



Lietuvos
energija

Energy company group

Lietuvos Energija Group

Corporate Responsibility Report

2016

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CEO's Foreword

Dear Readers,

Hereby I present the second Corporate Responsibility Report of Lietuvos Energija Group which represents an overview of the key results of our responsible performance.

'We are among the first Lithuanian companies that in their corporate responsibility reports related their activities and the results with the United Nations Sustainable Development goals on the global scale defined until 2030. In the present document, we have disclosed how the implementation of the Sustainable Development goals is reflected in the value chain of Lietuvos Energija.



Due to efforts of our highly engaged employees, in 2016 we have achieved quite a bit. Having reorganised and streamlined the activities of the Company group we have identified additional possibilities to focus upon efficiency and improvement of the daily operations, which allowed creating additional value to all of our customers. In addition to a decrease in the energy prices last year brought about more flexibility and speed when providing regular or new services to electricity customers, as electricity

consumers were connected to the network by 14 days faster, and gas consumers now are connected to the gas pipelines by 56 days faster.

By perfecting their processes and boosting their efficiency the employees of the Lietuvos Energija Group created preconditions for reducing operational costs, and at the same time more sustainable financial results, and the return to its shareholders – the state of Lithuania and its citizens of more than 100 million euros.

Energy efficiency and the generation of electricity from renewable sources became undoubtedly the notable manifestation of the responsible corporate conduct in the course of the previous year. Having established ESC, a generator of modern energy solutions, and by modernizing the facilities at the customers' part according to ESCO model we have achieved electricity savings of nearly 10 GWh. This amount of electricity is sufficient to meet the demand of 5,750 family houses for the entire year. We also invested in the development of renewable electric energy, as we acquired wind farms in Lithuania and Estonia, thus increasing the volume of electricity produced by the Group from clean renewable sources up to 33 per cent. We are in the midst of the pilot smart accounting project involving an installation of smart electric meters for 3,000 customers, and allowing the customers to select, specifically for the purpose of the project, a four-time zones tariff plan promoting a more efficient use of electricity.

By implementing a range of social and educational projects we were encouraging our business customers, residents and children to show an interest efficient and safe use of energy. With a view to further emphasising health and safety at work we were not only arranging the already traditional competitions in excellence among the contractors working at our

energy objects, but also organising different educational activities on safety at work. Since 2016, we have been rating the contractors working at our electricity distribution grids, taking into account not only their ability to timely attain the results, but also the compliance with the requirements on occupational safety.

Even greater attention in 2016 was devoted to the professional development and training of the employees. The new long-term manager development programmes were launched throughout the Lietuvos Energija Group. Also, several events for the integration of new employees were held throughout the Group. In addition, successful was the internal training programme delivered by specific area experts working at Group enterprises and who volunteered to become lecturers and started actively sharing their knowledge and expertise with their colleagues. These in addition to other actions significantly contributed to the growth of employee engagement level.

We continue working to ensure that the performance of the Group comply with and implement all the recommendations of the Organisation for Economic Cooperation and Development (EBPO) regarding governance or the high transparency requirements. For several years already at the Group level we have

been successfully implementing the zero-tolerance policy against corruption, thus ensuring an efficient corruption prevention system. It is important to us to work in good faith, transparently and build reliable relations with our customers, partners, suppliers and institutions. Therefore, we will continue making efforts to ensure, that both our activities, and the market in which we operate, comply with the principle of ethics and transparency, and in particular, ensuring zero tolerance to corruption.

During 2017, in the area of responsible performance Lietuvos Energija Group will initiate certain changes designed to facilitate progress in the entire organisation. Being guided by the global sustainable development goals we will be implementing a number of initiatives promoting innovations, boosting energy efficiency, health and safety of employees, their engagement and the progress of responsible business throughout the country.



Dr. Dalius Misiūnas

Chairman of the Board and
Chief Executive Officer

Lietuvos energija, UAB

Electricity consumers are connected to the network by

14 days faster

Gas consumers now are connected to the gas pipelines by

56 days faster

More than

100 M EUR

return to the state of Lithuania and its citizens

33 %

electricity produced by the Group from clean renewable sources

10 Gwh

we have achieved electricity savings by installing energy efficiency solutions for our customers

About the Report

We present to you a Corporate Responsibility Report of Lietuvos Energija Group for the year 2016 covering the most important activities of the Group.

Being one of the largest energy sector groups in the Baltic States we have prepared this report with a view to demonstrating how the responsible business attitude and corporate management principles are reflected in our daily operations, plans for the future and the ever-changing environment in view of the growing challenges in the energy sector.

This report has been drawn up having regard to the principles of the UN Global Compact initiative, and assessing our own performance in the context of the Sustainable Development Goals.

The Nasdaq Stock Exchange listed companies Energijos skirstymo operatorius (ESO) and Lietuvos energijos gamyba (LEG) draw up and submit separate Social Responsibility Reports, which, as part of the UK Global Compact membership obligations, are published on www.unglobalcompact.org. The report of ESO is drawn up following the guidelines of the 'Global Reporting Initiative' (GRI), and LEG follows the principles of the Global Compact.

In this second Report of Lietuvos Energija we are presenting the activities pursued by the energy company group, and covering its production, trade and supply, distribution, energy services and customer servicing. The Report is drawn up in the Lithuanian and

the English languages and published on the website www.le.lt, as well as the internet websites of the Group's internet websites so that they are readily accessible to any stakeholders. The Report has not been audited or reviewed by any third parties.

We seek to consistently improve our responsibility; therefore your suggestions or comments will be highly appreciated. Please send them to email address: komunikacija@le.lt.

The group companies ESO and Lietuvos energijos gamyba are members of the UN Global Compact. ESO is a member of the Responsible Business Association of Lithuania, LAVA, and participates in the activities of its Board. LAVA is the representative of the UN Global Compact.

Principles and Priorities of Corporate Responsibility

In its activities Lietuvos Energijos Group follows the principles of the UN Global Compact defining the fundamental responsibilities for business in the areas of human rights, employee rights, environmental protection and the fight against corruption, and seeks to reduce the effect of its operations on the environment, the society, other businesses, and join efforts in addressing economic, social and environmental issues, and thus contribute to the development of the society and the economic growth.

Lietuvos Energija voluntarily aims to ensure a long-term progress in business and the society, also to contribute to social development of society and creation of welfare. The key objective of the Lietuvos Energija Group until 2020 is to double the value of the Group, and become the most valuable energy company in the Baltic States.

The value is understood as a sustainable balance between three elements: return on assets, enhancement of competitiveness and the responsibility with respect to employees, the society and the environment.

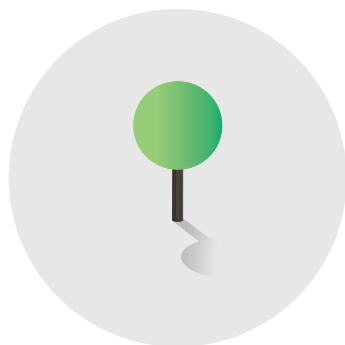
- The Group's return on assets is increased by supporting development: diversifying the activities, developing new economically viable projects and activities, ensuring efficiency in daily operations.
- The Group contributes to boosting the competitiveness by ensuring a stable supply of electric energy and natural gas, developing new products, and supporting efficient consumption of electric energy and natural gas.

- The Group assumes responsibility with respect to the society and its staff, is proactive in implementing environmental protection requirements, and ensures the continuity and growth of competences.

In its responsible activities the Lietuvos Energija Group is guided by the Social Responsibility Policy of the Group approved by the Board.

The present document defines the most general directions and provisions of responsible activity underlying the creation of the culture and the practice of a socially responsible and sustainably developed business of a company Group. The Policy applies to all entities of the Group.

Key Priorities



Environmental protection

In its activities, the Group seeks to use most advanced means, best accessible technologies and processes minimising environmental impact, to promote rational use and management of resources, minimise costs and waste, and plan its corporate activity taking into consideration the possible environmental aspect. The Group's entities also engage in public education initiatives promoting a responsible, rational and sustainable energy consumption, and enhancement of energy efficiency.



Safety

Ensuring safety in the Company's operations is one of the most important priorities of the Lietuvos Energija Group. For the purpose of ensuring occupational safety in the energy sector, the Group has adopted its 'Policy on health and safety at work'. The senior managers are responsible for a safe and secure working environment, while devoting significant attention to the operating standards of contractors. Efforts are taken to educate the customers of the Company about a responsible behaviour with electricity and gas.



Citizenship and Responsibility in the Market

An important priority of responsible operations in the eyes of Lietuvos Energija is the social-economic impact of the Group's entities, also a responsible performance in the market, transparency, and the synergy with the communities in which the entities operate.

Areas of responsibility of Lietuvos Energija, and their links to the Sustainable Development goals:



Social area

through the relations with the employees and the society, seeking to ensure the protection of human rights, the quality and the security of the working place, equal opportunities while promoting citizenship, volunteering, supporting relations and communications with the local communities, science and business cooperation, education of the society on energy efficiency and safe energy consumption, also supporting activities and projects beneficial to Lithuania. Being active in this area we directly contribute to the United Nations Sustainable Development goals:



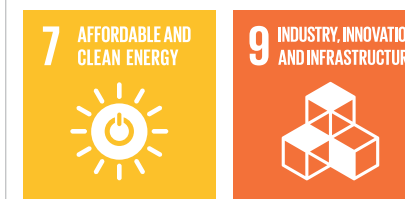
Environmental protection

by implementing progressive and environmentally-friendly technologies, increasing energy production from renewable and local energy sources, promoting and actively participating in numerous preventive programmes ensuring environmental protection, and developing energy efficiency services and products. With respect of hydroenergy production the Company makes efforts to protect fish, and while maintaining distribution grids specific measures are taken to protect the population of wild bird. Being active in this area we directly contribute to the United Nations Sustainable Development goals:



Economy

through our transparent activities, while ensuring the profitability of the operations and the financial return to the shareholder, and promoting ethical and fair cooperation with the customers, suppliers, investors and partners, and actively opposing any forms of corruption by providing a high quality, safe and reliable services, elaborating the activity, by operating and introducing smart and safe digital solution. Being active in this area we directly contribute to the United Nations Sustainable Development goals:



Examples of the measures designed to achieve the Sustainable Development goals implemented in 2016:

UN Sustainable Development goal 2030

Measures implemented by the Lietuvos Energija Group

<p>4. Ensure inclusive and quality education for all and promote lifelong learning .</p> <p>8. Promote inclusive and sustainable economic growth, employment and decent work for all.</p> <p>12. Ensure sustainable consumption and production patterns.</p>	<ul style="list-style-type: none"> • We have considerably invested in the development of employees, their professional development by hosting external and internal training. • We have been consistently implementing the key principles of human resources policy, also ensuring the freedom of association, the right to unionise, and ensuring human right at all entities of the Group. • By consistently improving the processes and enhancing the efficiency we have created preconditions for a reduction in operating costs, and at the same time, for more sustainable financial performance and higher return for the shareholder. • We have restructured the customer servicing by remote channels, and made the facility even more convenient. • Training on corruption prevention for managers and employees of the Group entities. • We provided financial support to numerous initiatives in the public interest, and value-building community projects.
<p>11. Make cities inclusive, safe, resilient and sustainable.</p> <p>13. Take urgent action to combat climate change and its impacts.</p> <p>14. Conserve and sustainably use the oceans, seas and marine resources.</p> <p>15. Conserve, restore and promote sustainable use of land ecosystems, sustainably manage forests, combat desertification, halt soil degradation, or loss of biodiversity.</p>	<ul style="list-style-type: none"> • We have been supplying to the market a certified Green Lithuanian energy generated in Lithuania from renewable energy sources. • We have been implementing the projects of new power plants designed to generate energy from waste, making it possible to reduce the CO2 emissions in cities, and the volume of waste in all national landfills. • We have established Energijos sprendimu centras, a company offering modern and innovation-based solutions enabling its customers to enhance their energy efficiency. • We have invested in the modernisation of the electric energy and natural gas distribution grid, and in the supply reliability enhancement projects. • We are in the middle of the smart accounting project involving an installation of smart electric meters or 3,000 customers, and allowing the customers to select, specifically for the purpose of the project, a four- time zones tariff plan promoting a more efficient use of electricity. • With respect of hydroenergy production the Company makes efforts to protect fish, and while maintaining distribution grids specific measures are taken to protect the population of wild bird.
<p>7. Ensure access to affordable, reliable, sustainable and modern energy for all.</p> <p>9. Build resilient infrastructure, promote sustainable industrialization and foster innovation.</p>	<ul style="list-style-type: none"> • By implementing a range of social and educational projects we were encouraging our business customers, residents and children to show an interest in efficient energy use, and safely use electricity and gas equipment. • We also invested in the development of renewable electric energy, as we acquired wind farms in Lithuania and Estonia, thus increasing the volume of electricity produced by the Group from clean renewable sources up to 33 per cent. • By using the ESCO financing facility we are installing electric cars charging stations that will be connected into a single charging stations infrastructure, thus we contribute to the promotion of use of electric cars throughout the country.

About the organisation

The primary goal of corporate governance is to achieve the effect of synergy aligning different activities of the Lietuvos Energija Group companies and targeting them at the achievement of the common goals at the Group level.

Lietuvos Energija Group:

20
subsidiaries

8,500 km

Distribution gas pipelines

almost
5000
employees

nearly

570,000

gas customers

more than

1,600 M

of electricity users

Energy company Group in brief

Lietuvos Energija Group is one of the largest State-managed energy company groups in the Baltic states. 100 % of the Group's shares held by the State of Lithuania. The rights and obligations of the shareholder are exercised by the Ministry of Finance of the Republic of Lithuania, which in 2013 approved the energy Group management model – cooperative management guidelines that became the basis or the operation of the Lietuvos Energija Group. Cooperative management objective is to achieve a synergy effect by coordinating activities of different entities of the group, and redirecting such activities towards the common objectives of the Group.

Mission, vision and values

MISSION – Sustainable value building in the energy sector by promoting the development of the country's economy and the society. VISSION – to become an energy company with the highest value in Baltic States. VALUES – Responsibility, Cooperation, Results.



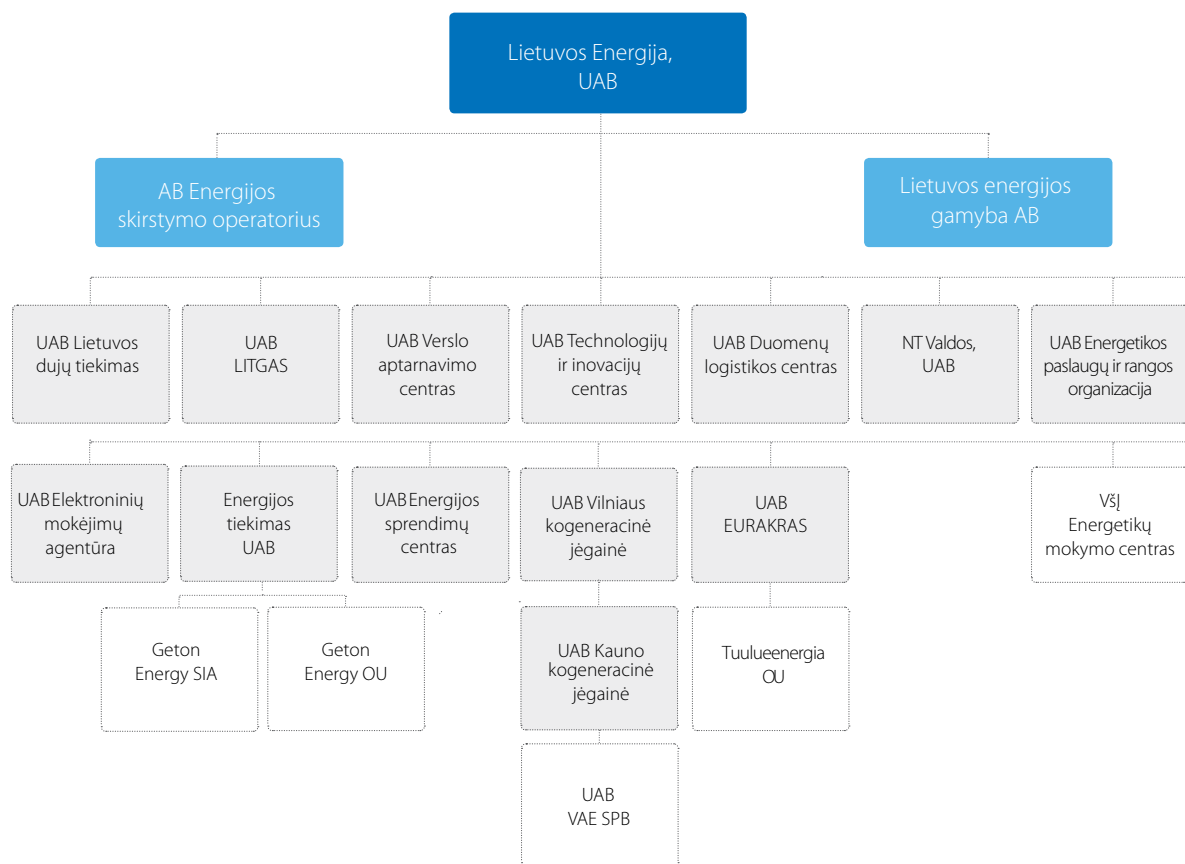
Core Activities

The key area of activity of Lietuvos Energija Group is production and supply of electricity and heat, trade in and distribution of electric energy, trade in natural gas, distribution of natural gas, servicing and development of the electric energy sector.

A parent company of the Group, UAB Lietuvos Energija is responsible for the governance and coordination of the Group's operations, increasing efficiency, provides operating guidelines and regulations, and coordinates the activities in the areas of finance, commerce, production, legal matters, strategy and development, human resources, risk management, audit, technologies, communication, etc.

Lietuvos Energija Group implements projects of strategic significance, and contributes to attaining the relevant objectives of the National Energy Strategy. Lietuvos Energija Group, currently employing about 5,000 persons, operates the main electric energy production capacities in Lithuania, including a nation-wide distribution network, in addition to the distribution gas pipes of 8,500 km, thus servicing more than 1.6 million of electricity users, and nearly 570,000 gas customers throughout Lithuania.

In 2016, the Group consisted of UAB Lietuvos Energija, and 20 subsidiaries (including the Support Foundation of the Group) operating under direct or indirect control of the Company.



Supervisory Board
7 members
(3 of them independent).

Board
5 members
(members are working in the company).

Chief Executive Officer
Chairman of the Board

Board
3 members

CEO
not a member of the Board

* Board structure is different across companies: the Board is not formed in special purpose companies until active operations thereof; the Board of service providers is formed ensuring the representation of all stakeholders

Supervisory Board
3 members
(1 of them independent).

Board
5 members
(members are working in the company).

Chief Executive Officer
Chairman of the Board

CEO
Board is not formed

Governance of the Group

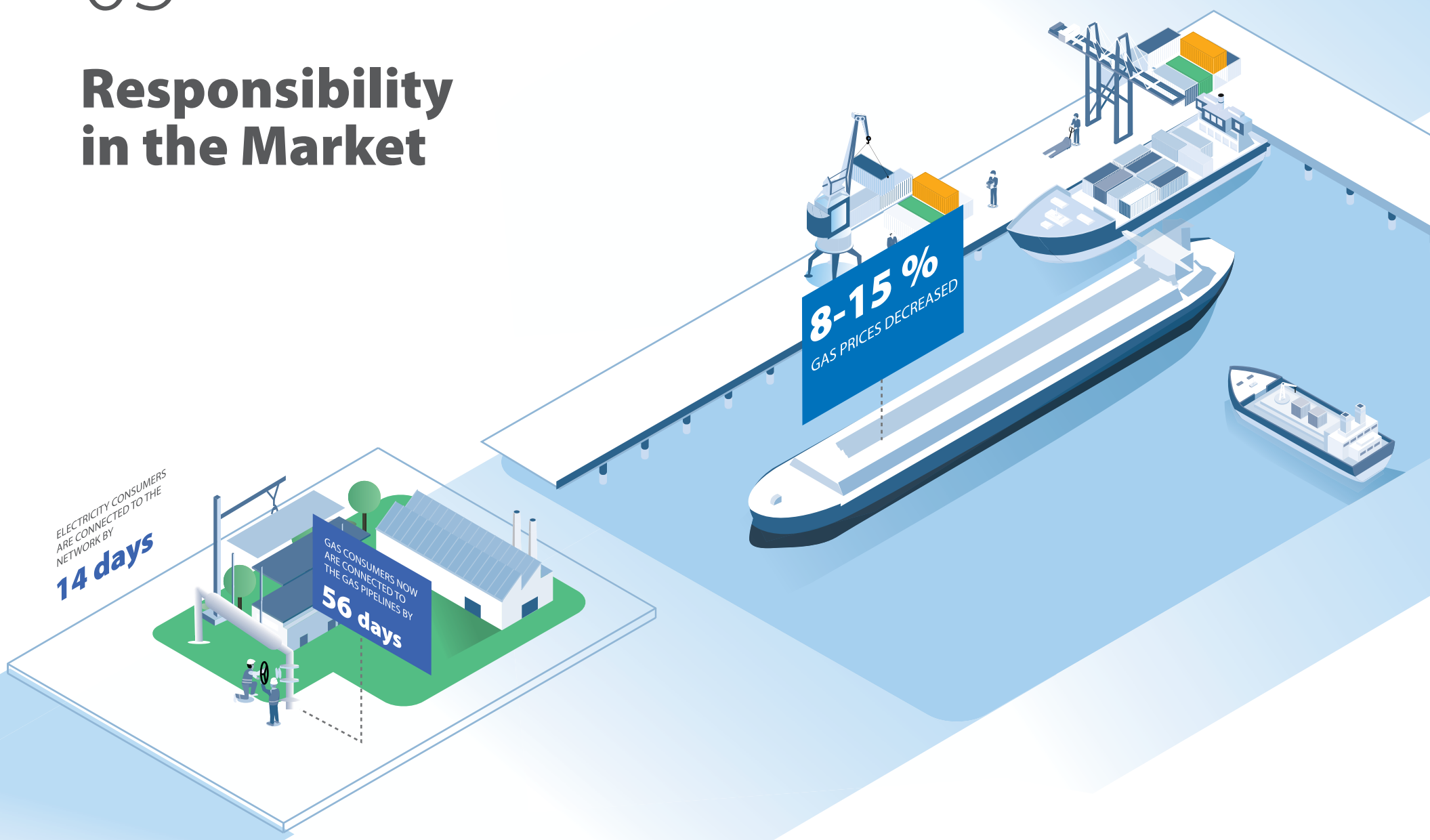
The bodies of management of Lietuvos Energija are the general meeting of shareholders, and the Board, and an oversight body – the Supervisory Board. The Supervisory Board is a collegial Group-wide supervisory body, elected for a term of four years by the general meeting of shareholders.

The Supervisory Board is composed of seven members: four natural persons representing the Ministry of Finance, the Ministry of Economy, Ministry of Energy, the Chancellor's Office of the Government of the Republic of Lithuania, and three independent members. The Chairman of the Supervisory Board is elected from among its members. This model for the formation of the Supervisory Board fully complies with the corporate governance principles. In 2016, none of the members of the Supervisory Board (and the Board) participated in the Company's or the Group's capital, and an independent person was elected as the Chairman of the Supervisory Board.

In order to efficiently perform its functions and obligations, the Supervisory Board sets up committees that supply to the Supervisory Board their conclusions, opinions or proposals. A committee consists of not less than three members, of which at least one member is a member of the Supervisory Board, and at least one member is an independent member.

05

Responsibility in the Market



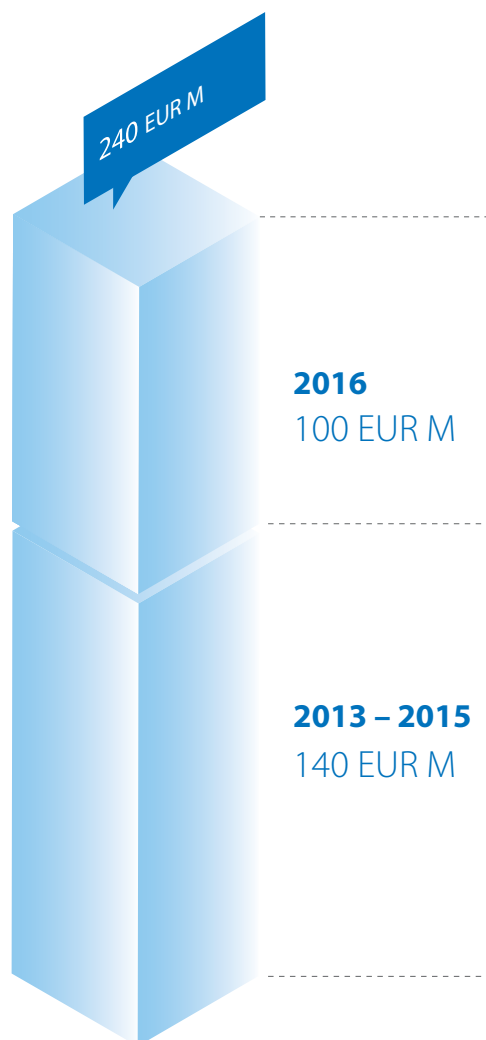
Key performance indicators of the company Group

During 2016, the Group generated 1.49 TWh, and distributed to customers 8.98 TWh of electric energy, in addition to 7.39 TWh (691 m m³) of natural gas distributed by gas pipelines.

Key performance indicators		2016	2015	Δ, +/-	Δ, %
Electric energy					
Electric energy produced	TWh	1.49	2.01	-0.51	-25.56%
Part of the electric energy produced from RES	TWh	0.49	0.27	0.22	81.48%
Electric energy amount distributed by medium and low voltage networks, etc.	TWh	8.98	8.53	0.45	5.23%
Public and guaranteed supply	TWh	3.15	3.12	0.03	0.84%
Distributed to customers to independent suppliers	TWh	5.83	5.41	0.42	7.77%
Sales in the retail market	TWh	1.64	1.37	0.27	19.71%
Total newly connected customers	pcs.	29,355	28,504	851	2.99%
(Average) term for connecting new customers	calendar days	63.57	78.45	-14.88	-18.97%
Electricity supply quality indicators					
SAIDI, min. (excl. force majeure)	min.	72,03	66,03	6,00	9,09%
SAIFI, units (excl. force majeure)	vnt.	0,914	0,8414	0,07	8,63%
Technological costs in the distribution network	%	6,49%	6,76%		-3,86%
Dujos					
Total gas distributed	TWh	7,39	6,83	0,57	8,32%
Total gas sold	TWh	11,80	14,49	-2,70	-18,59%
Total gas acquired	TWh	12,27	14,56	-2,29	-15,73%
Total LNG acquired	TWh	7,55	4,81	2,74	56,92%
Total natural gas acquired	TWh	4,72	9,75	-5,03	-51,60%
Total newly connected customers	pcs.	5,375	4,078	1,297	31,80%
(Average) term for connecting new customers	calendar days	159,7	216,0	-56,3	-26,06%
Gas supply quality indicators					
SAIDI, min. (excl. force majeure)	min.	0,5290	1,0337	-0,50	-48,82%
SAIFI, units (excl. force majeure)	vnt.	0,00596	0,00708	-0,0011	-15,86%
Technological costs in the distribution network	%	2.25%	2.48%		-18.20%

Return to the shareholder

Lithuania For 2016, Lietuvos Energija disbursed in excess of EUR 100 m in dividends. Total since the outset of its operations during 2013-2016 Lietuvos Energija contributed to the State budget nearly EUR 240 m in dividends.



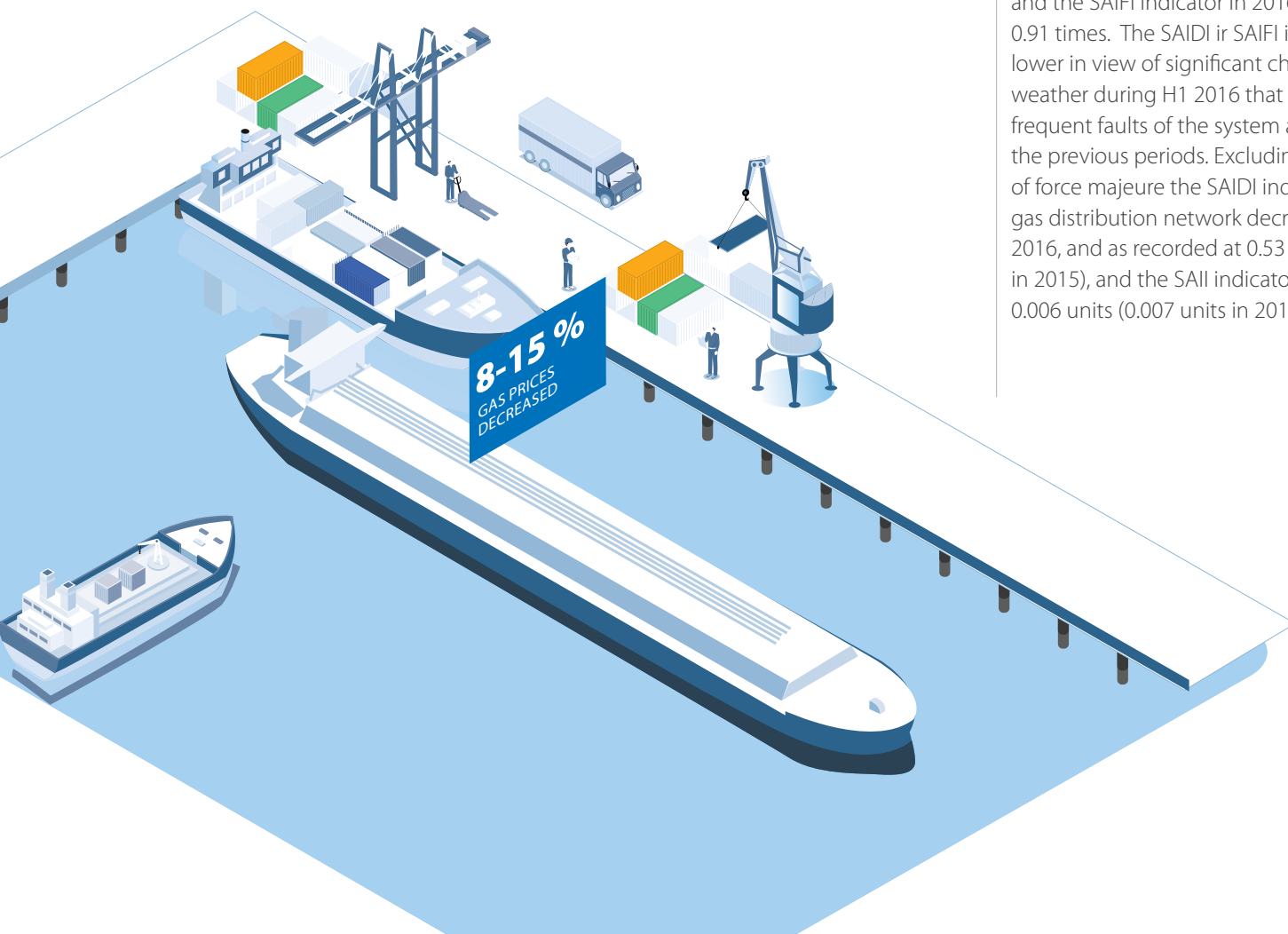
Key performance indicators of the Group

The financial data for January-December 2016		2016	2015	Δ, EUR m	Δ, %
Revenues	EUR m	1 101,6	1 095,8	5,8	0,5%
Cost of purchase of electricity, gas, fuel and related services	EUR m	727,5	774,0	-46,5	-6,0%
Operational expenses	EUR m	136,2	150,1	-13,9	9,3%
EBITDA (1)	EUR m	254,6	215,8	38,8	18,0%
EBITDA margin	%	23,1%	19,7%		
Net profit	EUR m	118,4	55,3	63,1	114,1%
Net profit margin	%	10,7%	5,0%		
Net profit (compared) (2)	EUR m	134,6	124,5	10,1	8,1%
Net profit (comparative) margin	%	12,2%	11,4%		
Dividends disbursed to the Company's shareholder (ac-crual principle) (3)	EUR m	100,7	86,0	14,7	17,1%

Investment

In 2016, the overall investment of Lietuvos Energija Group stood at EUR 240.5 million, an increase by 53.5 percent since the preceding year. Excluding the acquisition of the wind farms the investment of the Company increased by 13.5 percent, or EUR 21.2 million, as compared to the same period last year (EUR 156.7 million). Most of the investment as allocated for supporting

the electricity distribution grid (35.2 per cent), followed by the acquisition of wind farms (26.1 per cent) in Lithuania and Estonia funded by own and borrowed capital. The investment in the development of the distribution grid accounted for 16.4 per cent of the total investment for 2016.



Energy distribution quality

During the reference period the SAIDI indicator (excl. force majeure impact) increased and was recorded at 72.03 min., and the SAIFI indicator in 2016 was equal to 0.91 times. The SAIDI or SAIFI indicators were lower in view of significant change in the weather during H1 2016 that caused more frequent faults of the system as compared to the previous periods. Excluding the impact of force majeure the SAIDI indicator in the gas distribution network decreased during 2016, and as recorded at 0.53 min. (1.03 min. in 2015), and the SAIFI indicator was around 0.006 units (0.007 units in 2015).

Decrease in the electric energy for customers

On 23 December 2016, the National Commission for Energy Control and Prices published specified public electric energy prices for 2017, that for private customers were by 4.9 per cent lower than in previous years. The electricity price dropped because of the lower distribution service price, and lower electricity acquisition costs due to the operation of the international power links with Sweden and Poland. During the second part of 2016 gas prices for private customers decreased by 8-15 per cent depending on the group of customers. The Company was in a position to decrease the prices due to its advantageous deal with Statoil for LNG, as a result decreasing the projected average import price by 15 per cent.

Faster connection of new customers During 2016, the average term for connecting new customers shortened as compared to 2015. Electricity customers were connected by 14 days faster, and gas customers are now connected by 56 days faster.

Focused and better customer servicing

Starting with the beginning of 2016, customers of ESO and Lietuvos dujų tiekimas are serviced at the integrated service centre Gile managed by shared service center of the Group "Verslo aptarnavimo centras". A self-service website www.manogile.lt. It constructed for the provision of online services; in addition to the smart app. The integrated customer servicing arrangement will accumulate the best practices and through the "one stop" facility will offer most relevant services in the ways most convenient to the customers – online, by telephone or at a customer service centre. In August 2016, certain essential modifications

were introduced on

www.manogile.lt, allowing settlement for all utility services by a single payment, and a payment of certain personal accounts. The system currently supports collection of payments for about 1,500 new service providers. In the period from August to the end of the year the number of customers who in their accounts added contracts of other service providers tripled – from 7,800 to nearly 21,000. At the end of 2016, the [manogile.lt](http://www.manogile.lt) website marked the registration of a 400,000th user. The registered users of the website in their accounts added more than 665,000 contracts with electricity, gas

and utility service providers.

High customer satisfaction

The surveys of the companies constituting the Lietuvos Energija Group – ESO, Lietuvos dujų tiekimas, Energijos tiekimas, LITGAS and NT Valdos – showed that among the customers the satisfaction in the services provided and the servicing is remaining fairly high. The level of satisfaction of customers of an electricity and gas distributor ESO, computed according to the GCSI methodology was 79 points, with the average score of European companies being 70 points, and, respectively, the global score 71 points. Private customers appeared more satisfied with the services provided and the servicing by ESO, than corporate customers, the score being, respectively, 79 and 74. The satisfaction of customers of the natural gas supply company Lietuvos dujų tiekimas in 2016 scored at 80 points. The overall satisfaction with the performance of Lietuvos dujų tiekimas was scored at 83 points. The Company efficiently met the customer expectations, and was scored at 81 points. The satisfaction index of the customers of an energy supply company

Operational excellence

During 2016, the company Group launched

the Operational Excellence programme, designed to facilitate all the entities of the Lietuvos Energija Group in creating enhanced value for their customers and shareholders. The projects and activities implemented within the framework of the programme are instrumental in increasing the daily activity efficiency, support developing new products and enhance the competence of the Group's employees. The Operational Excellence integrates the best and most advanced operations management practices (LEAN, Six Sigma, etc.), that encourage the employees to change the ordinary operational practice, and eliminate certain aspects that are not necessary for the operations. The employees of all entities of the Group have joined the programme with a view to working faster, better and at lower costs. One of the indicators being observed is improvements (KAIZEN). During the first year of the programme implementation more than 380 such improvements proposed by the employees were implemented throughout the Lietuvos Energija Group. Such improvements generated savings of more than EUR 34,000, and in excess of 20,000 working hours that were used for the improvement of the current services and creation of new ones. During 2016, 300 employees of the Group attended different training arranged within the Operational Excellence programme.

Anti-corruption activities

The Group maintains a zero-tolerance policy with respect to any manifestation of corruption, and supports high ethical, integrity and transparency standards. It is important to us to work in good faith, transparently and build reliable relations with our customers, partners, suppliers and institutions. Therefore we will continue making efforts to ensure, that both our activities, and the market in which we operate, comply with the principle of ethics and transparency, and in particular, ensuring zero tolerance to corruption. The Board of Lietuvos Energija has approved the Zero-Tolerance Policy Against Corruption (2014), and has publicly committed to comply with all the legal norms related to the activity, including anti-corruption, measures, also to fight corruption and implement the anti-corruption measures. The Policy applies to all employees, contractors, suppliers, consultants and other intermediaries.

The company Group does not support or sponsor any politicians or political parties, and refrains from any direct or indirect forms of influence upon them. The Group has a clearly defined procedure regarding permitted / not permitted gifts, or other

benefits, the employees are consistently educated on the benefit and the significance of fighting corruption. All the new employees of the Group are required to read and familiarise themselves the Zero-Tolerance Policy Against Corruption, and attend the mandatory training on fighting corruption and business ethics.

During 2016, the Group was continuing educating its employees in the area of understanding of corruption, invited the employees to inquire regarding the damage caused by corruption, be able to recognise its manifestations, and be responsive. Each employee attended on average a 29 hours' anti-corruption training course. On average, each manager attended a training course of six hours.

Enhancement of transparency in public procurement

The procurement function of the Group is performed in a centralised manner by one of the companies of the group – Verslo aptarnavimo centras (VAC). VAC conducts procurement operations and provides the services of planning and execution of public procurement of goods, services or works. All the public procurement operations of the Group are conducted in a centralised

procedure, and the procurement processes are standardised and focused at a single online platform. With a view to ensuring a transparent and open public procurement process, and an open dialogue, VAC every year invites the Company's employees to attend information meetings, at which the attendants are introduced to the plans, news, and changes, as well as higher value procurements planned by the contracting authorities of the Group.

Acting in accordance with Article 7(1) of the Law on Public Procurement the contracting authorities of the Group publish, by means of the Central Public Procurement Information System (CPP IS), draft technical specifications of all procurements, except the low value procurements; in addition, they inform about such publication on their respective websites, where they also publish reports on procurement procedures, and the procurement in progress. In addition, the suppliers participating in the procurement shall confirm that the supplier has for at least 5 years not been involved in any activities related to corruption, bribery, fraud, tax avoidance and money laundering (as indicated in Article 45(1) of Directive 2004/18/EC).

Information about possible anti-corruption infringements

The Group invites its employees to report any possible corruption cases by electronic mail pasitikėjimolinija@le.lt, or tel. +370 640 88889. The contacts are available both to the employees, and any other stakeholders, as the telephone No., and the e-mail address are published on the internet website. The Group undertakes to respect the confidentiality of such reports by the suppliers. In 2016, total 274 reports were received by 'Trust line'. In response to such reports, the Group undertook respective actions with a view to ensuring that any suspicions regarding the corruption-related infringements are properly investigated, and any possibilities for them to reoccur in the future are eliminated. In 2016, one employee of the group was dismissed because of an infringement of the anti-corruption regulations effective at the Group.

Market liberalisation

A free electricity market in Lithuania has been operational since 2010. According to the electricity market development plan all consumers can freely select an independent electricity supplier. The Group has been actively cooperating with power generating customers and seeks to create the conditions conducive to their integration to the electric energy distribution network. As of 31 December 2016, independent suppliers were supplying electric energy to 68,124 objects

06

Social area



Total employees at the companies of the group as of 31 December 2016:

103	Lietuvos Energija UAB
2680	Energijos skirstymo operatorius AB
399	Lietuvos energijos gamyba UAB
628	Energetikos paslaugų ir rangos organizacija UAB
177	Technologijų ir inovacijų centras UAB
17	Duomenų logistikos centras UAB
29	Energijos tiekimas UAB
4	Elektroninių mokėjimų agentūra UAB
226	NTValdos UAB
80	Public Institution Centre of Training for Energy Specialists
14	LITGAS UAB
10	VAE SPB UAB
435	Verslo aptarnavimo centras UAB
31	Lietuvos dujų tiekimas UAB
19	Vilniaus kogeneracinė jėgainė UAB
3	Kauno kogeneracinė jėgainė UAB
6	Energijos sprendimų centras UAB
4861	Total

Employees and corporate culture

Lietuvos Energija Group supports and respects the international protection of human rights in the area of influence, and ensures that the Group does not contribute to human rights violations, and strongly objects to any such infringements. The Group implements an honest and transparent remuneration policy, complies with the laws and regulations governing overtime and working hours, objects to any discrimination (with respect to employees, or recruitment), forced or child labour, respects the rights of the employees to rest, and promotes work and family reconciliation.

The Lietuvos Energija Group human resources management policy is heavily oriented towards professional development of its employees, building up of a corporate culture ensuring a creation of higher value for customers, partners and the society.

Trade union and collective agreements

There are 12 trade unions operating within the Lietuvos Energija Group, and established by the employees of the three largest Group companies ESO, LEG and EnePRO. The Lietuvos Energija Group has also concluded collective agreements. Total 865 employees are members of the trade unions.

Changes in the employees

As a result of the organisational reforms carried out in 2016, the total number of employees at the Lietuvos Energija Group decreased by 8.62 per cent. When decreasing the number of positions the redundant employees were fairly compensated; furthermore, appropriate conditions were created for additional training of such employees – significant assistance was provided in preparing for job interviews, also for adaptation in the labour market, the group concluded agreements with recruitment agencies in order to help its former employees in job search.

During 2016, no infringements or other incidents related to human rights were recorded at the company Group.

Education

52 per cent of the employees working at the Group have higher education, of which 21 employees have doctor's degree. 28 per cent of the employees have higher education, and 17 per cent of the employees have secondary education.

Distribution of Personnel by Gender

Because of the peculiarity of activities in the sector, technological nature of the operations, the predominant members of the staff are men, while women are working mostly in administration or customer service divisions. The possibilities to select the nature of work at the Group are equally available to both genders, and that is specifically noted at recruiting employees. Most of the employees at the Group are men, total 76.8 per cent, and women represent 23.2 per cent of all employees. Similar distribution regarding gender is among the employees holding leadership positions: 77 per cent of senior managers in the Group are men, and 23 per cent are

52 %

of the employees working at the Group have higher education

17 %

of the employees have secondary education

Similar distribution regarding gender is among the employees holding leadership positions.

28 %

of the employees have higher education

Distribution of personnel by gender

23,2 %
woman

76,8 %
man



Remuneration System

The companies of the Group have implemented an advanced employee remuneration system placing the Company on an equal footing with other leading companies of the country remunerating their employees according to their performance, the value created for the organisation and the team. The remuneration system was developed on the basis of „Hay Group“ methodology ensuring objective evaluation of the employee's job positions according to the required qualification, complexity of the problems, and the level of responsibility assigned to a specific job position. The package of an employee wages is composed of a financial and non-financial remuneration; equally important is the emotional satisfaction of the employee. The financial remuneration system includes

a fixed share of the salary payable monthly and specified in the employment contract, and a variable part of the remuneration payable having received certain specific performance results. The non-financial remuneration is a form of indirect reward to the employee, used by the Company to promote its employees' commitment, involvement and loyalty, employee well-being and enrichment activities in the Company. The non-financial remuneration may be conveyed in the different events and activities for employees, recognition of their achievements, promotion of wellness, professional development of employees, etc.

As of 31 December 2016, there were 4,861 employees working at the Group. The total wage bill of the group in January-December 2016 was equal to EUR 65.6 m. There is also an additional benefit Group-wide budget amounting to 611,400.

Average wages of Group employees, and the total wage bill

Categories of the Group's employees	Average monthly wages, EUR		
	2016	2015	2014
Manager of the Company	4244	4736	4211
Top-level managers	4004	4004	3774
Medium-level managers	2107	2079	1895
Experts, specialists	1066	984	915
Total wage bill	65.6 m	72.8 m	61.2m

Total number of employees at the companies of the group as of 31 December 2016

4861

The total wage bill of the group in January-December 2016 was equal to

EUR 65,6 M

In 2016 total

93 employees

were rotated among the companies of the Group

411 employees

were promoted within the Group

Development of Corporate Culture

Having reorganised the governance of the Lietuvos Energija Group, in 2016 significant attention was devoted to a coordinated development of the organisation, management of human resources, formation of a new corporate culture, enhancement of operational efficiency, training of new employees, strengthening and maintaining of competences. In the course of the reference period the Company was successfully continuing the structuring of career management and rotation systems: in 2016 total 93 employees rotated among the companies of the Group, and total 411 employees were promoted within the Group.

Development of Competences

Lietuvos energija Group consistently dedicates efforts to the enhancement to the qualification of its employees, while ensuring that its employees hold all the certificates required for the work as required by law, and continue improving their work-related competences. During the reference period, individual companies within the Group organised and hosted training in general, professional, leadership competences, e.g. leadership, team building, change management, communications, project management, business process management, etc.

Integration of New Employees

With a view to ensuring smooth and appropriate adaptation of new employees, they are invited to attend 'Days of new employees', and relevant training sessions, at which the employees are introduced to the corporate strategy, other managers and operations of individual divisions. The new employees are briefed on the structure of the energy sector, the strategic directions of the Company, its mission, vision, values, the main operational principles in the energy sector, the foundations of electrical engineering. Mentors are appointed to assist the new

employees and be responsible for the most diversified assistance to new employees during their probation period.

Practical Training Opportunities

Companies of the Group welcome and allow students of higher schools and vocational training facilities to acquire required theoretical knowledge and practical skills. During 2016, total 47 trainees completed their practical training periods at the Group.

Employee Engagement

Lietuvos Energija Group is making consistent efforts to become an organisation, in which operations are based on common values, the required competences and the replacement for key employees are built in a consistent and coordinated manner, and the internal environment is conducive to employee engagement. An 'Aon Best Employers Program' employee survey carried out in the group in 2016 concluded that the employee engagement indicator is 54 per cent.

Health and Safety at Work

Lietuvos Energija Group has been dedicating significant attention to developing the health and safety culture at the working places, and strengthening the responsibility of the employees. The Group has approved its 'Policy on health and safety at work' (PHSW) designed to build safety culture in the Company based on personal responsibility and cooperation. The highest level managers are responsible for a safe and healthy working environment, and safety culture is perceived as a component of the organisational culture. PHSW specialists are responsible for proper working tools, they assess the risk related to the working place, organise health checks, vaccination (for employees working in field conditions).

During 2016, every employee of the Group attended training lasting, on average, 11.17 hours.



Companies of the Group facilitate an active dialogue related to the implementation of healthcare, monitoring, safe and clean working environment, and improvement of health and safety at work. Due to the mandatory and additional measures in the areas of health and safety, and the provision of the employees with personal protection means, the number of incidents at work has decreased.

With respect to infringement of safety at work requirements the Group follows a zero-tolerance policy.

With a view to improving the professional training and education of the employees working at the Group companies, the employees undergo professional development programmes, and excellence contests of energy sector workers are organised together with the Lithuanian Electricity Association, and the Energy workers' training centre.

Since late 2015, ESO has been implementing an internal 'Safety agent' initiative, whereby outside their working hours the employees observe and report about any faulty and potentially dangerous electric installations and equipments. During 2016, total 12 reports with pictures were received, such faulty equipments are notified to responsible divisions, and described on the corporate intranet. Thus we provide information

and educate our colleagues who by their professional duties are not directly related to the grid infrastructure.

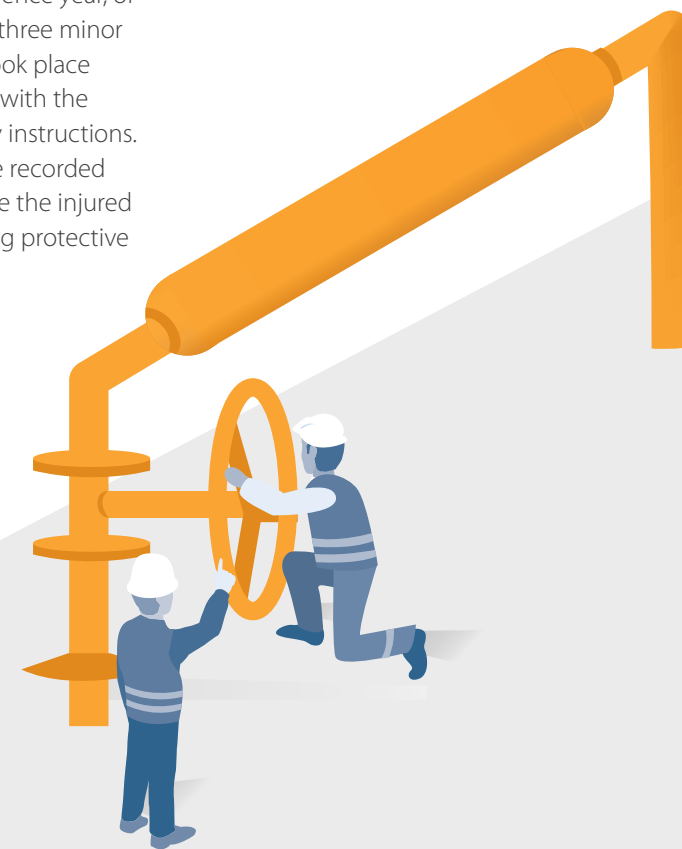
Regular checks and inspections are conducted at contractor sites, if necessary, all the infringements are recorded, or the operations may be suspended. Such inspections of the contractor sites, or training or safety days are organised, or other measures are implemented by Group companies at their own initiative, as no such requirements are provided in any legal acts. Not only does ESO train its employees carrying out higher risk works; ESO also provide training to the contractors whose activities account for a significant share of the technological operations carried out by the Company. During 2016, the Company created or updated six training animated films – Pasiruošimas darbui (Eng. – Preparation for work), Saugos priemonių naudojimas (Eng. – Usage of safety means), Darbas elektros linijose (Eng. – Work on electricity lines), Darbas oro linijose (Eng. – Work at overhead lines), for gas specialists – Darbas gamtinių dujų aplinkoje (Eng. – Work in the environment of natural gas), and Darbas iškasose ir šuliniuose (Eng. – Work at cuttings and wells). The video clips were shared publicly.

In 2016, ESO approved and started applying a contractor rating procedure according to which the Group assesses the quality

of contractor performance, considering not only the compliance with the terms set forth in contracts, but also examining whether or not the works were completed in accordance with the occupational safety requirements, and taking into account the number of violations of safety regulations.

In 2016, total 11 accidents were recorded in the companies of the Lietuvos Energija Group, and all of them were minor accidents. Among the contractors total four accidents were recorded during the reference year, of them one case was lethal and three minor accidents. The fatal accident took place because of a failure to comply with the occupational health and safety instructions. Also two minor accidents were recorded among residents, both because the injured persons ignored the prohibiting protective signs.

The energy production, distribution and network maintenance companies of the Group have implemented the occupational health and safety system according to standard OHSAS 18001:2007



Public Initiatives and Support

Relations to Communities

Seeking to strengthen the relations with the community of Elektrėnai region, the venue for the major share of operations of Lietuvos energijos gamyba, the Company has been hosting traditional events 'Lietuvos energijos gamyba presents'. In March 2016, the Company hosted a meeting with a famous publicist of Swedish descent, a producer and translator Jonas Ohmanas, and in June a professional sport journalist team of the Lithuanian Radio and Television covered the highest level sport tournaments. In September, at an invitation of the community, prof. Alfredas Bumblauskas visited Elektrėnai and to a large audience

shared his impressions from the National expedition along the Nemunas in Lithuania. In November, an ethnologist Gražina Kadžytė helped the community of the city to re-discover the traditional Lithuanian calendar. Total since December 2012 the Company has hosted as many as 17 such meetings.

Lietuvos energijos gamyba, a company regularly contributing to protecting the nature, in May helped the forest companies from Kaišiadorys to replant about 2 ha of forest area, and already conventionally were arranging the working places in Elektrėnai, Kruonis and Kaunas.

Education

With a view to contributing to education of the society on energy issues, and in particular the young generation, Lietuvos energijos gamyba in good faith and at no charge accepts tours to the facilities under its management: a combined cycle plant, Kaunas HAE, or Kaunas A.Brazaukas HE. During 2016, more than 2,200 visitors from different schools, institutions and organisations visited the power plants that also welcomes delegations from foreign countries.

Seeking to foster awareness of school communities and contribute to the creation

of a cohesive, energy and environment saving Lithuanian society, the Lithuanian Children and Youth Centre and ESO together with partners invited the national education institutions to participate in a year-long educational programme 'Sustainable School'. The project was awarded with the Swedish business award prize for the best social responsibility project for 2014.

In spring 2016, ESO started a broad-scale campaign propagating safe operation of electricity and gas equipment, prevention of technological assets thefts, and additionally communicating some useful advice to the society. The campaign communicated through a range of media means – television, radio, press and internet – mostly covered different safety issues related to the beginning of the field works, in particular highlighting the underground power and gas grid, as well as educational tips about safe behaviour during storms.

During Q3 2016, ESO was conducting an information campaign Safe energy. By engaging and using different visualisation means through mass media channels the society was educated about safe behaviour with electricity, prevention of storms, responsible approach when carrying out field works next to distribution electricity or gas networks. Significant attention was dedicated to the prevention of thefts of ESO's technological assets, and for that purpose ESO organised meetings with

local communities, police and media representatives.

The Company was continuing during 2016 some broad-scale and long-term social responsibility projects, intended for children, the youth and the public at large the common feature of which is an active participation of communities and target groups of the society, the ideas for safety, efficient use of energy and protection of the environment.

Fostering rational electricity use is one of the priorities of ESO in the area of social responsibility, contributing to conservation of environment and energy resources, as well as the country's obligations in implementing a climate change programme of the European Union. The project 'To the extent needed' is aimed at developing the traditions of rationally living society – search for rational electricity use methods for both, household and business. ESO organises for its customers regional conferences on energy efficiency, and uses the annual energy efficiency event as a forum to award the company most efficiently using electric energy.

The Green Protocol is a convention initiated by ESO (effective for six years already) whose signatories companies and organisations confirm their approval with the energy saving ideas, and undertake to apply such ideas in practice.

Volunteering and Citizenship

Right before the Easter of 2016 at its headquarters ESO organised a charity fair at which the employees could purchase articles created by a profit-seeking craft centre for the disabled 'Mažoji Guboja'. The centre allocated all the proceeds from the fair for education of its members, excursions, or other events.

For the second year in a row the employees of Lietuvos Energija joined a Christmas project 'Children's dreams', and fulfilled the dreams of the children growing under complex social conditions. Just like in the previous year the idea of this charity event was conceived by the employees of the company. This year, as a place to bring the children's dreams to reality, the employees selected Elektrėnai region, a place of operation of one of the power plants of Lietuvos energijos gamyba company. The sincere efforts of the company's employees fulfilled the dreams of the children of three

Promotion of Innovations

On 31 May 2016, Lietuvos Energija initiated an establishment of a venture capital fund. The new fund will provide funding start-ups in the area of energy. The idea is to invest

every year up to EUR 1 m in the best projects. The beginning of the fund's activities is scheduled for May 2017, having selected a partner to act as the fund manager.

In November 2016, in cooperation with a PI Versli Lietuva, Lietuvos Energija offered to engineers, programmers, energy specialists and business developers an opportunity to develop in a couple of days some smart energy projects or their prototypes that in the long run may potentially become new products or businesses. The company then joined the largest young creators workshop-competition Hacker Games, within which the company introduced a new 'Smart energy' category, next to the traditional technical equipment, games or software sessions. Participants of the event were engineers, designers, programmers, project managers and specialists from other areas – they could at their own discretion create products, solutions and services in the area of smart energy, they were consulted by highly experienced mentors, and a prize of EUR 1,000 was established for the winners.

Activity of Lietuvos Energija Support Fund

Acting in accordance with the relevant Order of the Minister of Finance of the Republic of Lithuania Lietuvos Energija established the Support Foundation that on behalf of the

entire Group supports initiatives and projects that are significant and valuable for the State and the society. In 2016, the Company specified the policy for allocating support and the Support management regulations. In the period from March 21 to April 4 potential support beneficiaries were invited to submit their applications for support. In 2016, the following areas were designated as priority areas on the national level:

- sports (except extreme sports) promoting professional sport clubs, uniting the country and supporting its visibility, and sport organisations training new sport talents;
- support to children suffering from cancer by promoting public organisations and movements whose activities and projects are implemented and create benefit at the level of the country, having experience in the implementation of international social projects, and spreading in their activities the best practice in implementing such projects, providing knowledge and cooperating with healthcare institutions and families of children suffering from cancer, and maintaining family and social relations of such children;

- promotion of research and innovations, by supporting the ideas, research and papers whose implementation would strengthen Lithuania's position on the international innovations market, would help strengthening the Lithuanian education and science system, increase the interest of the society in science, and would establish long-term traditions of cooperation between research institutions, academic community, business and public organizations, and would help young researchers.

On 31 May 2016, the Support Foundation of Lietuvos Energija allocated a support of nearly EUR 620,000 to 25 activities and projects that best met the criteria and the priorities of the Foundation.

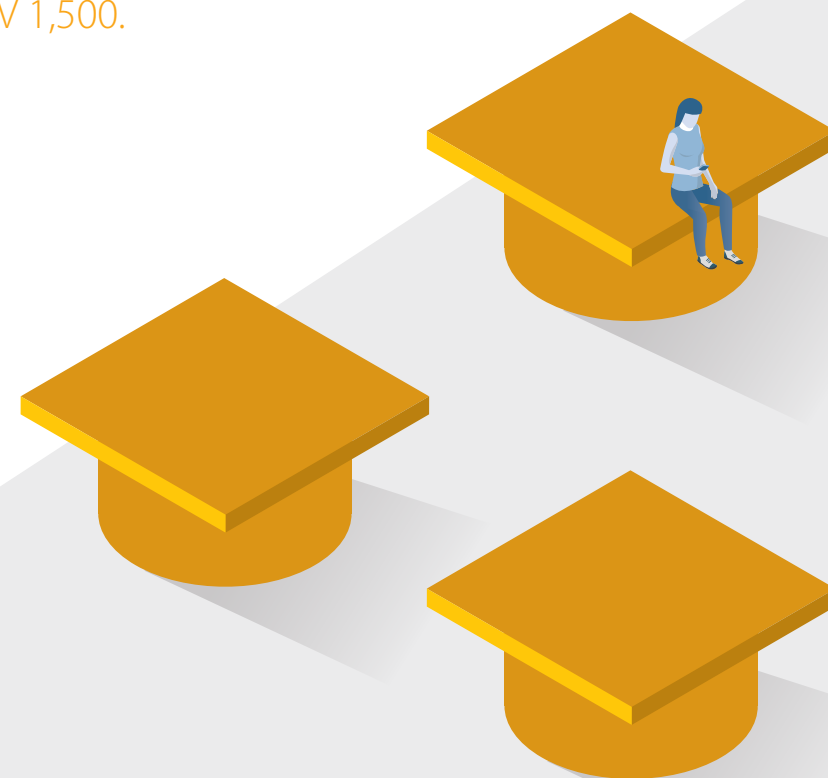
On the national level support was allocated according to 14 applications: Initiatives 'Researcher nights' and 'Science lawn' of the Baltic Institute of Advanced Technology, Rugute Charity and Support Foundation (genetic studies for a more efficient treatment of each little patient), the Lithuanian Sport federation for the disabled, Š.Marčiulionis Basketball Academy, Kaunas men basketball club Žalgiris, the XXI Pažaislis music festival, Kaunas University of Technology, National Academy of Schoolchildren, World women Hot Air Ballooning Championship festival organised by Prienai aircraft club Audenis, the Lithuanian Handball Association, Lithuanian Rugby Federation, the Lithuanian Society of young Researchers.

On the regional level support was allocated to social, educational, art, culture, research and sport (except extreme and increased risk sports) activities and sports of the communities in whose close environment the Company, Group entities and stakeholders of the Foundation carry out their activities. Among the 12 beneficiaries of support: Association TEDxVilnius, the Lithuanian Children and Youth Centre, Elektrėnai hockey club LRK ENERGIJA, Rotuliai village community, the UNICEF National Lithuanian committee, and other organisations. To read more about the beneficiaries, please refer to www.le.lt.

Science-business Cooperation and Talents Support

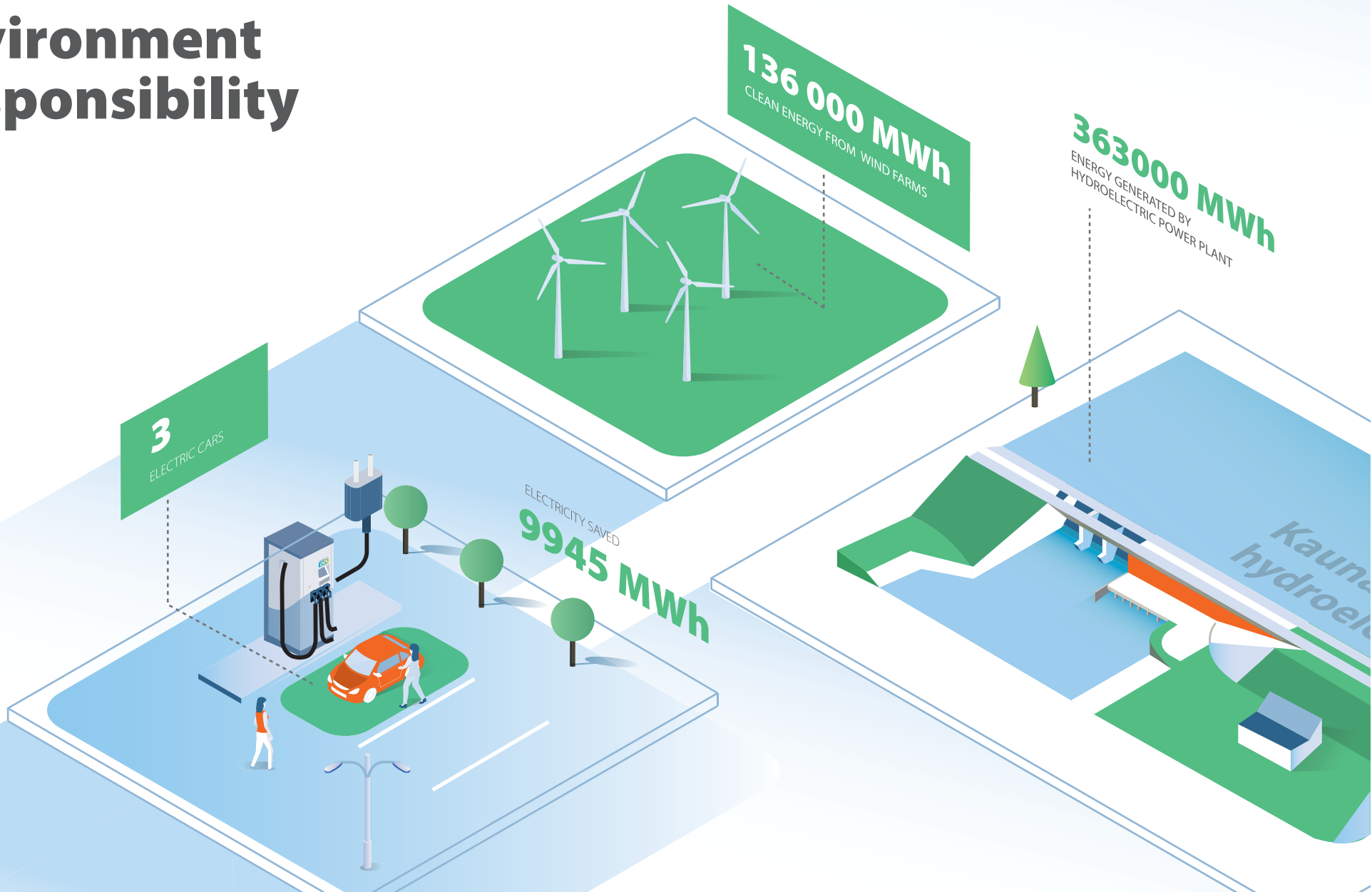
In November 2017, the Lietuvos Energija Support Foundation selected five Lithuanian universities at which master degree students in energy and technology studies will be able to claim nominal grants as soon as this year. In 2016–2017 academic year the Company intends to allocate ten scholarships to the best performing Master's degree students. Each nominal scholarship will be EURV 1,500. The nominal scholarships of the Support Foundation of Lietuvos Energija will be available to two students from each of Vilnius University, Kaunas University of Technology, Vytautas Magnus University and Klaipėda University. Thus, Lietuvos Energija will promote and support young people who have selected studies or themes for their graduation papers in the areas important for strategic business directions of Group companies.

In 2016–2017 academic year the Company intends to allocate ten scholarships to the best performing Master's degree students. Each nominal scholarship will be EURV 1,500.



07

Environment Responsibility



In its daily operations Lietuvos Energija Group seeks to efficiently use natural resources, to mitigate the impact of energy objects to people and the environment, and for that purpose introduce in the production process the most advances and efficient technologies, mitigate pollution, and support environmentally friendly innovations and solutions. The Group consistently follows the requirements of international, European and national legal acts governing environmental protection, and professionally apply measures mitigating environmental impact.

In 2016, the Group contributed EUR 870,200 for supporting environmental protection activities, and in 2016 invested EUR 487,500 in environmental projects.

Most relevant areas

Energy production companies have been consistently implementing all the effective environmental protection requirements, and at own initiative seek construction of new facilities or upgrading of the existing ones, so that their impact upon the environment is minimal. Relevant environmental issues: energy deficiency, reduction in the use of fossil fuel, safe use of ecologically hazardous materials, safe operation of equipment, responsible treatment of generated waste, reduction of atmospheric pollution, etc.

Environmental management system standards

Lietuvos energijos gamyba supports the environmental management system standard ISO 14001:2015. The international standard indicates that in the activities the Company follows the most important requirements for the identification, monitoring, management and improvement of environmental protection aspects. The certificate is valid for all the operations carried out by the power plants: electricity and heat production at the Elektrėnai plant, operation of electricity, heat, turbines, natural gas, oil and oil product equipment,

electricity production at Kruonis HAE, supply, equipment operation and power reservation, production, supply of electric energy, as well as equipment operation at Kaunas HE – all comply with the strict international environmental protection requirements.

ESO uses an environment management system standard ISO 14001. After the last recertification, the standard is valid until 7 April 2018. The Company's goal to ensure minimal environmental impact is specified in the annual updated environmental goals. The Company also implements the requirements regarding monitoring and protection of pollution of air, surface waters, groundwater and soil as indicated in the integrated pollution prevention and control permits.

Development of energy production from renewable sources

Diversification of energy sources is one of the strategic objectives of Lietuvos Energija Group in pursuit to increase energy independence, thus promoting renewable energy sources, mitigating climate change and contributing to the implementation of the global sustainable development goals.

Hydroenergy

Lietuvos Energija Group is the only in the market offering the 'Green Lithuanian energy' - a certified energy product produced from renewable resources at Kaunas Hydroelectric Power Plant. This type of energy was introduced to the market on 22 March 2012, when celebrating the World Water Day. To purchasers of the green energy (both entities and household customers) a Group company Energijos tiekimas (ET) issues energy origin guarantee certificates. Last year Algirdas Brazaukas Hydroelectric Power Plant generated by one third more electric energy (0.363 TWh), than in 2015. In 2016, ET supplied 3,982,731 GWh of electric energy produced from renewable sources.

Development in the wind energy sector

In January 2016, Lietuvos Energija acquired two wind farms in Lithuania and Estonia, and now looking for opportunities to further invest in the area of wind energy.

On 15 June 2016, Lietuvos Energija published a tender to acquire a project ensuring and infrastructure required for the establishment and operation of a wind farm. According to the terms and conditions of the tender the

Company seeks to acquire the projects in the stage with the infrastructure required for the establishment of a wind farm fully developed, or in progress: land parcels that from the viewpoint of environmental impact, public health and territorial planning would make it possible to open and operate a wind farm. This would allow the implementation of the project within shorter terms, than starting from the scratch, and would eliminate part of the risks and procedures.

Currently the Group manages and operates wind farms of 42.3 MW in design capacity, and managed by the companies UAB Eurakras and OU Tuulueenergia. The wind farms can generate about 136,000 megawatt-hours (MWh) of electric energy, which would amount to the the annual demand in electricity of residents of Klaipėda city'.

August 2016 witnessed an official opening of a wind farm in Rotuliai, Jurbarkas region. With a view to developing the green energy production Lietuvos Energija Group intends to expand its operations in the segment, both through the acquisition of new already operating wind farms, and by independently investing in the construction of wind farms.

In 2016, the share of energy produced from renewable sources nearly doubled, and accounted for 33 per cent of the total electric energy produced (13 per cent in 2013).



Total, due to modernisation of lighting systems by ESCO method, during 2016 ESC saved for its customers 9,945 MWh. This amount of electricity is sufficient to meet the demand of 5,750 family houses for the entire year.



Decrease of the CO2 emissions in energy production

Device	2012	2013	2014	2015	2016
Carbon dioxide emissions (Lietuvos elektrinė and com-bined cycle plant), t CO2	919143	574801	400596	454803	200670
Produced electric energy, to-tal, MWh	1531749	1149179	874333	1086259	491045
t CO2/MWh	0,60	0,50	0,46	0,42	0,41

Termination of polluting production

After in 2015 Lietuvos energijos gamyba completed the project on the development of production facilities in Elektrėnai, the use of Units 1 and 2 of the power plant for the production of heat became inefficient, therefore it was decided to demolish the two old and inefficient units of 150 MW in reserve capacity and built in 1962-1965. The price of the energy generated by the two units is not competitive in the market, therefore the termination of their operations will help meeting the public interest obligation services, and at the same time and at the same time to lower the electricity tariff to customers. The demolition works are in progress, i.e. the heat insulation of the units has been removed and utilised, the brickwork of the boilers demolished, the equipment and facilities are being removed and part sold as scrap, or on the market if the equipment is still fit for use. By the end of December 2016, 87 per cent of the demolition works have been completed. The plant decommissioning operations are scheduled to be completed in Q1, 2017.

Protection of the landscape

ESO, as the electricity distribution network operator, is replacing the old overhead power lines by new cables in locations

where the wiring of the former overhead lines was thin and have dangerously approached the surrounding greenery, the obsolete infrastructure would cause frequent malfunctioning instances. Cable lines ensure more reliable supply of electricity to residents, and produce less impact upon the environment and the landscape.

During 2016, more than 2,000 km of underground electricity cables were laid, in addition to other smart network measures. Other accomplishments include the reconstruction of 32 gas pressure regulation facilities by demolishing old buildings, and building switchboards not distorting the landscape.

Enhancement of energy efficiency

On 18 February 2016, Lietuvos energija established a new company UAB Energijos sprendimų centras that will be engaged in the development of energy efficiency enhancement and renewable energy resources in Lithuania and abroad. The activities of the new company will be based on the ESCO model (Energy Service Company) – an energy saving service company investing in energy efficiency measures, and ensuring a pay-back of the investment from the future energy savings within the contract duration. The operations of the company will enable achieving

the largest savings effect for owners and managers of buildings and facilities without incurring significant initial investment.

By applying the ESCO model Širvintai region municipality modernised about 360 most energy consuming lamps, replacing them with modern LED type lamps. ESC implemented several such modernisation projects at the premises of its business

Smart metering

In 2016, the pilot smart metering project was further progressing, allowing some 3,000 customers to select, specifically for the purpose of the project, a four time zones tariff plan promoting a more efficient use of electricity, and thus reduce the expenses. At the end of 2016, more than 12 per cent of the project's participants had selected the plan. The assessment of the modification of consumption habits among project participants is in progress. The cost-benefit analysis implemented as part of the project will be highly instrumental in assessing the mass introduction of smart metering in Lithuania, and produce possible solutions for the task. The cost-benefit analysis is scheduled to be completed in autumn 2017.

Electric car infrastructure development services

Energijos sprendimų centras, a company established in 2016 started providing electric car charging stations building service to business customers and public institutions, and applying the highly flexible ESCO financing model. Thus, contributing to the development of the required infrastructure, the Company promotes the use and development of emission-free transport.

Energy production from waste projects

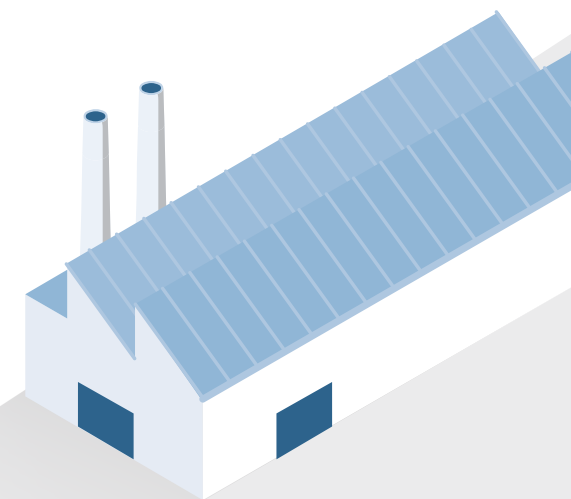
In Vilnius and Kaunas Lietuvos Energija Group is in the process of implementing the projects on the construction of modern and high efficiency CHP plants using waste and biofuel. By generating power and heat the plants will ensure lower heat production priced for city residents, also additional local electric energy production at competitive price, and will address waste management problems. The Government of by its Resolution 28 May 2014 recognised the projects to be important economic projects. Having implemented those projects of national importance, the price for heat produced in the new plants would be by about 20 per cent lower as compared to the present alternative.

The power plant will be able to produce nearly half of the heat centrally supplied to Vilnius, and the volumes of electricity sufficient to supply to 230,000, or 80 per cent of new households. The estimated electric capacity of the plant in Vilnius will be about 90 MW, and 230 MW in heat production. It has been estimated that for Vilnius residents the price of the heat produced by the new co-generation plant will be about 20 percent lower as compared to any available alternative solutions. For the purpose of production of heat and electricity the co-generation plant intends to use waste collected and delivered from Vilnius, Utena and possibly other regions. The plant is estimated to incinerate up to 160,000 tonnes of sorted waste.

The project provides for a construction of a new high capacity power plant that will be using waste as fuel, with the electric power reaching 24 MW, and the heat production power of 70 MW. Such capacities will ensure an efficient utilisation of about 200,000 tons of waste generated in the region, and a production of about 500 GWh heat and about 170 GWh of electricity.

The new power plant is estimated to reduce the CO₂ emission by 70-107,000 tonnes per year.

The new power plants is estimated to reduce the CO₂ emission by 230-436,000 tonnes per year.



Protection of biological diversity

With respect of hydroenergy production the Company makes efforts to protect fish, and while maintaining distribution grids specific measures are taken to protect the population of wild bird. In 2016 ESO devoted particular attention to the area, and started placing on the poles of the distribution network specific protection means severely restricting the possibility for the birds to build their nests. This prevents accidents where nests, having become heavier due to humidity would simply fall on the electric wires. Such incidents are nearly unexceptionally fatal for the birds, and specifically storks. In the course of 2016 the Company installed about 700 pilot protections against birds.

Waste treatment Special waste baskets for sorting household waste are installed on the sites of the Group's companies, in addition to the special containers for no longer used small electric and electronic equipment and batteries.

The production waste water is treated in the in-house treatment plant equipped with alarm lamps to identify oil product traces. Special measures are being implemented according to the recourse savings plan approved by the Company, and designed to reduce the need for own resources. The Company concludes agreements with

specialised companies for safe treatment and handling of the waste generated from the production operations.

Amounts of waste treated in 2016:

In 2015 the waste management entities at Elektrėnai compound were delivered for utilisation 601 t of biofuel ash, 1008 t of sand waste, 440 t of liquid fuel ash, 21 t of absorbent waste, 1.5 t of etilenglicol waste, 12 t of chemical waste, 153 t of activated carbon waste, 144 t of ion exchange resins, 1,168 t of construction and insulation materials containing asbestos, 2 t of plastic and rubber wastes, 8 t of paper and cardboard waste, 7 t of timber waste; metal purchasers were delivered 35 t of electro-technical waste, 2,327 t of ferrous metal scrap, 65 t of copper scrap and 4 t of aluminium scrap. The household waste collected at the site are under the contract disposed of by a specialised company. 10,134 t of hazardous waste, 8,415 t of non-hazardous waste and 1,059.92 t of black metal treated at the Kruonis Pump Storage Hydroelectric Plant: 0.435 t of non-ferrous metals and 33.28 t of household waste. Kaunas Hydroelectric Power Plant: 0.817 t of hazardous waste, 0.248 t non-hazardous waste, 4,680 t of ferrous metal and 6,480 t of household waste.

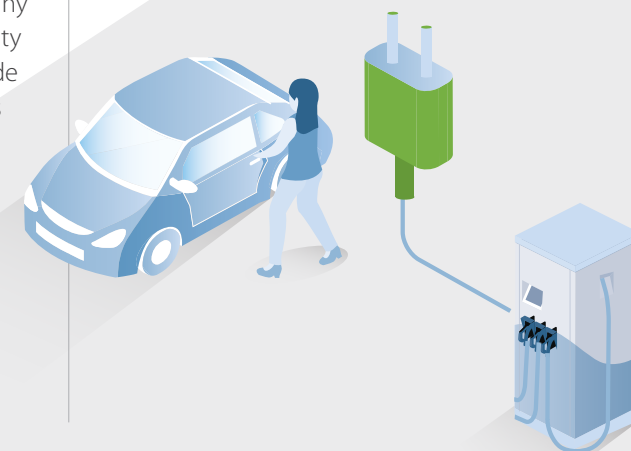
Transport division

Lietuvos Energija Group manages its transport division under a centralised arrangement. Purpose – to save the transport division administration services. The Group seeks to purchase package car rent services, including maintenance, insurance, repair, etc. The proposals are evaluated according to an economic efficiency criteria, as in addition to the price of the service, an important factor is the fuel consumption of the offered vehicles.

Total the Group uses 1,362 vehicles in addition to the specialised vehicles used at individual companies: different purpose small four-wheelers, micro-buses, vans mostly used for maintaining the distribution networks infrastructure.

Employees of the group also use zero-emission vehicles – currently the Company operates three electric cars. Within the city of Vilnius, the Group's employees may ride electric bicycles; currently the Group has seven such bicycles.

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July 7, 2017