



Lietuvos
energija

GAMYBA

LIETUVOS ENERGIJOS GAMYBA, AB

**REPORT ON THE ACTIVITIES OF THE COMPANY
DURING THE THREE-MONTH PERIOD
ENDED ON 31 MARCH 2014**

TABLE OF CONTENTS

Interim Report on the Activities of Lietuvos Energijos Gamyba, AB During the Three-Month Period Ended on 31 March 2014

Information about the Company and its Contact Details	3
Information about the Group of Companies	3
Share Capital and Shareholders	4
Members of Management Bodies	5
Management's Comment	5
Financial Results of the Company and the Group	6
Key Performance Indicators and Prospects	8
Development Projects of the Company	10
Other Material Events in the Reporting Period	10
Protection of the Environment	11
Human Resources Policy	11
Social Responsibility	13
Material Events after the Reporting Period	14

INFORMATION ABOUT THE COMPANY AND ITS CONTACT DETAILS

Name	Lietuvos Energijos Gamyba, AB (hereinafter referred to as 'Lietuvos Energijos Gamyba' or 'the Company')
Legal form	Public company, private legal person of limited civil liability
Registration date and place	20 July 2011 in the Register of Legal Persons of the Republic of Lithuania
Business ID	302648707
Registered office address	Elektrinės g. 21, LT26108 Elektrėnai, Lithuania
Address for correspondence	A. Juozapavičiaus g. 13, LT09311 Vilnius, Lithuania
Telephone No	+370 5 278 2907
Fax No	+370 5 278 2906
Email address	info@le.lt
Website	www.gamyba.le.lt
Core activities of the Company	Generation and supply of electricity as well as electricity import, export and trading
Divisions of the Company	<ul style="list-style-type: none"> Elektrėnai complex with a reserve power plant (former Lietuvos Elektrinė) and a combined-cycle unit, Kruonis Pumped Storage Hydroelectric Plant (Kruonis PSHP), Kaunas Hydroelectric Power Plant (Kaunas HPP)

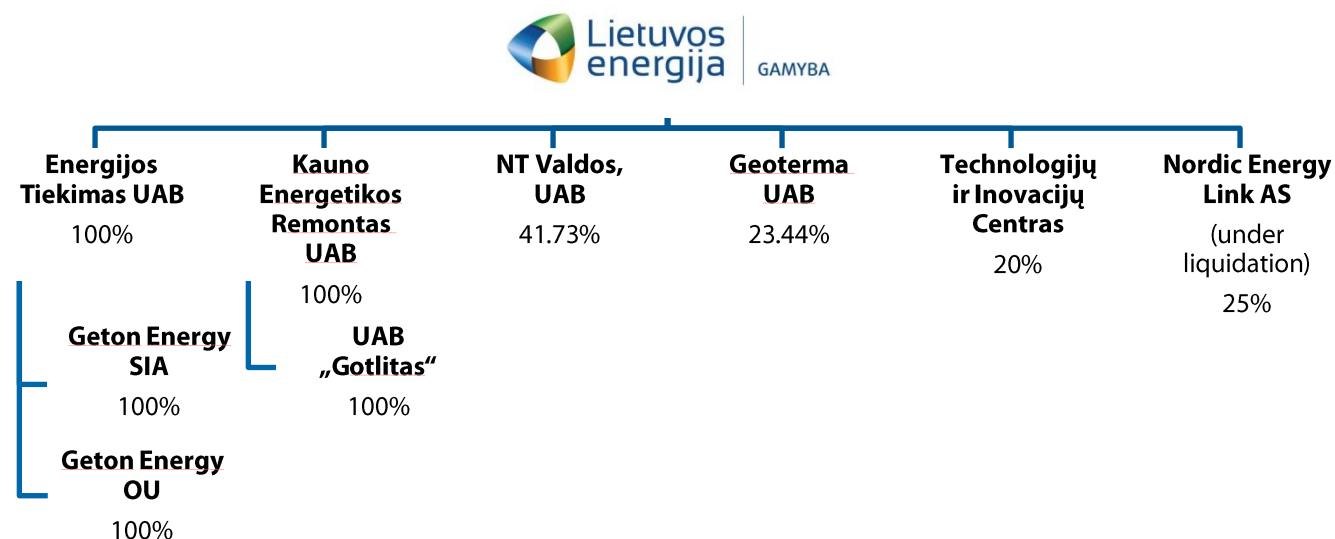
INFORMATION ABOUT THE GROUP OF COMPANIES

As of 31 March 2014, the Company has direct control over the following wholly-owned subsidiaries: Kauno Energetikos Remontas UAB (100 % of shares) and Energijos Tiekimas UAB (100 % of shares).

Indirectly, via Kauno Energetikos Remontas UAB, the Company holds the majority of votes (100 % of shares) in Gotlitas UAB. The Company also has the majority of votes in Geton Energy OU (100 % of shares) and Geton Energy SIA (100 % of shares) via Energijos Tiekimas UAB.

Apart from these subsidiaries, the Company takes part in the management of the following companies: NT Valdosa, UAB (41.73 % of shares), Geoterma UAB (23.44 % of shares), and Technologijų ir Inovacijų Centras UAB (20 % of shares) and AS Nordic Energy Link under liquidation (25 % of shares).

Structure of the Group of Lietuvos Energijos Gamyba:



REPORT ON THE ACTIVITIES OF LIETUVOS ENERGIJOS GAMYBA, AB DURING THE THREE-MONTH PERIOD ENDED ON 31 MARCH 2014

SHARE CAPITAL AND SHAREHOLDERS

The authorised capital of *Lietuvos Energijos Gamyba* amounts to LTL 635,083,615 and has been divided into 635,083,615 ordinary registered shares of one Litas par value. All the shares have been fully paid for. On 1 September 2011, shares of the Company were listed on the Official Trading List of NASDAQ OMX Vilnius. The shares of the Company are traded on NASDAQ OMX Vilnius Securities Exchange ("VSE"), ISIN code LT0000128571, securities abbreviation LNR1L. The Company's shares were not traded in any other regulated markets.

As of 31 March 2014, the Company has 635,083,615 ordinary registered shares of one Litas par value in issue.

All the shares of the Company are ordinary registered shares of the same class and grant equal rights to their holders.

The Company has not acquired or transferred own shares during the reporting period. The Company has not acquired its own shares and no subsidiary has acquired shares of the Company.

Information on trading in the shares of Lietuvos Energijos Gamyba in January-March 2014:

	Litas	Euro
Last trading session price, LTL	2.141	0.620
Maximum price, LTL	2.175	0.630
Minimum price, LTL	1.364	0.395
Average price, LTL	1.825	0.529
Turnover, shares	743,765	743,765
Turnover, LTL m	1,357,272.69	393,093.34

Dynamics of the price and number of the Company's shares since the start of trading:



As of 31 March 2014, market capitalisation of *Lietuvos Energijos Gamyba* was LTL 1359.5 million (EUR 393.8 million) compared with LTL 877.1 million (EUR 254 million) as of the same date in 2013 and LTL 864 million (EUR 250.2 million) as of the end of 2013.

On 18 April 2014, as of the shareholder rights' recording data after the general meeting of shareholders held on 4 April 2014, the **total number of shareholders of Lietuvos Energijos Gamyba was 6,136.**

Information on the main shareholders of the Issuer:

Name	Class of shares	Number of shares	Share of authorised capital, %	Share of votes in the authorised capital, %
Lietuvos Energija, UAB Business ID 301844044 Žvejų g. 14, 09310 Vilnius	Ordinary registered shares	610,515,515	96.13	96.13

MEMBERS OF MANAGEMENT BODIES

According to the Articles of Association of the Company, the management bodies of the Company are:

- the General Meeting of Shareholders;
- the Supervisory Council;
- the Board;
- the Chief Executive Officer – the General Manager of the Company.

The Articles of Association of the Company are published in the 'Management of the Company' section of the Company's website.

There have been no changes in the composition of the Supervisory Council and the Board during the reporting period.

Members of the Supervisory Council:

Name	Position	Company	Shareholding in the Company
Dalius Misiūnas	Chairman	Lietuvos Energija, UAB – Chairman of the Board and CEO	-
Liudas Liutkevičius	Member	Lietuvos Energija, UAB – Member of the Board and Director for Production and Services	-
Pranas Vilkas	Independent Member	-	-

Four meetings of the Supervisory Council were held in January - March 2014. Three of them were attended by all the 3 members and one was attended by 2 members.

Members of the Board:

Name	Position in the Company	Participation in other companies	Shareholding in the Company
Juozas Bartlingas	Chairman of the Board and CEO	-	-
Eglė Čiužaitė	Member of the Board, Director of Finance and Legal Department	Geoterma UAB, Member of the Board	-
Adomas Birulis	Member of the Board, Director of Business Development Department	Technologijų ir Inovacijų Centras, Member of the Board	-
Darius Kucinas	Member of the Board, Director of Production Department	-	-
Vidmantas Saliėtis	Member of the Board, Director of Wholesale Electricity Trading Department	Nord Pool Spot Electricity Exchange, Member of the Customer Advisory Council; Eurelectric Association, Member of the Market Committee.	-

11 meetings of the Board were held in January - March 2014. Nine of them were attended by all the 5 members and two were attended by 4 members.

MANAGEMENT'S COMMENT

The Group of *Lietuvos Energijos Gamyba* ('the Group') achieved good results in the period January – March of 2014. While the Group's revenues have decreased in the reporting period, this has been compensated for by the professional work of the company's sales personnel, which has enabled the Company to increase the electricity sales in the free market by nearly one third, and by the increased power generation at the competitive Kaunas Hydroelectric Power Plant ('Kaunas HPP') and Kruonis Pumped Storage Hydroelectric Plant ('Kruonis PSHP') due to warm winter.

Thus, based on a stable situation in the electric power system and seeking to save the funds of the public interest services (PIS), the company was able to comply with the plan agreed with Litgrid, the Lithuanian transmission system operator, and not to put into operation the reserve generation units and the combined-cycle unit of the Elektrėnai complex during the January – March period of 2014. Furthermore, since the beginning of 2014 LESTO, the distribution network operator, started purchasing electricity on the exchange, which has led to a decrease of the Group's sales under bilateral contracts. As a result, the Group's revenues were reduced (from LTL 221.9 million in the January-March period of 2013 to LTL 165.3 million in the same period of 2014).

The January-March period of 2014 saw a decrease in the Group's revenues from both regulated and commercial activities, however, the share of the latter in the overall revenue structure has been increasing: commercial revenues accounted for 59% of total revenues in the 3 months of 2013 and for nearly 65% in the same period of 2014.

REPORT ON THE ACTIVITIES OF LIETUVOS ENERGIJOS GAMYBA, AB DURING THE THREE-MONTH PERIOD ENDED ON 31 MARCH 2014

Regulated activities of the Group include the generation of power and heat energy at the Elektrėnai complex and the power reserving services provided by Kruonis PSHP and the Elektrėnai complex. As no electricity was generated at Elektrėnai complex, the Group's revenue earned from regulated activities during the 3 months of 2014 was 36% lower compared with the same period of 2013 (LTL 58.3 million).

Revenues from commercial activities, which consist of the electricity generation at Kruonis PSHP and Kaunas HPP and the wholesale and retail trading in electricity in the free market as well as other commercial services, have dropped 18%. Due to the change in the arrangement of electricity sale to LESTO, revenues from commercial activities decreased from LTL 131 million during the 3 months of 2013 to LTL 107 million in the same period of 2014.

The Group's electricity sales in the free market during the 3 months of 2014 increased 30% compared with the same period of 2013 (0.414 TWh and 0.318 respectively). Professional trading activities have enabled the Group to increase its EBITDA from LTL 30.1 million for the 3 months of 2013 to LTL 31.6 million for the 3 months of 2014.

At the same time, costs were reduced considerably in the first quarter of 2014 compared with the first quarter of 2013 due to lower expenses for fuel and the use of the opportunities for purchasing electricity on favourable terms.

All this has resulted in the improved profitability ratios in the first quarter of 2014 compared with the same period of last year. In the period of January-March 2014, the Group's EBITDA margin was 36%. Compared with the same period of 2013, the EBITDA margin has increased by 9.5 pp (from 26.5%). EBITDA has increased from LTL 58.8 million to LTL 59.5 million. The net profitability of the Group has grown by 16.8 pp: the net profitability ratio for the 3 months of 2014 was 3.1%, for the same period of this year 20%. Net profit of the Group in the period of January-March 2014 is LTL 33 million, which is nearly five times more than in the same period of 2013 (LTL 7 million).

In the future, *Lietuvos Energijos Gamyba* will continue to focus on the increasing of efficiency of operations, project development and analysis of new opportunities. The Company plans to put new Elektrėnai thermal energy generation capacities into operation at the end of 2014 and is continuing wind measurements in the territory of Kruonis PSHP. The results of these measurements will form a basis for the decision on the feasibility of a wind farm next year.

The company has started trading according to the gross bidding arrangement in March 2014 and is concluding its electricity purchase and sale transactions separately. The company is determined to continue its contribution to enhancing market transparency and, at the same time, it will seek to maximise the use of the opportunities provided by Kaunas HPP and Kruonis PSHP to compete in the market by the electricity price.

FINANCIAL RESULTS OF THE COMPANY AND THE GROUP

Financial indicators of the Company and the Group for Quarter I of 2014 have been recalculated due to correction of material errors related to the adjustment of the non-current tangible assets depreciation.

Financial results of the Company and the Group:

	Company		Group	
	3 months of 2014	3 months of 2013	3 months of 2014	3 months of 2013
FINANCIAL INDICATORS (LTL '000)				
Sales income	144 301	212 265	145 405	214 899
Other operating income	1 516	2 222	19 939	6 997
EBITDA* (earnings before tax + interest costs - interest income - dividend received + depreciation & amortisation + non-current & current asset impairment losses)	57 902	58 062	59 489	58 826
Operating profit	35 380	12 237	36 747	13 752
Net profit on continued operations	32 089	6 986	33 025	6 951
Profit before tax	36 549	10 324	37 594	10 517
Cash flows from operations	69 127	12 236	67 637	30 778
Liabilities to financial institutions	554 484	555 390	563 672	564 534
RATIOS				
Liabilities / equity	1.31	1.36	1.31	1.34
Financial liabilities / equity	0.39	0.40	0.40	0.40

REPORT ON THE ACTIVITIES OF LIETUVOS ENERGIJOS GAMYBA, AB DURING THE THREE-MONTH PERIOD ENDED ON 31 MARCH 2014

Financial liabilities / assets	0.17	0.17	0.17	0.17
LOAN COVERAGE RATIO				
Loan coverage ratio (EBITDA / (interest costs + loans repaid in the reporting period))	8.91	10.82	9.16	7.23
PROFITABILITY RATIOS				
Operating profit margin	24.26%	5.71%	22.22%	6.20%
Profit before tax margin	25.06%	4.81%	22.74%	4.74%
Net profit margin	22.01%	3.26%	19.97%	3.13%
Return on equity**	2.28%	0.51%	2.31%	0.49%
Return on assets**	0.99%	0.22%	1.00%	0.21%
Earnings per share, LTL**	0.05	0.01	0.05	0.01
P/E*** (share price / earnings)	42.37	125.55	41.17	126.19

* Excluding impairment of investments in associated companies and subsidiaries and excluding result of discontinued operations.

** The calculation of the ratio is based on net profit for the reporting period, i. e. a quarter.

*** Calculated as a ratio between the share price as of the end of reporting period and the quarterly earnings per share.

Profitability indicators for the 3 months of 2014 are much better than those for the same period for 2013 despite a drop in sales income in 2014. Revenues from regulated activities, i.e. electricity and heat generation at Elektrėnai complex and the power reserving services provided by Elektrėnai complex and Kruonis PSHP, during the 3 months of 2014 accounted for about 35 of total revenues of the Group (same period 2013: 41%).

Statement of Financial Position

As of 31 March 2014, the Company's financial liabilities amount to LTL 554.5 million and consist of liabilities under long-term loan agreements. The Group's financial liabilities total LTL 563.7 million. As of 31 March 2014, financial liabilities of Kauno Energetikos Remontas UAB under short- and long-term loan and financial lease agreements amount to LTL 9.2 million.

The main changes in the structure of the Company's and the Group's assets during the 3 months of 2014 compared with the same period of 2013, include a slight change in the non-current tangible assets, decrease in trade receivables and an increase in the other accounts receivable as well as increase in the cash balance. The main changes in the liabilities' structure are mainly related to trade debts and other accounts payable.

Comprehensive Income Statement

Revenues

In January – March 2014, the Company earned revenues of LTL 145.8 million. Revenues from the electricity sale, balancing and regulating power, power reserving and public-interest services, as well revenue from sale of heat energy account for the largest part of this amount. Compared with the same period of 2013, the Company's revenues decreased 32.0% (including trade revenues 35%, power reserving 53%, PIS 16%). The Group's revenues for January – March 2014 total LTL 165.3 million, which is 25.5% less than in the same period of 2013.

Costs

Costs incurred during the first 3 months of 2014 amount to: the Company LTL 110.4 million, the Group 128.6 million. The majority of the Company's costs (66.2%, or LTL 73.1 million) and of the Group's costs (56.9%, or LTL 73.1 million) are the costs of purchase of electricity or related services and of the fuel for the generation of electricity. Depreciation and amortisation costs in January – March 2014 amount to LTL 19.3 m and LTL 19.8 m for the Company and the Group respectively.

The operating costs of the Group excluding purchases related to electricity and its generation, depreciation and amortisation costs, pollution permits' revaluation costs and impairment losses amounted to LTL 32.2 million in January – March 2014, which is an increase compared with the same period of 2013 (LTL 21.5 million). Increased operating costs of subsidiaries is the main reason for this change.

Profit

In January – March 2014, gross profit of the Group amounted to LTL 37.6 million and net profit on continued operations to LTL 33.0 million as determined according to the International Financial Reporting Standards (IFRS). The net profit margin of the Group increased several times in Q1 of 2014 compared with the same period of 2013: from 3.13 % (Q1 2013) to 19.97% (Q1 2014).

The Company earned a net profit of LTL 32.1 million from continued operations. Its net profit margin has increased significantly in Q1 of 2014 compared with Q1 of 2013, from 3.26 % (Q1 2013) to 22.01 % (Q1 2014).

During the 3 months of 2014, the group of Kauno Energetikos Remontas UAB earned a net profit of LTL 0.44 million and

REPORT ON THE ACTIVITIES OF LIETUVOS ENERGIJOS GAMYBA, AB DURING THE THREE-MONTH PERIOD ENDED ON 31 MARCH 2014

Energijos Tiekimas UAB LTL 0.78 million. The shares in Duomenų Logistikos Centras UAB were sold on 31 March 2014.

Cash Flow Statement

In January – March 2014, net cash flows from operations of the Company amounted to LTL 69.1 million and those of the Group to LTL 67.6 million, compared with LTL 12.2 million for the Company and LTL 30.8 million for the Group in the same period of 2013.

Net cash flows from investments of the Group were negative in the first quarter of 2014 and were LTL -23.4 million (Q1 2013: LTL -4.5 m). The Group's cash flows from financial activities were negative in the same period and were LTL -6.4 million (Q1 2013: LTL -6.8 m).

KEY PERFORMANCE INDICATORS AND PROSPECTS

Lietuvos Energijos Gamyba conducts wholesale trading in electricity in the wholesale market (i. e. between power generation companies and electricity suppliers). The Company sells electricity and provides power balancing services to public and independent suppliers operating in the Lithuanian market; it also exports electricity and sells it on an electricity exchange.

The Company generates the required amounts of electricity at its three power plants (the Elektrėnai complex consisting of a reserve power plant and a combined-cycle unit, the Kruonis PSHP and the Kaunas HPP), purchases electricity from other suppliers and power generating companies under contracts, imports electricity and buys it on an electricity exchange.

The Company also provides system services to the Lithuanian transmission system operator (TSO).

Generation and trade of electricity in January– March 2014

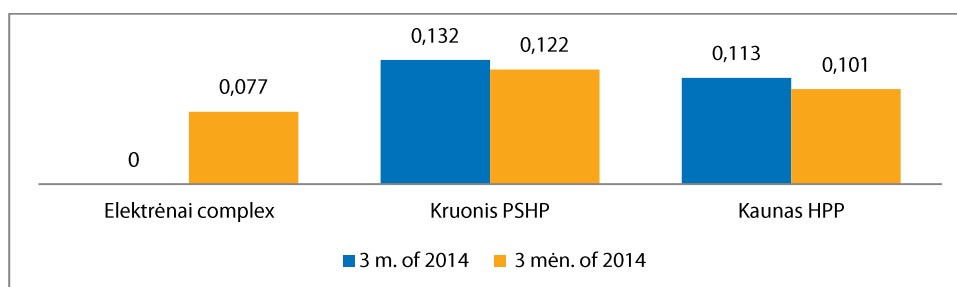
The Company holds electricity generation permits with unlimited term of validity. During the 3 months of 2014, electricity sales of the Company totalled 0.245 TWh. In the same period of last year, 0.3 TWh of electricity was generated and sold (i. e. 22.4% more).

No electricity was generated at the Elektrėnai complex in January-March 2014. According to the Company's plans, the units of the Elektrėnai complex will operate from 1 April to 15 October 2014 according to the schedule agreed with the TSO, in order to secure a reliable operation of the power system and to use the PIS funds efficiently.

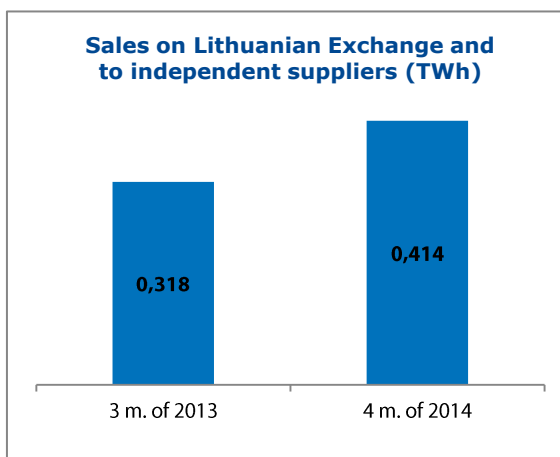
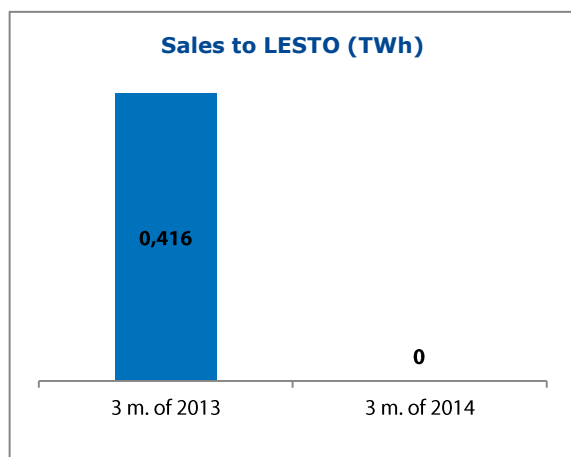
During the 3 months of 2014, Kaunas HPP generated and sold 0.113 TWh of electricity, which is 12% more than in the same period of 2013. The average flow rate in the River Nemunas was higher in January and February, and close to the average multi-annual flow rate in March.

Production volumes of Kruonis PSHP increased 8% during the 3 months of this year compared with the same period of last year: the power plant produced and sold 0.132 TWh of electricity.





Amounts of electricity produced and sold by the power plants of Lietuvos Energijos Gamyba (TWh):



In January-March 2014, the Company sold electricity to the domestic market (public suppliers and other independent suppliers). Since the beginning of 2014 *Lietuvos Energijos Gamyba* is providing only the portfolio formation service to LESTO by purchasing electricity on the exchange. Therefore, there are no more bilateral contracts for the meeting of demand. This is reflected in the graphs provided below.



Operations and prospects

Elektrėnai complex Reserve power plant and combined-cycle unit	Kruonis Pumped Storage Hydroelectric Plant	Kaunas Hydroelectric Power Plant	Electricity trading
 <p>Capacity: 1955 MW</p> <p>The main power plant in the Lithuanian power system, having the greatest production capacities in the country and maintaining the tertiary reserve for ensuring the security of energy supply and reserves.</p> <p>The larger part of the electricity generation will be concentrated at the most efficient unit – the combined-cycle unit.</p> <p>A project on the construction of new heat energy production facilities is being implemented.</p>	 <p>Capacity: 900 MW</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>As the need for regulation increases, and on completion of the power links with Sweden and Poland, the power plant will increase its generation volumes and will provide more system services.</p> <p>The Company plans to implement a Kruonis PSHP development project.</p>	 <p>Capacity: 100,8 MW</p> <p>Kaunas HPP is the largest power plant in Lithuania that uses renewable energy sources.</p> <p>Kaunas 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>The plant is going to maximise the generation of green energy, depending on natural conditions, and to provide system services.</p>	 <p>The Company conducts wholesale trading in electricity in the wholesale market, i. e. between power generation companies and electricity suppliers.</p> <p>On completion of the power links with Sweden and Poland, trading will become more active due to wider opportunities for trading in electricity and system services in the interconnected systems.</p> <p>The Company seeks to maintain its market share by an efficient combination of its production capacities and the electricity purchasing in both Lithuania and the neighbouring markets.</p>

DEVELOPMENT PROJECTS OF THE COMPANY

Investigations into Syderiai geological structure

The feasibility of constructing an underground natural gas storage facility in Telšiai District was continued to be analysed in January-March 2014, processing of the data collected during the seismic and geological investigations was completed, and a simulation model was prepared for the tank of the storage facility. The model enables an assessment of the storage from the geologic point of view and of its behaviour during the gas pumping and retrieval processes as well as determination of the operating parameters of the storage facility.

All the findings and conclusions of/on the investigations were submitted to the Ministry of Energy. The Ministry has instructed specialists of the Company to carry out a cost-benefit analysis of the project to enable the Government, which has initiated the project, to adopt an informed decision on further steps in the project.

Project on the development of heat generation facilities in Elektrėnai

In January-March 2014, implementation of the project on the development of new heat generation capacities at the Elektrėnai complex, started in 2011, was continued. In February, the project contractor – a consortium formed of Filter and Vapor and Kauno Energetikos Remontas UAB – was issued a document permitting construction and started construction of the biofuel boiler house.

The first facilities designed for the recovery of heat from biofuel should start operating before the 2014-2015 heating season, with the completion of the biofuel boiler house construction planned for the end of 2014. A new 50 MW steam boiler house will also be constructed.

Installation of the infrastructure for an industrial park in the territory of Kruonis PSHP

In January-March 2014, the Company completed the planned works under the project on engineering infrastructure installation in the industrial park situated in the territory of Kruonis PSHP. The territory has been prepared for direct foreign investments that will enable the development of hi-tech activities at this attractive location having all the requisite infrastructure.

Under the project, approx. 5 km of roads had to be reconstructed in addition to the installation of the engineering infrastructure including a water supply system with water wells and a stormwater discharge system. At the end of December 2013, the road reconstruction and the stormwater collector installation works were completed; in February 2014, the wellfield installation works – the last part of the project – were finished. A second phase of the project is being planned.

Assessment of the wind energy potential at Kruonis PSHP

At the beginning of 2014, integrated measurements of wind speed and directions and other meteorological parameters were started in the territory of Kruonis PSHP for the purpose of the initial assessment of the location's potential for the construction of a wind farm. The Company will decide on the feasibility of such construction based on the measurement results.

OTHER MATERIAL EVENTS IN THE REPORTING PERIOD

A strategy of *Lietuvos Energija Group* approved

On 16 January 2014, the Board of the parent company Lietuvos Energija, UAB approved the Operating Strategy of the Lietuvos Energija, UAB Group for 2014–2020. The strategy sets out the operating goals of the Group, their implementation programmes and target financial results. It is estimated that the value of the Group will double by 2020. The strategy has been published in www.le.lt.

Loan agreement concluded

On 21 February 2014, the Company and SEB Bankas concluded a loan agreement for a loan of up to EUR 158 million (LTL 546 million) for 10 years. The loan funds are intended for the refinancing of three long-term loans received by the Company in 2005 and 2010 from consortia of banks operating in Lithuania and the European Bank for Reconstruction and Development.

This is one of the largest business financing transactions in the history of Lithuanian business banking during the years of independence. It contributes to the optimisation investments made by a strategic national company in the projects implemented at Elektrėnai complex. The refinancing of the existing loans will reduce the regulated operating costs of the Company, whereas administration of the obligations will be more convenient. In addition, the diminishing credit risk of the Company allows expecting favourable crediting terms in the future.

Gross bidding arrangement

In March 2014, the Company started trading on Nord Pool Spot exchange according to the gross bidding arrangement. This means that now the Company conducts all its electricity purchase and sale transactions separately, which contributes to enhancing the non-regulated market transparency and increasing its efficiency.

Now the Company can assess the benefits of the fixed-price transactions better, which enables it to increase the efficiency of its trading activities. At the same time, the Company contributed to the development of a transparent electricity market in the Baltic States.

Nordic Energy Link AS under liquidation

The general meeting of shareholders of Nordic Energy Link AS (NEL) held on 19 March 2014 decided to liquidate NEL, in which the Company has a shareholding.

NEL was formed in 2004 with the aim of implementing a project on the interconnection of the energy systems of the Baltic States and Finland by constructing a power cable on the Baltic Sea bed (Estlink 1). The cable was handed over to Elering and Fingrid, the transmission system operators of Estonia and Finland, respectively, on 30 December 2013, therefore, as stipulated in the Memorandum of Association of NEL, the company's shareholders passed a decision on its liquidation.

The Company holds 25% of the shares of NEL. Other NEL shareholders include Latvenergo AS and Eesti Energia AS, holding 25% and 50% respectively.

Sale of shares in Duomenų Logistikos Centras UAB

On 31 March 2014, the Company concluded an agreement on sale – purchase of its shares in Duomenų Logistikos Centras UAB with the parent company Lietuvos Energija, UAB.

Under this agreement the Company sold to Lietuvos Energija, UAB 31,835,166 (thirty one million eight hundred thirty-five thousand one hundred and sixty-six) ordinary registered shares in Duomenų Logistikos Centras UAB. These shares account for 54.04% of the authorised capital of Duomenų Logistikos Centras UAB.

PROTECTION OF THE ENVIRONMENT

The Company seeks to protect the environment in its operations, sparingly use the natural resources, introduce advanced, efficient and environmentally friendly technologies, comply with the environmental laws and regulations, and implement preventive measures to reduce adverse impact upon the environment in a professional manner. The most relevant 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 HPPP are within the permissible limits etc.

The Environmental Management System compliant with LST EN ISO 14001:2005 is in place at the Company's facilities. The Company complies with the requirements for the air, surface waters, groundwater and soil pollution monitoring and protection as stated in the Integrated Pollution Prevention and Control (IPPC) Permits.

In QI of 2014, Elektrėnai Complex transferred 350 t of wastewater sludge (hazardous waste), 168.7 of liquid fuel ash and 1,180 t of construction waste for recovery and sold 163.8 t of electrical engineering scrap, 691.7 t of ferrous metal scrap, 2.8 t of copper waste and 7.7 t of aluminium waste. Domestic waste collected in the plant's territory is removed by a specialist company under a contract; approx. 60 m³ of domestic waste was generated in QI.

In QI of 2014, Kruonis PSHP transferred 4.018 t of hazardous waste and 0.574 t of non-hazardous waste for recovery and sold 5.12 t of ferrous metal scrap. Domestic waste collected in the plant's territory is removed by a specialist company under a contract; approx. 8.32 t of domestic waste was generated in QI.

In QI of 2014, Kaunas HPP transferred 0.02 t of hazardous waste for recovery. Domestic waste collected in the plant's territory is removed by a specialist company under a contract; approx. 1.62 t of domestic waste was generated in QI.

Paper and cardboard waste generated at the power plants is transferred to recycling companies.

HUMAN RESOURCES POLICY

The main purpose of the human resources (HR) policy of the Company is to attract and retain highly-qualified employees and to create, together with them, a long-term partnership relationship and a common successful future of the Company. In the first quarter of 2014, the Company continued the process of formation of new organisational culture. At the end of 2013, the Human Resources Management Policy of the Lietuvos Energija Group was approved. It establishes the general principles of human resources management and defines the underlying provisions for the HR management and implementation of strategic objectives.

REPORT ON THE ACTIVITIES OF LIETUVOS ENERGIJOS GAMYBA, AB DURING THE THREE-MONTH PERIOD ENDED ON 31 MARCH 2014

The main principles of the HR policy were further consolidated: the uniform performance evaluation and remuneration system based on the competence model and the employees training procedures were improved, the principles of long-term HR planning and staff recruitment have been established.

The Company's remuneration system is built on the principles of fairness, clarity, universal application and comparison. Pay received by all employees of the Company including management consists of the fixed part, the variable part, and extra pay.

Employees of the Company

As of 31 March 2014, the Company employed 502 people (including employees on child care leave) including specialists and line managers 58%, blue-collar workers 40%, and top management 2%. The distribution of employees by position levels and the information on average pay is provided below. The pay amounts include the fixed pay, the variable pay, and the extra pay for extraordinary performance.

Number of employees of Lietuvos Energijos Gamyba, AB as of 31 March 2014 and average pay:

	CEO	Top management	Line management	Experts, specialist, blue-collar workers
Distribution of employees by position levels	1	7	36	458
Average pay, LTL	15,333	11,667	6,568	3,544

Men account for 78% and women account for 22% of the Company's employees.

39% of the employees have higher educational attainment, 15% further education, and 46% vocational secondary education.

Employees of the Group

There have been no significant changes in the number of employees of *Lietuvos Energijos Gamyba* and its subsidiaries compared with the situation as of 31 December 2013.

Number of employees of Lietuvos Energijos Gamyba, AB and its subsidiaries:

	Total number of employees as of 31 December 2013	Total number of employees as of 31 December 2014	Change, %
Lietuvos Energijos Gamyba, AB	503	502	-0.2
Energijos Tiekimas UAB	18	18	0
Kauno Energetikos Remontas, UAB	224	230	+2.7
Total	745	750	+0.7

Employee Development and Recruitment

Based on its competence framework, the Company is aiming at focused development of its employees and improvement of their skills, so employees are encouraged to participate in trainings to improve their skills and required qualifications. During trainings, employees renew their technical knowledge and acquire adequate qualification certificates. During seminars and conferences, employees learn about innovations and best practices in the field of energetics. Within three months of 2014, 67 employees of the Company took part in technical training and 35 employees – in management training.

In order to attract young skilled professionals, the company actively cooperates with educational institutions and creates conditions for higher and vocational education students to apply their theoretical knowledge and gain practical skills. In 1st quarter of 2014, the Company participated in Career Days events organized by Kaunas University of Technology, Vilnius Gediminas Technical University and International School of Management and Economics. During three months of 2014, 6 students went through practical training in the Company.

Collective agreement

On 28 February 2014, during the Company employees conference a new edition of the Collective Agreement was approved, which would provide greater protection for company employees and many additional benefits not covered by the Labour Code of the Republic of Lithuania.

The purpose of the collective agreement is to ensure efficient work of the Company and represent the rights and legitimate interests of all the Company's employees. Signing the Collective agreement aims to maintain higher than set by the law levels of wages, health and safety, training and other work conditions for different categories of employees.

Agreement sets forth work, pay, social, economic and professional conditions and guarantees that are not governed by laws and other normative legal acts. It gives additional security to employees (payments in cases of accidents, illness, death of a relative, support after birth of a child, an additional day of paid leave after the birth of a child, marriage, death of a relative and in other cases).

Organisational Culture Development

In the beginning of 2014, the Company carried out the employee opinion survey, which Company organizes to find out what its employees feel about the Company's key business areas, such as the work environment and the Company's organizational culture, the dissemination of information in the Company, career and growth opportunities, remuneration and evaluation. The results almost similar to the previous year's results. They showed that a growing number of the Company's employees involve themselves in, understand and support the activities of the Company and pride themselves to be a part of the Company. After analysing the results, the Company engage employees and together prepare an action plan providing for improving the Company's activities that received lower evaluation by the workers.

In the first quarter of 2014, the Company continued the Dialogue on Values project aimed at the communication and practical implementation of values. The first Game of Values was organized hosted the Values Ambassadors group of twelve selected from the Company's employees for the project. The same group of employees previously collected, analysed and discussed the most current situations in the Company's activities connected with our corporate values. Thus, new operating behaviour models were developed and implemented, which conform to the values and core business objectives of the Company.

The company gives priority to proactive communication with the employees. In March (first quarter) of 2014, the Company's executives and board members had the meetings with the employees of all divisions. During the meetings, participants discussed the Company's operating results for 2013, ongoing and planned projects news and changes in performance appraisal system. Company executives responded to the employees' concerns.

SOCIAL RESPONSIBILITY

Social responsibility activities of Lietuvos Energijos Gamyba are based on the Company's values and define the Company's approach to its business, social, environmental and transparent business principles inclusion of the Company's internal processes and relationships with interested parties.

The Company complies with the ten Global Compact principles in the light of the general human rights of employees, environmental protection and transparency. These commonly adopted and declared responsible behaviour guidelines are clear and strong reference for the Company in the development of socially responsible business activities.

The Company chooses and implements its social responsibility activities taking into account the nature of the activity, the strategic goals and target audiences. Company focuses its social activities on the economic, ethical and environmental responsibility:

- The Company is constantly and actively participate in the electricity market in order to ensure quality of service to customers. To achieve these goals, the role of a team of professionals is very important.
- The ethical responsibilities of the Company include employees, their families and members of community. The goal is for employees to feel safe, have timely access to relevant information and themselves actively contribute to the implementation of social initiatives.
- The Company applies highest standards in all its divisions: a responsible view on the environment, prudent use of natural resources, continuous introduction of new environmentally friendly technologies in its industrial activities, adherence to the environmental legislation and regulatory requirements and professional application of various preventive measures to minimize the negative impact on the environment.

Promoting a community spirit

In order to strengthen ties with the Elektrėnai region community where its main activities are concentrated, the Company organizes traditional events called "Lietuvos Energijos Gamyba presents". The meeting with singing actors, father and son, Saulius and Jokubas Bareikis in March of 2014 was the sixth in the series of events. The Company organizes these events in cooperation with Elektrėnai library. The Company aims to bring together the city and regional community, as well as employees of the Company and offer them unique opportunities to meet famous, interesting and special people.

Educational activities

The Company welcomes free of charge guided tours of its facilities: the combined-cycle unit, Kruonis Pumped Storage Power Plant and Kaunas Hydroelectric Power Plant. In this way, the Company also aims to contribute to society, and especially to the education of the younger generation on the energy system. During the first quarter, 15 trips were organized; altogether, over 250 students, pupils and representatives of different organizations and educational institutions visited the power plants.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

- Energijos Tiekimas UAB subsidiaries in Latvia and Estonia have started operating under a new name Geton Energy. In Lithuania the company has retained the name Energijos Tiekimas.
- On 4 April 2014, the general meeting of shareholders of Lietuvos Energijos Gamyba, AB (business ID 302648707, registered office address Elektrinės g. 21, Elektrėnai) approved the profit allocation for 2013 and decided to allot LTL 150 million for dividend (approx. LTL 0.24 per share).