

Corporate Responsibility Report of Lietuvos Energija Group 2018





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Leader's word

Dears,

We understand the significance of our activities for society, the market and the environment. That is why in 2018 Lietuvos Energija Group further continued practice of responsible activities. This Corporate Responsibility Report of Lietuvos Energija Group provides an overview of key activities and events in 2018. We have prepared the Report to show how our approach to responsible business and the principles of corporate governance are reflected in our day-to-day activities and future plans.

Lietuvos Energija Group continued to implement changes that drive progress throughout the organization and business environment: we invested in innovation, educated people about energy efficiency and promoted it, increased equal opportunities, we focused on employee wellness and the development of responsible business practice not only at the level of energy sector but also nationally.

In May 2018, we presented a new operations strategy LE 2030. In implementing the new strategy of Lietuvos Energija, the particular attention is given to sustainable development on the international market, ensuring strategic energy production and development of renewable energy production, quality and efficiency and transparency. In 2018, development of capacity of energy production from renewable sources, development of organizational culture, and investing in talents remained the priority directions of responsible activities.

Much more attention was also paid to improving customer service, shortening the time needed to connect new customers to the electricity and gas grid, and mastery of day-to-day operations.

In 2019, huge changes will further take place in Lietuvos Energija. We will continue to make great efforts to ensure stable energy production, to become a green and innovative international company that would bring tangible benefits to every resident of Lithuania.



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Dalius Maikštėnas,

**the Chairman of the Board
and the CEO of Lietuvos
Energija**

About the Report

This Corporate Responsibility Report of Lietuvos Energija has been prepared in view of United Nations (UN Global Compact principles and in assessing own activities in the context of Sustainable Development Goals (SDG).

Energijos skirstymo operatorius (ESO) and Lietuvos energijos gamyba (LEG), the two companies of the Group which are listed on the NASDAQ Stock Exchange, also submit separate Social Responsibility Reports which in accordance with the membership obligations in the UN Global Compact are also published on www.unglobalcompact.org. The ESO report is drafted in accordance with the Global Reporting Initiative (GRI) guidelines, while the report of LEG – in accordance with the principles of the UN Global Compact.

In this report of Lietuvos Energija we present the activities of the companies of the energy group in 2018, which include production, trading and supply, distribution, services and customer service. The Report shall be in Lithuanian and English, and is published on the website www.le.lt and on the websites of the companies of the Group in order to be easily accessible to interested parties. The Report is not audited or reviewed by third parties.

We strive to continually improve our accountability, and therefore we will appreciate your comments and suggestions. Please send them to the e-mail address komunikacija@le.lt.

The companies of the Group ESO and Lietuvos energijos gamyba are the member of the UN Global Compact. ESO is a member of the Association for Responsible Business of Lithuania (LAVA), the company participates in activities of the Board. LAVA represents the UN Global Compact in Lithuania.



Principles and priorities of corporate responsibility

In its activities Lietuvos Energija Group is guided by the principles of the UN Global Compact which define corporate responsibility in the areas of human rights, employee rights, environmental protection and fight against corruption, and seeks to minimize the impact of its activities on the environment, community, other businesses, and to share joint efforts when participating in addressing economic, social and environmental challenges, to contribute to development of society and economic growth.

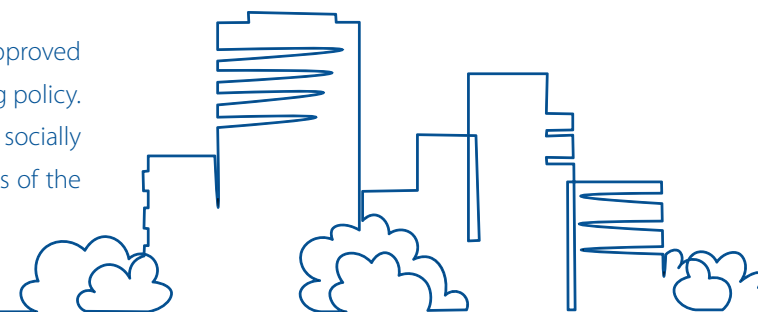
Lietuvos Energija voluntarily seeks to ensure long-term progress of business and society, to contribute to the social development and well-being of society. The main goal of the strategy of Lietuvos Energija Group - to double the value of the Group by 2020 and become the most valuable energy company in the Baltic States.

This value is understood as a sustainable balance between three elements: return on assets, increase of competitiveness, and responsibilities towards employees, society and the environment.

- The Group's return on assets is raised through expansion: by diversifying activities, developing new economically sound projects and activities, and operating efficiently on a daily basis.
- The Group contributes to increase of the competitiveness of the economy by ensuring a stable supply of electricity and natural gas, developing new products, and promoting the rational use of electricity and natural gas.
- The Group assumes responsibility to the society and employees, proactively implements environmental requirements, ensures continuity and growth of competencies.



In its responsible activities, Lietuvos Energija Group follows the Social Responsibility Policy of the Group of Companies approved by the Board, the zero tolerance policy against corruption, the occupational safety and health policy, the support granting policy. This document defines general policies and provisions of responsible activities under which the culture and practice of socially responsible and sustainable business of the companies of the Group are developed. The Policy is valid for all companies of the Group.



Key challenges



Environmental Protection

In its activities, Lietuvos Energija Group seeks to use state-of-the-art tools, the best available technologies and processes that help reduce environmental impact, promote rational management and use of resources, reduce costs and waste, and to plan development taking into account aspects of potential environmental impact. The companies of the Group also carry out initiatives of educating the public which promote responsible, rational and sustainable use of energy, and increase energy efficiency.



Security

Ensuring operational security is one of the key priorities of Lietuvos Energija Group. To ensure occupational safety in the energy sector, the Group has an occupational safety and health policy in place. The top managers are responsible for a safe and healthy working environment, much attention is paid to the work standards of contractors. The company is committed to educating consumers about safe and responsible handling of electricity and gas.



Citizenship and responsibility in the market

The socio-economic impact of its Group of Companies, responsible market conduct, transparency and relation with the communities in which it operates Lietuvos Energija also considers as an important priority of responsible activities.

Areas of responsibility of Lietuvos Energija and their links with the Sustainable Development Goals:

In social area –

through relationships with the employees and the public in order to ensure human rights protection, workplace quality and safety, equal opportunities, by promoting citizenship, volunteering, maintaining communication and cooperation with local communities, science and business cooperation, public education on the topic of energy efficiency and safe use of energy, and support of activities and projects that are of importance to society of Lithuania. By acting in this area, we contribute directly to the United Nations Sustainable Development Goals:



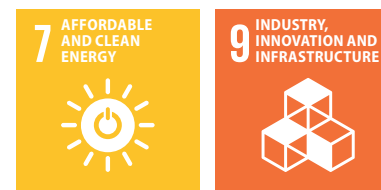
In environmental area –

through the deployment of advanced and sustainable technologies, increasing energy production from renewable and indigenous sources, by promoting and actively participating in preventive programs ensuring environmental protection and cultivation, and by developing energy efficiency services and products. In hydropower production care is taken of fish protection, in maintenance of electricity distribution grids – of bird population protection. By acting in this area, we contribute directly to the United Nations Sustainable Development Goals:



In economic area –

through transparent activities by ensuring profitability of activities carried out and financial return to the shareholder, by advocating ethical and honest cooperation with customers, suppliers, investors, partners, by actively combating all forms of corruption, by providing high quality, safe and reliable services, by improving performance, using and deploying smart and secure digital solutions. By acting in this area, we contribute directly to the United Nations Sustainable Development Goals:



Examples of measures implemented in 2018 to achieve the Sustainable Development Goals:

UN Sustainable Development Goal 2030

4. To ensure inclusive and equitable quality education, and to promote lifelong learning
8. To promote sustainable, inclusive and cohesive economic growth, productive recruitment and proper work
12. To ensure models of sustainable consumption and production

Measures implemented by Lietuvos Energija Group

- We invested in staff education, professional development by organising external and internal training
- We consistently implemented the provisions of human resources policy on equal opportunities, gathering to form trade unions and assurance of human rights across all companies of the Group
- By improving processes and making operations more efficient, we created preconditions for decrease in operating costs and more sustainable financial results
- We have increased the volume of electricity produced from renewable sources
- We improved customer service through remote channels, developed new customer awareness tools
- We organised training for the executives and employees of the companies of the Group on the topics of corruption prevention

11. To make cities and areas inhabited by people safe, resistant and sustainable
13. To take urgent steps of combating climate change and its effects
14. To conserve and use ocean and marine resources for sustainable development
15. To protect, restore, promote sustainable use of terrestrial ecosystems, to manage forests in a sustainable manner, to combat desertification, to stop land degradation, to halt the loss of biodiversity

- We supplied the market with certified Green Lithuanian energy produced from renewable energy sources in Lithuania
- We implement projects of new power plants that will produce energy from waste, which will allow significant reduction of CO2 emissions in cities and reduce waste in landfills across the country
- We provided energy services that help our customers to achieve greater energy efficiency
- We invested in modernization of electricity and natural gas distribution grid as well as projects to increase security of supply
- In hydropower production care is taken of fish protection, in maintenance of electricity distribution grids – of bird population protection

7. To ensure for everyone access to affordable, reliable, sustainable and modern energy
9. To develop resilient infrastructure, to promote inclusive and sustainable industrialization, and to promote innovation

- By implementing social and educational projects in many ways we encouraged business customers, residents and children to take an interest in the sustainable use of energy sources, to take care of energy efficiency, to use safely electricity and gas equipment
- We issued Green bonds, and invested funds collected through them in acquisition and development of climate change mitigation facilities
- We install electric vehicle charging stations by contributing to the development of electric vehicle use throughout the country
- We have reduced the time it takes to connect customers to We provided education modernization, solar power installation services to municipalities and businesses



About the Organisation

Lietuvos Energija Group is one of the largest state-owned energy groups in the Baltic States. 100% of the Group's shares are owned by the state of Lithuania.



Mission, vision, values

MISSION – sustainable increase in value in energy sector by promoting development of the country's economy and society.

VISION – to become the most valuable energy company in the Baltic States.

VALUES – responsibility, cooperation, result.

Briefly about the Group of energy companies

Lietuvos Energija Group is one of the largest state-owned energy groups in the Baltic States. 100% of the Group's shares are owned by the state of Lithuania. The shareholder's rights and obligations are implemented by the Ministry of Finance of the Republic of Lithuania which in 2013 approved the governance model of the Group of energy companies – the Corporate Governance Guidelines which became the basis of activities of Lietuvos Energija Group. The purpose of corporate governance is to achieve an effect of synergy by combining different activities of the companies of the Group, and directing them toward the Group's common goals.

Main activities

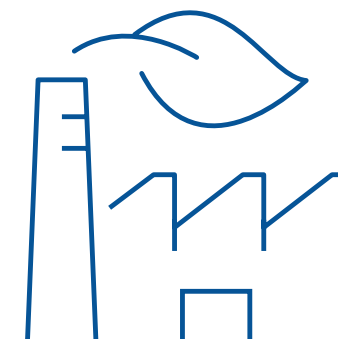
The main activities of the Group include production and supply of electricity and heat, trading and distribution of electricity, trading, distribution and supply of natural gas, as well as servicing and developing the electricity facilities.

Lietuvos Energija UAB, which is the parent company of the Group, is responsible for the management and coordination of the Group's activities, efficiency increase, defines operational guidelines and rules, and coordinates activities in areas of production, commerce, finances, law, strategy and development, human resources, risk management, auditing, technologies, communications and other.

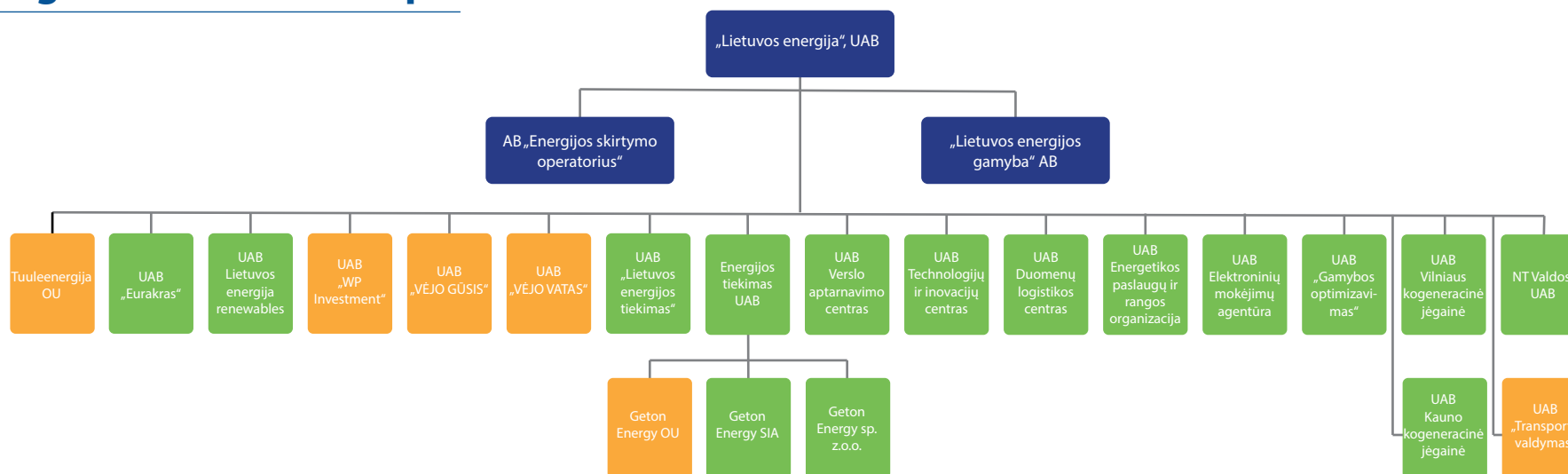


Lietuvos Energija Group implements development projects of strategic importance and implements the objectives of the National Energy Strategy. Lietuvos Energija Group with nearly 4,000 employees manages the most important electricity generation capacity in Lithuania: electricity distribution grid that covers the whole territory of the country, and operates 8.1 thousand km of distribution pipelines by serving more than 1.6 million electricity consumers and nearly 570 thousand gas consumers in all Lithuania. The Group's subsidiaries also operate in Latvia, Estonia and Poland.

In 2018, Lietuvos Energija Group consisted of 24 companies: of the Parent Company and 23 directly and indirectly controlled companies (including the Support Foundation of the Group which is being liquidated).



Management of the Group



<p>The Supervisory Board consists of 5 members (3 of them are independent). The Board consists of 5 members (employed with the Company). The executive of the Company is the Chairman of the Board.</p>	<p>The Supervisory Board consists of 3 members (1 of them is independent). The Board consists of 5 or 3 members (employed with the Company). The executive of the Company is the Chairman of the Board.</p>	<p>The Board consists of 3 members (2 representatives of the shareholder and 1 independent)*. The executive of the Company is not the member of the Board.</p>	<p>Executive of the company. The Boards are not formed</p>
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* Structure of the Boards differs in some companies: The Board is not formed before an active activities; the Board of the companies providing servicing services is formed by ensuring representation of all shareholders, also the provisions of individual shareholder agreements or the implementation of specific legislation are taken into consideration in ensuring representation of all shareholders.

The governing bodies of Lietuvos Energija are the General Meeting of Shareholders and the Board, the supervisory body - the Supervisory Board. The Supervisory Board is a collegial group-wide supervisory body elected by the General Meeting of Shareholders for a 4-year term of service.

On 1 June 2017, the Minister of Finance approved the updated Corporate Governance Guidelines which changed the previously existing procedure of formation of the Supervisory Board. According to the Corporate Governance Guidelines in force before the amendment, the Supervisory Board consisted of 7 members, 3 of whom were independent and 4 members were delegated by the Government of the Republic of Lithuania, the Ministry of Finance, the Ministry of Economy, and the Ministry of Energy.

According to the new Corporate Governance Guidelines, the Supervisory Board is a collegial supervisory body provided for in the Articles of Association of the Company, and elected by the General Meeting of Shareholders for a 4-year term of service. The Supervisory Board of Lietuvos Energija consists of 5 members – 2 members representing the Ministry of Finance, and 3 independent members. The Supervisory Board elects the Chairman from its members. Such a model of the Supervisory Board formation meets the principles of corporate governance. To ensure effective performance of its functions and obligations, the Board of Supervisors sets up Committees. The Committees of the Supervisory Board, as per their competence, submit their findings, opinions and proposals to the Supervisory Board. The Committee must consist of at least three members, at least one of whom is the member of the Supervisory Board, and at least one is an independent member. The members of the Committees are elected for a 4-year term of service.

The Board is a collegial management body provided for in the Articles of Association of the Company. Under the proposal of the Appointment and Remuneration Committee, the members of the Board are elected for a 4-year term of service and are revoked by the Supervisory Board. The Board that consists of 5 members elects the Chairman of the Board – the CEO of the Company - from its members. The members of the Board, as per their competence, must ensure proper conducting of the Company's activities / curating of relevant areas at the Group's level.



Strategy of the Group

In May 2018, Lietuvos Energija Group of Companies presented a new operations strategy LE 2030. In implementing the new strategy of Lietuvos Energija, the main focus is given to sustainable development in the international market, ensuring strategic energy production and developing renewable energy production, quality, efficiency and transparency.

The strategy encompasses the expansion of energy infrastructure, green generation through development of the global competitiveness of the company and of the whole country, the establishment of a commercial organization, and development of new platforms of energy services and of energy technology competence centre.

Sustainable development aims at quality and efficiency through improved customer service, quality of infrastructure, further refinement of group operations, stable returns to the state and the highest standards of operational transparency. Quality and efficiency are sought through sustainable development by improving customer service, the quality of the infrastructure, further refining the group's operations, ensuring a steady return to the state and adhering to the highest standards of operational transparency. The implementation of the new strategy will help Lietuvos Energija Group to maintain one of the best prices for energy distribution services in the European Union.

Over the next twelve years, Lietuvos Energija, a state-owned company, plans a major transformation: it will increase production capacity in green energy, will expand to international markets, will create and implement innovations in the energy sector. Implementing all this will deliver a steady return of up to EUR 1.6 billion over the period 2018-2030, and the best price and quality will be maintained for the customers.

The strategic priorities of Lietuvos Energija Group for 2018-2030:

Sustainable development – it is a strategic development of energy infrastructure by developing the global competitiveness of the Company and of the country as a whole. It covers strategic directions for the development of a strategic and green generation, the establishment of a commercial organization, and the development of new energy in the context of international development.

Quality and efficiency – it is customer experience and service, quality of infrastructure, refined activities, stable return on capital.

Transparency – it is an established international benchmark for global transparency and responsible activities.



Strategy LE 2030

Value for Lithuania

- **The best price and quality**
- International **transparency** benchmark
- **A catalyst** for the energy industry
- **Stability** of strategic production powers
- In 2030 – half **dividends** from abroad

Innovation and investment

- Investment of ~ **EUR 6 billion**
- **50 %** of the value comes from green energy
- **Wind, sun, innovation**, new technologies and business models
- **Quality, smartification and efficiency** of the distribution grid
- **Strategic generation** development and joint work with the Distribution System Operator (DSO) on **synchronization project**

International development

- Up to 50% of value in **international** markets
- **Talents** of international level
- International **trademark**
- Among **10 most advanced** new energy companies

You can open Lietuvos Energija Group strategy LE 2030 here by clinging [on this link](#).

Economic responsibility

In 2018, the revenue of Lietuvos Energija Group increased by +13.9% (+153.4 million euros) compared to 2017, and amounted to EUR 1,254,2 million.

The main reasons for the change in revenue were higher electricity and gas trade revenues.



The key performance indicators of the Group of companies

In 2018, an amount of 1.01 TWh of electricity was produced and an amount of 9.59 TWh of electricity was distributed to customers, and an amount of 7.30 TWh of natural gas was distributed through gas distribution pipelines.

Key performance indicators		2018	2017	Δ, +/-	Δ, %
Electricity					
Distributed amount of electricity:	TWh	9,59	9,22	0,37	4,0%
Distributed to consumers of independent suppliers	TWh	6,17	6,00	0,17	2,9%
Public and guarantee supply	TWh	3,42	3,22	0,19	6,0%
Amount of electricity produced (excluding Kruonis PSP)	TWh	1,01	1,28	-0,27	-20,9%
Share of electricity produced from RES (excluding Kruonis PSP)	TWh	0,46	0,59	-0,13	-21,4%
Amount of electricity sold	TWh	5,82	5,43	0,38	7,1%
Public and guarantee supply	TWh	3,42	3,22	0,19	6,0%
Sales volumes on the retail market	TWh	2,40	2,21	0,19	8,6%
Number of newly connected consumers	pcs	30 976	29 640	1 336	4,5%
Terms of connection of newly connected users (on average)	c.d.	47,6	48,7	-1,1	-2,3%
Quality indicators of electricity supply					
SAIDI (with force majeure)	minutes	81,37	137,83	-56,46	-41,0%
SAIFI (with force majeure)	pcs	1,14	1,32	-0,18	-13,6%
Technological costs in the distribution grid	%	6,03%	6,14%	-	-1,8%
Gas					
Distributed amount of gas	TWh	7,60	7,37	0,23	3,2%
Amount of gas sold on the retail market	TWh	10,77	11,47	-0,70	-6,1%
Amount of gas acquired:	TWh	10,30	11,88	-1,58	-13,3%
Acquired amount of LNG	TWh	5,25	6,35	-1,10	-17,3%
Acquired amount of natural gas	TWh	5,05	5,53	-0,48	-8,7%
Number of newly connected users	pcs	14 741	12 531	2 210	17,6%
Terms of connection of newly connected users (on average)	c.d.	89,2	165,6	-76,4	-46,2%
Quality indicators of gas supply					
SAIDI (with force majeure)	minutes	0,606	1,161	-0,556	-47,8%
SAIFI (with force majeure)	pcs	0,006	0,007	0,001	-15,2%
Technological costs in the distribution grid	%	2,06%	2,13%	-	-3,1%

Financial data		2018	2017
Revenue	mIn. EUR	1254,2	1 100,8
Cost price	mIn. EUR	974,5	740,5
Operating cost	mIn. EUR	127,2	132,0
EBITDA	mIn. EUR	149,9	227,2
EBITDA margin	%	12,0%	20,6%
Adjusted EBITDA	mIn. EUR	225,2	238,7
Adjusted EBITDA margin	%	18,0%	21,7%
Net profit	mIn. EUR	-7,9	93,5
Net profit margin	%	-0,6%	8,5%
Investment	mIn. EUR	411,3	253,4
Dividends paid to shareholders (on accrual basis)	mIn. EUR	78,3	100,8



Investment

The Group's investment in 2018 amounted to EUR 411.3 million or 62.3% more than in the same period last year. Most of the investments were allocated for renewal (30%) and development (20%) of the electricity distribution grid, and investments in the cogeneration power plants of Vilnius and Kaunas increased significantly (22%).

Return to the shareholder - Lithuania

In 2018, Lietuvos Energija Group 2018 paid EUR 13 million of dividends to the state budget.



The Group's investment in 2018 amounted to EUR 411.3 million



Quality of electricity distribution

The SAIDI indicator in electricity distribution grid, not taking into account the impact of natural phenomena (force majeure), decreased during the comparative period and was 81.37 minutes (in 2017 – 137.83 minutes), and the SAIFI indicator in 2018 was 1.14 (in 2017 – 1.32). The main reasons for the improvement of the indicators - significantly shortened fault repair time and increased investment in an underground power grid which is more resistant to natural disasters.

In 2018, technological costs in gas distribution grid decreased from 2.13% to 2.06%. In 2018, the gas distribution SAIDI indicator, with an influence of natural phenomena (force majeure), decreased significantly and was 0.61 minutes (in 2017 – 1.16 minutes), and the SAIFI indicator was ~0.006 pcs (in 2017 - ~0.007 pcs).

Faster connection of new consumers

In 2018, 34,030 new consumers were connected to electricity distribution grid. Compared to the same period last year, 14.8% more new customers were connected to the system. In 2018, the duration of connection was 46.3 calendar days (in 2017 – 45.9 calendar days).

In 2018, 14,741 new customers were connected to the natural gas distribution grid, 17.6% more than in the same period last year. The connection time became shorter by 58.5 calendar days (in 2018, the duration of connection was 87.7 calendar days, in 2017 – 146.2 calendar days).

More convenient customer service and information

The number of customers using the remote service channels offered is growing rapidly. On 31 December 2018, there were 515,253 customers using a self-service website www.manogile.lt. 17.32% less customers applied to ESO by phone call. In 2018, 138,011 thousand customers were provided information by short customer service number 1802. The customers also use a free of charge telephone number 1852 to report faults in electric systems, and a free of charge telephone number 1804 of gas emergency service. In 2018, 163,377 thousand customers were serviced in the customer service centres located in the major cities of Lithuania.



In 2018, 14,741 new customers were connected to the natural gas distribution grid.



High customer satisfaction

The GCSI survey that was carried out by Energijos skirstymo operatorius (ESO), that belongs to Lietuvos Energija Group, showed that in 2018, the customer satisfaction with the services provided and servicing remains especially high and surpasses the average indicators of European and US utility companies. In 2018, the level of satisfaction of the customers of electricity and gas distributing company ESO was 79 points (in 2017 – 78 points). This result is 7 points higher than the European average (72) and 4 points higher than the US average (75).

Operational excellence

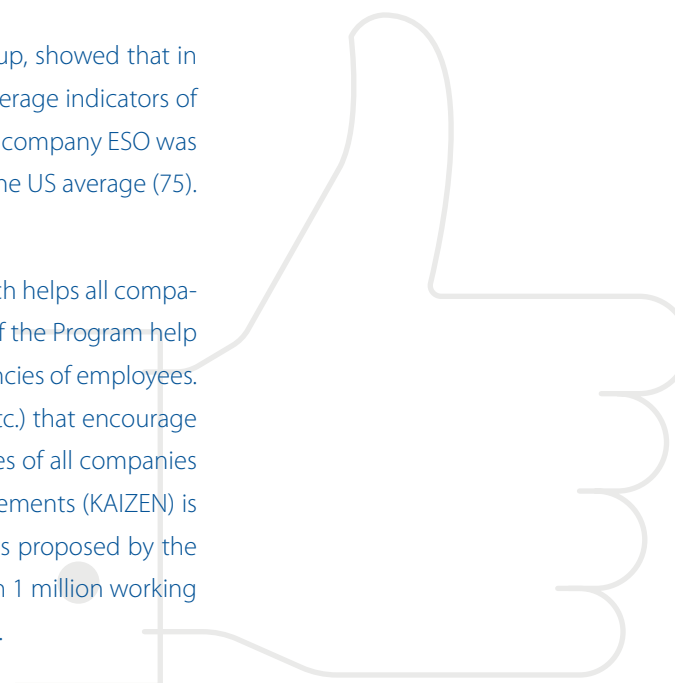
For the third year in a row, the Group of Companies has been operating an Operational Excellence Program (VMP) which helps all companies of Lietuvos Energija Group create greater value for their customers and shareholders. The projects and activities of the Program help to increase the efficiency of daily operations, encourage the development of new products and enhance the competencies of employees. The Operational Excellence Program includes today's best practices in performance management (LEAN, Six Sigma, etc.) that encourage employees to boldly change their normal work practices and to give up everything that is unnecessary. The employees of all companies in the Group participate in the Program by endeavouring to work every day faster, better and at a lower cost. Improvements (KAIZEN) is one of the indicators monitored. During all years of implementation of the Program, 8,742 operational improvements proposed by the employees were implemented in Lietuvos Energija Group. They helped to save more than EUR 5 million and more than 1 million working hours that were spent on implementing various projects, improvement of the existing services and creating new ones.

Anti-corruption activities

The Group does not tolerate any form of corruption, and advocates high standards of ethics, integrity and transparency in its operations. It is important for us to work honestly, transparently and build trustworthy relationships - with our customers, partners, suppliers, and institutions. We strive that the principles of ethics and transparency are respected in the market in which we operate, and first of all, that there was no tolerance to corruption. The Board of Lietuvos Energija has approved the zero tolerance policy against corruption of the Group (in 2014), and has made a public commitment to comply honestly with the legal requirements relating to the business, including the anti-corruption ones, to fight corruption and implement anti-corruption measures. The Policy applies to all employees, contractors, suppliers, consultants, other intermediaries.

The Group does not endorse or refrain from any form of influence, whether direct or indirect, on politicians or political parties. The Group clearly regulates the procedure for acceptable / inaccessible gifts and other benefits, and the employees are educated on the benefits and significance of fight against corruption. All newcomers of the Group must make themselves familiar with the Zero tolerance policy against corruption, and participate in mandatory anti-corruption and business ethics training.

In 2018, the Group continued to educate its employees on the perception of corruption: it encouraged the employees to be interested in the damage done by corruption, to recognize its manifestations, and not to be indifferent. 98% or nearly 4,000 employees of the Group of companies completed the anti-corruption e-learning, each of them spent for the training 1.5 hour of own time.



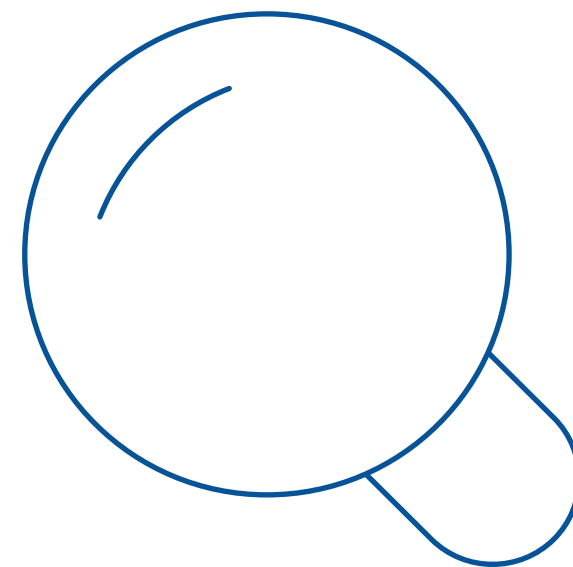
Increasing transparency in procurement

The centralized procurement function of the Group is carried out by one of the companies - Business Service Centre (BSC). The BSC carries out procurement procedures and provides planning and execution services for the procurement of goods, services or works. All procurements of the Group are centralized, the procurement processes are standardized and concentrated on a single online platform. To ensure a transparent and open public procurement process and open dialogue, every year the BSC invites the suppliers to information meetings during which plans, news or changes are presented, high-value procurements planned by the Group procuring organizations are presented in detail.

By means of the Central Public Procurement Information System (CPP IS) the Groups procuring organisations publish draft technical specifications for all procurements, except low value procurements, and additionally announce on their websites of publication thereof, provide reports of procurement procedures, and information on procurements in progress. The suppliers (tenderers) participating in the procurement procedures must confirm that the supplier (tenderer) has not been involved in any activity related to corruption, bribery, fraud, tax evasion or money laundering for at least 5 years (as specified in Article 45(1) of the Council of Europe Directive 2004/18/EC).

Informing of potential anti-corruption violations

The Group encourages to report potential corruption cases by e-mail confidence@olin.lt or by phone +370 640 88889. These contacts are available to the employees as well as to all stakeholders - the telephone number and the e-mail address are publicly available on the website. The Group undertakes to protect the confidentiality of whistle-blowers. In 2018, 25 notifications were received to the Trust Line, 3 of which were about allegedly unlawful conduct of employees. Actions were taken on the basis thereof to ensure that allegations of violations of anti-corruption provisions are investigated and to eliminate the possibility of this happening again in the future. Investigations carried out did not reveal any illegal actions from the side of the employees.



Green bonds

In 2018, in order to diversify the existing debt portfolio, Lietuvos Energija distributed in the market bonds worth EUR 300 million. With the funds raised, Lietuvos Energija will finance investments in wind energy, increasing the efficiency of the electricity distribution grid, and projects for energy production from waste and biomass. Lietuvos Energija undertook to use the funds raised by green bonds only to finance investments intended for green energy projects. Doing so will contribute to sustainable energy development and to the implementation of the United Nations Sustainable Development Goals. In May 2018, the state-owned Lietuvos Energija Group of energy companies was granted by the international credit rating agency Standard & Poor's a BBB+ credit rating with stable perspective.

Lietuvos Energija has prepared a Green Bond Framework which provided funding for the following green energy projects:

- Renewable energy, including wind, water, biogas, solar and geothermal generating capacity and the related infrastructure;
- Pollution prevention and control projects, including energy production from waste;
- Energy efficiency solutions that include the projects of the distribution grid development and upgrade that are intended to reduce grid losses and / or provide opportunities to connect renewable energy sources, as well as smart grid and ESCO projects;
- Clean, non-fossil fuel powered transport, including technical transport, also the project of infrastructure required for such transport.

The independent Norway's Cicero Institute for Climate Research and Swedish Environmental Research Institute awarded the Green Bond Framework of Lietuvos Energija with the top green category and certificate.

In 2018, the funds raised by green bonds were used to finance and re-finance the following projects:

- Upgrading of ESO's electricity distribution grid – an amount of EUR 124,900,000 was allocated;
- Kaunas CHP – an amount of EUR 15,700,000 was allocated;
- Acquisition of two wind farms in Lithuania – an amount of EUR 21,800,000 was allocated;
- PPA projects, the absolute majority of which are related to installation of photovoltaic power station (hereinafter – Solar Power Plants) – an amount of EUR 9,900,000 was allocated;
- Implementation of ESCO projects (mainly lighting modernization for business and public sector customers) – an amount of EUR 1,500,000 was allocated;
- Installation of electric car charging stations at the place of customers, and development of own network of "Charge it on" EV charging stations – an amount of EUR 5,100,000 was allocated.



Social responsibility

Lietuvos Energija Group supports and respects the international protection of human rights within its sphere of influence, and ensures that it does not contribute to, and strongly opposes, any human rights violations.



Employees and organizational culture

Lietuvos Energija Group supports and respects the international protection of human rights within its sphere of influence, and ensures that it does not contribute to, and strongly opposes, any human rights violations. The Group implements fair and transparent wage policy, complies with the laws governing overtime and working time, speaks out against all forms of discrimination (with respect of the employees or during the term of employment), and against forced or child labour, respects the employee's right to rest and promotes work-family balance.

The overall human resources management policy of Lietuvos Energija Group of companies is focused on the development of professional skills of the employees and formation of responsible organizational culture which ensures creation of higher value for the customers, partners and society.

On 31 December 2018, 3,826 employees worked with the Group.

125	<u>„Lietuvos energija“, UAB</u>	6	<u>UAB „Elektroninių mokėjimų agentūra“</u>	7	<u>UAB Kauno kogeneracinė jėgainė</u>
2387	<u>AB „Energijos skirstymo operatorius“</u>	64	<u>NT Valdos, UAB</u>	1	<u>UAB „Gamybos optimizavimas“</u>
372	<u>„Lietuvos energijos gamyba“, AB</u>	58	<u>Transporto valdymas, UAB</u>	2	<u>UAB Eurakras</u>
24	<u>UAB Energetikos paslaugų ir rangos organizacija</u>	14	<u>UAB LITGAS</u>	1	<u>UAB „VĖJO GŪSIS“</u>
166	<u>UAB Technologijų ir inovacijų centras</u>	462	<u>UAB Verslo aptarnavimo centras</u>	1	<u>UAB „VĖJO VATAS“</u>
14	<u>UAB Duomenų logistikos centras</u>	46	<u>UAB „Lietuvos energijos tiekimas“</u>		
47	<u>Energijos tiekimas UAB</u>	29	<u>UAB Vilniaus kogeneracinė jėgainė</u>		

Total: 3826

Number of men and women

Due to specifics of the activities - technological nature of the works- the energy sector is dominated by men, women in the sector choose to work in administrative and customer service units. Both genders have equal chances to choose the nature of work, this is emphasized during the process of employee selection. The majority of the Group's employees were men - 72%, and the rest 28% were women. Distribution by gender among the employees in management positions is also very similar: 71% of managers were men, the rest 29% were women.

Education of the employees

63% of the employees in the Group have higher university education, including 18 doctorates, 26% have higher college education, and 7% have secondary education.

On 31 December 2018, 125 employees worked with the Company. 99% of the Company's employees have higher university degree, including 2 PhDs. The Company employs 2 Certified Professional Project Managers (PRINCE2 and PMP), 3 Certified Financial Analysts (CFA), 1 Certified Internal Audit Expert (CIA), 1 Certified Fraud Examiner (CFE), 2 Certified Risk Management Assurance Experts (CRMA), 1 certified ISO 31000:2009 risk management professional, 4 employees, 4 employees with qualification of professional Board member of Baltic Institute of Corporate Governance. The employees are active members of associations and unions, and participants in academic community (Scientific Council of Lithuanian Energy Institute; Supervisory Board of Lithuanian Energy Institute; Technological Development Committee under Agency for Science, Innovation and Technology; Board of the Risk management professionals' association).

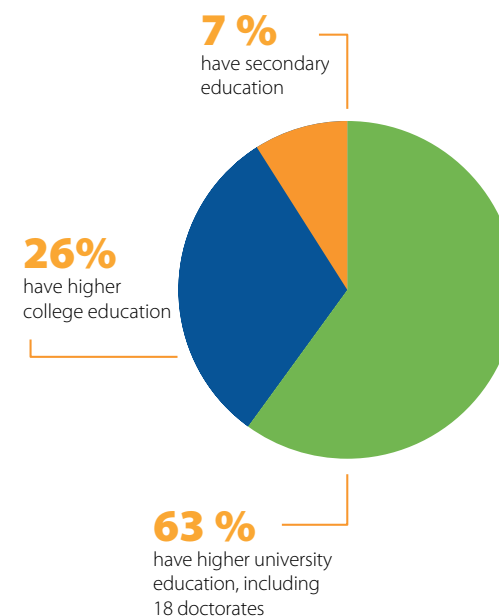
Equal opportunities and non-discrimination

In 2017, the Board of Lietuvos Energija approved the Equal Opportunities Policy, which is valid for the entire Group. The Policy stipulates the principles of equal opportunities that are upheld throughout the Group, the means for their implementation, and describes the procedure for reporting violations of equal possibilities and for examining such reports.

Violations of equal possibilities can be reported directly to the Head of the Department of Human Resources Management of Lietuvos Energija by e-mail, they can also be reported via a Trust Line by e-mail pasitikejimolinija@le.lt or by leaving a record in the answering machine of the telephone number +370 640 88889.

In 2018, the Group of Companies received no reports via the said channels of discrimination or other incidents related to violations of human rights.

Distribution of the employees in the Group



Trade unions and collective agreements

11 trade unions operate in Lietuvos Energija Group of Companies. These unions were founded by the employees of ESO and Lietuvos energijos gamyba, two largest companies of the Group of Companies. 4 trade unions with the total number of 216 members operate in the company Lietuvos energijos gamyba. 7 trade unions operate in ESO.

Remuneration

The Group companies have an advanced employee remuneration system in place. This system allows to align with other advanced companies in the country that reward their employees for results they have achieved, the value they create for the organisation and the team. "Hay Group" methodology was used to create this remuneration system. This methodology ensures an objective assessment of positions held according to the required qualification, the complexity of the problems and the level of responsibility that the particular position entails.

In 2017, the Remuneration Policy of the Group, which sets out the cornerstone principles of remuneration management – clarity, transparency and internal justice ensuring that employees throughout the Group are remunerated equally for the same nature of work, competence and performance, was updated. The updated Remuneration Policy also enshrined active dialogue and communication with the employees in order for every employee of the Group to understand well what his / her salary consists of, when and for what reasons it can change, and the things for which the employee can be further incentivized.

The Group's total payroll for January-December 2018 was EUR 79.74 million.

Average salary and payroll for Group employees

Category of the Group employees	Average monthly pay, in euros			
	2018 m.	2017 m.	2016 m.	2015 m.
Head of the Company	5 185	4 902	4 244	4 736
Top level managers	4 758	4 281	4 004	4 004
Middle level managers	2 315	2 144	2 107	20 79
Experts, specialists	1 286	1 185	1 066	984
Payroll	60,38 mln.	58,14 mln.	65,6 mln.	72,8 mln.



Organizational culture development

In 2018, strategic initiatives aimed at the coordinated development of the organization, human resources management, formation of a new organizational culture, efficiency of organization of activities, education of new employees, strengthening and retention of competences were further continued.

Development of excellence

Lietuvos energija Group consistently takes care of further training of employees and ensures that employees have all statutory certificates that are compulsory for the job, and improve the competences required for the job. In individual companies, various training sessions on general, vocational and managerial competences were organized at the organisational level, for example, leadership, team building, change management, communication, project management, business process management, etc. In 2018, one employee of the Group spent on average 25 hours on training.

In 2018, 165 executives participated in the education program for managers, one executive spent about 65 hours for training per year. In 2018, 207 participated in Energy ABC training, each of them completed 8-hour training.

Integration of new employees

To ensure proper process of adaptation of new employees, training and “rookie days” are organised for new employees. During them the employees get acquainted with the company’s strategy, executives, activities of the divisions. The newcomers are made familiar with the structure of the energy sector, the company’s strategic directions, mission, vision, values, anti-corruption policy, the most important principles of operation of the energy sector, and the basics of electrical engineering. Curators, who are the employees of the same division, are assigned to new employees. These curators are responsible for wide-ranging assistance to new employees during the probationary period.

Practical training opportunities

The Group companies create conditions for students of higher and vocational schools to adapt theoretical knowledge and to acquire practical skills.



Employee engagement

Lietuvos Energija Group makes consistent efforts to become an organization with the activity based on shared values, necessary competencies, and in which the shift of key employees is formed in a consistent and targeted manner, and the internal environment increases employee engagement.

Occupational safety and health

Lietuvos Energija Group pays special attention to the promotion of safety and health culture at workplaces, and the increase of the responsibility of the employees themselves. The Group has the approved Occupational Safety and Health Policy (OSHP) in place. This policy is intended to form personal responsibility and a safety culture within the companies which is based on cooperation. The top level managers are responsible for a safe and healthy work environment, and a culture of safety is understood as an integral part of the organization's culture. The occupational safety and health specialists in the companies take care of work equipment, assess workplace risks, organize health checks and vaccinations (for outdoor workers).

The Group companies keep an active dialogue in implementing measures to improve the employee health care and monitoring, a safe and clean working environment, and the occupational safety and culture. The number of incidents decreases due to the introduction of mandatory and additional measures in the fields of health care and providing employees with personal protective equipment.

The Group applies a zero tolerance policy with respect of occupational safety breaches

Contractor workplaces are inspected on a constant basis, violations are captured, sometimes even works are suspended. The Group companies conduct inspections of contractor workplaces, training, days of safety and other measures at their own initiative – no such requirements are provided for by law.

In 2018, the Group's company ESO further applied the procedure of contractor ranking. This procedure is used to assess the quality of contractors' performance, taking into account not only compliance with contractual deadlines, but also whether the works were carried out subject to occupational safety requirements and the number of occupational safety violations.

Occupational safety and health management system OHSAS 18001:2007 is introduced in the Group's companies which are engaged in activities of energy production, distribution and maintenance of grids.



Public initiatives and support

Education

In order to contribute to energy education for society and especially for the younger generation, Lietuvos energijos gamyba benevolently and gratuitously organises guided tours in facilities operated by the company, specifically in the Combined cycle unit of Elektrėnai Power Plant, Kruonis PSP, Kaunas A. Brazauskas Hydroelectric Power Plant. The Company also aims to contribute to energy education for society and especially for the younger generation. In 2018, more than 2,500 visitors from various companies, schools and other institutions visited the power plants. Also foreign delegations. During the aforementioned period, the biggest number of guided tours was organised in Kruonis PSP.

To increase energy efficiency – the initiative “As much as needed”

Promoting the rational use of energy is one of the priority directions of ESO's social responsibility contributing to the preservation of the environment and energy resources, and to the country's obligations in executing the European Union's climate change programs. The project is aimed at developing the traditions of a rationally living society. It seeks solutions for the rational use of electricity by paying particular attention to consumption by businesses and industry. In 2018, we paid special attention to individual recommendations during direct meetings, in autumn, a cycle of conferences for industry representatives took place (“As much as needed for Industry 2018”).

Conference on the rational use of energy “Energy Efficiency Solutions for Competitive Business”

On 27 February 2018, already a traditional business conference, initiated by ESO and co-organized with Verslo žinios, took place. During the event, experts from various sectors shared their insights on sustainable energy use. The annual Conference on Energy Efficiency is a part of energy efficiency initiative “As much as needed” initiated by ESO. The goal of this event is to bring together energy professionals, energy efficiency solution implementers, business and academic community in order for discussions and valuable experiences to increase business efficiency, to direct resources in a beneficial direction and to preserve the environment. The total of 243 representatives of business companies participated in the event of 2018.

Support for public initiatives

In further strengthening the implementation of the principle of transparency in the Group companies, the Board of Lietuvos Energija made a decision to no longer provide support from 2018 and to initiate termination of activities of the Support Foundation of Lietuvos Energija. The Supervisory Board of the Company and the shareholder Ministry of Finance did not object to this decision. The refusal to provide support is also enshrined in the updated Articles of Association of Lietuvos Energija Group of Companies.

In October 2017, the Support Foundation of Lietuvos Energija allocated support of more than EUR 800 thousand for 41 national and regional project. All projects have already been completed. Each beneficiary was required to submit an audited report on the use of the assistance to the Foundation after the implementation of the assistance project. The Foundation is also audited annually by independent auditors. Each beneficiary, having completed the support project, was required to submit an audited report to the Foundation on the use of support. The activities of the Support Foundations is also audited on the annual basis by independent auditors.



VIENYBĖ TEŽYDI!

Environmental responsibility

In its daily activities Lietuvos Energija Group seeks, to reduce the impact of energy objects on people and the environment - to introduce modern, efficient and safe technologies in production, to reduce pollution, to implement environmentally friendly innovations and solutions.



Lietuvos Energija Group seeks to use efficiently natural resources in its daily activities, to reduce the impact of energy objects on people and the environment - to introduce modern, efficient and safe technologies in production, to reduce pollution, to implement environmentally friendly innovations and solutions. The Group is consistently guided by the international, EU and national requirements of environmental laws and regulations, professionally applies preventive measures to reduce negative environmental impact.

Most relevant areas

The energy production companies consistently fulfill all existing environmental requirements, and proactively take care on their own initiative of the construction of new facilities and of upgrading of old facilities to minimize their impact on the environment. Relevant environmental issues: energy efficiency, reduction of fossil fuel use, safe use of environmentally hazardous substances, safe operation of facilities, responsible management of generated waste, reduction of atmospheric pollution, etc.

Environmental Management System Standards

Lietuvos energijos gamyba supports the environmental management standard ISO 14001:2005. The international certificate states that the essential requirements for the identification, monitoring, management and improvement of environmental aspects are complied with in the activities. The certificate is valid for all activities carried out at the power plants: for the production of electricity and heat which is carried out in the Elektrėnai complex, operation of electricity, heat, turbines, natural gas, oil and petroleum product facilities, electricity production which is carried out in Kruonis PSP, its supply, operation of equipment and power reserve, as well as for electricity production, supply and operation of equipment in Kaunas HPP - meets strict international environmental requirements

The Company supports environmental management standard ISO 14001. The worldwide recognized certificate states that the Company is guided by the essential requirements for the identification, monitoring, management and improvement of environmental aspects. In 2018, no inadequacies were identified.

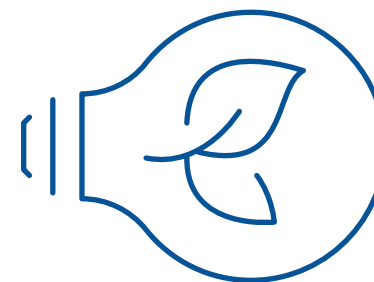
Development of production of energy from renewable sources

Diversification of energy sources is one of the strategic directions of the activities of Lietuvos Energija Group in increasing energy independence, promoting renewable resources and tackling climate change, and contributing to the implementation of the global Sustainable Development Goals (SDGs). In 2018, a share of electricity production from renewable energy sources increased by 47% (in 2017 – 46%). In 2018, Kaunas Algirdas Brazauskas HPP produced 24.5% less electricity (0.346 TWh) than in 2017 (0.459 TWh).



“Green Lithuanian energy”

Lietuvos Energija Group is the only in the market to offer “Green Lithuanian energy” - certified electricity produced in Lithuania from renewable sources (RES) in Kaunas Hydro Power Plant. This type of energy was first introduced to the market on 22 March 2012, which is a World Water Day. The Group’s company Energijos tiekimas (ET) issues every purchaser of green energy (both companies and household consumers can buy) with the guarantee certificates of energy origin. In 2018, Energijos tiekimas supplied to its customers 830.288 GW of electricity from renewable sources.



Renunciation of polluting production

In March 2017, Lietuvos energijos gamyba completed the project of dismantling works of Units 1 and 2 of the reserve power plant of Elektrėnai Complex. After completion of the project of heat production equipment development in Elektrėnai in 2015, further operation of Units 1 and 2 of the power plant, which until then were used for heat production for the residents of Elektrėnai city and industry during the cold season, became no longer appropriate. This is why, given that the price of electricity produced in the Units is uncompetitive in the market, and refusal from them will help reduce the need for PPS funds, and, also, the final electricity tariff for consumers, the decision was made to dismantle these old and ineffective 150 MW units of reserve power plant that were constructed in 1962-1965.

Within the scope of the Project, thermal insulation of the Units, boiler masonry, equipment and appliances were dismantled and utilized, some of them were sold as scrap-iron, and the rest of equipment, still suitable for use, was sold in the market. In January 2017, the project of works of dismantling of Units 5 and 6 of the reserve power plant of Elektrėnai Complex was started. The operation of these Units was terminated at the beginning of 2016, given that the price of electricity produced in the Units is uncompetitive in the market, and refusal from them will help reduce the final electricity tariff for consumers. The Units (both of them have a capacity of 300 MW each) are planned to be dismantled by the end of 2020.



Decrease of CO2 emissions in energy production

Facility	2012 m.	2013 m.	2014 m.	2015 m.	2016 m.	2017 m.	2018 m.
Carbon dioxide emissions (Lithuanian Power Plant and combined cycle unit), t CO2	919143	574801	400596	454803	200670	65369	36301
Total electricity produced, MWh	1531749	1149179	874333	1086259	491045	140565	64421
t CO2/MWh	0,60	0,50	0,46	0,42	0,41	0,47	0,56

Increasing energy efficiency

The activities of the new company are based on ESCO model (Energy Service Company) - is an energy saving services company that invests in energy efficiency measures and, during the term of the contract, covers the investments made from future energy savings. The activities of the Company will allow achieve the maximum effect of energy savings, and, at the same time, will allow owners, managers of buildings or facilities to avoid major initial investments.

Smart metering

In order to improve the quality of the services, to create preconditions for customers to accurately track their energy consumption, to receive accurate invoices and to save energy through its rational use, the Company implements a program of implementing the smart metering system in Lithuania. The investment project, which provides replacing the existing electricity meters with the smart ones, was submitted to the NERC for harmonization. Smart meters of natural gas are planned to be installed for the customers consuming more than 350 m3 of gas per year. These are usually the customers who use natural gas for heating purposes. In 2018, the program of installing smart metering was presented at the Energy Commission of the Seimas of the Republic of Lithuania, in the Ministry of Energy of the Republic of Lithuania, to independent energy suppliers and other interested parties. Following the good practice of foreign countries and, in keeping with the principles of transparency, six market consultations were organised. The local and foreign suppliers and producers actively participated in these consultations, useful insights for technical specifications being prepared were received.





Protection of landscape and biodiversity

ESO, which operates power distribution grids, lays cables in locations where wires of aerial lines, that formerly were presented there, are dangerously close to plantations, or where the obsolete infrastructure leads to many failures. Cable lines ensure a more secure electricity supply to residents and are safer, and, in addition, they do not obscure the beautiful landscape. In January-December 2018, ESO invested EUR 83.7 million in development of electricity distribution grid – 60.2% more than at the same time in 2017.

Waste management

Special trash bins for household waste sorting, as well as special containers for the disposal of discarded small electrical and electronic equipment and batteries are standing in the units of the Group's companies.

Production wastewater is treated in own treatment plants, trace alarms for petroleum products are installed. Measures designed to reduce the need for resources used for own needs are implemented according to the resource saving plan approved by the Company. Contracts for the safe disposal and recovery of industrial waste are signed with specialized companies.

In 2018, the power plants operated by Lietuvos Energija Group handed over about 65 tons of hazardous waste, and about 6,638 tons of non-hazardous waste, and sold 5,275 tons of ferrous metal, and almost 67 tons of non-ferrous metals to waste managers. About 81 tons of household waste were removed from the power plants.

