

To Nasdaq Baltic Stock Exchange

2019-04-30 Nr. 9KR-SD-4270

CONFIRMATION OF RESPONSIBLE PERSONS

Referring to the provisions of the Article 24 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, the undersigned Mindaugas Keizeris, Chief Executive Officer of AB Energijos skirstymo operatorius, Augustas Dragūnas, Director of Finance and Administration, and Giedruolė Guobienė, Head of Accounting Services Center of Verslo Aptarnavimo Centras UAB acting under Order No IS18-77 of 13 August 2018, hereby confirm that, to the best of our knowledge, AB „Energijos skirstymo operatorius“ condensed interim financial information for three-month period ended 31 March 2019 are prepared according to International Accounting Standard 34 ‘Interim financial reporting’ adopted by the European Union, give a true and fair view of AB „Energijos skirstymo operatorius“ assets, liabilities, financial position, profit or loss for the period and cash flows, the Interim Report for the three-month period includes a fair review of the activities business development as well as the condition of AB „Energijos skirstymo operatorius“ and with the description of the principle risk and uncertainties it faces.

AB Energijos skirstymo operatorius
Chief Executive Officer

Mindaugas Keizeris

AB Energijos skirstymo operatorius
Director of Finance and
Administration

Augustas Dragūnas

Verslo Aptarnavimo Centras UAB
Head of Accounting Services Center,
acting under Order No IS18-77 of 13
August 2018

Giedruolė Guobienė

Customer Service:

Self-Service www.manogile.lt
Free Electricity Power Cuts 1852
Free Gas Emergency Service 1804
Customer Service tel. 1802* or +370 611 21802
*- this is based on telephone operator's plan and an additional tariff.

Administration:

AB „Energijos skirstymo operatorius“
Aguonų str. 24
03212 Vilnius, Lietuva
E-mail info@eso.lt
www.eso.lt

Requisites:

Company Code 304151376
PVM Code LT100009860612
Data collected and stored in the
Register of Legal Entities

2019

ENERGIJOS SKIRSTYMO OPERATORIUS AB

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION FOR THE FIRST QUARTER OF 2019 AND 3 MONTHS PERIOD ENDED 31 MARCH 2019, PREPARED ACCORDING TO INTERNATIONAL ACCOUNTING STANDARD 34, 'INTERIM FINANCIAL REPORTING' AS ADOPTED BY THE EUROPEAN UNION (UNAUDITED)



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Translation note:

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

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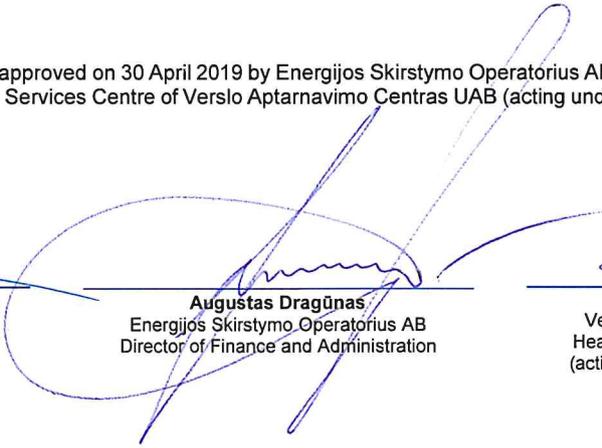
CONDENSED INTERIM FINANCIAL INFORMATION

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Condensed interim financial information was approved on 30 April 2019 by Energijos Skirstymo Operatorius AB Chief Executive Officer, Finance Department Director and Head of Accounting Services Centre of Verslo Aptarnavimo Centras UAB (acting under Order No IS17-77 of 13 August 2018):



Mindaugas Keizeris
Energijos Skirstymo Operatorius AB
Chief Executive Officer



Augustas Dragūnas
Energijos Skirstymo Operatorius AB
Director of Finance and Administration



Giedruolė Guobienė
Verslo Aptarnavimo Centras UAB
Head of Accounting Services Centre
(acting under Order No IS18-77 of 13
August 2018)

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376 Aguonų str. 24, Vilnius, Lithuania
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
31 March 2019

All amounts are in EUR thousand unless otherwise stated

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	At 31 March 2019	At 31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	3	1,454,130	1,428,529
Intangible assets	3	35,598	35,751
Right-of-use asset	4	32,421	-
Prepayments for non-current assets		3	3
Investments in associates		2,586	2,459
Other non-current financial assets		304	210
		1,525,042	1,466,952
Current assets			
Inventories		3,414	1,992
Trade and other receivables		79,262	115,427
Prepayments, deferred expenses and assets under contracts with customers		1,158	2,226
Prepaid income tax		3,434	2,779
Cash and cash equivalents		45,093	2,266
		132,361	124,690
Total assets		1,657,403	1,591,642
EQUITY AND LIABILITIES			
Equity			
Authorised share capital	5	259,443	259,443
Revaluation reserve		151,302	154,834
Legal reserve		25,944	25,944
Retained earnings		219,229	199,813
Total equity		655,918	640,034
LIABILITIES			
Non-current liabilities			
Borrowings		438,434	448,534
Finance lease liabilities	4	24,768	-
Deferred income tax liabilities		13,054	10,276
Liabilities under contracts with customers		138,161	140,139
Grants and subsidies		14,274	13,052
Long-term employee benefits		1,703	1,710
Other non-current liabilities		3	3
Provisions		27,628	27,982
		658,025	641,696
Current liabilities			
Borrowings		220,847	182,930
Current portion of finance lease liabilities	4	8,177	-
Trade and other payables		71,151	77,045
Accrued expenses and contract liabilities		43,285	49,937
		343,460	309,912
Total liabilities		1,001,485	951,608
Total equity and liabilities		1,657,403	1,591,642

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

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376 Aguonų str. 24, Vilnius, Lithuania
CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
31 March 2019

All amounts are in EUR thousand unless otherwise stated

CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Q1 2019	Q1 2018
Revenue from contracts with customers	7	141,777	166,236
Other income		1,342	1,140
Purchases of electricity and related services		(75,578)	(116,077)
Purchase (expenses) of natural gas and transmission services		(1,180)	(1,076)
Depreciation and amortisation		(19,544)	(13,527)
Employee benefits and related social security contributions		(11,131)	(10,989)
Repair and maintenance expenses		(5,845)	(2,337)
Transport		(442)	(1,150)
Telecommunications and IT services		(2,408)	(2,467)
Rent and utilities		(537)	(1,042)
Impairment and write-off expenses		(1,413)	(1,365)
Other expenses		(4,117)	(4,322)
Operating profit		20,924	13,024
Finance income		17	18
Finance costs		(2,406)	(1,130)
Finance costs – net		(2,389)	(1,112)
Share of profit of associates and joint ventures		127	145
Profit before income tax		18,662	12,057
Income tax		(2,778)	(719)
Net profit for the period		15,884	11,338
Other comprehensive income		-	-
Total comprehensive income for the period		15,884	11,338
Weighted average number of shares		894,630,333	894,630,333
Basic and diluted earnings per share (in EUR) attributable to owners of the Company		0.018	0.013

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

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376 Aguonų str. 24, Vilnius, Lithuania
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
31 March 2019

All amounts are in EUR thousands unless otherwise stated

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

	Note	Authorised share capital	Revaluation reserve	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2018		259,443	44,680	25,910	277,611	607,644
Effect of change in accounting policies following the adoption of new IFRS		-	-	-	(62,654)	(62,654)
Restated balance at 1 January 2018		259,443	44,680	25,910	214,957	544,990
Net profit for the period		-	-	-	11,338	11,338
Total comprehensive income for the period		-	-	-	(51,316)	(51,316)
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(1,037)	-	1,037	-
Transfers to legal reserve		-	-	34	(34)	-
Dividends	6	-	-	-	(22,679)	(22,679)
Balance at 31 March 2018		259,443	43,643	25,944	204,619	533,649
Balance at 1 January 2019		259,443	154,834	25,944	199,813	640,034
Comprehensive income						
Net profit for the period		-	-	-	15,884	15,884
Total comprehensive income for the period		-	-	-	15,884	15,884
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(3,532)	-	3,532	-
Balance at 31 March 2019		259,443	151,302	25,944	219,229	655,918

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

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376 Aguonų str. 24, Vilnius, Lithuania
CONDENSED INTERIM STATEMENT OF CASH FLOWS
31 March 2019

All amounts are in EUR thousand unless otherwise stated

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Notes	At 31 March 2019	At 31 March 2018
Cash flows from operating activities			
Net profit		15,884	11,338
Adjustments for:			
Income tax expense		2,778	719
Depreciation and amortisation	3,4,8	19,806	13,795
Depreciation of grants		(262)	(268)
Share of (profit) of associates and joint ventures		(127)	(145)
(Gain)/loss on disposal and write-off of property, plant and equipment		1,138	1,236
Finance (income)		(17)	(18)
Finance costs		2,406	1,130
Changes in working capital:			
Trade and other receivables		36,350	(3,441)
Inventories, prepayments, deferred expenses and accrued income		(516)	(727)
Trade and other payables, advance amounts received, accrued expenses and deferred income		(7,465)	(32,497)
Cash generated from operating activities		69,975	(8,878)
Income tax paid		-	(1,128)
Net cash generated from operating activities		69,975	(10,006)
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(54,628)	(41,081)
Disposal of subsidiaries		256	5,560
Grants received		1,484	103
Loan repayments received		-	9
Interest received		-	27
Net cash used in investing activities		(52,888)	(35,391)
Cash flows from financing activities			
Proceeds from borrowings		40,222	103,522
Repayments of borrowings		(14,350)	(62,655)
Dividends paid to the Company's shareholders		(10)	(5)
Interest paid		(22)	(268)
Other increase (decrease) of cash flows from financing activities		(100)	-
Net cash used in financing activities		25,740	40,594
(Decrease) increase in cash and cash equivalents		42,827	(4,803)
Cash and cash equivalents at the beginning of the year (including overdraft balance)		2,266	6,449
Cash and cash equivalents at the end of the period (including overdraft balance)		45,093	1,646

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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

1 General information

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

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

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

As at 31 March 2019 and 31 December 2018, the Company's shareholder structure was as follows:

	At 31 March 2019		At 31 December 2018	
	Number of shares held	Ownership interest	Number of shares held	Ownership interest
Lietuvos Energija UAB	849,743,761	94.98%	849,743,761	94.98%
Other shareholders	44,886,572	5.02%	44,886,572	5.02%
Total	894,630,333	100%	894,630,333	100%

As at 31 March 2019 and 31 December 2018, the parent of the Company was Lietuvos Energija UAB. The Government of the Republic of Lithuania represented by the Ministry of Finance of the Republic of Lithuania owns 100% of shares of Lietuvos Energija UAB.

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

As at 31 March 2019 and 31 December 2018 Company's investments in associates comprised of the following:

Associate	Country	Year of acquisition	Company's ownership interest (%)		Profile of activities
			31 March 2019	31 December 2018	
Technologijų ir Inovacijų Centras, UAB	Lithuania	2013	29,012%	29,012%	Information technology and telecommunication, and other services provided to the shareholders
Verslo Aptarnavimo Centras, UAB	Lithuania	2014	22,25%	22,25%	Customer service, public procurement organisation and performance, accounting and personnel administration services.

2 Accounting principles

Company's condensed interim financial information for the three-month period ended 31 March 2019 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applicable to interim financial reporting (International Accounting Standard (IAS) 34, 'Interim financial reporting'). This unaudited condensed interim financial information should be read together with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with IFRS as adopted by the European Union.

Financial year of Company coincides with the calendar year.

The accounting policies applied in the preparation of this condensed interim financial information are consistent with those of the annual financial statements for the year ended 31 December 2018.

a) *New and amended standards, and interpretations*

During three – month reporting period ended 31 March 2019 the Company for the first time adopted IFRS 16 „Leases“, that had material impact on Company's financial statements.

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The value of assets being transferred under the lease agreement and related lease liabilities must be stated in the Company's statement of financial position.

The Company applied IFRS 16 *Leases* starting from 1 January 2019 using the modified retrospective approach for the first time application of IFRS 16.

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376 Agonų str. 24, Vilnius, Lithuania
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
for the three-month period ended 31 March 2019

All amounts are in EUR thousand unless otherwise stated

The Company performed the calculation of assets transferred according to the lease agreement and related liabilities under IFRS 16. At 1 January 2019, the Company recognised assets and liabilities managed under the right of use, which indicates the impact of the first-time adoption of IFRS 16 on the Company's financial statements. The management of the Company is assessing whether the lease of state-owned land is in compliance with the criteria of IFRS 16.

b) Impact of new standards' adoption on the the items in the statement of financial position

The impact of the first-time adoption of IFRS 16 on the items of the Company's statement of financial position is shown in the table below:

	At 31 December 2018	IFRS 16	At 1 January 2019
<i>EUR thousands</i>			
ASSETS			
Non-current assets			
Right-of-use asset	-	30,771	30,771
EQUITY AND LIABILITIES			
Non-current liabilities			
Finance lease liabilities	-	23,481	23,481
Current liabilities			
Current portion of finance lease liabilities	-	7,290	7,290

There are no new standards, amendments and interpretations that are mandatory for the Company with effect from 2019, 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 2019 will have a material impact on the Company's financial statements.

3 Intangible assets and property, plant, and equipment

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

Company	Intangible assets	Property, plant and equipment
The period ended at 31 March 2019		
Net book value at the beginning of the period	35,751	1,428,529
Additions	765	44,047
Sales	-	(185)
Write-offs	-	(1,209)
Amortisation /depreciation	(918)	(17,052)
Net book value at 31 March 2019	35,598	1,454,130

4 Right-of-use asset

Movements in the Company's account of the right-of-use asset are presented below:

Company	Right-of-use asset
The period ended at 31 March 2019	
Net book value at the beginning of the period	-
Additions	34,257
Amortisation /depreciation	(1,836)
Net book value at 31 March 2019	32,421

5 Share capital

As at 31 March 2019 and at 31 December 2018, the Company's authorised share capital comprised 894,630,333 ordinary registered shares with par value of 0,29 Eur each. All the shares are fully paid.

6 Dividends

Approved dividends per share

	At 31 March 2019	At 31 March 2018
Approved dividends (thousands)	-	22,679
Weighted average number of shares (thousands)	894,630	894,630
Approved dividends per share (in EUR)	0.000	0.025

The ordinary general meeting of shareholders of Energijos Skirstymo Operatorius AB was held on 30 March 2018 where it was decided to approve the profit appropriation for July–December 2017 and to allocate EUR 0.02535 per share in dividends, in total EUR 22,679 thousand in dividends.

ENERGIJOS SKIRSTYMO OPERATORIUS AB, company code 304151376 Agonų str. 24, Vilnius, Lithuania
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
for the three-month period ended 31 March 2019

All amounts are in EUR thousand unless otherwise stated

7 Revenue from contracts with customers

	I Q 2019	I Q 2018
Electricity supply and distribution	121,648	145,812
Natural gas distribution	13,917	17,338
Revenue from connection of new customers	6,212	3,085
Total	141,777	166,236

8 Segment reporting

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

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

Company's information about operating segments for the three-month period ended 31 March 2019 is presented below:

2019	Electricity supply and distribution	Gas distribution	Total
Revenue under contracts with customers	126,507	15,270	141,777
Other income	406	936	1,342
Expenses	(95,234)	(6,004)	(101,238)
EBITDA	31,679	10,202	41,881
Depreciation and amortisation	(17,082)	(2,462)	(19,544)
Impairment and write-off expenses	(1,379)	(34)	(1,413)
Operating profit	13,218	7,706	20,924
Finance income	14	3	17
Finance (costs)	(2,008)	(398)	(2,406)
Share of (profit) of associates	106	21	127
Profit before income tax	11,330	7,332	18,662
Income tax	(3,761)	983	(2,778)
Net profit for the period	7,569	8,315	15,884

Company's information about operating segments for the three-month period ended 31 March 2018 is presented below:

2018	Electricity supply and distribution	Gas distribution	Total
Revenue under contracts with customers	147,724	18,512	166,236
Other income	917	223	1,140
Expenses	(133,323)	(6,137)	(139,460)
EBITDA	15,318	12,598	27,916
Depreciation and amortisation	(11,662)	(1,865)	(13,527)
Impairment and write-off expenses	(1,336)	(29)	(1,365)
Operating profit	2,320	10,704	13,024
Finance income	15	3	18
Finance (costs)	(939)	(191)	(1,130)
Share of (profit) of associates	121	24	145
Profit before income tax	1,517	10,540	12,057
Income tax	(601)	(118)	(719)
Net profit for the period	916	10,422	11,338

All amounts are in EUR thousand unless otherwise stated

9 Related-party transactions

The Company's related parties are:

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

Purchase and sale of goods and services:

The Company's transactions with related parties between January and March of 2019 and the balances arising on these transactions as at 31 March 2019 are as follows:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Right-of-use asset	Purchases	Sales
Parent company Lietuvos energija, UAB	608,217	-	-	2,636	-
Associates	3,290	-	-	4,132	-
Lietuvos energija, UAB group companies	83,187	27,877	29,326	12,980	50,453
EPSO-G UAB group companies	25,158	7,000	20	46,926	199
Total	719,852	34,877	29,346	66,674	50,652

The Company's transactions with related parties between January and March of 2018 and the balances arising on these transactions as at 31 December 2018 are presented below:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Parent company Lietuvos energija, UAB	586,561	-	1,494	-
Associates	3,251	98	5,542	-
Lietuvos energija, UAB group companies	47,537	66,032	26,503	13,893
EPSO-G UAB group companies	33,800	3,107	55,748	105
Total	671,149	69,237	89,287	13,998

Compensation to key management personnel

Company	2019 Q I	2018 Q I
Wages and salaries and other short-term benefits to management personnel	145	109
Whereof: termination benefits	3	-
Number of key management personnel	6	6

Management includes heads of administration.

10 Events after the reporting period

2019

ENERGIJOS SKIRSTYMO
OPERATORIUS AB
INTERIM REPORT

REPORT FOR THE THREE-MONTH PERIOD ENDED 31TH OF MARCH 2019



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Reporting period covered by the Annual Report

The Annual Report provides information to shareholders, creditors, and other stakeholders of Energijos Skirstymo Operatorius AB ('ESO', 'the Company') about the Company's operations during the period from January to March 2019.

Legal basis for preparation of the Annual Report

The Annual Report of the Company has been prepared by the Company's Administration in accordance with the Lithuanian Law on Securities, the Law on Companies, the effective version of the Rules on the Disclosure of Information and the Guidelines on the Disclosure of Information approved by the Board of the Bank of Lithuania, as well as the Description of the Guidelines for Ensuring the Transparency of Activities of the State-owned Enterprises approved by the Government of the Republic of Lithuania and other legal acts.

Individuals responsible for information contained in the Annual Report

Job title	Full name	Telephone number
Chief Executive Officer	Mindaugas Keizeris	(8 5) 277 7524
Finance and Administration Service Director	Augustas Dragūnas	(8 5) 277 7524
Director of Finance Department	Artūras Paipolas	(8 5) 277 7524

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

The report and the documents, on the basis of which it was prepared, are available at the head office of the Company (Aguonų g. 24, Vilnius), on working days from Mondays through Thursdays 7:30–16:30, on Fridays 7:30–15:15.

The report is also available on the website of the Company at www.eso.lt and the website of NASDAQ Vilnius stock exchange at www.nasdaqbaltic.com.

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

The date of signing the report

The report was signed on 30 April 2019.

KEY OPERATING AND FINANCIAL INDICATORS OF THE COMPANY

Table 1.

Key operating indicators of ESO					
		1–3 months of 2019	1–3 months of 2018	Change +/- %	
Operating indicators					
Distributed electricity via medium and low voltage networks	TWh	2.54	2.53	0.01	0.40
Public and guaranteed supply of electricity*	TWh	0.15	0.87	-0.72	-82.76
Distributed volume of natural gas	TWh	2.76	3.22	-0.46	-14.29
Supply quality indicators of the network					
Electricity	SAIDI (with <i>force majeure</i>)	min.	26.2	10.1	16.1
	SAIFI (with <i>force majeure</i>)	times	0.35	0.16	0.19
Gas	SAIDI (with <i>force majeure</i>)	min.	0.21	0.10	0.11
	SAIFI (with <i>force majeure</i>)	times	0.002	0.001	0.001
Key financial indicators of ESO					
		1–3 months of 2019	1–3 months of 2018	Change +/- %	
Revenue	EUR '000	143,119	167,376	-24,257	-14.5
Purchase of electricity, gas and related services	EUR '000	76,758	117,153	-40,395	-34.5
Operating expenses (1)	EUR '000	24,478	22,307	2,171	9.7
EBITDA (2)	EUR '000	41,883	27,916	13,967	50.0
EBITDA margin (3)	%	29.26	16.68		
Adjusted EBITDA**	EUR '000	57,029	49,087	7,942	16.2
Net profit (loss)***	EUR '000	15,884	11,338	4,546	40.1
		At 31/03/2019	At 31/12/2018	Change +/- %	
Total assets	EUR '000	1,657,403	1,591,642	65,761	4.1
Equity	EUR '000	655,918	640,034	15,884	2.5
Borrowings	EUR '000	659,281	631,464	27,817	4.4
Borrowings, net (4)	EUR '000	614,188	629,198	-15,010	-2.4
Return on equity ratio (ROE) (5)	%	3.12	2.51		
Return on assets (ROA) (6)	%	1.24	1.09		
Equity ratio (7)	%	39.58	40.21		
Borrowings, net / 12-month EBITDA	times	4.50	5.14		
Borrowings, net / Equity	%	93.64	98.31		

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

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

(3) EBITDA margin = EBITDA / Revenue;

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

(5) Return on equity (ROE) = net profit (loss) for the last 12-months/average of equity at the beginning and at the end of the reporting period;

(6) Return on assets (ROA) = net profit (loss) for the last 12-months/average of assets at the beginning and at the end of the reporting period;

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

* ESO discontinued electricity public supply activity with effect from 1 October 2018.

** The dynamics of the adjusted EBITDA indicator is supported by lower electricity acquisition cost and increased investments in network renewals..

*** Increase in the Company's net profit was caused by significantly lower costs of electricity, gas and related services due to discontinued electricity public supply activity with effect from 1 October 2018 for the year 2019.

CEO'S FOREWORD

Dear All,

We have started a new year of ESO's operation with an updated ESO's strategy based on long-term goals and directions of the strategy of Lietuvos Energija Group presented in May 2018, the Board of Supervisors of ESO has approved the strategy covering the period up to 2030. In more than ten years, ESO plans to considerably increase resistance to atmospheric incidents, to install technological and smart solutions to enable the Company to conduct automated network management and maintenance, to develop a customer experience management model across the entire ESO value chain. Implementation of all the aforesaid will ensure stable return and maintain optimal value and price ratio for the customers.



With regard to the result of 1Q 2019, it should be noted that operational results were influenced by electricity price on Nord pool power market – the average electricity price in the 1Q 2019 was EUR 47.9/MWh compared to EUR 42.4/MWh in 1Q 2018, i.e. it was 13% higher but in comparison to the price recorded in 4Q 2018 it, in fact, dropped by 13%. This fact is promising and builds up expectation that in 2019 the prices in the market will stabilise.

ESO's income in 1Q 2019 amounted to EUR 143.1 million (14.5% less than in 1Q 2018). The main share of the income comes from power distribution activities. The main reason for the decline in income is discontinued public supply operations since 1 October 2018. If this effect were eliminated, the income level in 1Q 2019 would be 1.7% higher than in 1Q 2018.

Investments in 1Q 2019 constituted EUR 46.3 million (EUR 5.5 million more than in 1Q 2018). Investments are made within the planned scope: both new plans are implemented and the projects which were launched earlier are finalised.

It is worth mentioning that figures of power distribution reliability were worse than in 1Q 2018. The System Average Interruption Duration Index (SAIDI) with the impact of force majeure from January to March 2019 amounted 26.2 minutes per customer and, compared to the same period in 2018, increased by 16.1 minutes (from January to March 2018, SAIDI was 10.1 min). The major factor which affected this indicator was adverse weather conditions – force majeure. The effect of force majeure from January to March 2019 constituted 7.7 min, whereas from January to March 2018 no force majeure circumstances were recorded at all. The impact of circumstances of natural cause (force majeure) and the System Average Interruption Duration Index (SAIDI) per customer in three months of 2018 was 10.10 minutes. Reliability indicators in the field of gas remained similar to those in 1Q 2018.

In continuation of keeping focus on core activities of ESO as of a distribution operator, the decision to discontinue providing certain commercial services was adopted in 1Q 2019. Procedures of procurement of the smart metering systems project commenced, investments in relation to this project are still being coordinated with the regulatory authority.

After the end of the reporting period of 1Q 2019, we agreed with the Labour unions acting within ESO on a new cooperation stage and format which, we believe, will ensure even smoother achievement of common goals in creating value for the Company and high quality services for the customers.

Sincerely,
CEO and Chairman of the Board Mindaugas Keizeris
Energijos Skirstymo Operatorius AB

MOST SIGNIFICANT EVENTS AT THE COMPANY DURING THE REPORTING PERIOD

Regarding the approval of ESO's strategy for the period up to 2030

On 18 January 2019, the Board of Supervisors of the Company approved ESO's strategy which was updated according to the long-term goals and strategic directions of the strategy of Lietuvos Energija Group presented in May 2018. The approved strategy is designed for the period up to 2030.

Regarding the convention of extraordinary general meeting of the Company's shareholders

On 31 January 2019, the Management Board of the Company adopted the decision to convene an extraordinary meeting of the Company's shareholders to be held on 22 February 2019.

Regarding the approval of 2018 investment plan

On 14 February 2019, the National Commission for Energy Control and Prices accepted the investment projects which had been submitted as part of the Company's jointly approved list of investments for 2018; the total value of these projects exceeds EUR 240.1 million, of them EUR 226.2 million go to the electrical power sector, and EUR 13.9 million – to the natural gas sector.

Regarding decisions adopted by the Company's extraordinary general meeting of shareholders

On 22 February 2019, ESO's ordinary general meeting of shareholders adopted the following decisions: to establish an hourly rate of EUR 54.43 (before tax) to be paid to an independent member of the Company's Board of Supervisors for actually carried out activities of an independent member of Board of Supervisors. To assign Ernst & Young Baltic, UAB to be the audit firm to audit financial statements for 2019-2021 and to pay it no more than EUR 246,350.00 (excl. VAT) for the services of audit of financial statements for 2019-2021.

Preliminary ESO's results for the year 2018: historical investments and crystallisation of activities

On 28 February 2019, the preliminary operational results for 2018 were announced. In 2018, power and gas distribution company ESO controlled by the group of energy companies Lietuvos Energija made further investments into reliability enhancement of the distribution grid. ESO's investments in power and gas distribution grids exceeded EUR 271 million, which determined a significant growth in the price of contract work and the number of new customers using power or natural gas which grew by more than 15%. ESO plans to continue focusing on ensuring the reliability of the network, the company will make investments aimed at modernising and automating the network, will implement the big-scale project on installation of smart metering systems and will seek to ensure the best distribution price in the region in a cost-effective manner.

Regarding the judgement delivered by the court

On 6 March 2019, the Supreme Administrative Court of Lithuania delivered a judgement which did not satisfy the Company's appeal with regard to the penalty imposed by the National Commission for Energy Control and Prices (NCECP) by its decision No.O3-351 dated 4 June 2015 for "Violation of Conditions of Regulated Activities of LESTO, AB". The Company asked the court to change the ruling of Vilnius Regional Administrative Court dated 7 July 2015 which imposed penalty of EUR 300,000 on ESO. The Company requested to reduce the penalty to a reasonable amount, namely to EUR 41,075.36. In addition, it was requested that the obligation to correct the statements of regulated costs for the years 2011-2013 as set forth in Subparagraph 3.2.2 of the NCECP's decision be annulled. ESO notes that the ruling of the Supreme Administrative Court of Lithuania will have no impact on the Company's financial results of 2019 since the effect of the penalty was already reflected in the financial statements of the Company for the previous reference periods.

Regarding discontinuation of the provision of ESO's commercial services

On 27 March 2019, the Board of ESO adopted the decision to discontinue providing the following commercial services as of 1 June 2019: sale of heat pumps and solar power stations, installation of charging points for electric cars, gas tank storage points (terminals), electrician on call and gas man on call services. No new orders for the aforementioned services will be accepted as of 1 June this year, however, contracts with suppliers on the provision of services ordered before the aforesaid date will be implemented and will be completed as stipulated in respective contracts. This decision is part of the crystallisation of the activities of the Company as of an operator of distribution networks.

Regarding convention of ESO's ordinary general meeting of shareholders, its agenda and draft decisions on the agenda issues

On the Board's initiative and following its decision, an ordinary general meeting of the Company's shareholders is convened on 30 April 2019 where the shareholders will be asked to approve ESO's annual report for 2018, to approve the set of audited financial statements for 2018 and to accept the ESO's profit and loss distribution plan for 2018.

Regarding the decision to withdraw the complaint lodged with the administrative court with regard to the decision of the National Commission for the Energy Control and Process on establishing price caps for power distribution in 2019

On 19 November 2018, the Company filed an appeal with the Vilnius Regional Administrative Court regarding the repeal of clauses 1 and 1.7.3 of Resolution No. O3E-334 of the National Commission for Energy Control and Prices (NCECP) of 17 October 2018. Given the facts that during the period from the filing of the appeal with the court, the NCC provided an explanation that the LRAIC accounting model (long run average incremental costs) has been applied and will be applied in the future (regulatory environment has not changed), that the correction adapted during the setting of electricity distribution price caps for 2019 will be evaluated in near future regulatory period, and that an independent auditor's report was received on the Company's financial statements for 2018, the Board of the Company has adopted the decision to refuse the appeal.

Regarding supplement of the agenda of ordinary general meeting of ESO's shareholders and draft decisions on the agenda issues

On 30 April 2019, an ordinary general meeting of the Company's shareholders is convened. The following additional issue is included in the list of the aforementioned agenda issues: regarding the approval of a new edition of Articles of Association of ESO and conferment of powers in the process of inclusion of a representative of trade union into the Board of Supervisors.

ANALYSIS OF THE OPERATING AND FINANCIAL INDICATORS

Revenue

Table 2. Revenue structure of ESO by activity area, %

	During 1–3 months of 2019	During 1–3 months of 2018
Revenue from electricity distribution	76	67
Revenue from public electricity supply services	0	16
Revenue from gas distribution	10	10
Revenue from guaranteed electricity supply	7	3
Connection of new customers	4	2
Other income	3	2

During January–March 2019, ESO's revenue totalled EUR 143.1 million, which is 14.5% less than in the same period in 2018. After elimination of the impact of public supply activities which are no longer carried out, income of the Company earned in three months of 2018 would amount to EUR 140.7 million. In comparison, income earned in the first three months of 2019 is 1.7% higher than the amount earned in the same period last year. The main reason for the growth in income is a higher constituent of the transmission service price and a bigger volume of guaranteed electricity supply due to lower number of consumers who have chosen an independent supplier. Electric power transmission is the main source of the Company's revenue.

During January–March 2019, electricity transmission revenue comprised 76.4% of the Company's total revenue. Revenue from natural gas distribution made up 9.7% of the Company's total revenue.

EBITDA

Table 3. EBITDA indicator

	During 1–3 months of 2019	During 1–3 months of 2018
EBITDA*, EUR '000	41,883	27,916
EBITDA margin, %	29.26	16.68
Adjusted EBITDA**, EUR '000	57,029	49,087

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

** The dynamics of the adjusted EBITDA indicator is supported by lower electricity acquisition cost and increased investments in network renewals.

During January–March 2019, the Company's earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to EUR 41.9 million, which is 50.0% more than in January–March 2018. This was mostly affected by the discontinued public supply of electrical power as of 1 October 2018.

Adjusted EBITDA increased by 16.2%. Such dynamics of the index was maintained by lower electricity acquisition cost and by the growing value of regulated assets due to investments in the renewal of networks.

Expenses

During January–March 2019, expenses for purchase of electricity, natural gas or related services totalled EUR 76.76 million, which is 34.5 % less compared to the same period in 2018. This was mostly affected by the sale of public supply of electrical power as of 1 October 2018. During the reporting period, expenses for purchase of electricity, natural gas or related services as well as depreciation and amortisation expenses amounted to EUR 96.3 million or 78.8% of ESO's total costs.

Operating expenses amounted to EUR 24.5 million, which is 9.7% more compared to the same period in 2018. Major increases were recorded in the payments to staff and related social insurance contributions as well as in repair and maintenance costs, which grows by, respectively, 1.3% and 150.1%.

Table 4. ESO's operating expenses, EUR '000

	During 1–3 months of 2019	During 1–3 months of 2018
Employee benefits and related social security contributions	11,131	10,989
Other expenses	4,116	4,322
Repair and maintenance expenses	5,845	2,337
Telecommunications and IT services	2,407	2,467
Transport	442	1,150
Rent and utilities	537	1,042
Total operating expenses	24,478	22,307

Profit (loss) and profitability ratios

The net profit of ESO in the period from January to March 2019 amounted to EUR 15.9 million which is 40.1% more than in the same period in 2018. The growth in the net profit was determined by considerably lower costs of electricity, gas and related services due to discontinuation of public power supply activities as of 1 October 2018.

Table 5. ESO's profitability ratios, %

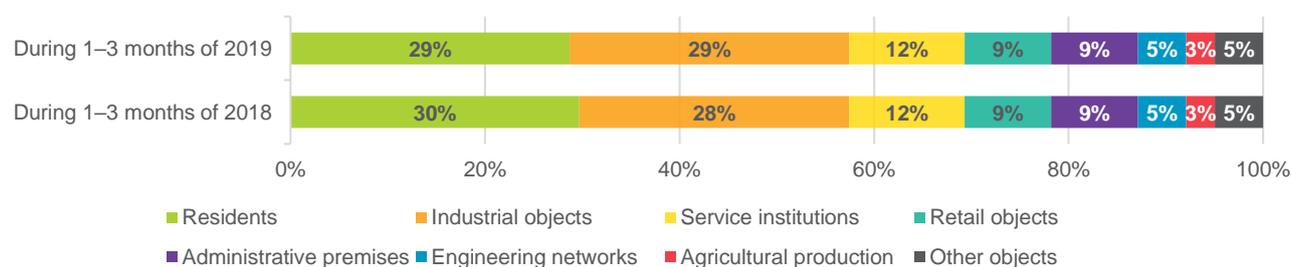
	During 1–3 months of 2019	During 1–3 months of 2018
Net profit margin	11.10	6.77
Operating profit margin	14.62	7.78

Electricity distribution

ESO owns and operates more than 125 thousand kilometres of electricity lines: nearly 69.5% of them consist of overhead electricity lines, and 30.5% of electricity cables. During January–March 2019, the Company distributed to customers 2.54 billion kWh of electricity (January–march 2018: 2.53 billion kWh). Public and guaranteed supply of electricity made up 6% of this amount. The remaining customers of the Company were provided only with the distribution service. The amount of electricity guarantee supply increased by 23.6%, while the volume of electricity distributed increased by 0.4% compared to the same period of 2018. Technological costs in distribution equipment incurred by the Company during January–March 2019 amounted to 197.2 million kWh or 7.19% of the amount of electricity received. During the same period of 2018, technological costs totalled 8.59 %.

Around 30% of the electricity transmitted by ESO during January–March 2019 were consumed by residents. Industrial objects and service institutions consumed 27.7 % and 12.1 %, respectively, of electricity distributed. There were no significant changes in the structure of electricity distribution volume by object as compared to the data of January–March 2018.

Figure 1. Electricity distribution volume by object



Electricity supply quality indices (SAIDI, SAIFI)

During January–March 2019, the system average interruption duration index (SAIDI with *force majeure*) for the electricity network per customer reached 26.2 minutes, which is 16.1 minutes more compared to the same period in 2018 (January–March 2018: SAIDI was 10.1 minutes).

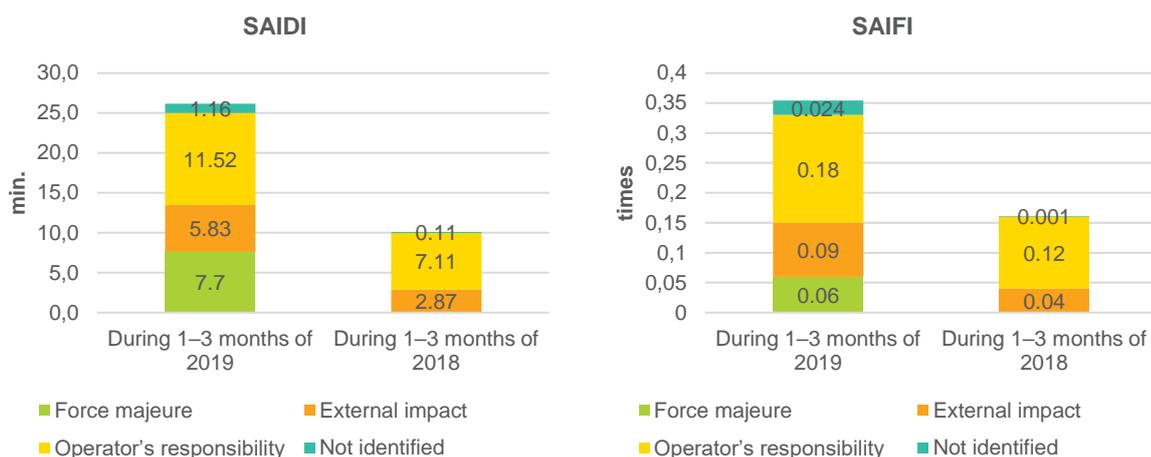
Significant deterioration of the indicator was due to bad weather in the first 2019 months. The extent of force majeure in January –March 2019 constituted 7.7 min, whereas no force majeure incidents were recorded in the period from January to March 2018 at all. In addition, the duration of interruptions due to the reasons of external effect in the period from January to March 2019 amounted to 5.8 min which is 2.9 min more than in January–March 2018, where it constituted 2.9 min. The duration of interruptions due to the reasons attributed to the reliability of operator in the months of January–March 2019 was 11.5 min, whereas in January–March 2018 it was 7.1 min (4.4 min less).

During January–March 2019, the system average interruption frequency index (SAIFI with *force majeure*) per customer reached 0.35 times, which is 0.19 time more compared to 2018 when it was equal to 0.16 times. The negative change in this indicator was caused by bad weather conditions in first months of 2019.

The extent of force majeure incidents in January- March 2019 was 0.06 times, whereas no force majeure incidents were recorded in the period from January to March 2018 at all. Besides, the high frequency of unscheduled long interruptions caused by external impact was 0.09 times in the period from January to March 2019, which is 0.05 times more than in the same period in 2018 where it amounted to 0.04 times.

The number of unscheduled long interruptions per customer due to the reasons attributed to the reliability of operator in the period from January to March 2019 was 0.18 times, whereas in the period from January to March 2018 this indicator was 0.12 times (i.e. 0.06 times smaller). Such deterioration of the indicator resulted from the increased number of failures/breakdowns in average voltage overhead power transmission lines.

Figure 2. Electricity supply reliability indices



Natural gas distribution

The Company operates gas distribution pipelines with the length of nearly 9 thousand kilometres. During January–March 2019, ESO transported 2.76 billion kWh of natural gas via gas distribution pipelines, which is 14.3 % less than in the same period in 2018.

Gas distribution volumes decreased during January–March 2019 mostly due to less gas consumption during February–March as a result of a higher average weather temperature than in 2018.

Natural gas supply quality indices (SAIDI, SAIFI)

During January–March 2019, the quality of the natural gas supply remained substantially the same as in January–March 2018. During January–March 2019, the system average interruption duration index (SAIDI with *force majeure*) for the gas network per customer reached 0.21 minute, which is 0.11 minute more compared to the same period in 2018 (January–March 2017: SAIDI was 0.10 minutes).

The negative change in this indicator was caused by the higher number of disconnected devices during the winter period and by the third-party committed network breakdowns, which led to a long recovery period. During January–March 2019, the system average interruption frequency index (SAIFI with *force majeure*) per customer reached 0.002 time (January–March 2018: 0.001 time).

Investments

During January–March 2019, ESO's investments in the electricity and gas distribution networks amounted to EUR 46,350 million, which is 13.5 % more than during January–March 2018, when investments totalled EUR 40,831 million.

Table 6. ESO's investments, EUR '000

	During 1–3 months of 2019	During 1–3 months of 2018
Renewal of the electricity distribution network	10,051	18,172
Expansion of the electricity distribution network	21,829	13,710

INTERIM REPORT
For the three-month period ended 31 March 2019

Reconstruction of gas systems	514	1,177
Construction of gas systems	13,446	6,198
Other (IT, management systems, etc.)	510	1,574
Total investments	46,350	40,831

During January–March 2019, ESO's investments allocated for the renewal of the electricity distribution network amounted to EUR 10.051 million, which is 44.7 % less compared to January–March 2018. During January–March 2019, investments in the expansion of the electricity distribution network amounted to EUR 21.8 million, which is 59.2 % more than in the same period of 2018. The main reasons for increase in expenses were higher costs for contract works and higher number of new customers.

During January–March 2019, ESO connected 8,160 new customers to the electricity distribution network, which is 5.7 % more than in January–March 2018, when 7,717 new customers were connected. During January–March 2019, the admissible electric power of objects of newly connected customers was equal to 99.8 thousand kW, which is 0.2% less than during January–March 2018, when the admissible power was equal to 100.0 thousand kW.

During January–March 2019, ESO's investments in the reconstruction of gas systems amounted to EUR 0.514 million, which is 56.3 % more compared to January–March 2018, when investments totalled EUR 1.177 million. During January–March 2019, ESO's investments in the construction of gas systems amounted to EUR 13.446 million, which is 116.9 % more compared to January–March 2018, when investments totalled EUR 6.198 million. During January–March 2018, ESO constructed 94.2 km of the gas distribution pipeline (116.96 km in the respective period of 2018). During January–March 2019, ESO connected 2,543 new customers to the natural gas distribution network, which is 32.4 % more than in the same period of 2018, when 1,920 customers were connected.

Analysis of financial indicators*

At the end of the reporting period, the Company's assets amounted to EUR 1.66 billion. Non-current assets accounted for 92.0 % of the total assets. Cash and cash equivalents, i.e. the most liquid assets, amounted to EUR 45.1 million or 34.1 % of the total current assets.

Table 7. ESO's financial leverage ratios *

	At 31 March 2019	At 31 December 2018
Debt ratio	0.60	0.60
Debt to assets ratio	0.40	0.40
Liabilities to equity ratio	1.53	1.49
Debt to equity ratio	1.01	0.99
Net borrowings, EUR million	614.19	629.20
Net borrowings to equity ratio	0.94	0.98
Long-term debt to equity ratio	0.67	0.70
General solvency ratio	0.65	0.67
Equity to assets ratio	0.40	0.40
Share price to earnings ratio	38.75	36.89
Capitalisation, EUR million	615.50	579.72

*The description of indicators is presented at the end of the report.

At the end of March 2019, ESO's borrowings amounted to EUR 659.3 million and accounted for 65.8% of total liabilities. Non-current borrowings amounted to EUR 438.4 million or 66.5% of total borrowings. At the end of the reporting period, ESO's current liabilities totalled EUR 343.5 million.

Table 8. ESO's liquidity ratios

	At 31 March 2019	At 31 December 2018
Current ratio	0.39	0.40
Quick ratio	0.38	0.40
Cash ratio	0.13	0.01
Working capital, EUR '000	-211,099	-185,222
Working capital to total assets ratio	-0.13	-0.12

ESO's current liabilities exceeded its current assets by EUR 211.1 million. The current ratio is equal to 0.39. Cash flows from operating activities and the amount received from Lietuvos Energijos Tiekimas in March for the transferred activity of public

supply will help the Company ensure its business continuity and liquidity. The quick ratio slightly differs from the current ratio, because inventories represent only 2.6% of total current assets. Borrowings, as reduced by the amount of short-term investments and cash and cash equivalents, are equal to EUR 614.2 million. The Company's net borrowings account for 93.6% of its equity.

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

Other information is presented in the condensed interim financial statements of ESO for January–March 2018.

FACTORS AFFECTING THE COMPANY'S FINANCIAL INDICATORS

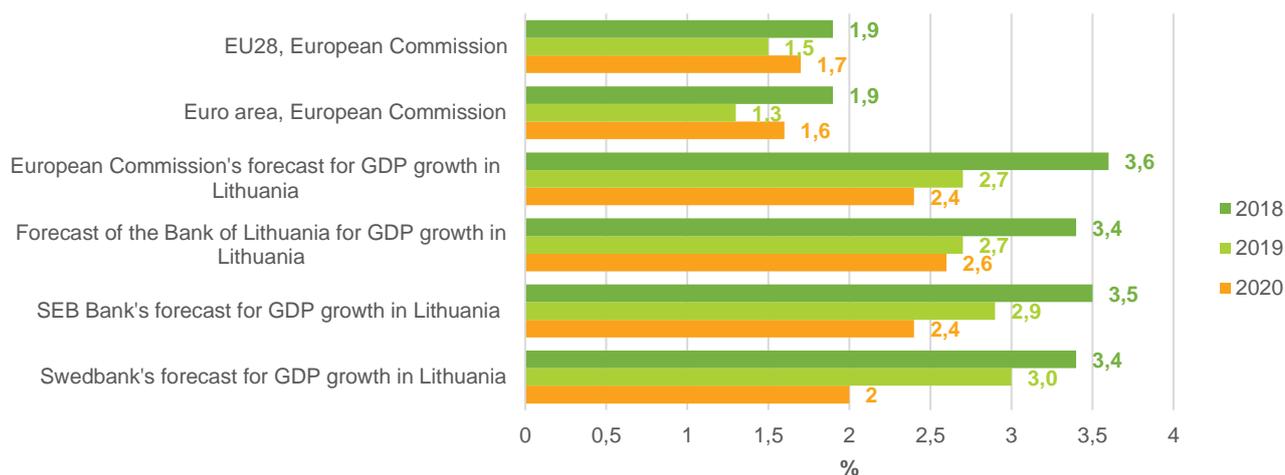
Operating environment

The major impact on electricity consumption is caused by changes in gross domestic product. The growth tendency of the gross domestic product in the European Union has been observed for several years in a row. In 2017, GDP growth has been the most prominent in the last 10 years. However, at the start of 2019, certain political changes in the area of international trade have led to slower global economic activity. The European economy is expected to grow for the seventh year in a row, and every EU Member State is forecast to expand its economy. The general forecast is that the pace of growth will slow down compared to the relatively high indicators of the recent years, and the prospects are to be hardly predictable.

The European Economic Forecast 2019 published by the European Commission in February 2019¹ states that the total growth of the gross domestic product of the European Union in 2018 (ES28) amounted to 1.9%, and the same indicator for the Eurozone was also 1.9%. The economic growth in 2019, as the European Commission put it, is expected to amount to 1.5% and 1.3%, accordingly, and in 2020 – to 1.7% and 1.6%, accordingly. The European Commission forecasts that the Lithuanian Economic Growth in 2018 would be 3.6%, 2.7% - in 2019 and 2.4% - in 2020.²

The Lithuanian economic growth prospects published by the economists of the banks operating in Lithuania also include forecasts of economic growth. Based on the forecasts provided by the analysts of SEB bank in February 2019³, it is estimated that the real Lithuania's GDP increased by 3.5% in 2018, will increase by 2.9% in 2019 and 2.4% - in 2020. In their updated forecasts for 2019 published in April, the Swedbank analysts announced a better result for this year⁴: it is estimated that the GDP growth in 2018 was 3.4%, and the forecast for 2019 was increased to 3.0% instead of 2.7% (in February), whereas the forecast for 2020 did not change – it remained 2.0%. According to the forecast of the Bank of Lithuania dated February 2019⁵, Lithuania's GDP will grow by 2.7% in 2019, it was 3.4% in 2018 and will be 2.6% - in 2020.

Figure 3. GDP growth forecast for the European Union, euro area, and Lithuania in 2018–2019, %



Consumption of electricity is closely related to the growth in GDP, therefore, economic growth has direct impact on ESO's operational results. Taking into consideration macroeconomic forecasts of economists for the year and the actual ESO's results, we hold the view that the amount of transmitted electrical power will grow moderately.

¹ Source of data: European Commission. European Economic Forecast Winter 2019.
² Source of data: European Commission. European Economic Forecast Autumn 2018.
³ Source of data: SEB Bank. Lithuanian Macroeconomic Review No 68, 5 February 2019
⁴ Source of data: Swedbank Economic Outlook. January 2019.
⁵ Source of data: Bank of Lithuania. The Lithuanian Economic Review, October 2018.

Situation in the electricity market

In 2018, the average electricity price in Nord Pool power market Lithuanian trading zone considerably grew compared to 2017. The average price in January-December 2018 was 50.00 EUR/MWh, i.e. 42.3% higher than in 2017 where it amounted to 35.13 EUR/MWh. In the period from January to March 2019, electricity price in Nord Pool power market Lithuanian trading zone started dropping consistently – the average hourly rate in the first quarter amounted to 47.9 EUR/MWh, which is 13% lower than in the last quarter of 2018 (54.8 EUR/MWh), however, it is 13% higher than in 1Q 2018 (42.4 EUR/MWh).

Figure 4. The average price of electricity in the Lithuanian trading zone on the Nord Pool power exchange⁶



The Company’s strategy and objectives

As the group’s parent company Lietuvos Energija published its renewed strategy LE2030 on 23 May 2018, the Company’s strategy was reviewed at the end of 2018 and renewed on 18 January 2019.

The Company’s strategy includes the updated mission, vision of the Company, new strategic directions and revised existing ones as well as prospects and actions for their implementation (see Figure 5).

Figure 5. ESO 2030 operational strategy scheme



⁶ Source of data: Nord Pool.

The renewed strategy outlines that the Company's principal activity is to develop a smart, reliable and effective electricity grid by 2030 that would empower the market and create the best customer experience. The ESO strategy by 2030 establishes the following main strategic directions for 2019–2030:

- **Reliability of the grid** – by rationally planning investments we will substantially improve the grid's resilience to weather conditions and ensure a speedy restoration of the grid's operation.
- **Introduction of smart grid technologies** – we will introduce smart solutions that will ensure operative actions in real time; we will develop systems that will autonomously (without a human intervention) restore the operation of the grid. We will increase cyber resilience of the grid and systems.
- **Empowerment of the market** – by adopting the best practices of the EU and the Northern countries, we will aim to empower the development of the electricity market through a public sharing platform; we will encourage the formation of a market of flexible services that will ensure equal operational conditions for all market participants.
- **Customer experience** – by implementing innovative solutions we will develop a customer experience management model across the entire value chain of ESO.
- **Operational efficiency** – by developing the coherence, accessibility and integrity of the systems we will ensure the aggregate of high quality processes focused on customer needs.

The strategy also establishes that ESO will develop and implement advanced technological solutions, form a single organisational culture to enable a continuous performance improvement.

Actions provided for in the ESO strategy 2030 will ensure the best experience to our customers both in terms of reliability and smartness of infrastructure, as well as the range and price of services. The empowering infrastructure will then create conditions for the market participants/energy suppliers to develop and provide services that meet individual needs of each customer for the best price.

ESO will aim to standardise open, neutral infrastructural services, while the platforms being developed (Data Hub platform) will empower market participants to effectively compete when creating value to customers. These elements are considered to be the fundamental assumptions for the achievement of the best customer experience, reflection of expectations of stakeholders and growth of the company's value.

Intensive preparations are underway for the development of a smart metering system, which is expected to be completed in the second half of 2020. Customers and market participants are planned to be offered advanced solutions for distributed generation, load management, micro-grids, etc.

Strategic directions indicated in the ESO strategy 2030 are consistent with the objectives set in the ESO's ten-year investment plan and the National Energy Independence Strategy.

The Company will continue to maintain LEAN management system and a culture of continuous professional development, digitalise processes, strengthen cyber security and focus on the development of employee competences relevant for the implementation of the LE strategy 2030. ESO will aim to grow the value of the organisation in a sustainable and effective manner for it to become a company that is flexible, open to changes and integration of innovations.

The updated operational strategy of the Company for the period up to 2030 was approved and publicly announced on 18 January 2019. The document of the ESO operational strategy is available under 'About us' section on the Company's website www.eso.lt.

Investment plan: modernisation of the electricity and gas distribution networks

On 17 July 2018, ESO announced the plan of investments into the electricity and gas distribution network that are being carried out or planned for 2018–2027 (the ten-year investment plan).

The level of investments in ESO's 10-year investment plan for 2018–2027 was established with an aim to improve quality indicators, i.e. the system average interruption duration index (SAIDI), the system average interruption frequency index (SAIFI), and the maximum duration of the removal of breakdowns. They were established with reference to stakeholders' expectations about the quality of services, as well as Western European countries' good practices. It is expected that SAIDI and SAIFI will be reduced by half following the implementation of the planned investments.

The objectives of ESO's ten-year investment plan are consistent with the objectives set in the National Energy Independence Strategy. The investment plan focuses on ensuring the best customer experience, price and quality, as well as presents indicators established in the Group's new strategy LE2030 prepared by ESO's controlling company Lietuvos Energija and the new ESO strategy 2030.

According to the ESO's ten-year investment plan ESO's investments in 2018–2027 will be targeted in three directions. The first direction is reliable and climate impact-resilient network. By replacing overhead lines with underground lines, eliminating unreliable and destructible devices, the strategy aims at ensuring uninterrupted and high-quality energy distribution via environment-friendly electricity and gas networks. The value of investments planned under this direction might total up to EUR 640 million.

The aim of the second direction of investments, which is remotely-controlled grid, is to speed-up the restoration of the energy supply after a disruption, create infrastructure that would enable to make network management decisions based on real-time information, and to facilitate the integration of renewable energy sources and subsequently producing customers. It is planned to install remotely-controlled and self-healing network equipment, and implement solutions for network monitoring. The value of investments planned is approx. EUR 582 million.

The third direction of investments is smart network. It is planned to improve the quality of ESO's services, create preconditions for customers to accurately monitor their energy consumption, receive accurate invoices, and save energy through rational consumption. Consequently, it is planned to install smart meters, upgrade information systems. The value of investments planned under this direction is approx. EUR 336 million. In addition, according to ESO's calculations, connection of new customers will require approx. EUR 537 million over the period of ten years, thus ESO's investments could amount up to EUR 2.1 billion in 2018–2027. In accordance with the Law on Electricity of the Republic of Lithuania the ten-year investment plan of ESO is renewed annually.

In accordance with the Law on Electricity of Republic of Lithuania, ESO's 10-year investment plan is updated annually before 1 July.

INFORMATION ON THE COMPANY'S AUTHORISED SHARE CAPITAL AND SECURITIES

Authorised share capital and securities

As at 31 March 2019, the Company's authorised share capital amounted to EUR 259,442,796.57. All the shares issued by the Company are fully paid.

Table 9. Structure of the authorised share capital

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

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

Table 10. Information on the Issuer's securities

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

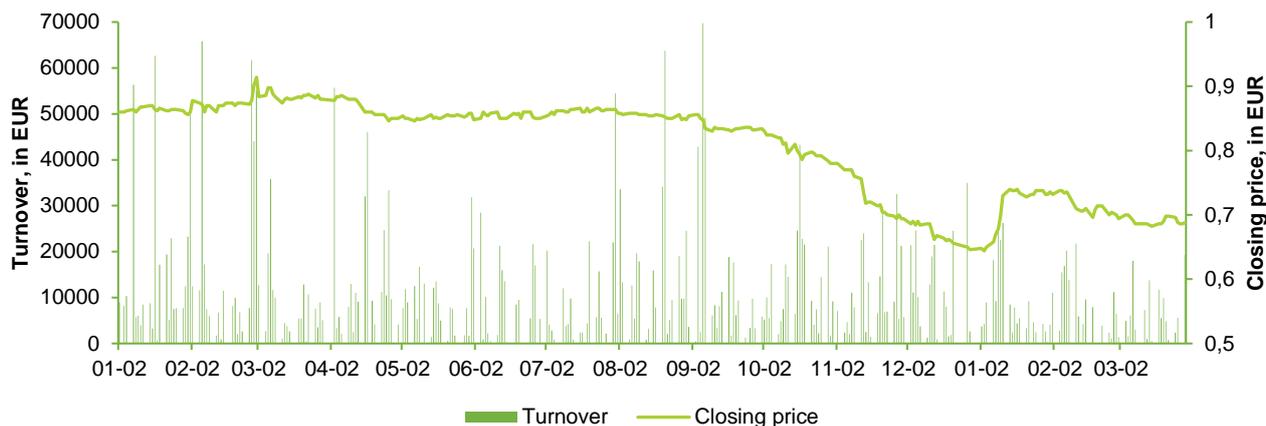
The Company did not acquire its own shares until the end of the reporting period and neither acquired nor disposed of its own shares during the reporting period.

Dynamics of the price of Company's shares and turnover in shares

Table 11. Statistics on trade in the Company's shares

	2016	2017	2018	2019 1-3 month
Price of the last trading session, EUR	0.862	0.86	0.648	0.69
Highest price, EUR	0.889	0.93	0.916	0.752
Lowest price, EUR	0.831	0.854	0.638	0.644
Average price, EUR	0.86	0.878	0.824	0.706
Quantity, units	5,095,099	6,711,700	3,678,206	638,842
Turnover, EUR million	4.38	5.89	3.03	0.45
Capitalisation, EUR million	The Company	771.17	769.38	615.50
	Baltic Main List	5,043.31	5,853.81	5,281.28

Figure 6. Dynamics of the price of ESO's shares and turnover in shares during the reporting period



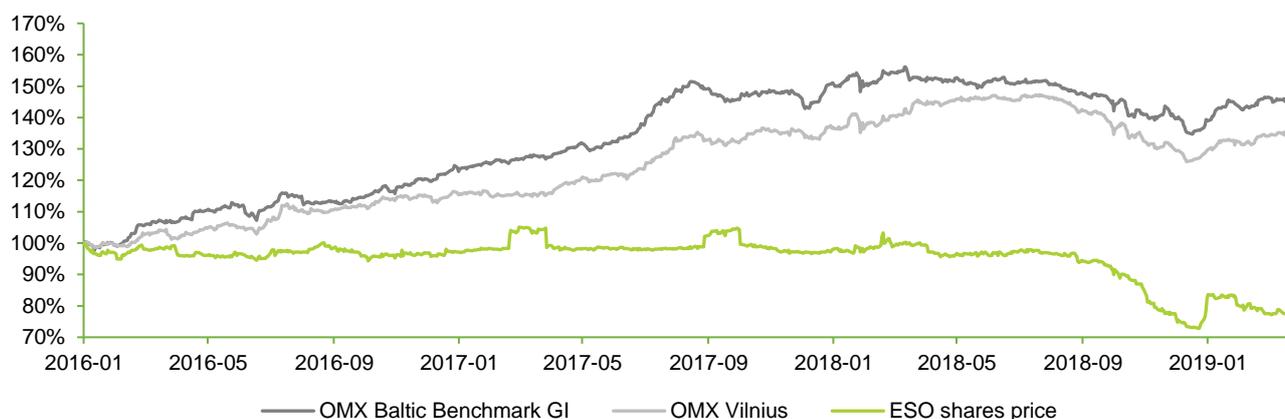
During the reporting period the price of the Company's shares increased by 6.48%.

Figure 7. Dynamics of the price of ESO's shares and turnover in shares between the beginning of trading and the end of the reporting period



Since the beginning of trading the price of ESO's shares dropped by 22.03%

Figure 8. Dynamics of the price of ESO's shares and OMX Vilnius and OMX Baltic Benchmark indices since the beginning of trade



Between the beginning of trading in ESO's shares and the end of March of 2019, the OMX Vilnius index increased by 34.83%, the OMX Baltic Benchmark index increased by 44.34%, and the price of ESO's shares decreased by 22.03% from its initial value mainly due to discontinued electricity public supply activity with effect from 1 October 2018.

Ownership structure

All the persons who owned the shares of LESTO AB and Lietuvos Dujos AB on 11 December 2015, became shareholders of ESO, which took over all the assets, rights and obligations of LESTO AB and Lietuvos Dujos AB upon their reorganisation.

As at 31 March 2019, the total number of the Company's shareholders was 8,723.

Table 12. Shareholders owning more than 5% of ESO's authorised share capital as at 31 March 2019

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

Rights attached to shares, rights and obligations granted by shares

Ordinary registered shares confer equal rights. Property and non-property rights conferred by shares are defined by laws, other legal acts and the Company's Articles of Association. None of the shareholders of the Company had any special control rights. There were no restrictions regarding voting rights.

Restrictions on transfer of securities

According to the data of 31 March 2019, no restrictions on the transfer of securities were imposed during the reporting period.

Information on agreements with intermediaries of public trading in securities

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

The contact details of SEB Bankas AB are as follows:

Gedimino pr. 12, LT-01103 Vilnius;

T: 1528 or +370 5 268 2800.

Dividends

The dividend policy of the Lietuvos Energija group of companies, which was approved in 2016 and also applies to the Company, is published on the Company's website at www.eso.lt. The policy establishes uniform net profit appropriation principles applicable to all group companies.

During the Extraordinary General Meeting of Shareholders held on **28 September 2018**, a decision was made to allocate dividends for the period shorter than the financial year. Dividends allocated per share to the Company's shareholders for the six-month period ended 30 June 2018 amounted to EUR 0.014 (EUR 11.9 million in total). Dividends were received by those persons who were the Company's shareholders at the end of the record day of the rights of the Company's shareholders, i.e. at the end of 12 October 2018.

During January–June 2018, the Company's net profit from continuing operations totalled EUR 17.8 million. The dividend/net profit ratio for this period was 0.67.

On 30 April 2019, an ordinary general meeting of the Company's shareholders is convened. It is proposed not to allocate any dividends for the reference 6-month period which started on 1 July 2018 and ended on 31 December 2018 since the amount of interim dividends paid accounts for 80% on the annual net profit of ESO for the year 2018 which corresponds to the rate of return specified in the dividend policy of the Lietuvos Energija Group.

THE COMPANY AND ITS MANAGEMENT BODIES

Table 13. Information about the Company and its contact details

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

ESO started its operations on 1 January 2016 after the merger of LESTO AB and Lietuvos Dujos AB. ESO took over from LESTO and Lietuvos Dujos all their assets, rights and obligations as well as all non-current and current assets, non-current and current financial and other obligations, amounts receivable and payable under the agreements signed by LESTO and Lietuvos Dujos, including any other otherwise arising obligations.

ESO owns and operates more than 125 thousand kilometres of electricity lines: 69.5% of them consist of overhead electricity lines, and 30.5% of electricity cables. The Company also operates gas distribution pipelines with the length of nearly 9 thousand kilometres.

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

The geographical market of ESO is the entire territory of Lithuania.

Information on the Company's branches and representative offices

The Company has no branches or representative offices.

Subsidiaries and related companies

ESO is part of Lietuvos Energija, a state-owned group of companies, which is one of the largest energy company groups in the Baltic countries. Lietuvos Energija UAB, the parent company, controls 94.98% of the Company's shares.

As at 31 March 2019, ESO had no subsidiaries.

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

Table 14. Main information about associated companies

	Technologijų ir Inovacijų Centras UAB	Verslo Aptarnavimo Centras UAB
Address	A. Juozapavičiaus g. 13, Vilnius	P. Lukšio g. 5B, Vilnius
Registration date	4 December 2013	30 July 2014
Company code	303200016	303359627
Telephone	(8 5) 278 2272	(8 5) 259 4400
Fax	(8 5) 278 2299	(8 5) 259 4401
E-mail	info@etic.lt	vac@le.lt
Website	www.etic.lt	http://vac.le.lt
Ownership interest held by ESO (at 31 December 2018)	29.01%	22.25%

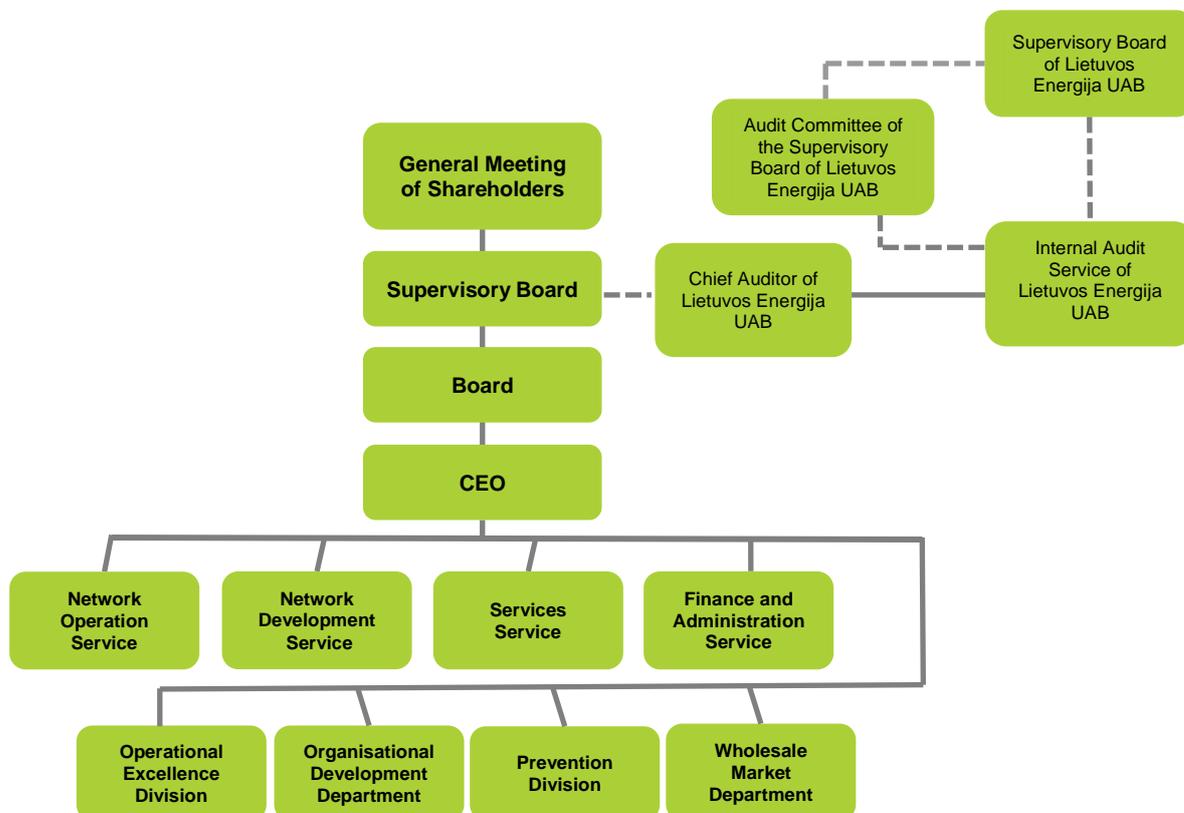
Principal activities	Provision of information technology and telecommunication services for the companies in the energy sector	Provision of services of organisation and performance of public procurements, accounting, administration of employment relationships, customer service, administration of human resources, legal services, communication services, consultations and trainings on operational efficiency.
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Information about significant related-party transactions

Information on related-party transactions is presented in the ESO website: “About us” →”For investors”.

Corporate governance

Figure 9. The Company’s organisational structure (as at 31 March 2019)



At the date of signing of the report, the Company’s Articles of Association stipulated that the Company’s management bodies include the following:

- the General Meeting of Shareholders;
- a collegiate supervisory body – the Supervisory Board;
- a collegial management body – the Board;
- a single-person management body – the Chief Executive Officer.

The Lietuvos Energija group of companies abides by the equal opportunity policy of Lietuvos Energija UAB which regulates the principles of the implementation of equal opportunities and supervision of their performance, as well as the implementing measures of these principles at the Lietuvos Energija group of companies. The principles of equal opportunities defined in this policy apply not only to the selection of all employees without distinction, but also to the selection of members of corporate management and supervisory bodies.

Amendment procedure of the Articles of Association

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

General Meeting of Shareholders

The General Meeting of Shareholders is the supreme management body of the Company.

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

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

During the reporting period, one Extraordinary General Meeting of Shareholders were held. None of the shareholders of the Company registered to directly participate in the Extraordinary General Meetings of Shareholders held on 22 February 2019.

Information on the results of voting by the shareholders at these and previous general meetings of shareholders is provided on the Company's website under section 'For Investors'.

The Company's Supervisory Board

The Supervisory Board of ESO is a collegial supervisory body.

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

A person proposing a candidate to members of the Supervisory Board has the obligation to produce written explanations to the General Meeting of Shareholders as to the qualifications of each candidate proposed to members of the Supervisory Board, candidate experience of managerial work, and fitness to hold the office of a member of the Supervisory Board. The position of the Supervisory Board's member cannot be held by: the Company's Chief Executive Officer, a member of the Company's Board, a member of the management body of the subsidiary, a member of the supervisory/management body or administration of a legal entity engaged in electricity or natural gas transmission or generation (production) activity, of other legal entity engaged in natural gas and (or) electricity supply activity, auditor or an employee of an audit firm who participate and/or has participated in an audit of the Company's set of the financial statements, if a two year period following the audit has not expired, and any person who has no right to take this position according to legal acts

Where a member of the Supervisory Board is recalled, resigns or for any other reason ceases to perform its duties and the Company's shareholders whose shares grant at least 1/10 of all votes do not object to the election of individual member of the Supervisory Board, the powers of the Supervisory Board shall be withdrawn and the entire Supervisory Board needs to be elected. Where individual members of the Supervisory Board are elected, the term of office for which they are elected shall be only until the expiry of the term of office of the current Supervisory Board.

The main competences of the Supervisory Board are as follows:

- to deliberate and approve the Company's operational strategy, analyse and assess information about the implementation of the Company's operational strategy, submit this information to the ordinary general meeting of shareholders;
- to elect the Board members and remove them from office;
- to supervise the activities of the Board and the General Manager;
- to submit its comments and proposals to the general meeting of shareholders on the Company's set of the annual financial statements, proposed profit (loss) appropriation and the Company's annual report as well as the activities of the Board and the General Manager;
- to submit its comments and proposals to the general meeting of shareholders on the decision regarding the proposed allocation of dividends for a period shorter than the financial year, prepared set of the interim financial statements and interim report;
- in consideration of the conclusion of the Company's Audit Committee, to provide opinion regarding transactions planned to be concluded between the Company and the related party (if they meet the criteria stipulated in the Company's Articles of Association);
- to submit proposals to the Board and the General Manager to revoke their decisions which are not in conformity with the laws and other legal acts, the Articles of Association of the Company or the decisions of the General Meeting of Shareholders;
- to address other issues assigned within its powers by the Company's Articles of Association and by decisions of the General Meeting of Shareholders regarding the supervision of the activities of the Company's management bodies.

At the reporting date, there is no changes in the composition of the Supervisory Board were as follows during the reporting period.

The prospective term of office of the current Supervisory Board is 30 March 2022.

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

Table 15. The composition of the Supervisory Board of ESO (as at 31 March 2019)

		
Darius Maikštėnas Chairman	Darius Kašauskas Member	Kęstutis Betingis Independent member
Elected from: 30 March 2018	Elected from: 30 March 2018	Elected from: 28 May 2018
End of term of office: 30 March 2022	End of term of office: 30 March 2022	End of term of office: 30 March 2022
Education		
Harvard Business School, General Management Program; Baltic Management Institute, Master's degree in Business Administration; Kaunas University of Technology, Bachelor's degree in Business Management	ISM University of Management and Economics, Doctoral studies of Social Sciences in the field of Economics; ISM University of Management and Economics, BI Norwegian Business School, Master's degree in Management; Vilnius University, Master's degree in Economics	Vilnius University, Master's degree in Law; Lithuanian Institute of Public Administration, the Organisation Leaders Training Programme for Heads of Public Prosecutors (OLYMP-38)
Principal workplace and position held		
Lietuvos Energija UAB, Chairman of the Board, Chief Executive Officer	Lietuvos Energija, UAB, Member of the Board, Finance and Treasury Director	Betingis and Ragaišis law firm, lawyer
Participation in the activities of other companies and organisations		
Name of a company, body, organisation, position held	Name of a company, body, organisation, position held	Name of a company, body, organisation, position held
–	Duomenų Logistikos Centras UAB, Chairman of the Board; Lietuvos Energija Support Fund, Member of the Board; Member of the Commission of the 288th Vingis Community Flat Owners revision; Energetikos Paslaugų ir Rangos Organizacija UAB, Chairman of the Board.	–
Percentage of share capital and voting rights of other companies held in excess of 5%		
–	–	–
Compensations calculated during January–December 2018, in EUR* (for activities in the Supervisory Board)		
–	–	1013,89

* According to the ESO's Articles of Association, agreements may be concluded with the members of the Supervisory Board regarding the activity related to the Supervisory Board, which establish members' rights, obligations and responsibility. Based on the decision of the general meeting of shareholders, remuneration may be paid to independent members of the Supervisory Board for their activity in the Supervisory Board. The terms of the agreements concluded with the members of the Supervisory Board and the independence criteria are established by the general meeting of shareholders according to the requirements of legal acts and the good corporate management practice.

The Company's Board

The Board of ESO is a collegial management body of the Company. The powers of the Board, the procedure of decision-making, election and removal of its members are established by laws, other legal acts, the Company's Articles of Association and the Board's Rules of Procedure.

The Company's Board that consists of five members is elected for a term of four years and removed by the Supervisory Board in the manner stipulated in the Company's Articles of Association and legal acts. The Board is accountable to the Supervisory Board and the General Meeting of Shareholders. The Chairperson of the Board is elected from the members of the Board.

A person proposing a candidate to members of the Board has the obligation to produce written explanations to the Supervisory Board as to the qualifications of each candidate proposed to members of the Board, candidate experience of managerial work, and fitness to hold the office of a member of the Board. The position of the Board's member cannot be held by: a member of the supervisory, management body or administration of the legal entity engaged in electricity or gas transmission activity, a member of the Company's Supervisory Board, an auditor or an employee of the audit firm who participates and/or has participated in an audit of the Company's set of the financial statements, if a two year period following the audit has not expired,

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with whom the agreement on the audit of the Company's financial statements has been signed, and any person who has no right to take this position according to legal acts.

Where the Board is recalled, resigns or for any other reason ceases to perform its duties before the expiry of the term of office, a new Board is elected for a new term of office. Where individual members of the Board are elected, the term of office for which they are elected shall be only until the expiry of the term of office of the current Board.

The Company's Board adopts decisions on the following matters:

- the Company becoming a founder, participant of legal entities;
- any transfer of shares (a part thereof, members' shares) held by the Company or rights granted by these shares to other persons or restrictions regarding such transfer;
- establishment of the Company's branches or representative offices and discontinuance of their activities;
- issuance of bonds;
- disposal of objects owned by the Company and stipulated in the Lithuanian Law on Enterprises and Facilities of Strategic Importance to National Security and Other Enterprises Important to Ensuring National Security;
- conclusion of certain agreements, the value of which exceed EUR 3 million;
- adopts other decisions stipulated in the Company's Articles of Association.

In certain cases, before adopting decisions, the Board is required to obtain comments from the Supervisory Board, approval from the General Meeting of Shareholders.

In consideration of the opinion of the Supervisory Board, the Board elects and removes from office the General Manager, fixes his/her salary and sets other terms of the employment contract, approves his/her job description, provides incentives for him/her and impose penalties.

There is no changes in the composition of the Company's Board were as follows during the reporting period.

At the reporting date, the prospective term of office of the current Board is 27 December 2022.

During the reporting period, 9 sittings of the Board of ESO were held and all of them were attended by all then elected members of the Board.

More detailed information on the members of the Company's Board is presented in the table below. The description of their education and work experience is available on the Company's website under section 'About us→ESO Management'

Table 16. The composition of the Board of ESO (as at 31 March 2019)

				
Mindaugas Keizeris Chairman of the Board, Chief Executive Officer	Augustas Dragūnas Board member	Renaldas Radvila Board member	Virgilijus Žukauskas Board member	Ovidijus Martinonis Board member
In the position of the CEO from: 8 October 2018 In the position of the Chairman of the Board from: 27 December 2018 End of term of office: 27 December 2022	In this position from: 27 December 2018 End of term of office: 27 December 2022	In this position from: 27 December 2018 End of term of office: 27 December 2022	In this position from: 27 December 2018 End of term of office: 27 December 2022	In this position from: 27 December 2018 End of term of office: 27 December 2022
Education				
Vilnius University, Bachelor's degree in Business Administration and Management; Vilnius University, Master's degree in International Business;	Vilnius University, Master's degree in Business Management and Administration	ISM University of Management and Economics, Executive MBA degree Vilnius University, Bachelor's degree in Economics	Kaunas University of Technology, Master's degree in International Trade and Bachelor's degree in Electrical Engineering	Kaunas University of Technology, Bachelor's and Master's degrees in Telecommunication and Electronics

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Baltic Institute of Corporate Governance, Professional board member				
Principal workplace and position held				
ESO's Chief Executive Officer	ESO's Finance and Administration Service Director	ESO's Services Director	ESO's Networks Operation Service Director	ESO's Networks Development Service Director
Participation in the activities of other companies and organisations				
Lietuvos Energija Support Foundation, Chairman of the Board	Technologijų ir Inovacijų Centras UAB, Board member Verslo Aptarnavimo Centras UAB, Board member			
Percentage of share capital and voting rights of other companies held in excess of 5%				
–	–	–	–	–
Compensations calculated during January–March 2019, in EUR (for activities in the Board)				
5445	3900	3900	3900	3900

Management of the Company

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

Table 17. Information on the remuneration calculated for the Chief Executive Officer and Chief Accountant of ESO*

	Remuneration during January–March 2019, in EUR	The variable component of the remuneration paid for the results of the previous year during January–March 2019, in EUR	Total payments in January–March 2019, in EUR
Mindaugas Keizeris, CEO	18162	-	18162
Augustas Dragūnas, Director of Finance and Administration Service	15741	-	15741

* From 1 December 2014, the accounting function was relocated from the Company to Verslo Aptarnavimo Centras UAB, therefore, the Company does no longer have personnel in charge of accounting functions, including the Chief Financial Officer. Verslo Aptarnavimo Centras UAB provides all accounting services to the Company, starting from entering initial documents to accounting programmes to the preparation of financial statements.

ESO has neither transferred the management of assets nor issued guarantees to the members of the bodies. During January–March 2019, the Company did not grant any loans to the members of the management bodies, nor provided any guarantees or sureties to secure the fulfilment of their obligations.

Information about the Committees

The committees of the Supervisory Board are established at the Lietuvos Energija group of companies. The committees provide their conclusions, opinions, and proposals to the Supervisory Board of Lietuvos Energija within their competence. A committee consists of at least three members, of whom at least one member is a member of the Supervisory Board and at least one member is an independent member. Members of the committees are elected for the term of four years. The activity of the committees is applicable to Lietuvos Energija and its directly and indirectly controlled subsidiaries, including the Company and the legal entities of other legal form, in which Lietuvos Energija may have direct or indirect ultimate impact.

The following committees of the Supervisory Board have been established at Lietuvos Energija:

- **The Risk Management and Business Ethics Supervision Committee** is responsible for the submission of conclusions or proposals to the Supervisory Board on the functioning of the management and control system in the group of companies and (or) the most important risk factors and implementation of risk management or prevention measures; for the monitoring of the system of risks related to compliance with business ethics, bribery and corruption and provision of recommendations to the Supervisory Board;

- **The Audit Committee** is responsible for the submission of objective and impartial conclusions or proposals to the Supervisory Board on the functioning of the audit, transactions with related parties as stipulated in the Lithuanian Law on Companies, and the internal control system in the group of companies;
- **The Nomination and Remuneration Committee** is responsible for the submission of conclusions or proposals on the matters of appointment, removal or promotion of the members of management and supervisory bodies of the group of companies to the Supervisory Board, also for the assessment of activities of the Board and its members and for issuing the respective opinion. The functions of the Committee also cover the formation of the common remuneration policy at the group level, establishment of the amount and composition of remuneration, principles of promotion, etc.

Where appropriate, the Company may also form other *ad hoc* committees (e.g. for addressing specific issues, preparation, supervision or coordination of strategic projects, etc.).

The Risk Management and Business Ethics Supervision Committee, the Audit Committee, the Nomination and Remuneration Committee were formed at Lietuvos Energija at the reporting date.

The Audit Committee

The main functions of the Committee are as follows:

- to supervise the financial reporting process of Lietuvos Energija and its group entities, with a special focus on the relevance and consistency of accounting methods used;
- to monitor the effectiveness of internal control and risk management systems of Lietuvos Energija and the companies of the Lietuvos Energija group affecting the financial statements of the audited entity;
- to observe compliance of the auditors or audit firm with the principles of independence and objectivity, to provide recommendations on the selection of an audit company;
- to monitor the audit processes of Lietuvos Energija and the companies of the Lietuvos Energija group, examine the audit effectiveness and the administration's response to the audit firm's recommendations to the management;
- to monitor the effectiveness of the internal audit function at Lietuvos Energija and the companies of the Lietuvos Energija group, to provide to the Supervisory Board recommendations on the selection, appointment and removal of the head of the Company's Internal Audit Service, to coordinate and regularly evaluate the activities of the Company's Internal Audit Service, to discuss the results of verifications regarding the removal of identified deficiencies, implementation of internal audit plans;
- to approve regulations of the Company's Internal Audit Service, internal audit plan;
- to monitor the compliance of activities of Lietuvos Energija and the companies of the Lietuvos Energija group with laws and other legal acts of the Republic of Lithuania, articles of association and operational strategy;
- to provide opinion to the entities of the Company who shares are traded in the regulated market on transactions with a related party as stipulated in Article 37(5) of the Lithuanian Law on Companies;
- to assess and analyse other issues attributed to the competence of the Committee by the decision of the Supervisory Board;
- to perform other functions related to the functions of the Committee set forth by legal acts of the Republic of Lithuania and the Corporate Governance Code of companies listed on the NASDAQ Vilnius Stock Exchange.

The group of entities has a centralised internal audit function since 5 January 2015. This helps to ensure independence and objectivity of internal audit, consistency in application of uniform methodology and reporting principles, and a more rational allocation of available audit resources and competences.

Table 18. Members of the Audit Committee at the end of the reporting period

Committee member	Number of shares held at the Company (%)	Term of office	Name of employer, job position
Irena Petruškevičienė Chairwoman of the Committee, Independent member	–	October 2017– October 2021	<ul style="list-style-type: none"> - ISM University of Management and Economics, Head of the executive Master's degree module 'Finance Strategy and Management' - The Authority of Audit, Accounting, Property Valuation and Insolvency Management under the Ministry of Finance of the Republic of Lithuania, Member of the Audit Supervision Committee - European Stability Mechanism (ESM), Member of the Board of Auditors
Danielius Merkinas Independent member	–	October 2017– October 2021	<ul style="list-style-type: none"> - NNT Termo UAB, Director, Chairman of the Board - Nordnet UAB, Commerce Manager, Chairman of the Board - Mercado Prekyba UAB, Director - Litcargos UAB, Chairman of the Board - Lietuvos Paštas AB, Member of the Board
Aušra Vičkačkienė Member	–	October 2017– October 2021	<ul style="list-style-type: none"> - Lithuanian Ministry of Finance, Asset Management Department, Director

Ingrida Muckutė Member	–	March 2018– October 2021	- The Ministry of Finance of the Republic of Lithuania, Accountability, Audit, Property Valuation and Insolvency Policy Department, Head
Šarūnas Radavičius Independent member (from 23 March 2018)	–	March 2018– October 2021	- Rodl & Partner UAB, Director

The term of office of the current Audit Committee is from 13 October 2017 to 12 October 2021.

During the reporting period, 6 sittings of the Audit Committee were held.

The Risk Management and Business Ethics Supervision Committee

The main functions of the Committee are as follows:

- to monitor the way the risks relevant for the achievement of the targets set for Lietuvos Energija UAB and the companies of the Lietuvos Energija group are identified, assessed and managed;
- to assess the adequacy of internal control procedures and risk management measures in view of the risks identified;
- to assess the progress achieved in the implementation of risk management measures;
- to monitor the process of risk management;
- to analyse the financial possibilities for the implementation of risk management measures;
- to assess the risks and the risk management plan for Lietuvos Energija and the companies of the Lietuvos Energija group;
- to assess the periodic cycle of risk identification and assessment;
- to monitor availability of risk registers, analyse their data, provide recommendations;
- to monitor the availability of internal documentation pertaining to risk management;
- to assess the sufficiency, adequacy of the internal documents regulating the group's fight against bribery and corruption and regularly perform supervision of their implementation/compliance;
- to regularly monitor information related to actions, events for managing the ensurance of business ethics and unresolved incidents (ensurance of transparency, prevention of bribery, management/prevention of the risk of corruption, etc.);
- to perform other functions assigned to the Committee based on the decision of the Supervisory Board of Lietuvos Energija.

Table 19. Members of the Risk Management and Business Ethics Supervision Committee at the end of the reporting period

Member of the Committee	Number of shares held at the Company (%)	Term of office	Name of employer, job position
Andrius Pranckevičius Chairman of the Committee	–	April 2018– April 2020	- Linas Agro Group AB, Deputy Chief Executive Officer, Member of the Board - Kekava PF, Chief Executive Officer and Chairman of the Board
Darius Daubaras Independent member	–	April 2018– April 2020	- Saudi Aramco (an oil and gas industry company), Finance and Development Projects Unit, Chief Advisor
Šarūnas Rameikis Member	–	April 2018– April 2020	- R. Mištautas and T. Milickis law firm Konsus, Lawyer

The term of office of the current Risk Management and Business Ethics Supervision Committee is from 20 April 2018 to 19 April 2022.

During the reporting period, two sittings of the Risk Management and Business Ethics Supervision Committee were held.

The Nomination and Remuneration Committee

The main functions of the Committee are as follows:

- to provide suggestions in relation to the long-term remuneration policy of Lietuvos Energija and the companies of the Lietuvos Energija group (fixed basic pay, performance-based pay, pension insurance, other guarantees and remuneration forms, compensations, severance pay, other items of the remuneration package), and the principles of compensation for expenses related to the person's activities;
- to make assessments and provide suggestions in relation to the bonus (tantieme) policy of Lietuvos Energija and the companies of the Lietuvos Energija group;
- to monitor compliance of the remuneration and bonus (tantieme) policies of Lietuvos Energija and the companies of the Lietuvos Energija group with international practice and good governance practice guidelines, and provide suggestions for their improvement;
- to provide suggestions in relation to bonuses (tantiemes) upon appropriation of profit (loss) for the financial year of Lietuvos Energija and the companies of the Lietuvos Energija group;

- to assess the terms and conditions of inter-company agreements between Lietuvos Energija and the companies of the Lietuvos Energija group and the members of the management bodies of Lietuvos Energija and the companies of the Lietuvos Energija group;
- to assess the procedures for recruitment and hiring of candidates to the positions of management bodies and top management of Lietuvos Energija and the companies of the Lietuvos Energija group, and establishment of qualification requirements for them;
- to assess on a continuous basis the structure, size, composition and activities of management and supervisory bodies of Lietuvos Energija and the companies of the Lietuvos Energija group;
- to oversee the process of notification of the members of management bodies and employees of Lietuvos Energija and the companies of the Lietuvos Energija group about the professional training opportunities and monitor the progress achieved on a regular basis;
- to oversee and assess the implementation of measures ensuring business continuity of management and supervisory bodies of Lietuvos Energija and the companies of the Lietuvos Energija group;
- to perform other functions falling within the scope of competence of the Committee as decided by the Supervisory Board of Lietuvos Energija.

Table 20. Members of the Nomination and Remuneration Committee at the end of the reporting period

Committee member	Number of shares held at the Company (%)	Term of office	Name of employer, job position
Daiva Lubinskaitė-Trainauskienė Chairwoman of the Committee, Independent member	–	September 2017– September 2021	Thermo Fisher Scientific Baltics UAB, Human Resources Director. Association of Human Resource Management Professionals, Member of the Board
Aušra Vičkačkienė Member	–	September 2017– September 2021	Lithuanian Ministry of Finance, Asset Management Department, Director
Daiva Kamarauskienė Member (until 22 March 2019)	–	November 2017– November 2018	Ministry of Finance, Director of the Budget Department
Lėda Turai-Petrauskienė Independent member	–	April 2018– September 2021	L-CON Global UAB, Leadership Development Partner, Shareholder

The term of office of the current Nomination and Remuneration Committee is from 13 September 2017 to 13 September 2021.

During the reporting period, 2 sittings of the Nomination and Remuneration Committee were held.

Employees of the Company

The Company's personnel policy focuses on a continuous professional development of employees and formation of an organisational culture ensuring the creation of higher added value for customers, partners and society. As at 31 March 2019, the actual number of the Company's employees was 2,345*.

Table 21. Structure of the Company's employees by category

Category of employees	Number of employees at 31 March 2019
Chief executive officer (CEO)	1
Top-level managers	5
Medium-level managers	196
Experts, specialists	1,604
Workers	539
Total number of employees	2,345 *

* The actual number of the Company's employees, excluding employees on maternity leave and parental leave, as well as employees at the military service.

Table 22. Structure of the Company's employees by educational background

Education	Number of employees at 31 March 2019
Higher education	1,400
Advanced vocational education	769
Secondary and vocational education	176

Remuneration system

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

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

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

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

Table 23. Average salary of the Company's employees

Category of employees	Average salary, in EUR (before taxes) January–March 2019
Chief executive officer (CEO)	7 645
Top-level managers	6 381
Medium-level managers	2 984
Experts, specialists	1 687
Workers	1 416
Total number of employees	1 748

Collective employment agreement

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

Trade unions

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

Development of competences

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

In the period between January and March 2019, 245 participants attended the compulsory vocational training programmes, at the end of which certificates permitting to perform special works were issued. Employees were provided training on occupational safety and health, fire safety, diesel engine operator of an emergency station, operation of flammable gas systems and works at electricity facilities, installers of insulation, earthing and neutral earthing screws, pressure vessels, works in wells, lifting equipment, logging works.

In the period between January and March 2019, the general training courses were attended by 312 participants. These courses are organised by sending individual employees to attend seminars and conferences organised by external suppliers (in Lithuania and abroad) and by forming groups within the Company.

The Company seeks to encourage the engagement of the organisation's employees, i.e. lecturers within the organisation with specific knowledge and skills able to share them with others, in the programmes for competence development, also invests in the training of staff. In 2019, Q1 228 participants attended internal training courses. Employees improved their knowledge in the trainings on the subjects of personal data protection, learned to enhance their personal effectiveness and public speaking skills, were acquainted with the power areas within the group, improved their MS Excel skills and participated in the trainings for new employees, learned about the basic concepts of GIS.

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

During the first quarter of 2019, ESO provided partial funding for the studies of 4 employees at the Lithuanian higher education institutions aiming to improve professional qualification of workers and develop competences of managers. Employees have the opportunity to study the programmes on energy and management that are related to the Company's activities.

Internship opportunities

ESO actively cooperates with educational institutions and allows university and college students to apply their theoretical knowledge and gain practical skills. During 2019 January-March, 16 students completed internship at ESO across the territory of Lithuania. The Company provides students not only with the possibility to complete their mandatory internship, but also welcomes motivated and enthusiastic students who wish to voluntarily enrol in job training with the Company.

Significant agreements

There were no significant agreements made in which the Company was a party to and which would come into effect, change or terminate as a result of the change in the control of the Company.

There were no agreements made between the Company and the members of the bodies or employees that provide for compensation in case of their resignation or dismissal without a sound reason or in case of termination of their employment as a result of the change in the control of the Company.

Harmful transactions

During the reporting period there were no harmful transactions (transactions which do not meet the Company's objectives or existing normal market conditions or which violate the interests of shareholders or other groups, etc.), which had or might have negative impact on the Company's activity and (or) performance, conducted on behalf of the Company, as well as transactions made in the event of a conflict of interests between duties of executives of the Company, controlling shareholders or other related parties with respect to the Company and their private interests and (or) other duties.

MATERIAL EVENTS IN THE COMPANY'S ACTIVITIES

Material events during the reporting period

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

Table 24. Information on material events announced by ESO from 1 January 2019 to 1 April 2019

Date	Material event
2019-01-18	Regarding the approval of the strategy of ESO till 2030
2019-01-31	Regarding the Extraordinary General Meeting of Shareholders of ESO
2019-01-31	ESO preliminary financial results for 12 months of 2018
2019-02-14	Regarding the investment plan of 2018 alignment
2019-02-22	Regarding the resolutions of Extraordinary General Meeting of Shareholders of the Company
2019-02-28	ESO's 2018 preliminary results: historical investments and crystallisation of activities
2019-02-28	ESO preliminary financial results for 1 month of 2019
2019-03-06	Regarding Court Decision
2019-03-27	Regarding the refusal of commercial services of Energijos Skirstymo Operatorius AB
2019-03-29	ESO preliminary financial results for 2 month of 2019
2019-03-29	Regarding the agenda and proposed draft resolutions of the Ordinary General Meeting of Shareholders of AB „Energijos skirstymo operatorius“

Table 25. Notifications on material events after the end of the reporting period from 31 March 2019

Date	Material event
2019-04-02	Regarding a decision to refuse the appeal filed with the administrative court regarding the decision of the National Commission for Energy Control and Prices on the setting of electricity distribution price caps for 2019
2019-04-12	Lietuvos Energija Group will hold an Investor Conference Webinar to introduce the financial results for the year 2018 and guidance for 2019
2019-04-15	Regarding the supplement of the agenda and proposed draft resolutions of the Ordinary General Meeting of Shareholders of AB „Energijos skirstymo operatorius“
2019-04-15	Update: Regarding the supplement of the agenda and proposed draft resolutions of the Ordinary General Meeting of Shareholders of AB „Energijos skirstymo operatorius“

OTHER SIGNIFICANT INFORMATION

Methodology for the calculation of indicators presented in the Annual Report

Debt ratio = liabilities / assets

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

Liabilities to equity ratio = liabilities / equity

Debt to equity ratio = borrowings / equity

Net borrowings = borrowings - cash and cash equivalents

Net borrowings to equity ratio = net borrowings / equity

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

General solvency ratio = equity / liabilities

Equity to assets ratio = equity / assets

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

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

Current liquidity ratio = current assets / current liabilities

Quick ratio = (current assets - inventories) / current liabilities

Cash ratio = cash and cash equivalents / current liabilities

Working capital = current assets - current liabilities

Working capital to total assets ratio = working capital / assets