



LIETUVOS ENERGIJA GROUP **CORPORATE RESPONSIBILITY REPORT**

2017



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Foreword by the CEO

The present Corporate Responsibility Report of Lietuvos Energija Group provides an overview of the main developments in the Company's operations during 2017.

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

During 2017, Lietuvos Energija Group was continuing its responsible operations, and is in the process of introducing a number of changes facilitating the progress of the entire organisation and the relevant business environment: the Group supports equal opportunities, promotes innovations, energy efficiency, the wellness and engagement of its employees, and the development of responsible business practice in the energy sector, as well as the entire country.

The efforts of Lietuvos Energija Group to continue improving customer servicing, develop and offer new services, seek enhancing the operational efficiency, cherish

the cooperation and responsibility-based organisational culture were properly rewarded. Quite apparently the customer satisfaction rating, as well as the employee engagement level has been consistently increasing.

The contribution of the Lietuvos Energija Group in the increasing of the national competitiveness was reflected in the "Doing Business 2018" rating published by the World Bank. According to the getting electricity connection in 2017 Lithuania moved to the 33rd position, i.e., by 22 positions higher than a year ago.

During 2018, the development of renewable energy production capacities, development of organisational culture and investing in talents will remain the priority areas of responsible activities. At the same time enhanced attention will be paid to the development of innovations, improvement of customer service, shortening of terms for obtaining electricity and gas connection, and the excellence in daily operations.



Dalius Maikštėnas

Chair of the Board and the CEO
of Lietuvos Energija

A handwritten signature in blue ink, appearing to read 'Dalius Maikštėnas', with a long, sweeping flourish extending to the right.

About the Report

The present Corporate Responsibility Report of Lietuvos Energija was drawn up having regard to the principles of the UN Global Compact initiative and assessing our own performance in the context of the Sustainable Development Goals.

Energijos Skirstymo Operatorius (ESO) and Lietuvos Energijos Gamyba (LEG), the Nasdaq Stock Exchange listed companies, draw up and submit separate Social Responsibility Reports, which, as a part of the UN Global Compact membership obligations, are published on www.unglobalcompact.org. The report of ESO is drawn up following the guidelines of the "Global Reporting Initiative" (GRI), and LEG follows the principles of the UN Global Compact.

In this second Report of Lietuvos Energija we are presenting the activities that the energy company group is engaged in covering its production, trade and supply,

distribution, energy services and customer servicing operations. The Report is drawn up in the Lithuanian and English languages and published on the website www.le.lt, as well as on the internet websites of the Group's internet websites to make it readily accessible for any stakeholders. The Report has not been audited or reviewed by any third parties.

We consistently seek to improve our reporting practices; therefore, your suggestions or comments will be highly appreciated. Please send your comments to komunikacija@le.lt.

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

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

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

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

- The Group's return on assets is increased by supporting development: diversifying the operations, developing new economically viable projects and activities, ensuring efficiency in daily operations.
- The Group contributes to boosting the competitiveness by ensuring a stable supply of electric energy and natural gas, developing new products, and supporting efficient consumption of electric energy and natural gas.
- The Group assumes responsibility with respect to the society and its staff and is proactive in implementing environmental protection requirements, and ensures the continuity and growth of competences.

In its responsible activities the Lietuvos Energija Group follows the social responsibility policy of the company group approved by the Board, the zero-tolerance policy against corruption, health and safety at work, and the Support allocation policy.

The present document defines the most general directions and provisions of re-

sponsible activity underlying the creation of the culture and the practice of a socially responsible and sustainably developed business of the Group. The Policy applies to all entities of the Group.

Principles and Priorities of Corporate Responsibility



Environmental protection

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



Safety

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



Citizenship and market responsibility

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

Key challenges

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

Social area –

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



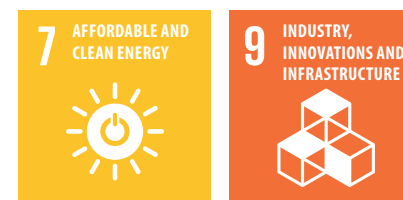
Environmental protection –

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



Economy –

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



Examples of the measures designed to achieve the Sustainable Development goals implemented in 2017:

UN Sustainable Development goal 2030

Measures implemented by the Lietuvos Energija Group

- 4. Ensure inclusive and quality education for all and promote lifelong learning
- 8. Promote inclusive and sustainable economic growth, employment and decent work for all
- 12. Ensure sustainable consumption and production patterns

- We have considerably invested in the development of employees, their professional development by hosting external and internal training
- We have been consistently implementing the key principles of the human resources policy, also ensuring the freedom of association, the right to unionise, and ensuring human rights at all entities of the Group
- By consistently improving the processes and enhancing the efficiency we have created preconditions to reduce operating costs and achieve sustainable financial results
- We increased the volumes of electric energy from renewable sources
- We have been improving customer servicing by remote channels and were creating new customer servicing tools
- Training on corruption prevention for managers and employees of the Group entities
- We provided financial support to numerous initiatives in the public interest, and value-building community projects

- 11. Make cities and human settlements inclusive, safe, resilient and sustainable
- 13. Take urgent action to combat climate change and its impacts
- 14. Conserve and sustainably use the oceans, seas and marine resources
- 15. Conserve, restore and promote sustainable use of land ecosystems, sustainably manage forests, combat desertification, halt soil degradation, or loss of biodiversity.

- We have been supplying to the market a certified Green Lithuanian energy generated in Lithuania from renewable energy sources
- We have been implementing the projects of new power plants designed to generate energy from waste, making it possible to reduce the CO2 emissions in cities, and the volume of waste in all national landfills
- We have been providing energy servicing facilitating our customers in seeking enhanced energy efficiency
- We have invested in the modernisation of the electric energy and natural gas distribution grid, and in supply reliability enhancement projects
- We have completed a smart accounting pilot project the purpose of which was to facilitate our customers in more efficiently saving electric energy and time;
- With respect of hydro-energy production the Company makes efforts to protect fish, and while maintaining distribution grids specific measures are taken to protect the population of wild birds.

- 7. Ensure access to affordable, reliable, sustainable and modern energy for all
- 9. Build resilient infrastructure, promote sustainable industrialization and foster innovation

- By implementing a range of social and educational projects we were encouraging our business customers, residents and children to show an interest in efficient energy use, and safely use electricity and gas equipment
- We placed an issue of Green bonds, and invested the proceeds in the acquisition and the development of energy facilities mitigating climate change
- We are in the process of installing electric vehicle charging stations thus contributing to promoting the use of electric vehicles throughout the country
- We have shortened the getting electricity connection time for our customers.
- We were providing education modernisation, solar power plant installation services for municipalities and business companies

About the Organisation



The Lietuvos Energija group provides services to almost 1.6 million of consumers across Lithuania.



Operates gas distribution pipelines in the length of 8.1 thousand km, supplies gas to 570 thousand consumers.

Mission, vision and values

MISSION – sustainable value building in the energy sector by promoting the development of the country's economy and the society. VISION – to become an energy company with the highest value in Baltic States. VALUES – responsibility, cooperation and result.

Energy company Group in brief

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

Principal activities

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

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

Lietuvos Energija Group implements projects of strategic significance and contributes to attaining the relevant objectives of the National Energy Strategy. Lietuvos Energija Group, currently with a staff of about 4,500 employees, operates the main electric energy production capacities in Lithuania, including a nation-wide distribution grid, in addition to the distribution

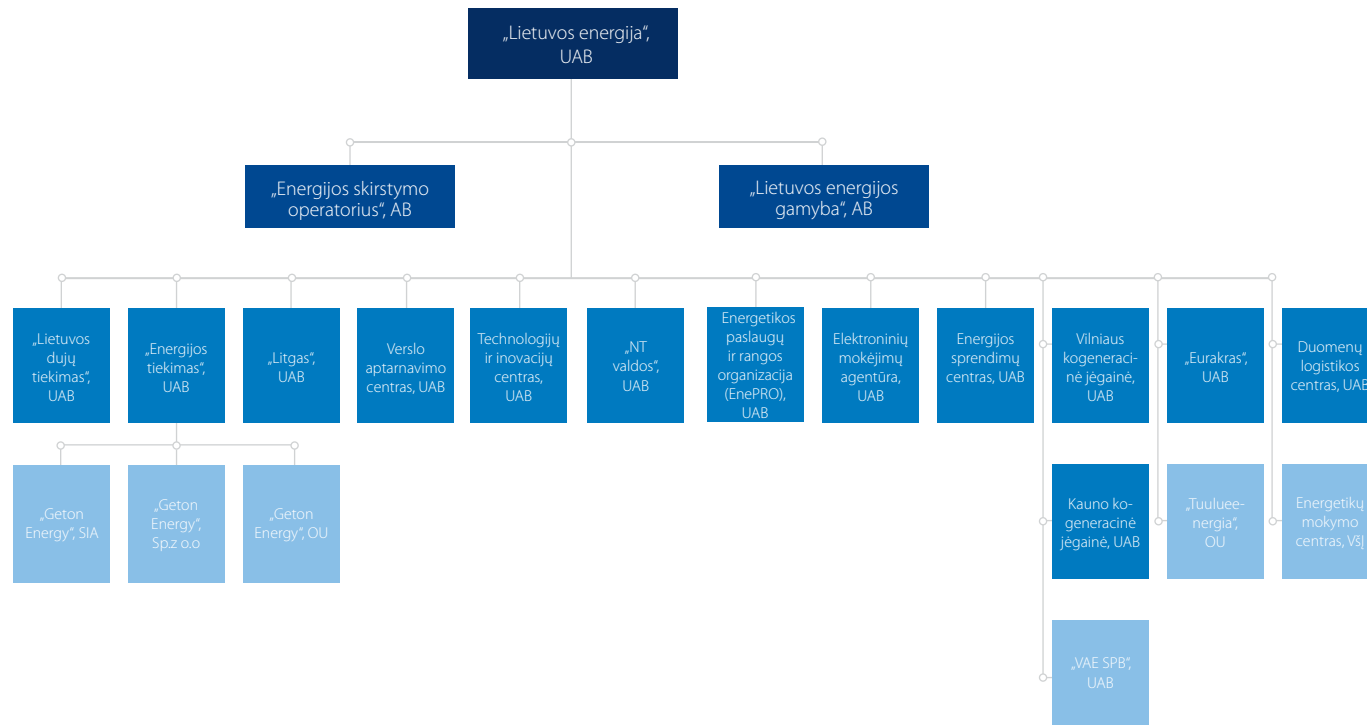
gas pipes of 8,100 km, thus servicing more than 1.6 million of electricity users, and nearly 570,000 gas customers throughout Lithuania. The subsidiary companies of the Group carry out their operations also in Latvia, Estonia and Poland.

In 2017, the Group consisted of Lietuvos Energija, UAB and 21 directly or indirectly controlled subsidiaries (including the Group's support foundation).

Group governance

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

On 1 June 2017, the Minister of Finance approved new Corporate governance guidelines that amended the previous procedure for setting up the Supervisory Board. According to the Corporate Governance Guidelines effective before the amendment the Supervisory Board consisted of seven



members, of which three members were independent, and four 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 elected for a term of office of four years by the general meeting of shareholders. The Supervisory Board of Lietuvos Energija consists of five members: two members represent the Ministry of Finance and three members are independent members. The Supervisory Board elects its Chairman from among its members. This model for the formation of the Supervisory Board fully complies with the corporate governance principles.

To ensure an efficient performance of its functions and the obligations the Supervisory Board sets up its committees. Acting within the limits of their competence the committees of the Supervisory Board submit their conclusions, opinions and proposals to the Supervisory Board. A committee consists of not less than three members, of which at least one member is a member of the Supervisory Board and at least one member is an independent member. Members of the committees shall be elected for a term of office of four years.

The Board is a collegial governance body provided for in the Company's Articles of Association. At the motion of the Appointment and Remuneration Committee (ARC)

- The Supervisory Board** consists of 5 members, of which three are independent
 - The Board** consists of five members (working at the company)
 - The Manager of the Company** is the Chair of the Board
-
- The Supervisory Board** consists of three members, of which one
 - The Supervisory Board** consists of 5 mem-
 - The Manager of the Company** is the Chair of

- The Board** consists of three members (two shareholders and one independent*)
 - The Manager of the Company** is not the Chair of the Board
-
- Manager of the Company.** No Board is set up.

*The structure of the Board may be different: in special purpose vehicles no Board is set up until the beginning of active operations. The Board in service companies is set up ensuring the representation of all shareholders, also taking into account the provisions of individual shareholder contracts, and the implementation of specific legal acts.



the members of the Board shall be for a period of four years elected or removed by the Supervisory Board. The Board consisting of five members elects the Chairman – the CEO of the Company – from among its members. The members of the Board shall, within the limits of their competence, ensure the proper performance of the Company and a supervision of respective areas at the Group’s level.

Group strategy

The key objective of the Lietuvos Energija Group until 2020 is to double the value of the Group, and develop into the highest value energy company in the Baltic States. The value is understood as a sustainable balance between three elements: return on assets, enhancement of competitiveness and the responsibility with respect to employees, the society and the environment.

The Group’s return on assets is increased by supporting development: diversifying the activities, developing new economically viable projects and activities, ensuring efficiency in daily operations. The Group contributes to boosting the competitiveness of the national economy by ensuring a stable supply of electric energy and natural gas, developing new products, and supporting efficient consumption of electric energy and natural gas. The Group assumes responsibility with respect to the society and its staff and is proactive in implementing environmental protection requirements, and ensures the continuity and growth of competences.

Key strategic areas of activities of the Group:

01

Ensuring the provision of high quality services to the customers.

Efforts are made to ensure better servicing of the customers, development of electronic (saving customer time) services fully meeting new needs, development of customer options, as well as reliability of distribution and supply, also natural gas distribution and supply operations.

02

Diversification of operations entails the implementation of investment projects in the electric energy, heat and natural gas sectors.

The projects implemented by the Group enhances the competitiveness of the Group and of the entire national economy, strengthens the country's energy independence, as well as the optimisation of the production and commercial portfolio, development of new activities when appreciating the value chain of the Lietuvos Energija Group. The Group seeks the objectives using the resources and the infrastructure by investing in building a new infrastructure, efficient governance and carrying out acquisitions.

03

Enhancement of energy efficiency.

The Group is seeking enhancing efficiency in the key areas of its operations, also by carrying out the servicing functions, managing the corporate property and other facilities and resources at all entities of the Group. With a view to enhancing efficiency measures are being put in place to integrate the Group's entities' governance and control system, in addition to the approved common principles for operating governance, responsibility sharing, coordination and control. The Group continues the implementation of the measures enhancing efficiency and covering all the companies or the Group, and identical or very similar operations in each company. The Group has been promoting and inviting its entities to be active in sharing the best practice.

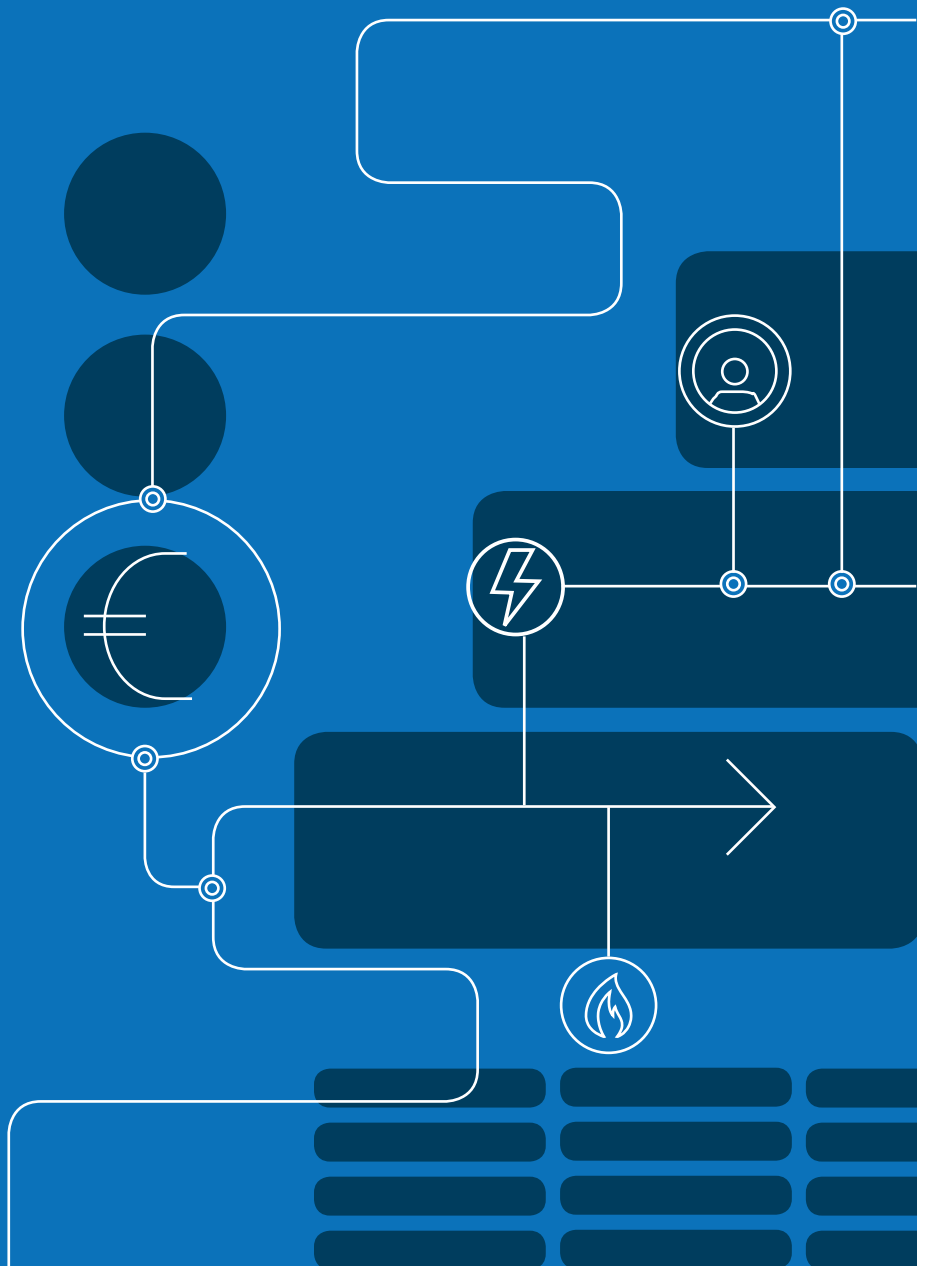
04

Building of a new organisational culture.

The Lietuvos Energija Group is making consistent efforts to become an organisation, in which operations are based on common values, the required competences and the replacement for key employees is built up in a consistent and coordinated manner with the internal environment being conducive to employee engagement.

Economic Responsibility

During 2017, the State-controlled energy company group Lietuvos Energija ensured stable financial results. Despite the recent downward trend in electricity and gas transmission prices to the customers, the Group's revenues and adjusted profit remained stable.

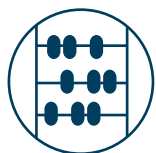


KEY PERFORMANCE INDICATORS OF THE COMPANY GROUP

During 2017, the Group generated 1.28 TWh, and distributed to customers 9.22 TWh of electric energy, in addition to 7.37 TWh of natural gas distributed by gas pipelines.

KEY PERFORMANCE INDICATORS

		2017	2016	Δ, +/-	Δ, %
Electric energy					
Electric energy produced	TWh	1,28	1,49	-0,21	-14,1%
Part of the electric energy produced from RES	TWh	0,59	0,49	0,10	21,2%
Electric energy amount distributed by medium and low	TWh	9,22	8,98	0,24	2,7%
Public and guaranteed supply	TWh	3,22	3,15	0,07	2,3%
Distributed to customers to independent suppliers	TWh	6,00	5,83	0,17	2,9%
Sales in the retail market	TWh	2,12	1,78	-0,34	19,2%
Total newly connected customers	thous., units	29,64	29,36	0,28	1,0%
Term for connecting new customers	calendar days	49	66	-17	-26,5%
Electricity supply quality indicators					
SAIDI, min. (with force majeure)	min.	137,83	172,92	-35,09	-20,3%
SAIFI, units (with force majeure)	vnt.	1,32	1,25	0,07	5,6%
Technological costs in the distribution network	%	6,14%	6,49%		-5,5%
Gas					
Total gas distributed	TWh	7,37	7,39	-0,02	-0,3%
Total gas sold	TWh	11,47	11,31	0,16	1,4%
Total gas acquired:	TWh	11,88	11,77	1,11	1,0%
Total LNG acquired	TWh	6,35	7,55	-1,20	-15,9%
Total natural gas acquired	TWh	5,53	4,22	1,31	31,0%
Total newly connected customers	thous., units	12,53	5,29	7,24	137,0%
Term for connecting new customers	calendar days	166	160	6	3,7%
Gas supply quality indicators					
SAIDI, min. (with force majeure)	min.	1,161	0,529	0,63	119,5%
SAIFI, units (with force majeure)	pcs.	0,007	0,006	0,001	16,7%
Technological costs in the distribution grid	%	2,13%	2,25%		-5,1%



For 2017 Lietuvos energija paid more than EUR 100 million dividends.

Investment

The Group's investment for 2017 accounted for EUR 253.4 million, representing an increase by 5.4 per cent as compared with the respective period last year. With the acquisition of the wind farm excluded, on a year-on-year basis the investment increased by 42.5 per cent or EUR 75.6 million. Major part of the investment was allocated to maintaining the electricity distribution network (51 per cent), and development (21 per cent). The investment in construction and reconstruction of the gas system accounted for 14 per cent of the total investment during 2017.

Return to the shareholder – Lithuania

For 2017, Lietuvos Energija intends to disburse in excess of EUR 100 million in dividends to the State budget.

Energy distribution quality.

During the reference period the SAIDI indicator (excl. force majeure impact) increased and was recorded at 137.83 min (2016 –72.03 min), and the SAIFI indicator in 2017 was equal to 0.91 times (0.91 in 2016). The SAIDI and SAIFI indicators were lower in view of significant change in the weather during H1 2016 that caused more frequent faults of the system as compared to the previous periods. Excluding the impact of force majeure the SAIDI indicator in the gas distribution network increased during 2017 and was recorded at 1.16 min (0.53 min. in 2016), and the SAIFI indicator was around 0.007 units (0.006 units in 2016).



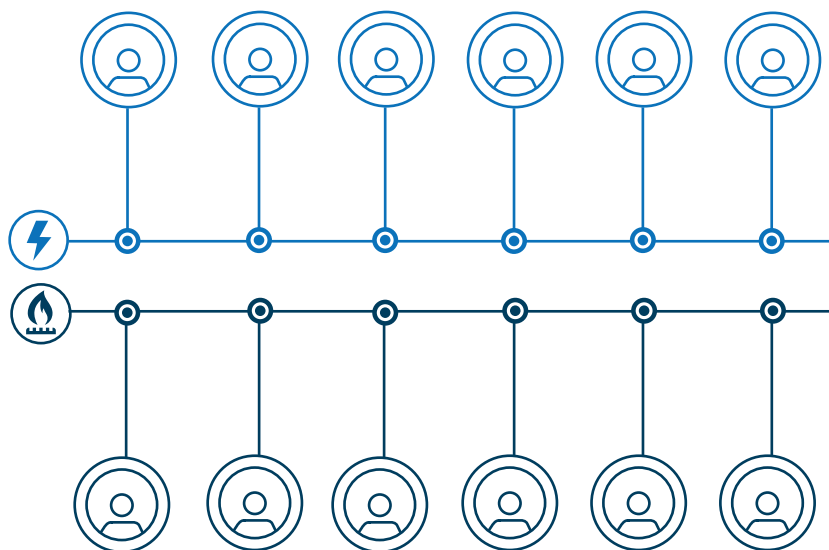
The Group's investments amounted to EUR 253.4 million in 2017

KEY PERFORMANCE INDICATORS OF THE COMPANY GROUP

FINANCIAL DATA		2017 M.	2016 M.
Revenues	EUR m	1 100,8	1 101,6
Cost of purchase of electricity, gas, fuel and related services	EUR m	740,5	727,5
Operational expenses	EUR m	132,0	136,2
EBITDA	EUR m	227,2	232,8
EBITDA margin	%	20,6%	21,1%
Adjusted EBITDA	EUR m	238,7	234,6
Adjusted EBITDA margin	%	21,7%	21,3%
Net profit	EUR m	93,5	118,4
Net profit margin	%	8,5%	10,7%
Normalized net profit	EUR m	130,1	117,7
Adjusted net profit margin	%	11,8%	10,7%
Investment	EUR m	253,4	240,5
Dividends disbursed to the Company's shareholders (accrual principle)	EUR m	100,8	100,7

29,640

IN 2017 NEW ELECTRICITY CUSTOMERS WERE CONNECTED.



12,531

IN 2017 NEW CUSTOMERS WERE CONNECTED TO THE NATURAL GAS DISTRIBUTION NETWORK

Faster connection of new customers

During 2017, Lietuvos Energija Group provided connection to total 29,640 new electricity customers. As compared with the same period in the previous year, the indicator remained at a similar level. Total 12,531 new customers were connected to the natural gas distribution grid – a number twice bigger than during the same period last year. As compared to the previous year, in 2017 the getting electricity connection indicator improved significantly, on average 17.5 days faster; the gas connection term, however, was longer by six days, because 2017 was the year of connecting more remote customers.

More convenient servicing and informing customers

In 2017, the self-service website www.manogile.lt run by Lietuvos Energija Group registered its 500 thousandth customer. The Mano Gilė website achieved this number of customers within less than two years, i.e., since 1 January 2016. All those customers have added in their accounts more than one million contracts. Any customer holding an email account may sign up to the www.manogile.lt website. The signing up to the website has been made even simpler after the account was linked to the social network account (e.g. Facebook) – that saves from the necessity

to remember the password, and it takes just one click to log-in to the website. Currently at the self-service website of www.manogile.lt users can pay for electricity, gas, settle accounts for other household services, file an application for connection to electricity and gas grids, manage their contracts, declare meter readings, monitor the consumption and payment history, submit applications or consult by remote means. The Group currently has in excess of 1.6 million customers and encourage them to stop using paper invoices or payment booklets by shifting to remote service channels. In 2017, ESO, a Group company developed an interactive fault map that in real-time shows any disruptions in electricity supply, or registers new faults. Significant improvements were introduced in the information of customers by SMS messages, in addition to the introduced toll-free electricity supply disruption registration telephone number 1852.

High customer satisfaction

The GCSI surveys carried out by Lietuvos Energija Group companies – Energijos Skirstymo Operatorius (ESO), Lietuvos Dujų Tiekimas, Energijos Tiekimas, and LITGAS concluded that the customer satisfaction with the services being provided and servicing remained fairly high and higher than the average respective indicators reported for European and global utility companies. The level of satisfaction on the part of an electricity and gas distributing company ESO was 78 points (77 points in 2016). The

result is by seven points higher than the European (71), and by five points higher than the global average (73). The customer satisfaction with the performance of Lietuvos Dujų Tiekimas, a Group company supplying natural gas to entities, organisations and residents, during 2017 increased up to 81 points from 100 possible (80 points in 2016). The overall satisfaction with the performance of Lietuvos Dujų Tiekimas scored at 83 points. The respective indicator for LITGAS, a liquefied natural gas supply company engaged in the dedicated supply activities increased to 83 from 100 possible in 2017. The overall score of customer satisfaction with the performance of the Company was fairly high (84 points), and readily met the customer expectations (83 points). When comparing LITGAS with an imaginary ideal company, the customers scored LITGAS at 81 points. The satisfaction index of the customers of an energy supply company Energijos Tiekimas this year picked up to 87 points (86 points in 2016).

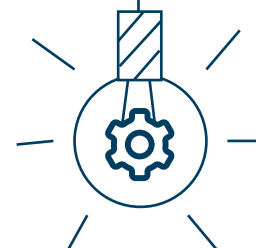
Operational excellence

During 2016, the company Group launched the Operational Excellence programme, designed to facilitate all the entities of the Lietuvos Energija Group in creating enhanced value for their customers and shareholders. The projects and activities implemented within the framework of the programme are instrumental in increasing the daily activity efficiency, support developing new products and enhance the competence of the Group's employ-

ees. The Operational Excellence integrates the best and most advanced operations management practices (LEAN, Six Sigma, etc.), that encourage the employees to change the ordinary operational practice, and eliminate certain aspects that are not necessary for the operations. The employees of all entities of the Group have joined the programme with a view to working faster, better and at lower costs. One of the major monitored indicators – improvement (KAIZEN), and during the first year of the programme implementation, more than 3,692 such improvements proposed by the employees were implemented throughout the Lietuvos Energija Group. Such improvements generated savings of more than EUR 1.7 million, and in excess of 400,000 working hours that were used for the improvement of the current services and creation of new ones. During 2017, 3,000 employees of the Group attended different training arranged within the Operational Excellence programme.

Anti-corruption activities

The Group maintains a zero-tolerance policy with respect to any manifestation of corruption, and supports high ethical, integrity and transparency standards. It is important to us to work in good faith, transparently and build reliable relations with our customers, partners, suppliers and institutions. Therefore, we will continue making efforts to ensure, that both our activities, and the market in which we operate, comply with the principle of ethics and transparency,



3,692
SUCH
IMPROVEMENTS
PROPOSED BY THE
EMPLOYEES WERE
IMPLEMENTED
THROUGHOUT THE
LIETUVOS ENERGIJA
GROUP

and in particular, ensuring zero tolerance to corruption. The Board of Lietuvos Energija has approved the Zero-Tolerance Policy against Corruption (2014), and has publicly committed to comply with all the legal norms related to the activity, including anti-corruption measures, also to fight corruption and implement the anti-corruption measures. The Policy applies to all employees, contractors, suppliers, consultants and other intermediaries.

The company Group does not support or sponsor any politicians or political parties, and refrains from any direct or indirect forms of influence upon them. The Group has a clearly defined procedure regarding permitted / not permitted gifts, or other benefits, the employees are consistently educated on the benefit and the significance of fighting corruption. All the new employees of the Group are required to read and familiarise themselves the Zero-Tolerance Policy against Corruption, and attend the mandatory training on fighting corruption and business ethics.

During 2017, the Group was continuing educating its employees in the area of understanding of corruption, invited the employees to inquire regarding the damage caused by corruption, be able to recognise its manifestations, and be responsive. Each employee attended on average a 39 hours' anti-corruption training course. On average, each manager attended a training course of 27 hours.



274 CALLS

In 2017 reports
were received

Enhancement of transparency in public procurement.

The procurement function of the Group is performed in a centralised manner by one of the companies of the group, Verslo Aptarnavimo Centras (VAC). VAC conducts procurement operations and provides the services of planning and execution of public procurement of goods, services or works. All the public procurement operations of the Group are conducted in a centralised procedure, and the procurement processes are standardised and focused at a single online platform. With a view to ensuring a transparent and open public procurement process, and an open dialogue, VAC every year invites the Company's employees to attend information meetings, at which the attendants are introduced to the plans, news, and changes, as well as higher value procurements planned by the contracting authorities of the Group.

The contracting authorities of the Group publish draft technical specifications of all procurements by the means of the Central Public Procurement Information System (CPP IS), except the low value procurements; in addition, they inform about such publication on their respective websites, where they also publish reports on procurement procedures, and the procurement in progress. In addition, the suppliers participating in the procurement shall confirm that the supplier has for at least 5 years not been involved in any activities related

to corruption, bribery, fraud, tax avoidance and money laundering (as indicated in Article 45(1) of Directive 2004/18/EC).

Information about possible anti-corruption infringements

The Group invites its employees to report any possible corruption cases by electronic mail pasitikėjimolinija@le.lt or by calling +370 640 88889. The contacts are available both to the employees, and any other stakeholders, as the telephone No., and the email address are published on the internet website. The Group undertakes to respect the confidentiality of such reports by the suppliers. In 2017, total 362 reports were received, and 17 of them were related to allegedly illegal behaviour of the employees. In response to such reports, the Group undertook respective actions with a view to ensuring that any suspicions regarding the corruption-related infringements are properly investigated, and any possibilities for them to reoccur in the future are eliminated. Having completed the investigations in that respect eight employees were dismissed, and seven staff members were subjected to disciplinary penalties.

Green bonds

With a view to diversifying the debt portfolio Lietuvos Energija announced its intention to place to the market its bonds up to EUR 300 million in value. Lietuvos

Energija intends to use the proceeds from the issue to finance its investment in wind energy, enhancement of efficiency of the power distribution grid, as well as the projects of energy production from waste and biomass. Lietuvos Energija undertook to use the funds raised through the green bonds issue to fund only the investment related to green energy projects. This will be the Company's contribution to the development of sustainable energy, and the implementation of sustainable development goals defined by the United Nations. In 2017 June, an international ratings agency Standard & Poor's assigned to Lietuvos Energija a BBB+ credit rating with a stable outlook.

Lietuvos Energija has developed a green bonds programme providing for the use of raised funds to fund the following green energy projects:



Renewable energy covering wind, water, biogas, solar and geothermal production capacities, and the related infrastructure;



Pollution prevention and control projects including production of energy from waste;



The energy efficiency solutions encompassing the distribution grid development and renewal projects seeking to reduce in grid loss and /or facilitate connecting to renewable resources, as well as the smart grid or ESCO projects;



Clean transport not using any fossil fuel that also includes technical transport, as well as infrastructure projects required for such transport means.

“The Green Bond Framework” programme implemented by the Lietuvos Energija Group was awarded the highest “shade of green” by the independent Nordic Environmental institute “Cicero” and the Swedish Environmental Research Institute.

During 2017, the proceeds from the green bond issues were used to finance or refinance the following projects:

PURCHASE OF 25 PER CENT OF THE SHARES OF A WIND FARM IN JURBARKAS – ALLOCATION OF EUR 4,283,197;

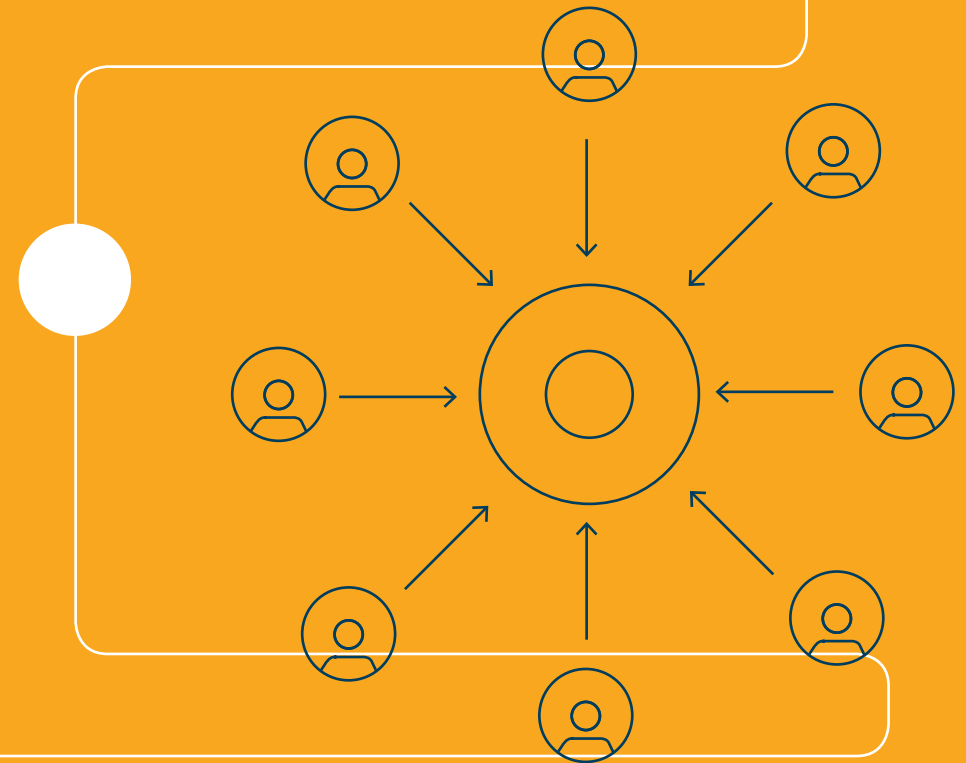
RENEWAL OF THE ESO DISTRIBUTION POWER GRID – ALLOCATION OF EUR 100,000,000;

VILNIUS CHP – ALLOCATION OF EUR 36,600,000;

KAUNAS CHP – ALLOCATION OF EUR 20,000,000;

REFINANCING OF THE LOANS TO WIND FARMS IN ESTONIA AND LITHUANIA – ALLOCATION OF EUR 66,662,657.

Responsibility in social area



Employees and corporate culture

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

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

As of 31 December 2017, there were 4,513 employees working at the Group.

As of 31 December 2017,
there were

4513 employees

working at the Group.

104

„Lietuvos energija“, UAB

2503

AB „Energijos skirstymo operatorius“

393

„Lietuvos energijos gamyba“, AB

552

UAB Energetikos paslaugų ir rangos organizacija

167

UAB Technologijų ir inovacijų centras

14

UAB Duomenų logistikos centras

31

Energijos tiekimas UAB

6

UAB „Elektroninių mokėjimų agentūra“

175

NT Valdos, UAB

16

UAB LITGAS

3

UAB VAE SPB

480

UAB Verslo aptarnavimo centras

32

UAB „Lietuvos dujų tiekimas“

22

UAB Vilniaus kogeneracinė jėgainė

3

UAB Kauno kogeneracinė jėgainė

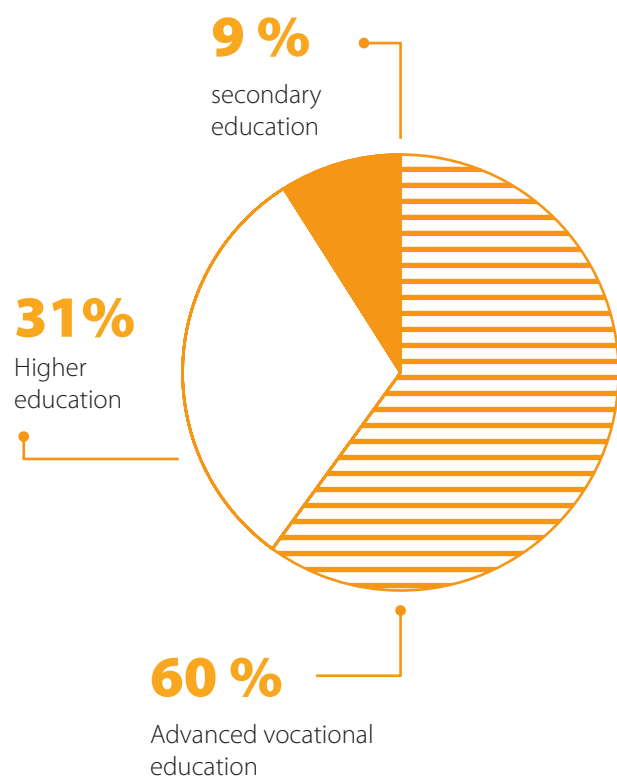
11

UAB Energijos sprendimų centras

1

UAB Eurakras

Education of the employees



Equal opportunities and non-discrimination

In 2017, the Board of Lietuvos Energija approved a Group-wide equal opportunities policy establishing the equal opportunities principles to be put in place and established in the entire Group; the policy also provided a description of implementation measures and a procedure for submission and examination of reports on infringements of equal opportunities principle.

The reports on infringements of the equal opportunities principle may be furnished directly to the Head of the Human Resources Management Department of Lietuvos Energija by email at pasitikejimolinija@le.lt, or by leaving a recording on an answering machine, tel. +370 640 88889.

During 2017, no infringements or other incidents related to discrimination, human rights or other similar occurrences were recorded at the company Group.

Trade union and collective agreements

There are 12 trade unions operating within the Lietuvos Energija Group, and established by the employees of the three largest Group companies ESO, Lietuvos Energijos Gamyba and ENEPRO (Energet-

ikos Paslaugų Įrangos Organizacija). The Lietuvos Energija Group has also concluded collective agreements. Currently the operating trade unions within the Group unite 865 employees.

Education of the employees

60 per cent of the employees at the Group have higher education, among them there are 20 doctors of science, 31 per cent of the employees have post-secondary, and 9 per cent of the employees have secondary education.

Number of men and women

Because of the peculiarity of activities in the sector, technological nature of the operations, the predominant members of the staff are men, while women are working mostly in administration or customer service divisions. The possibilities to select the nature of work at the Group are equally available to both genders, and that is specifically noted at recruiting employees. Most of the employees at the Group are men, total 76 per cent, and women represent 24 per cent of the staff. Similar distribution regarding gender is among the employees holding leadership positions: 77 per cent of senior managers in the Group are men, and 23 per cent are women.

Remuneration

The companies of the Group have implemented an advanced employee remuneration system placing the Company on an equal footing with other leading companies of the country remunerating their employees according to their performance, the value created for the organisation and the team. The remuneration system was developed on the basis of "Hay Group" methodology ensuring objective evaluation of the employee's job positions according to the required qualification, complexity of the problems, and the level of responsibility assigned to a specific job position.

In 2017, the Group updated its remuneration policy laying down the key principles underlying the management of remuneration – clarity, transparency, and internal fairness ensuring that all companies of the Group ensure equal remuneration for the same type of work, competence and performance. The updated Remuneration policy put in place an active dialogue and communication with a view to ensuring that each employee of the Group could well understand what constitutes the remuneration, the circumstances and the reasons for the remuneration to change, and for what the employee may be granted additional incentive.

The total wage bill of the group in January-December 2016 was equal to EUR 58.14 million. There is also an additional Group-wide budget for benefits, amounting to EUR 499,200.

Development of corporate culture

During 2017, the Lietuvos Energija Group was continuing its strategic initiatives undertaken to ensure a well-coordinated development of the organisation, management of human resources, formation of a new corporate culture, enhancement of operational efficiency, training of new employees, strengthening and maintaining of competences.

Development of competences

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

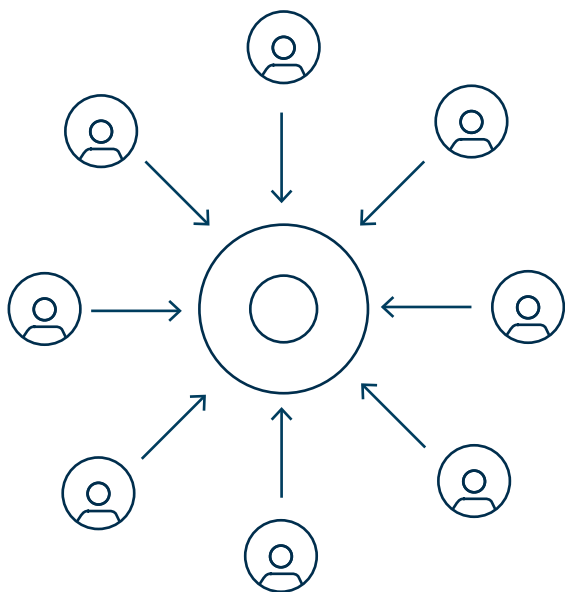
process management, etc. During 2017, every employee of the Group attended training lasting, on average, 12 hours.

In 2017 the Lietuvos Energija Group was continuing its managers' training programme "League of strong leaders" that became a forum for developing their managerial and leadership skills for more than 100 managers; such training will enable the managers to perform much more efficiently in directing, motivating and empowering the employees to pursue their objectives.

Average wages of Group employees and the total wage bill

Categories of the Group's employees	Average monthly wages, EUR		
	2017 m.	2016 m.	2015 m.
Manager of the Company	4 902	4244	4736
Top-level managers	4 281	4004	4004
Medium-level managers	2 144	2107	2079
Experts, specialists	1 185	1066	984
Total wage bill (millions)	58,14 mln.	65,6 mln.	72, 8 mln

Among the factors affecting the employee engagement the highest weight was assigned to direct managers (80 per cent), cooperation (76 per cent) and operations governance (73 per cent).



Integration of new employees

With a view to ensuring smooth and appropriate adaptation of new employees, they are invited to attend “Days of new employees”, and appropriate training sessions, at which the employees are introduced to the corporate strategy, other managers and operations of individual divisions. The new employees are briefed on the structure of the energy sector, the strategic directions of the Company, its mission, vision, values, the main operational principles in the energy sector, the foundations of electrical engineering. Mentors are appointed to assist the new employees and be responsible for the most diversified assistance to new employees during their probation period.

Practical training opportunities

Companies of the Group welcome and allow students of higher schools and vocational training facilities to acquire required theoretical knowledge and practical skills. During 2017, total 59 trainees completed their practical training periods at the Group.

Employee engagement

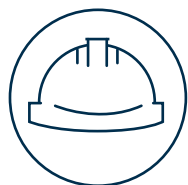
Lietuvos Energija Group is making consistent efforts to become an organisation,

in which operations are based on common values, the required competences and the replacement for key employees are built in a consistent and coordinated manner, and the internal environment is conducive to employee engagement. At the end of 2017, the Group carried out its annual employee engagement survey. The overall employee engagement index measured according to the methodology of an international consulting company AON reached 58 per cent (+2 per cent if compared to 2016); the indicator by 9 per cent exceeds the Baltic average, and is by 18 per cent higher than the EU energy company average. Among the factors affecting the employee engagement the highest weight was assigned to direct managers (80 per cent), cooperation (76 per cent) and operations governance (73 per cent).

Health and safety at work

Lietuvos Energija Group has been dedicating significant attention to developing the health and safety culture at the working places, and strengthening the responsibility of the employees. The Group has approved its “Policy on health and safety at work” (PHSW) designed to build safety culture in the Company based on personal responsibility and cooperation. The highest level managers are responsible for a safe and

healthy working environment, and safety culture is perceived as a component of the organisational culture. PHSW specialists are responsible for proper working tools, they assess the risk related to the working place, organise health checks, vaccination (for employees working in field conditions).



Due to the mandatory and additional measures in the areas of health and safety, and the provision of the employees with personal protection means, the number of incidents at work has decreased.

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

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

Regular checks and inspections are conducted at contractor sites, if necessary, all the infringements are recorded, or the operations may be suspended. Such inspections of the contractor sites, or training or safety days are organised, or other measures are implemented by Group companies at their own initiative, as no such requirements are provided in any legal acts.

In 2017, ESO approved and started applying a contractor rating procedure according to which the Group assesses the quality

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

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

In 2017, total one serious and 12 minor incidents were recorded in the companies of the Lietuvos Energija Group. Among the contractors total seven accidents were recorded during the reference year, of them two accidents were rated as severe, one was fatal and four minor accidents. The fatal accident took place because of

a failure to comply with the occupational health and safety instructions. Three fatal and one minor accidents were reported as having injured residents, and occurred due to the failure to maintain safe distance from electricity facilities.

Public initiatives and support

Support to public initiatives

Acting in accordance with the relevant Order of the Minister of Finance of the Republic of Lithuania Lietuvos Energija established the Support Foundation that on behalf of the entire Group supports initiatives and projects that are significant and valuable for the State and the society. In 2017, the Board of the Foundation specified a new area for support allocation of national level – promotion of employment of children and the youth. The remaining two areas, support to children suffering from oncology diseases and the promotion of innovations by supporting the ideas of young researchers, remained unchanged.

Priority areas in 2017:

- Employment of children and the youth by supporting organisations and movements with expertise in implementing social projects, whose activities and projects are implemented and creating benefit for the society, and contribute to reducing social inclusion.
- support to children suffering from cancer by promoting public organisations and movements whose activities and projects are implemented and create benefit at the level of the country, having experience in the implementation of international social projects, and spreading in their activities the best practice in implementing such projects, providing knowledge and cooperating with healthcare institutions and families of children suffering from cancer, and maintaining family and social relations of such children;
- promotion of research and innovations, by supporting the ideas, research and papers whose implementation would strengthen Lithuania's position on the international innovations market, would help strengthening the Lithuanian education and science system, increase the interest of the society in science, and would establish long-term traditions of cooperation between research institutions, academic community, business and public organizations, and would help young researchers;

During the reporting year the Lietuvos Energija support foundation contributed to total 41 initiatives: 19 national and 22 regional projects. That was a record number of supported projects and initiatives since the outset of the Foundation's operations. The total amount allocated to support exceeded EUR 800,000; total 128 applications were filed for support during the reported year. The priority areas in allocating support in the reporting year were promotion of employment among children and the youth, support to children suffering from oncological diseases, and promotion of research and innovations.

Lietuvos Energija support foundation contributed to total 41 initiatives



19 national projects



22 regional projects



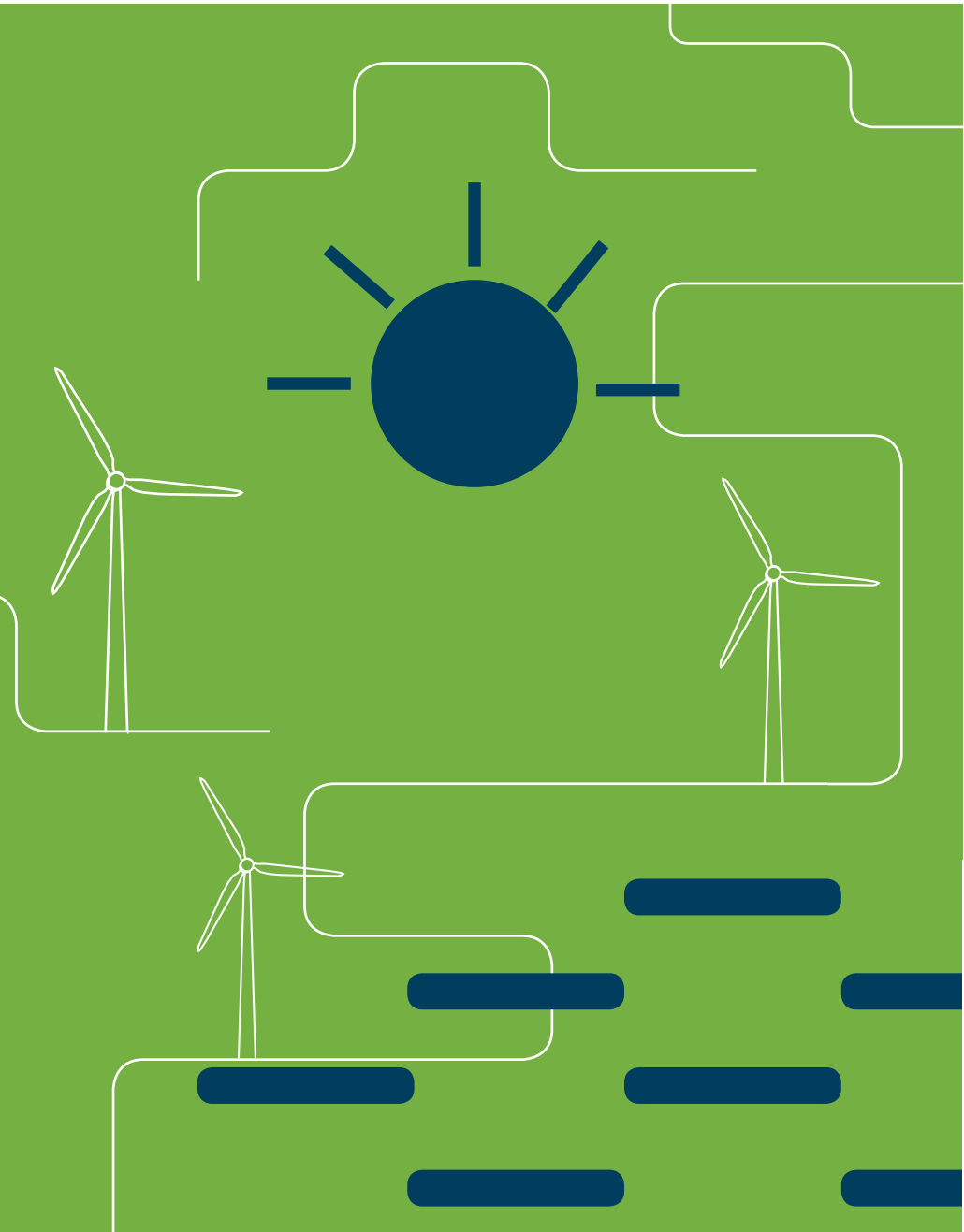
The total amount allocated to support exceeded
EUR 800,000



128 applications were filed for support during the reported year.

Responsibility in Environmental Area

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



Most relevant areas

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

Environmental management system standards

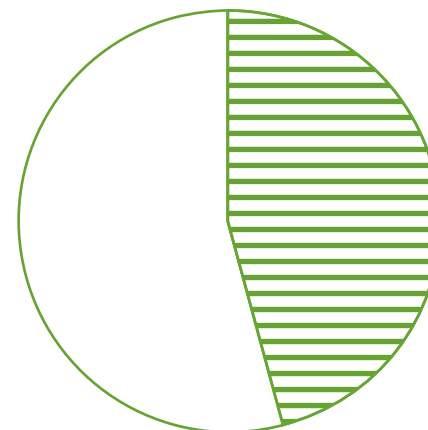
Lietuvos Energijos Gamyba supports the environmental management system standard ISO 14001:2005. The international certificate indicates that in the activities the Company follows the most important requirements for the identification, monitoring, management and improvement of environmental protection aspects. The certificate is valid for all the operations carried out by the power plants: electricity and heat production at the Elektrėnai plant, operation of electricity, heat, turbines, natural gas, oil and oil product equipment, electricity production at Kruonis HAE, supply, equipment operation and power reservation, production, supply of electric energy, as well as equipment operation

at Kaunas HE – all comply with the strict international environmental protection requirements.

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

Development of energy production from renewable sources

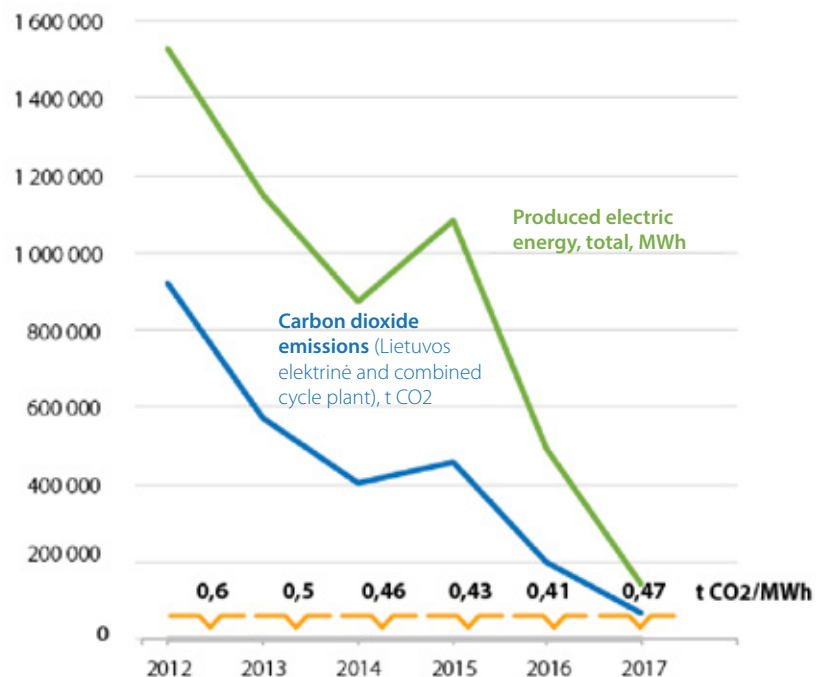
Diversification of energy sources is one of the strategic objectives of Lietuvos Energija Group in its pursuit to increase energy independence, thus promoting renewable energy production, mitigating climate change and contributing to the implementation of the global sustainable development goals. In 2017, the share of energy produced from renewable sources was consistently increasing and was reported at 46 per cent (589.2 GWh) of the total electric energy produced (33 per cent in 2016). In 2017, the Kaunas Algirdas Brazauskas’ Hydroelectric Power Plant generated more electric energy (458.7 TWh) than in 2016 (363 TWh).



46 %
(589,2 GWh)

energy produced from renewable sources was consistently increasing and was reported at 46 per cent (589.2 GWh)

Decrease of the CO2 emissions in energy production



Green Lithuanian energy

Lietuvos Energija Group is the only in the market offering the “Green Lithuanian energy” - a certified energy product produced from renewable resources at Kaunas Hydroelectric Power Plant. This type of energy was introduced to the market on 22 March 2012, when celebrating the World Water Day. To purchasers of the green energy (both entities and household customers) a Group company Energijos Tiekimas (ET) issues energy origin guarantee certificates. During 2017, Energijos Tiekimas supplied to its customers 541 GWh electricity from renewable sources.

Termination of polluting production

„In March 2017, LEG completed the project on the dismantling the decommissioned Units 1 and 2 of the reserve power plant of the Elektrėnai Complex. Once the project for the expansion of the heat generation facilities in Elektrėnai was completed in 2015, the operation of Units 1 and 2 until that time used for the production of heat for residents of Elektrėnai and for industry in cold seasons became economically inefficient. Therefore, having concluded that the price of the electricity produced by the two Units is not competitive in the market, and their divestment will reduce the need for the funds for the public interest obligation services, and the final electricity rate for customers, it was decided to demolish

the two old and inefficient units of 150 MW in reserve capacity and built in 1962-1965. As part of the project the heat insulation of the units were removed and utilised, the brickwork of the boilers was demolished, the equipment and facilities removed, part of it were sold as scrap, or on the market if the equipment was still fit for use. The project on the dismantling the decommissioned Units 5 and 6 of the reserve power plant of the Elektrėnai Complex was launched in January 2017. The units were decommissioned at the beginning of 2016, having concluded that the power generated thereby is not competitive in the market, and divesting of the units will contribute to lowering the electricity rates on the customer’s end. The units, each of 300 MW in capacity, will be dismantled by the end of 2020.

Protection of the landscape

ESO, as the electricity distribution network operator, is replacing the old overhead power lines by new cables in locations where the wiring of the former overhead lines was thin and have dangerously approached the surrounding greenery, the obsolete infrastructure would cause frequent malfunctioning instances. Cable lines ensure more reliable supply of electricity to residents, and produce less impact upon the environment and the landscape. During 2017, more than 2,000 km of underground electricity cables were laid, in addition to other smart network measures.

Enhancement of energy efficiency

The companies operating as a part of the Lietuvos Energija Group provide services to the development of energy efficiency projects and renewable energy resources initiatives in Lithuania and abroad. The activities of the new company is based on the ESCO model (Energy Service Company) – an energy saving service company investing in energy efficiency measures, and ensuring a pay-back of the investment from the future energy savings within the contract duration. The operations of the company will facilitate achieving the largest savings effect for owners and managers or buildings and facilities without incurring significant initial investment. The Lazdijai region municipality became the first in Lithuania using in all streets and territories most modern energy-efficient LED lighting. This was the first in Lithuania region-wide street lighting modernisation project based on the ESCO model. The new modern technologies are estimated to enable the Lazdijai region municipality to save up to 60 per cent in street lighting costs. Nearly 2,000 street lamps were replaced by modern LED installations, also their control system was upgraded and modernised, in addition to replaced obsolete elements on the poles. Savings in power consumption in Lazdijai are estimated to reach 356 Megawatt hours (MWh) per year, and the municipality will save its expenses for repairs of old lamps. As a result, the town will save about EUR 70,000 per year. The new LED lamps

are estimated to serve for 20 years. For part of the 20 years period, the municipality will channel the savings from energy costs to investment to the modernisation project. For the remaining share of the period the savings will be retained in the municipality budget. Ultimately, the project is estimated to generate savings of about EUR 700,000. Similar modernisation projects will be implemented in the corporate customer segment. By providing energy efficiency and energy facilities modernisation services to customers, we helped our customers to save about 2,330 MWh of electric energy in 2017.

Smart accounting

In 2017, a Group company ESO completed a pilot project in smart accounting, whereby we were seeking to facilitate our customers in efficient time, and electric energy management: both we and the customers were released from the obligation to check the meter readings, as they can be recorded by remote means. Having installed the new meters ESO employees could monitor also a number of other technical parameters (e.g. voltage variation); therefore; they could more expediently address any failures in power supply without disturbing the customers. The new electricity meters enabled the customers to monitor their electricity consumption and the trends in greater detail: on the self-service website www.manogile.lt the customers could see the data updated every hour, their analysis

or comparison with previous periods. The functionality was retained as available to the customers also after the completion of the pilot project. As compared to the conventional electricity accounting arrangement, project participants consumed by 7 per cent less electricity than in the current year.

Protection of biological diversity

With respect of hydro-energy production the Company makes efforts to protect fish, and while maintaining distribution grids specific measures are taken to protect the population of wild bird. In 2017, the area was high on the ESO's priority list, and started placing on the poles of the distribution network specific protection means severely restricting the possibility for birds to build their nests. This prevents accidents where nests, having become heavier due to humidity would simply fall on the electric wires. Such incidents are nearly unexceptionally fatal for the birds, and specifically storks.

Waste treatment

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



During 2017, the companies of the Lietuvos Energija Group transferred to waste processors total 2,056 t hazardous waste, 4,623 t of non-hazardous waste, 1,736 t of ferrous metal, and nearly 114 t of non-ferrous metals.

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

During 2017, the companies of the Lietuvos Energija Group transferred to waste processors total 2,056 t hazardous waste, 4,623 t of non-hazardous waste, 1,736 t of ferrous metal, and nearly 114 t of non-ferrous metals. The companies disposed of 62 t of household waste.