

2017

LIETUVOS ENERGIJOS GAMYBA, AB

THE REPORT ON SOCIAL  
RESPONSIBILITY



Lietuvos  
energija

GAMYBA



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## ABOUT THE REPORT

Lietuvos Energijos Gamyba is the national electricity producer. This report has been drawn so as to show how the approach of a socially responsible business and the principles of corporate management are reflected in our daily operations and future plans in the environment where the energy sector is continuously facing new challenges.

This report has been drawn up in accordance with the principles of the UN Global Compact. Lietuvos Energijos Gamyba is a member of the Global Compact.

This report presents the operations of Lietuvos Energijos Gamyba in 2017. Reports of this kind have been also drafted before. They were announced via the exchange and on the website of the Company. The report is available in Lithuanian and English. The report has not been audited or reviewed by any third parties.

This report should be read along with the Annual Report of Lietuvos Energijos Gamyba for 2017.

## CEO FOREWORD



**Dear shareholders, clients, partners and members of staff,**

As we look back at the year 2017, during which we dedicated a substantial part of our efforts to the implementation of Lietuvos Energijos Gamyba strategy, first of all I'd like to draw your attention to our achievements that we are all happy about.

The Company managed to achieve sustainable profitability indicators, and all the efforts put by the Company's employees in order to ensure an effective management of operating expenses have significant effect.

As a result of changes in the market conditions during 2017, Elektrėnai Complex reduced its production volumes and at the same time it managed to ensure high accessibility to and reliable operation of all power plants, as well as to meet the needs of the transmission system operator and those of the market. One of our most important goals is to contribute reliably to a stable operation of the energy system and ensure its security.

As we took advantage of the opportunities available in the market, there was a slight increase in the production volumes at Kruonis Pumped Storage Hydroelectric Plant and a significant increase in the production volumes at

Kaunas Algirdas Brazauskas Hydroelectric Power Plant compared to 2016. The previous year was a year of record for this plant in terms of water and electricity production volumes.

I'm especially happy about the level of our staff engagement. In 2017, we achieved excellent results in the field of operational excellence – we implemented over 500 performance improvement proposals, improved day-to-day operations management, and accomplished territory cleaning works at many facilities.

We successfully pursued our development and territory cleaning work projects. An overview of these works is provided further in this report. Also, there is a description of the first successful steps in launching services to our new customers.

Being sociably responsible we follow all ten principles of Global Compact, consider general aspects of human and employee's rights, environmental protection and clarity and definitely pronounce that within this report. I invite you to get acquainted!

**Eglė Čiužaitė**  
Chairperson of the Board and CEO  
of Lietuvos Energijos Gamyba

## ABOUT THE COMPANY



### Object and Purpose of Operations

In 2017, Lietuvos Energijos Gamyba, AB (hereinafter referred to as "Lietuvos Energijos Gamyba" or the "Company") engaged in production of electrical power and thermal energy.

The main purpose of the activity of Lietuvos Energijos Gamyba is to operate in an efficient manner and to contribute to ensuring the country's energy security.

The Company is in charge of state-controlled electricity production capabilities, namely, the back-up power plant and the combined cycle unit in Elektrėnai Complex, the Kruonis Pumped Storage Hydroelectric Plant (hereinafter referred to as the "Kruonis PSHP") and the Kaunas Algirdas Brazauskas Hydroelectric Power Plant (hereinafter referred to as the "Kaunas A. Brazauskas HPP").

Trade in electricity produced by the Company is conducted on the wholesale electricity market (i.e. within the communication environment between the producers and suppliers of electricity).

The Company provides balancing services, as well as system services to the Lithuanian transmission system operator LITGRID AB (the TSO)

The Elektrėnai Complex produces thermal energy for Elektrėnai consumers, Kietaviškės greenhouse complex, and the Company's own needs.

### Mission and Vision

In carrying out its activity, the Company refers to its mission and vision as follows:

**The mission – we are a reliable and advanced power generation company providing the services that are required for the energy system security.**

**The vision – our aim is to be become a competitive international centre of power generation and services.**

### Values

The implementation of the mission and the pursuit of the vision of Lietuvos Energijos Gamyba as well as its all operations are based on three values which are common to all companies of Lietuvos Energija Group. These values form the basis of the Company's long-ranging strategy, namely, **cooperation, responsibility, and results.**

Fostering these values we seek to help everyone understand that corporate responsibility starts with each of us. Working and creating together we strive for the best result possible and promote the development of the economy and society of the country by increasing the value in energy field.

## Strategy

In 2017 The company acted in accordance with the Company's business strategy for 2016-2020. The Strategy, approved by the Company's Board, defines the long-term business strategy of the Company: the strategic directions and objectives and the indicators for measuring the implementation of the Strategy.

The Company Strategy is based on developments and future perspectives in the energy sector: growing competition in the electricity market, new opportunities arising in relation to the development of renewable resources, and emerging threats.

By the year 2020, the Company expects to dedicate at least 15% of its work time to earning income from new activities, and to cut its costs of operating activities by at least 15%.

## Management

The management structure of Lietuvos Energijos Gamyba is based on the corporate governance model for the energy company group which has been implemented following the governance guidelines approved by the Ministry of Finance of the Republic of Lithuania on 7 June 2013. The guidelines were updated on 1 June, 2017. The governance guidelines, the corporate governance principles of the Group, and the management and control system are available on [www.le.lt](http://www.le.lt).

## Supervisory Board

The Supervisory Board, the role of which is to provide oversight of the Company's operations, is composed of three members who are natural persons. Independent members account for at least one third of the Supervisory Board. It is elected for the term of office of four years by the general meeting of shareholders. The chairperson of the Supervisory Board is elected from among its members. The Supervisory Board and its members commence and finish their service in accordance with the procedure and terms established in legislation.

The scope of competence of the Supervisory Board as specified in the Articles of Association of the Company includes the supervision over the activities of the Board and the CEO, and the provision of feedback on and proposals with regard to the Company's strategy, finances and

The Company plans to achieve the above-mentioned objectives by focusing on four main strategic directions:

1. provision of quality services to clients,
2. improvement of operational efficiency,
3. diversification and development of activities,
4. engagement and empowerment of employees.

For each of these lines, strategic objectives have been formulated and indicators for measuring their achievement have been set according to the balanced scorecard methodology. The Company's strategic objectives contributed to the creation of added value, increase in the return on assets, appropriate representation of the shareholders' interests, increasing the Company's competitiveness, and sustainable development

The business strategy for 2016-2020 is published on the Company's website.

According to the Articles of Association of Lietuvos Energijos Gamyba, the management body of the Company is the general meeting of shareholders, the collegial supervising body is the Supervisory Board, the collegial management body is the (Management) Board, and the one-man managing body is the CEO of the Company.

activities, as well as decisions to the general meeting of shareholders, the Board, and the CEO.

The term of office of the Supervisory Board of the Company the members of which were Mindaugas Keizeris (the Chair), Dominykas Tučkus (a member) and Pranas Vilkas (an independent member) ended on 5 August 2017. M. Keizeris and D. Tučkus were elected for the new term of office in the Extraordinary General Meeting of Shareholders held on 10 August 2017. An independent member had not been elected in 2017.

The expected end of term of office of the current Supervisory Board of the Company at the date of issue of this report is 10 August 2021.

### **Composition of the Supervisory Board as of 31 December 2017**



**Mindaugas Keizeris**  
Chairman

**Education:** Master of International Business, Vilnius University; Bachelor of Business Administration and Management, Vilnius University.

**Workplace:** Lietuvos Energija, UAB, the Chair (until 1 February 2018), Director for Strategy and Development, interim CEO (until February 11, 2018).



**Dominykas Tučkus**  
Member

**Education:** Master of Finance, Bachelor of Business Management and Administration, L. Bocconi University (Milan, Italy).

**Workplace:** Lietuvos Energija, UAB, member of the Board, Production and Service Director.

## Management Board

The Board for the term of office of four years is elected and dismissed by the Supervisory Board in accordance with the Articles of Association of the Company. The Board is accountable to the Supervisory Board and the general meeting of shareholders. The Board elects the chairperson from among its members.

The scope of competence of the Board, the procedures of decision-making, election and dismissal of members are regulated by laws, other regulations, Articles of Association of the Company and the Rules of Procedure of the Board.

On 23 December 2016 Adomas Birulis submitted his resignation from the position of the member of the Board with effect from 6 January 2017. At the meeting of the Supervisory Board held on 6 January 2017, the decision was made to elect Mindaugas Gražys to the position of the Company's Board as from this date until the end of term of the current Board. A letter of resignation of M. Gražys from the position of a member of the Board of the Company from

9 June 2017 was received on 12 May 2017. The meeting of the Supervisory Board of the Company held on 9 June 2017 made a decision to elect Nerijus Rasburskis to the Company's Board from this day till the end of term of office of the effective Board.

The term of office of the previous Board of Lietuvos Energijos Gamyba, AB, the members of which were Eglė Čiužaitė (the Chair), Darius Kucinas (a member), Mindaugas Kvekšas (a member) and Nerijus Rasburskis (a member) at the end of its term, ended on 17 September 2017.

The new Board of the Company was elected in the meeting of the Supervisory Board of the Company held on 22 September 2017. The Chair of the Board and CEO of the Company was appointed on 25 September 2017.

The expected end of term of office of the current Board of the Company is 22 September 2021.

### Composition of the Board as of 31 December 2017



**Eglė Čiužaitė**  
Chairwoman

**Education:** Bachelor of Science in Business Administration, Bellevue University (USA); Master of Science in Finance and Business Administration, Aarhus University, School of Business and Social Sciences (Denmark).

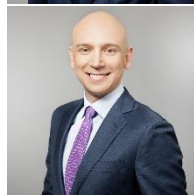
**Workplace:** Lietuvos Energijos Gamyba, AB, CEO.



**Darius Kucinas**  
Member

**Education:** Electrical engineer, Kaunas University of Technology.

**Workplace:** Lietuvos Energijos Gamyba, AB, Director of Production.



**Mindaugas Kvekšas**  
Member

**Education:** Bachelor of Economy and Business Administration, Stockholm School of Economics (Latvia).

**Workplace:** Lietuvos Energijos Gamyba, AB, Director of Finance and Administration



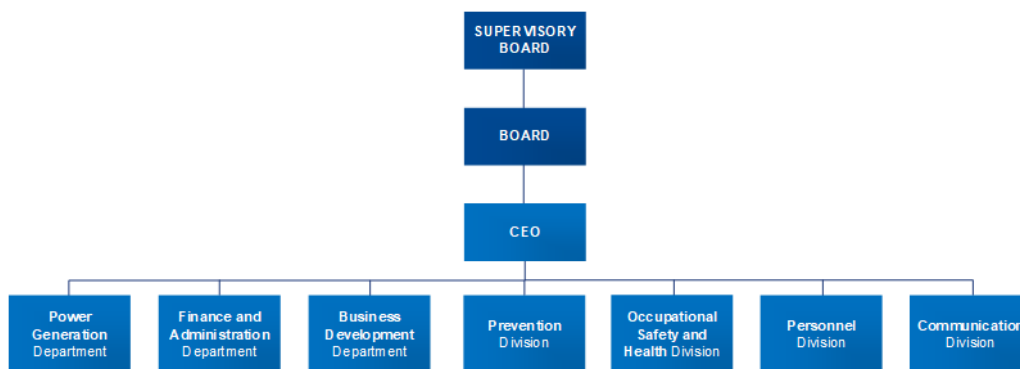
**Nerijus Rasburskis**  
Member

**Education:** Kaunas University of Technology, PhD in Energy and Thermoengineering, Master of Thermal Engineering and Bachelor of Management.

**Workplace:** Lietuvos Energija, UAB, Head of Cogeneration Power Plants Division.

## Organisational Structure

The chart represents the Company's organisational structure which was in force on 31 December 2017.



## Shares in Other Companies

On 31 December 2017 the Company has had shares of the associate companies Geoterma, UAB, Technologijų ir Inovacijų Centras, UAB, and Verslo Aptarnavimo Centras,

UAB. The Company owns the following amounts of shares of the aforementioned companies: 23.44 %, 20.01 % and 15 %, accordingly.

## Information About Shareholders of the Company

On 1 September 2011, shares of the Company were admitted for listing on the Baltic Main List of NASDAQ OMX Vilnius. The shares of the Company are traded on NASDAQ Vilnius Stock Exchange. Ordinary registered shares totals 100% of Company's authorized capital.

ISIN code LT0000128571. Ticker – LNR1L.

Total number of shareholders as of 30 December 2016: 5,931.

Total number of shareholders as of 31 December 2017: 5,904.

### *List of shareholders whose shares account for more than 5% of the Company's authorised capital (as of 31 December 2017)*

Name	Class of shares	Number of shares	% of authorised capital	% of voting shares
<b>Lietuvos Energija, UAB</b> Business ID – 301844044 Žvejų g. 14, 09310 Vilnius	Ordinary registered shares	614,453,755	96.75	96.75
Other shareholders	Ordinary registered shares	20,629,860	3.25	3.25
<b>TOTAL</b>	Ordinary registered shares	635,083,615	100.00	100.00

Information on trading in the Company's Shares is available on Company's website, also on interim and annual consolidated reports of the Company.

## Membership in Organizations

The Company was among the founders of **National Energy Association of Lithuania (NEAL)** that unites companies operating in the country's energy sector. NEAL determines the common position of the national energy sector and represents it at state authorities, public organizations and international bodies. One of the objectives of NEAL is to promote an active dialogue with the public as part of the development of the sector's social initiatives.




The Company is a member of the **Personnel Management Professionals Association**. This is a Lithuanian public organization established in 2006 with the aim of improving the efficiency of personnel management in the country. The Association seeks to increase the recognition of the value of personnel management in Lithuania.

The Company has joined the **UN Global Compact**, a voluntary corporate sustainability initiative.



## OVERVIEW OF THE COMPANY'S OPERATIONS IN 2017

### Generation Capacities

<b>Elektrėnai Complex</b> Reserve power plant and combined-cycle unit	<b>Kruonis Pumped Storage Hydroelectric Plant</b>	<b>Kaunas Algirdas Brazauskas Hydroelectric Power Plant</b>
 <p><b>Capacity – 1055 MW</b></p> <p>The main power plant in the Lithuanian power system, having the greatest production capacities in the country and maintaining strategic and the tertiary reserve for ensuring the security of energy supply and reserves.</p> <p>Heat energy is produced in the biofuel boiler house at Elektrėnai Complex.</p>	 <p><b>Capacity – 900 MW</b></p> <p>Kruonis PSHP is designed for the balancing of electricity generation and consumption as well as for the power system's emergency prevention and response. Kruonis PSHP is responsible for the securing the larger part of the emergency reserve required for the Lithuanian power system.</p> <p>Kruonis PSHP is unique power plant in the Baltics.</p>	 <p><b>Capacity – 100,8 MW</b></p> <p>Kaunas A. Brazauskas HPP is the largest power plant in Lithuania that uses renewable energy sources.</p> <p>Kaunas A. Brazauskas HPP contributes to the balancing of electricity generation and consumption and levels out the power system. It is one of the power plants in the Lithuanian power system that can start an autonomous operation in case of the total power system failure.</p> <p>Energy is sold under the brand of Green Lithuanian Energy.</p>

### Interested parties

In 2017 the Company was engaged in electricity and heat generation activities and provision of such services as assurance of strategic power reserve and tertiary active power reserve at Elektrėnai Complex and assurance of secondary emergency reserve at Kruonis PSHP, and other system services.

The main customers of the Company are the TSO (receiving all system services), the NCC (representing the interests of consumers as the Company provides regulated services), Nord Pool (NP) exchange participants (receiving electricity generation services), Elektrėnų Ko-munalinis Ūkis UAB and Kietaviškių Gausa UAB (receiving heat energy services).

The Company's activity is regulated by the Law of the Republic of Lithuania on Energy, the Law of the Republic of Lithuania on Electricity, and other legal acts.

To manage risks arising from external factors and to present a reasoned position of the Company, representation of the Company at decision-making institutions has been initiated. The Company actively provides comments and proposals concerning draft legal acts and participates in open agreement procedures as well as discussions.

### Regulation

Acting in accordance with the Republic of Lithuania Law on Electricity, the National Commission for Energy Control and Prices (NCECP) regulates the selling prices for electricity and reserve power being sold by power generating companies and independent suppliers that have significant

market power. Every year, by decision of NCECP, price ceilings are set for the power reserving services provided by the power plants controlled by Lietuvos Energijos Gamyba.

### Activities on the electricity market

As from 1 January 2016, trade in electricity produced by the Company is conducted under the agreement by Energijos Tiekimas UAB. Before that date, the Company

used to conduct trading on the wholesale electricity market on its own.

## Key Indicators of the Activity

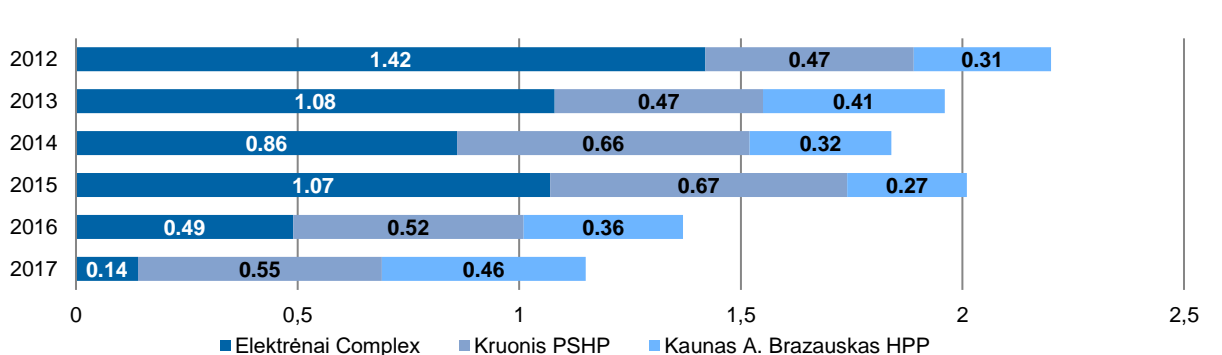
The Company has permits for indefinite term to engage in electricity generation activities. In total 1.147 TWh of electricity produced at the power plants controlled by the Company was sold during 2017, i.e. 16.4% less compared to 1.371 TWh in 2016. Such decline was driven by significantly lower volumes of electricity produced at Elektrėnai Complex in 2017 compared to 2016. Whereas the volumes of electricity produced and sold at Kruonis PSHP and Kaunas A. Brazauskas HPP increased, by even more than ¼ at the latter (see Figure below).

The year 2017 was noted as the one with heavy rainfall, and therefore, the water level in the Nemunas river was much higher compared to the previous year. This contributed to more favourable production conditions at **Kaunas A. Brazauskas HPP**. As a result, in 2017 electricity production volumes at Kaunas A. Brazauskas HPP increased by 26.4% compared to 2016 and totalled 0.459 TWh (2016: 0.363 TWh).

In 2017 the difference between day and night rates of electricity on power exchange was on average lower compared to 2016, however, a more active trade on power exchange in the day course allowed to increase slightly the production volumes at **Kruonis PSHP** in 2017. In 2017 sales of electricity produced at Kruonis PSHP increased by 6.2% compared to 2016 and totalled 0.549 TWh (2016: 0.517 TWh).

The units at **Elektrėnai Complex**, where 0.139TWh of electricity was produced in 2017 compared to 0.491 TWh in 2016 (or 71,8% less compared to 2016), were still operating due to the decline in wholesale electricity prices on power exchange: in 2015, the average electricity price on Nord Pool power exchange as per Lithuania price area was 41.9 EUR/MWh compared to 36.51 EUR/MWh in 2016 and 35.15 EUR/MWh in 2017. Given the possibility to import electricity at a lower price, gas installations at Elektrėnai Complex are exposed to less opportunities to produce competitive electricity.

**Electricity produced at power plants controlled by the Company and sold (TWh)**



## Key Financial Indicators

		2017	2016	Change	
				+/-	%
<b>KEY OPERATING INDICATORS</b>					
Electricity generation volume	TWh	1.15	1.37	-0.22	-16.06
<b>KEY FINANCIAL INDICATORS</b>					
Revenues	EUR'000	149,815	172,922	-23,107	-13.36
Costs of purchase of electricity, fuel and related services	EUR'000	58,505	76,395	-17,890	-23.42
Operating expenses <sup>1</sup>	EUR'000	19,973	23,093	-3,120	-13.51
EBITDA <sup>2</sup>	EUR'000	70,538	58,054	12,484	21.50
EBITDA margin <sup>3</sup>	%	47.1	33.6	13.5 p. p.	
Adjusted EBITDA <sup>4</sup>	EUR'000	53,733	63,652	-9,919	-15.58
Adjusted EBITDA margin <sup>5</sup>	%	35.9	36.8	-0.9 p. p.	
Net profit (loss)	EUR'000	20,521	39,975	-19,454	-48.67

		At 31 December 2017	At 31 December 2016	Change	
				+/-	%
Total assets	EUR '000	636,288	819,430	-183,142	-22.35
Equity	EUR '000	353,874	355,566	-1,692	-0.48
Financial debts	EUR '000	55,557	132,907	-77,350	-58.20
Net financial debts <sup>6</sup>	EUR '000	-5,143	33,862	-39,005	-115.19
Return on equity (ROE) <sup>7</sup>	%	5.8	11.2	-5.4 p. p.	
Equity level <sup>8</sup>	%	55.6	43.4	12.2 p. p.	
Net financial debts / 12-month EBITDA	%	-7.3	58.3	-65.6 p. p.	
Net financial debts / Equity	%	-1.5	9.5	-11 p. p.	

<sup>1</sup> Operating expenses less costs of purchase of electricity and related services, costs of fuel used for production, depreciation and amortisation costs, impairment losses, revenues/expenses of revaluation of emission allowances and costs of write-offs of property, plant and equipment.

<sup>2</sup> Profit (loss) before tax + financial activities costs – financial activities income – dividends received + depreciation and amortisation costs + impairment losses + revenues/expenses of revaluation of emission allowances + write-offs of property, plant and equipment.

<sup>3</sup> EBITDA / Revenues.

<sup>4</sup> EBITDA result is reported after the adjustments made by management by eliminating the impact of one-off factors. These adjustments are made aiming to disclose the results of the Company's operating activities after the elimination of the impact of non-typical, one-off factors or factors that are not directly related to the current reporting period. All adjustments made by management are disclosed in the Company's interim and annual reports.

<sup>5</sup> Adjusted EBITDA / Revenues.

<sup>6</sup> Financial debts – Cash and cash equivalents – Short-term investments and term deposits – Share of non-current other financial assets consisting of investments in debt securities.

<sup>7</sup> Net profit (loss), restated annual value // Equity at the end of the period.

<sup>8</sup> Equity at the end of the period / Total assets at the end of the period.

## Most-significant changes in 2017

### Units 5 and 6 have been decommissioned

In January 2017, the project for decommissioning of 5 and 6 units was initiated. In January 2016, units 5 and 6 were decommissioned. Given the fact that the price of electricity produced at these units is no longer competitive on the market

and that their abandonment will help reduce the final tariffs of electricity for end users, the decision was made to dismantle these obsolete and ineffective 300 MW capacity units of the reserve power plant.

### Units 1 and 2 have been decommissioned

In the end of March 2017 the Company completed decommissioning project of the units 1 and 2. As the Company completed the project for expansion of heat generation facilities in Elektrėnai in 2015, the units 1 and 2 of the

reserve power plant (which have been used so far for heat production to satisfy the needs of population of Elektrėnai town during the cold season) appeared to be longer necessary.

### The exploitation of unit 7 have been terminated

On 11 December 2017, the Board of the Company, having assessed the scope of services provided by Lithuanian Power Plant's units in 2018, the market situation of electricity production and system services, changes in the regulatory

environment and prospects, taking into account the opinion of Supervisory Board, decided to terminate the exploitation of unit 7 of Lithuanian Power Plant from 1 January 2018 and to put it into preservation mode.

### Business services provided

In March 2017, the Company's employees performed the first technical maintenance tasks for external customers.

warehousing areas and territories, offers chemical products and other services.

Presently the Company offers maintenance services for automation, electrical and mechanical facilities, also hydro-technical structures and facilities, services of use of various energy objects, leases out buildings not used in its activities,

In 2017, the Company's employees provided services to 22 external customers which required almost 4,500 working hours. Also, in 2017, about 16,000 square meters of different territories and premises, which are not used by the Company in its main activities, were leased out.

## COMPANY'S PROGRESS IN THE FIELD OF CORPORATE SOCIAL RESPONSIBILITY

### Social Responsibility Principles

Activities of Lietuvos Energijos Gamyba in the area of social responsibility are based on the corporate values and reflect the Company's attitude towards its operations and the inclusion of social, environmental protection and transparency aspects in both internal processes of the Company and relations with stakeholders.

In conducting responsible activity Lietuvos Energijos Gamyba follows the provisions of the Corporate Social Responsibility Policy approved by the Group. The aforementioned document defines the general directions and principles of responsible operation which are referred to when creating the culture and practice of a socially responsible business developed in a sustainable manner.

### About the UN Global Compact

The United Nations initiative Global Compact is the biggest voluntary initiative to encourage businesses to adopt sustainable and socially responsible policies which are supported not only by business companies but also other organisations, trade unions, public and civil society organisations all over the world.

The aim of this international agreement is to help organisations adopt the principles laid down in the agreement in organisations' operational strategies, to promote cooperation and partnership among different sectors within a country and beyond its borders so as to achieve the universal global development goals.

#### The key principles of the Global Compact:

##### Human Rights

**Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and

**Principle 2:** make sure that they are not complicit in human rights abuses.

##### Labour

**Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining,

**Principle 4:** the elimination of all forms of forced and compulsory labour,

**Principle 5:** the effective abolition of child labour; and

**Principle 6:** the elimination of discrimination in respect of employment and occupation.

### Human Rights

In the process of development of its activities and provision of its services in various communities, the Company respects the principles of the human rights' protection,

The Company brings social responsibility to action through a targeted and consistent as well as coherent operation in the following areas:

- relationship with employees and the public,
- in environment protection and
- operations in the market.

The Company follows the Ten Principles of the UN Global Compact, focusing on human rights, employee welfare, environmental protection and transparent operations and aim at reducing the impact of business operations on the environment, the community, other businesses, and to participate in resolving economic, social and environmental protection problems by common effort. These universally adopted guidelines of responsible behaviour represent a clear and sound reference for the Company in the development of its activities in a socially responsible manner.

The Global Compact is based on human rights, labour power and environmental protection principles established in the following international documents:

- The Universal Declaration of Human Rights;
- the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work;
- the Rio Declaration on Environment and Development;
- the United Nations Convention Against Corruption.

##### Environment

**Principle 7:** Businesses should support a precautionary approach to environmental challenges,

**Principle 8:** undertake initiatives to promote greater environmental responsibility; and

**Principle 9:** encourage the development and diffusion of environmentally friendly technologies.

##### Anti-Corruption

**Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.

supports the international human rights protection within the sphere of its operations, does not commit any violations of the human rights and comes out against such violations.

## Employees

The Company respects the rights of its employees and comes out against child's work and against any discrimination both in the employee hiring process and among current employees. Trade unions are active and there is a valid collective agreement in the Company.

Objective self-assessment by the employee and an assessment of the employee's competences by his/her supervisor is the only way in which employees are assessed in the Company. The Company is concerned about the improvement of its employees' competences. There are transparent wage setting and payment procedures in place. The Company is also concerned about the employees' health, therefore, it organised informal events on its own initiative and invites all employees to them. The Company also tries to ensure that the organisational culture is favourable to its employees.

### The number of the employees of the Company

There were 392 employees working in the Company as at 31 December 2017 (including employees on parental leave). In the beginning of 2017, the Company had 399 employees.

The main purpose of the Company's human resources policy is to attract and retain highly-qualified employees and to ensure, based on a long-term partnership and mutual-value creation, a common successful future of the Company.

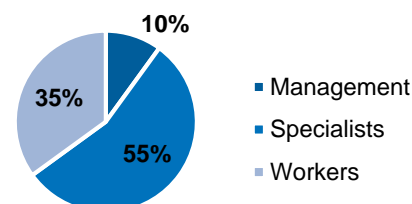
Continuing the process of formation of its organizational culture, the Company has adopted the principles of the Human Resources Management Policy of the Lietuvos Energija Group. The policy is pursued in managing human resources management and achieving strategic corporate goals. The Company has also drawn much attention to making the HR management even more effective.

The Company's headcount changed slightly because a number of employees retired or left the Company for other reasons.

Composition of the Company's staff by areas of operation

Operation	Number of employees		
	31/12/2015	31/12/2016	31/12/2017
CEO	1	1	1
Senior management	4	3	4
Middle management	33	31	34
Experts, specialists, workers	391	364	353
<b>Total</b>	<b>429</b>	<b>399</b>	<b>392</b>

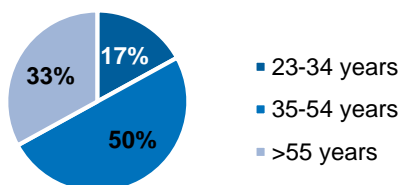
Employees by areas of operation



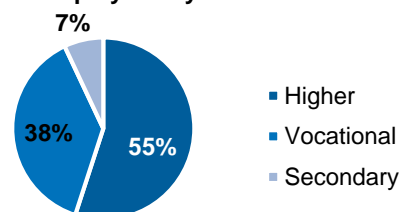
### Equal opportunities

At the end of 2017, men accounted for 85 percent of the Company's employees and women - for 15 percent. There are more men working in the Company because of specifics of its activities - women choose technologic works and related specialties less frequently.

Employees by age

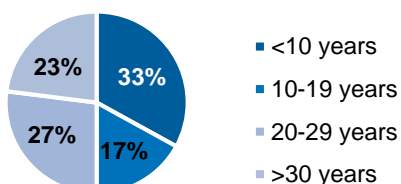


Employees by education

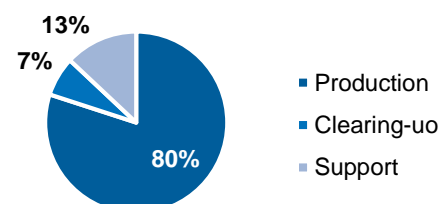


There are no women in the Supervisory Board of the Company. However, one of the four members of the Board of the Company (top management category) operated in the end of 2017 is female, who is also holding the post of CEO.

Employees by work experience



Employees by activities



The Company has created opportunities for people of different age and having different experience to successfully find employment and work. Graphs on the right illustrate the composition of the Company's staff by age, educational background, work experience and areas of operation in the Company.

**During 2017, no discrimination cases or other incidents of violation of human rights were recorded in Lietuvos Energijos Gamyba.**

### Organisational culture

The Company conducts annual employee engagement surveys, which help identify the areas that are important for further improvement of engagement of employees. The result of all measures taken by the Company – stable engagement index.

In 2017, a group of the Company’s ambassadors from various divisions of the Company continued their active participation. Their main goal is to contribute to the improvement of engagement of employees by organising various events and meetings. The Company’s ambassadors made a significant contribution to co-ordination of election of the best employees. The Company’s ambassadors updated the whole process of election of the best employees, by involving all employees of the Company as well as the representatives of the trade unions. This process enabled the Company to notice and

reward the performance of the best employees, as well as their contribution to the Company’s final performance result. The best employees may be distinguished not only by their professional contribution, but also by their exemplary behaviour which is in line with the values.

Company’s staff uses the code of conduct which was created by ambassadors to reflect the values of the Company and specific behaviours.

The Company prioritised proactive communication with employees. In 2017, four traditional meetings of the directors and board members of the Company with the employees of all subdivisions took place. During the meetings, results of the Company’s activity, the news of current and future projects, and other issues important to the employees were discussed.

### The collective agreement, the staff trade unions

There are four trade unions in the Company. The Company supports its employees’ uniting into trade unions and maintains close cooperation ties with them. Meetings are organized on a periodic basis for the discussion of relevant issues and common projects are carried out. The Company allots funding for cultural and sports activities organized by the trade unions.

**The amount of pay-outs under the collective agreement and additional benefits was more than EUR 216,000 in Lietuvos Energijos Gamyba in 2017.**

staff of the Company in comparison with the requirements of the Labour Code of the Republic of Lithuania. In

accordance with the collective agreement, the employees receive support in case of accidents, illness, death of family members; they are

provided with additional payments after the birth of a child or if a family has many children; additional paid vacation days are granted after the birth of a child, after marriage, after the death of a family member and in other cases.

A collective agreement is valid in the Company, which ensures a more favourable social benefits package for the

### Employee Performance Management and Evaluation

The goal of the system for managing the employees’ activity is to coordinate the goals of the employees with the goals of the Company and to direct the employees’ activity to achieving target results.

The performance evaluation process starts with a 360° investigation, which evaluates general and leadership competences of directors and specialists. Competences are evaluated by the employees themselves, their managers and colleagues. The procedure of managing the

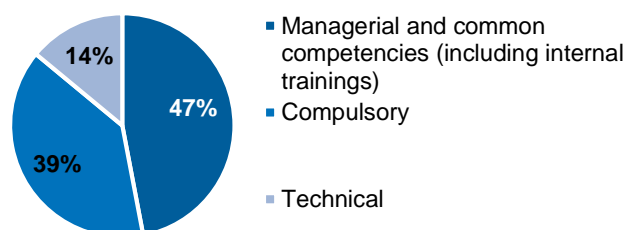
employees’ activity stipulates that an annual performance evaluation conversation between a manager and an employee takes place in the company every year. During the annual conversation, the manager and the employee evaluate the achievement of goals during the last year and set new goals; in addition, on the basis of competence evaluations, they agree on competences that need improvement as well as on specific employee education means for the next year.

### Development of Competences

On the basis of activity goals, competence evaluations and the need to improve it, the Company educates the employees in a purposeful manner and takes care of their training. During professional training, employees update their technical knowledge that is crucial for their work and obtain necessary certificates. During seminars and conferences, employees familiarise themselves with innovations in their activity fields, as well as with innovations and best practices in the energy sphere.

In 2017, in total 305 unique employees (78% of employees) participated in training. 104 different training took place, EUR 78,000 was allocated to organize it.

Training by type



## Pay

The remuneration system of the Company stipulates that the salary of all employees of the Company, including the Company's management, consists of a constant part, a variable part, and additional remuneration.

The constant part of the remuneration is set up for employees on the basis of the level of post and a particular employee's expertise. The variable part of the remuneration is paid for measurable work results – for reaching goals or indicators set for each particular post. Directors and specialists of supporting activity subdivisions have annual goals; the variable remuneration part of production specialists and workers depends on monthly performance results.

Additional monetary remuneration encompasses social support, material support, additional paid vacation, one-time bonuses granted to employees for additional work load, notable work results, proposals and implementation of innovative ideas. Additional non-monetary remuneration includes training paid for by the Company, events organised by the Company for the employees and their children, services of the medical aid station, and vaccinating the employees against seasonal diseases.

### Average work pay (in 2017)

	Breakdown of headcount by category of employees	Average work pay, EUR
CEO	1	5,576
Top level management	4	4,455
Middle-level management	34	2,124
Experts, specialists	216	1,376
Workers	137	898
<b>Total</b>	<b>392</b>	<b>1,309</b>

## Career and Internships

Turnover of employees is quite low at the Company – less than 3,5%. When there occurs a vacancy, the potential candidates are firstly selected by internal recruitment procedures. When no potential candidates are available at the Company or the group for the vacant position, the recruitment process is continued outside the Company. 30% of vacancy announcements in 2017 were won by candidates selected through internal recruitment procedures, i.e. the Company's employees. Search for employees on the basis of internal rotation principle during 2017 resulted in promotion of 21 employees (vertical career) and movement of 14 employees to similar job positions in the same or other divisions (horizontal career). As a result of improvement of career

opportunities for employees and encouragement of their mobility between the Lietuvos Energija group entities, 2 employees moved to other group entities, 7 employees came to the Company.

To ensure a more successful integration of new joiners into the activities and teams of the Company or the Group, adaptation plans are developed for new joiners, the purpose of which is to help them familiarise with the work environment and organisational culture, and to involve them into the activities as soon as possible.

## Occupational Health and Safety at Work

Lietuvos Energijos Gamyba adheres to the general provisions and principles of occupational health and safety at work as well as to the provisions of the Group's Occupational Health and Safety Policy which sets for the main guidelines for the implementation of such principles.

Open flame sources, flammable and explosive substances, steam and hot water are used in the production process; together with the temporary nature of specific workplaces and complicated conditions for the performance of the works this creates health and safety at work risks for the employees of both the Company and its contractors.

Prevention of accidents is in the focus of attention of the Company: **an OHSAS 18001:2007 certificate is maintained in order to ensure health and safety at works**, workplaces and the quality of organised work are regularly inspected, the employees are regularly briefed and provided with personal protective equipment.

The Company is concerned about its employees' health. A free medical check for all employees of the Company for whom such checks are mandatory was organised, free vaccination against flu and tick-borne encephalitis, as well as training on hygiene and first aid at work were conducted.

### Occupational safety and health indicators (2017)

#### Employee injuries (minor health disorders and fatalities)

24 minor injuries (eye contamination, cardiovascular disorders, muscle strains, bruises, nicks and thumps), 2 of them - minor accidents. Death - 0. The main reason for minor injuries is careless employees behavior at work place. All injuries were investigated.

<p><b>Violations of occupational safety and health by contractor employees in the Company's objects and their nature</b></p>	<p>36 (including works stopped 8 times) Nature: non-use of personal protective equipment, non-compliance with occupational safety and health rules inappropriate registration of works, performance of fire works, etc.</p>
<p><b>Indicator of time lost as a result of violations of occupational safety and health or injuries</b></p>	<p>13 working days were lost as a result of accidents at work, 3996 working days - due to a sickness.</p>

## Society Relationships

### Possibilities of internship

The Company is actively involved in communication with educational institutions, and provides opportunities for vocational students to apply their theoretical knowledge and acquire practical skills during the internships. Seeking to attract young qualified specialists, the Company is actively involved in communication with educational institutions, and provides opportunities for vocational students to apply their theoretical knowledge and acquire practical skills during the

internships. In 2017, the Company attended the Career Days events organised by Kaunas University of Technology, also met students of Vilnius Gediminas Technical University. During 2017, 8 students from different universities in Lithuania had internship at the Company: 5 from Kaunas University of Technology, 1 from Elektrėnai Vocational Training Centre, 1 from Vilnius Gediminas Technical University, and 1 from Kaunas Technical College.

### Education – Tours Around Power Plants

The Company demonstrates goodwill and invites the members of public to participate in free-of-charge excursions at its objects: the combined cycle unit, Kruonis PSHP, Kaunas HPP. Thereby, the Company contributes to increasing awareness of the public, especially the younger generation, about the energy.

**During 2017, the power plants of the Company had in total over 3000 visitors from various educational establishments, schools and other institutions, as well as delegations from abroad.**

### Support

In 2017 Lietuvos Energijos Gamyba provided support through the Lietuvos Energija Support Foundation established in 2014. Support for projects, programmes and other activities of public significance, provided by the

Group's companies, was centrally managed by this foundation. All the information related to the foundation is published in the Social Responsibility section of [www.le.lt](http://www.le.lt).

## Environmental Protection

The Company is committed to protecting the environment in its operations, sparingly using the natural resources, introducing advanced, efficient and environmentally friendly technologies, complying with the environmental laws and regulations, and implementing preventive measures to reduce the adverse impact upon the environment in a professional manner.

The most important environmental protection issues include the safe operation of facilities, safe use of substances dangerous to the environment, waste management, ensuring that the water level fluctuations in the Kaunas Lagoon and the Nemunas River downstream the Kaunas A. Brazauskas HPP are within the permissible limits etc.

The Company fulfils all the relevant environmental requirements and undertakes, on its initiative, construction

of new facilities and modernization of the old ones so that the impact of operations on the environment is minimized. The Company organizes environment clean-up campaigns, inviting other companies and organizations to join them. Meetings between employees of units are organized by means of video conferences in order to reduce both transport costs and environmental pollution. Sparing use and sorting of electronic equipment and paper used for operations is encouraged at the Company so the use of paper is decreasing and the increasing numbers of documents are managed electronically by means of a dedicated document management system.

According to the company's approved resource saving plan, measures are being taken to reduce the need for self-managed resources.

### Environmental Management Standard

The Company maintains ISO 14001:2005 certificate Its globally recognized certificate indicates that the Company meets the requirements for the identification, monitoring, management and improvement of the main environmental protection aspects. The certificate is valid for the products and services of the Company's power plants in Elektrėnai,

Kruonis and Kaunas. This means that the strict global environmental requirements are fulfilled by all the power plant operations: the electricity and thermal energy generation and the operation of the power, heat, turbine, natural gas, oil and petroleum product facilities at the



Elektrėnai Complex, electricity generation and supply, operation of facilities and power reserving at the Kruonis PSHP, and the electricity generation and supply as well as operation of facilities at the Kaunas A. Brazauskas HPP.

### Investments in Environmental Protection

In 2017 the company invested EUR 326,000 in environmental protection activities. Investments include the protection of water resources, protection of soil and groundwater, waste management, biodiversity and landscape protection. The funds are intended for the

### Waste Sorting

Assorted waste bins and special containers for old batteries and minor electronic equipment have been erected at the Company's divisions in Elektrėnai, Kruonis and Kaunas as well as at the offices in Vilnius.

A modern waste sorting yard at Elektrėnai Complex enables to sort many types of waste. Hazardous and non-hazardous waste resulting from the Company's operations are transferred to waste management companies. Waste of

### Environment Clean up Initiative

The Company contributing to nature's development organizes environment clean up campaigns annually. Such a campaign was held in spring of 2017. The company's

### The Green Protocol

It has been five years now since the Company joined the Green Protocol initiated by ESO. It is the only agreement of this type in Lithuania whereby companies and

The requirements for the monitoring and protection of the air, surface water, ground water and soil specified in the Integrated Pollution Prevention and Control Permits are fulfilled.

modernization of flotation equipment and combined pumping stations, for cleaning the Obeniai plot, for upgrading underground water pumps and for improving the water level monitoring equipment at the Elektrėnai Complex.

ferrous and non-ferrous metals is transferred to scrap collectors at a market price. During 2017 about 2056 tons of hazardous waste was transfer to waste managers, about 1763 tons of non-hazardous waste, 1736 tons of ferrous metal and almost 114 tons of non-ferrous metals were sold. Also, about 62 tons of household waste have been removed.

employees cleaned up the accesses of Elektrėnai and Kaunas lagoon.

organizations confirm that they are committed to the practical application of the concepts of environmental protection and electric energy efficiency.

## Lietuvos Energijos Gamyba supervises and continuously improves the employees safety and health protection system, meeting the requirements of the standard OHSAS 18001: 2007. The Company ensures environmental protection in accordance with the requirements of the management standard ISO 14001: 2005

### Market Activities

Following the anti-corruption principle - the tenth principle of the Global Compact, the Company pays all taxes that are due, ensures transparency of public procurement conducted by it, and requires transparency and good faith from its suppliers, both current and potential. The Company carries out trading on the electricity exchange in a

transparent manner and does not take part in any transactions that could potentially involve bribing or other corruptive behaviour. The Company makes comments and proposals to the authorities concerning draft legal acts or amendments thereto.

### Zero Tolerance Towards Corruption

Each employee of Lietuvos Energija Group forms an important part of the organization of national significance that provides services to natural and legal persons. The operations of the Group are based on the principles of transparency, openness and reasonableness. Therefore, each employee of the Group including Lietuvos Energijos Gamyba must be aware of the provisions of the Group's policy on zero tolerance toward corruption. The Company does not tolerate corruption in any form, either direct or indirect.

Group's policy on zero tolerance toward corruption is published on the Company's website. All employees of the Group are obliged to report any violation or suspected violation of the policy either to the Prevention Officer or via the Trust Line, telephone number +370 640 88889 or email pasitikejimolinija@le.lt. Other parties are also encouraged to report such actual or suspected violations using the same contact details, with the anonymity guaranteed.

## Transparent Procurement

In accordance with the Law on Public Procurement, Lietuvos Energijos Gamyba published draft technical specifications for all procurement procedures (except low value procurement) on the Central Public Procurement Portal. In addition, the Company placed information on such publication on its website, together with other procurement-related information. Upon transferring the

procurement function to Verslo Aptarnavimo Centras UAB, the Company continues compliance with the same high standards of public procurement and contracting.

Companies of Lietuvos Energija Group ensure that all purchasing and sale transactions are carried out correctly and in a transparent manner.

More information and the contacts:  
[www.gamyba.le.lt](http://www.gamyba.le.lt)