

lesto 2012

Report on corporate
social responsibility



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LETTER FROM THE CEO

Europe and the whole world today are thinking about our Planet's future – concentrating on how to increase power efficiency and uniting in the common goal for a clean environment. Harmonious energy development and the reduction of greenhouse gas emissions are among the most frequent topics discussed in major world forums.

The World is changing. Every one of us must reconsider our habits and every company has to recalibrate its methods of operations.

Socially responsible companies work to create the conditions in which everyone is able to seek societal prosperity and technological development while keeping the balance between social interests, economic motivations and environmental friendliness.

Of course, we are not the first to talk and act on this. We join all who seek efficiency in everyday work by ensuring a reliable supply of electricity – the key to modern society. But how does this position change the way we work?

We have started from ourselves by developing sustainable operations and encouraging other companies to follow our lead. It is the only way which guarantees social and economic prosperity. Our company policy stresses consideration for the Human Being and Natural Resources – we are part of our surrounding environment in which everything starts from Energy. Recognizing the goal for a clean environment is the first step in actually decreasing our effect and impact on the Environment.

The basis of our socially responsible activity is to increase energy efficiency by encouraging positive energy consumption habits in Society and by preserving energy resources.

I believe that our initiated Green Protocol, already in its second year of existence with more than 100 companies approving the ideas of rational electricity consumption and applying them in practice, is the real expression of a sustainably-transforming world.

And thus, we present to you our Socially Responsible Activity Report for 2011. We promote change and encourage creation of traditions for socially responsible business.



Respectfully
Dr. Arvydas Tarasevičius
Chief Executive Officer, LESTO

2/ About the Company

State owned joint stock company LESTO started its activities on January 1, 2011 after the merger of two distribution network companies AB "Rytų skirstomieji tinklai" and AB "VST". LESTO took over the assets, rights and obligations of the former companies and from January 1, 2011 began the activities of electricity distributor and public electricity supplier.


LESTO is the Lithuanian electricity distribution network operator, whose main functions are the transmission of electricity via distribution networks, satisfaction of customer needs, connection of new consumer devices and objects, distribution network operation, maintenance, management, development, security and reliability. The geographic market of LESTO is Lithuania.

- Serviced territory 65.3 thousands km²
- Number of customers 1,571,798
- Number of residential customers 1,510,224
- Number of business customers 61,574
- Length of electricity lines 123,781 km

LESTO with its subsidiaries ELEKTROS TINKLO PASLAUGOS UAB, NT Valdos UAB and associated companies Technologijų ir inovacijų centras UAB (On report signature date Technologijų ir inovacijų centras UAB had 100% Respublikinio energetikų mokymo centras Vsl, 100% Data logistics centre UAB, 0,6% NT Valdos, UAB capital), TETAS UAB make up LESTO company group (hereinafter – LESTO group).

Activity indicators

Power supply quality (SAIDI, SAIFI). Without evaluation of natural phenomena ("force majeure") effects, the average duration of unscheduled electricity transmission interruptions (SAIDI) in 2011 per one user was 84.68 minutes; the average frequency of unscheduled long interruptions per customer (SAIFI) in 2011 was 1.12 times. The power quality indicators, without evaluation of natural phenomena, of AB Rytų skirstomieji tinklai (one of the companies which operated before the reorganization) in 2010 was 80.31 minutes and SAIFI 0.98 times. Those of AB "VST" in 2010 were 86.47 minutes and 1.33 times, respectively.



Activity indicators	2011
Amount of electricity received to the distribution network, million kWh	8 562
Technological losses in the distribution network, million kWh	711
Volume of network service, million kWh	7 851
Amount of electricity sold, million kWh	4 168
SAIDI, minutes (with "force majeure")	302,57
SAIFI, times (with "force majeure")	2,19

One third of electricity network service volume was allocated to residents. Industrial and retail objects consumed 25% and 10% respectively. The structure of electricity network service during the reporting period of 2011 changed insignificantly compared to the nine months of 2011. The share of network service volume to the agricultural production increased by 1 % points, while the share of electricity serviced to other objects went down by 1 % points.

Company Management

LESTO carry out the functions of electricity distribution and public supply thus ensuring transparency in decision-making, equal rights of consumers, cost reduction and other principles, the company's activities are strictly regulated by law and supervised by the relevant public authorities.

The Company management bodies are the general shareholders' meeting, the Board of 5 members and CEO. Decisions on the four-year elected board members are taken at the general shareholders' meeting. The rights of all shareholders are equal. The LESTO statute provides that there must be a certain number of independent members in the Board, so it should be noted that at the time of this report one of the five members of the Board is a business representative not related to power sector companies and public authority that regulate the activities of electricity sector.

Shareholders

On December 31, 2011 the number of LESTO shareholders totalled **7739**.

Information on issuer's securities

On 17 January, 2011 LESTO shares were included in the Main List of NASDAQ OMX Vilnius. LESTO shares are not traded in other regulated markets.

Shareholders who owned more than 5 % of the issuer's authorized capital on 31 December, 2011.

Names of the shareholders	Number of ordinary registered shares	Share of authorized capital, %	Votes granted by shares owned, %
„Visagino atominė elektrinė“, UAB	499 026 209	82,63	82,63
E.ON Ruhrgas International GmbH, Vokietija	71 040 473	11,76	11,76

Information on issuer's securities

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Financial results

LESTO group profitability ratios	2011	2010
Net profit margin	-2,73 %	-2,57 %
Operating profit margin	-3,09 %	-2,9 %
EBITDA, LTL thousand	362 246	379 861
EBITDA margin	16,13 %	15,63 %
ROA	-1,16 %	-1,12 %
ROE	-1,68 %	-1,66 %

The LESTO group earned 362 million LTL in the consolidated profit before interest, taxes, depreciation and amortization (EBITDA). In comparison with the results of AB "Rytų skirstomieji tinklai" and AB "VST" which operated in 2010, EBITDA was 4.6 per cent lower. During the year, EBITDA profit margin increased from 15.63 per cent up to 16.13 per cent. The increased electricity purchase prices, lower distribution service price ceilings and large amortization payments determined the unprofitable activity of the group: in 2011 consolidated net loss of the LESTO group was equal to 61.4 million LTL.

3/ Philosophy of Our Socially Responsible Activities

Our Mission

Reliable electricity for the meaningful life of everyone.

Our Vision

A flagship company with public confidence..

Our Values

COOPERATION – we work in a team and take responsibility upon ourselves.

RESPECT – we respect every human being and the environment in which we live.

COMMITMENT – we are proud to represent energy sector and serve our community.

POSITIVE ATTITUDE – we spread good mood, and often look forward, not backward.

INNOVATIVENESS – we are constantly improving ourselves and personally initiate changes

Socially responsible activities to us mean the ethical treatment of employees, customers (market), the public and the environment.

We strive to guarantee not only qualitative electricity supply and safety of residents, meet customers' needs, and pay regard to the interests of the environment and groups of society. For us a responsible and sustainable development means a permanent power supply, which promotes economic and social development while preserving the environment: improvement of operational efficiency and technological development, and answering the needs of employees and community, all this being carried out with minimal impact on the environment. The most important preconditions: the power transmission efficiency, rational use of energy, increase of electricity production from renewable sources, natural resource preservation.

Being responsible for our activities, we seek to contribute to public welfare not only by ensuring uninterrupted power supply, but also by implementing the community relevant projects, actively instructing on the issues of safe and rational use of energy, advising, in order to make a positive impact on energy consumption patterns and promoting interest in advanced technologies.

Looking to the Future

In our long-term strategy up to the year **2020**, we have forecasted the steps that would help us to become an effectively operating company with optimal use of resources, focusing on customer satisfaction and having public confidence.

We plan to increase customer service efficiency, to create a modern culture of the organization, to apply modern management methods, to improve the processes of our activity, to reduce energy losses in the network, to ensure coming of new customers and reliable operation of the network.

In **2012–2020**, we are going to revise the company's operational processes according to the principles of Lean methodology, centralize the activities, purchase part of the services on the market, optimize power distribution network, and rank the investment. The planned innovations will allow us to optimize the expenses of the company and ensure sufficient level of investment for network renovation and sophistication. In the next three years, most attention will be paid to operational efficiency.

By safely and reliably supplying electricity, integrating into a common electricity market, flexibly adapting to changing internal and external environment, we aim to contribute to the objectives of the National Energy Strategy and the European Union aims to conserve energy and protect the environment.

Membership

We are proud of being the members of **"Global Compact"** initiated by the United Nations and strive to encourage other companies and organizations to act responsibly, to participate in the solving of environmental, social problems and to contribute to the welfare of the public by applying the principles of the Agreement.

The background of the slide features a solid green color with a pattern of white silhouettes of various people of different ages and ethnicities standing together. The silhouettes are semi-transparent, allowing the green background to show through.

4/ Employees

We treat our employees the most important asset of our company. Our personnel policy is focused on professional skills of our workers and organizational culture development that ensures the creation of greater value for customers, partners and society.

Ensuring the Rights of the Workers

Following the Global Compact principles, we declare that we do not tolerate any violation of human rights, stand against any discrimination and forced labor, child labor, do not tolerate any form of harassment, psychological violence; we respect the right of workers to rest, we give voice for fair and transparent wage policy and comply with the laws regulating working hours and overtime.

There are **2890** workers in LESTO (December 31, 2011): **9** managers, **2243** professionals and middle level managers, **638** workers. **48,1** per cent of employees in our company have a university degree, **26,5** per cent have higher education, **25,4** per cent have secondary or special secondary education.

Gender distribution

In our company the majority of employees are male, **2212** persons; and there are **678** women. It depends on the particularity of activities: technical works more traditionally are chosen by men. Most women work in customer services, administration divisions, but there are exceptions: two women worked as dispatchers on duty (in Šiauliai and Klaipėda).

In the company management-level the employee distribution by gender is equal: CEO is male and the heads of three departments – Electricity Network, Public Supplier, and Strategy and Development – are run by men, and four departments – Personnel and Communications, Internal Audit, Finance and Administration, and Customer Service – are supervised by women.

Workers' Trade Unions

Our company supports the employees in their voluntary consolidation into trade unions and keeps close collaboration with them. The trade unions annually receive certain funding for their activities: they have free access to work premises and facilities, internal communication, and under separate agreement they can use the transport services, have space for meetings, conferences, they are supplied with computer equipment etc.

We support the educational, sports and cultural activities organized by the trade unions for the employees of the company. Quarterly meetings take place where together with the representatives of the trade unions the strategic projects underway are discussed.

The representatives of the trade unions take part in working groups when the issues on employee occupation, re-skilling, remuneration and social matters are under discussion. There are eight trade unions in the company with about **850** employees in them.

Energy Sector Reconstruction Plan

With active involvement of the trade unions, in 2011 when implementing the electricity sector reconstruction plan, it was decided to buy on the market part of the maintenance and repair works for the company owned electricity network. Eighteen power network repair and maintenance workers were invited to move to the companies which had won the public procurement tenders. In order to ensure the former social guarantees, bilateral agreements have been signed with the successful contractors under which the employees have been saved to the same salary, record of service and open-ended employment contracts with the commitment to sustain the contract not less than 2 years on the initiative of the employer.

Collective Agreement

On March 10, 2011 at the conference of our employees, the collective agreement was approved which set down job conditions, the payment for it, social, economic and trade conditions and guarantees which are not regulated by laws and other legislation. The employees are subject to additional security (allowances in cases of accidents, illness, the death of next of kin, birth of a child, death of a close relative, additional holidays after birth of a child, after the marriage, and in other cases are higher than provided in the Labor Code payment rate for work on holidays).

Performance Management System

In our company the annual interview is an employee performance management tool which ensures that the personal goals for employees are set taking into consideration the goals of the company.

Employee performance management is one of the most important and effective tools of the management in our company which helps achieve the goals of organization and develop positive relationship between managers and their subordinates; allows plan the career of employees and increase their motivation.

The annual interview allows evaluate the achievement of goals set up for the employee and establish the new ones, forms the feedback culture between a superior and a subordinate. During it, there are discussed not only the goals but also the possibilities of improvement of personnel skills, career and educational opportunities. The objectives are fixed, coordinated, approved, modified and evaluated in the electronic system; they must be measurable, specific, time-defined, achievable and motivating. The annual interview is mandatory for all employees.

Advanced Remuneration System

We have implemented in the company the remuneration policy which allows us to be side-by-side with most advanced companies in the country where workers are paid for the results of their work done and by the value created for the organization. The remuneration system is based on the Hay Group methodology which ensures an objective job evaluation according to appropriate education, problem complexity and level of responsibility that falls on the position. This system allows manage the costs effectively and ensures that our strategic objectives and business management logics are reflected in the payroll system.

Development of Employee Competencies

For our employees we organize several types of training. In compulsory formal and informal trainings in 2011 there participated **1384** employees, their professional competencies were developed and they received certificates allowing to carry out special works.

One of the principal policies of personnel management in 2011 was strengthening of leadership skills. Such courses were organized for all levels of executives. In 2011, conferences and seminars in Lithuania and abroad were attended by **129** employees. The general management training for internal staff groups involved **1931** participants. Operative customer service and sales training involved **287** employees of the Customer Service.

In our company we also organize internal trainings which are carried out by our employees. Internal lecturers teach the employees, who have voluntarily signed up for the training, electrical engineering, the basics of law, effective leadership and communication, customer service skills. At the beginning of the year, there was organized a training cycle on internal IT systems, (APAP, TEVIS, GIS, Biling etc.); the training covered **14** topics. In 2011, the internal training courses were attended by **920** employees.

In order to have better quality of the organized training, when preparing the training programs we collaborate with training providers, carry out training evaluation surveys.

Integration of New Employees

For smooth assimilation of new employees into the team in the company we have already prepared the **"Beginner's Guide"** which helps to get them familiar with the company values, mission, goals and key operation processes. We also organize so-called **"Newcomer Days"** during which the staff and the students-trainees get acquainted with the company's managers and operation of the separate departments. The newcomers are presented not only to the company's strategic directions, but to the main principles of operation of the energy sector, basics of electric engineering.

Practice Opportunities

We actively collaborate with educational institutions and capacitate university and college students to apply their theoretical knowledge and gain practical skills; we are happy to take students to gain practical experience. Students with different specialties can practice in our subdivisions all over Lithuania.

In 2011, LESTO received **147** students for their practice throughout Lithuania; two of them were from the foreign countries.

Programs of Internal Communication

The Talent Program. In 2011, the internal initiative "The Talent Program" was started; its aim was to notice and evaluate the employees that had best activity results and potential to take greater responsibility. In "The Talent Program" it was possible to offer oneself as a candidate or a candidate could be offered by the managers and colleagues. The following candidate selection criteria have been defined: there had to be evaluated not only the results of the employee activity, but also their motivation, behavior, values (as a model to colleagues), swiftness and desire to improve.

Thirty three employees became the participants of "The Talent Program" in 2011. They all received individual career and self-help plans taking into account the wishes of the employees, manager feedback and level of competence, they got the opportunity to join working groups of strategic projects carried out in the company and thus to enrich their functions and expand their knowledge.

The idea is that **"The Talent Program"** would become a permanent process in the company and contribute to the purposeful development of potential employees, increase employee engagement and their retention.

Ambassador Program. "The Ambassadors" is an internal communications program through which the employees of different offices, regions and levels of the company have the possibility to communicate directly with the heads of services and CEO, to share their ideas and implement them, to solve problems and initiate changes.

Each active, positive employee who feels free to express his/her opinion and wishes to voluntarily contribute to the creation of new organizational culture of LESTO can become an Ambassador. The program aims to create a new culture at all levels of employees, helps them to become involved in the processes in the organization and by their own example encourage others to represent LESTO values in daily activities.

During the year we have a total of **37** Ambassadors initiatives carried out (e. g., blood donation campaigns in the regions, the bridge of Rēkyva repainted, participation in campaigns "Let's do it", "Freedom for Bikes", etc.).

In 2011, fifty three employees have signed up to the programme.

Occupational Safety and Health

Caring for your employees, we have organized their medical examination. Field workers were vaccinated against tick-borne encephalitis (**870** employees), and those who have contact with the customers from influenza (**640** employees). For medical service of our employees in 2011 we spent **127** thousand LTL.

By promoting a healthy lifestyle, we contribute to the promotion of sports activities: we organize various sports competitions, sports events, create favorable conditions for sports.

5/ Environmental Protection

The purpose of all of our socially responsible behavior policy is a sustainable approach to natural and human resources, i.e. to the surrounding environment where everything starts with energy.

Its saving in the broadest sense is the first step in reducing our potential impact on the environment.

We strive for harmonious development caring for pollution prevention and implementing the measures that reduce the influence of energy facilities on people and nature. In 2011, the company has not received any warning or penalty for any environmental impact.

In our daily activities, we encourage the use of work equipment that decreases expenditures and pollution and are actively looking for ways to reduce human exposure to energy facilities and the environment. We take care of proper management of waste: we have signed contracts with the waste management companies on waste collection. In 2011, we have handed **175** tons of unusable electrical equipment to the collectors.

Implementing the environmental projects, we aim to reduce the negative impact of energy facilities to people and the environment and to encourage wider public participation in the initiatives.

This naturally raises the need to organize the activities based on the principles of sustainable development. We seek to influence the energy consumption habits and promote the development of the society that saves energy and uses it rationally. But first of all we have to change our behavior. Environmental Protection in a Company Begins in its Office.

Resource Efficiency

Documentation. In order to reduce the use of paper and document management costs for paper invoices and correspondence administration, our company has implemented an electronic document management system (DocLogix), where all documents are managed and archived electronically. Unnecessary to print documents such as interim or annual reports, reports on social responsibility, are prepared in electronic format only.

Correspondence. The recipients of the e-mail messages of the company employees are encouraged to print the information only when it is necessary.

In 2011, LESTO received **21.383** units of electronic queries of its customers. This made up **1782** requests per month. If these were paper letters, weighing, for example, 3 grams each, they will make up more than half a ton of letters, i.e. 642 kg.

Newsletter. The company newsletter "**People of Electricity**" designed for **2890** of our employees was also prepared in electronic format only.

Accounts. Instead of usually used paper bills, we encourage our customers to choose the electronic ones. Electronic document management and archiving is easier and faster: the customers receive their bills by e-mail message and can pay them without leaving their home or by connecting to the self-service system from any computer.

Electronic System of Accounts was implemented at the end of 2009 by the LESTO predecessor companies. The first Lithuanian environmentally-friendly invoice logo "**Eco invoice**" was designed in 2010. This logo was granted to the companies that opted for electronic invoices, with which they could label all their electronic bills. This was intended to encourage environmentally responsible accounting and the creation of a business community with responsible thinking.

In spring of 2010, in the name of the customers that opted out paper accounts 200 oak trees were planted in the Lithuanian "Millennium oak-wood".

At the end of 2011, **85** % of LESTO business customers were using electronic invoices.

Participation in Environmental Campaigns. In 2011, more than **400** of our employees participated in a voluntary public campaign "Let's do it, 2011 ". During the campaign which promotes ecological thinking, social activity and sociality, our volunteers together with other participants of the event cleaned the surroundings of **25** cities in Lithuania in Alytus, Kaunas, Panevėžys, Šiauliai, Vilnius, Utena regions.

Environmentally-Friendly Technologies. Electric Cars. Why is the topic on electric cars so important for Lithuania and us? The main factors are lower emissions (CO₂), energy efficiency, the gross domestic product (GDP) growth, the balancing of electricity consumption and the application of scientific potential.

In 2011, we have analyzed the models of electric cars on the market, possible charging decisions, and have developed a forecast for Lithuania from the point of view of the development dynamics, energy consumption, income, and infrastructure costs. We assessed the potential involvement of the Lithuanian companies, conducted a survey on the interests of the Lithuanian capital enterprises and their intentions to contribute to the development of electric car infrastructure in Lithuania.

During 2011, we also made contacts with potential foreign partners on possible collaboration. We have analyzed the best foreign practices in development of electric car infrastructure, and provided the concerned agencies with our recommendations.

We also evaluated the scientific potential, the possibilities of attracting potential researchers and the fields in the electric car infrastructure development.

In the project supervised by the Ministry of Economy ETA2025 where all relevant agencies such as Ministry of Economy and the agency "Invest in Lithuania," "Versli Lietuva", MITA, Ministry of Transport and Communications, Ministry of Energy, Ministry of Environment have been involved in the working group of the project, LESTO was the project manager. The outcome of our work: the recommendations for further activity in Lithuania (for implementation of the pilot project, and for sorting out the legal framework in Lithuania), the documentation prepared to raise funds according to the Green Investment Scheme. These recommendations will be implemented during 2012.

Natural Heritage: Protection of Stork Nests

The specifics of our business requires to focus on the natural environment, so we are actively engaged in implementation of one of the most important and oldest nature protection Directives, i.e. the Birds Directive in Lithuania.

A white stork, our national bird, is considered a token of clean, healthy environment and sustainable agriculture. Every year 12 to 13 thousand of stork couples return to Lithuania, they stack large nests on big trees near homesteads, in the fields and open areas near water bodies.

However, more and more of them settle in non-traditional locations: on various poles, towers, power line poles, where, due to security requirements, there can be no obstruction, consequently, no nests. This is dangerous not only for the network, but also for birds: nests take fire, when crashed into wires young and adult birds die. The wires around the nests are vulnerable to corrosion; there occur electric leakages, power supply disruptions, malfunctions, breakdowns. A wind-blown nest can terminate the wires and kill the whole hatch. Birds may also die from fire or a discharge, lightning often strikes at the supports.

Having cared for the storks for many years we move their nests on safe nesting sites, putting them higher. Until 2006, in Lithuania more than 500 stork nests were moved onto special platforms; in recent years during the period of stork falling-out we installed about a thousand nests. By the end of 2011, we raised **1740** safe stork nests.

During the last few years we used the European Union financial instruments for environmental protection LIFE + support – execute the project "White Stork (Ciconia Ciconia) in Lithuania" (project no. LIFE NAT/LT/000531 07). The project partners are Lithuanian Ornithological Society and the Nature Research Center Institute of Ecology. During the project, i.e. since 2009 to March 31, 2012, we have raised a total of **2896** platforms above the power line poles on which afterwards the birds built their nests. By the end of 2012, during the period of departure of storks we are going to raise another **364** platforms.



The background of the entire page is a solid green color. Overlaid on this is a faint, semi-transparent image of a crowd of people. Many of the people in the crowd have their arms raised, with some hands open and others in fist-like gestures, suggesting a celebratory or protest atmosphere. The image is slightly out of focus, giving it a sense of being a distant or remembered scene.

6/ Society

We implement three wide – range, long-term projects on social responsibility: „Electro-Magic“, „To the Extent Required“ and „Campaign 2020“. They all are united by the active involvement of the community, of social target groups and by the ideas of sustainable consumption.

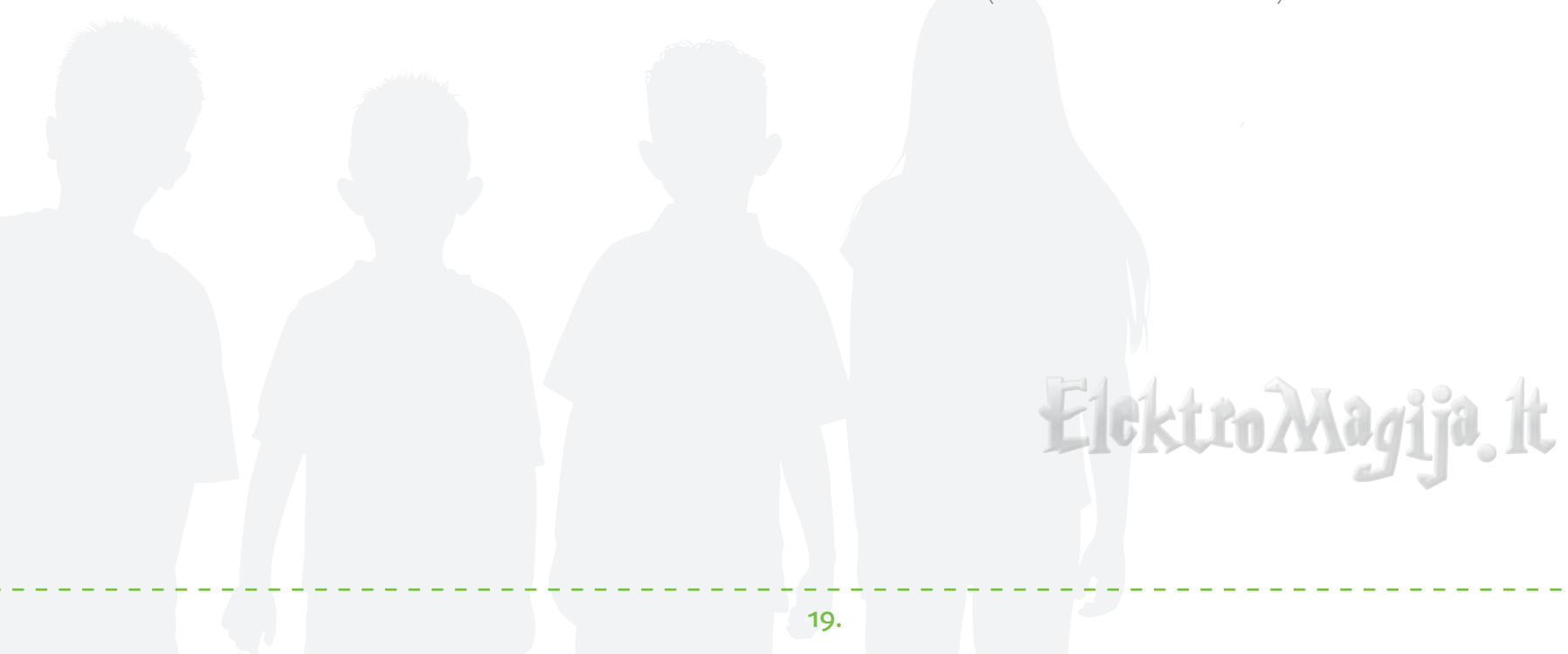
Educational Project "Electro - Magic" for Children and Youth

Educational Project "Electro - Magic" for Children and Youth (www.elektromagija.lt) encourages schoolchildren to behave safely with electricity and the equipment, to take interest in responsible energy use and innovative environmentally friendly technologies.

Playful virtual characters in the website of the project tell about electricity, children acquire knowledge about security, threats and opportunities of electricity by playing interactive games, participating in competitions that foster environmental ideas. In this project we cooperate with the Lithuanian schools and their communities, with organizations active in the field of sustainable development and environmental protection and encourage the pupils all over Europe to contribute to global climate change mitigation.

In summer of 2011, **222** children from all over Lithuania participated in the "Future Car" contest, where without limiting their imagination, they were drawing the cars of the future and how the cars could be powered. In Vilnius there was organized an exhibition of 30 works which received the most votes online and most of the public interest. They will be exhibited in the Energy and Technology Museum in 2012 during the events on ecology.

At the end of the year as it was before, the contest "Eco-Christmas 2011" invited the students to create eco-friendly Christmas decorations. In the contest of original Christmas decorations from the waste there were presented nearly 400 spectacular crafts (last year – **345**). In 2011, "Electro-Magic" competitions were attended by over **600** students; **46** thousand site visitors reviewed the site more than **549** thousand times (in 2010 – **35** thousand).



Project on Rational Use of Electricity „To the Extent Required“

This is a project for the development of ideas on rational use of energy resources and of traditions of energy - saving society. The project site www.tiekkiekreikia.lt provides with recommendations for sustainable consumption, the citizens are given answers to the questions about rational use of electricity. There you can find an electronic book of the site visitors, where over **300** pieces of advice on sustainable consumption can be found. In the site it is also possible to "walk" inside a virtual house and learn more about the possibilities of rational use of energy in your home.

In previous years, mostly focusing on those who use energy in their household, in 2011 we directed our project towards organizations, i.e. business and educational institutions.

„To the Extent Required for Business“. In 2011, we organized the first conference "To the Extent Required for Business" on the concepts of rational use of energy in organizations. The conference was attended by some 200 participants, who discussed the rational use of electricity in business, listened to foreign speakers, shared their experience with each other, put forward their proposals. According to the participants, the event took place at a very good time, **66** per cent of them approved the relevance of the content and **68** per cent noted that the conference had met their expectations.

In February, we introduced yet another initiative for organizations – **"The Green Protocol"**. This was the first such agreement when companies or organizations by signing the protocol confirmed their support for the ideas on rational use of electricity and the engagement to apply them in practice.

"The Green Protocol" companies have also been invited to compete for the title of a company with most rational usage of electricity in 2011. The winner was awarded at the second conference on rational use of energy.

In August, after a survey of the companies which had signed the protocol it was determined that 66 per cent of the companies have carried out the electricity consumption analysis, presented at the first conference. The companies identified the passive electricity-consuming appliances (usually those are appliances left on standby), examined the distribution of energy over time, and looked for inefficient activity processes. The survey revealed that the companies in their actions mainly focused on technological solutions (**42** per cent) which help to reduce electricity consumption, and **31,6** per cent of them pay more emphasis on more economic operation mode of the equipment and to the modification of staff conduct and behavior.

By the end of 2011, "The Green Protocol" was signed by **74** company.



„To the Extent Required for SCHOOLS“. Having noticed extreme electricity consumption of the country's schools, in 2011 we initiated the project "To the Extent Required for SCHOOLS". In this project we tried to find out where electricity could be used more rationally and to encourage school communities to develop rational energy consumption habits. The project was implemented together with partners: the companies "Osram", "Philips", "SLO Lithuania" and the building maintenance service group "City Service". In three schools, selected together with the Ministry of Education, there were carried out professional studies of their energy sector and electrical energy consumption; they presented the assessments and recommendations on where and how they could save. The study results showed that having updated the lighting and the power sector, schools could save an average of **50** per cent of the costs allocated to electricity.

In the schools which participated in the project Vilnius Lyceum, Kaunas, Jurgio Dobkevičiaus high school and Klaipėda "Žemynos gymnasium" there were installed model lighting systems (it was agreed that they may be viewed by other schools); these were modern, energy efficient lighting systems (over all in seven classrooms and a lobby), which improved the indoor lighting and working and learning conditions, reduced lighting costs and allowed more rational use of electricity. Implementing this project the partners invested about **120** thousand LTL.

European Commission mission in Lithuania got involved in this project by providing material and publications on climate change and on initiatives on environmental sustainability and presented to schools participating in the project attributes, posters and souvenirs related to climate change.

School communities actively organized extra-curricular activities: drawing competitions, open days, listened to the lectures of our expert on rational use of electricity and participated in "The Battle of Minds" on energy topics.

The guidelines, prepared on the basis of the evaluation results of electricity equipment conditions, were placed in the site of the project www.tiekkiekreikia.lt that other educational institutions which plan the optimization of their electricity equipment could make use of them.

„To the Extent Required for CITIZENS“. In order to promote the Lithuanian population to get interested in the principles of safe and responsible use of electricity, we looked for new tools that could help engage people. Educational stands of the bulb manufacturer ACME which promote the choice of energy saving lighting have been exhibited for more than half a year in all of our customer service centers. Residents were introduced to the myths about energy saving bulbs and encouraged to give up the filament lighting.

Educational crosswords have been developed for regional newspapers, where most of the questions were related to the safe, rational and responsible energy use. The winners got the packages with energy saving bulbs. Eleven regional newspaper editorials actively participated in this campaign. We also encouraged customers that opted for direct debit as a progressive way of payment for the electricity consumed by packages with energy saving bulbs.

Population Education Initiative "Campaign 2020"

By this long-term "Campaign 2020" planned up to 2020, we strive to promote public-spirited and responsible behavior of people with power supply units, fight against illegal electricity consumption point-blank, keep people of all age groups from accidents and assist with the duties of electricity consumers, promote community participation and people involvement. The targets of "Campaign 2020" are in line with the European Union plan for mitigation of climate change ("Plan 20/20/20"): **20** per cent reduction of greenhouse gas emissions, 20 per cent increased use of renewable energy and 20 per cent reduction of electricity consumption by increasing the efficiency of electricity networks and promoting its rational use until 2020.

An important part of the initiative is direct meetings of our employees in the regions and the project competition that encourages municipalities to address the most pressing problems in their communities and residents from the point of view of the electric network or upgrading of lighting, increase of security and responsibility.

The Interest in the project is increasing: every year we receive more applications from neighborhoods that want a more efficient and safer use of electricity. In 2011, we received **32** applications from **29** neighborhoods. All eight projects that have been most useful to the public received **60** thousand LTL of the prize fund. The best evaluation of the competition was received by those projects which involved most members of the community, encouraged them to unite and join their forces for the common goal, which increased the safety of their community.

In order to give the residents more information about safe and responsible use of electricity, in 2010 we have prepared and published **"The Manual on Responsible Use of Electricity"**. By the end of 2011, there were published 60 thousand additional copies of the manual which were distributed in local municipalities and customer service centers, and an electronic version of the manual is published in the LESTO website. Total number of distributed manuals is over 120 thousand copies.

In order to clarify the power evaders or quickly find out the cases of network devices corruption, the anonymous helpline was made public during the project, and at the end of the year there was launched an electronic reporting form in the website.

In 2011, the activity of the population reporting malicious behavior with electricity grids has increased; the average number of calls (by tel. 1802) in 2011 was equal to 90 per month (in 2010, it was 55 per month), and by the confidence line it has increased from separate calls to an average of 30 calls per month. The reports of the population about electricity embezzlement in 2011 helped us to recover about **140** thousand LTL.

According to the data of population survey (November 2011) **75** per cent of them would tend to report if they observed a fraudulent use of electricity (last year it was **66** proc.). **83** per cent of the interviewed heads of local municipalities and **96** per cent of the residents welcomed "Campaign 2020".

In 2011 big infrastructural companies: LESTO, TEO, "Lithuanian Railways" and the association EPPA'S which joins the electronics and electronic equipment assemblers united by signing a memorandum of cooperation against the network infrastructure looting, loss, threats and illegal purchase of metal.

Event for the Public: Professional Day

We organize educational events to the public. Our professional holiday of power workers of 2011 was traditionally marked by the Open Day at the Energy and Technology Museum. The general public was invited to visit the Energy and Technology Museum in Vilnius, where they could listen to the reports of the power companies and the academic community on the energy system and its operation principles, new technologies and possibilities to adapt them in Lithuania. The event was attended by 500 residents and guests of Vilnius.



7 / Market

In the business environment, we maintain transparent relationship with our customers, partners, and investors: we publish financial information of the Company, and several times a year we prepare press releases, participate in the meetings with investors.

Market Liberalization

Since January 1, 2010, free electricity market became operational in Lithuania. According to the Lithuanian Electricity Market Development Plan, all electricity consumers are free to choose an independent electricity supplier. There are the following stages of electricity market opening:

- From 2010 01 01, independent suppliers could be chosen by large electricity users with permissible power of their objects of or more than 400 kW;
- From 2011 01 01, independent suppliers could be chosen by the customers with permissible power of their objects of or more than 100 kW;
- From 2012 01 01, the consumers with the permissible power of or more than 30 kW;
- From 2015 01 01, all consumers, including domestic, will be free to choose an independent supplier of electricity.

We actively contribute to the ongoing energy strategy implementation: we encourage companies to choose independent power suppliers. The representatives of large companies received information, were invited to the meetings and presentations and were consulted on the liberalization of the electricity market. Detailed information about the market liberalization is presented in our Web site and can be received by phone 1802; we help to accelerate the process of putting in touch the independent providers and the companies looking for them.

In order to make it easier, we have implemented an automated data collection system, which helps to quickly provide information to energy suppliers and business enterprises that are no longer subject to the public supplier prices. The outcome of the project **"Customer Service Data"**, implemented in 2011, is that independent suppliers have the opportunity to login to the portal and see the potential customers.

By December 31, 2011, the customers of over 5100 objects of 100 kW and above of the allowed power have chosen the independent suppliers. This made up over **54,4** per cent of those who had to choose independent suppliers by the end of the period. It should be mentioned that on December 31, 2011, the electricity was supplied by the independent suppliers to **11** per cent (over **9300** pcs.) of the objects that had to enter the free market only from 2012 to 2013.

Investors

We strive to maintain close relationship with existing and potential investors in the company. In our website we place timely information which is regularly updated and relevant to investors. You will find the lists of shareholders, information on material events, past periodic and annual financial reports and our plans for the future: the investor's calendar as well as trading in shares information in real time. Several times a year, we prepare press releases about our financial results.

A competent financial analyst maintains relationships with our shareholders. Timely publication of our company information is equally available to all who are the shareholders and potential investors.

Our reports provide information about the Board members, their areas of responsibility and their remuneration; we participate in meetings with investors. The report on company's activities and strategic directions were presented for investors in May 2011 at the meeting of stock exchange listed company executives organized by the Nasdaq OMX Vilnius.

In 2011 there were no records for the stock exchange rules violations.

Upgrading the Electricity Network

Every year, taking care of security of energy supply and economic and social benefits for the society, much attention is given to the expansion and modernization of the distribution network. An important aspect of our activity in this direction of environmental protection is better access to energy saving and rational use of electricity.

Investment. Since the age of most of our property is more than 30 years, we base the operation of our electrical installations on the legal acts of the Republic of Lithuania and international agreements and at the same time we invest in environmentally friendly modern technology. When planning investment in the network operation and development, we apply the ranking method, based on objective criteria. In 2011, **295,4** million LTL were invested in the electricity distribution network expansion and modernization, this is **10,7** per cent more compared with 2010 (**265,4** million LTL).

Reconstructing the old electrical substations, we install rainwater and oil collection facilities of the highest standards that no pollutants enter the environment. More quiet power transformers are substituted for the outdated and worn ones, so the outside noise level is reduced.

Cabling. By investing in the network, we pay attention not only to the increase of security and reliability, but also to the conservation of the landscape and cultural heritage. The modernization of the distribution network by replacing overhead lines, cables consistently and purposefully is carried out since 2003. Cable lines reduce the operation costs, the number of breakdowns, and the landscape is unaffected.

Each year, about **1,000** km of electricity distribution cables are laid underground (when replacing the air-lines, and expanding the network). In 2011, there were built a total of **1083,6** km of new electric distribution lines, of which **1012,9** km have been laid underground. During the reconstruction, **458.6** km of old airlines have been replaced by cables.

Economic Modernization. In 2011, we completed the reconstruction of eleven transformer substations and built five 10 kV distribution points, updated thirteen transformer substations and eighteen distribution points. In 2011, there were built 958 new 10/0, 4 kV transformer stations. During the year, **3533** new objects were connected to the Automated Electricity Metering System, by the end of the year total number of the objects connected to the system was equal to **6472**.

Connection of Gardeners' Community Networks. In 2011, we continued the redemption of gardeners' community networks and their connection to the general distribution network. This has been done in order to meet the rising needs of electricity consumption of the gardeners' communities over the past decades: safe, reliable electricity supply and investment in network modernization. This is especially true when people settle in permanent residences in gardeners' communities. Electricity accounting, network maintenance and repair work, especially after storms, have been a considerable burden on the gardeners' communities.

In order to ensure a smooth and rapid process of network redemption, it was carried out by simplified procurement rules, we invited the representatives of the communities to our meetings, advised on the procedures and documents required for redemption, we helped them to prepare the documents. All networks have been redeemed in their current state and the customers got individual metering devices installed.

From the beginning of the redemption process of the gardeners' community networks in 2003 until December 31, 2011 there were redeemed 882 gardeners' community networks or 91 per cent. 10.41 million LTL has been invested in the redemption of these networks.

During 2011, there were installed **34457** meters in the gardeners' communities; their value was **1,8** million LTL. In 2011, the total number of new installed meters was **56,7** thousand.

EU Funds. In order to renovate and modernize 76 gardeners' community network we applied for the EU Structural Funds support: the networks renovation will need over 33 million LTL; we ask the EU funds to finance 40 per cent of the necessary funds.

The Fight against Corruption

We speak up for fair business and transparent contacts with the authorities, we do not tolerate corruption. The risk is minimized by the operating complex internal control mechanisms for identification of potential corruption risks. Corruption prevention is one of the functions of Department of Prevention and Control in the company.

But the most important preventive anti-corruption measures are related to the company's culture. Every day, to keep to the declared values, to reliably meet the customer needs and to become a model company with public confidence in it is our goal, which we follow in our activities.



8/ Customers

In the field of customer service year 2011 has been "The Year of Quality". Basing our work with customers on respect, on the principles of professional and expeditious decisions and trying to understand their needs we paid particular attention to the quality, further expanding the spectrum of time and money saving services.

Customer Service Quality

Having merged two distribution network companies we had to pay much attention to centralization and automation processes of remote customer service channels, to the transition to the alignment of the processes and information systems.

In the field of customer service in 2011, we sought to ensure a smooth customer servicing by all available channels: customer service centers (CSC), the website "My electricity", customer service number 1802, e-mail. In 2011, we updated and improved the standard of customer service.

In 2011, we oriented to the detailed assessment of customer needs in order to create opportunities for the customers to order and receive all the services by the most convenient channel of their choice. We initiated a project for the development of the service channels for remote customers.

In 2011, the number of our private customers was more than **1,51** million and of business customers it was more than **61** thousand. Having redeemed the electricity networks of the gardeners' communities and introduced separate electricity accounting during 2011 we gathered more than **35** thousand new electricity consumers.

In 2011, the Company signed more than **100** thousand power purchase and sales agreements with private customers and about eight thousand contracts with corporate clients.

Services

Customer service phone 1802. A general short telephone service number (1802) has been installed in 2011 for the customers of the former AB "VST". They did not have such until LESTO foundation. In 2011, we have developed these phone services, improved the quality of the information provided, installed and expanded information by SMS service (about scheduled maintenance works, the specifications prepared or direct debit agreements concluded).

For the purpose of saving time and money, we constantly encourage our customers to order new payment books from the Web site or by the short number 1802 instead of going to customer service centers. The books are sent by post free of charge and are delivered within a week. This is especially convenient for elderly customers or people living in remote areas. Thus, in 2011 the payment books were ordered by **49,5** thousand customers.

SMS and e-mail. One of the underlying works in 2011 was the revision of customer contact details. If necessary, we can by SMS or e-mail quickly inform about the scheduled disconnection of electricity power, potential problems and provide with other relevant information. In 2011, the contact information in our database has been updated by **58** per cent of private and **79** per cent of business customers.

Website. The most important and relevant information for our customers is presented in our web site www.leso.lt in the Lithuanian as well as in the English and the Russian languages, so ethnic minorities can make use of it too. The site is tailored for the disabled. Over the year, the site www.leso.lt was visited **1,7** million times by **699** thousand unique visitors.

Self-Service Site. We have created a self-service Web site "My Electricity", where the customers can find information about their payments, the dates of inspection and replacement of metering equipment, information on the changes of power supply or tariffs. Here the customers can order their payment books, report about temporary disuse of power or the debt paid up. This is one of the main directions of the company development that all the relevant information and services are accessible to our customer anytime and anywhere.

The site "My Electricity" receives the average of **65** thousand visits of unique users per month. At the end of the year, the number of site users amounted to **168,5** thousand. In 2011, we have received **21383** customer e-queries.

Direct Debit. In 2011, we actively invited customers to take the payment of their bills by direct debit when the steady amount of money is periodically deducted from the customer's bank account. For the customer convenience there was made an educational video, demonstrating how to use the service. During 2011, the number of those who have opted for the payment by direct debit, compared with 2010, increased more than **8** times and at the end of the year amounted to **53.2** thousand.

Customer Service Centers. In 2011, each of our customers regardless of the residence place could be served in any of the **51** customer service centers.

When we had noticed that the dwellers of big cities often come after their working hours, the opening hours of CSC were extended to **18**, and in Vilnius, where reside the most customers, we work on Saturdays too.

Another change for the customer's convenience in 2011 was the possibility to combine two or more objects into one power purchase and sales agreement.

For the convenience of our customers, the centers are equipped with a computerized self-service sites where the customers can connect to the site "**My electricity**" and make payment for the consumed energy, check the readings, find the relevant information.

Convenient Billing Network. We have a wide range network of payment collection which allows all customers to pay bills at the most convenient way. Payments are accepted online at banking units, payment orders can be made in newsstands, lottery terminals, and in one of the largest retail chains. These options are particularly relevant to smaller towns and district residents who are away from other settlement areas or without access to Internet.

More Service

New Tariff Plans. Having heard the customer's needs and in coordination with the National Price and Energy Control Commission, we introduced two new tariff plans in 2011. This gives our customers more possibilities to choose according to their individual consumption. The new tariff plans ensure the average electricity price dependence on electricity consumption and in the long run make it possible to change the current pricing principles to more advance.

After introduction of new tariff plans we proposed a more advanced method of payment: each customer who has chosen

these tariff plans receives payment messages (VAT invoices), which can be viewed and paid in self-service Web site "My electricity".

Electrician to Your Home. After considering the inquiries of our customers received by service number 1802 on the needs of the population to deal with the internal electrical network problems (LESTO responsibility is just up to a power meter), in 2011, we decided to try a service "Electrician to Your Home" in one of the regions (Panevėžys). Appreciated by the customers this service was decided to be provided since 2012 all over Lithuania: to record all the calls for electrician by the short number 1802 and pass them on to qualified professionals on troubleshooting.

Customer Satisfaction Surveys / Public Opinion Research

Every year we carry out a customer satisfaction surveys, their data help us to understand the users' needs and improve the quality of the provided services. We order representative surveys of the population and business and always take these results into consideration when planning the next year activities and allocating the action priorities.

In 2011, in the survey carried out by public survey company RAIT, 1002 Lithuanian residents and 504 business leaders were interviewed. The survey revealed that the electricity suppliers are best valued by both the businesses and the private customers of all suppliers of regulated services. In both cases, the electricity suppliers are given the highest score that is 7.2 out of 10. Among the characteristics, most often attributed to LESTO by the customers, were high-quality servicing, caring for reputation and result - orientation.

96 per cent of the Lithuanian population is satisfied with the quality of power supply, 70 per cent are completely satisfied, 26 per cent are rather satisfied with it. According to RAIT data, 48 per cent of the surveyed public consider LESTO a socially responsible company.

In 2011, market research and consulting company TNS LT on the basis of TRI*M methodology polled our clients and found that the private customer satisfaction index of the provided services and servicing corresponds to the average value of the European energy sector (the index of it was 53). Our business customer satisfaction index was 50 (European was 53). For comparison, in 2010, the private customer satisfaction index was 51 in eastern Lithuania, and in the West – 49. Accordingly, the business customer satisfaction index was 52 and 46.

Reporting to the Public

Our activity reports on social responsibility are prepared annually, in the Lithuanian and the English languages, all of them describing the initiated and implemented projects and their results during the year.

The reports are published in the company's Web site, where the documents are freely available to the general public:
<http://www.lesto.lt/lt/socialine-atsakomybe/socialines-atsakomybes-ataskaitos/1037>.

Also:

<http://www.globalcompact.org>

<http://www.globalcompact.lt>

The results of these activities are presented in the company's periodic and annual activity reports, published by the stock market. We also publish press releases on socially responsible activities and projects, inform in the company's Web site **www.lesto.lt** and on the pages of social responsibility initiatives **www.tiekkiekreikia.lt** and **www.elektromagija.lt**.

In 2011, LESTO distributed 102 press releases, of which one third was on the social responsibility activity.



The Award

In the national socially responsible business awards of 2011, our company was awarded as "The Best Socially Oriented Company" in the category of large Lithuanian companies. The award was "For the Progress in the Development of Community-Based Projects, Closely Linked to the Goals and a Systematic Approach to Partnership."

Fifty one companies participated in the competition, thirty one large Lithuanian enterprises applied for the title of "The Best Socially Oriented Company".

The National Responsible Business Award is initiated by the Ministry of Social Affairs and Labor of the Republic of Lithuania, together with the United Nations Development Program in Lithuania. National Responsible Business Award is given to the companies that contribute the most to the social welfare and its strengthening, reduce the environmental impact in Lithuania, and their activities demonstrate the company's commitment to act transparently and behave fairly with employees, society and the state, to assess the business impact on the environment and reduce the impact of such adverse effects

AB LESTO in „Europe Business Awards 2011” for the social responsibility activity, received a certificate for the country representation.

In assessing the best communication campaigns in "European Excellence Awards 2011", the LESTO project on rational and sustainable social responsibility project "To the Extent Required" (Electricity: No More Than Necessary) was nominated for the award for outstanding accomplishments in field of communications and got to the finals (in the category Estonia, Lithuania, Latvia).

LESTO, in the website of the Ministry of Economy "State-owned enterprises", was called "the clear leader in social responsibility activities" (<http://vvi.ukmin.lt/apiISA>).