



Lietuvos bankas  
Žirmūnų street 151,  
LT-09128 Vilnius

29-08-2014 Nr. 30200

## CONFIRMATION OF RESPONSIBLE PERSONS

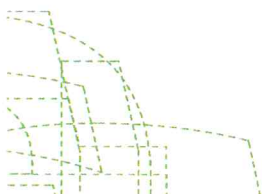
Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Aidas Ignatavičius, Chief Executive Officer of LESTO AB, and, Andrius Bendikas, Finance and Administration Head of LESTO AB, hereby do confirm that, to the best of our knowledge, audited LESTO AB and consolidated unaudited financial statements of the six months of the year 2014 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position, profit or loss and cash flow of LESTO AB and its consolidated enterprises.

Chief Executive Officer

Aidas Ignatavičius

Finance and Administration  
Head

Andrius Bendikas





---

AB LESTO group  
Interim report  
for the six months of 2014

29 August 2014  
(unaudited)

---



## CONTENTS

<i>GENERAL INFORMATION</i> .....	3
LESTO activities.....	4
LESTO company group .....	5
LESTO management.....	6
Strategy and goals.....	12
Electricity distribution network.....	14
LESTO personnel .....	16
Customer Service .....	19
Projects and initiatives on social responsibility.....	20
<i>INFORMATION ON THE ISSUER'S SECURITIES AND AUTHORISED CAPITAL</i> .....	25
<i>FINANCIAL STATUS</i> .....	30
<i>ANALYSIS OF PERFORMANCE RESULTS</i> .....	35
Income, costs and profitability.....	35
Other financial ratios and investments.....	36
Risks and risk management .....	37
Internal control system .....	41
<i>ESSENTIAL EVENTS</i> .....	42

## GENERAL INFORMATION

### Reporting period covered by the report

Report covers January to June of 2014.

### Key data on issuer

<b>Company name</b>	AB LESTO
<b>Company code</b>	302577612
<b>Authorised capital</b>	LTL 603 944 593
<b>Registered address</b>	Žvejų str. 14, LT-09310 Vilnius
<b>Telephone</b>	+370 5 277 7524
<b>Fax</b>	+370 5 277 7514
<b>E-mail</b>	info@lesto.lt
<b>Website</b>	www.lesto.lt
<b>Legal- organisational form</b>	Joint-stock company
<b>Date and place of registration</b>	27 December 2011, Register of Legal Entities of the Republic of Lithuania
<b>Register in which data on the company is collected and stored</b>	Register of Legal Entities
<b>Register manager</b>	State Enterprise Centre of Registers

### Information availability

This report and other documents based on which it has been prepared are available at the company's office at Žvejų str. 14, Vilnius, Corporate Communication department (office No.418) from 7.30 to 16.30 Monday to Thursday and from 7.30 to 15.15 on Fridays. Report is available on company's website ([www.lesto.lt](http://www.lesto.lt)) and on Stock exchange market NASDAQ OMX Vilnius website (<http://www.nasdaqomxbaltic.com>).

Public announcements that AB LESTO must announce according to the valid Laws of the Republic of Lithuania, are published via Register of Legal Entities electronic edition for public announcements. Company also publishes announcements via company's website ([www.lesto.lt](http://www.lesto.lt)) and Stock exchange market NASDAQ OMX Vilnius website ([www.nasdaqomxbaltic.com](http://www.nasdaqomxbaltic.com)).

### Persons responsible for the information provided in the report

Office	Name, surname	Telephone
Chief Executive Officer	Aidas Ignatavičius	+370 5 277 7524
Director of Finance and Administration division	Andrius Bendikas	+370 5 277 7524
Director of Finance department	Artūras Paipolas	+370 5 277 7524
Director of Accounting department	Zina Chmieliauskienė	+370 5 277 7524

Report is prepared in accordance with Law on Securities of the Republic of Lithuania, decision of the Board of the Bank of Lithuania No. 03-48 (28 February, 2013) on Rules of Drawing up and the Submission of the Periodic and Additional Information, and other valid laws and legal acts.

### Report signature date

Report was prepared and signed on 29 August, 2014.

## LESTO activities

AB LESTO (hereinafter – LESTO, Company) was established on the basis of reorganized Lithuanian electricity distribution companies Rytų skirstomieji tinklai AB and “VST” AB that were merged and on 31 December, 2010, finished their activity as legal entities. LESTO took over assets, rights and obligations of merged companies and since 1 January, 2011 started its activity as electricity distributor and public supplier.

LESTO is Lithuanian distribution network operator. Company’s main responsibilities include: provision of network service for customers; satisfaction of customers needs; effective connection of new users; exploitation, maintenance, management and expansion of distributive network; assurance of network security; optimization of operating costs and reduction of technological losses. LESTO geographical market is Lithuania.

## LESTO values

**COOPERATION**

**RESPONSIBILITY**

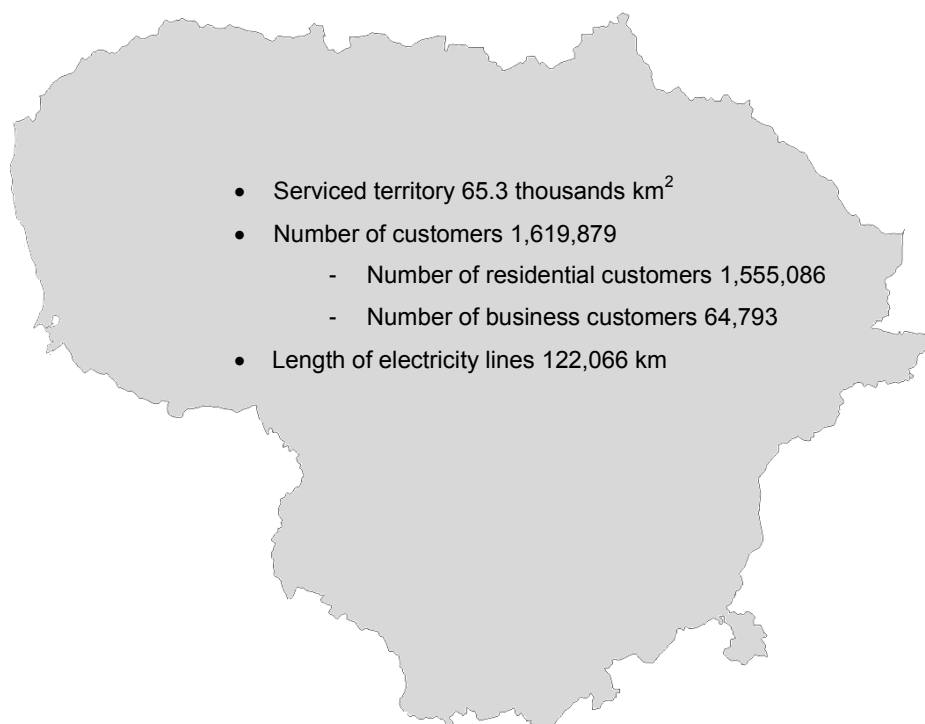
**RESULT**

## LESTO mission

**Reliable electricity energy creating value for everyone**

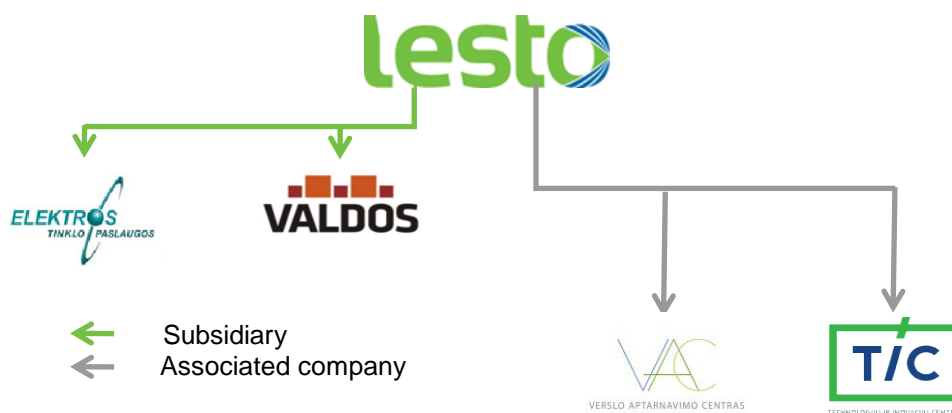
## LESTO vision

**The company with high reputation that employees, shareholders and the public are proud of**



## LESTO company group

On the report signature date, LESTO with its subsidiaries ELEKTROS TINKLO PASLAUGOS UAB, NT Valdოს UAB and associated companies Technologijų ir inovacijų centras UAB and Verslo aptarnavimo centras UAB, make up LESTO company group (hereinafter – LESTO group).



### Key data on subsidiaries and associated companies

	Elektros tinklo paslaugos UAB	NT Valdოს UAB	Technologijų ir inovacijų centras UAB	Verslo aptarnavimo centras UAB*
Address	Motorų str. 2, Vilnius	Geologų str. 16, Vilnius	A.Juozapavičiaus str. 13, Vilnius	P. Lukšio str. 5B, Vilnius
Registration date	8 December 2004	18 January 2007	4 December 2013	30 July 2014
Company code	300072351	300634954	303200016	303359627
Telephone	+370 5 210 6809	+370 5 210 6539	+370 5 278 2272	+370 5 259 4400
Fax	+370 5 216 7875	+370 5 210 6543	+370 5 278 2299	+370 5 259 4401
E-mail	<a href="mailto:etp@etpa.lt">etp@etpa.lt</a>	<a href="mailto:info@valdos.eu">info@valdos.eu</a>	<a href="mailto:info@etic.lt">info@etic.lt</a>	<a href="mailto:vac@le.lt">vac@le.lt</a>
Website	<a href="http://www.elektrostinklopaslaugos.lt">www.elektrostinklopaslaugos.lt</a>	<a href="http://www.valdos.eu">www.valdos.eu</a>	<a href="http://www.etic.lt">www.etic.lt</a>	<a href="http://vac.le.lt">http://vac.le.lt</a>
LESTO ownership, %, on 30 June, 2014	100	57.30	20	-
LESTO ownership, %, on report signature date	100	57.30	20	20
Profile of activities	Power network engineering, construction, repair, maintenance and customer connection to the grid services.	Real estate and transport rental and administration services.	IT services and maintenance for the companies operating in the sector of electric energy.	Procurement organization and execution, accounting and personnel administration services.

\*On 21 July, 2014 LESTO together with „Lietuvos energija“, UAB (company code 301844044), „Lietuvos energijos gamyba“, AB (company code 302648707), UAB LITGAS (company code 302937277) and Technologijų ir inovacijų centras UAB (company code 303200016) signed an agreement on establishment UAB “Verslo aptarnavimo centras” company. One of the main objectives of the company is to strengthen and create added value in the energy sector by providing public procurement organization and execution, accounting and personnel administration services for the state-owned energy group companies.

## LESTO management

On the report signature date according the Articles of Association LESTO management bodies includes General Meeting of Shareholders, a collegiate supervisory body – Supervisory Board, a collegiate managing body – Board, and one-person managing body – Chief Executive Officer.

### General Meeting of Shareholders

General Meeting of Shareholders is a supreme body of the Company.

The competence of the General Meeting of Shareholders and the procedure for convening the meeting and adopting decisions are governed by the law, other legal acts and Articles of Association.

During the reporting period shareholders of the Company had equal rights (property and non-property) defined in the law, other legal acts and Articles of Association. None of the LESTO shareholders had any special rights of control.

The managing bodies of the Company provided adequate conditions for exercise of the rights of the Company's shareholders during the reporting period.

### Supervisory Board

LESTO Supervisory Board is a collegiate supervisory body.

The competence of the Supervisory Board, the procedure for adoption of decisions, election and recall of members are governed by the law, other legal acts and Articles of Association. LESTO Supervisory Board consists of three members who are elected by the General Meeting of Shareholders for the term of four years. At least one-third of LESTO Supervisory Board composes of independent members. The Supervisory Board members elect the chairman of the Supervisory Board out of its members.

There were no changes in the composition of the Supervisory Board in 2014. On the report signature date the Supervisory Board consists of the chairman of the Supervisory Board Darius Kašauskas and the Supervisory Board members Ilona Daugėlaitė and Petras Povilas Čėsna (independent Supervisory Board member).

Ending of term of the Supervisory Board is 31 July, 2017.

### Board

LESTO Board is a collegiate managing body of the Company.

The competence of the Board, the procedure for adoption of decisions, election and recall of members are governed by the law, other legal acts and Articles of Association. The Board consists of five Board members that are elected by the General Meeting of Shareholders for the term of four years. The Board members elect the chairman of the Board out of its members.

There were no changes in the composition of the Board in 2014. On the report signature date the Board of the Company consists of the chairman of the Board Aidas Ignatavičius and the Board members: Virgilijus Žukauskas, Andrius Bendikas, Sergejus Ignatjevas and Dalia Andrulionienė.

Ending of term of the Board is 17 September, 2017.

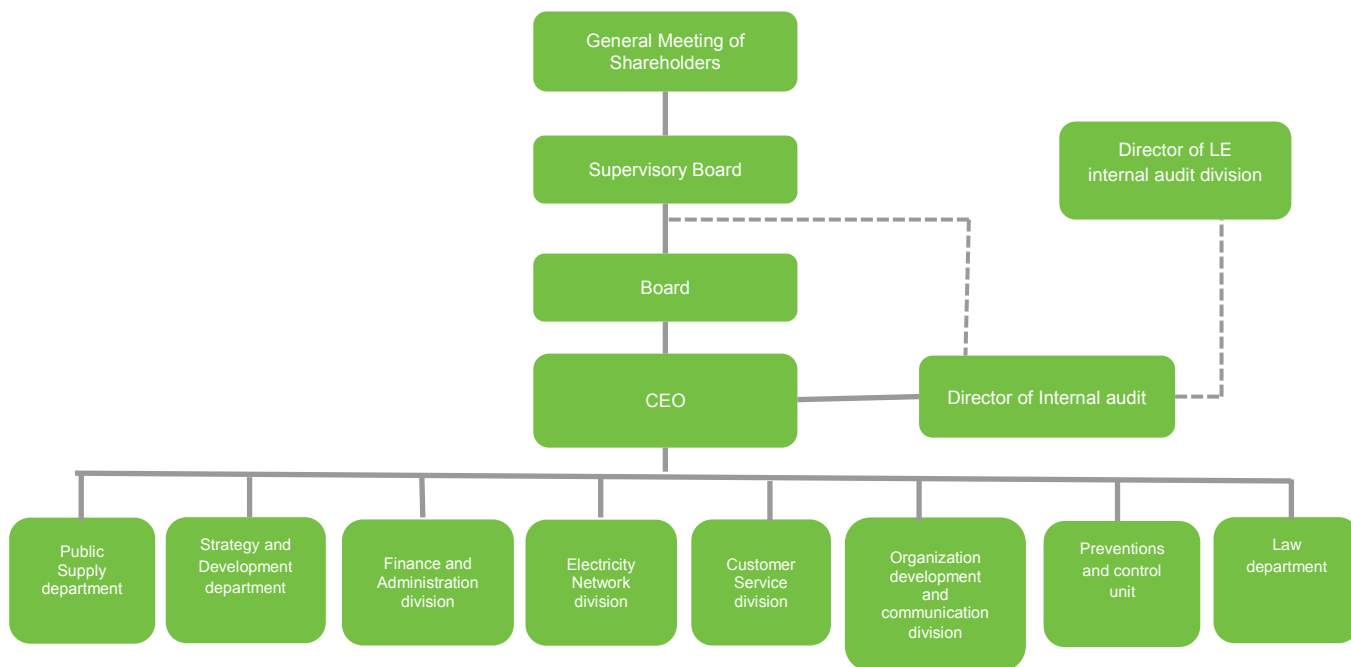
### Chief Executive Officer

Chief Executive Officer (hereinafter – CEO) is an one-person managing body of the Company.

The competence of the Managing Director and the procedure for election and recall thereof are governed by the law, other legal acts and Articles of Association. CEO is elected and recalled by the Board of the Company. CEO organises the Company's activities, manages the Company, acts on behalf of the Company and unilaterally conclude transactions, except for the cases the Company's Articles of Association and other legal acts provide.

Since 23 September, 2013, Aidas Ignatavičius acts as CEO of LESTO by the decision of the Board.

### LESTO management structure





## LESTO Supervisory Board

---



**Darius Kašauskas** (born in 1972)  
**Chairman of the Supervisory Board**

**In this position:**  
Since 31 July, 2013  
**Ending of term:**  
31 July, 2017

**Education:**  
ISM University of Management and Economics,  
BI Norwegian Business school,  
Master in Management  
Vilnius university,  
Master in Economics.

**Main occupation:**  
UAB „Lietuvos energija“,  
Director of Finance and Treasury



**Ilona Daugėlaitė** (born in 1970)  
**Member of the Supervisory Board**

**In this position:**  
Since 31 July, 2013  
**Ending of term:**  
31 July, 2017

**Education:**  
Vilnius university,  
Master in Hydrogeology and Engineering  
Geology.

**Main occupation:**  
UAB „Lietuvos energija“,  
Director of Organizational Development



**Petras Povilas Čėsna** (born in 1945)  
**Independent member of the Supervisory Board**

**In this position:**  
Since 30 September 2013  
**Ending of term:**  
31 July, 2017

**Education:**  
Vilnius university ,  
Qualification of Economist

**Main occupation:**  
Lithuanian centre of Exhibition and Congress LITEXPO, chairman of the Board

## LESTO Board and CEO



**Aidas Ignatavičius** (born in 1974)  
**Chairman of the Board**  
**CEO**

**In the position of Chairman:**  
Since 17 September, 2013  
**Ending of term:**  
17 September, 2017

**In the position of CEO:**  
Since 23 September, 2013

**Education:**  
Vilnius university,  
Master in Business Administration and  
Management

**Main occupation:**  
LESTO, CEO



**Andrius Bendikas** (born in 1973)  
**Member of the Board**

**In this position:**  
Since 17 September, 2013  
**Ending of term:**  
17 September, 2017

**Education:**  
Baltic Management Institute (BMI),  
Master in Business Administration

**Main occupation:**  
LESTO, Director of Finance and  
Administration division



**Dalia Andrulionienė** (born in 1971)  
**Member of the Board**

**In this position:**  
Since 17 September, 2013  
**Ending of term:**  
17 September, 2017

**Education:**  
Vilnius university,  
Master in Economics.  
ISM University of Management and  
Economics,  
Master in Executives

**Main occupation:**  
LESTO, Director of Organization  
Development and Communications  
division



**Virgilijus Žukauskas** (born in 1961)  
**Member of the Board**

**In this position:**  
Since 17 September, 2013  
**Ending of term:**  
17 September, 2017

**Education:**  
Kaunas University of Technology,  
Master in Electricity Supply for Industry,  
Cities and Agriculture.

**Main occupation:**  
LESTO, Director of Electricity  
Network division-vice CEO



**Sergejus Ignatjevas** (born in 1965)  
**Member of the Board**

**In this position:**  
Since 17 September, 2013  
**Ending of term:**  
17 September, 2017

**Education:**  
Vilnius university,  
Master in Finance and Credit

**Main occupation:**  
LESTO, Director of Customer Service  
division

Information on LESTO Supervisory Board, Board and administration members participation in the activities of companies and organisations; shareholding in other companies exceeding 5% of capital/votes

Name, surname	Name of organisation, position	Capital held, %	Share of votes, %
<b>Supervisory Board</b>			
	LESTO, chairman of the Supervisory Board	-	-
	„Lietuvos energija“, UAB, member of the Board, Director of Finance and Treasury	-	-
	NT valdos, UAB, member of the Board	-	-
Darius Kašauskas	LitGas, UAB, member of the Board	-	-
	Kauno energetikos remontas, UAB, member of the Board	-	-
	Verslo aptarnavimo centras, UAB, member of the Board	-	-
	Verslo aptarnavimo centras, UAB, temporary acting CEO	-	-
	LESTO, member of the Supervisory Board	-	-
	„Lietuvos energija“, UAB, member of the Board, Director of Organizational Development	-	-
Ilona Daugėlaitė	Technologijų ir inovacijų centras, UAB, chairman of the Board	-	-
	ELEKTROS TINKLO PASLAUGOS, UAB, member of the Board	-	-
	Spouse has 3,400 ordinary registered shares of UAB SOLUTIONLAB PRODUCTION (company code 300629188)	68	68
	„Lietuvos dujos“, AB, member of the Board	-	-
	LESTO, independent member of the Supervisory Board	-	-
Petras Povilas Čėsna	Lithuanian centre of Exhibition and Congress LITEXPO, chairman of the Board	-	-
	Republic of Lithuania Seimas, public assistant of parliamentary I. Šiaulienė	-	-
<b>Board</b>			
Aidas Ignatavičius	LESTO, chairman of the Board, CEO	-	-
	Technologijų ir inovacijų centras, UAB, member of the Board	-	-
Virgilijus Žukauskas	LESTO, member of the Board, Director of Electricity Network division-vice CEO	0,000012	0,000012
Andrius Bendikas	LESTO, member of the Board, Director of Finance and Administration division	-	-
	Verslo aptarnavimo centras, UAB, member of the Board	-	-
Sergejus Ignatjevas	LESTO, member of the Board, Director of Customer Service division	-	-
	Pylimo str. 36 Association of the First block of flats owners, chairman	-	-
Dalia Andrulionienė	LESTO, member of the Board, Director of Organization Development and Communications division	-	-
<b>Administration</b>			
Aidas Ignatavičius	Look for the information above	-	-
Zina Chmieliauskienė	LESTO, Chief Accountant, Director of Accounting department	-	-

**Information on payments to LESTO Supervisory Board members\*, Board members\*\*, CEO and Director of Accounting department over reporting period\*\*\***

	<b>Salaries, LTL</b>	<b>Members of the Board and Supervisory Board salaries***, LTL</b>
CEO Aidas Ignatavičius	93,948	-
Chairman of the Board Aidas Ignatavičius	-	30,000
Member of the Board Dalia Andrulionienė	-	18,000
Member of the Board Virgilijus Žukauskas	-	18,000
Member of the Board Andrius Bendikas	-	18,000
Member of the Board Sergejus Ignatjevas	-	18,000
Chairman of the Supervisory Board Darius Kašauskas	-	-
Member of the Supervisory Board Ilona Daugėlaitė	-	-
Member of the Supervisory Board Petras Povilas Čėsna	-	3,900
Director of Accounting department Zina Chmieliauskienė	81,535	-
<b>Members of the Administration total</b>	<b>175,483</b>	<b>105,900</b>

\* LESTO Articles of Association indicates: „Agreements with members of the Supervisory Board can be signed for factual work in the Supervisory Board; rights, duties and responsibilities are set out in such agreements. Independent members of the Board can get remuneration for their work in the Supervisory Board by the decision of the General Meeting of Shareholders. The terms of the Supervisory Board members' agreements and the criteria of independence are determined by the General Meeting of Shareholders in accordance with requirements of legal acts and good corporate governance practices". On 2 August, 2013 the agreements of the Supervisory Board member's factual work were signed with Darius Kašauskas and Ilona Daugėlaitė. On 30 September, 2013 the agreement of the Supervisory Board independent member's factual work was signed with Petras Povilas Čėsna.

\*\*LESTO Articles of Association indicates: „Agreements with members of the Board can be signed for factual work in the Board before taking up the position; rights (including the right to get remuneration for the work in the Board, if there is a decision to remunerate), duties and responsibilities are set out in such agreements. The Supervisory Board determines the conditions of agreements with the members of the Board". On 17 September, 2013 the agreements of the Board members' factual work were signed with Andrius Bendikas, Sergejus Ignatjevas, Virgilijus Žukauskas and Dalia Andrulionienė. On 17 September, 2013 the agreement of the Board chairman's factual work was signed with Aidas Ignatavičius.

\*\*\*LESTO has not transferred any assets to members of management bodies. There were no loans, guarantees and sponsorship granted to the management bodies by the Company.

**Agreements between the Issuer and members of its management bodies or employees providing for compensation in case of resignation or dismissal without a valid reason or of termination of work due to changes in the ownership of the Issuer**

No such agreements between the Issuer and member of its management bodies or employees were made.

## Strategy and goals

In 2012–2014, the Company worked in accordance with the long-term strategy for 2012–2020. The decision to review the strategy for the period of 2014–2020 was due to the changes of the external environment (establishment of new management model, Board of Directors, Supervisory Board and regulation mechanism).

### Strategy outline

The foundation of LESTO strategy is its organisational culture built on reliability, effectiveness, high reputation, and values. LESTO mission is reliable electricity energy creating value for everyone. The reliability stated in the mission is interpreted as the assurance of adequate financing, effective investment, and responsible decision-making.

LESTO vision is the company with high reputation that employees, shareholders and the public are proud of. The vision emphasises the orientation towards high quality services, maximum transparency of operations, and assurance of financial stability.

Implementation of the mission, pursuit for the vision, and all LESTO daily activity is based on the following corporate values:

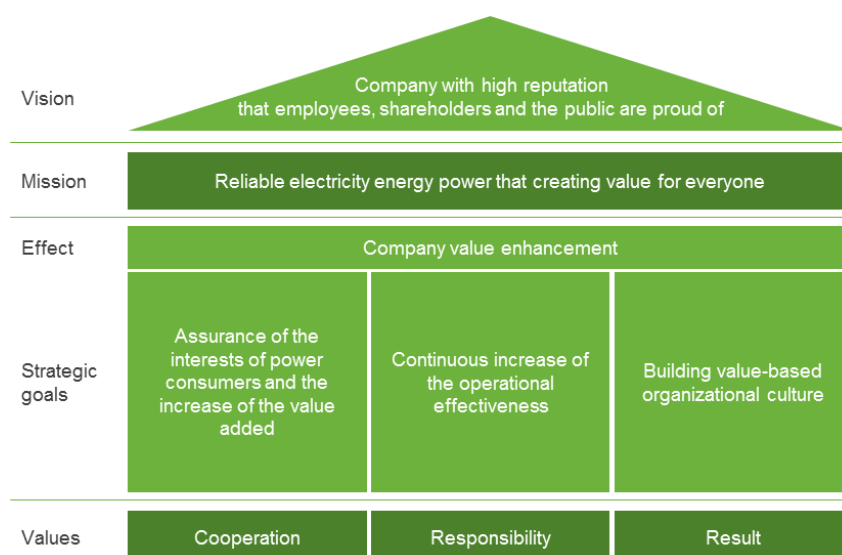
1. Cooperation
2. Responsibility
3. Result

All the elements above are considered essential prerequisites in pursuit of the key strategic goal – the enhancement of Company’s value. Enhancement of the Company’s value is perceived as a sustainable balance among the strategic directions that are associated with the relevant perspectives of the Balanced Score Card methodology:

1. Assurance of the interests of power consumers and the increase of the value added (**Customer perspective**).
2. Continuous increase of the operational effectiveness (**Internal processes perspective**).
3. Building value-based organisational culture (**Employee education perspective**).

Consistent implementation of these directions provides with a balanced pursuit of the main strategic goal enhancement of value (Financial perspective).

### LESTO strategy scheme



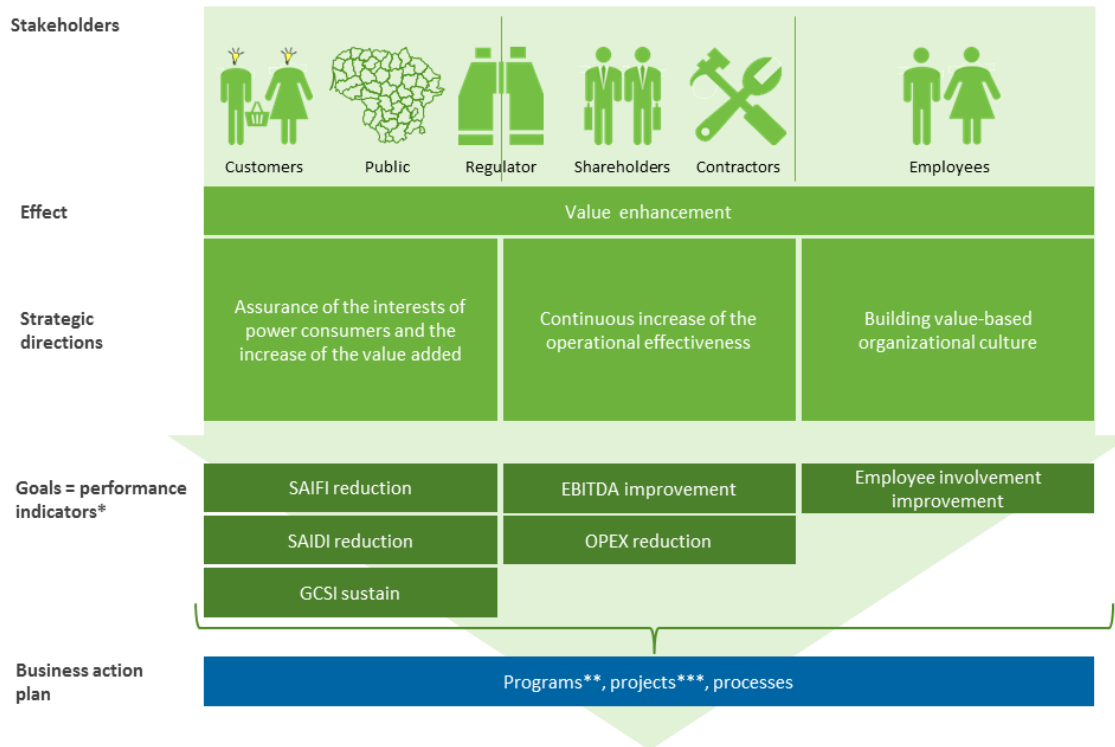
### Stakeholders

In pursuit of the well-balanced strategic directions, Company focuses on the interests and expectations of the stakeholders. An internal and external analysis has singled out the following most important stakeholders: shareholders, customers, society, employees, regulator and contractors.

The Company’s strategic directions should reflect the interests of major stakeholders. The following scheme shows LESTO

stakeholder needs expressed through strategic directions. Each strategic direction is related to one or several stakeholders. Based on this logic, specific goals and KPIs are presented for the monitoring of the assurance of the stakeholder interests.

Linging LESTO stakeholders and strategic directions



\* Indicator is a numerical expression i.e. the target.

\*\* In accordance with PMP®, programmes may consist of projects and linear business processes.

\*\*\* Projects may be enacted in accordance with: (1) LESTO project management procedures, (2) as transformations of business processes.

Goals and KPIs

The main goals define what is most important for the Company and where the main focus should be placed in organising the business processes and setting priorities. Table shows 6 key performance indicators of LESTO together with the interim and final values for the period of 2014–2020.

Brief explanations the indicators and their significance in measuring business processes are given below:

EBITDA, OPEX reflects the Company's performance, financial stability and the value of the company.

SAIDI, SAIFI shows the reliability of the power distribution network and quality of its maintenance.

GCSI aims at assessing customer satisfaction in all the services provided by the Company.

The employee involvement indicator shows the employee commitment to LESTO mission and values.

LESTO main operational indicators and their values for 2014–2020

	2014	2016	2020
SAIDI, min.	72.0	69.2	<b>63.8</b>
SAIFI, times	0.96	0.94	<b>0.89</b>
GCSI, score*	76		
Employee involvement, %	40	46	<b>62</b>

OPEX, EBITDA Values are not made public

\*The value of the indicator is set significantly higher than the average of utility companies in Europe (i. e. at least +3 points).

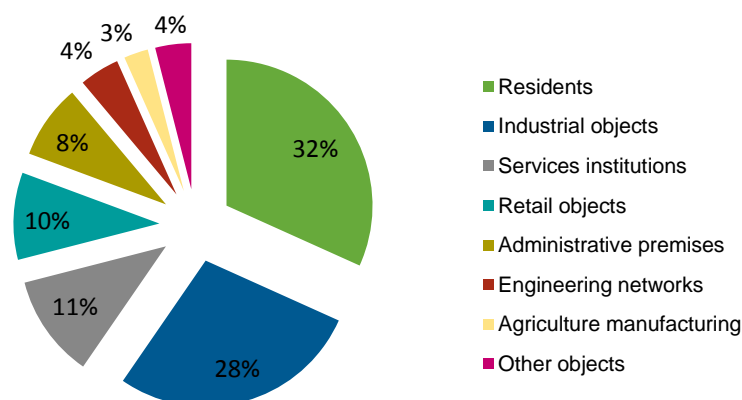
## Electricity distribution network

### Development and expansion of the activities

Activity indicators	2014 January - June	2013 January - June
Amount of electricity received to the distribution network, million kWh	4,477	4,460
Technological losses in the distribution network, million kWh	310	313
Volume of network service, million kWh	4,167	4,147
Amount of electricity sold, million kWh	1,642	1,584
<b>Electricity quality indicators:</b>		
SAIDI, minutes (with "force majeure")	76.57	50.41
SAIFI, times (with "force majeure")	0.63	0.58

During the six months of 2014 the amount of LESTO network service reached 4,167 million kWh. Electricity sales made up 39.4 % of this amount, to the rest customers LESTO granted only network service. Comparing with the same period of 2013, the amount of electricity sold increased by 3.7 % due to the rise of guarantee supply, while the volume of network service increased by 0.5 %. Technological losses experienced by the Company during the six months of 2014 amounted to 310 million kWh and this totalled to 6.9 % from the amount of electricity received while during the same period of 2013 technological losses totalled to 7.0 % from the amount of electricity received.

### Structure of network service volumes by objects



32 % of electricity network service volume was allocated to residents. Industrial and service institutions consumed 28 % and 11 % respectively. In comparison with 2013 data, the structure of electricity network service has changed insignificantly. The share of electricity transmitted to industrial objects increased by 1 percentage point, and that of engineering networks declined by 1 percentage point.

LESTO pays much attention to the development and maintenance of the electricity network. This guarantees that society is provided with economic and social benefits, that the reliability and the quality of the electricity supply are increased, that the more rational use of energy is facilitated, all of which contributes to the Company's environmental policy.

In the six months of 2014, LESTO investments in electricity network expansion and modernization reached LTL 120.3 million. This is 6.0 % more compared to the investment during the same period of 2013.

During the six months of 2014, compared with the same period of 2013, the biggest increase was in the low voltage electricity grid (36.9 %). Investment in the medium voltage electricity grid decreased by 35.7 % compared with the same period of 2013.

**LESTO investment, LTL thousand**

	2014	2013	Change, %	Structure, %	
	January - June	January - June		2014	2013
<b>Investments in expansion</b>	<b>78,237</b>	<b>74,392</b>	<b>5.2</b>	<b>65.1</b>	<b>65.6</b>
Connection of new customers	77,849	74,027	5.2	64.7	65.3
Buyout of electricity objects	388	365	6.3	0.3	0.3
<b>Investments in maintenance</b>	<b>42,026</b>	<b>39,031</b>	<b>7.7</b>	<b>34.9</b>	<b>34.4</b>
Low voltage electricity grid	32,525	23,762	36.9	27.0	20.9
Medium voltage electricity grid	7,897	12,289	-35.7	6.6	10.8
Other investments	1,604	2,980	-46.2	1.3	2.6
<b>Total</b>	<b>120,263</b>	<b>113,423</b>	<b>6.0</b>	<b>100.0</b>	<b>100.0</b>

During the six months of 2014, LESTO has connected 11,801 objects of new customers, 37.1 % more than in the same period of 2013 when it had 8,606 objects connected. The permissible power for new customers was equal to 132,806 kW, which is 3.3 % less than in the six months of 2013, when the permissible power was 137,364 kW.

During the six months of 2014, LESTO continued redemption of networks from communities of the gardeners in order to satisfy increased electricity consumption demands of the gardeners as well as demands to maintain infrastructure. The goal was to ensure reliable and safe electricity supply and modernization of the networks. During the six months of 2014 LESTO acquired electricity networks from 4 communities of the gardeners. Since the start of the acquisition process (in 2003), LESTO has acquired 938, or 97 % of power networks from the communities of the gardeners.

On 13 December, 2013 the Company signed the contract for administration and funding of the project "Replacement of complex transformer-stations of LESTO AB by pole transformer-stations", which had been signed with the Ministry of Economy of the Republic of Lithuania and the Lithuanian business support agency (LVPA). According to this contract, the sum intended for funding of this project from the EU structural funds amounted to LTL 7.769 million. Total value of the project, which will run until 28 August, 2015, amounts to LTL 19.423 million. The unique code of the project is VP2-4.2-ŪM-01-K-04-001. By executing modernization works on distributive networks during the project, 724 complex transformer-stations already showing natural and moral wear-and-tear will be replaced by modern post transformer-stations. This will allow to satisfy the increasingly rising loads as well as requirements for electricity supply reliability and quality. The works will be done all over Lithuania. During the implementation of the project, the uninterrupted electricity supply will be ensured to the consumers. All consumers living in the project's implementation territory will be able to use benefits created by the project results, namely - the consumers, who are connected to modernized transformer-stations. Target project also will contribute to the development of the regions. Currently the procurement procedures are carried out.

By implementing the contract for administration and funding of the project "Modernization and development of AB LESTO electricity distributing networks in the communities of the gardeners" (project's code VP2-4.2-ŪM-01-K-04-002), which had been signed on 29 March, 2012 between Ministry of Economy of the Republic of Lithuania, LVPA and LESTO for modernization and development of electricity networks in 76 communities of the gardeners located in the territory of Lithuania and served by LESTO, modernization and development works on electricity networks were finally finished in 72 communities of the gardeners during the six months of 2014. The sum intended to fund the project from the EU structural funds amounts to LTL 9.147 million.

In 2014, the Company continues the works that are partially funded by the EU structural funds. On 28 December, 2012 three administration and funding contracts were signed between the Ministry of Economy of the Republic of Lithuania, LVPA and LESTO (in the year 2013, agreements on contract amendments were signed) in order to implement these projects:

- "Modernization and development of AB LESTO electricity distributing networks in communities of the gardeners" (project's code VP2-4.2-ŪM-01-K-04-004). The project was intended for modernization and development of electricity networks in 17 communities of the gardeners located in the territory of Lithuania and served by LESTO. For the funding of the project, LTL 3.48 million from EU structural funds was supposed to be used. During the six months of 2014 the modernization and development works were fully finished at 9 objects.
- "Replacement of electricity airlines of AB LESTO by cables system" (project's code VP2-4.2-ŪM-01-K-04-002) (36



objects). For funding of this project LTL 5.408 million from the EU structural funds was supposed to be used. During the six months of 2014 the modernization and development works were fully finished at 7 objects.

- "Modernization of LESTO AB transformer substations" (project's code VP2-4.2-ŪM-01-K-04-003). 7 substations will be modernized according to the project. The EU structural funds granted LTL 13.2 million for the funding of this project. During the six months of 2014 the modernization and development works was fully finished at 1 transformer substation project.

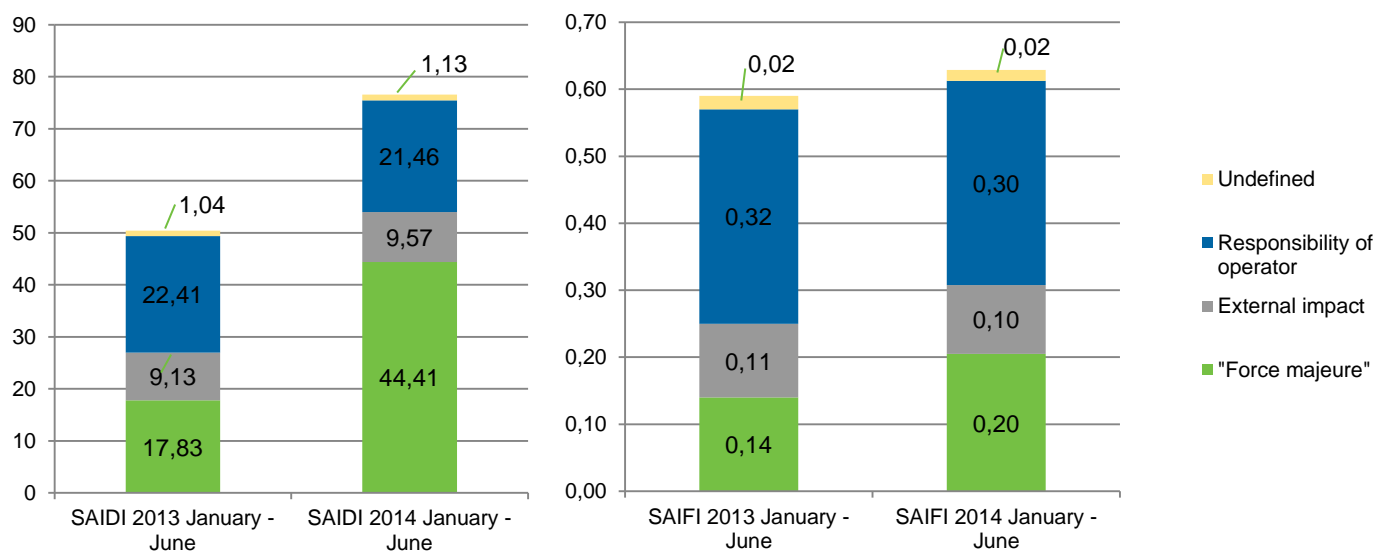
### Business environment

With the moderate European Union countries' economic growth, the European Commission continues to see positive growth outlook and forecasts the recovery of economy. The gross domestic product of the first quarter of 2014 rose by 0,3 % across the European Union and by 0,2 % across the euro area<sup>1</sup>. Lithuania's gross domestic product of the second quarter of 2014, comparing with the same period of 2013, increased by 3.1 %. Although in the middle of the year 2014 banks analysts<sup>2</sup> slightly reduced the forecasts of economic growth's rate, but still are of the opinion that Lithuania's economy will grow; it is expected that Lithuania's gross domestic product will grow from 2.7 % to 3.3 % in 2014. Since electricity consumption is closely related to the gross domestic product growth, the economic growth will affect the results of LESTO: it is expected the growth of the amount of electricity received to the distribution network and the volume of network service in the second half of 2014.

### Distribution network reliability indexes

In the six months of 2014, with the influence of natural disasters ("force majeure") the system average interruption duration index (SAIDI) per customer amounted to 76.57 minutes and, compared with the same period of 2013, it has increased (SAIDI for the six months of 2013 was equal to 50.41 minutes). This index has increased due to unfavorable weather conditions in spring - 78.4 % electricity distribution system consists of overhead power lines, so the electricity supply is still very dependent on the weather. Natural phenomena omitted, SAIDI index slightly declined during the six months of 2014 and amounted to 32.16 minutes (during the six months of 2013 – 32.58 minutes). The system average interruption frequency index (SAIFI) per customer reached 0.42 times and, compared with the same period of 2013, it has slightly decreased (SAIFI for the six months of 2013 amounted to 0.45 times).

### Quality of electricity supply (SAIDI, SAIFI) 2013 January – June and 2014 January – June



### LESTO personnel

The main asset of the Company is its employees, the most important link when pursuing the set objectives. The Company's

<sup>1</sup> The source: The Economist

<sup>2</sup> SEB bank. Lithuanian Macroeconomic Review No. 56, June, 2014; Lietuvos bankas. Economic Outlook for Lithuania, 19 May, 2014; „Swedbank“ Economic Overview, 21 January, 2014

personnel policy is oriented towards training of employees' professional abilities and formation of organization's culture, which ensures creating value for clients, partners and the society.

During the first quarter of 2014, the time intervals of the electronic electricity meter inspection were changed by the State Metrology Service Director's order, which reduced the Company's metrological electricity meter replacement volumes, thus the number of LESTO personnel in Customer Service Division's Electricity Recording Management Department was reduced by 40 positions.

During the second quarter of 2014, continuing an unified dispatch management system implementation project Vilkaviškio and Marijampolės dispatchers were merged and the number of LESTO personnel in Electricity Network division was reduced by 3 positions.

At the beginning of 2014 2,420 of employees were working in the Company. During the first six months of 2014 the total number of employees of LESTO decreased by 58 or 2.4 %, and it was equal to 2,362 by the end of June, 2014. At the end of June 2014, 3,089 employees were working in LESTO Group. From the beginning of the year the number of employees declined by 3.8 % (on 31 December, 2013, LESTO Group had 3,212 employees).

#### LESTO employees by categories

Darbuotojų kategorija	Number of employees
	30 06 2014
CEO	1
Top-level managers	6
Mid-level managers	161
Experts, specialist, workers	2,194
<b>Total</b>	<b>2,362</b>

The structure of Company's employees by their education was as follows: 58.7% of the employees had higher education, 22.1% had post-secondary education, and 19.2% had secondary or specialized-secondary education.

#### Training

LESTO organizes training of different type for the employees of the Company. Professional qualification of employees is raised by mandatory training – after completion of training the employees obtain certificates that permit special works. 1,046 persons participated in mandatory training during the six months of 2014. The employees participated in training of works with AMKA cables, workers in high-altitude work, electro-technical personnel operating tasks under voltage on current-carrying parts, electrical grounding, resistance measurements, manager of high-scaler and logging operations, first aid and hygiene skills, and in other training.

During the six months of 2014, 343 persons participated in general training with the aim to train general competencies. This training was organized both by forming inner groups of the Company and sending single employees to seminars and conferences (in Lithuania and abroad) organized by outer suppliers. The Company pays great attention to development of the executives' leadership competence: a long-term management program, which was launched in the beginning of 2014, is ongoing.

The Company seeks to engage staff into competency development programs so they could share their specific knowledge and skills with others. During the six months of 2014 1,791 participants attended training courses, which were led by internal lecturers. The majority of the internal training was conducted for the development of the electrical staff in pursuance of better occupational safety. The Company also constantly collaborates with manufacturers and equipment suppliers delivering their knowledge to LESTO electricity network service employees doing the work for free – presenting the trends of market and innovations in sphere of the energy. 238 employees participated in such training in the six months of 2014.

In order to ensure the quality of the organized trainings, training programs are prepared in continuous and close cooperation with suppliers, ongoing training evaluation surveys are carried out.

### Payment system

Remuneration policy was introduced by LESTO the implementation of which placed LESTO among other most progressive companies of the country, which remunerate their employees for the work performed according to the results achieved, value created for the organization and the team. The remuneration system was developed on the basis of "Hay Group" methodology ensuring objective evaluation of the employee's offices according to the required education, complexity of the problems, and level of responsibility of the specific office. This system supports efficiently management of the Company's expenses and ensures that strategic goals and business management logics of LESTO would be reflected in the payroll system.

The Company's employee remuneration package consists of financial, non-financial and emotional rewards. Financial reward system includes a monthly paid fixed salary indicated in the employment contract, as well as the variable part of the salary paid for the reached results of performance and other premium (for overtime, night work, etc.) paid according the collective agreement and other internal legal acts. Non-financial rewards are an indirect remuneration, which is used by the Company to promote its employees' effort, involvement and loyalty, employee well-being and enrichment activities in the Company. These rewards includes various events, greetings for special occasions, recognition and evaluation by awarding employees for their especially high results, health promotion, employee development and training. Emotional rewards are the factor that is hardly measured but very important for employees' involvement in the Company's operations, it includes the Company's reputation, organizational culture and values, career opportunities, various internal communication programmes that allows employees to share their ideas, ask questions, get acquainted with colleagues with the support of an internal website.

### Average wages of LESTO employees

Darbuotojų kategorija	Average gross wage, LTL
	2014 January - June
CEO	15,451
Top-level managers	14,666
Mid-level managers	6,333
Experts, specialist, workers	3,058
<b>Total</b>	<b>3,318</b>

### Collective agreement

On 7 March 2014, a new collective agreement was approved at the staff conference of electricity distribution network operator LESTO, which will ensure higher level of protection for LESTO employees and more additional benefits not specified in the Labour Code of the Republic of Lithuania.

The goal of the collective agreement is to ensure efficient operation of the Company and represent the rights and legitimate interests of the Company's employees. The agreement sets forth working, remuneration, social, economic and professional conditions and guarantees that are not regulated by the laws or other legislative acts. Employees receive additional guarantees (benefits in the event of an accident, illness and death of a relative, birth of a child, extra days of paid leave after the birth of a child, marriage, death of a relative, and other cases).

### Internship

LESTO actively collaborates with educational institutions and creates conditions for university or college students for application of theoretical knowledge and acquisition of professional skills. During the six months of 2014, 70 students were exercising their practice in LESTO. The Company received not only the students coming for the mandatory internship, but also LESTO was searching and selecting motivated and enthusiastic students in order to provide them opportunity to exercise practice in the Company on a voluntary basis. Given the demand of new employees, the Company remembers most enthusiastic trainees, and most relevant of them are invited to join the team of LESTO. Since the beginning of 2014

six students, who exercised their practice in LESTO, received job offers in the Company.

## Customer Service

### Customer satisfaction

Satisfaction of clients is measured once per year by running a survey of clients' satisfaction. In the year 2013, satisfaction level of LESTO clients, which was estimated according to GCSI research methodology<sup>3</sup>, was by 9 points higher than comparative GCSI index of European energy companies. LESTO index equals to 76, whereas average of European energy companies equals to 67 points of the index. This research shows the fact that quality of service and servicing provided by LESTO exceeds the expectations of the clients and is rated better by 1 point than a year before.

### The Number of the Customers Serviced

On 30 June, 2014 LESTO had 1.555 million contracts with private clients and 64,8 thousand contracts with business clients (on 30 June, 2013 it had 1.534 million contracts with private clients and 62,4 thousand contracts with business clients).

### Service Channel Development

In the six months of 2014 the number of customers who uses the remote service channels (self-service website "Mano elektra" and customer service 1802) continued to grow, while the flow of electrical energy users in LESTO customer service centers of smaller towns is decreasing. Due to changing customer needs, the Company consistently invests and expands the services provided by the telecommunications and internet channels: mobile version of www.manoelektra.lt and demo version of www.manoelektra.lt for unregistered clients were launched for the customer convenience.

On June 30, 2014 there were 454 thousand of registered users in self-service website "Mano elektra", including 405 thousand domestic users.

During the six months of 2014, the number of visitors of the website www.manoelektra.lt (by comparing data of the six months of 2013) increased from 1,135 thousands to 1,389 thousands.

During the six months of 2014, by short client service telephone 1802 information was provided to more than 490 thousand clients (during relevant period of the year 2013, information was provided to 455 thousand clients), 212 thousand requests of the clients on various questions were received and solved (during relevant period of 2013, 176 thousand requests of the clients were received and solved).

During the six months of 2014, more than 130 thousand clients were served by client service centres located in the five largest Lithuanian cities (during relevant period of 2013, 151 thousand clients were served).

### Maintenance and Development of Accounting for Electricity

During the six months of 2014, the Company replaced 71,466 pieces of metrologically outdated electricity metering devices; out of them 79 % were used for electric energy metering in single-phase alternating current systems, and 31 % - of three-phase systems. The Company mounted 10,882 pieces of power account equipment for new clients; from them 32 % were intended for recording power of single-phase alternating current systems, and 68 % of three-phase systems.

By constant modernization of electricity metering devices the Company performed more than 447 thousand inspections of electricity metering devices jointly with same number of reading control operations.

By putting investments into modernization and automation of electricity metering devices during the six months of 2014, the Company connected 3,761 pieces of electricity metering devices to computer-assisted power recordings reading system by such means of increasing number of electricity metering devices reading the records in a remote way up to 23,828 of units.

Automation of power account equipment provides possibility to invoice automatically the client on electricity amount gone

<sup>3</sup> For the research of LESTO client's satisfaction Global Customer Satisfaction, index (GCSI) methodology was invoked, which is based on American Customer Satisfaction Index (ACSI). GCSI is a global franchise of ACSI research methodology. The instrument consists of 17 questions that are summarized to 6 rate groups: expectations of clients, assessment of quality, assessment of understood value, satisfaction of clients, loyalty of clients and complaints of clients. Investigation of satisfaction of LESTO clients within the period of September-November, 2013 was performed by UAB "SYNOPTICOM". Controlled sampling was comprised of 1,106 private clients and 921 business clients.

per period instead of declaring amount by clients themselves.

In May of 2014 “Mano Būstas”, UAB and “Elektrovoltas”, UAB started inspections of electricity metering devices. Together with “Alytaus butų ūkis”, UAB these service providers work throughout the Company's territory.

### Customer Settlement Management

Direct debit means one method of payment for the consumed energy and it becomes more and more popular in Lithuania. Following this method, the client pays equal amount for electricity each month and this amount is automatically deducted from client's bank account. Almost 13 % of LESTO customers are paying by direct debit already. During the six months of 2014, the number of direct debit payments for electricity consumed (by comparing data of the same period of 2013) increased by 31 %.

Each client, who pays for electricity by means of direct debit, is personally informed about contribution amount settled individually. On request of LESTO clients, who selected to pay by direct debit, after carrying periodical inspections of meter readings the amount of contributions is recalculated, and also when the price of the electricity is changed. Moreover, clients themselves can select the most comfortable payment's date, when invoice for consumed electricity is settled automatically. The customers can declare the readings of electricity consumed in constantly updated self-service website, "My electricity". More than 41 percent of all payments for the consumed electricity were conducted through electronic channels at the end of the reporting period.

### Market liberalization

On 30 June, 2014 independent suppliers delivered electricity to 57,838 objects. According to plan for development of Lithuanian power market signed by the Government of the Republic of Lithuania on 8 July, 2009, on 30 June, 2014 independent electricity supplier has been chosen accordingly:

- About 93 % of objects with permissible power of 400 kW and more;
- About 83 % of objects with permissible power of 100 kW and more;
- About 70 % of objects with permissible power of 30 kW and more;
- About 53 % of objects with permissible power less than 30 kW.

The remaining objects are supplied with electricity by the warranty supplier (LESTO).

### Projects and initiatives on social responsibility

LESTO is a member of the Global Compact initiated by the United Nations and submits annual Progress report prepared according to the principles provided by the Global Compact. The Global compact covers implementation of 10 principles of responsible performance and encourages companies to preserve environment, community and other businesses, also to participate in solving social and environmental protection problems together with the United Nations, authority institutions and non-governmental organizations, contribute to evolution of the society and economic growth. The Global Compact is based on principles of human rights and rights of the workers, environmental protection and fighting corruption.

### The priorities of LESTO Corporate social responsibility

The main goal of LESTO socially responsible activities is formation of skills of society contributing to safe and rational consumption of electricity, saving energy resources and minimizing effect over environment; therefore, all socially responsible actions initiated by LESTO contribute to achievement of these goals.

### Environmental Projects

**Electric vehicles.** LESTO sees high potential for development of electric vehicles in the future; new technologies using energy more efficiently and their introduction to car industry compete in the market more and more, particularly in comparison with long-standing automobiles that use traditional fossil fuel. In order to run experiments and practically assess possibilities by using new cars, also their potential under Lithuanian climate and roads conditions, LESTO leased electric car for three years period in 2013. Experiments with the electric car carried out by the electric power distribution network

operator LESTO during the first year have provided interesting findings – the car is particularly suitable for an intensive use in the city and, when used in summer and autumn, its range exceeds the manufacturer's specification of 190 km.

**Paper saving and customer information using modern technologies.** The Company constantly motivates its clients to reject paper bills and billing books, and chose instead remote service channels or pay by means of direct debit. More than 90 % of LESTO business clients already turned to electronic billing. LESTO informs public about known faults in the distribution network that disrupted the electricity supply by electronic emails and SMS messages. About 80 % of electricity consumers are informed in such way.

**Sorting of waste and waste management.** Paying attention to published statistics, namely that actually one fourth of total communal waste is formed of paper, cardboard and plastic, and that waste of such type mostly is disposed of by offices, LESTO central office, which has utmost number of employees, initiated waste disposal by sorting plastic and paper. By contributing to safer environment LESTO continues serving of points for workers operating in client service centers in order to collect power saving bulbs, fine electronics and batteries.

**Landscape protection.** LESTO has replaced overhead power lines with new 100 km long cables in Kaunas, Panevėžys, Šiauliai, Kuršėnai, Mažeikiai and other areas where overhead power lines condition do not meet users' needs. Cable lines secure more reliable electricity supply for residents and are safer. In addition, cable lines allow more beautiful landscape. During this project cable lines were installed where former overhead power lines were thin and dangerously close to the plantations, outdated infrastructure has determined many failures.

**LET'S DO 2014.** More than 350 LESTO employees across Lithuania have joined the cleanliness initiative "LET'S DO 2014" and collected a variety of waste left by irresponsible residents. LESTO, which expands its socially responsible activity, invited residents to act responsibly during the year - to save the environment, recycle waste and rationally use resources and electricity.

#### To the public

To a wide extent LESTO implements long-term social responsibility projects for children, youth and public. All of them cover active inclusion of target social groups as well as ideas concerning safe and efficient usage of energy and environmental protection.

#### Loss reduction and educational project „Operation 2020“

Until the year 2020, the Company plans to proceed with the implementation of the programme “Operation 2020” in order to motivate responsible behaviour with electric devices, increase understanding of people about safety and reduce negative outcomes rising as a result of irresponsible and malicious behavior of people. This year LESTO continues active cooperation with the Association of Local Authority Heads in Lithuania, as well as participates in rallies and meetings organized by the chiefs. A major support in combating theft is the public spirit – reports by citizens help to quickly identify offenders and repair damaged transformers before they burn out and stop supplying electricity for the residents. During the six months of 2014 in cooperation with law enforcement authorities 10 pre-trial investigations were launched because of the electricity thefts. Within six months of the year alone, thieves caused citizens damage of LTL 355 thousand. According to the reports through anonymous telephone trust line 4 secret illegal installations of electrical extension wire were identified. During the six months of 2014 37 companies engaged in scrap purchasing business were inspected. Infringements were identified in 6 of them. After preventive measures 23 persons engaged in transformer oil and overhead power line thefts in Panevezys, Siauliai and Vilnius regions were arrested. Due to oil thefts 45 transformers were damaged. Due to technological property thefts during the six months of 2014 the Company has suffered damage of LTL 420 thousand.

#### For the enhancement of electricity efficiency – „To the Extent Required“

Stimulation of rational energy usage is one of underlying trends of LESTO social responsibility, contributing to environmental protection and saving energy resources due to obligations of the country to pursue the European Union programme with regard to climate change. This project strives at creating traditions of rational life of society by searching for rational way to consume electricity both in daily life and business.

**Project of modern streets' lighting.** In autumn of 2013, LESTO together with Birštonas local authorities and Italian public lightning company "Enet Sole" started an experimental project on efficiency of illuminators based on LED technologies "As much as needed for the city". 14 usual street illuminators were changed with LED illuminators during the project. LESTO equipped required recording appliances and financed illuminator replacement works. Technical specifications of LED illuminators reflect situation that by modernizing lighting of streets, municipality could save 50 % of consumed electricity. Street's lighting project being implemented in Birštonas shows that investments will pay off within approximately 3.7 years. According to LESTO data, 150-160 thousand illuminators currently are equipped in the largest cities of Lithuania, and most of them use sodium lamps of capacity from 70 to 250 W. According to LESTO estimates, during 2012 municipalities consumed 63.127 million kWh of electricity for street lighting and paid about LTL 25 million for electricity consumed.

**National education programme "Sustainable School".** In order to promote the awareness of school communities and contribute to the building of a sustainable, energy-efficient and environmentally friendly Lithuanian society, LESTO and Lithuanian Youth Centre together with partners invited educational institutions of the country to take part in a year-long educational programme "Sustainable School". For the first time in Lithuania 70 participating institutions from various Lithuanian regions carried out the first task – an ecological footprint study.

The results of an ecological footprint study were presented at the schools' participating in the programme "Sustainable School" leaders forum. In the short term, after pooling specific individual schools' data, the results of the study will be presented to the public. Ecological footprint is a measure indicating the amount of planet's resources necessary for meeting the consumption needs of the population. Ecological footprint study for Lithuanian schools has been prepared according to the methodology designed by Austrian scientists and tailored specifically for educational institutions. According to the data collected in the social responsibility project "Sustainable School", the biggest influence for ecological footprint has electricity consumption (30 %), heating (27 %) and mobility of students (18 %). Less influence for ecological footprint has trash amount (13 %), food consumption (7 %), teachers' mobility (4 %), supply (1 %) and water consumption (0,002 %). Other stages of the programme "Sustainable School" will develop activities which will include not only teachers and students, but also students' parents and school leaders. During the campaign of the sustainable school development, schools' communities in collaboration with the programme's implementers and partners will initiate and implement activities designed to create a cohesive school community. Each educational institution will form their own teams, which consist of teachers, students, parents and administration. These teams will develop their own action plans, which will improve its organization taking into account the equivalent three components of sustainable development: environmental, social and economic relations. The goal of the "Sustainable School" educational project, initiated by Lithuanian Youth Centre and LESTO, is to contribute to the development of sustainable communities consisting of educational institutions, which would be able to effectively manage and use resources by combining environmental protection, social justice and economic development. The "Sustainable School" project is sponsored by VšĮ Pakuočių Tvarkymo Organizacija, companies UAB Schneider Electric Lietuva, UAB Mano Būstas and the National Consumer Federation.

**Conference of energy efficiency for independent energy suppliers "Energetic Dialogue 2014".** Independent suppliers distribute energy for 13 thousand LESTO business clients (58 thousand objects) that consume about 80 % of all the electricity distributed to business clients. In the future, making the market more liberal, it is predictable that the amount of independent suppliers will grow. LESTO, as electricity distributing company, in order to make the cooperation closer organized the second conference "Energetic Dialogue 2014" for independent suppliers. The conference focused not only on the analysis of the current market situation, but also on the review of the requirements of upcoming energy efficiency directive. Survey made after the conference showed that more than 90 % of the participants found this event urgent and would agree to attend the conference second time.

**International Earth's Day commemoration.** Although International Earth's Day in Lithuania is celebrated on 20 March, in the rest of the world this event is celebrated on 22 April. On this occasion, the head of LESTO Innovation department Mantas Vaskela attended the conference, in which along with other energy efficiency experts, gave tips for rational energy consumption and answered the questions.

### Market, clients and investors

In the commercial environment, LESTO strives at transparent relations with all market participants – clients, partners, contractors and investors. Annually, LESTO takes care of electricity supply safety, its economic and social benefit and pays high attention to development and modernization of distributive network. Such activity has an important aspect within the trend of environmental protection – to create better energy saving conditions by using it rationally.

**Collaboration with Lithuanian libraries.** Started this year LESTO continues collaboration with libraries. The aim of the project “Libraries for Innovation 2” is to strengthen libraries’ ability to meet the needs of developing community and consolidate libraries as strong community institutions, which are able to improve people’s lives. The aim of LESTO and libraries collaboration is to enable clients to use self-service page [www.manoelektra.lt](http://www.manoelektra.lt) in public areas.

**LESTO presentation to investors.** LESTO Board member and Director of Finance and administration division Mr. Andrius Bendikas gave presentation „AB LESTO Yesterday. Today. Tomorrow“ at the investors and the management of listed companies meeting organized by NASDAQ OMX Vilnius Stock Exchange in the beginning of June.

**Customer service center adaptation to the disabled people needs.** LESTO customer service center in Kaunas is perfectly adapted to disabled people. It was stated by the experts of the project “Without Thresholds”, which has the main goal to reduce social separation of disabled people. While visiting LESTO customer service center in Kaunas experts checked the number of parking places dedicated for disabled people, distance to the entrance of the building, condition of the slope from carriageway to pavement, driving in the parking of the customer service application, condition of toilets for disabled people and other aspects. Experts also prepared some recommendations on what aspects could be improved.

### Employees

**LESTO employees won the most professional energetics award.** In May energetics competed in professional skills contest that took place in National energetics’ training center. After tasks were completed and results were summed up, the first place went to the team of Šiauliai region. The second place went to Panevėžys region team and the third place – to Klaipėda region team. 7 LESTO teams (from every region) and 4 contractors teams from companies „Elekromontuotojas“, „Elektros tinklo paslaugos“, „Žilinskis ir ko“ and „Anykščių energetinė statyba“ participated in this contest.

### Events to the public

**Energetics’ Day events for the community.** National Electricity Association of Lithuania, uniting the biggest energy companies, including LESTO, on the 17th April invited to celebrate the Energetics’ Day in the Energy and Technology museum of Lithuania. The museum opened its doors to visitors who could take a look at the country’s energy history. The event was finished by the performance of the band “Saulės kliošas”.

### Fighting corruption

LESTO does not tolerate any corruption manifestations and speaks out about fair business and transparent collaboration with the state institutions. Risk is minimized by active internal control mechanisms intended for setting possible factors of corruption risks. Corruption prevention is one of the functions pursued by the Prevention and control unit of the Company. For the sake of good image of the Company, LESTO constantly executes its performance control and takes all actions for correction of detected violations and elimination of topping hazards. In May, 2014 policy of zero tolerance against corruption came into force. This policy is intended to define the provisions and principles for the group of companies subject to zero tolerance for corruption.

### Accountability for community

**LESTO announced the report of the progress of social responsibility in 2013.** Electricity distributor LESTO, member of the United Nations Global Compact, announced annual social responsibility progress report. During 2013 LESTO became more active in the social responsibility area: expanded rational electricity consumption initiatives, organized educational projects for students and community and actively participated in environment protection area. LESTO is perhaps one of the first Lithuanian companies which prepared social responsibility report according to the newest United Nations Global



Reporting Initiative methodology G4. In May this methodology became the official standard of United Nations Global Compact and is recommended to use for all the members of the Compact as a reporting tool. G4 methodology is prepared on the basis of incorporation of interested parties, preparation and development stages are supported by the experts from all over the world.

## INFORMATION ON THE ISSUER'S SECURITIES AND AUTHORISED CAPITAL

### Authorised capital structure

Type of shares	Number of shares	Nominal value, LTL	Total nominal value, LTL	Share in authorized capital, %
Ordinary registered shares	603,944,593	1	603,944,593	100,00

There have been no changes in the Company's share capital in the accounting period and the share capital amounted to LTL 603,944,593.

All shares of the Company are fully paid.

### Rights and obligations granted by shares

All ordinary registered shares grant the same rights. Property and non-property rights are defined in the law, other legal acts and Articles of Association.

**Information on major transactions of associated parties – indicate the value of transactions, the nature of relations among associated parties, and other information on transactions necessary to understand the Company's financial situation, if such transactions are significant or have been concluded in unusual market Conditions**

The Company's related parties in the first half of 2014 and 2013 were as follows:

- „Lietuvos energija“, UAB, (the major shareholder of the Company) its subsidiaries and associates;
- Subsidiaries of the Company;
- Associates of the Company;
- Key management of the Company as well as entities managed by the management or where the management has control or significant influence in those entities;
- All state controlled or significantly influenced entities (disclosures are made only for those state controlled entities, with which the transactions are significant).

Transactions with related parties are presented below (LTL thousand):

#### Sales of goods and services to:

	Group		Company	
	1 January - 30 June 2014	2013	1 January - 30 June 2014	2013
Subsidiaries	-	-	1 495	2 468
Associates	2 048	2 849	155	11
Companies of „Lietuvos energija“, UAB group (without LITGRID AB)	2 517	1 148	758	144
Companies of LITGRID AB group	88 860	61 652	78 108	55 151
	93 425	65 649	80 516	57 774

#### Purchases of goods, services and property, plant and equipment from:

	Group		Company	
	1 January - 30 June 2014	2013	1 January - 30 June 2014	2013
Subsidiaries	-	-	32 240	35 791
Associates	12 143	14 805	11 399	13 997
Companies of „Lietuvos energija“, UAB group (without LITGRID AB)	233 656	190 718	232 506	189 835
Companies of LITGRID AB group	427 248	547 577	427 229	547 573
	673 047	753 100	703 374	787 196

**Compensation of key management personnel\***

	Group		Company	
	1 January - 30 June		1 January - 30 June	
	2014	2013	2014	2013
Salaries and other short-term employee benefits**	622	1 113	622	1 113

\*On 30 June, 2014, the number of the Company's key management personnel was 7 persons (on 30 June, 2013, the Company's key management personnel was 8 persons).

\*\*Including Redundancy and unused vacation compensations, sickness benefits.

**Amounts receivable from related parties:**

	Group		Company	
	30 06 2014	31 12 2013	30 06 2014	31 12 2013
Subsidiaries	-	-	138	446
Associates	4 677	1 192	4 442	45
Companies of „Lietuvos energija“, UAB group (without LITGRID AB)	20 161	445	19 257	29
Companies of LITGRID AB group	20 031	17 670	16 113	12 824
	44 869	19 307	39 950	13 344

**Amounts payable to related parties:**

	Group		Company	
	30 06 2014	31 12 2013	30 06 2014	31 12 2013
Subsidiaries	-	-	13 928	21 369
Associates	2 584	4 305	2 388	4 142
Companies of „Lietuvos energija“, UAB group (without LITGRID AB)	37 868	31 967	37 626	31 663
Companies of LITGRID AB group	84 367	123 969	84 367	123 946
	124 819	160 241	138 309	181 120

**Significant agreements to which the Issuer is a party and which would come into effect, change or would be terminated if the control of the issuer changed, as well as effects thereof, except in cases where revelation thereof would cause considerable damage to the issuer due to the nature of such agreements**

The Company has not entered into significant agreements which would come into effect, change or would be terminated if the control of the issuer changed.

**Information about harmful transactions made by the Issuer during the reporting period, which had or might have negative impact for the Issuer's activity and (or) activity's results, also the information about transactions which are made in conflicts of interest among executives of the Issuer, controlling shareholders or other related parties duties and their private interests and (or) other duties. It is necessary to disclose significant agreements' meaning, conditions, format of conflicts of interests and their influence for the agreement.**

During the reporting period the Issuer did not make any harmful transactions (which do not meet Company's objectives, existing normal market conditions, violate shareholders or other groups interests and other) and did not make any transactions made in conflicts of interest among executives of the Issuer, controlling shareholders or other related parties duties and their private interests and (or) other duties.

**Procedure for amending the Articles of Association**

The General Meeting of Shareholders has the right to amend the Articles of Association of LESTO and its subsidiaries.

**Restrictions on the transfer of securities**

No restrictions are imposed on the transfer of LESTO securities.

**Subsidiaries**

On June 30, 2014, subsidiaries of LESTO (NT Valdos, UAB and UAB "Elektros tinklo paslaugos") had no directly or

indirectly controlled share stakes in other companies.

#### Information about branches and representations

There are no branches and representations of the Company.

#### Total number of shares acquired and the number and par value of own shares. Own shares as a percentage of the share capital

LESTO had no own shares prior to the accounting period and did not acquire any own shares in the first half of 2014.

#### The number of acquired and transferred own shares during the reporting period, their nominal value and the part of the share capital represented by such shares

The Company did not acquire or transfer its own shares in the first half of 2014.

#### Information on payment for own shares if these shares were acquired or transferred with charge

The Company did not acquire or transfer its own shares in the first half of 2014.

#### Shareholders

On December 31, 2013 the number of LESTO shareholders totalled – 7,188.

On June 30, 2014 the number of LESTO shareholders amounted to 7,083.

Shareholders of AB Rytų skirstomieji tinklai and AB “VST” that owned shares on 27 December, 2010 became LESTO shareholders.

#### LESTO number of shareholders according to countries, 30-06-2014

Country	Number of shareholders
Lithuania	6,878
Russia	48
Belarus	38
Estonia	36
United States	19
Latvia	13
Other countries	51
<b>Total</b>	<b>7,083</b>

#### Agreements between the shareholders which are known to the Issuer and due to which the securities transfer and/or voting rights may be subject to limitations

No agreements between the Company's shareholders due to which the securities transfer and/or voting rights may be subject to limitations are known to the Company.

#### Restrictions on voting rights

No restrictions on voting rights are known to the Company.

#### The Issuer's bodies authorities to issue and to buy shares

The decisions to issue or to buy the Issuer's shares can be made by General Meeting of Shareholders by the Republic of Lithuania law.

Shareholders who owned more than 5 % of the issuer's authorized capital on 30 June, 2014

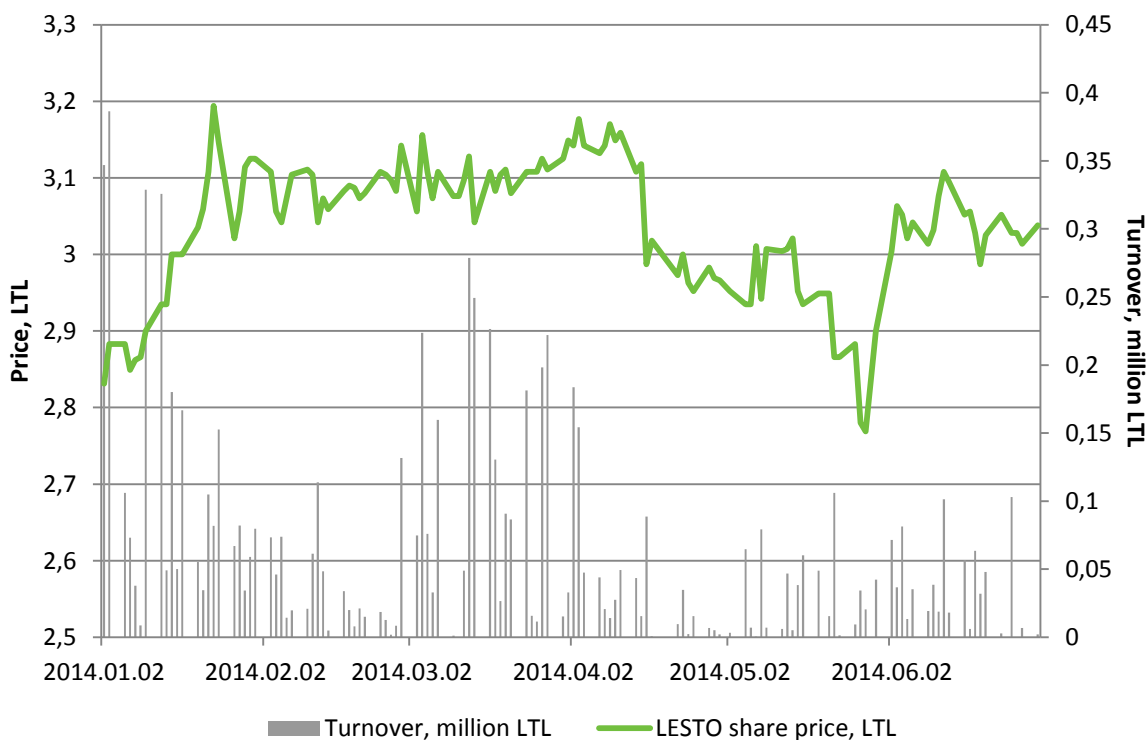
Full names of the shareholders (names of companies, types, headquarter addresses, company register code)	Number of ordinary registered shares	Share of authorized capital, %	Votes granted by shares owned, %
Lietuvos energija, UAB Žvejų str.14, Vilnius, company reg. No. 301844044	570,066,682	94.39	94.39

Information on issuer's securities

On 17 January, 2011 LESTO shares were included in the Main List of NASDAQ OMX Vilnius. LESTO shares are not traded in other regulated markets.

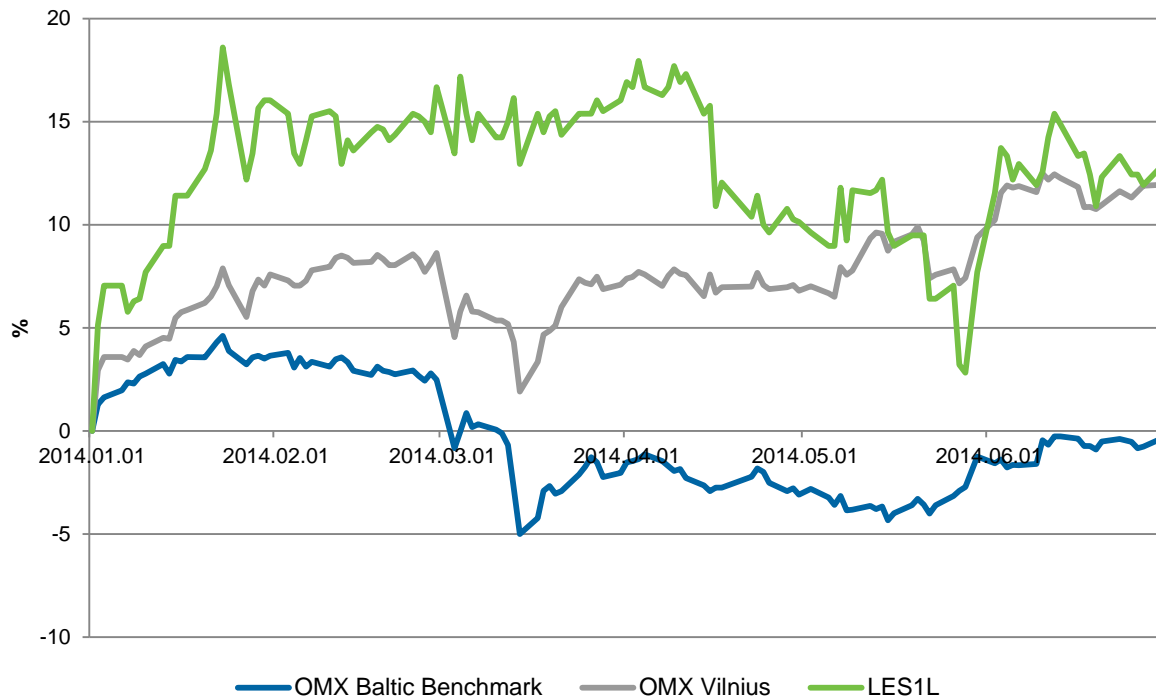
ISIN code	Trading list	Abbreviation of securities	Number of shares	Nominal value, LTL	Industry according to ICB standard	Supersector according to ICB standard
LT0000128449	BALTIC MAIN LIST	LES1L	603,944,593	1	7000 Utilities	7500 Utilities

LESTO share price dynamics and turnover, 01-01-2014 - 30-06-2014



LESTO is one of the biggest companies by market capitalization in OMX Baltic securities exchange market. During the six months of 2014 LESTO share price increased by 7.3 %. The lowest LESTO share price was recorded on 28 May, 2014, the price of LESTO share was LTL 2.77. The highest point (LTL 3.19) during the reporting period was reached on 23 January, 2014. The weighted average price of LESTO share during the reporting period was LTL 3.03.

Dynamics of LESTO share price, OMX Vilnius and OMX Baltic Benchmark indexes, 01-01-2014 - 30-06-2014



LESTO shares are included in both OMX Vilnius and OMX Baltic Benchmark indexes.

OMX Baltic Benchmark index consists of a portfolio of the largest and most traded shares, representing all sectors available on the NASDAQ OMX Baltic Market. LESTO represents the utility sector. Since the beginning of the year until 30 June, 2014, index OMX Vilnius increased by 11.94 %, OMX Baltic Benchmark decreased by 0.37 %, while price of LESTO share increased by 7.3 % during the six months of 2014.

#### Dividends

On 4 April, 2014, the decision to pay dividends for shareholders was adopted in Ordinary General Meeting of Shareholders. Company's 2013 financial year distributable profit was LTL 114.7 million. Profit allocation to pay out dividends per share was LTL 0.19.

#### LESTO securities account manager

Since 13 June, 2014, LESTO authorized securities account manager has changed. Since 13 June, 2014, bank SEB, AB is official manager of LESTO security account.

Contact details of SEB, AB:

Gediminas ave. 12, LT-01103 Vilnius

Tel. 1528 or +370 5 268 2800

## FINANCIAL STATUS

Audited financial statements of LESTO and consolidated unaudited financial statements of LESTO group presented in this chapter have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

### Statement of financial position, LTL thousand

	LESTO GROUP		COMPANY	
	2014-06-30	2013-12-31	2014-06-30	2013-12-31
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	4 580 964	4 644 520	4 444 431	4 499 476
Intangible assets	8 440	9 326	8 337	9 265
Prepayments for property plant and intangible assets	4 560	118	4 560	118
Investments in subsidiaries	-	-	203 652	203 652
Investment is associates	2	19 490	2	19 084
Investment property	152 579	147 088	-	-
Non-current receivables	2 220	2 319	1 840	1 939
	<b>4 748 765</b>	<b>4 822 861</b>	<b>4 662 822</b>	<b>4 733 534</b>
<b>Current assets</b>				
Inventories	11 047	10 582	5 385	6 671
Trade and other receivables	204 876	204 023	192 466	196 726
Prepayments, deferred charges and accrued income	23 575	22 294	22 843	21 824
Prepaid income tax	115	43	-	-
Cash and cash equivalents	34 124	26 590	12 131	8 050
	<b>273 737</b>	<b>263 532</b>	<b>232 825</b>	<b>233 271</b>
Non-current assets held for sale	96	221	-	-
	<b>273 833</b>	<b>263 753</b>	<b>232 825</b>	<b>233 271</b>
<b>Total assets</b>	<b>5 022 598</b>	<b>5 086 614</b>	<b>4 895 647</b>	<b>4 966 805</b>
<b>EQUITY</b>				
<b>Equity and reserves attributed to owners of the Company</b>				
Share capital	603 945	603 945	603 945	603 945
Revaluation reserve	1 389 546	1 466 560	1 360 834	1 437 765
Legal reserve	60 401	60 394	60 394	60 394
Retained earnings	1 125 221	1 111 224	1 165 680	1 152 766
	<b>3 179 113</b>	<b>3 242 123</b>	<b>3 190 853</b>	<b>3 254 870</b>
<b>Non-controlling interest</b>	<b>128 606</b>	<b>126 979</b>	-	-
<b>Total equity</b>	<b>3 307 719</b>	<b>3 369 102</b>	<b>3 190 853</b>	<b>3 254 870</b>
<b>LIABILITIES</b>				
<b>Amounts payable after one year and non-current liabilities</b>				
Borrowings	361 438	299 065	361 438	299 065
Deferred income tax liabilities	322 819	333 985	319 197	330 955
Deferred income	296 406	303 942	296 406	303 942
Grants and subsidies	53 903	48 468	53 903	48 468
Non-current employee benefits	4 847	4 494	4 512	4 342
Other non-current liabilities	317	128	305	128
	<b>1 039 730</b>	<b>990 082</b>	<b>1 035 761</b>	<b>986 900</b>
<b>Amounts payable within one year and current liabilities</b>				
Borrowings	339 482	316 462	339 482	315 763
Trade and other payables	243 563	329 354	241 243	331 958
Advances received and accrued liabilities	83 281	75 071	79 485	70 771
Current income tax liabilities	8 823	6 543	8 823	6 543
	<b>675 149</b>	<b>727 430</b>	<b>669 033</b>	<b>725 035</b>
<b>Total liabilities</b>	<b>1 714 879</b>	<b>1 717 512</b>	<b>1 704 794</b>	<b>1 711 935</b>
<b>Total equity and liabilities</b>	<b>5 022 598</b>	<b>5 086 614</b>	<b>4 895 647</b>	<b>4 966 805</b>

Statement of comprehensive income, LTL thousand

	LESTO GROUP			
	2014 H1	2014 Q2	2013 H1	2013 Q2
Sales revenue	1 143 090	531 664	1 220 356	573 003
Purchases of electricity and other related services	( 740 056)	( 343 988)	( 843 652)	( 385 722)
Depreciation and amortization	( 174 548)	( 88 120)	( 201 720)	( 99 170)
Employee benefits and related social security contributions	( 78 395)	( 37 972)	( 79 747)	( 39 305)
Repair and maintenance expenses	( 38 213)	( 21 793)	( 25 302)	( 15 521)
Transportation costs	( 6 110)	( 3 169)	( 5 489)	( 2 743)
Telecommunications and IT services	( 11 650)	( 6 047)	( 11 440)	( 5 703)
Rent and utilities	( 5 710)	( 2 189)	( 5 519)	( 2 233)
Evaluation result of other asset	( 537)	-	3 142	-
Other expenses	( 21 567)	( 11 100)	( 23 376)	( 11 873)
<b>Operating profit (loss)</b>	<b>66 304</b>	<b>17 286</b>	<b>27 253</b>	<b>10 733</b>
Finance income	451	216	2 139	1 157
Finance (costs)	( 3 917)	( 2 138)	( 3 655)	( 2 279)
<b>Finance income /(costs), net</b>	<b>( 3 466)</b>	<b>( 1 922)</b>	<b>( 1 516)</b>	<b>( 1 122)</b>
Profit (loss) on investment in associates	131	-	670	459
<b>Profit (loss) before income tax</b>	<b>62 969</b>	<b>15 364</b>	<b>26 407</b>	<b>10 070</b>
Income tax	( 9 602)	( 2 184)	( 3 561)	( 1 638)
<b>Net profit (loss) for the year</b>	<b>53 367</b>	<b>13 180</b>	<b>22 846</b>	<b>8 432</b>
<b>Gross profit (loss) for the year</b>	<b>53 367</b>	<b>13 180</b>	<b>22 846</b>	<b>8 432</b>
<b>Net profit (loss) for the year attributable to:</b>				
Owners of the Company	51 740	12 043	21 961	7 750
Non-controlling interest	1 627	1 137	885	682
	<b>53 367</b>	<b>13 180</b>	<b>22 846</b>	<b>8 432</b>
<b>Gross profit (loss) for the year attributable to:</b>				
Owners of the Company	51 740	12 043	21 961	7 750
Non-controlling interest	1 627	1 137	885	682
	<b>53 367</b>	<b>13 180</b>	<b>22 846</b>	<b>8 432</b>
Earnings per share ratio	0,086	0,020	0,036	0,013



	COMPANY			
	2014 H1	2014 Q2	2013 H1	2013 Q2
Sales revenue	1 119 470	519 609	1 206 616	565 590
Purchases of electricity and other related services	( 740 056)	( 343 988)	( 843 652)	( 385 722)
Depreciation and amortization	( 169 285)	( 85 500)	( 196 314)	( 96 509)
Employee benefits and related social security contributions	( 64 291)	( 31 576)	( 64 807)	( 31 934)
Repair and maintenance expenses	( 41 037)	( 23 764)	( 34 247)	( 21 000)
Transportation costs	( 7 571)	( 3 738)	( 7 033)	( 3 583)
Telecommunications and IT services	( 10 883)	( 5 677)	( 10 604)	( 5 289)
Rent and utilities	( 4 771)	( 2 247)	( 4 961)	( 2 339)
Evaluation result of other asset	-	-	4 264	-
Other expenses	( 18 660)	( 9 613)	( 21 082)	( 10 416)
<b>Operating profit (loss)</b>	<b>62 916</b>	<b>13 506</b>	<b>28 180</b>	<b>8 798</b>
Finance income	713	407	2 277	1 242
Finance (costs)	( 3 890)	( 2 124)	( 3 630)	( 2 254)
<b>Finance income /(costs), net</b>	<b>( 3 177)</b>	<b>( 1 717)</b>	<b>( 1 353)</b>	<b>( 1 012)</b>
Profit (loss) on investment in associates	-	-	-	-
<b>Profit (loss) before income tax</b>	<b>59 739</b>	<b>11 789</b>	<b>26 827</b>	<b>7 786</b>
Income tax	( 9 006)	( 1 738)	( 3 301)	( 1 209)
<b>Net profit (loss) for the year</b>	<b>50 733</b>	<b>10 051</b>	<b>23 526</b>	<b>6 577</b>
<b>Gross profit (loss) for the year</b>	<b>50 733</b>	<b>10 051</b>	<b>23 526</b>	<b>6 577</b>
<b>Net profit (loss) for the year attributable to:</b>				
Owners of the Company	50 733	10 051	23 526	6 577
Non-controlling interest	-	-	-	-
	<b>50 733</b>	<b>10 051</b>	<b>23 526</b>	<b>6 577</b>
<b>Gross profit (loss) for the year attributable to:</b>				
Owners of the Company	50 733	10 051	23 526	6 577
Non-controlling interest	-	-	-	-
	<b>50 733</b>	<b>10 051</b>	<b>23 526</b>	<b>6 577</b>
Earnings per share ratio	0,084	0,017	0,039	0,011

## Statement of changes in equity, thousand LTL

LESTO GROUP	Share capital	Revaluation reserve	Legal reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
<b>Balance at 1 January 2013</b>	<b>603 945</b>	<b>1 634 355</b>	<b>60 450</b>	-	<b>1 001 228</b>	<b>3 299 978</b>	<b>131 452</b>	<b>3 431 430</b>
<b>Comprehensive income</b>						-		-
Profit (loss) for the period	-	-	-	-	21 961	<b>21 961</b>	885	<b>22 846</b>
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)	-	( 89 645)	-	-	89 645	-	-	-
<b>Total comprehensive income</b>	-	<b>( 89 645)</b>	-	-	<b>111 606</b>	<b>21 961</b>	<b>885</b>	<b>22 846</b>
Transfers to reserves	-	-	( 56)	-	56	-	-	-
Dividends relating to 2012	-	-	-	-	( 102 670)	<b>( 102 670)</b>	-	<b>( 102 670)</b>
<b>Total payments to owners</b>	-	-	<b>( 56)</b>	-	<b>( 102 614)</b>	<b>( 102 670)</b>	-	<b>( 102 670)</b>
Change in ownership interests in subsidiary that does not result in a loss of control	-	-	-	-	( 2 405)	<b>( 2 405)</b>	( 5 620)	<b>( 8 025)</b>
Non-controlling interests' contribution to the share capital of subsidiary	-	-	-	-	-	-	-	-
<b>Total transactions with owners</b>	-	-	-	-	<b>( 2 405)</b>	<b>( 2 405)</b>	<b>( 5 620)</b>	<b>( 8 025)</b>
<b>Balance at 30 June 2013</b>	<b>603 945</b>	<b>1 544 710</b>	<b>60 394</b>	-	<b>1 007 815</b>	<b>3 216 864</b>	<b>126 717</b>	<b>3 343 581</b>
<b>Balance at 1 January 2014</b>	<b>603 945</b>	<b>1 466 560</b>	<b>60 394</b>	-	<b>1 111 224</b>	<b>3 242 123</b>	<b>126 979</b>	<b>3 369 102</b>
<b>Comprehensive income</b>								
Profit (loss) for the period	-	-	-	-	51 740	<b>51 740</b>	1 627	<b>53 367</b>
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)	-	( 77 014)	-	-	77 014	-	-	-
<b>Total comprehensive income</b>	-	<b>( 77 014)</b>	-	-	<b>128 754</b>	<b>51 740</b>	<b>1 627</b>	<b>53 367</b>
<b>Transactions with owners</b>								
Transfers to reserves	-	-	7	-	( 7)	-	-	-
Dividends relating to 2013	-	-	-	-	( 114 750)	<b>( 114 750)</b>	-	<b>( 114 750)</b>
<b>Total payments to owners</b>	-	-	<b>7</b>	-	<b>( 114 757)</b>	<b>( 114 750)</b>	-	<b>( 114 750)</b>
<b>Balance at 30 June 2014</b>	<b>603 945</b>	<b>1 389 546</b>	<b>60 401</b>	-	<b>1 125 221</b>	<b>3 179 113</b>	<b>128 606</b>	<b>3 307 719</b>

COMPANY	Share capital	Revaluation reserve	Legal reserve	Other reserves	Retained earnings	Total
<b>Balance at 1 January 2013</b>	<b>603 945</b>	<b>1 605 245</b>	<b>60 394</b>	-	<b>1 044 584</b>	<b>3 314 168</b>
<b>Comprehensive income</b>						
Profit (loss) for the period	-	-	-	-	23 526	<b>23 526</b>
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)	-	( 89 610)	-	-	89 610	-
<b>Total comprehensive income</b>	-	<b>( 89 610)</b>	-	-	<b>113 136</b>	<b>23 526</b>
Dividends relating to 2012	-	-	-	-	( 102 670)	<b>( 102 670)</b>
<b>Total transactions with owners</b>	-	-	-	-	<b>( 102 670)</b>	<b>( 102 670)</b>
<b>Balance at 30 June 2013</b>	<b>603 945</b>	<b>1 515 635</b>	<b>60 394</b>	-	<b>1 055 050</b>	<b>3 235 024</b>
<b>Balance at 1 January 2014</b>	<b>603 945</b>	<b>1 437 765</b>	<b>60 394</b>	-	<b>1 152 766</b>	<b>3 254 870</b>
<b>Comprehensive income</b>						
Profit (loss) for the period	-	-	-	-	50 733	<b>50 733</b>
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)	-	( 76 931)	-	-	76 931	-
<b>Total comprehensive income</b>	-	<b>( 76 931)</b>	-	-	<b>127 664</b>	<b>50 733</b>
Dividends relating to 2013	-	-	-	-	( 114 750)	<b>( 114 750)</b>
<b>Total transactions with owners</b>	-	-	-	-	<b>( 114 750)</b>	<b>( 114 750)</b>
<b>Balance at 30 June 2014</b>	<b>603 945</b>	<b>1 360 834</b>	<b>60 394</b>	-	<b>1 165 680</b>	<b>3 190 853</b>

**Cash flow statement, thousand LTL**

	LESTO GROUP		COMPANY	
	2014 H1	2013 H1	2014 H1	2013 H1
<b>Cash flows from operating activities</b>				
Profit (loss) for the year	53 367	22 846	50 733	23 526
<b>Adjustment for:</b>				
– Income tax	9 602	3 561	9 006	3 301
– Depreciation and amortisation	176 055	203 213	170 792	197 807
– Asset evaluation result	537	( 3 142)	-	( 4 264)
– Amortisation of grants	( 1 507)	( 1 493)	( 1 507)	( 1 493)
– Gain (loss) on disposal and write-off property, plant and equipment	4 694	6 200	5 667	6 378
– (Profit) loss for the investments in associates	( 131)	( 670)	-	-
– Dividend income	-	-	( 171)	-
– Finance (income)	( 451)	( 2 139)	( 542)	( 2 277)
– Finance costs	3 917	3 655	3 890	3 630
<b>Changes in working capital:</b>				
– Trade and other receivables	30 808	( 101)	23 246	( 1 814)
– Inventories, prepayments, deferred charges and accrued income	( 1 593)	( 2 249)	272	480
– Trade and other payables, advances received, accrued charges and deferred income	( 62 971)	( 27 375)	( 63 247)	( 25 449)
<b>Cash generated from operations</b>	<b>212 327</b>	<b>202 306</b>	<b>198 139</b>	<b>199 825</b>
– Income tax paid	( 18 603)	( 14 405)	( 18 484)	( 14 405)
<b>Net cash generated from operating activities</b>	<b>193 724</b>	<b>187 901</b>	<b>179 655</b>	<b>185 420</b>
<b>Cash flows from investing activities</b>				
– Purchase of property, equipment and intangible assets	( 152 625)	( 143 717)	( 146 547)	( 134 109)
– Proceeds from sale of property, plant and equipment	1 500	562	150	37
– Acquisition of subsidiaries and associates	( 4 444)	( 1 273)	( 4 444)	( 1 273)
– Grants received	6 942	3 416	6 942	3 416
– Loan repayments received	196	202	196	202
– (Granted) borrowings	( 4 900)	-	-	-
– Term deposits	-	3 000	-	-
– Deposit guarantee funds	-	-	171	-
– Interest received	93	826	184	949
<b>Net cash used in investing activities</b>	<b>( 153 238)</b>	<b>( 136 984)</b>	<b>( 143 348)</b>	<b>( 130 778)</b>
<b>Cash flows from financing activities</b>				
– Proceeds from borrowings	147 269	128 265	147 269	128 265
– Repayments of borrowings	( 27 925)	( 94 956)	( 27 925)	( 94 956)
– Dividends paid to the Company's shareholders	( 114 429)	( 102 316)	( 114 429)	( 102 316)
– Interest paid	( 3 916)	( 3 689)	( 3 889)	( 3 664)
<b>Net cash used in financing activities</b>	<b>999</b>	<b>( 72 696)</b>	<b>1 026</b>	<b>( 72 671)</b>
<b>Net (decrease) in cash and cash equivalents</b>	<b>41 485</b>	<b>( 21 779)</b>	<b>37 333</b>	<b>( 18 029)</b>
Cash and cash equivalents at beginning of year	( 44 118)	( 31 435)	( 61 959)	( 51 920)
<b>Cash and cash equivalents at end of the period</b>	<b>( 2 633)</b>	<b>( 53 214)</b>	<b>( 24 626)</b>	<b>( 69 949)</b>

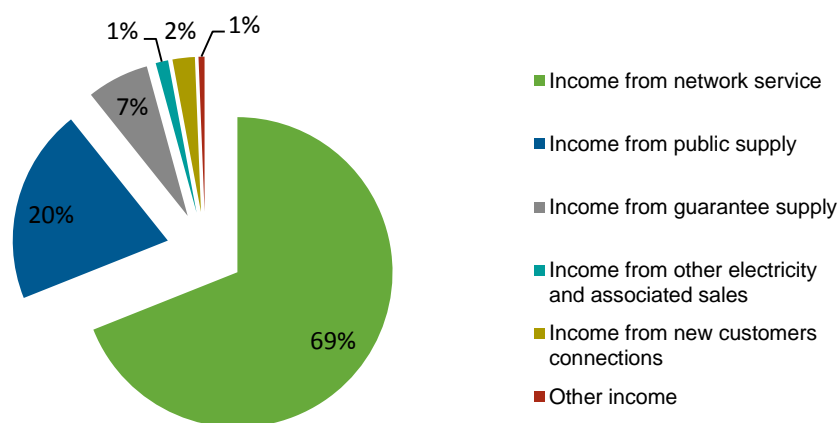
## ANALYSIS OF PERFORMANCE RESULTS

### Income, costs and profitability

LESTO group profitability ratios	2014 January - June	2013 January - June	2012 January - June
Net profit margin, %	4.67	1.87	-1.24
Operating profit margin, %	5.80	2.23	-1.25
EBITDA, LTL thousand	250,027	239,845	201,064
EBITDA margin, %	21.87	19.65	17.39
ROA, %	1.06	0.45	-0.28
ROE, %	1.61	0.68	-0.41

During the six months of 2014 LESTO group earned LTL 1,143.1 million, Company's income share made up 97.9 % of group income i.e. LTL 1,119.5 million. Comparing with the six months of 2013 LESTO group income decreased by 6.3 % and comparing with the same period of 2012 – by 1.1 % (during the six months of 2013 LESTO group earned LTL 1,220.4 million, in 2012 – LTL 1,156.4 million).

LESTO income structure



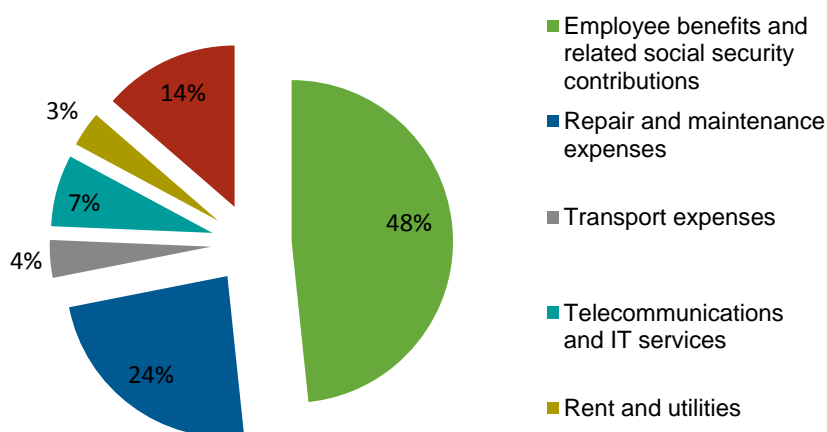
The main source of Company's income is income from network service. In the six months of 2014 income from network service made up 69 % of total Company's income. Income from public supply service consisted 20 %, income from guarantee supply for the customers that have not chosen independent supplier amounted to 7 % of Company's income. Income from connection of new customers, other electricity and associated services and income from other sources made up 4 %.

Electricity purchase and related services costs have decreased by 12.3 % compared with the same period of 2013. During the reporting period, electricity purchase and related services costs made up LTL 740.1 million i.e. 68.7 % of total costs. Depreciation and amortization accounted to 16.2 % of total costs and the rest of the group that made up 15.1 % is classified as operating costs. During the six months of 2014, employee benefits and related social security contributions made up 48.3 % of total operating costs, repair and maintenance accounted to 23.6 % of total operating costs.

The results of the six months of 2014 shows that LESTO group's operating costs increased by 7.5 % compared with the same period of 2013. During the reporting period repair and maintenance expenses increased by 51.0 % compared with the same period of 2013 and amounted to LTL 38.2 million. Transport expenses increased by 11.3 % compared with the same period of 2013 and were equal to LTL 6.1 million, while rent and utilities costs increased by 3.5 % compared with the same period of 2013 and were equal to LTL 5.7 million. LESTO group's telecommunications and IT services increased by 1.8 % and amounted to LTL 11.7 million. During the six months of 2014, employee benefits and related social security

contributions decreased by 1.7 % compared with the same period of last year and amounted to LTL 78.4 million.

#### LESTO operating costs structure



#### Other financial ratios and investments

LESTO group liquidity ratios	30.06.2014	31.03.2013	31.12.2013
Current liquidity ratio	0.41	0.75	0.36
Acid test ratio	0.39	0.73	0.35
Cash liquidity ratio	0.05	0.09	0.04
Working capital, LTL thousand	-401,316	-93,570	-463,677
Working capital to total assets ratio	-0.08	-0.02	-0.09

LESTO group financial leverage ratios	30.06.2014	31.03.2013	31.12.2013
Total liabilities to total assets ratio	0.34	0.32	0.34
Debt to assets ratio	0.14	0.12	0.12
Total liabilities to equity ratio	0.52	0.48	0.51
Debt to equity ratio	0.21	0.18	0.18
Net financial debt, LTL thousand	666,796	596,008	588,937
Net financial debt to equity ratio	0.20	0.17	0.17
Long-term debt to equity ratio	0.11	0.17	0.09
Equity to total liabilities ratio	1.93	2.09	1.96
Equity to total assets ratio	0.66	0.68	0.66

The value of LESTO group assets at the end of the reporting period made up LTL 5,022.6 million. Non-current assets share in total assets was equal to 94.5 %. From the beginning of the year till 30 June, 2014, value of LESTO group non-current assets shrank by 1.3 %. Cash with cash equivalents accounted to LTL 34.1 million i.e. 12.5 % of total current assets.

Equity of LESTO group exceeded liabilities 1.93 fold. At the end of reporting period, financial debts made up LTL 700.9 million or 40.9 % of total liabilities. Non-current borrowings were LTL 361.4 million and made up 51.6 % of all borrowings. At the end of reporting period LESTO amounts payable within one year and current liabilities made up LTL 675.1 million.

Current liabilities exceeded current assets by LTL 401.3 million. Current liquidity ratio stood at 0.41. Inventories made up only 4.0 % of current assets, consequently acid test ratio do not differ significantly from current liquidity ratio. Financial debt reduced by the amount of the most liquid assets (short-term deposits and cash with cash equivalents) indicates net financial debt. Net financial debt of the LESTO group amounted to LTL 666.8 million and consisted only 20.2 % of equity.

EBITDA of LESTO group during the six months of 2014 was LTL 250.0 million – 4.2 % more than during the same period in 2013.

LESTO group results for the first half of 2014 is a net profit of LTL 53.4 million, while LESTO group's net profit amounted to

LTL 22.8 million in the same period of 2013 and LTL 14.3 million loss in the same period of 2012.

#### References and additional explanations of disclosures in the annual financial statements

Other information is presented in the Explanatory Notes to the Audited Financial Statements of AB LESTO for the first half of 2014.

### Risks and risk management

#### Risk Management Policy

Risk management system of the Company is based on the following principles: COCO (Committee of Sponsoring of the Treadway Commission) ERM (Enterprise Risk Management), AS/NZS ISO 31000:2009 (Risk Management – Principles and Guidelines) and ISO/IEC 27005:2011 (Information technology – Security Techniques – Information Security Risk Management).

The goals of the Company performance are understood extensively, because they include both the goals of common character concerned with vision, mission, values and strategy of the Company, and particular goals concerning pursuance of performance function of several structural divisions of the Company. Risk management of the Company is based on assessment of possible negative influence affecting goals of the Company and goals of its performance functions (processes) as well as results. Risk identification, analysis, assessment and management is pursued systematically in accordance with risk management policy valid in "Lietuvos energija", UAB and risk management procedures approved by the management, and other risk management related internal legislation.

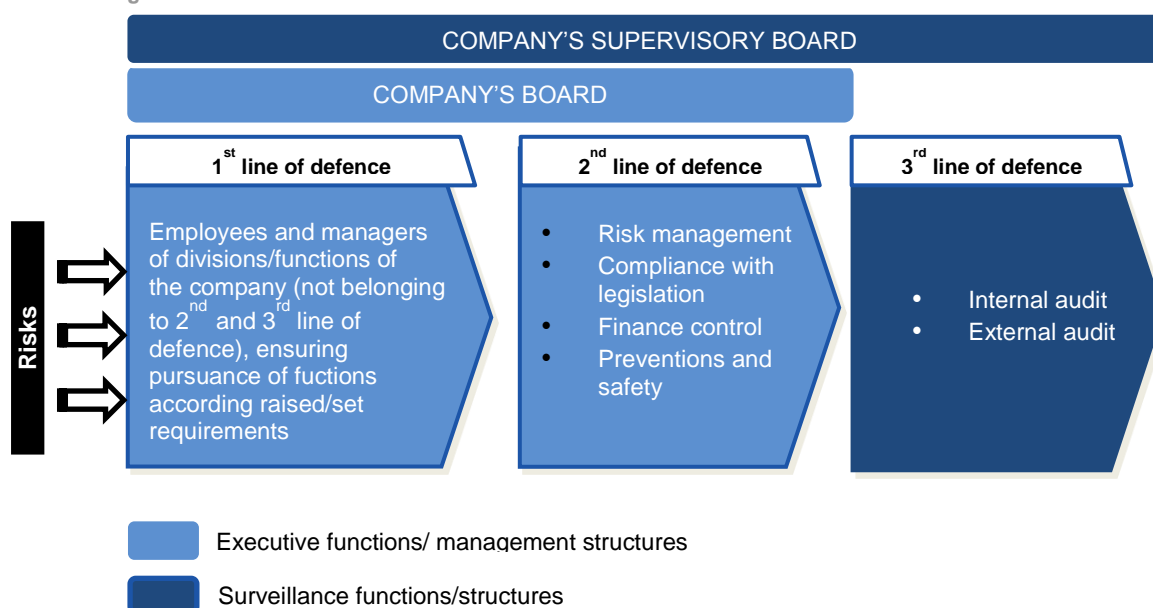
Periodic risk identification and evaluation cycle when activity (process) results residual risk and risk management means intensification runs every year during activity targets planning. During this cycle risks which can have a negative impact on activity targets and results are set. Set risks are evaluated considering their chance of occurrence and possible effect on activity goals and results. For the risks assessed in such way, when complex assessment of probability and effect exceeds risk tolerance limits, risk management measures are selected, after which implementation probability and (or) effect should be minimized insofar as risk having influence on the goals and results should be found within risk tolerance (risk appetite) limits. Also risks can be evaluated unplanned before taking a meaningful decision for Company or after meaningful change of internal or external situation. Used risk management measures are directed at avoidance of risks, their minimisation, transfer and (or) assumption as by assessing their effect to implementation of goal set forth by the Company as well as its activities' continuity considering costs and efficiency of risk reducing measures. The Company strives at managing all the risks that might critically influence activity goals and its success, independent of their probability. Residual risk correspondence to risk tolerance, occurrence of new risks, and relevance of introduction of risk management means that risk management plan is revised once per quarter.

The Company's risk manager develops risk management system and coordinates risk management process. The owner or manager of activity process or division, the results of which can be negatively influenced by the risks, is responsible for setting the measures, their influence analysis and assessment with respect to activity functions (process) as well as drafting and implementing schedule of risk management measures.

#### Risk management and control model

For the management and control of risks encountered during its performance, the Company applies the principle of "three lines of defence" in order to set clear sharing of responsibilities, risk management and control between management and supervisory bodies of the Company, and structural divisions or functions.

Risk management and control model scheme



“The First line of defence” is represented by employees and managers of the Company (that are not named under the 2nd and 3rd lines of defence), those who perform activity functions attributed to their competence and (or) who ensure pursuance of performance functions according to their supposed/set requirements, i.e. employees and managers making transactions and (or) pursuing main activities of the Company and organising management and ancillary functions (that do not belong to the 2nd and 3rd line of defence). Managers and employees of functions/divisions, who belong to the 1st line of defence, pursue activities within the limits of their competence in order to reach set goals, undertake risks concerned with relevant activity/function, and are responsible for repression of these risks as well as implementation of internal control elements to processes under their responsibility.

“The Second line of defence” is represented by risk management, compliance with legislation, financial control and prevention and safety functions/divisions:

- A person, responsible for risks management, is responsible for the creation of appropriate risk management and control systems, organisation of risk management process and risk management control;
- Law department ensures that the Company's directors and workers decisions comply with regulatory requirements;
- Financial control division ensures proper control of financial resources;
- Prevention division is responsible for organisation and control of risk prevention management measures concerned with risk of abuse and natural and informational safety of the property.

The Board of the Company is responsible for relevant management and control of risks covered by the 1st and 2nd lines of defence.

“The Third line of defence” is represented by internal audit division of the Company and an external audit company. Employees of internal audit division assess risk management and internal control efficiency and efficacy, submit recommendations for risks management and control improvement. External audit enterprise hired by the Company submits its findings about correctness of the Company's financial accountability and risk management and control efficacy no less than once per year.

The Director of internal audit division of the Company is accountable to the Supervisory Board and regularly provides information about the risk management and internal control efficiency to the Board of the Company, the Supervisory Board and (or) audit committee established by the Supervisory Board of “Lietuvos energija” UAB.

The Company's risk manager regularly submits summarized information on risk management and control questions to director of Risks and processes management in “Lietuvos energija” UAB.

According to its set competence, the Supervisory Board of the Company executes supervision on risk management and control efficiency covering all three lines of defence.

Risk management of the Company is based on unified principles inherent to international practice and applied by all companies of “Lietuvos energija” UAB Group.

### **Risks in the Company’s Activity and Management Thereof**

The main types of risks which the Company encounters while carrying out its activity are as follows:

- strategic risk;
- electric energy supply malfunctioning risk;
- operational risk;
- legal compliance risk;
- reputational risk;
- financial risks: market risk (interest rate, foreign exchange rate and market products risk), credit risk and liquidity risk.

### **Strategic Risk Management**

Strategic risk occurs as a result of unfavourable or false decisions, improper implementation of decisions or due to insufficient response with respect to policy, standard legislation or energy sector changes. Occurrence of such risk is determined by macroeconomic and political factors.

Important factor of macroeconomic risk is the price of electricity production (or import) in the market. This price directly influences the cost of electricity. The cost of public supply is controlled and fixed irrespective of the cost of electricity existing on the market at the time.

The Company’s income and profit from transmission and supply are directly dependent on the electricity transmission/consumption scopes. Macroeconomic situation of the country has direct influence on energy selling trends, connection of new consumers and solvency of the clients. The Company manages this risk by conservative planning of electricity consumption and sales income.

When operating and expanding the distribution network LESTO buys equipment and materials the prices whereof depend on the market trends. The costs of LESTO network operation and investments to the grid, which have an impact on the LESTO financial results, are dependent on the prices of said goods. In order to optimise investments and costs for network operation and development the Company applies the investment rating method based on objective criteria compliant with the Company’s priorities subject to the electricity distribution network operation and development.

Political risk factors are also taken into account. Electricity distribution and supply procedure is regulated by the Law on Electricity of the Republic of Lithuania. Amendments of said law and other related legal acts may affect the LESTO activity and results. The governmental policy regarding electricity prices is also significant. Service prices are controlled, price caps are set and controlled by the National Control Commission For Prices and Energy. Results of the LESTO activity depend on said decisions. In order to mitigate the effect of said risk on business results the Company analyses international practice of energy company control and, if necessary, presents proposals to national legislative drafting bodies.

### **Management of Electric Energy Supply Malfunctioning Risk**

One of the main factors, which characterise performance of distribution network operator, is reliability of electricity distribution, assessed according to duration and frequency of disconnections related to the consumers (English abbreviation – SAIDI, SAIFI). By the reason of incalculable external factors, such as natural disasters, the risk that reliable electricity supply may not be secured and LESTO will not receive its scheduled income and elimination of certain failures will increase exploitation costs exists. The Company has developed comprehensive emergency response procedures with respect to the management of said risk. Also for increasing reliability and quality of supplied electricity, LESTO plans to allocate major part of investments to renovation of distribution networks, reconstruction of electrical transformer substations and installation of new, long-term and modern electrical equipment compliant with the quality standards; it also searches for technological decisions that shall ensure continuous control of operating distribution network condition, prompt failure elimination and prevent electricity supply malfunctions.



When distributing electricity, the grid is subjected to electricity losses. These losses depends on technical characteristics of the distribution network, its optimal usage, and risks concerned with risks depending on management of any other loss occurring within electricity network. The Company's management pays high attention to the management of the loss occurring in the network: it has established constantly acting electricity network loss management commission, which discusses the measures of minimizing the loss of electricity network and structures short-time and long-time schedules for minimizing the loss. In 30 June, 2014 technological losses amounted to 6.9 % from amount of electricity received (in 30 June, 2013 – 7.0 %).

### Operational Risk Management

The business/operational risk is the risk related to increase of loss and (or) loss of prestige and (or) reduction of responsibility, which might be influenced by external environmental factors (for example, natural disasters, main suppliers' operational occurrences, criminal actions of third persons, etc.), or internal factors (for example, inefficient procedures and management, inefficient use of funds, including purchases (public and other), inefficient and inadequate management information system, lack of internal control, improper assignment of functions or responsibilities, improper personnel selection and motivation system, etc.).

In order to manage this risk, the managers of the Company strive at the implementation of relevant organisational measures, procedures and information systems supporting business processes that, as a whole, ensure functioning of relevant internal control systems. The main internal control elements applied by the Company are as follows: comparing data on performed operations in the primary systems with operation data in the accounting system, separation of business decision making and controlling functions, operation performance and accounting control procedures, limits of authorizations to make decisions and control thereof, "four-eyes" principles, adoption of collegial decisions subject to fundamental business processes, etc.

### Legal Compliance Risk Management

Legal compliance risk is the risk related to increase of losses and (or) loss of prestige and (or) reduction of trust, which might be influenced by external environmental factors (for example, external legislation violations, non-compliance with requirements of supervisory institutions, cases of abuse of third parties, non-compliance with contractual liabilities concerning third parties, etc.) or internal factors (for example, internal legislation violations or violations of ethical standards, abuse cases of the employees, etc.).

Legal and Administration Department is responsible for the legal compliance risk management. In order to mitigate the legal compliance risk the Company's lawyers participate in the processes of decision making, preparation of internal regulations and contract drafting jointly with the Company's management.

### Reputational Risk Management

The Company seeks the highest reputational standards by carrying out the function of the electricity distributor, public and guarantee electricity supplier. This objective is reflected by the mission, vision, strategic goals and values of the Company. Managers of the Company pay high attention to process of communicating the mission, vision and strategic goals of the Company to its employees. Moreover, the Company executes social projects, embedding image of a socially responsible Company.

### Financial Risk Management

**Credit risk** is risk of losses that clients and (or) other parts will not be able to fulfill their commitments to the Company. The credit risk comprises from terminated and un-terminated funds in banks, investments in debt securities and derivative financial instruments balance value and customers obligation to pay for the used energy.

The Company does not have significant credit risk because a large number of consumers determines a small concentration of credit risk.

The underlying goal of investments is to secure the safety of funds and, in accordance with this objective, to maximize the

return on investments. Credit risk arising from the inability of electricity consumers to pay for the electricity in time is managed by the Company's established debt management procedures.

The Company does not guarantees for obligations of other parties.

**Market risk** is loss or loss of future net income risk due to changes of interest rates, foreign exchange rates, shares or market products' prices.

*Interest rate risk*

The Group's and the Company's revenues and cash flows from operating activities are not significantly dependent on interest rates changes in the market. All the Group's borrowings have a variable interest rate linked with EURIBOR, EUR LIBOR and VILIBOR indices. The Group and the Company manages interest rate risk by using interest rate derivative risk management instruments.

*Foreign currency exchange risk*

All the Group's and the Company's monetary assets and liabilities are denominated in litas or euro. Euro exchange rate is fixed, so the foreign exchange risk in principle does not exist. There is only the risk of the national currency devaluation, which depends on the country's macro-economic condition and is currently very low.

**Internal control system**

On 27 August, 2013 the Supervisory Board of the company "Lietuvos energija" UAB formed an Audit committee which activities include examination and submitting proposals on issues delegated to the committee and questions on which the Supervisory Board appeals to the committee. The activities of the Audit committee are subject to the company "Lietuvos energija" UAB and its directly and indirectly controlled subsidiaries, including LESTO, and other forms directly and indirectly controlled legal persons.

The main functions of Audit Committee:

- to observe Company's and their subsidiaries procedures of financial reporting;
- to observe Company's and their subsidiaries inner control and risk management system effectiveness, to perform these systems demand and relevance analysis and review;
- to observe how certified auditor and audit company follow independence and objectiveness principles, to provide recommendations;
- to observe Company's and their subsidiaries audit processes, to evaluated audit effectiveness and administration reaction to recommendations which are presented to the leadership;
- to observe Company's and their subsidiaries inner audit function' effectiveness, to analyse those function demand and relevance, to provide recommendations for those questions like internal audit need, effectiveness and other, to initiate actions if needed.

LESTO has and Internal Audit Division established. The responsibility of this division includes independent, objective research, evaluation and consultancy work in order to create added value for the Company and help to achieve the Company's objectives.

In 2014 members of the Audit committee of the company "Lietuvos energija", UAB has not changed.

Members of the Audit committee of the company "Lietuvos energija" UAB at the end of the reporting period:

Name, surname	Capital held of the Issuer (%)	Term	Workplace
Rasa Noreikienė (chairwoman)	0	2013 August – 2017 August	Ministry of Economy of the Republic of Lithuania
Aušra Vičkačkienė	0	2013 August – 2017 August	Property Management department of the Ministry of Finance
Danielius Merkinas (independent member)	0	2013 August – 2017 August	UAB „Nordnet“
Gintaras Adžgauskas	0	2013 August – 2017 August	World Energy Council Lithuanian committee

## ESSENTIAL EVENTS

In implementing its duties according to the binding legislation that regulates the securities market, LESTO announces material events (as well as all further regulated information) for the whole of the European Union. Information published by the Company is available on its website [www.lesto.lt](http://www.lesto.lt) and the website of NASDAQ OMX Vilnius AB at [www.nasdaqomxbaltic.com](http://www.nasdaqomxbaltic.com).

### LESTO essential events from 2014-01-01:

Date	Essential event
17-01-2014	Regarding the group strategy approved by the AB LESTO shareholder
28-02-2014	Due to preliminary unaudited operating results of LESTO AB company group for twelve months of 2013
12-03-2014	Regarding of the Ordinary General Meeting of Shareholders of LESTO AB
14-03-2014	Regarding resolution of LESTO AB Supervisory Board
31-03-2014	Regarding the Transfer of Shares of UAB Duomenų logistikos centras
04-04-2014	Decisions adopted in Ordinary General Meeting of Shareholders of LESTO AB on 4 April 2014
04-04-2014	Annual information of LESTO AB company group of 2013
04-04-2014	Due to operating results of LESTO AB company group of 2013
24-04-2014	Regarding public announced information
21-05-2014	Regarding the purchase of LESTO shares
22-05-2014	Regarding the acquisition price of LESTO shares
27-05-2014	AB LESTO Social responsibility report of 2013
30-05-2014	Due to preliminary unaudited operating results of LESTO AB company group for three months of 2014
02-06-2014	Regarding of the Extraordinary General Meeting of Shareholders of LESTO AB
03-06-2014	Regarding LESTO AB presentation to investors
04-06-2014	Regarding statement by Mr A. Bendikas during NASDAQ OMX event
12-06-2014	Regarding the change of LESTO AB securities account manager
25-06-2014	Decision adopted in Extraordinary General Meeting of Shareholders of LESTO AB on 25 June 2014
11-07-2014	Regarding signature of UAB Technologijų ir inovacijų centras shares and changes of authorized capital
22-07-2014	Regarding the establishment of the jointly owned company
20-08-2014	LESTO Plans to Improve Network Reliability, Considerably Accelerate New Customer Grid-Connection

**LESTO AB**  
**COMPANY'S CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE FIRST HALF OF 2014 PREPARED ACCORDING TO**  
**INTERNATIONAL ACCOUNTING STANDARD 34, 'INTERIM FINANCIAL**  
**REPORTING' AS ADOPTED BY THE EUROPEAN UNION, PRESENTED**  
**TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**

**Translation note:**

*This version of the accompanying documents has been prepared in Lithuanian and English languages. In all matters of interpretation of information, views or opinions, the Lithuanian language version of the accompanying documents takes precedence over the English language version.*

<b>TABLE OF CONTENTS</b>	Pages
INDEPENDENT AUDITOR'S REPORT .....	3 – 4
<b>COMPANY'S CONDENSED FINANCIAL STATEMENTS</b>	
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION .....	5
CONDENSED INCOME STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME .....	6
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY .....	7
CONDENSED INTERIM STATEMENT OF CASH FLOWS .....	8
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS .....	9 – 17



*Our report has been prepared in Lithuanian and English languages. In all matters of interpretation of information, views or opinions, the Lithuanian language version of our report takes precedence over the English language version.*

## **Independent Auditor's Report**

To the shareholders of LESTO AB

### **Report on the condensed interim financial statements**

We have audited the accompanying stand-alone condensed interim financial statements of LESTO AB ("the Company") set out on pages 5 to 17, which comprise the stand-alone condensed interim statement of financial position as of 30 June 2014 and the stand-alone condensed interim statements of profit or loss and comprehensive income for the three-month and six-month periods then ended, the stand-alone condensed interim statements of changes in equity and cash flows for the six month period then ended, and condensed notes comprising a summary of significant accounting policies and other explanatory information ("the condensed interim financial statements").

#### *Management's responsibility for the condensed interim financial statements*

Management is responsible for the preparation and fair presentation of this condensed interim financial statements in accordance with International Accounting Standard 34, 'Interim financial reporting' as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of condensed interim financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on this condensed interim financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the condensed interim financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the condensed interim financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the condensed interim financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the condensed interim financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the condensed interim financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

---

*PricewaterhouseCoopers UAB, J. Jasinskio g. 16B, LT-03163 Vilnius, Lithuania  
T: +370 (5) 239 2300, F: +370 (5) 239 2301, Email: [vilnius@lt.pwc.com](mailto:vilnius@lt.pwc.com), [www.pwc.com/lt](http://www.pwc.com/lt)*

PricewaterhouseCoopers UAB, company code 111473315, is a private company registered with the Lithuanian Register of Legal Entities.



*Basis for Qualified Opinion*

According to the Company's accounting policy, property, plant and equipment should be carried at revalued amounts (being their fair values as of the date of revaluation less subsequent accumulated depreciation and impairment losses) and are subject to an impairment test when impairment indicators exist. As explained in Note 5 to the condensed interim financial statements, amendments to the legislation may have had a significant adverse impact on the fair value and recoverable amount of the Company's assets. The management has not reassessed fair values of property, plant and equipment with the carrying amounts of LTL 4,444 million in the Company as of 30 June 2014 (LTL 4,499 million in the Company as of 31 December 2013), or carried out a proper impairment test. It has not been possible to estimate reliably the effects of this non-compliance on the condensed interim financial statements.

*Qualified opinion*

In our opinion, except for the effect of the matter described in the *Basis for Qualified Opinion* paragraph, the condensed interim financial statements are prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim financial reporting' as adopted by the European Union.

On behalf of PricewaterhouseCoopers UAB

A handwritten signature in blue ink, appearing to read 'Rimvydas Jogėla', is written over a large, faint circular stamp or watermark.

Rimvydas Jogėla  
Partner  
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania  
22 August 2014

## CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Notes	COMPANY	
		At 30 June 2014	At 31 December 2013
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	4 444 431	4 499 476
Intangible assets		8 337	9 265
Prepayments for property, plant and equipment		4 560	118
Investments in subsidiaries		203 652	203 652
Investments in associates		2	19 084
Non-current amounts receivable		1 840	1 939
		<b>4 662 822</b>	<b>4 733 534</b>
<b>Current assets</b>			
Inventories		5 385	6 671
Trade and other receivables	6	192 466	196 726
Prepayments, deferred charges and accrued income		22 843	21 824
Cash and cash equivalents	7	12 131	8 050
		<b>232 825</b>	<b>233 271</b>
<b>Total assets</b>		<b>4 895 647</b>	<b>4 966 805</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Authorised share capital		603 945	603 945
Revaluation reserve		1 360 834	1 437 765
Legal reserve		60 394	60 394
Retained earnings		1 165 680	1 152 766
<b>Total equity</b>		<b>3 190 853</b>	<b>3 254 870</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	10	361 438	299 065
Deferred income tax liability		319 197	330 955
Deferred income		296 406	303 942
Grants and subsidies		53 903	48 468
Non-current employee benefits		4 512	4 342
Other non-current liabilities		305	128
		<b>1 035 761</b>	<b>986 900</b>
<b>Current liabilities</b>			
Borrowings	10	339 482	315 763
Trade and other payables		241 243	331 958
Advance amounts received, accrued charges and deferred income		79 485	70 771
Income tax payable		8 823	6 543
		<b>669 033</b>	<b>725 035</b>
<b>Total liabilities</b>		<b>1 704 794</b>	<b>1 711 935</b>
<b>Total equity and liabilities</b>		<b>4 895 647</b>	<b>4 966 805</b>

The notes on pages 9 to 17 are an integral part these condensed interim financial statements.

The condensed interim financial statements set out on pages 5 to 17 were approved by LESTO AB Chief Executive Officer, Director of Finance and Administration Service and Director of Accounting Department on 22 August 2014.

Chief Executive Officer

Aidas Ignatavičius

Director of Finance and  
Administration Service

Andrius Bendikas

Director of Accounting  
Department

Zina Chmieliauskienė



## CONDENSED INCOME STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	COMPANY			
	1H 2014	2Q 2014	1H 2013	2Q 2013
Revenue	1 119 470	519 609	1 206 616	565 590
Purchase of electricity	( 740 056)	( 343 988)	( 843 652)	( 385 722)
Depreciation and amortisation	( 169 285)	( 85 500)	( 196 314)	( 96 509)
Employee benefits and related social security contributions	( 64 291)	( 31 576)	( 64 807)	( 31 934)
Repair and maintenance expenses	( 41 037)	( 23 764)	( 34 247)	( 21 000)
Transportation expenses	( 7 571)	( 3 738)	( 7 033)	( 3 583)
Telecommunications and IT services	( 10 883)	( 5 677)	( 10 604)	( 5 289)
Rent and utility services	( 4 771)	( 2 247)	( 4 961)	( 2 339)
Result of valuation of property, plant and equipment and other assets	-	-	4 264	-
Other expenses	( 18 660)	( 9 613)	( 21 082)	( 10 416)
<b>Operating profit/(loss)</b>	<b>62 916</b>	<b>13 506</b>	<b>28 180</b>	<b>8 798</b>
Finance income	713	407	2 277	1 242
Finance costs	( 3 890)	( 2 124)	( 3 630)	( 2 254)
<b>Finance costs – net</b>	<b>( 3 177)</b>	<b>( 1 717)</b>	<b>( 1 353)</b>	<b>( 1 012)</b>
<b>Profit/(loss) before tax</b>	<b>59 739</b>	<b>11 789</b>	<b>26 827</b>	<b>7 786</b>
Income tax	( 9 006)	( 1 738)	( 3 301)	( 1 209)
<b>Profit/(loss) for the period</b>	<b>50 733</b>	<b>10 051</b>	<b>23 526</b>	<b>6 577</b>
<b>Total comprehensive income/(loss) for the period</b>	<b>50 733</b>	<b>10 051</b>	<b>23 526</b>	<b>6 577</b>
Basic and diluted earnings/(deficit) per share attributable to owners of the Company (in LTL)	0.084	0.017	0.039	0.011

The notes on pages 9 to 17 are an integral part of these condensed interim financial statements

## CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

COMPANY	Notes	Authorised share capital	Revaluation reserve	Legal reserve	Retained earnings	Total equity
<b>Balance at 1 January 2013</b>		603 945	1 605 245	60 394	1 044 584	3 314 168
<b>Comprehensive income</b>						
Profit/(loss) for the period		-	-	-	23 526	23 526
<i>Other comprehensive income/(expenses)</i>						
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(89 610)	-	89 610	-
<b>Total comprehensive income for the period</b>		-	( 89 610)	-	113 136	23 526
<b>Transactions with owners</b>		-	-	-	-	-
Dividends relating to 2012		-	-	-	( 102 670)	( 102 670)
<b>Total transactions with owners</b>		-	-	-	( 102 670)	( 102 670)
<b>Balance at 30 June 2013</b>		603 945	1 515 635	60 394	1 055 050	3 235 024
<b>Balance at 1 January 2014</b>		603 945	1 437 765	60 394	1 152 766	3 254 870
<b>Comprehensive income</b>						
Profit/(loss) for the period		-	-	-	50 733	50 733
<i>Other comprehensive income/(expenses)</i>						
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(76 931)	-	76 931	-
<b>Total comprehensive income for the period</b>		-	( 76 931)	-	127 664	50 733
<b>Transactions with owners</b>						
Dividends relating to 2013	8	-	-	-	( 114 750)	( 114 750)
<b>Total transactions with owners</b>		-	-	-	( 114 750)	( 114 750)
<b>Balance at 30 June 2014</b>		603 945	1 360 834	60 394	1 165 680	3 190 853

The notes on pages 9 to 17 are an integral part these condensed interim financial statements

## CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Notes	COMPANY	
		1H 2014	1H 2013
<b>Cash flows from operating activities</b>			
Profit/(loss) for the period		50 733	23 526
<b>Adjustments for:</b>			
Income tax expense/(income)		9 006	3 301
Depreciation and amortisation		170 792	197 807
Result of valuation of assets		-	(4 264)
Amortisation of grants		(1 507)	(1 493)
Gain/(loss) on disposal and write-off of property, plant and equipment		5 667	6 378
Dividend income		(171)	-
Finance (income)		(542)	(2 277)
Finance costs		3 890	3 630
<b>Changes in working capital:</b>			
Trade and other receivables		23 246	(1 814)
Inventories, prepayments, deferred charges and accrued income		272	480
Trade and other payables, advance amounts received, accrued charges and deferred income		(63 247)	(25 449)
<b>Cash generated from operating activities</b>		<b>198 139</b>	<b>199 825</b>
Income tax paid		(18 484)	(14 405)
<b>Net cash generated from operating activities</b>		<b>179 655</b>	<b>185 420</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(146 547)	(134 109)
Acquisition of subsidiary and/or associate		(4 444)	(1 273)
Proceeds from sale of property, plant and equipment		150	37
Grants received		6 942	3 416
Loans repayments received		196	202
Dividends received		171	-
Interest received		184	949
<b>Net cash used in investing activities</b>		<b>(143 348)</b>	<b>(130 778)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		147 269	128 265
Repayments of borrowings		(27 925)	(94 956)
Dividends paid to the Company's shareholders		(114 429)	(102 316)
Interest paid		(3 889)	(3 664)
<b>Net cash generated from/(used in) financing activities</b>		<b>1 026</b>	<b>(72 671)</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>37 333</b>	<b>(18 029)</b>
Cash and cash equivalents at beginning of the period	7	(61 959)	(51 920)
<b>Cash and cash equivalents at the end of the period</b>	7	<b>(24 626)</b>	<b>(69 949)</b>

The notes on pages 9 to 17 are an integral part of these condensed interim financial statements

## NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 1. General information

#### *Information about the Company*

LESTO AB (hereinafter "the Company") is a public limited liability company registered in the Republic of Lithuania. The Company was registered with the Register of Legal Entities on 27 December 2010. The Company started its activities with effect from 1 January 2011. The shares of the Company have been listed on the main list of NASDAQ OMX Vilnius Stock Exchange since 17 January 2011. The address of its head office is:

Žvejų g. 14,  
 LT-09310 Vilnius,  
 Lithuania.

The Company was established following the reorganisation of Rytų Skirstomieji Tinklai AB (RST) and VST AB (VST) by way of merger. Under the terms and conditions of the reorganisation approved by the decisions of the extraordinary general meetings of shareholders of RST and VST dated 13 December 2010, a transfer-acceptance statement was signed on 31 December 2010, on the basis of which the Company took over all the assets, rights and obligations of RST and VST. The moment of the take-over of assets, rights and obligations by the Company was 1 January 2011, 00:00 am.

The Company's core lines of business include electricity supply and distribution. The Company operates a medium and low voltage electricity distribution network and it is a sole provider of electricity distribution services to consumers across the entire territory of Lithuania.

On 11 October 2013, the National Control Commission for Prices and Energy established the price caps for electricity distribution services for the year 2014 as follows:

- electricity distribution services via medium voltage network – 4.479 ct/kWh or 1.30 euro cents/kWh (2013: 4.747 ct/kWh or 1.37 euro cents/kWh; 2012: 4.88 ct/kWh or 1.41 euro cents/kWh);
- electricity distribution services via low voltage network – 6.162 ct/kWh or 1.78 euro cents/kWh (2013: 6.219 ct/kWh or 1.80 euro cents/kWh; 2012: 6.41 ct/kWh or 1.86 euro cents/kWh).

On 11 October 2013, the National Control Commission for Prices and Energy established the price cap of 0.52 ct/kWh or 0.15 euro cents/kWh for public electricity supply services for the year 2014 (2013: 0.49 ct/kWh or 0.14 euro cents/kWh; 2012: 0.44 ct/kWh or 0.13 euro cents/kWh).

On 22 November 2013, the National Control Commission for Prices and Energy established the price cap of 31.616 ct/kWh (excl. VAT) to private consumers who receive electricity via medium voltage network (2013: 34.104 ct/kWh (excl. VAT); 2012: 31.24 ct/kWh (excl. VAT)), and the price cap of 37.778 ct/kWh (excl. VAT) to private consumers who receive electricity via low voltage network (2013: 40.323 ct/kWh (excl. VAT); 2012: 37.65 ct/kWh (excl. VAT)) for the year 2014.

The Company's activities are regulated by the Lithuanian Law on Energy, Lithuanian Law on Electricity and other regulatory legislation.

The shareholders' structure of the Company was as follows:

	At 30 June 2014		At 31 December 2013	
	Number of shares held	Ownership Interest	Number of shares held	Ownership Interest
Lietuvos Energija UAB (known as Visagino Atominė Elektrinė UAB until 30 August 2013)	570 066 682	94.39 %	499 026 209	82.63 %
E.ON Ruhrgas International GmbH (Germany)	-	-	71 040 473	11.76 %
Other shareholders	33 877 911	5.61 %	33 877 911	5.61 %
<b>Total</b>	<b>603 944 593</b>	<b>100 %</b>	<b>603 944 593</b>	<b>100 %</b>

On 21 May 2014, Lietuvos Energija UAB and E.ON Ruhrgas International GmbH signed the agreement on the purchase-sale of the Company's shares, based on which Lietuvos Energija UAB acquired from E.ON Ruhrgas International GmbH 71 040 473 shares of the Company representing 11.76 % of the Company's authorised share capital. Following this transaction, Lietuvos Energija UAB holds 94.39 % of the Company's shares.

As at 30 June 2014, Lietuvos Energija UAB was the parent of the Company. Lietuvos Energija UAB is wholly owned by the Lithuanian Government represented by the Lithuanian Ministry of Finance.

All shares of the Company with the nominal value of LTL 1 each are ordinary shares and they have been fully paid as at 30 June 2014 and 31 December 2013. The Company does not hold any shares other than those mentioned above, and its Articles of Association do not provide for any restrictions on shares or special control rights of shareholders. The Company and its subsidiaries do not hold own shares.

The Company's subsidiaries and associates are listed below:

Subsidiary or associate	Country	Year of acquisition	The Group's ownership interest (%)		Profile of activities
			At 30 June 2014	At 31 December 2013	
ELEKTROS PASLAUGOS UAB	TINKLO Lithuania	2004	100 %	100 %	Construction, reconstruction, repair and maintenance of electricity facilities
NT Valdos UAB	Lithuania	2010	57.30 %	57.30 %	Real estate management services
Duomenų Logistikos Centras UAB (known as Technologijų ir Inovacijų Centras UAB until 4 November 2013)	Lithuania	2010	-	24.94 %	Provision of data transmission and data centres lease services
Respublikinis Energetikų Mokymo Centras VŠĮ (wholly owned by Duomenų Logistikos Centras UAB)	Lithuania	2010	-	24.94 %	Training services
Technologijų ir Inovacijų Centras UAB	Lithuania	2013	20 %	20 %	Provision of information technology maintenance services to energy companies

On 30 March 2014, the Company and Lietuvos Energija UAB signed the agreement on the purchase-sale of shares, based on which the Company's ownership interest in Duomenų Logistikos Centras UAB, representing 24.94 % of the authorised share capital of Duomenų Logistikos Centras UAB, was transferred by the Company to Lietuvos Energija UAB.

During the General Meeting of Shareholders of Technologijų ir Inovacijų Centras UAB held on 25 October 2013, the decision was made to rename Technologijų ir Inovacijų Centras UAB into Duomenų Logistikos Centras UAB. With effect from 4 November 2013, Technologijų ir Inovacijų Centras UAB was renamed into Duomenų Logistikos Centras UAB.

As at 30 June 2014, the Company had 2 362 (31 December 2013: 2 420) employees.

## 2. Basis of preparation

The Company's condensed interim financial statements for the first half of 2014 has been prepared in accordance International Accounting Standard 34, 'Interim financial reporting' as adopted by the European Union in order to inform shareholders.

The Company has also prepared the consolidated condensed interim financial information for the period ended 30 June 2014. This consolidated condensed interim financial information will not be audited and will be published in the half-year report.

The Company's condensed interim financial statements for the first half of 2014 should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with the consolidated condensed interim financial information (unaudited) for the six-month period ended 30 June 2014.

### **3. Accounting policies**

Except as described below, all the accounting policies applied in the preparation of this condensed interim financial statements are consistent with those of the annual financial statements for the year ended 31 December 2013.

#### Income tax

Income tax in the interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

#### New and amended standards, and interpretations

There are no new standards, amendments and interpretations that are mandatory for the Company with effect from 2014, and that would have a material impact on the Company's financial information.

The Company's management do not believe the newly published standards, amendments and interpretations that are mandatory for the Company's reporting periods beginning on or after 1 January 2015 will have a material impact on the Company's financial statements.

### **4. Critical accounting estimates**

The preparation of the condensed interim financial statements requires management to make estimates and use assumptions that affect the accounting policies applied and reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

The significant management judgements regarding the application of the accounting policies and the main sources for determining uncertainties used in the preparation of this condensed interim financial statements are consistent with those of the annual financial statements for the year ended 31 December 2013.

## 5. Property, plant and equipment

COMPANY	Land	Buildings	Structures and machinery	Motor vehicles	Other property, plant and equipment	Construction in progress	Total
<b>6 month period ended 30 June 2013</b>	<b>273</b>	<b>254 254</b>	<b>4 197 509</b>	<b>30</b>	<b>75 107</b>	<b>58 364</b>	<b>4 585 537</b>
<b>Net book amount at 1 January 2013</b>							
Additions	-	19	462	-	2	110 793	111 276
Disposals	-	-	( 88)	-	-	-	( 88)
Change in impairment	-	-	( 25)	-	-	25	-
Write-offs	-	( 124)	( 6 193)	-	( 4)	( 3)	( 6 324)
Reclassifications between groups	-	1 717	117 303	-	3 571	( 122 562)	29
Depreciation charge	-	( 8 546)	( 179 907)	( 3)	( 7 898)	-	( 196 354)
<b>Net book amount at 30 June 2013</b>	<b>273</b>	<b>247 320</b>	<b>4 129 061</b>	<b>27</b>	<b>70 778</b>	<b>46 617</b>	<b>4 494 076</b>
<b>6 month period ended 30 June 2014</b>							
<b>Net book amount at 1 January 2014</b>	<b>273</b>	<b>241 243</b>	<b>4 142 034</b>	<b>23</b>	<b>65 628</b>	<b>50 275</b>	<b>4 499 476</b>
Additions	-	357	496	-	-	119 355	120 208
Disposals	-	( 100)	( 103)	-	-	-	( 203)
Change in impairment	-	-	( 6)	-	-	6	-
Write-offs	-	( 190)	( 5 417)	-	( 6)	( 8)	( 5 621)
Reclassifications between groups	-	2 474	112 372	-	1 206	( 116 052)	-
Depreciation charge	-	( 9 194)	( 152 896)	( 2)	( 7 337)	-	( 169 429)
<b>Net book amount at 30 June 2014</b>	<b>273</b>	<b>234 590</b>	<b>4 096 480</b>	<b>21</b>	<b>59 491</b>	<b>53 576</b>	<b>4 444 431</b>

Additions under 'construction in progress' increased mainly as a result of connection of new customers to the distribution network.

Write-offs mainly represent write-offs of structures and electricity network equipment as a result of projects relating to the movement of large-size facilities when replacing old equipment with the new one.

### Revaluation and impairment of property, plant and equipment

The Company accounts for property, plant and equipment at a revalued amount in accordance with International Accounting Standard 16, 'Property, plant and equipment'. The revalued amount of the majority of items of property, plant and equipment due to their specific nature was measured using a depreciated replacement cost approach at 31 December 2008.

If the value of assets is measured based on a depreciated replacement cost method, International Valuation Standards require that an adequate economic obsolescence test is performed. Accounting standards require a periodical review of property, plant and equipment for impairment. When the carrying amount of property, plant and equipment stated in the statement of financial position is higher than its value in use or fair value, less selling expenses, the value of property, plant and equipment should be reduced. In other words, the value of property, plant and equipment recorded in the statement of financial position should be written down to the higher of: present value of future benefits expected from the use of assets or the value proceeds expected from disposal of assets.

The previous version of the Lithuanian Law on Electricity effective as at 31 December 2008 stipulated that the price caps of the electricity transmission, supply and distribution services were determined based on the value of assets used in the licensed activities of the service provider with values being established on the grounds of data reported in the service provider's financial statements (Regulated Assets Base).

According to the amendment effective from 1 June 2009, the Law now requires the price caps of the electricity transmission, supply and distribution services to be determined based on the value of assets used in licensed activities of the service provider with values being estimated and approved by the National Control Commission for Prices and Energy ("the Commission") in accordance with the principles of determination of the value of assets used in licensed activities of the service provider that have been drafted by the Commission and approved by the Government.

According to Resolution No. 1142 of the Government of the Republic of Lithuania on the Methodology for the Determination of the Value of Assets used in the Licensed Activities of the Electricity Service Provider, the determination of the price caps of the electricity transmission, supply and distribution services is to include the value of assets used in licensed activities of the service provider which is equal to net book value (carrying amount) of property, plant and equipment as at 31 December 2002 as increased by the amount of investments implemented and agreed with the Commission and reduced by the depreciation amount calculated pursuant to the procedure stipulated by the Lithuanian Law on Income Tax.

Due to the reasons specified above, the values of property, plant and equipment reported in these financial statements may materially differ from those that would be determined if the valuation of assets were performed by independent valuers as required by International Valuation and Accounting Standards. It is probable that such valuation would have a negative impact on the results of the Company's operations and the shareholders' equity reported in the financial statements for the year 2013 and the first half of 2014.

Based on the management's decision, the external independent valuers did not determine the fair values of property, plant and equipment as at 31 December 2013 and 30 June 2014 because of a significant reorganisation in the whole energy sector in 2010 and 2011, and due to uncertainties in 2012 and 2013 relating to the currently developed new model for the determination of prices of electricity and the term of its approval. The Company plans to perform the valuation of property, plant and equipment on 31 December 2014.

## 6. Trade and other receivables

	<b>COMPANY</b>	
	<b>At 30 June 2014</b>	<b>At 31 December 2013</b>
Trade receivables	185 468	219 318
Trade and other receivables from related parties (Note 11)	39 950	13 344
Current portion of mortgage loans	286	300
Other receivables	8 776	3 399
Less: impairment of doubtful receivables	( 42 014)	( 39 635)
<b>Total</b>	<b>192 466</b>	<b>196 726</b>

Movements on the Company's provision for impairment of trade and other receivables in the first half of 2014 and the year 2013 were as follows:

	<b>COMPANY</b>
<b>Balance at 1 January 2013</b>	<b>34 205</b>
Impairment provision for the half-year	4 390
Written off	(5 485)
<b>Balance at 30 June 2013</b>	<b>33 110</b>
Impairment provision for the half-year	7 088
Written off	(563)
<b>Balance at 31 December 2013</b>	<b>39 635</b>
Impairment provision for the half-year	3 284
Written off	(905)
<b>Balance at 30 June 2014</b>	<b>42 014</b>



## 7. Cash and cash equivalents

	<b>COMPANY</b>	
	<b>At 30 June 2014</b>	<b>At 31 December 2013</b>
Cash at bank	12 131	8 050
	<b>12 131</b>	<b>8 050</b>

Cash and cash equivalents include the following for the purpose of the cash flow statement:

	<b>COMPANY</b>	
	<b>At 30 June 2014</b>	<b>At 31 December 2013</b>
Cash and cash equivalents	12 131	8 050
Bank overdraft (Note 10)	( 36 757)	( 70 009)
	<b>( 24 626)</b>	<b>( 61 959)</b>

## 8. Dividends

During the Ordinary General Meeting of Shareholders held on 4 April 2014, the Company's shareholders made a decision to distribute the Company's profit (loss) and make an appropriation of LTL 114 750 thousand for the payment of dividends. Dividends per share amounted to LTL 0.19.

## 9. Trade and other payables

	<b>COMPANY</b>	
	<b>At 30 June 2014</b>	<b>At 31 December 2013</b>
Trade payables	84 372	137 014
Trade payables to subsidiaries (Note 11)	13 928	21 369
Trade payables to related parties (Note 11)	124 381	159 751
<b>Total trade payables</b>	<b>222 681</b>	<b>318 134</b>
Taxes (other than income tax)	2 948	1 042
Employment-related liabilities	5 908	3 396
Other current liabilities	9 706	9 386
<b>Total other amounts payable</b>	<b>18 562</b>	<b>13 824</b>
<b>Trade and other payables</b>	<b>241 243</b>	<b>331 958</b>

As at 30 June 2014, the Company's trade payables decreased due to decrease in amounts payable to electricity suppliers.

According to the management, the Company has a single operating segment, i.e. supply and distribution of electric power. The Company have a single geographical segment – Republic of Lithuania. The chief operating decision-maker monitors the results with reference to the financial reports that have been prepared using the same accounting policies as those used for the preparation of the financial statements in accordance with IFRS, i.e. information on profit or loss, including the reported amounts of income and expenses, assets and liabilities.

## 10. Borrowings

	COMPANY	
	At 30 June 2014	At 31 December 2013
<b>Non-current borrowings</b>		
Borrowings from banks	361 438	299 065
<b>Current borrowings</b>		
Bank overdraft	36 757	70 009
Borrowings from banks	302 725	245 754
	<b>339 482</b>	<b>315 763</b>
<b>Total borrowings</b>	<b>700 920</b>	<b>614 828</b>

The maturity of non-current borrowings was as follows:

	COMPANY	
	At 30 June 2014	At 31 December 2013
Within 1 to 2 years	55 850	55 850
Within 2 to 5 years	305 588	243 215
After 5 years	-	-
<b>Total</b>	<b>361 438</b>	<b>299 065</b>

### Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through adequate amounts of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Company's liquidity (total current assets / total amounts payable within one year and current liabilities) and quick ratios ((total current assets – inventories) / total amounts payable within one year and current liabilities) as at 30 June 2014 were 0.35 and 0.34, respectively (31 December 2013: 0.32 and 0.31, respectively). In order to minimise balances of cash in bank accounts, the Company is using credit lines. As at 30 June 2014, the Company's current liabilities exceeded its current assets by LTL 436 208 thousand (31 December 2013: LTL 491 764 thousand).

## 11. Related-party transactions

In 2014, Lietuvos Dujos AB, which is a part of Lietuvos Energija UAB group of companies, became a related party of the Company.

Transactions with related parties are presented below:

### **Sales of goods and services to:**

	COMPANY	
	From 1 January to 30 June	
	2014	2013
Subsidiaries	1 495	2 468
Associates	155	11
Companies of Lietuvos Energija UAB group (excluding LITGRID AB)	758	144
LITGRID AB group	78 108	55 151
<b>Total</b>	<b>80 516</b>	<b>57 774</b>

**Purchases of goods, services and property, plant and equipment from:**

	<b>COMPANY</b>	
	<b>From 1 January to 30 June</b>	
	<b>2014</b>	<b>2013</b>
Subsidiaries	32 240	35 791
Associates	11 399	13 997
Companies of Lietuvos Energija UAB group (excluding LITGRID AB)	232 506	189 835
LITGRID AB group	427 229	547 573
<b>Total</b>	<b>703 374</b>	<b>787 196</b>

In the first half of 2014 the number of the Company's key management personnel was 7, in the first half of 2013 - 8.

**Compensation of key management personnel**

	<b>COMPANY</b>	
	<b>From 1 January to 30 June</b>	
	<b>2014</b>	<b>2013</b>
Salaries and other short-term employee benefits	622	1 009
Termination benefits	-	104
<b>Total</b>	<b>622</b>	<b>1 113</b>

**Amounts receivable from related parties:**

	<b>COMPANY</b>	
	<b>At 30 June 2014</b>	<b>At 31 December 2013</b>
	Subsidiaries	138
Associates	4 442	45
Companies of Lietuvos Energija UAB group (excluding LITGRID AB)	19 257	29
LITGRID AB group	16 113	12 824
<b>Total</b>	<b>39 950</b>	<b>13 344</b>

**Amounts payable to related parties:**

	<b>COMPANY</b>	
	<b>At 30 June 2014</b>	<b>At 31 December 2013</b>
	Subsidiaries	13 928
Associates	2 388	4 142
Companies of Lietuvos Energija UAB group (excluding LITGRID AB)	37 626	31 663
LITGRID AB group	84 367	123 946
<b>Total</b>	<b>138 309</b>	<b>181 120</b>

**12. Fair value measurement**

There were no significant changes in the business and economic environment in the first half of 2014 that could affect the fair value of the Company's financial assets and financial liabilities.

### 13. Commitments and contingencies

#### Buyout of electricity equipment

According to Order No 4-450 of 3 December 2003 of the Lithuanian Minister of Economy, as amended by Order No 4-72 of 15 February 2005 and subsequent related Resolution No 1257 of 31 August 2010 of the Lithuanian Government, Order No 1281 of 9 December 2009 of the Lithuanian Minister of Energy and Resolution No 1281 of 5 December 2007 of the Lithuanian Government, the Company conducted the buyout from individuals and companies electricity distribution equipment jointly used by them and the Company. The Company was able to buy out such equipment in one of the following ways: either by transferring its newly issued shares to the owners of the equipment, the issue price of which should be paid by way of in-kind contributions (i.e. electricity equipment under common use), or by signing agreements on sale-purchase of electricity equipment under common use (monetary contributions).

In the first half of 2014, the Company continued the simplified procedure of buyout of electricity objects (electricity networks) installed for common use using the funds of homestead owners, if the requests for buyout were submitted before 1 July 2011. During the period from January to June 2014, 4 electricity networks of common use for the value of LTL 203 thousand (2013: 19 electricity networks for the value of LTL 737 thousand) were bought out. Since the beginning of the buyout until 30 June 2014, 938 electricity networks of common use of homestead cooperatives for the value of LTL 11 824 thousand were bought out. As at 30 June 2014, 16 applications with the requests to buyout equipment on concessionary terms remained submitted.

#### Capital expenditure commitments

As at 30 June 2014, the Company's capital expenditure commitments assumed under the contracts but not accounted for in the condensed interim financial information amounted to LTL 74 514 thousand (31 December 2013: LTL 46 050 thousand).

### 14. Events after the end of the reporting period

On 10 July 2014, the authorised share capital of Technologijų ir Inovacijų Centras UAB was increased from LTL 10 000 to LTL 20 000 000. During the increase of the authorised share capital of Technologijų ir Inovacijų Centras UAB, the Company paid for 4 442 222 newly issued ordinary registered shares by making a monetary contribution. Following the increase of the authorised share capital of Technologijų ir Inovacijų Centras UAB, the Company's ownership interest in Technologijų ir Inovacijų Centras UAB increased from 20 % to 22.22 %.

On 21 July 2014, the Company together with Lietuvos Energija UAB, Lietuvos Energijos Gamyba AB, LITGAS UAB and Technologijų ir Inovacijų Centras UAB signed the agreement on the establishment of a joint venture Verslo Aptarnavimo Centras UAB. One of the main objectives of the newly established entity is to enhance and create additional value in the energy sector by providing services of public procurement organisation and implementation, accounting and personnel administration to the state-owned energy companies. The authorised share capital of the private limited liability company being established amounts to LTL 100 000. Lietuvos Energija UAB, the Company, Lietuvos Energijos Gamyba AB, LITGAS UAB and Technologijų ir Inovacijų Centras UAB hold 50 %, 20 %, 20 %, 5 % and 5 %, respectively, of the share capital of the private limited liability company being established.