

Information to investors regarding disputes with the regulator

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Strategic goals of the Company

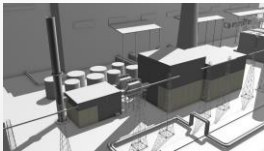
Increase in value



Provision of quality services



Increase in operating efficiency



Optimum, qualified team and safe environment

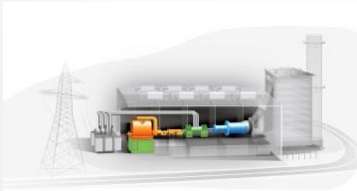


Goals of the regulated activity

Goal: **reduction in the need for PIS funds** and incurred costs



Chosen direction: **efficient activity** and purpose-oriented investments



Goal: **reduction in the need for PIS funds** to cover costs



Valstybinė
kainų ir
energetikos
kontrolės
komisija

Chosen direction: **non-recognition of expenses** / reduction at the cost of other activities

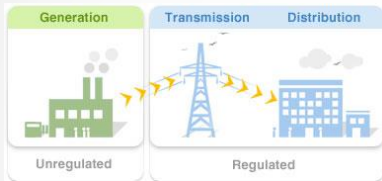


Dispute No. 1

Market research

Context

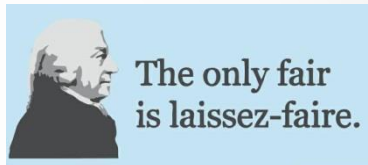
Goal of the third energy package – clear unbundling of activities



Since 2010 moving towards the free market improvement



Operating on the free electricity market



Anticipated role of the regulator – competition promotion



The course of the Dispute on the Electricity Market Research

13-05-2013

Launching of the market research

15-04-2014

The NCC prepares a draft decision

30-05-2014

The Company comments on the draft decision

07-08-2014

The NCC adopts the decision

03-09-2014

The Company appeals against the decision in court

23-09-2014

The court accepts the appeal and applies claim securing measure (suspends validity of the decision)

29-09-2014

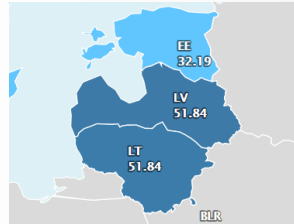
The NCC appeals against the court decision on the claim securing measure

The market research causes reasonable doubts

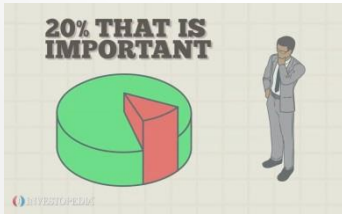
Why was the import disregarded?



Why was the Lithuanian market only researched?



Are you considered dominating when occupying 20%?



Why do the calculations of EC and NCC differ?

Concentration level	Herfindahl-Hirschmann-Index	NCC (2014-08-07)	European Commission (2014-10-13)
Low	< 1000	-	-
Medium	1000 - 1800	-	1163
High	> 1800	4835	-

What is hiding behind the NCC's idea?

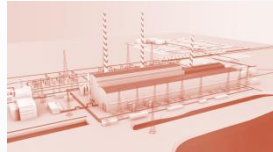
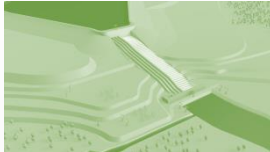
NCC: Lietuvos energijos gamyba has huge influence on the market



For this reason, its entire activities have to be regulated



Thus, the profit earned from **unregulated** activity of Lietuvos energijos gamyba should be used to compensate some subsidies granted to the currently **regulated** activity. It should be considered as **cross-subsidization**.



Consequences

The regulator's competence is questioned



The manufacturer is not motivated to strive for efficiency



Investors' trust is being ruined



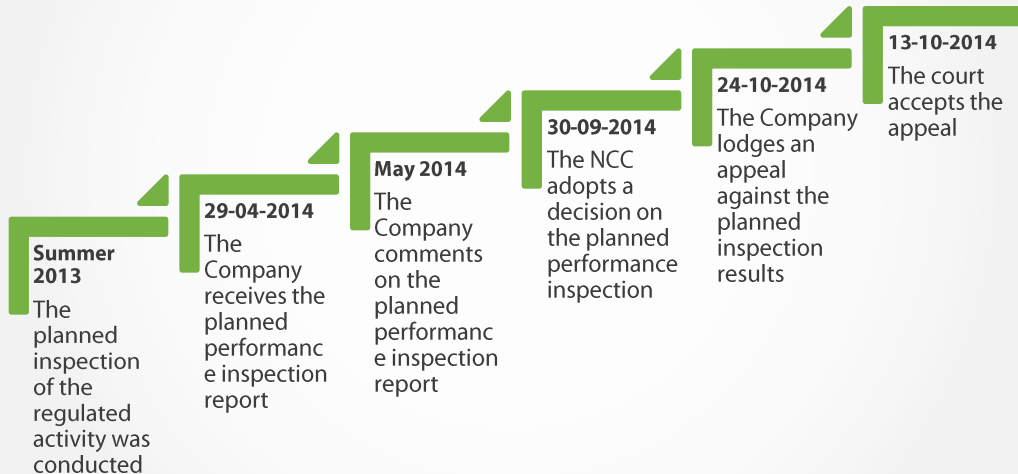
Waste of time and money



Dispute No. 2

Inspection of 2010–2012 activity

The course of the dispute on the performance inspection results



The NCC refuses to recognise some of the regulated activity expenses

Fuel expenses of the
Lithuanian Power Plant

Actual rates of consumed gas in 2010 and 2011 were reduced without consideration of the generation regimes of the power plant



Emission allowances (EA)
expenses

EA quantities were recalculated according to the reduced fuel rates and the applied EA prices differ from the ones used in the company's accounting



Kruonis PSP fixed
operating costs

Some costs of KPSP are not recognised when applying the proportional mode of attribution of costs to the regulated activity



Consequences

Supported operating incomes receivable from electricity generation in the Lithuanian Power Plant are reduced

**LTL -21.2
million**

Operating incomes receivable from the provision of services securing electricity standby power are reduced

**LTL -25.7
million**

The implementation period of the decision is 2015-2016.

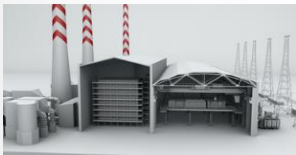


Legal misunderstanding is followed by technological

When making the decisions, the regulator failed to get an insight into the legislation and started contradicting its former decisions and settled practice



Because of the share of the generation of different 150 MW and 300 MW capacity units in combined production, the average fuel rates in different years are not comparable values



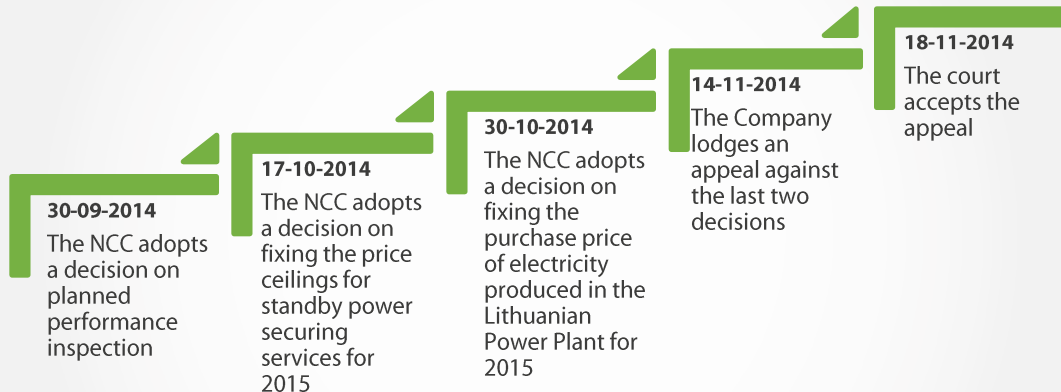
Practical application of the proportional mode of attribution of costs to the regulated activity is impossible because of the technical properties of Kruonis PSP units



Dispute No. 3

Fixing regulated activity prices for 2015

The course of the dispute on the regulated activity prices for 2015



The decisions have crucial faults when estimating the **return on investment**, furthermore, the decision disputed in court is implemented through them.

Summary

The environment of the regulated activity is changing

Company's competitiveness is weakening



Investors' trust is being damaged



Confusing signals in the regulating environment



Wasting time and money



Strategic goals of the Company stay the same

We will continue pursuing increase in the Company's value



We will make use of all market opportunities



We will pursue constructive cooperation and amicable agreements



Thank you!

