

LIETUVOS ENERGIJA, AB



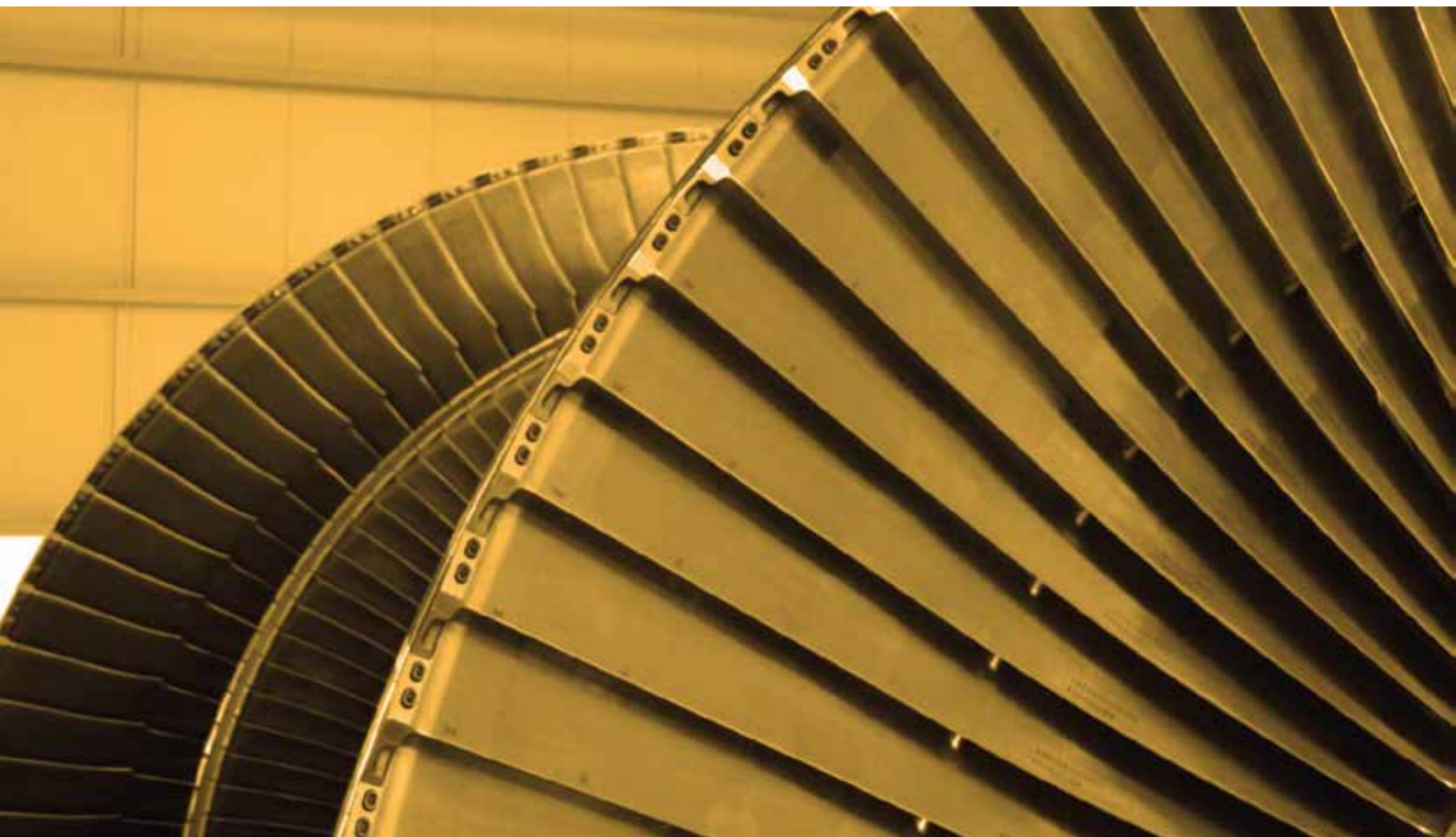
2012

REPORT ON ANNUAL PERFORMANCE AND
CORPORATE SOCIAL RESPONSIBILITY





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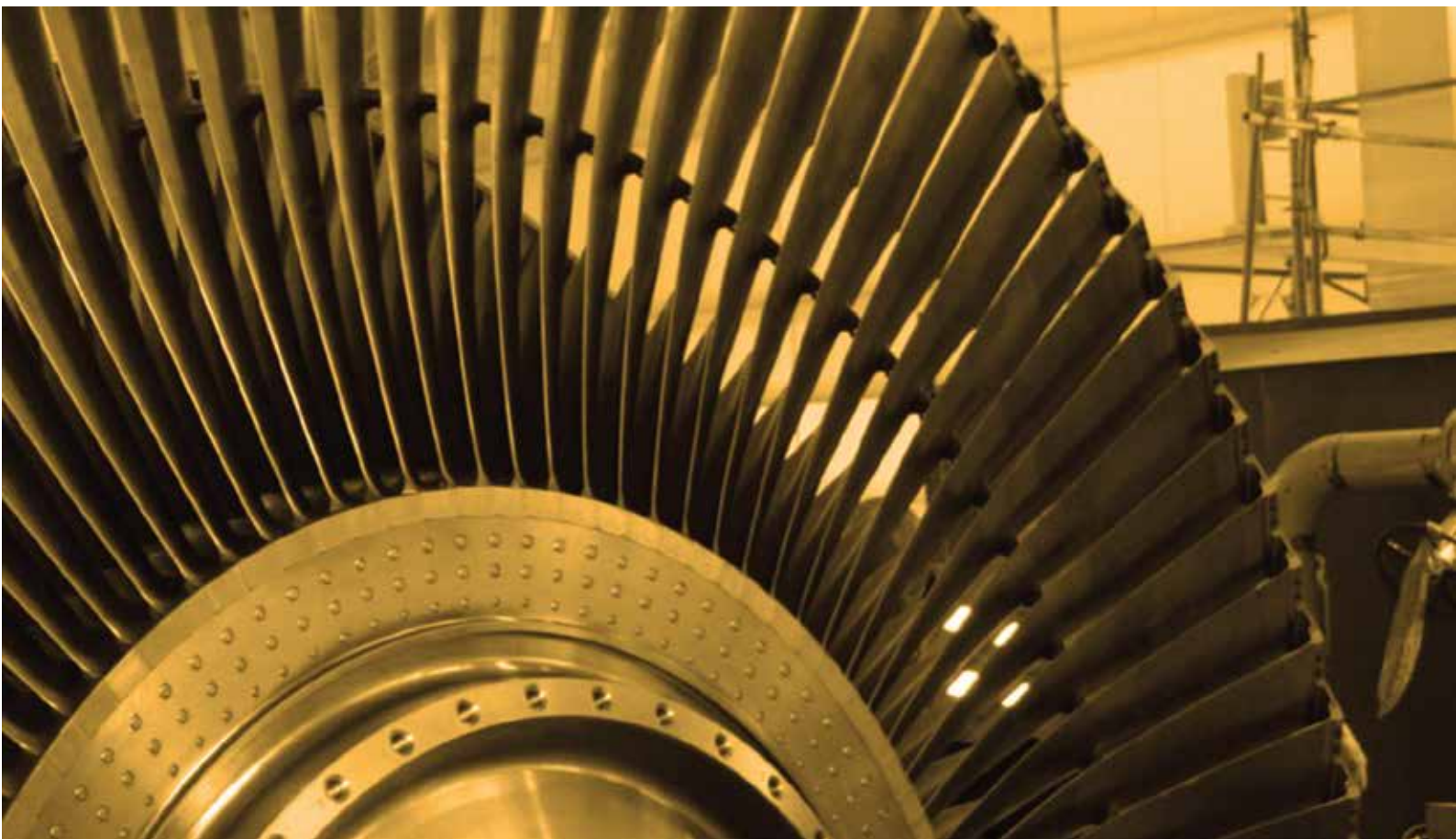
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A Word from the CEO

Dear shareholders, customers, partners
and employees,

in front of you is the annual report of the national electricity producer Lietuvos energija, AB for 2012. Last year was extraordinary for the Company. It was the year of shaping the Company's activity and increasing its efficiency.

This report is slightly different as well. It covers not only performance, strategic goals of the Company, but also relations developed by Lietuvos energija, AB with its employees and the community in 2012.

I am proud of the results that the team of Lietuvos energija, AB - all employees together - managed to achieve last year. Our joint efforts helped to purify business directions of the Company. We have a clear idea of what we aspire to and we rely on a strategic vision to become a national electricity producer that would be able to efficiently operate in the integrated European electricity market.

A general trend observed on the electricity markets in 2012 was decreasing prices. It was in particular determined by prices establishing in Nord Pool Spot Estonian and Finnish price zones. Despite overall decrease of prices, its unexpected jumps still took place in 2012. Lietuvos energija, AB managed to ensure security of supply and to control fluctuations in prices by operation of its power plants, in particular standby power plant in Elektrėnai.

The Company finished the year with success and tripled its net profit. We are a strong competitor on the free market. I associate the increase in profit of Lietuvos energija, AB with successful commercial activities on the market and effective business management, which helped to reduce losses related to regulated activity.

Last year we focused on the implementation of development projects and training of employees. In our opinion, this will form a foundation for the company's successful activity in the future.

It is gratifying to rejoice at Company's performance, especially knowing that some of the results will be written down in history. The new combined cycle gas turbine unit of Lietuvos energija, AB officially launched in October 2012 is deservedly called one of the largest projects not only in the entire history of the Company but even during the whole period of independent Lithuania. Construction of the unit in Elektrėnai, which took slightly longer than three years, was completed in time and within the projected budget. It is planned that the unit consuming 30% less natural gas than the old units of the plant will generate majority of electricity produced in Elektrėnai in 2013. Higher efficiency of the new unit will result in saving more funds of services of general economic interests.



Expenditure reduction, innovation, enhancement of efficiency and responsibility to environment as well as society are the words that were often repeated last year by us, employees of Lietuvos energija, AB. As a CEO I am happy that these words were not only said but also followed in our daily duties.

In 2012, we invited our employees to contribute to Company's improvement and management and we received almost 40 innovative suggestions, some of which were realized without any delay. We invited our employees to be active community members, join social initiatives, and be ambassadors of energy expert's profession.

The year 2012 will be imprinted in my mind as a year full of challenges, but also a very interesting year. I believe that 2013 will be no less interesting and I can see enormous potential of Lietuvos energija, AB and its team. I wish everyone courage and energy to create within the spirit of the core Company's values: respect, responsibility, professionalism, cooperation and proactivity.

„I'm proud of the results that the team of Lietuvos energija, AB - all employees together - managed to achieve last year.“

Sincerely yours,
Dalius Misiūnas

CEO

Lietuvos energija, AB

About the Company

Lietuvos energija, AB is a company of strategic importance which performs power and heat generation, supply, energy import and export as well as energy trade activities*. The company holds huge responsibility for strengthening the economic efficiency, competitiveness and transparency of national electricity and protecting consumer interests.

Lietuvos energija, AB forms the basis for a unit of electricity generation capable of ensuring the national energy security and enabling the Company to compete effectively and successively with other generators in Lithuania and abroad. The Company's generation portfolio includes Lithuanian Power Plant, Kruonis Pumped Storage Power Plant and Kaunas Hydroelectric Power Plant.

Kaunas Hydroelectric Power Plant is the greatest power producer from renewable energy sources in the country. Lithuanian Power Plant in Elektrėnai is also a heat producer for residents and companies operating in the Elektrėnai region.

Seeking to perform its functions duly and effectively, the Company pays much attention to technical and scientific progress, training of experts and implementation of scientific and technical innovations in its operations. The main office of Lietuvos energija, AB is situated in Elektrėnai.

Data about securities exchange in regulated markets

The stock of Lietuvos energija AB has been traded in the regulated market. Since 1 September they have been included in the official trading list of NASDAQ OMX Vilnius Securities Exchange.

**Lietuvos energija, AB started to operate on 1 August 2011 when two companies, AB Lietuvos energija and AB Lietuvos elektrinė, merged. Pursuant to the EU's third energy package requirements, the energy sector has been divided into four operating units: energy generation, transmission, distribution and servicing of the sector companies.*

Shareholders and stock

Authorised capital

LTL 635,083,615

Per value per share

LTL 1.00

Value of assets managed
by the Company:

LTL 3.4 billion

The majority shareholder of Lietuvos energija AB is Visagino atominė elektrinė UAB which controls **96.13 %** of the company stock.



The remaining **3.87%** of the shares are held by minority shareholders.

Mission

To provide reliable, effective and diversified energy solutions that meet the demands of current and future customers.

Vision

To become the national producer of electric energy and efficiently operate in the integrated European electricity market

Objectives

The strategic goals of Lietuvos energija are to increase its value, ensure the provision of high-quality services to customers, diversify production using local renewable energy resources, improve efficiency, and develop a new organizational culture.

Values

The company seeks strategic objectives on the basis of the following fundamental values:

Respect Responsibility Professionalism Cooperation Proactivity

Membership in International and National Organisations

Lietuvos energija, AB is actively involved in the activities of international and national organizations. This helps to build the Company's position in its goal to maintain close relations with the partners in the energy market.

Lithuanian National Electricity Association (LNEA)

The founders of the Lithuanian National Electricity Association, set up in June 2011, are the companies which operates in the Lithuanian energy sector, including Lietuvos energija, AB, AB LESTO, LITGRID AB and UAB Technologijų ir inovacijų centras. The objective of the Association is to build a common energy sector position, represent the interests of its members both on the national and international scale. One of the key functions of the Association is to ensure that the Lithuanian energy sector is duly represented in the Association of the Electricity Industry in Europe- EURELECTRIC.

Association of the Electricity Industry in Europe (EURELECTRIC)

This association unites the organisations of power generation, supply, trade and distribution in the European Union and other countries of Europe. EURELECTRIC represents common industrial interests in Europe and co-operates with the organisations and institutions in other continents. EURELECTRIC's mission is contribution to the development and competitiveness of the electricity industry and increasing its role for intelligence society. Members of EURELECTRIC represent their countries in the name of the national associations of the energy sector. At present, EURELECTRIC has 35 actual members from 32 countries. EURELECTRIC started to operate in December 1999 when two associations UNIPED and EURELECTRIC merged.

IN 2012, THE COMPANY OPERATED EFFECTIVELY AND EFFICIENTLY

The Company's income totalled

LTL 1.177 billion

EBITDA increased 39% to

LTL 116 million

Net profit tripled and amounted to over

LTL 33 million

All plants operated without emergency stopping

0 unplanned shutdowns

Operations

Lietuvos energija, AB is involved in trading energy on the wholesale market (among energy producers and suppliers). The company sells electricity and provides the power balancing service to public and independent suppliers operating in the Lithuanian market. It also exports and sells electricity in the energy exchange.

The Company produces the necessary amount of energy in the three power plants controlled by it. In addition it buys energy according to the concluded agreements from other suppliers and generators, it imports and buys energy on the energy exchange.

The Lithuanian Power Plant produces heat energy for residents and enterprises in the Elektrėnai region.



Lithuanian Power Plant

The main power plant in the Lithuanian energy system, with the largest production capacities in the country and maintaining a third reserve for ensuring the security of power supply and the reserves of the energy system.

Total power production capacity of Lithuanian Power Plant is 1955 MW:

2 units, 150 MW each (suitable to satisfy the needs for a higher and more effective heat generation);

4 units of 300 MW each;

In autumn 2012, a combined cycle unit of 455 MW was put in operation.



Kruonis Pumped Storage Power Plant (Kruonis PSPP)

Kruonis PSPP is intended for balancing electricity production and consumption, preventing and liquidating accidents in the energy system, as well as securing the system's reserve and regulating frequency and voltage. Kruonis PSPP is capable of ensuring the biggest share of the total necessary energy reserves for Lithuania in case of emergency. Kruonis PSPP plant is the only hydro power plant of such type in the Baltic States.

Currently the installed Kruonis PSPP capacity is 900 MW (4 synchronous units of 225 MW each).



Kaunas Hydroelectric Power Plant (Kaunas HPP)

This is the largest power plant using renewable energy resources in Lithuania. It ensures the balancing of the power system capacities and the control of the operating conditions.

It is one of the power plants in the Lithuanian energy system the operation of which will be triggered in case of a general system failure.

Kaunas HPP has 4 units of 25.2 MW each, their total capacity is 100.8 MW.

The Structure of the Company Group

On 31 December 2012, Lietuvos energija, AB had direct and indirect control over the following companies:



UAB "Kauno energetikos remontas"

100 %



Energijos tiekimas UAB

100 %



UAB Technologijų ir inovacijų centras

54.04 %

UAB „Gotlitas“

UAB "Gotlitas" (managed through UAB "Kauno energetikos remontas")

100 %



VšĮ Respublikinis energetikų mokymo centras
(managed through UAB Technologijų ir inovacijų centras)

54.04 %

On 31 December 2012, Lietuvos energija, AB was involved in the management of the following companies:



NT VALDOS, UAB

41.1 %



Nordic Energy Link AS

25 %



UAB "GEOTERMA"

23.44 %



The Board

The board of Lietuvos energija, AB is the highest and permanent management body of the company which is elected by the general meeting of shareholders for a term of four years.

On 31 December 2012, the Board of Lietuvos energija, AB consisted of the following persons:



KĘSTUTIS ŽILĖNAS

Chairman of the Board

Holding the position since

4 July 2011.

Education:

Kaunas University of Technology diploma of a computer systems and network engineer (equivalent to a Master's degree). Mykolas Romeris University, Master's degree in Law.

A study programme of the Baltic Institute of Corporate Governance.

Career:

From 2001 worked in the National Control Commission for Prices and Energy. From 2002 to 2009, a member of the Licensing and Competition Commission of the Regional Association of Energy Regulation.

From 2007 to 2009, a member of the two working groups of the Council of European Energy Regulators (CEER): consumer rights protection and on the safety of transmission of electricity and the quality of services.

Since 2009 has worked in the Ministry of Energy of the Republic of Lithuania.

The main workplace on 31 December 2012:

Vice-minister of the Energy Ministry of the Republic of Lithuania

Kęstutis Žilėnas has resigned from the position of the chairman and member of the board of Lietuvos energija, AB since 11 February 2013.



DALIUS MISIŪNAS

A member of the Board

Holding the position since

4 July 2011.

Education:

Kaunas University of Technology, Bachelor's degree in Electrical Engineering. Swedish Lund University, a doctor's degree in technological sciences.

Career:

Since 2000 performed research and experimental work in Lund University (Sweden) and Adelaide University (Australia).

After return to Lithuania, from 2006 to 2008 he worked in the international company of engineering consultations and design, SWECO, and later worked in the business consultation company Ernst & Young Baltic. From 2010 he worked as a director of AB VST Division Management Service and later became a Board member of AB LESTO and the director of the strategy and management service. Since 2011 he has been a Chief Executive officer of Lietuvos energija, AB.

The main workplace on 31 December 2012:

Chief Executive Officer of Lietuvos energija, AB



SONATA MATULEVIČIENĖ

A member of the Board

Holding the position since:

12 December 2011.

Education:

Vilnius University, medical studies (physician paediatrician).
Studies in London, in the Chartered Institute of Marketing.
Studies in the Baltic Institute of Corporate Governance.
Studies of the Swedish Institute Management Program.

Career:

During the studies at Vilnius University she worked as a resident physician and later as a consulting physician in UAB Vilandra. From 1999 she worked in Abbott Laboratories Baltics. In 2009–2010, she worked as a Commercial Manager of Abbott Laboratories Central and Eastern Europe & North and West Africa. In 2009 she was a member of the board of the Lithuanian Association of Ethical Pharmaceutical Companies. Her biggest experience is the fields of business development, strategic planning, product marketing and sales. She received in-service training in Germany, USA, Austria and Belgium.

The main workplace on 31

December 2012:

Baxter, a Commercial Manager for Baltic States.



LAURENTINA GARBAUSKIENĖ

A member of the Board

Holding the position since:

20 September 2012.

Education:

Vilnius Gediminas Technical University, a Bachelor's degree in management and a Master's degree in Engineering Economics and Management.

Career:

From 1998 to 2004 she worked in the State Property Fund. Since 2004 she has worked in the Ministry of Economy of the Republic of Lithuania: at first as a chief specialist in the State Property Privatisation and Management Division and later, since 2011 as the head of the Division of the State-Owned Enterprise Policy.

The main workplace on 31

December 2012:

Ministry of Economy of the Republic of Lithuania, Head of the Division of State-Owned Enterprise Policy.



RAIMUNDAS PETRAUSKAS

A member of the Board

Holding the position since:

20 September 2012.

Education:

Kaunas University of Technology, a Bachelor's degree in mechanical engineering and a Master's degree in business management. Gained a qualification of professional management member at the Baltic Institute of Corporate Governance.

Karjera:

Since 1999 has worked as a Chief Executive Officer of Schmitz Cargobull Baltic UAB. Before that, he was a technical director of the company Auviga (1990–1994) and its Chief Executive Officer (1994–1999).

The main workplace on 31

December 2012:

Chief Executive Officer of Schmitz Cargobull Baltic UAB.

The Year 2012: the Ground for a Successful Future

The year 2012 for Lietuvos energija, AB is the year of streamlined operations and increase of efficiency. Last year we built the present operational model of the Company and now we proudly say that Lietuvos energija, AB today is an innovative, efficient and socially responsible company.

01

WE DEVELOPED PRODUCTION CAPACITIES

On 23 October 2012, we have officially launched a new combined cycle unit which we started to build in April 2009. The capacity of the new unit is 455 MW. The electricity it can generate can satisfy about 20 –25% of the country's needs. The unit's efficiency is over 58 % and it requires 30% less of natural gas to produce the same amount of electricity.

02

WE SOUGHT COMMON GOALS

Last year Lietuvos energija, AB was actively involved in the activities of the Lithuanian National Electricity Association which unites major Lithuanian energy companies. Seeking to increase public awareness about energy we encouraged people to celebrate the Day of Lithuanian Energy Generators and the 120th anniversary of the first light-bulb ignited in Lithuania. We encouraged Lithuanian youth from all over the world to discuss the future energy challenges and introduced key projects of the energy industry to them.

03

WE CARED ABOUT SAFETY AT WORK

Lietuvos energija, AB obtained certificate OHSAS 18001:2007 / LST 1977:2008 No. LT0071S. The issuer of the certificate Bureau Veritas certified that it assessed the employee health and safety management system applied in the organisation and determined that it complies with the requirements of the management system standard. The Company has documented, implemented, supervised and is improving the employee health and safety management system to eliminate or reduce as much as possible the risk to employees and other interested parties that can be effected by the operational threats of the Company.

04

WE CREATED A NEW ORGANI- SATIONAL CULTURE

In 2012, the unified personnel policy principles have been finally put in place: the Company introduced a single competence-based remuneration and operational assessment system, approved the procedure for provision of training to employees, laid down the principles of long-term human resource planning and employee selection.

05

WE WORKED IN A TRANSPA- RENT AND OPEN MANNER

When the Company entered the official trading list of NASDAQ OMX Vilnius Securities Exchange, it published all key information about its operations on the exchange and strengthened its links with investors and business partners. In 2012, the Company made a presentation about the annual public procurement plan for external contractors and suppliers, seeking to shed light on the ongoing tenders, hence saving the Company's funds and increasing its profit.

06

WE INCREASED EFFICIENCY

In April 2012, aiming to optimise the operations of the production unit of Lietuvos energija, AB, Kruonis PSPP and Kaunas HPP departments were merged into the Hydro Power Plant Department. In November 2012 the Company Board made a decision to merge Hydro Power Plant and Lithuanian Power Plant departments and create a single Production Department while also making other minor changes in the Company's organisational structure. As a result, production processes could be optimised and good management practice developed. In addition, the measures provided in the Company's operational plans were performed and functions were effectively distributed among the employees.

07

WE LAUNCHED INNOVATIONS

In 2012, Lietuvos energija, AB implemented an innovative operational system enabling a more effective management of an innovation process, promoting employee creativity and innovation development. The Company's employees can provide their innovative ideas and proposals and contribute significantly to the improvement and management of the Company. Last year employees proposed 35 innovations, four of which were implemented during the same year. In a competition "Innovation Prize 2012" the system of innovative operations created by Lietuvos energija, AB became a winner.

08

WE MODERNISED

In October 2012, the operational staff of Hydro Power Plant Department of Lietuvos energija, AB started to control Kaunas hydro power plant from the Kruonis PSPP central control station. A modern centralised control process enabled to exercise remote control of the object.

09

WE INITIATED IMPORTANT PROJECTS

In 2012, Lietuvos energija, AB launched phase II of the project on investigations and modeling of Syderiai geological reservoir with a goal to determine its suitability to construct a natural gas storage facility. The first exploration well with two deviated branches were drilled in Syderiai geological structure located in the Telšiai region. Last year the Company launched projects of Kruonis storage plant expansion, construction of new biofuel heat energy generation boilers in the Lithuanian Power Plant and decommissioned two units of Lithuanian Power Plant.

10

WE ARE MORE SOCIALLY RESPONSIBLE

In 2012, the Employee Code of Conduct of Lietuvos energija, AB was adopted. It is based on the Company's values. During the same year the Company started to implement social projects aimed at the Elektrėnai community, joined the professional volunteer project "What for?". The company employees were actively involved in the blood donation campaign and other social events.

Key Financial Indicators 2012

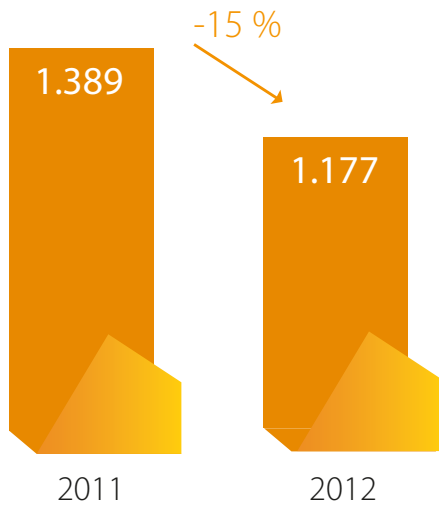
The Company's revenue amounted to **LTL 1 177 million**. The biggest share of income comes from the sale and export of electricity, capacity reserve and revenue from services of general economic interest.

There was a **18 %** decrease in Company's costs in 2012. The lion's share of costs came from buying electricity and related services as well as the costs of fuel consumed to generate electricity.

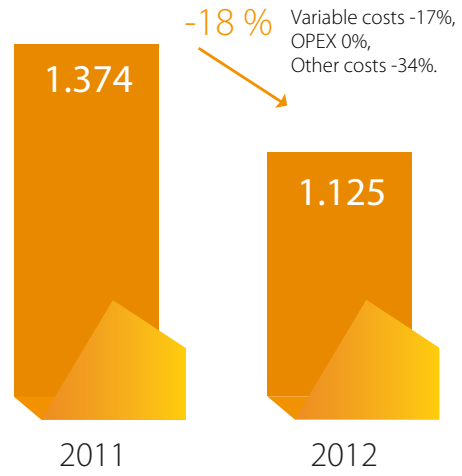
EBITDA increased by 39 % and amounted to LTL 116 million. Not considering the decrease of the value of tradable emission permits (TEP), EBITDA amounted to LTL 146 million.

EBITDA margin **increased by 3.8 percentage points**, i. e. from 6 % in 2011 to 9.8 % in 2012. Not considering the decrease of the value of TEP, EBITDA margin was 12.4 %.

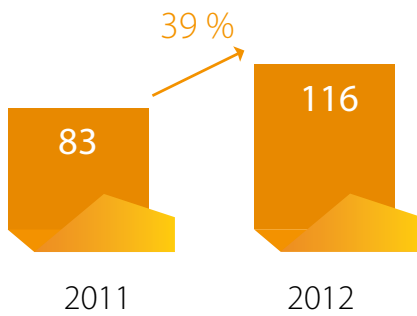
Revenue, LTL million



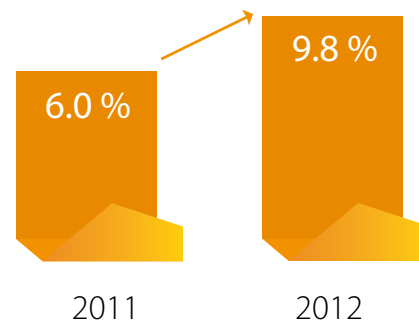
Costs, LTL million



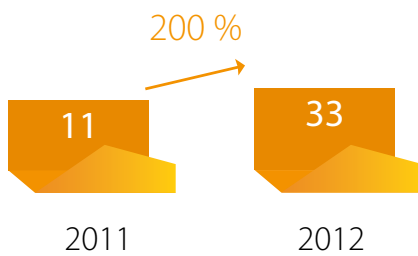
EBITDA, LTL million



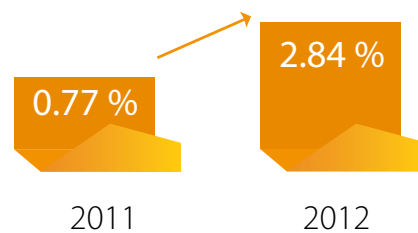
EBITDA margin



Net profit, LTL million



Net profit margin



Key Performance Indicators for 2012

In 2012, similarly to previous years, the results of Lietuvos energija, AB were mainly influenced by the liberalisation of the electricity market which caused a decrease in income. Besides, income from regulated activities accounts for a major (51 %) part of the Company's income, while the rate of return is not included when establishing Lithuanian Power Plant production and system services price, which results in low profitability indicators.

Income

The Company's income for 2012 amounted to LTL 1 177 million. The main part of the income is formed by income from the sale and export of electricity, capacity reserve, and SGEI*. As a result of market liberalisation, the Company's income decreased by 15 % compared to 2011 (in 2011, it amounted to LTL 1 389 million). Last year, the free electricity market grew rapidly; however, because of less favourable prices, the Company's sales to independent suppliers decreased by nearly 49 %. In the meanwhile, the regulated part of the market shrank, which resulted in a 16 % drop in sales to AB LESTO.

Generation of electricity

In 2012, the total electricity production of the Company in Lithuanian Power Plant, Kaunas HPP and Kruonis PSPP amounted to 2.2 TWh, i.e. 9 % more than in 2011.

In 2012, supported electricity production at Elektrėnai was 1.42 TWh or 29 % more power was produced than in 2011. On the other hand, production in other power plants owned by the Company decreased during the period. Compared to 2011, the production of Kruonis PSPP decreased by 12% (from 0.534 TWh to 0.472 TWh). During the aforementioned period, the electricity production volumes of Kaunas HPP dropped by 20 % (from 0.387 TWh to 0.311 TWh) because the average yield of the river of Nemunas was considerably lower than the long-term average yield.

The reliable operation of the power plants owned by Lietuvos energija, AB, especially that of the reserve power plant at Elektrėnai, allowed to ensure power supply security and managing price fluctuations which were especially significant last year. When in February 2012, as a result of severe frost, demand for electricity surged by 11 % and electricity prices jumped at the Lithuanian Electricity Exchange to the record-breaking heights of the previous year in the similar period, Lithuanian Power Plant increased its production volumes heavily. Thereafter, production at Elektrėnai was higher than usual at the end of summer when the price at the Lithuanian Electricity Exchange hit historical heights during the whole period of the activities of the Exchange.

In 2012 Kaunas HPP, which produces "green" energy from the inexhaustible and clean national energy source – water, generated 28 % of all "green" energy that was produced in Lithuania and transmitted to power grid.

Import and export

In 2012 the Company imported 0.833 TWh of electricity, i.e. almost 20 % less than in 2011 (1.084 TWh). During the same period, export volumes increased by 70 % and the Company exported 0.495 TWh of electricity (in 2011 exports amounted to 0.292 TWh).

Costs

In 2012 Lietuvos energija, AB incurred expenses amounting to LTL 1 125 million, i.e. nearly one fifth (18 %) less than in 2011 when the Company's expenses amounted to LTL 1 374 million.

The biggest portion of the Company's expenses (LTL 958 million or 85 %) was formed by the expenses of purchasing electricity or related services and fuel electricity as well as heat production. Variable expenses decreased by 17 % compared to 2011.

In 2012, the Company maintained the level of operating expenses (OPEX) of 2011. Other expenses decreased owing to a lower negative impact of the revaluation of tradable emission permits (TEP) compared to 2011.

Regulated and non-regulated activities

In 2012 income from regulated activities (which includes supported electricity and heat production and capacity reserve services of Lithuanian Power Plant) accounted for 51 % of the total income of the Company; however, the Company incurred a pre-tax loss of LTL 13 million from regulated activities, while EBITDA reached LTL 42 million. The drop in the market prices of tradable emission permits had the biggest impact on the loss of regulated activities.

In 2012 the EBITDA of non-regulated activities, which includes electricity sales from non-regulated sources (production at Kruonis PSPP and Kaunas HPP as well as import), other income and expenses as well as a part of administrative expenses, amounted to LTL 74 million, while pre-tax profit reached LTL 56 million.

Profitability indicators

Although income decreased in 2012, the Company's EBITDA margin increased to 9.8 % from 6 % in 2011. Net profitability increased by 2 percentage points. In 2012 EBITDA was LTL 116 million, and net profit was LTL 33 million.

Low profitability indicators are substantially preconditioned by the specifics of the Company's activities – in 2012 income from regulated activities, i.e. the electricity and heat production of Lithuanian Power Plant and capacity reserve services provided by Lithuanian Power Plant and Kruonis PSPP, accounted for around 51 % of the Company's income. When establishing the price of the production and system services of Lithuanian Power Plant, the rate of return is not taken into consideration.

Investments

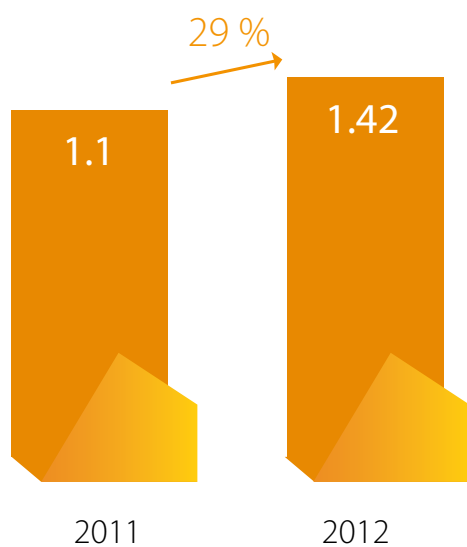
In 2012 the Company's investments in long-term assets amounted to LTL 175.6 million. The biggest portion of the investments, LTL 167.6 million (including capitalised interest), was formed by investments in the new combined cycle unit of Lithuanian Power Plant. In 2011 investments in the unit reached LTL 263 million.

**SGEI – services of general economic interest.*

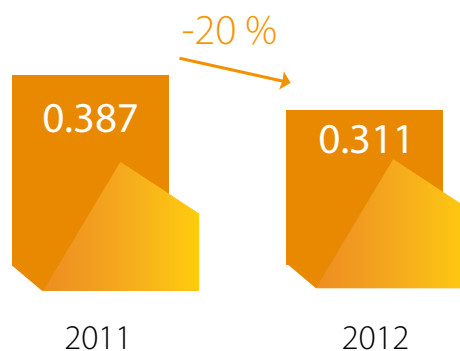


Generation of electricity, TWh

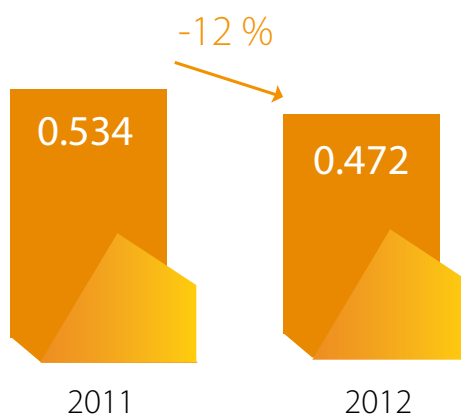
Lithuanian Power Plant



Kaunas Hydroelectric Power Plant

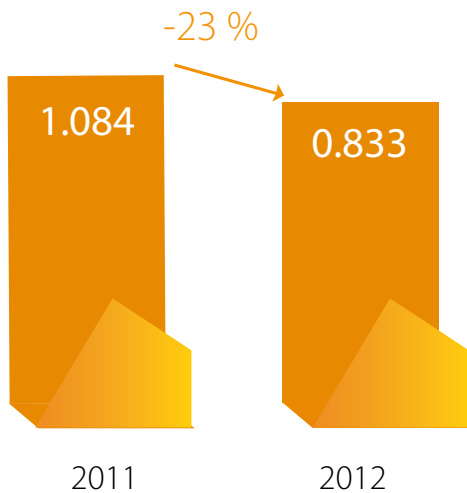


Kruonis Pumped Storage Hydroelectric Plant

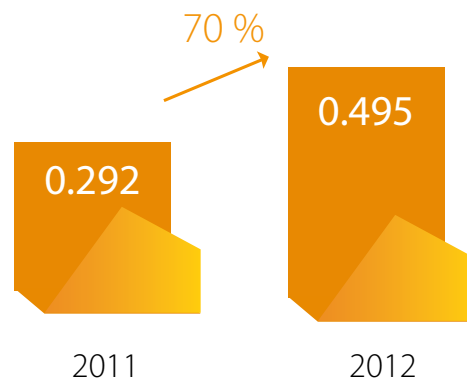


Import and export, TWh

Import

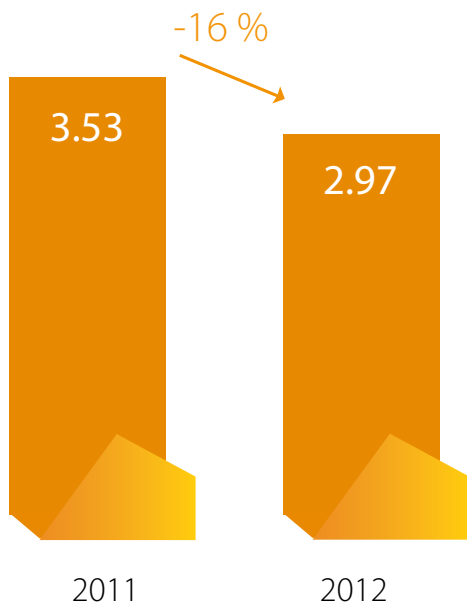


Export

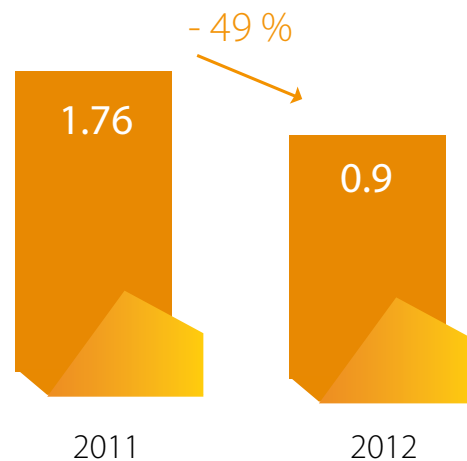


Sales to AB LESTO and independent suppliers, TWh

Sales AB LESTO



Sales at the Lithuanian Electricity Exchange and to independent suppliers



Analysis of the External Environment

Energy sector reorganisation

2012 was the first year when Lithuanian Power Plant, Kruonis PSPP and Kaunas HPP during the whole year operated as a single electricity production block formed on the basis of Lietuvos energija, AB. Such electricity production capacities management structure, compared to previous years, allowed successfully reducing the operating expenses of the power plants.

In September 2012, in implementing the principle of separating electricity transmission activities from electricity distribution, supply and production activities in accordance with requirements established by EU Directives, the shares of the vertically integrated company UAB Visagino Atominė Elektrinė, which operates Lietuvos energija, AB carrying out production activities and AB LESTO carrying out distribution activities, were transferred to the Ministry of Economy according to the right of trust, and the shares of Litgrid, AB, the electricity transmission system operator that had been operated by Visagino Atominė Elektrinė, were transferred to EPSO-G, a company controlled by the Ministry of Energy. Therefore, the Ministry of Economy became responsible for the business and commercial area of electric energy, and the Ministry of Energy – for the execution of strategic electric energy tasks.

Regulation

Pursuant to the Law on Electricity of the Republic of Lithuania, the National Control Commission for Prices and Energy shall regulate the prices of electricity and reserve capacity sold by producers and independent suppliers that have a significant impact in the market. Price limits for the capacity reserve services provided by the power plants controlled by Lietuvos energija, AB for 2012 were established by respective decisions of the National Control Commission for Prices and Energy.

When producing electricity according to the production quotas established by the Government of the Republic of Lithuania, Lithuanian Power Plant receives funds for services of general economic interests because its activities are necessary for the assurance of electricity supply security and sufficient capacity reserves of the energy system. On 29 August 2012, the quota of 1,53 TWh of supported electricity production for Lithuanian Power Plant was Determined. On 19 December 2012, a resolution of the Government was adopted whereby the quota of supported electricity production for Lithuanian Power Plant was reduced from 1.53 TWh in 2012 to 0.9 TWh in 2013. The purchasing price of electricity produced by Lithuanian Power Plant that allows to cover electricity production costs is established by the National Control Commission for Prices and Energy.

Environmental protection

The environmental activities of the Company are carried out in accordance with the requirements of the Integrated Pollution Prevention and Control (IPPC) permits issued by the regional environmental protection departments of the Ministry of Environment of the Republic of Lithuania.

More information on the Company's environmental activities is presented in the section "Corporate Social Responsibility Policy" (see "Ecological responsibility") of the chapter "Corporate Social Responsibility Policy" of this Report as well as in the Consolidated Annual Report of Lietuvos energija, AB for 2012 (see "Environmental Protection", pages 19-20).

Market liberalisation

The liberalisation of the Lithuanian electricity market is defined by the Law on Electricity of the Republic of Lithuania. As the number of regulated consumers of AB LESTO decreases during liberalisation and they opt for independent suppliers, seeking to secure a solid level of electricity sales, Lietuvos energija, AB boosts sales of electricity to independent suppliers as well as at the Electricity Exchange where anonymous trade in electricity is carried out.

A trade zone of the electricity exchange Nord PoolSpot (NPS) was set up in Lithuania on 18 June 2012. Lithuanian electricity producers and suppliers became participants in a large and transparent electricity exchange. The establishment of a trade zone of Nord PoolSpot in Latvia, which is scheduled for 3 June 2013, will become one of the most important steps towards the implementation of the Baltic Energy Market Interconnection Plan (BEMIP), and necessary preconditions for further liberalisation of the electricity market will also be formed.

Wholesale market

The wholesale electricity market is the communication environment for suppliers and producers. Market principles are implemented in this environment through mutual competition between producers (aiming to sell as much electricity as possible) and competition between suppliers (aiming to purchase electricity on as favourable terms as possible).

Currently producers, seeking to sell electricity generated by them, and suppliers, seeking to make up the volume of electricity to be consumed by their clients, purchase electricity of two types in the wholesale market – contract electricity or electricity at the exchange.

Contract electricity means volumes of electricity to be purchased or sold according to hourly electricity supply schedules and prices agreed upon by two enterprises.

Electricity at the exchange means volumes of electricity to be purchased or sold at the electricity exchange where electricity is traded according to the “day before” principle (i.e. electricity is traded every day for each hour of the next day). Quantities and prices of electricity traded at the electricity exchange change each hour depending on the supply and demand of electricity for that hour.

In 2012 the quantity of electricity traded at the Lithuanian Electricity Exchange (before 18 June) and at the Lithuanian Trade Zone of the NPS (from 18 June) amounted to 7 274 920.5 MWh^{**}. The amount of electricity traded at the Lithuanian Electricity Exchange in 2011 was by nearly 9 % bigger at 7 963 855.30 MWh^{***}.

Retail market

The retail electricity market is the communication environment for final consumers and those suppliers who sell electricity to them. Market principles in this market manifest themselves through competition between suppliers, when a consumer has the possibility to choose the most suitable supplier by electricity price, payment terms and other criteria.

It is envisaged that during the period 2010–2015, in certain stages, electricity consumers will choose independent electricity suppliers. From 1 January 2010, those electricity consumers the permissible consumption capacity of the connection of whose facility to the electricity distribution network exceeds 400 kW had to choose independent electricity suppliers. From 1 January 2011, independent suppliers had to be chosen by those consumers whose permissible consumption capacity exceeded 100 kW. From 1 January 2012, independent suppliers had to be chosen by those consumers whose permissible consumption capacity exceeds 30 kW. From 1 January 2013, independent suppliers had to be chosen by all non-household consumers.

According to information of AB LESTO****, 7 461 customers had chosen an independent supplier as of 31 December 2012. In accordance with the Lithuanian Electricity Market Development Plan approved by the Government of the Republic of Lithuania on 8 July 2009, an independent electricity supplier had been selected as of 31 December 2012 by:

Around
90%

facilities whose permissible consumption capacity amounted to 400 kW and more;

Around
76%

facilities whose permissible consumption capacity amounted to 100 kW and more;

Around
58%

facilities whose permissible consumption capacity amounted to 30 kW and more;

Around
18%

facilities whose permissible consumption capacity was less than 30 kW.

Electricity to the remaining facilities continues to be supplied by the guarantee supplier.



Lietuvos energija, AB strategy base

The strategy of Lietuvos energija, AB is based on the following main strategic principles of the Lithuanian energy sector:

- Energy independence (integration in European energy systems, sufficient and competitive local capacities for satisfying domestic energy needs, and diversified energy import);
 - Competitiveness (energy prices are determined by the market and prices are favourable to consumers);
 - Sustainable development (environmentally friendly energy sector and effectively used resources).
-

Assurance of electric energy security in Lithuania

In seeking Lithuania's energy independence, satisfying the Lithuanian electricity demand by using local and diversified energy resources is one of the main tasks.

The main guidelines for the assurance of electric energy security in Lithuania include diversified types of energy resources, diversified sources of energy resources, and possibility to produce in Lithuania a quantity of electricity satisfying the needs of the country.

* The Activity Report for 2012 of the Ministry of Energy of the Republic of Lithuania. The Ministry of Energy of the Republic of Lithuania, 1 March 2013.

** Data sourced from www.baltpool.lt and www.nordpoolspot.com.

*** Data sourced from www.baltpool.lt.

**** Consolidated Annual Report for 2012 of AB LESTO Group.



The Company's Strategy and Strategic Projects

Vision

To become the national producer of electric energy and efficiently operate in the integrated European electricity market

Long-term directions

To generate the amount of electricity capable to ensure energy security and the reserves of the power system

To operate competitively in the electricity and systematic services markets of the Baltic States, Nordic and Western European countries.

Strategic goals



Values

Respect

Responsibility

Professionalism

Cooperation

Proactivity

Mission

To provide effective and diversified energy solutions that meet the demands of current and future customers

Programmes for the implementation of the Company's strategic directions

In developing the Company's activities in accordance with the strategic directions defined in the strategy, it is sought to increase return on assets, to properly represent shareholders' interests, to enhance the Company's competitive ability and to ensure sustainable development.

The established objectives are planned to be achieved by implementing the following programmes:

I. Programme for the assurance of the provision of high-quality services

- Development of Kruonis PSPP (upon evaluation of the development of capacities using renewable resources and demand for system services in the region).
- Maintaining of the market share in Lithuania.
- The Company's actions aimed at applying a stable and fair regulation mechanism for regulated production and reserve services which ensure Lithuania's energy security and reliability of the system.
- Trade in the regional electricity market of the Northern European countries.

II. Programme for the diversification of types of energy resources

- Construction of biofuel power plants.
- Effective management of the electricity trade and production portfolio.
- Well-balanced portfolio of fuel sources.
- Assurance of new import sources at a competitive price.

III. Programme for the implementation of innovations and improvement of operating efficiency

- Encouragement of the implementation of technological and operating excellence innovations.
- Optimal utilisation of the most modern and effective production capacities of Lietuvos energija, AB (combined cycle unit and hydro electrical plant capacities) and reduction of fuel consumption for own needs and in production;
- Optimisation of the production capacities of Lithuanian Power Plant (dismantling of Blocks 3 and 4 and conservation of Blocks 5 and 6).
- Conservation of an integrated asset management system for energy facilities.
- Improvement of operating processes.

IV. Programme for the formation of a new organisational culture

- Improvement of the system of remuneration depending on activity results.
- Assurance of staff turnover.
- Enhancement of competences possessed by the technical personnel and cultivation of new competences aimed at the effective operation of new production capacities.
- Enhancement of managerial and project management competences.
- Improvement of the employee safety and health management system.
- Application of effective communication means.

Prospects for the activities of the power plants operated by Lietuvos energija, AB and its trade activities until 2020

Vision of the activities of Lithuanian Power Plant

With a view to improving the competitive ability of the Power Plant, most electricity will be produced in the most effective unit, i.e. the combined-cycle unit.

If required (for example, when the co-generation plants are out of operation), the combined-cycle unit will ensure electricity supply security and basic needs of consumers.

It is the main power plant which will maintain the tertiary reserve to ensure electricity supply security and energy system reserves in Lithuania.

In heat production activities a development project is envisaged in heat production activities: a project for new heat energy generation capacities, fired with biofuel, will be implemented in Elektrėnai.

Vision of the activities of Kruonis Pumped Storage Power Plant

It is the main power plant which will ensure the secondary reserve in Lithuania.

Due to increase of the need for regulation as a result of the development of new renewable energy resources' capacities in the region and emergence of links with Sweden and Poland, the power plant will produce more electricity and supply more ancillary services.

With regard to the growing demand of ancillary services and new trade opportunities after the emergence of the links, it is planned to implement the project for the development of Kruonis PSPP.

Vision of the activities of Kaunas Hydroelectric Power Plant

The power plant, depending on natural conditions, will produce the maximum possible quantity of "green" energy and provide system services.

Trends and actions of trade activities

Preparations for trade in the integrated system of the Baltic and Nordic countries.

When links with Sweden and Poland are in place, trade will become more active owing to greater possibilities to trade in electricity and system services in the united systems.

It will be sought to maintain the market share in Lithuania, while effectively coordinating the production capacities operated by the Company and electricity traded in Lithuania and neighbouring markets.

Strategic projects of Lietuvos energija, AB in 2012-2013

Project for the development of heat production capacities in Elektrėnai

After carrying out a feasibility study for the development of heat production capacities in Elektrėnai at the beginning of 2012, the Company continues the implementation of the project.

Last year, the following stages of the project for the development of heat production capacities in Elektrėnai were performed: a positive conclusion of the selection concerning the environmental impact assessment was obtained, a positive conclusion concerning the assessment of the impact on public health was obtained, necessary quantities of biofuel were secured – preliminary biofuel supply agreements were signed, investment projects were prepared and the investments were agreed upon by the National Control Commission for Prices and Energy, purchase of the long term loan, ensuring the financing of the project was carried out and, in addition, preparations were made for and an international procurement of design, equipment and works was performed.

It is planned that more than 90 % of the demand for heat will be secured by producing heat in biofuel boilers and which will use local biofuel. In the scope of the project natural gas-fired steam boilers also will be installed and will serve for the functioning of the technological facilities of the Lithuanian power plant and start-up of the units of the power plant to be transferred to reserve.

It is planned that new heat production capacities, which will produce heat for the residents and companies operating in Elektrėnai region will be constructed and put into operation in 2014–2015.

Project for the development of Kruonis PSPP

In 2012, possibilities for the implementation of the expansion project, which would increase total capacity of Kruonis PSPP from 900 MW to 1 125 MW, were evaluated.

Additional flexible capacities of Kruonis PSPP are necessary to ensure future needs of the electricity transmission system and the market. They will enable balancing, in a more flexible manner and in real time, fluctuations in wind power plant production which will continue to grow as Lithuania and other countries of the region increase the share of renewable resources in electricity production. When the links NordBalt and Litpollink are established and as electricity production capacities increase, expansion of Kruonis PSPP will contribute considerably to the security and reliability of the electricity transmission system: it will provide ancillary services and ensure the capacity reserve.

According to the technical characteristic, the new fifth 225 MW hydro unit at Kruonis PSPP will be able to operate at a capacity of 110-225 MW in the pumping mode and at a capacity of 55-225 MW in the generation mode. The new unit is expected to achieve a coefficient of performance of 78 %.

At the end of 2012, technical specifications for the purchase of EPC contract works were prepared and announced for public consultations of potential suppliers.

It is planned that the new unit will be installed by adapting the existing structures, foundations, buildings, other equipment as well as existing engineering infrastructure. According to the assessment of relevant institutions, the planned development of Kruonis PSPP will not make any negative impact on the environment. Investments in the construction of the fifth unit at Kruonis PSPP will amount to around LTL 400 million.

Investigations of Syderiai Geological Structure

In order to construct an underground natural gas storage facility which would allow accumulation of the required reserve of natural gas, in 2011 the 2nd stage of the feasibility study was launched. During this stage, the inspection of seismic data obtained at the 1st stage and surveys of the geological structure in wells were performed by drilling exploratory bores. The purpose of the project is evaluation of the suitability of Syderiai geological structure for construction of a natural gas storage facility.

In 2012, a contractor was selected responsible for the geological and geophysical investigations with an aim to verify the data of the seismic surveys, define the boundaries and the composition of Syderiai geological structure, evaluate the tightness of faults limiting the structure etc. Furthermore design documentation for the temporary drilling sites and access roads was prepared, and construction of this infrastructure completed allowing to perform, drilling works and investigations at well Syderiai-2 and its deviated branches Syderiai-2R and Syderiai-2R1.

Establishment of an industrial park at Kruonis PSPP

Lietuvos energija, AB contributes to the implementation of the project "Establishment of an industrial park at the area of Kruonis PSPP" which was acknowledged as an economic project of importance to the state by a resolution of the Government of the Republic of Lithuania in 2010. In 2011, the new boundaries of the area of Kaunas FEZ were approved by adding to it a 75.3 hectare area of the industrial park situated within the area of Kruonis PSPP. The area is planned to be designated for data centre development and other high-tech production and R&D activities. Ministry of Economy as well as its subsidiary company Invest in Lithuania is responsible for marketing of said area for potential investors.

In 2012, the Government of the Republic of Lithuania adopted decisions on the project for the development of engineering infrastructure in the area of Kruonis PSPP. It was decided that Lietuvos energija, AB would be the infrastructure developer, while financing the project from structural funds of the European Union (support of LTL 9 million is envisaged). In November 2012, Lietuvos energija, AB initiated the engineering infrastructure construction works stage. It is planned to construct engineering infrastructure (to reconstruct the existing concrete-paved road, to install water wells and to lay storm-water networks) in Kruonis Industrial Part by the end of 2013.

Project for the construction of Petrašiūnai Co-Generation Power Plant

Taking into account that prices of heat supplied in a centralized manner constantly grow in the city of Kaunas and in order to ensure lower heat price for heat consumers in the city of Kaunas as soon as possible, in 2012 Lietuvos energija, AB planned participation in the project for the construction of Petrašiūnai Co-Generation Power Plant. At the beginning of 2013, a memorandum was signed between Lietuvos energija, AB and AB Kauno energija regarding the intents of the parties to develop this project.

Corporate Social Responsibility Policy

Corporate social responsibility policy at Lietuvos energija, AB is focused around corporate values and sets forth Company's approach to its operations, inclusion of social, environmental principles and principles of transparent operations into its internal processes and relations with stakeholders.

The Company is committed to the ten principles of the Global Compact and giving meaning to its activities by respecting general employee and human rights, environmental and transparency aspects. These universally accepted and declared cornerstones of responsible behaviour are included in the corporate social responsibility policy, and the policy stands as a clear and strong guideline for the development of activities of a socially responsible business in the future.

Lietuvos energija, AB develops annual plans of social responsibility activities, implements them and describes them in publicly available social responsibility reports.

Lietuvos energija, AB goals in implementing corporate social responsibility

- Continuously improve business practices; ensure transparent management, targeted introduction of modern human resource management methods; participate actively in the dialogue with social partners; pay increased attention to technical and scientific progress and education of professionals.
- Attract and retain qualified workforce, as well as build long-term partnerships and common successful future of the company through mutual value generation.
- Run the business in line with the expectations of society; maintain close relations with higher education institutions and specialized vocational schools engaged in the training of energy professionals; shape a positive image of the Company not just among its employees but also in the geographical, scientific community and the public in general.
- Through continuous professional development, qualification refresher courses create environment and conditions that enable every employee to improve their abilities and acquire new skills; collaborate with research institutions, support programmes aimed at training a new generation of energy professionals as to ensure continuity of Company's activities by attracting young and talented professionals.

Benefits of corporate social responsibility policy implementation

- Positive image in the eyes of the public.
- Reputation of a good employer.
- Successful crisis management.
- Favourable medium for building relations with public authorities.

Directions of social activities

Areas of social responsibility at Lietuvos energija, AB are selected and met by taking the nature of corporate activities, strategic goals and targeted audiences into account. Social activities of the Company are focused on economic, ethical and ecological responsibility.

Economic responsibility

The Company is an active player on the electricity energy market and strives to ensure quality provision of services to its customers. To achieve these goals a professional team of specialists plays an important role. At the end of 2012 the Company had 511 employees (including employees on child care leave); of the said number 58 per cent were specialists and middle managers, 40 per cent were workers and 2 per cent were executives. In the past year the Company had 26 students from higher education institutions and colleges as interns; one of them was subsequently offered a job in the Company. A detailed breakdown of staff composition at Lietuvos energija, AB by gender, age, educational background and years worked in the Company can be found in the consolidated annual report of Lietuvos energija, AB for 2012 (see Personnel Policy, p. 17–19).

The Company understands the importance of professional development and on-going learning and thus pays great attention to economic responsibility – education of the existing workforce and young professionals, organization of training, qualification refresher courses. In 2012, as a result of a number of expansion and production capacity modernization projects undertaken, the Company sought to strengthen project management capacities of its workforce, focused on capacity building for managers and foremen working at production divisions. For more information about employee participation in training and other professional development programmes for employees see subsection Employee Development under the Personnel Policy section of this report.

The two changes to the structure of Lietuvos energija, AB that took place in the past year (the establishment of the Combined Cycle Unit Service in January and the merger of the Department of Kruonis Pumped Storage Power Plant and the Department of Kaunas Hydroelectric Power Plant into one Department of Hydroelectric Power Plants finalized in April) had little impact on the number of employees. The impact was mostly felt among the employees of retirement age who got the opportunity to retire as a result of these structural changes at the Company.

The establishment of a single Department of Hydroelectric Power Plants was seen as having had a particularly positive result. The merger created synergy between personnel of the two pumped storage plants giving them the opportunity to learn more, expand areas of their responsibility, upgrade qualifications and develop professionally. The merger also gave the possibility to share good engineering and managerial practices much easier, disseminate good working methods to other divisions much more efficiently. The decision made in the fall to merge the Department of Hydroelectric Power Plants with the Department of Lithuanian Power Plant and subsequently have a single Production Department as of 1 January 2013 has strengthened synergy even further and opened up even more possibilities to increasing efficiency of operations.

Ethical responsibility

In the pursuit of maintaining motivation and promoting participation in social life we sincerely take great care of the most treasured assets of the Company that is its people. Corporate ethical responsibility is not limited to Company's employees but also includes employees' families and members of the community. We put every effort to ensure that our employees feel safe, are timely informed on relevant matters and personally actively contribute to the implementation of social initiatives.

The Company offers its employees pay by result and level of competences held. Corporate personnel policy requires pay and performance appraisal system at the Company to be developed under the principles of justice, transparency, universal application and comparability. The objective is to have every employee informed on the level of their position on the corporate matrix of position levels, possible career directions and the correlation between employee performance and pay. This is discussed by the employee and their immediate superior during an annual performance appraisal interview. In 2012 the Company introduced a new pay and performance appraisal system based on the model of competences also developed by Lietuvos energija, AB in 2012. Representatives of trade unions operating at the Company were closely involved in the development of the new pay system. For more details on the system see subsection Pay and Performance Appraisal in Personnel Policy section of this report.

For more details about how the Company ensures that its employees are informed of career possibilities see subsection Human Resource Planning under the Personnel Policy section of this report.

The Company is interested in hearing opinions of its employees on important areas of organisation's activities and to this end conducts employee opinion survey once a year. For more information on how the survey is conducted and changes introduced in light of the findings of these surveys see subsection Employee Opinion Survey under the Personnel Policy section of this report.

The Company takes great care to ensure safety of its employees at work. For more information see Occupational Safety section of this report.

The Company aims to involve its employees in social initiatives, propose solutions and actively encourage to act. We believe that corporate events and traditions promote the sense of belonging to a community. In 2012 we came together to mark the occasions of February 16th and July 6th and award top performing employees of the Company. We awarded and supported them for exceptional work and living by corporate values.

We also thanked each other for effective cooperation and living by other values during an event held for the occasion of winter holidays which also highlighted corporate values. We did not forget and the little ones of our employees – the Company organized a festive holiday performance and gave out holiday gifts. Among the invitees to the festivities were children from Child Foster Care Home in Elektrėnai. The Company also brought gifts to children living in socially vulnerable families of Elektrėnai.

In September employees were actively involved in a blood donation campaign.

In 2012 Lietuvos energija, AB joined a professional volunteering project Kam to reikia?! (Who needs it?!) offering students interested in activities of the Company a chance to visit and take a tour around Kruonis Pumped Storage Power Plant, Kaunas Hydroelectric Power Plant and Lithuanian Power Plant all year round.

The Company also cares for its employees with school-age children and for that reason put together and handed out first-year school baskets – kits of essential school supplies – for September the 1st. The Company also donated these baskets to children at Child Foster Care Home in Elektrėnai and first-year school goers from socially vulnerable families attending educational establishments in Elektrėnai.

In autumn the Company also held a drawing competition for employees' children. Drawings by children were used as illustrations for the Lietuvos energija, AB calendar for 2013.

In 2012 in collaboration with Elektrėnai Public Library the Company launched a series of events Lietuvos energija Presents. These events are held for employees of Lietuvos energija, AB and members of Elektrėnai community. The Company invites to Elektrėnai renowned figures from the worlds of culture, science, economics, politics and sports to share their experiences, invite community to discuss relevant matters. The guest invited to the first event held in December was Franciscan priest Julius Sasnauskas.

The Company promotes healthy life style and physical activity. Lietuvos energija, AB basketball teams are active participants in youth and veteran games, annual Family Olympics of Lithuanian energy professionals, etc.

Ecological responsibility

Lietuvos energija, AB aims to protect the environment from harmful impacts of its activities, use natural resources rationally, introduce modern, efficient and environmentally safe technologies in production, and abides by environmental regulations and laws, applies preventive measures in a professional manner as to reduce adverse effects on the environment.

Key environmental objectives are safe operation of facilities, safe use of substances potentially harmful to the environment, management of resulting waste, maintaining fluctuations of water levels at Kauno marios (Kaunas Reservoir) and River Nemunas downstream of Kaunas Hydroelectric Power Plant within permissible ranges, etc.

For more information on waste and waste water management in 2012, as well as preventive measures taken by the Company to ensure safe environment see the consolidated annual report of Lietuvos energija, AB for 2012 (see Environmental Protection, p. 19–20).

In April of 2012 employees traditionally participated in the civic environment cleanup campaign Let's do it 2012. During the campaign Lietuvos energija, AB employees performed a cleanup operation of territories around all three power plants, Elektrėnai pond, and waste recycling operation.

In 2012 the Company cut down its paper consumption by five times as compared to 2011 – 385 thousand and 1.677,5 thousand paper sheets respectively, or 154 and 671 boxes of paper. This huge difference in consumption was the result of less paper work needed (reorganization of the Company in 2011 required large numbers of documents being produced). Besides, the ever bigger share of paper work gets moved onto the electronic sphere: documents can be drafted, signed off and sent out to employees for familiarization over the document management system.

Human Resource Policy

The key objective of Lietuvos energija, AB personnel policy is to attract and retain a qualified workforce, build long-term partnership with Company's employees and a common successful future for the Company through mutual value generation.

At the end of 2012 the Company had 511 employees (including employees on child care leave); of the said number 58 per cent were specialists and middle managers, 40 per cent were workers and 2 per cent were executives.

In 2012 Lietuvos energija, AB continued the process of shaping a new organisational culture started back in 2011. 2012 was the year when the principles of personnel policy were finally established: the Company has introduced a single pay and performance appraisal system based on the model of competences; approved eligibility criteria for personnel training; defined principles of long-term human resource planning and personnel selection.

Pay and performance appraisal

1 April 2012 saw the establishment of a new pay and performance appraisal system at the Company based on the model of competences also developed by Lietuvos energija, AB in 2012. Representatives of trade unions operating at the Company were closely involved in the development of the new pay system.

The pay and performance appraisal system at Lietuvos energija, AB is based on the principles of justice, transparency, universal application and comparability. Pay of all employees at Lietuvos energija, AB, including executives, consists of a fixed portion, variable portion and a bonus. The only exception to the system is board members. The fixed portion of pay is determined based on the level of position and competences of employee. The fixed portion of pay is reviewed once a year during the annual performance appraisal process. The variable portion is paid by measurable result, i.e. for achievement of goals or targets set for each specific position. Managers and administrative specialists have annual goals, whereas variable portion of pay for production specialists and workers depends on their monthly results. Payment of variable portion of pay for executives is distributed over the period of three years.

Employee performance appraisal process takes place in the Company once a year. The appraisal process starts with a 360° survey to assess managerial and general competences of managers and specialists. Competences are assessed by employees personally, by their superiors and by co-workers. This is followed by the appraisal of professional competences done employees personally and their superiors. After that the process moves onto the annual appraisal interview during which a superior and employee discuss results of the appraisal process, assess the level of goals reached for the past year, set new goals for the upcoming year, review the fixed portion of pay and plan professional development measures.

Employees feel positively about the new pay system. Based on employee opinion survey done in January of 2013, Work Pay area was evaluated 0.5 point better than in the last survey (January 2012).

Additional monetary pay includes benefits, material support, additional days of paid vacation, one-time bonuses for extra work load, exceptional work results, proposals for and introduction of innovations. Additional non-monetary pay includes training paid for by the Company, events for employees and their children paid for by the Company, services of a medical station, and vaccination shots against seasonal illnesses.

Human resource planning

The new model of competences at Lietuvos energija, AB became the basis for human resource planning. The model of competences serves as a tool to look at competences currently possessed by employees and to compare those with the competences that will be needed by the Company in the near future, that is, within the next three to five years. If it is ascertained that there will be a shortage of employees with certain competences, an action plan is drawn up setting out measures on how to acquire the missing competences through professional development of existing personnel or recruitment of new personnel.

When a vacancy needs to be filled the Company first of all looks at its existing employees and holds internal training. Only if no suitable candidates among the existing employees emerge, then the search is extended beyond the Company. In 2012 such approach to recruitment resulted in 41 promotions of existing employees, and 8 members made successful horizontal career moves (changed positions to personally more attractive ones).

Employee development

By employing the model of competences the Company aims at targeted development of its employees and upgrading of employee qualifications. Employees are encouraged to attend qualification upgrading courses and subject-specific conferences. During professional training courses employees refresh their compulsory technical knowledge and receive necessary certificates of qualifications and other certificates. At seminars and conferences employees familiarize with innovations and good practice in the field of energy. In 2012 qualification upgrading courses were attended by 145 employees from Company's production divisions and 78 administrative staff and executives.

The Company seeks to build managerial and personal efficiency capacities of its employees. In order to build a united and exceptionally performing team of employees possessing leadership skills and to help members of that team to discover and develop even further their strengths Lietuvos energija, AB launched its Talent Programme in July of 2012. Company's talents are employees who not only excel in their work and live by corporate values but also are active team leaders driven by desire to contribute to Company's excellence.

There are 26 employees involved in the Talent Programme. They initially received training designed to help them improve on team work skills, understand their individual potential and develop skills how to develop this potential in workplace scenarios. The cycle of training consisted of four seminars. Each training seminar was followed by a feedback session where participants had the chance to consolidate knowledge acquired. While the Programme was running members of the Talent Team took personal active action aimed at improving situation at the Company. They listed areas that need improvement in the Company and made proposals as to possible improvements. The Talent Team is already implementing initiatives designed to strengthen collaboration among Company's employees.

Employee opinion survey

To find out employee opinions on important areas of organisation's activities the Company conducts an employee opinion survey once a year. The Company asks its employees opinion on work environment and organisational culture, information dissemination at the Company, career and development opportunities, and pay and appraisal. Survey is done in the form of anonymous questionnaires. The Company then looks at the findings of these surveys and develops action plans to improve on areas of activities with poor scores from employees.

Acting upon the action plan developed after the survey conducted in the beginning of 2012 the Company has introduced a new pay and performance appraisal system, improved functionality of information terminals, developed Operations Manual including graphic representation of processes at the Company which also depicts hierarchy of process and correlations between them. The outcome of these targeted actions was a better evaluation of all areas covered by 2013 employee opinion survey as compared to the survey of 2012. Significant improvement in evaluations was observed in the areas of work pay and corporate values. More and more employees are engaged with, understand and relate to corporate activities and are proud to be part of Lietuvos energija, AB.

Improvements to internal communication

In 2012 proactive internal communication was made a priority for the Company. The Company held meetings with its employees to discuss plans for changes to the corporate structure and present performance indicators. Each stage of structural changes was preceded by meetings of division managers where structural changes were expected and HR and communication managers with the workforce of the divisions affected. Meetings served as a tool to explain the reasons behind structural changes and answer any questions employees might have.

Cooperation with trade unions

Company's management pays great attention to the collaboration with trade unions and hold regular meetings with representatives of trade unions. Meetings are used to discuss planned strategic projects, expected changes to the organisational structure, decide on various matters of personnel policy. Representatives of trade unions are the voice of employees and as such help the Company to improve workplace conditions at the Company. Today we can say with great confidence that trade unions are our partners in finding the best solutions to both employees and the Company.

Lietuvos energija, AB is bound by a collective agreement signed back in 2011 which sets forth such matters as work and rest time, pay for work, additional social benefits to employees, workplace safety and health, and social care. Some of the work conditions established in the collective agreement provide for bigger benefits to employees than those set forth in the Lithuanian Labour Code.



Occupational Safety and Health Culture

The Company is interested in maintaining and improving the effectiveness of occupational safety and health policy and goals which were established in the OHSAS 18001.2007/LST 1977.2008 certificate awarded to the Company. The success of the occupational safety and health management system is dependant on the efforts of all employees and managers of the Company. In 2012 the Company continuously sought to achieve the goals set by implementing OHSAS standard's model Plan-Do-Check-Act.

Company's managers were presented two management reviews for 2012 occupational safety and health management system which assessed the efficiency of the management system, its effectiveness and provided recommendations for improvements.

The Company is particularly focused on building occupational safety and workplace health culture, increasing employee responsibility levels and achieving objectives set. In 2012 there were investigations into 5 minor accidents and all of them were recognized as insurance events. There were no fatal workplace accidents or sever traumas, or emergencies at the Company.

The Company takes great care of health of its employees. In 2012 the Company organized free medical check-ups for all employees to whom medical check-ups are mandatory. 297 employees received flu shots and vaccination against and tick-borne encephalitis, and training in hygiene and first aid administration.

To ensure occupational safety at workplace and meet employee expectations the Company intends to toughen quality requirements for personal protection gear in new public procurements.

2013 was declared the year of the new occupational safety and health culture.

Fire safety in Lithuanian Power Plant is the responsibility not just of responsible employees at the Company – the Company has an agreement with Elektrėnai Fire and Rescue Service. In 2012 the Company organized 4 functional drills to improve on skills of fire suppression, managing a rescue operation, managing rescue forces on the scene, as well as to inspect the suitability of technical and organisational measures. It is in the Company's best interests to maintain a high level of fire safety assurance level on its facilities and to this end the Company is committed to and periodically updates personal protection gear for the staff at Elektrėnai Fire and Rescue Service, fire suppression gear and equipment.

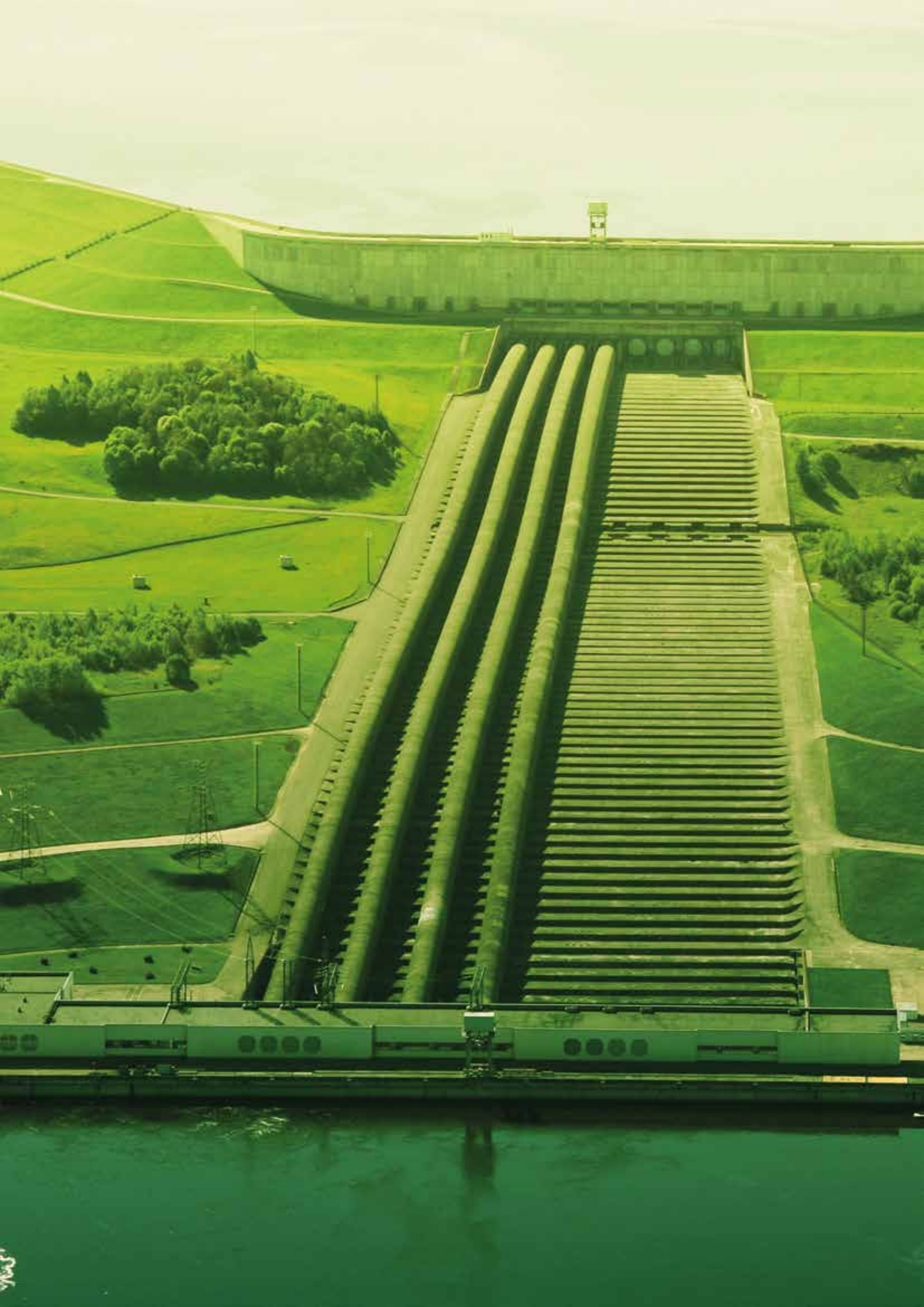
Innovations

In 2012 Lietuvos energija, AB was awarded the Innovation Award 2012 in the category of Innovative Company. The Innovation Award is a national competition which has been running for eight years now and Lietuvos energija, AB was the only company in which the state is a majority interest holder to receive this award in 2012.

The goal of this competition is to promote entrepreneurial thinking, technological progress and give the opportunity to businesses to assess their competitiveness and innovativeness. Lietuvos energija, AB received the Award in recognition of its efforts and work in developing innovative activities – the Company encourages its employees to submit new ideas and is actively involved in putting those ideas to reality.

The Company has introduced an innovative system of operations which helps to manage the innovative process more effectively, promotes employee creativity and development of innovations. Innovative ideas can come from any employee. Any innovations proposed are assessed in two categories. Technological innovations include upgrades to installations and modernization of the same which in turns enables savings in the production process and elimination of most frequently occurring failures. Authors of performance excellence innovations make proposals as to more efficient performance of routine works and improvements to business processes. The Company periodically holds best innovation awards and implements most creative and cost-effective innovations. In 2012 employees put forward 35 innovations – four of them were implemented the same year.

The national competition Innovation Award 2012 is organized by a public institution Lithuanian Innovation Centre in collaboration with the Lithuanian Confederation of Industrialists and Agency for Science, Innovation and Technology and with Ministry of the Environment being the patron in the competition. In 2012 after several stages of selection from over two hundred businesses which showed interest in competing and 50 final participants awards were handed out to ten winning businesses in two categories.





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