9% more compared to the same period of 2015. Investments in the electricity distribution network expansion during the

first half of 2016 were lower compared to January-June of 2015, because major investment projects are planned for implementation during of the second half of 2016.

The first half of 2016 compared to January-June of 2015, investments in IT and management systems increased by 3.7 times - up to EUR 3.9 million. This was resulted by new electricity distribution network management system installation works. The new system, implemented by the US industrial and energy concern "General Electric Company" company IGE Energy Management Services Limited, will ensure a better quality of electricity supply and distribution, network reliability and expeditious restoration of power supply in the event of failure. It is expected that the system will be installed in 2017 in the first quarter.

During the six months of 2016 ESO has connected 12 491 new customers, 2.2% less than in the same period of 2015 when it had 12 775 new customers connected. The permissible power for new customers during the six months of 2016 was equal to 139 911 kW, which is 18.3% less than during January-June 2015, when the permissible power was 171 256 kW.

During six months of 2016 ESO investment in gas systems for construction and reconstruction reached EUR 4.27 million or 21% more compared to the same period in 2015. During six months of 2016 for new customers connection company has built 34.7 km of distribution pipeline (2015 January-June – 28.4 km) and the connected 1678 consumers* to the distribution network – 14.6% more compared to the same period in 2015 (1464 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 1.06 billion. Fixed assets share in total assets was equal to 90.9 %. Most liquid assets - Cash with cash equivalents accounted to EUR 16 million i.e. 16.5 % of total current assets.

ESO financial leverage ratios

	2016.06.30	2015.12.31
Indebtedness ratio	0,44	0,47
Debt to assets ratio	0,22	0,23
Debt to equity ratio	0,78	0,88
Total liabilities to equity	0,38	0,43
Debt to equity ratio, thousand EUR	212.901	220.024
Net financial debt to equity ratio	0,36	0,38
Long-term debt to equity ratio	0,22	0,26
General solvency ratio	0,78	0,88
Equity to assets ratio	0,56	0,53
Price-earnings ratio*	14,22	-
Capitalisation, million EUR*	756,857	-

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

As of 31 June 2016 ESO financial debt amounted to EUR 228.9 million. EUR, or it amounted 48.9% all the liabilities. Longterm loans amounted to EUR 129.1 million, 56.4% of total loans. At the end of the reporting period, ESO current liabilities

totaled EUR 194.7 million.

ESO liquidity ratios

	2016.06.30	2015.12.31
Current liquidity ratio	0,50	0,64
Acid test ratio	0,49	0,63
Cash liquidity ratio	0,08	0,13
Working capital ratio EUR thousand	-97.548	-75.920
Working capital to total assets ratio	-0,09	-0,07

ESO current liabilities exceeded current assets by EUR 97.5 million. Current liquidity ratio - 0.50. Acid ratio is not significantly different from the current liquidity, since reserves amount to only 1.9% of total current assets. Financial debt, reduced by short-term investments and cash and cash equivalents in size, amounts EUR 212.9 million. The company's net financial debt consists of 35,7 % 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 first half period ended 30 June 2016

FACTORS AFFECTING THE FINANCIAL INDICATORS OF THE COMPANY

Operating environment

For the fourth year, the European Union's gross domestic product is slowly growing. In addition, growth should also lead to low oil prices, favourable financing conditions, and a weaker euro against the dollar. On the other hand, new risks are beginning to emerge, which can affect economic growth: slower growth in China and other developing countries, weak global trade, and geopolitical tensions in the neighbourhood. The European Commission forecast published in spring 2016 said that in 2016 the European Union's gross domestic product growth will reach 1.8% and 1.9% in the euro zone. Meanwhile, in 2017 economic growth should reach 2.0% and 1.9% respectively².

According to European Commission forecasts Lithuanian economic growth will increase by 2.8% in 2016, and 3.1% in 2017³. Lithuania bank economists in the Lithuanian economic growth prospects published in 2016 also predict economic growth in Lithuania. According to the SEB Bank analysts' April forecasts, it is expected that Lithuanian's gross domestic product will increase by 2.8% in 2016 and 3.2%⁴ in 2017. In April 2016 Swedbank, AB analysts also published a Lithuanian economic outlook: they expect that gross domestic product growth will reach 3.3% in 2016 and 3.0% in 2017⁵. According to the Bank of Lithuania June 2016 forecast, Lithuanian gross domestic product will grow 2.6% in 2016 and 3.3% in 2017⁶.

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

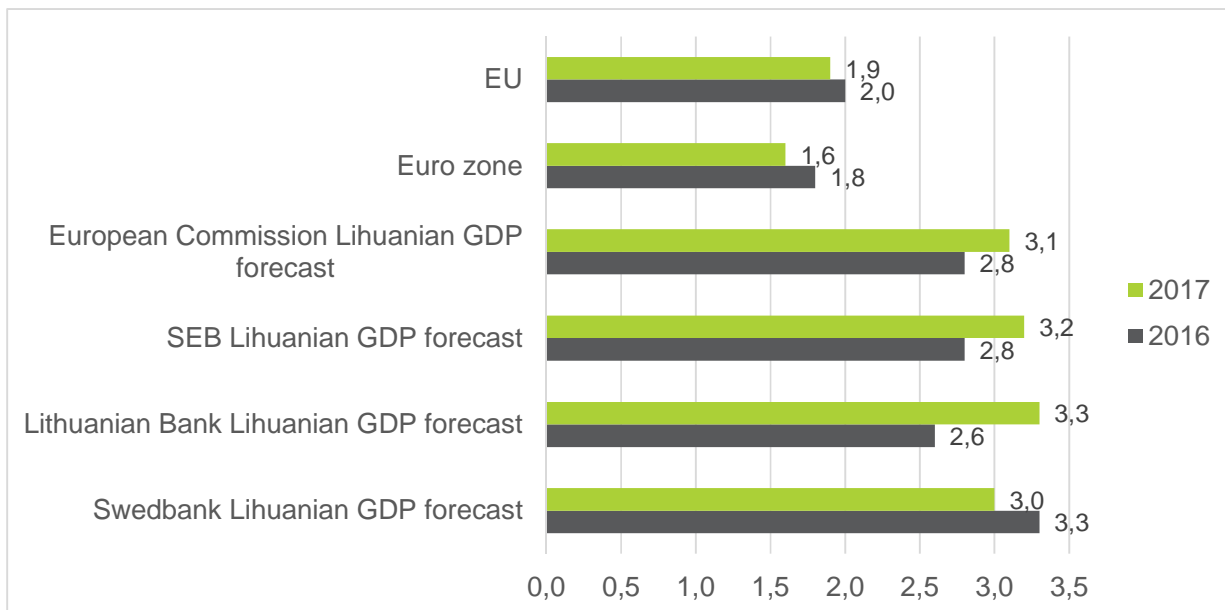
³ Data source: European Commission. European Economic Forecast Spring 2016

⁴ Data source: SEB bankas. Lietuvos makroekonomikos apžvalga Nr. 62, 2016 m. balandis

⁵ Data source: „Swedbank“ ekonomikos apžvalga. 2016 m. balandis

⁶Data source: Lietuvos bankas. Lietuvos ekonomikos raida ir perspektyvos. 2016 m. birželis

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



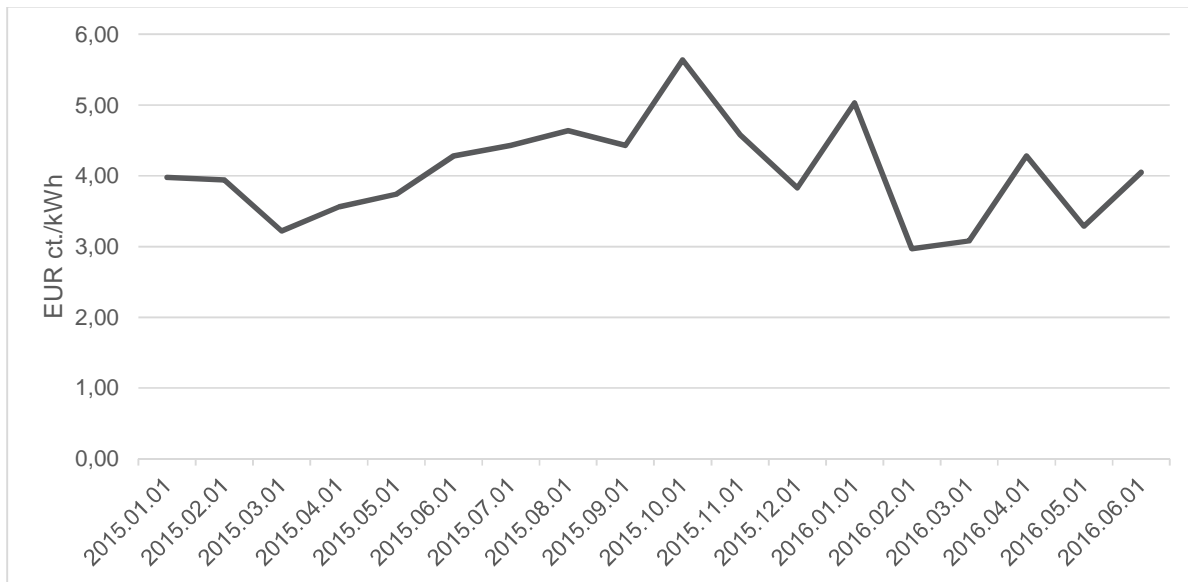
Because power consumption is closely linked to gross domestic product growth, economic growth affects the performance of the ESO, too. Taking into account the macroeconomic forecasts of economists as well as 2015 results, we can expect a slight growth in electricity transmitted for 2016 and beyond.

The situation in the electricity market

In January-June 2016 the average price of electricity in Nord Pool Exchange Lithuanian trade zone was somewhat lower than in the respective period last year. In January-June 2016 the average price of electricity in Nord Pool Exchange Lithuanian trade zone was somewhat lower than in the respective period last year. In January the average price of electricity in Nord Pool Exchange Lithuanian trade zone, compared to the same period in 2015 increased by 26.4%, in February – decrease by 24.6%, in March – decreased by 4.3%, in April - increased by 20.2%, in May – decreased by 12.0%, in June – decreased by 5.4%⁷.

⁷Data source: Elektros rinkos apžvalga, 2016 m. birželis [interaktyvus]. Žiūrėta 2016-08-17. Prieiga per internetą: <http://www.litgrid.eu/index.php/elektros-rinka/rinkos-apzvalgos/798>

Average monthly prices at the electricity exchange

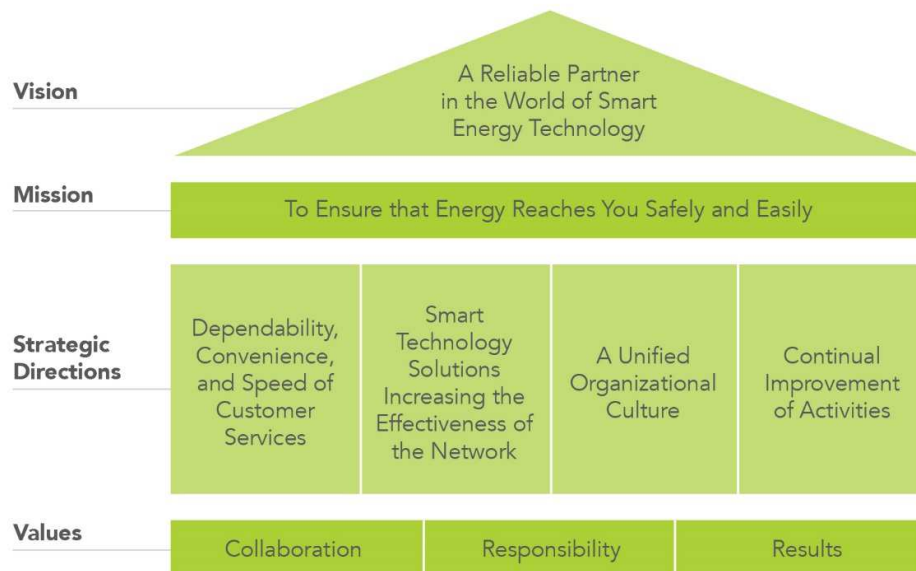


Company strategy and objectives

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

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

ESO strategy scheme



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

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

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

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

Stakeholders

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

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

Investment plans

Electricity distribution network modernization

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

The company intends to invest the most – EUR 511 million – into the network's resilience to increased climate phenomena. In this way, overhead lines will be replaced by underground or air-insulated lines. We plan to increase such lines by 25 % to 40 %, or to build 18 thousand kilometres of underground and insulated lines over the next 11 years. They intend to invest 16

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

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

Gas distribution network modernization

On December 13, 2015, Lietuvos Dujos announced a ten-year investment plan estimating investment of EUR 141.1 million into the network over the next decade. ESO, which continues Lietuvos Dujos activities, plans the largest investments in the development of the distribution system, distribution pipeline reconstruction, and remote data acquisition and control systems modernization. Ten directions of investment are provided for in the 2016-2025 investment plan. Most of it – EUR 58 million – is earmarked for development of the distribution system, necessary because of the growing number of new natural gas customers. About

EUR 21 million is planned for investments in remote data acquisition and control system modernization and EUR 20.4 million for the reconstruction of gas distribution pipelines. We plan to allocate EUR 11.7 million of funds to the gas metering system within ten years. The gas pressure control equipment reconstruction gets EUR 7.7 million, closing device modifications and additional installation EUR 6.5 million, and pipeline corrosion protection equipment reconstruction EUR 1.2 million. Planned investments for gas distribution reliability projects are EUR 3.5 million and EUR 0.66 million for distribution pipeline buyout. They plan to allocate EUR 3.9 million funding for technological process modernization.

Risks and uncertainty factors and their management

Risk management policy

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

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

The main principles of ISO risk management:

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

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

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

Risk management and control model

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

Risk management and control scheme



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

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

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

"The third line of defence" includes: the Lietuvos Energija, UAB internal audit unit and external auditing company. The internal Audit Unit evaluates risk management and internal control effectiveness and efficiency and makes recommendations for risk

management and control improvement. The Company's hired external audit company delivers an opinion on the correctness of the Company's financial statements and risk management and internal control effectiveness at least once a year.

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

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

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

The main risks to Company activities and their management

These are the main risks to Company activities:

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

Strategic risk management

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

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

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

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

As public and guaranteed supplier of electricity, the Company seeks the highest standard of reputation in its function of electric and gas distribution. This ambition is reflected in the Company mission, vision, strategic objectives, and values.

Company leaders try hard to communicate the Company mission, vision, values, and strategic objectives to employees. In addition, the Company carries out social projects, testifying to the Company's socially responsible image.

Compliance risk management

Compliance risk is understood as the risk arising from a changing regulatory, legal environment, or violation of specific changes in specific areas, but they are not properly or promptly transferred to the Company's internal documents. Or, with regard to the Company's activities, there is no possibility for such requirements to be implemented promptly or fully. Also, this risk group can be associated with compliance risks for a variety of standards and certificates. This is a risk of an increase in losses, loss of prestige, and (or) decrease in confidence, which may be due to external environmental factors or internal factors (such as the internal laws and ethical standard violations, worker abuse cases, and so on).

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

Operating/operational risk management

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

Financial risk management

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

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

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

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

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

The Company does not guarantee obligations of other parties.

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

Interest rate risk

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

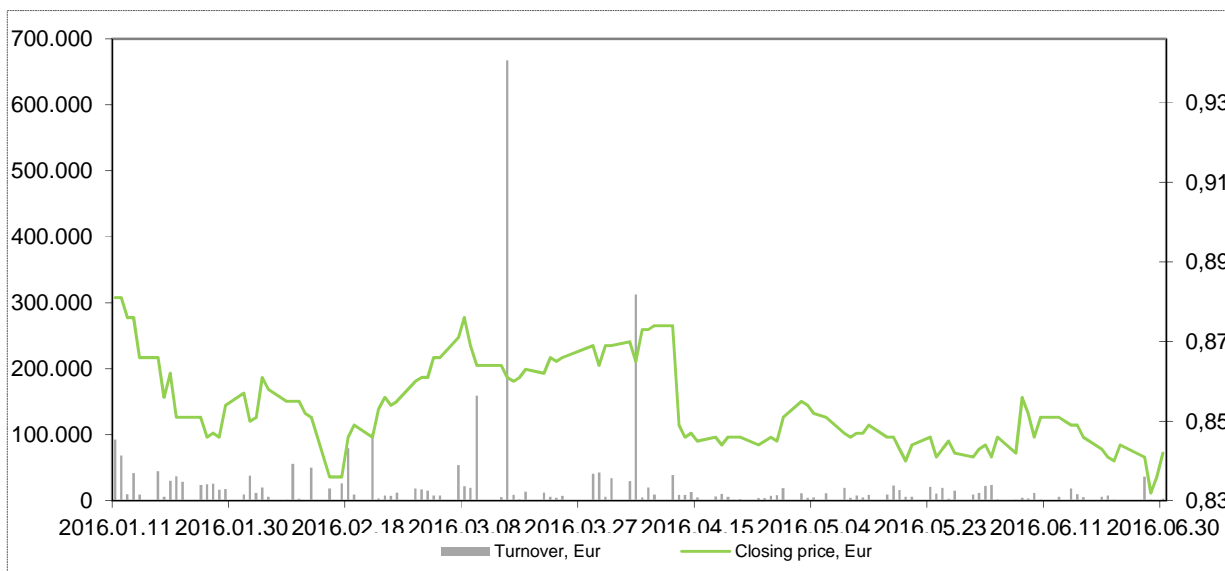
Foreign currency risk

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

INFORMATION ABOUT THE COMPANY'S SHARE CAPITAL AND SECURITIES

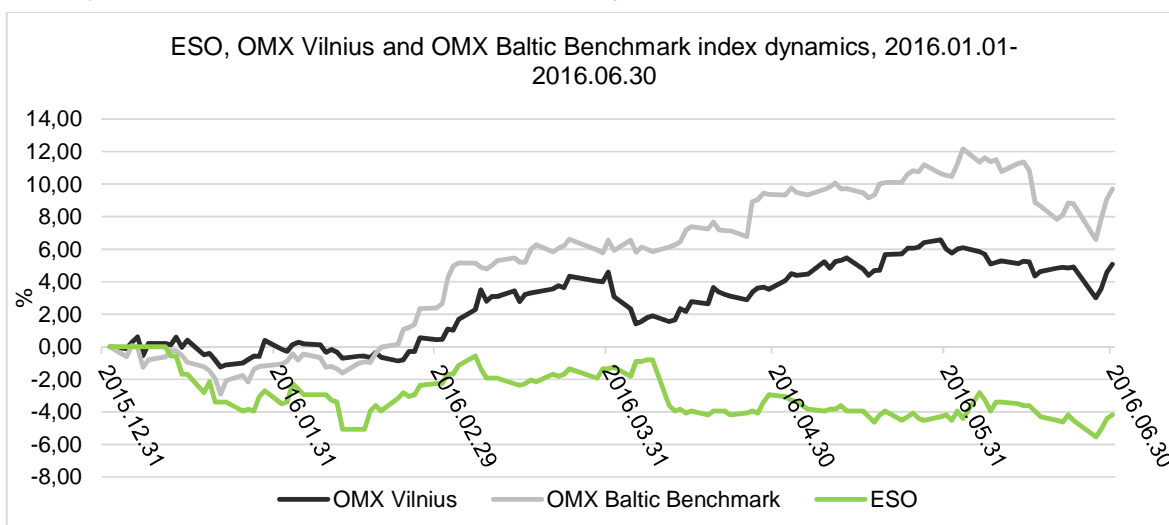
The stock price dynamics and turnover

ESO stock price dynamics and turnover, 2016-01-11 – 2016-06-30



ESO - the largest company by market capitalization in the NASDAQ Baltic Exchange. As of June 30 2016 ESO capitalization amounted to EUR 756.9 million. During the first half of 2016 ESO shares fell 4.18%. The weighted average of ESO's share price for the six months of 2016 was €0.860.

ESO share prices OMX Vilnius and OMX Baltic Benchmark index dynamics, 2016-01-01 – 2016-06-30



Since the beginning of 2016 until June 30, the OMX Vilnius index rose 5.08%, the OMX Baltic Benchmark index rose 9.71%, and in the meantime ESO's share price during the six months of 2016 fell by 4.18% 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 June 30, 2016. 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

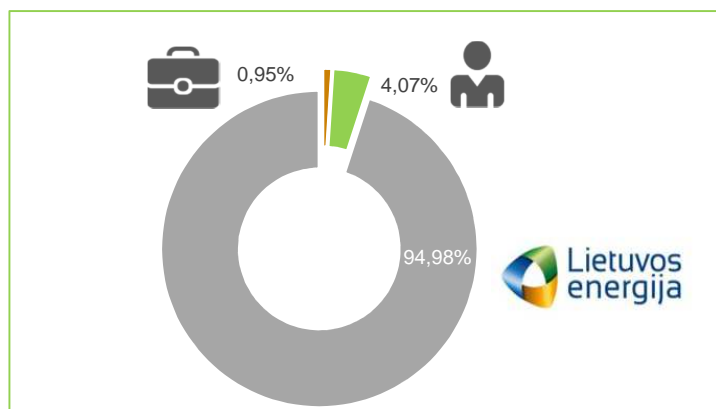
Shareholders

As of June 30, 2016, the total number of Company shareholders was 8,910. 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% of ESO shares. Households own 4.07%. Financial institutions, insurance, and other companies own 0.95% of ESO shares.

**ESO shareholders by country as of
2016-06-30**

Country	Shareholder number
Lithuania	8 615
Estonia	83
Russia	49
Latvia	45
Belarus	39
USA	20
Great Britain	11
Other countries	48
Total	8 910

ESO shareholders by groups as of 2016-06-30



Shareholders who owned more than 5% of the issuer's authorized capital as of June 30 2016

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

Dividends

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

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.

CUSTOMER SERVICE, SERVICE EVALUATION

Served customers

On June 30 2016 ESO had 1.654 million electricity sales contracts with private clients and 67.1 thousand electricity supply or transmission service contracts with commercial customers (on June 30 2015 there were 1.57 million contracts with private clients and 67 thousand contracts with commercial customers).

About 560.5 thousand private and about 9.5 thousand business customers are connected to ESO gas distribution network, which ensures distribution service.

Service channel development

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

As of June 30 2016 the self-service website www.manogile.lt had 227 thousand private customers.

During six months of 2016 information was provided to more than 638 thousand customers (in six months of 2015 it was more than 517 thousand customers) over the 1802 short customer service number. More than 289 thousand customer referrals on various issues were received and resolved (in the corresponding period in 2015 it was 228 thousand customer referrals).

During six months of 2016 more than 136 thousand electricity and gas customers were served in the customer service centres in the seven major Lithuanian cities (during six months of 2015 it was 126 thousand customers).

Electricity and gas metering operation and development

During six months of 2016 the Company changed 53 072 expired metering devices. Of them 44 605 were electricity meters and 8 467 were natural gas metering devices. New customers received 10 564 electricity and 8 467 natural gas meters. Constantly updating the accounting for existing devices, the Company and its authorized individuals also checked more than 500 thousand electric and more than 119 thousand natural gas meters.

So far this year the Company has installed 220 control metering in the 10 kV power network, thereby increasing their number up to 728. This is borne by 21% of total of 10 kV network.

By investing in electricity and natural gas metering equipment modernization and automation, the Company connected 967 electricity and 132 gas metering devices to the existing automated data reading system, thereby increasing the Company's operating metering equipment for which data is scanned remotely, increasing the numbers respectively to 28 305 and 1212.

Automation of meters provides the ability to automatically submit bills for electricity consumed to corporate customers or fine-tune corporate customer's consumption of natural gas.

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

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

Customer billing management

Lithuania joined the Single Euro Payments Area (SEPA) on January 1, 2016. The direct debit offered in Lithuania did not meet the SEPA requirements by this date, so from 2016 it was discontinued. Customer Direct Debit consents have been automatically changed to e. account with an automatic payment agreement, allowing customers to continue to pay for electricity automatically, the monthly amount paid by automatic deduction from the customer's bank account. ESO has created an opportunity for customers to pay for electricity at the average consumption of electricity. Payment by average consumption helps plan expenses evenly because the same amount is paid every month despite seasonality and changes in the amount of electricity consumed. In addition, customers with multiple properties have the ability to pay for electricity consumption in several dwellings owned by the same consumer (by one account) in one instalment. The monthly payment for electricity is calculated according to the size of the customer's previous electricity consumption average (in kilowatt hours, kWh), which is adjusted according to the customer's declared readings or by periodic meter inspection data.

Consumers can find out and check the adjusted average payment online at the renewed self-service site www.manogile.lt by calling the customer service by phone, or come to the Gilė customer service centre. 21% of ESO customers pay by VAT invoices.

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

Market liberalisation

As of June 30, 2016, independent providers supply electricity to 67 187 properties. In accordance with the Lithuanian Electricity Market Development Plan approved by the Government of Lithuania on July 8, 2009, an independent electricity supplier was chosen on June 30, 2016:

- About 94% of the properties whose maximum power was 400 kW and more
- About 86% of the properties whose maximum power was 100 kW and more
- About 75% of the properties whose maximum power was 30 kW and more
- About 55% of the properties whose maximum power was 30 kW or less

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

SOCIAL RESPONSIBILITY OF THE COMPANY

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

We share the responsibility to contribute to 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. 88% of ESO electricity users 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 2016 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.

Energy efficiency "To the extent necessary"

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

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.

During the first half of 2016 new 25 companies have joined the initiative. Currently a total of 213 companies are members of this initiative.

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

On 11 February 2016 ESO jointly with business newspaper Verslo Žinios organized sixth business conference. During the event more than 220 participants from different sectors shared their insights about sustainable energy. In the conference practical energy efficiency measures, specific electricity and gas infrastructure solutions by different companies, energy efficiency financing, implementation of European Union Energy Efficiency Directive and other relevant issues were discussed.

According to the survey of the event participants, compared with the previous year, the expectations of the participants of the conference were met better: the percentage increased by three points (from 93 to 96%).

Every year during the event "Green Protocol" members are awarded for the most rational use of energy. For last year's progress UAB Šiaulių Vandenys was awarded (ISO 5001 2011 energy efficiency standards installation and the other rational use of energy-enhancing tools), and the "Green Ambassador" title (given to rational consumption enthusiast employees) went to Rasa Pečiulaitė, Eika UAB development and energy project manager.

Cooperation with Lithuanian libraries. An agreement was signed in March 2015 with the Lithuanian National Martynas Mažvydas Library to collaborate implementing the "Libraries for Innovation 2" social project.

The national Sustainable School educational program. ESO together with partners, seeking to foster awareness of the school community and to contribute to a sustainable, energy efficient and environmentally friendly Lithuanian society, invited country's educational institutions to take part in educational program "Sustainable School", which runs throughout the year. In 2015 the project was awarded the Swedish Business Awards prize for the best 2014 social responsibility project, it is now ongoing (for more details - www.darnimokykla.lt). "Sustainable School" is implemented by VšĮ „Pakuočių tvarkymo organizacija“, „Schneider Electric Lietuva“, Mano būstas LT“ and Nacionalinė vartotojų federacija.

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.

Updated agreement with the Lithuanian National Consumer Federation (Lietuvos nacionaline vartotojų federacija).

A cooperation is being planned in disseminating knowledge about the rational use of energy and by organizing various related initiatives.

Investor relations. We strive to maintain a close relationship with our existing and potential investors, and to ensure that all their information is equally accessible – it is continuously updated and provided. In January, at the Nasdaq Baltic Market Awards 2015 event, we won three awards for Lietuvos Dujos and LESTO progress made in improving relations with investors.

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 trust line 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 (CVPIS). 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 organization was [published](#) 15 May 2016.

THE COMPANY AND ITS MANAGEMENT BODIES

The organizational structure of the company

Name of the company	Energijos Skirstymo operatorius AB
Company code	304151376
Authorized capital	EUR 259 442 796,57
Head Office Address	Aguonų St. 24, LT-03212 Vilnius
Phone	(8 5) 277 7524
Fax	(8 5) 277 7514
Email	info@eso.lt
Webpage	www.eso.lt
Legal-organizational form	Joint Stock Company
Date and place of registration	On 11 December 2015 at the Register of Legal Persons of the Republic of Lithuania
The Register in which the data about the company are collected and stored	Register of Legal Persons
Register manager	Public body Centre of Registers

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

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

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

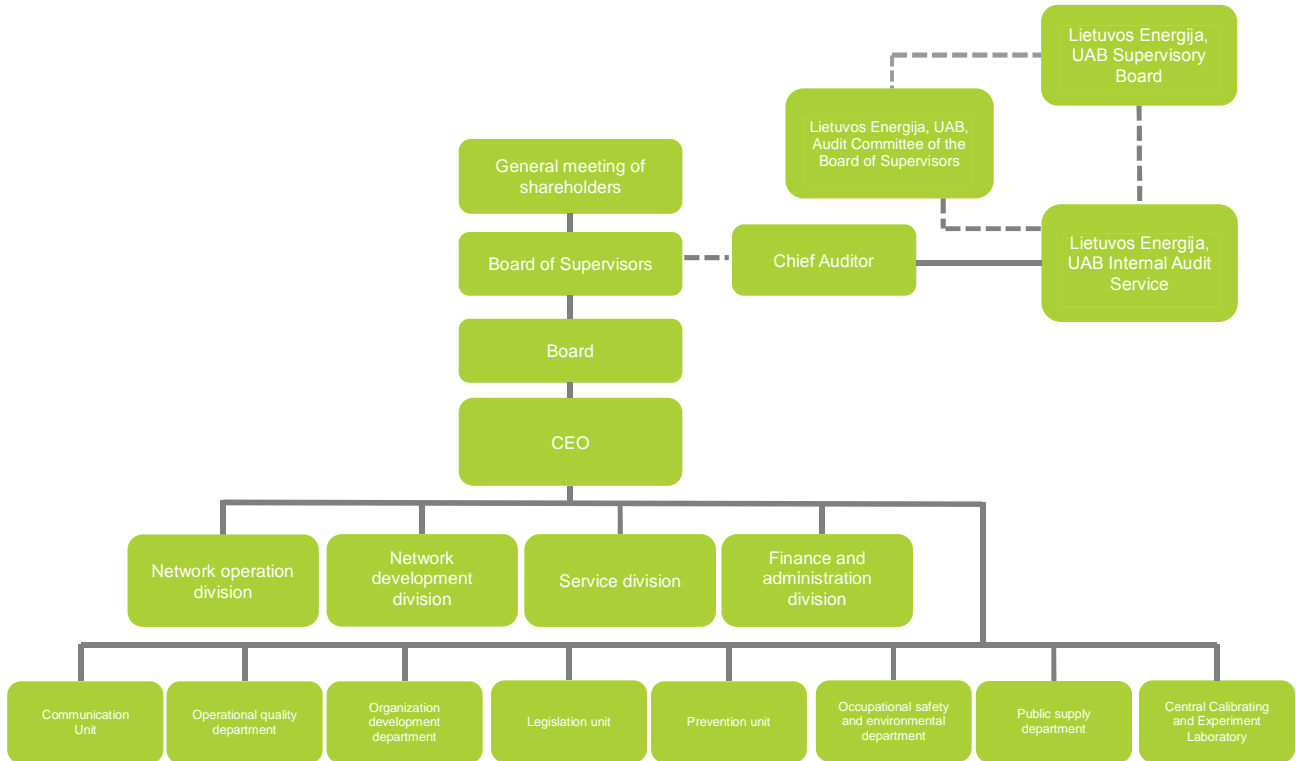
The main information about related companies

On the day of signing the report ESO jointly with other companies managed UAB Verslo Aptarnavimo Centras and Technologijų ir Inovacijų Centras UAB.

	Technologijų ir Inovacijų Centras UAB	Verslo Aptarnavimo Centras UAB
Address	A. Juozapavičiaus St. 13, Vilnius	P. Lukšio St. 5B, Vilnius
Registration date	4 December 2013	30 July 2014
Company code	303200016	303359627
Phone	(8 5) 278 2272	(8 5) 259 4400

Fax	(8 5) 278 2299	(8 5) 259 4401
Email	info@etic.lt	vac@le.lt
Website	www.etic.lt	http://vac.le.lt
The share of capital hold by ESO, in percent, as of 1 January 2016	29.01	22.25
The share of capital hold by ESO, in percent, as of 30 June 2016	29.01	22.25
The nature of the main activities	Provision of information technology and telecommunication services for the companies of the energy sector	Organization and implementation of public procurement, bookkeeping, industrial relations administration, customer service, human resource administration and provision of legal services.

ESO management structure



ESO management

On the day of signing the report, according to the Articles of the Company, the management bodies of the Company are general shareholders' meeting, collegiate supervisory body – the Board of Supervisors, collegial management body – the Board, and a single-person management body – the Director General.

General meeting of shareholders

General Company shareholders' meeting is the supreme management body of the Company. The competence of the general shareholders' meeting, the procedures of convening meetings and decision-making are established by laws, other legislation and the articles of the Company. During the reference period, the shareholders of the Company had equal rights (both property and non-property), foreseen in the laws, other legislation and the articles of the Company. None of the shareholders of the Company had any special control rights; all shareholders' rights are equal.

During the reference period the management bodies of the company created proper conditions for the implementation of the rights of the shareholders of the Company.

During six months of 2016 one (1) shareholders' meeting was held. In the general shareholders' meeting of 29 March 2016 Director-General of the Company Liudas Liutkevičius took part, as well as Director of Finance and Administration Service, board member Augustas Dragūnas and Chairman of ESO's Board of Supervisors Dalius Misiūnas.



The Board of Supervisors

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

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

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

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

		
Dr. Dalius Misiūnas (born in 1978) Chairman of the Board of Supervisors	Ilona Daugėlaitė (born in 1970) Member of the Board of Supervisors	Petras Povilas Čėsna (born in 1945) Independent member of the Board of Supervisors
In office from: In this position from: 3 December 2015	In office from: In this position from: 3 December 2015	In office from: In this position from: 3 December 2015
End of term of office: 3 December 2019	End of term of office: 3 December 2019	End of term of office: 3 December 2019

Education

<i>Lund University</i> , Doctoral degree in technological sciences, Lund University, Master's degree in Industry Electrotechnics and Automatics, Kaunas University of Technology, Bachelor Degree in Electric Engineering	Vilnius University, Master's Degree in Hydrogeology and Engineering	Vilnius University, Qualified Economist
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Main employer

Lietuvos Energija, UAB Chairman of the Board, Director-General	Lietuvos Energija, UAB Organization Development Director	Lithuanian Exhibition and Congress Centre LITEXPO, Chairman of the Board
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Participation in the activities of companies and organizations, share of company capital and votes held is more than 5%

Name of company, body, organization, position	Share of capital and votes held, in percent	Name of company, body, organization, position	Share of capital and votes held, in percent	Name of company, body, organization, position	Share of capital and votes held, in percent
Chairman of the Board of Supervisors of ESO	-	Member of ESO Board of Supervisors	-	Independent member of ESO Board of Supervisors	-
Lietuvos Energija, UAB, Chairman of the Board, Director General	-	Lietuvos Energija, UAB Member of the Board, Director of Organizational Development	-	Lithuanian Exhibition and Congress Centre LITEXPO, Chairman of the Board	-
Member of Higher Education Board	-	Technologijų ir Inovacijų Centras UAB, Chairman of the Board	-	Seimas of the Republic of Lithuania, Public Assistant to MP Irena Šiaulienė	-
Lithuanian National Energy Association, President	-	Elektroninių Mokėjimų Agentūra UAB member of the Supervisory board	-		
Lithuanian Industrialists' Confederation, Vicepresident	-	Verslo Aptarnavimo Centras UAB, Chairwoman of the Board			
Association "Eurelectric", member of the Board of Directors	-	My spouse holds 3,150 ordinary registered shares of "SOLUTIONLAB PRODUCTION" UAB (company code 300629188)	63		
ISM University of Management and Economics, Member of the Board					

* ESO Articles provide for the following: "Contracts regarding the activities in the board of supervisors may be concluded with the members of the board of supervisors, the Articles shall lay down their rights, duties and liabilities. Independent members of the Board of Supervisors may be paid a remuneration for the activities in the Board of Supervisors by a decision of the general shareholders' meeting. The terms and conditions and the criteria of independence of the

members of the Board of Supervisors shall be laid down by the general shareholders' meeting pursuant to the requirements of the legislation and the best practice of company management." The contracts regarding the activity of a member of the ESO Board of Supervisors were concluded with Dr. Dalius Misiūnas, Ilona Daugėlaite and an independent member of the Board of Supervisors Petras Povilas Česna on 3 December 2015. ESO has not transferred or granted the guarantees of property management to the members of the bodies. In six months of 2016 the Company did not grant any loans to the members of the Board, guarantees or assurance, whereby the implementation of their obligations would be ensured."

Audit Committee

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

The main functions of the Audit Committee:

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

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

Members of the Audit Committee of Lietuvos Energija, UAB at the end of the reference period

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

Board of the Company

ESO Board is a collegial management Body of the Company.

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

On 1 January 2016 the Board of the Company consisted of the Chairman of the Board Liudas Liutkevičius and members of the board – Dalia Andrulionienė, Eglė Čiužaitė, Rytis Borkys and Dalius Svetulevičius. On 19 February 2016 ESO Board of Supervisors adopted a decision to recall Eglė Čiužaitė from the position of the members of the Board of ESO and from 19 February 2016 and until the end of the term of office of the operating ESO Board to elect Augustas Dragūnas to be the member of the Board to be in charge of finances and administration. On the day of signing the report the Board of the Company was made of the Chairman of the Board Liudas Liutkevičius and members of the Board – Dalia Andrulionienė, Augustas Dragūnas, Rytis Borkys and Dalius Svetulevičius. The end of the term of office of the Board is 3 December 2019. During the reference period there were 15 meetings of the ESO Board, all the members of the Board took part in the meetings.



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

Chairman of the Board:
from 31 December 2015

End of term of office: 2
December 2019

In Office of Director
General: from 1 January
2016



Dalia Andrulionienė
(born in 1971)
Member of the Board

In office from:
3 December 2015

End of term of office:
2 December 2019



Augustas Dragūnas
(born in 1981)
Member of the Board

In office from:
19 February 2016

End of term of office:
2 December 2019



Rytis Borkys
(born in 1969)
Member of the Board

In office from:
3 December 2015

End of term of office:
2 December 2019



Dalius Svetulevičius
(born in 1974)
Member of the Board

In office from:
3 December 2015

End of term of office:
2 December 2019

Education

Vilnius University,
Master Degree in
International Business
Finance

ISM University of
Management and
Economics,
BI Norwegian
Business School,
Master Degree in
Business
Management. Vilnius
University, Master
Degree in
Economics

Vilnius University,
Master Degree in
Business
Management and
Administration

Kaunas University of
Technology, Higher
Education University
Degree in
Engineering.

Kaunas University of
Technology, Master
Degree in
Measurement
Engineering.
Vilnius University,
Master Degree in
Management and
Business
Administration

The main employer

CEO of ESO		Director of ESO Service Division		Director of ESO Finance and Administration Division		Director of ESO Network Development Division		Director of ESO Network Operations Division	
Participation in the activities of companies and organizations, including the share of other company's capital and votes larger than 5%									
Name of company, body, organization, position	Share of capital and votes held, in percent	Name of company, body, organization, position	Share of capital and votes held, in percent	Name of company, body, organization, position	Share of capital and votes held, in percent	Name of company, body, organization, position	Share of capital and votes held, in percent	Name of company, body, organization, position	Share of capital and votes held, in percent
ESO Chairman of the Board, CEO	-	Director of ESO Service Division	-	Director of ESO Finance and Administration Division	-	Director of ESO Network Development Division	-	Director of ESO Network Operations Division	-
Lithuanian Energy Support Fund, Member of the Board.	-	Verslo aptarnavimo centras UAB, Member of the Board	-	Technologijų inovacijų centras UAB, Member of the Board	-				
National Lithuanian Energy Association, Member of the Board.	-								
"Security Components" UAB, Director	-								
"Security Components" UAB, Director	-								
Member of KTU Mathematics and Natural Sciences Faculty Council	-								

Chief Executive Officer

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

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

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

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

	Wages, EUR
CEO Liudas Liutkevičius	27 111

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

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

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

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

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

Employees of the company

The Company's personnel policy focuses on employee professional skills development as well as organizational culture formation, ensuring greater value for customers, partners, and development of society. The number of employees as of June 30, 2016, was 2,706.

ESO staff structure by category:

Employee category	Number of employees 2016 06 30
Head of the company	1
Top level executives	7
Mid-level managers	162
Experts, professionals, labourers	2.536
All employees	2.706

ESO staff structure by education:

Education	Number of employees 2016 06 30
Higher	1.619
Advanced	376
High school or vocational	711

We paid great attention to employee performance evaluation in the first half of 2016, the main objectives of which were the following: evaluate the implementation of objectives set for employees, the effectiveness of their main functions, and competence compliance, as well as to raise new goals and create a plan of education for staff in 2016. This year 64% of employees sample selected based on job level.

Remuneration system

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

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

Average salary of ESO employee

Employee category	The average gross wage, EUR
	January-April 2016
Head of the Company	4.519
Top level executives	4.056
Mid-level managers	1.969
Experts, professionals	1.053
Labourers	875
All employees	1.075

Collective Bargaining Agreement

At the ESO staff conference on February 12, 2016, a new version of the collective agreement was confirmed, which will provide greater protection to ESO workers and many additional benefits not covered by the Labour Code of the Republic of Lithuania. The objective of the Collective Bargaining Agreement is to ensure effective Company operations and to represent all the Company's employees' right and legitimate interests. Employment, wage, social, economic, and professional conditions and guarantees are established in the contract, i.e. those that are not regulated by laws and other normative legal

acts. There are also additional staff guarantees (premiums for accidents, sickness, bereavement cases, support for the birth of a child, additional days of paid leave after the birth of a child, marriage, death of a loved one as well as in other cases).

Trade unions

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

Development of competences

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

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

2,263 participants attended the general training in the first half of 2016. General training sessions are organized both for individual employees sent to external supplier organized seminars and conferences (in Lithuania and abroad) and the formation of groups within the Company. The Company seeks to include internal staff in competence development programs – internal lecturers with specific knowledge, skills, and able to share them with others, as well as investing in the training of staff. 2,470 participants attended the internal training sessions during the first half of 2016. A large part of the internal training was dedicated to energy personnel development in order to increase safety as well as quality of customer service. In order to ensure the effectiveness of internal company processes, employees are introduced to the initiatives, which the Company is implementing as well as programs, such as operational excellence and employee performance management.

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

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

Internship opportunities

ESO actively cooperates with educational institutions and allows university and college students to apply their theoretical knowledge and gain practical skills. 39 students completed ESO internships throughout Lithuania over the first half of 2016. It was not only students who carried out internships at the Company, for whom an internship is compulsory – the Company carried out a search and selection for motivated and enthusiastic students and gave them the opportunity to intern in the Company on a voluntary basis.

Other committees

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

The Risk Management Supervision Committee

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

These are the main functions of the committee:

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

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

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

The Nomination and Remuneration Committee

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

These are the main functions of the committee:

- Assess and make proposals on the long-term remuneration policy of Lietuvos Energija, UAB and its corporate group (fixed basic salary, performance-based remuneration, pension insurance, other guarantees and forms of remuneration,

compensation, severance pay, and other remuneration package components), as well as personal development cost principles

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

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

Full name	Participation in the Issuer's authorized capital (%)	Term of office	Affiliation
Virginijus Lepeška (Committee Chairman)	0	2013 August - 2017 August	UAB „Organizacijų vystymo centras“
Tomas Garasimavičius	0	2013 August - 2017 August	Lietuvos Respublikos Vyriausybė
Agnė Bagočiūtė	0	2016 June – 2017 August	Lietuvos Respublikos Vyriausybė

ESSENTIAL EVENTS IN THE COMPANY'S ACTIVITIES

Key events during the reporting period

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

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

Date	Notification on material event
2016-01-11	ESO began stock trading in the NASDAQ Vilnius Exchange
2016-02-05	Concerning the court decision
2016-02-15	Preliminary unaudited 2015 LESTO results: EBITDA amounted to €125 mln. and EBITDA margin rose to 21.5%

2016-02-15	Preliminary unaudited 2015 Lietuvos Dujos results: EBITDA grew 18% to €24 mln.
2016-02-19	Concerning the decisions taken by the AB Energijos Skirstymo Operatorius Supervisory Board
2016-02-26	Lietuvos Dujos 2015 results: sales revenue grew 0.6% to €54.9 mln. and EBITDA 18.2% to €24 mln.
2016-02-26	LESTO 2015 results: EBITDA amounted to €124.8 mln. and investment grew 15.9% to €117.6 mln.
2016-03-03	Concerning the decision to terminate judicial proceedings
2016-03-04	Concerning the convening of the AB Energijos Skirstymo Operatorius Ordinary General Meeting of Shareholders
2016-03-09	Concerning AB Energijos Skirstymo Operatorius Supervisory Board decisions
2016-03-29	LESTO 2015 audited operating results have been confirmed
2016-03-29	Lietuvos Dujos 2015 audited operating results have been confirmed
2016-03-29	Concerning the decisions of the AB Energijos Skirstymo Operatorius Ordinary General Meeting of Shareholders
2016-03-31	Concerning the decision to terminate judicial proceedings
2016-04-22	Regarding the decision by National Control Commission for Prices and Energy
2016-05-16	Preliminary ESO results for three months of 2016: revenue up by 3% to EUR 182 million
2016-05-23	Regarding the change of public electricity price cap for second half of 2016
2016-05-25	Regarding the Board decision to change electricity prices from the second half of 2016
2016-05-30	Regarding announced electricity prices from the second half of 2016
2016-05-31	ESO Q1 2016 results: bigger electricity and gas demand has increased the company's revenue

Key events after the reporting period

An Extraordinary General Meeting of Shareholders of the Company, held on 26 July 2016, adopted decision to elect "PricewaterhouseCoopers" UAB as the audit company for the audit of Energijos Skirstymo Operatorius AB for the year 2016-2018 and to pay for audit services no more than 159 600,00 EUR (VAT not included) for the year 2016-2018.