LESTO AB

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2014 PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION, PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED ANNUAL REPORT

Lietuvos energija

Energetikos įmonių grupė | www.le.lt

Translation note:

Financial statements have 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.

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Independent Auditor's Report

To the shareholders of LESTO AB

Report on the financial statements

We have audited the accompanying stand-alone and consolidated financial statements of LESTO AB ("the Company") and its subsidiaries ("the Group") set out on pages 5 to 60, which comprise the stand-alone and consolidated statements of financial position as of 31 December 2014 and the stand-alone and consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information ("the financial statements").

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of 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 these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Basis for Qualified Opinion

According to the Company's and the Group's accounting policy, property, plant and equipment are carried at revalued amounts, being their fair values as of the date of revaluation less subsequent accumulated depreciation and impairment losses. As explained in note 4, the management has assessed the fair values of property plant and equipment as of 31 December 2014 and accounted for related revaluation loss of LTL 2,106 million for the Company and the Group. Due to the reasons disclosed in Note 3a, the management did not determine the fair values of property, plant and equipment with the carrying amounts of LTL 4,499 million in the Company and the Group as of 31 December 2013 (LTL 4,586 million in the Company and LTL 4,639 million in the Group as of 31 December 2012), although impairment indicators existed. Our audit opinion on the financial statements of the year ended 31 December 2013 was modified accordingly. As a result, we were unable to assess the extent to which the above described revaluation loss should have been recorded in the year ended 31 December 2013 or in previous periods.

Qualified opinion

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2014, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the consolidated annual report for the year ended 31 December 2014 set out on pages 61 to 138 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2014.

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No.000457

Jurgita Krikščiūnienė
Auditor's Certificate No.000495

Vilnius, Republic of Lithuania
18 March 2015

STATEMENT OF FINANCIAL POSITION

	Notes	GROUP		COMPANY	
ASSETS		**31 December 2014**	**31 December 2013**	**31 December 2014**	**31 December 2013**
Non-current assets					
Property, plant, and equipment	4	2,493,054	4,644,520	2,357,000	4,499,476
Intangible assets	5	8,900	9,326	8,813	9,265
Prepayments for property, plant, equipment and intangible assets		-	118		118
Investments in subsidiaries	32	-	-	203,652	203,652
Investments in associates	31	4,994	19,490	4,744	19,084,
Investment property	6	154,655	147,088	-	-
Deferred income tax assets	20	7,047	-	7 047	-
Non-current amounts receivable	7	5,050	2,319	1,657	1,939
		2,673,700	**4,822,861**	**2,582,913**	**4,733,534**
Current assets					
Inventories	8	7,996	10,582	5,539	6,671
Trade and other receivables	9	202,786	204,023	194,083	196,726
Prepayments, deferred charges and accrued income	10	22,546	22,294	21,627	21,824
Prepaid income tax		-	43	-	-
Cash and cash equivalents	12	35,913	26,590	14,189	8,050
		269,241	263,532	235,438	233,271
Non-current assets classified as held for sale		146	221	-	-
		269,387	**263,753**	**235,438**	**233,271**
Total assets		**2,943,087**	**5,086,614**	**2,818,351**	**4,966,805**
EQUITY					
Equity attributable to owners of the Company					
Share capital	13	603,945	603,945	603,945	603,945
Revaluation reserve	14	241,685	1,466,560	211,740	1,437,765
Legal reserve	14	60,401	60,394	60,394	60,394
Retained earnings		446,547	1,111,224	484,740	1,152,766
		1,352,578	**3,242,123**	**1,360,819**	**3,254,870**
Non-controlling interest		**129,675**	**126,979**	**-**	**-**
Total equity		**1,482,253**	**3,369,102**	**1,360,819**	**3,254,870**
LIABILITIES					
Non-current liabilities					
Borrowings	19	344,780	299,065	344,780	299,065
Deferred income tax liability	20	4,005	333,985	-	330,955
Deferred income	15	288,870	303,942	288,870	303,942
Grants and subsidies	16	31,017	48,468	31,017	48,468
Non-current employee benefits		4,355	4,494	3,998	4,342
Other non-current liabilities		370	128	370	128
		673,397	**990,082**	**669,035**	**986,900**
Current liabilities					
Borrowings	19	422,011	316,462	422,011	315,763
Trade and other payables	17	276,328	329,354	282,474	331,958
Advance amounts received, accrued charges and deferred income	18	79,170	75,071	74,381	70,771
Income tax payable		9,928	6,543	9,631	6,543
		787,437	**727,430**	**788,497**	**725,035**
Total liabilities		**1,460,834**	**1,717,512**	**1,457,532**	**1,711,935**
Total equity and liabilities		**2,943,087**	**5,086,614**	**2,818,351**	**4,966,805**

The notes on pages 9 to 60 form an integral part of these financial statements.
The financial statements on pages 5 to 60 were approved by LESTO AB Chief Executive Officer, Director of Finance and Administration Service and Head of Accounting Management of Verslo Aptarnavimo Centras UAB on 18 March 2015

Chief Executive Officer	Aidas Ignatavičius		**2015 03 18**
Director of Finance and Administration Service	Andrius Bendikas		**2015 03 18**
Verslo Aptarnavimo Centras UAB acting under Order No V-002 of 19 January 2015	Zina Chmieliauskienė		**2015 03 18**

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	GROUP		COMPANY	
		2014	**2013**	**2014**	**2013**
Revenue	21	2,296,666	2,431,162	2,246,774	2,398,395
Purchase of electricity		(1,515,265)	(1,667,913)	(1,515,265)	(1,667,913)
Depreciation and amortisation	4,5,16	(352,352)	(376,748)	(340,927)	(366,360)
Employee benefits and related social security contributions	22	(153,966)	(160,269)	(127,295)	(132,150)
Repair and maintenance expenses		(82,972)	(78,559)	(86,135)	(93,692)
Transportation expenses		(11,594)	(10,844)	(15,038)	(14,392)
Telecommunications and IT services		(25,097)	(22,727)	(23,900)	(21,134)
Rent and utility services		(10,822)	(10,686)	(9,454)	(9,745)
Result of valuation of other assets	32	(537)	3,142		4,264
Revaluation of property, plant and equipment	4	(766,207)	(415)	(759,433)	-
Effects of change in the value of investment property	6	1,135	575	-	-
Other expenses	24	(37,354)	(49,176)	(31,354)	(43,846)
Operating profit (loss)		**(658,365)**	**57,542**	**(662,027)**	**53,427**
Finance income	23	1,231,	3,150	1,489	3,513
Finance costs	23	(8,056)	(7,012)	(7,759)	(6,870)
Finance costs – net		**(6,825)**	**(3,862)**	**(6,270)**	**(3,357)**
Gain (loss) on investments in associates	31	381	1,468	-	-
Profit (loss) before tax		**(664,809)**	**55,148**	**(668,297)**	**50,070**
Income tax	20	99,284	(7,502)	99,962	(6,698)
Net profit (loss) for the year		**(565,525)**	**47,646**	**(568,335)**	**43,372**
Other comprehensive income (expenses):					
Items that will not be reclassified to profit or loss					
Gain (loss) on revaluation of property, plant and equipment	4	(1,341,343)	850	(1,346,508)	-
Effects of deferred income tax	20	201,202	(128)	201,976	-
Other comprehensive income (expenses)		**(1,140,141)**	**722**	**(1,144,532)**	**-**
Total comprehensive income (expenses) for the year		**(1,705,666)**	**48,368**	**(1,712,867)**	**43,372**
Net profit (loss) for the year attributable to:					
Owners of the Company		(566,346)	46,474	(568,335)	43,372
Non-controlling interest		821	1,172	-	-
		(565,525)	**47,646**	**(568,335)**	**43,372**
Total comprehensive income (expenses) for the year attributable to:					
Owners of the Company		(1,708,362)	47,221	(1,712,867)	43,372
Non-controlling interest		2,696	1,147	-	-
		(1,705,666)	**48,368**	**(1,712,867)**	**43,372**
Earnings (deficit) per share attributable to owners of the Company (LTL)	25	(0.938)	0.077	(0.941)	0.072

The notes on pages 9 to 60 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

GROUP	Notes	Equity attributable to owners of the Company					Non-controlling interest	Total equity
		Share capital	Revaluation reserve	Legal reserve	Retained earnings	Total		
Balance at 1 January 2013		**603,945**	**1,634,355**	**60,450**	**1,001,228**	**3,299,978**	**131,452**	**3,431,430**
Comprehensive income								
Net profit (loss) for the year		-	-	-	46,474	**46,474**	1,172	**47,646**
Other comprehensive income (expenses)	14	-	747	-	-	**747**	(25)	**722**
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)	14	-	(168,542)	-	168,542	**-**	-	**-**
Total comprehensive income (expenses) for the year		**-**	**(167,795)**	**-**	**215,016**	**47,221**	**1,147**	**48,368**
Transactions with owners								
Transfers to reserves		-	-	(56)	56	**-**	-	**-**
Dividends relating to 2012	26	-	-	-	(102,670)	**(102,670)**	-	**(102,670)**
Total payments to owners		**-**	**-**	**(56)**	**(102,614)**	**(102,670)**	**-**	**(102,670)**
Changes in ownership interest in subsidiaries that do not result in loss of control	32	**-**	**-**	**-**	(2,406)	**(2,406)**	(5,620)	**(8,026)**
Total transactions with owners		**-**	**-**	**-**	**(2,406)**	**(2,406)**	**(5,620)**	**(8,026)**
Balance at 31 December 2013		**603,945**	**1,466,560**	**60,394**	**1,111,224**	**3,242,123**	**126,979**	**3,369,102**
Balance at 1 January 2014		**603,945**	**1,466,560**	**60,394**	**1,111,224**	**3,242,123**	**126,979**	**3,369,102**
Comprehensive income								
Net profit (loss) for the year		-	-	-	(566,346)	**(566,346)**	821	**(565,525)**
Other comprehensive income (expenses)	14	-	(1,142,016)	-	-	**(1,142,016)**	1,875	**(1,140,141)**
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)	14	-	(82,859)	-	82,859	**-**	-	**-**
Total comprehensive income (expenses) for the year		**-**	**(1,224,875)**	**-**	**(483,487)**	**(1,708,362)**	**2,696**	**(1,705,666)**
Transactions with owners								
Utilisation of reserves		-	-	7	(7)	**-**	-	**-**
Dividends relating to 2013 and 1H 2014	26	-	-	-	(181,183)	**(181,183)**	-	**(181,183)**
Total payments to owners		**-**	**-**	**7**	**(181,190)**	**(181,183)**	**-**	**(181,183)**
Balance at 31 December 2014		**603,945**	**241,685**	**60,401**	**446,547**	**1,352,578**	**129,675**	**1,482,253**

COMPANY	Notes	Share capital	Revaluation reserve	Legal reserve	Retained earnings	Total
Balance at 1 January 2013		**603,945**	**1,605,245**	**60,394**	**1,044,584**	**3,314,168**
Net profit (loss) for the year		-	-	-	43,372	**43,372**
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)	14	-	(167,480)	-	167,480	**-**
Total comprehensive income (expenses) for the year		**-**	**(167,480)**	**-**	**210,852**	**43,372**
Transactions with owners						
Dividends relating to 2013	26	-	-	-	(102,670)	**(102,670)**
Total transactions with owners		**-**	**-**	**-**	**(102,670)**	**(102,670)**
Balance at 31 December 2013		**603,945**	**1,437,765**	**60,394**	**1,152,766**	**3,254,870**
Balance at 1 January 2014		**603,945**	**1,437,765**	**60,394**	**1,152,766**	**3,254,870**
Comprehensive income						
Net profit (loss) for the year		-	-	-	(568,335)	**(568,335)**
Other comprehensive income (expenses)	14	-	(1,144,532)	-	-	**(1,144,532)**
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)		-	(81,493)	-	81,493	**-**
Total comprehensive income (expenses) for the year	26	**-**	**(1,226,025)**	**-**	**(486,842)**	**(1,712,867)**
Dividends relating to 2013 and 1H 2014		**-**	**-**	**-**	**(181,184)**	**(181,184)**
Total transactions with owners		**-**	**-**	**-**	**(181,184)**	**(181,184)**
Balance at 31 December 2014		**603,945**	**211,740**	**60,394**	**484,740**	**1,360,819**

The notes on pages 9 to 60 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Notes	GROUP		COMPANY	
		2014	**2013**	**2014**	**2013**
Cash flows from operating activities					
Net profit (loss) for the year		(565,525)	47,646	(568,335)	43,372
Adjustments for:					
– Income tax expense/(income)		(99,284)	7,502	(99,962)	6,698
– Depreciation and amortisation	4,5	355,553	379,767	344,128	369,379
– Revaluation of property, plant and equipment	4	766,207	415	759,433	-
– Change in value of investment property	6	(1,135)	(575)	-	-
– Result of valuation of assets	32	537	(3,142)	-	(4,264)
– Amortisation of grants	16	(3,201)	(3,019)	(3,201)	(3,019)
– Gain/(loss) on disposal and write-off of property, plant and equipment		12,379	12,659	13,236	12,922
– (Gain)/loss on investments in associates	31	(381)	(1,468)	-	-
– Dividend income		-	-	(171)	-
– Finance (income)	23	(1,231)	(3,150)	(1,318)	(3,513)
– Finance costs	23	8,056	7,012	7,759	6,870
Changes in working capital:					
– Trade and other receivables		3,484	(18,008)	3,398	(13,735)
– Inventories, prepayments, deferred charges and accrued income		1,587	(925)	357	(1,815)
– Trade and other payables, advance amounts received, accrued charges and deferred income		(74,805)	(10,525)	(71,736)	(9,278)
Cash generated from operating activities		**402,241**	**414,189**	**383,588**	**403,617**
– Income tax paid		(33,158)	(44,487)	(32,976)	(44,190)
Net cash generated from operating activities		**369,083**	**369,702**	**350,612**	**359,427**
Cash flows from investing activities					
– Purchase of property, plant and equipment and intangible assets		(354,572)	(312,684)	(337,759)	(296 232)
– Proceeds from sale of property, plant and equipment and investment		3,782	1,132	923	109
– Acquisition of subsidiaries and associates		(4,742)	(1,275)	(4,742)	(1,275)
– Disposalof subsidiaries and associates		19,081	-	19,081	-
– Grants received		15,041	6,485	15,041	6,485
– Loan repayments received		502	456	502	456
– Term deposits		-	3,000	-	-
– Dividends received		-	-	171	-
– Interest received		184	393	137	741
Net cash used in investing activities		**(320,724)**	**(302,493)**	**(306,646)**	**(289,716)**
Cash flows from financing activities					
– Proceeds from borrowings		233,590	169,698	233,590	169,698
– Repayments of borrowings		(55,850)	(140,145)	(55,850)	(140,145)
– Dividends paid to the Company's shareholders		(182,030)	(102,386)	(182,030)	(102,386)
– Interest paid		(8,269)	(7,059)	(7,759)	(6,917)
Net cash used in financing activities		**(12,559)**	**(79,892)**	**(12,049)**	**(79,750)**
Increase (decrease) in cash and cash equivalents		**35,800**	**(12,683)**	**31,917**	**(10,039)**
Cash and cash equivalents at beginning of the year	12	(44,118)	(31,435)	(61,959)	(51,920)
Cash and cash equivalents at end of the year	12	**(8,318)**	**(44,118)**	**(30,042)**	**(61,959)**

The notes on pages 9 to 60 form an integral part of these financial statements.

Notes to the financial statements

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 on 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 line of business is 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 19 December 2014, the National Control Commission for Prices and Energy established the price caps for electricity distribution services for the year 2015 as follows:

- electricity distribution services via medium voltage network – 4.068 ct/kWh or 1.178 euro ct/kWh (2014: 4.479 ct/kWh or 1.297 euro ct/kWh);
- electricity distribution services via low voltage network – 5.351 ct/kWh or 1.550 euro ct/kWh (2014: 6.162 ct/kWh or 1.785 euro ct/kWh);

On 19 December 2014, the National Control Commission for Prices and Energy established the price cap of 0.481 ct/kWh or 0.139 euro ct/kWh for public electricity supply services for the year 2015 (2014: 0.452ct/kWh or 0.151 euro ct/kWh).

On 19 December 2014, the National Control Commission for Prices and Energy established the price cap of 29.748 ct/kWh or 8.616 euro ct/kWh (excl. VAT) to private consumers who receive electricity via medium voltage network for 2015 (2014: 31.616 ct/kWh or 9.157 euro ct/kWh (excl. VAT), and the price cap of 35.099 ct/kWh or 10.165 euro ct/kWh (excl. VAT) to private consumers who receive electricity via low voltage network for 2015 (2014: 37.778 ct/kWh or 10.941 euro ct/kWh (excl. VAT).

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 31 December 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 AG (Germany)	-	-	71,040,473	11.76 %
Other shareholders	33,877,911	5.61 %	33,877,911	5.61 %
Total	**603,944,593**	**100 %**	**603,944,593**	**100 %**

As at 31 December 2014, Lietuvos Energija UAB (formerly known as Visagino Atominė Elektrinė UAB and officially renamed on 30 August 2013) was the parent of the Company. Lietuvos Energija UAB is wholly owned by the Lithuanian Government represented by the Lithuanian Ministry of Finance.

On 21 May 2014, Lietuvos Energija UAB and E.ON Ruhrgas International GmbH signed the agreement on sale/purchase of shares of LESTO AB, based on which Lietuvos Energija UAB acquired from E.ON Ruhrgas International GmbH 71,040,473 shares of LESTO AB representing 11.76% of share capital of LESTO AB.

All shares of the Company with the nominal value of LTL 1 each are ordinary shares and they have been fully paid as at 31 December 2014 and 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 consolidated group

The consolidated group (hereinafter "the Group") consists of the Company, its subsidiaries and associates. The subsidiaries and associates are listed below:

Subsidiary or associate	Country	Year of acquisition	The Group's ownership interest (%) At 31 December 2014	At 31 December 2013	Profile of activities
ELEKTROS TINKLO PASLAUGOS UAB (On 7 January 2013, the Company and LITGRID AB entered into stock barter agreement under which the Company acquired 25.03% of shares of ELEKTROS TINKLO PASLAUGOS UAB)	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
Technologijų ir Inovacijų Centras UAB (a newly established entity on 4 December 2013)	Lithuania	2013	20.02 %	20 %	Information technology, telecommunication and other services provided to shareholders
Verslo Aptarnavimo Centras UAB	Lithuania	2014	15 %	-	Organisation and execution of public procurement procedures, accounting and personnel administration services provided to the shareholders
Duomenų Logistikos Centras UAB (known as Technologijų ir Inovacijų Centras UAB until 4 November 2013)	Lithuania	2010	-	24.94 %	Information technology and telecommunication services
Respublikinis Energetikų Mokymo Centras VŠĮ (wholly owned by Duomenų Logistikos Centras UAB)	Lithuania	2010	-	24.94 %	Training services

On 31 March 2014, the Company and Lietuvos Energija UAB signed the agreement on sale/purchase of shares, based on which the Company's proprietary shares in associate Duomenų Logistikos Centras UAB (representing 24.94% of its share capital) were sold to Lietuvos Energija UAB for the amount of LTL 19,081,561.

On 25 November 2013, the Company together with Lietuvos Energija UAB, Lietuvos Energijos Gamyba AB and LITGRID AB signed the memorandum of incorporation of Technologijų ir Inovacijų Centras UAB to be engaged primarily in the provision of IT, telecommunication and other services to the shareholders. On 4 December 2013, Technologijų ir Inovacijų Centras UAB was established and registered with the Register of Legal Entities at a state enterprise Centre of Registers. 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. On increase of share capital of Technologijų ir Inovacijų Centras UAB, LESTO AB made a cash contribution for 4,442,222 newly issued ordinary registered shares. As a result, the Company's ownership interest in Technologijų ir Inovacijų Centras UAB increased from 20% to 22.22%.

On 19 December 2014, the authorised share capital of Technologijų ir Inovacijų Centras UAB was increased up to LTL 22,200,525 by issuing additional 2,200,525 ordinary registered shares. As at 31 December 2014, the Company's ownership interest in Technologijų ir Inovacijų Centras UAB was 20.02%.

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 memorandum of incorporation of Verslo Aptarnavimo Centras UAB to be engaged primarily in the provision of public procurement organisation and execution, accounting and personnel administration services to the shareholders. As a result, the Company acquired 20,000 ordinary registered shares with par value of LTL 1 each. The total issue price was paid by cash contribution. Verslo Aptarnavimo Centras UAB was registered with a state enterprise Centre of Registers on 30 July 2014. Following this transaction, the Company's ownership interest in Verslo Aptarnavimo Centras UAB was 20%.

During the Extraordinary General Meeting of Shareholders of Verslo Aptarnavimo Centras UAB held on 28 October 2014, the decision was made to increase the authorised share capital by LTL 1,400,000, by way of issuing 1,400,000 ordinary registered shares. On 29 October 2014, the Company and Verslo Aptarnavimo Centras UAB signed the Agreement for the Subscription of Shares, based on which the Company subscribed for 280,000 newly issued ordinary registered shares of Verslo Aptarnavimo Centras UAB with par value of LTL 1 each. The total issue price was paid by cash contribution. As a result of increase in share capital of Verslo Aptarnavimo Centras UAB, the Company's ownership interest in Verslo Aptarnavimo Centras UAB did not change

During the Extraordinary General Meeting of Shareholders of Verslo Aptarnavimo Centras UAB held on 12 December 2014, the decision was made to increase the authorised share capital by LTL 500,000, by way of issuing 500,000 ordinary registered shares. As a result of increase in share capital of Verslo Aptarnavimo Centras UAB, the Company's ownership interest in Verslo Aptarnavimo Centras UAB decreased from 20% to 15%.

Commencement date of accounting services was 1 December 2014. The financial statements for the year 2014 have been prepared and signed by the representatives of the Accounting Department of Verslo Aptarnavimo Centras UAB.

As at 31 December 2014, the Group and the Company had 3,004 and 2,229 employees (31 December 2013: 3,212 and 2,420), respectively.

Approval of financial statements

The Company's management approved these financial statements on 18 March 2015. The Company's shareholders have a statutory right to approve or not to approve these financial statements and to require the preparation of a new set of financial statem.

2. Summary of significant accounting policies

The accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1. Basis of preparation

These financial statements have been prepared under the historical cost convention, as modified by property, plant and equipment measured at revalued amount and investment property measured at fair value.

All amounts in these financial statements are presented in the litas and they have been rounded to the nearest thousand (in thousand LTL), unless otherwise stated.

The Company's and the Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

Accounting policies applied in preparation of these financial statements are consistent with those applied in the previous financial year, except for as follows:

Adoption of new and/or amended International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)

IFRS 10, 'Consolidated financial statements' (effective for annual periods beginning on or after 1 January 2014); The Standard replaces all of the guidance on control and consolidation in IAS 27, 'Consolidated and separate financial statements' and SIC-12, 'Consolidation – special purpose entities'. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. Adoption of this standard had no significant impact on the Group's financial statements.

IFRS 11, 'Joint arrangements' (effective for annual periods beginning on or after 1 January 2014). The Standard replaces IAS 31, 'Interests in joint ventures' and SIC-13, 'Jointly controlled entities—non-monetary contributions by ventures'. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. Adoption of this standard had no significant impact on the Group's financial statements.

IFRS 12, 'Disclosure of interest in other entities' (effective for annual periods beginning on or after 1 January 2014). The Standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, 'Consolidated financial statements', and IFRS 11, 'Joint arrangements'. It replaces the disclosure requirements currently found in IAS 28 'Investments in associates'. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. As a result of adoption of this standard, the Group made additional disclosures in the financial statements.

IFRS 27, 'Consolidated financial statements' (effective for annual periods beginning on or after 1 January 2014); This Standard was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, 'Consolidated financial statements'. Adoption of this standard had no significant impact on the Company's financial statements.

IAS 28, 'Investments in associates and joint ventures' (effective for annual periods beginning on or after 1 January 2014). IAS 28 was amended following the issue of IFRS 11 and now requires that joint ventures and associates are accounted for using the equity method. Adoption of this standard had no significant impact on the Group's/Company's financial statements.

Offsetting financial assets and financial liabilities – Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. Adoption of this standard had no significant impact on the Group's/Company's financial statements.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (effective for annual periods beginning 1 January 2014). The amendments clarify the transition guidance in IFRS 10, 'Consolidated financial statements'. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11, 'Joint arrangements', and IFRS 12, 'Disclosure of interests in other entities', by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. As a result of adoption of this standard, the Group made additional disclosures in the financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation , and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. Adoption of this standard had no significant impact on the Group's/Company's financial statements.

Amendments to IAS 36 – Recoverable amount disclosures for non-financial assets (effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. Adoption of this standard had no significant impact on the Group's/Company's financial statements.

Amendments to IAS 39 – Novation of derivatives and continuation of hedge accounting (effective for annual periods beginning 1 January 2014). The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. Adoption of this standard had no significant impact on the Group's/Company's financial statements.

Standards, interpretations and amendments that are not yet effective and have not been early adopted by the Company/Group

IFRIC 21 – Levies. The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group/Company is currently assessing the impact of the interpretation on its financial statements.

Defined Benefit Plans: Employee Contributions - Amendments to IAS 19 (effective for annual periods beginning on or after 1 February 2015). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The Group/Company is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2012 (effective for annual periods beginning on or after 1 February 2015). The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.
IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.
IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.
The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.
IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group/Company is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2013. The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group/Company is currently assessing the impact of the amendments on its financial statements.

Standards, interpretations and amendments that have not been endorsed by the European Union and that have not been early adopted by the Group/Company

- IFRS 14 Regulatory Deferral Accounts
- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11
- IFRS 9, Financial Instruments: Classification and Measurement
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38
- IFRS 15, Revenue from Contracts with Customers
- Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41
- Equity Method in Separate Financial Statements - Amendments to IAS 27
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28
- Annual Improvements to IFRSs 2014
- Disclosure Initiative – Amendments to IAS 1
- Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28

The Group/Company is currently assessing the impact of these amendments on its financial statements.
There are no other new or amended standards and interpretations that are not yet effective and that may have a material impact for the Group/Company.

2.2. Consolidation

(a) Subsidiaries

The consolidated financial statements of the Group include the Company and its subsidiaries and associates. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of the subsidiaries and associates have been prepared for the same reporting periods, using uniform accounting policies. For the purpose of the Company's financial statements, investments in subsidiaries and associates are accounted for using the cost method.

Subsidiaries are consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

All inter-company transactions, balances and unrealised gains and losses on transactions between the Group companies are eliminated.

(b) Business combinations involving entities under common control

Business combinations involving entities under common control are accounted for using the predecessor accounting. The difference between the consideration paid and the carrying amount of net assets acquired is recorded directly in other comprehensive income.

When transactions involving entities under common control do not meet the definition of a business combination (e.g. mergers), they are accounted for as a capital reorganisation, i.e. assets, liabilities, income and expenses of the merging entities for all the periods reported are consolidated as if these two entities had never existed separately.

(c) Associates

Associates are all entities over which the Group has significant influence but no control. Significant influence generally accompanies a shareholding of between 20% to 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and they are initially recognised at cost. The Group's investment in associate includes goodwill (less accumulated impairment loss, if any) identified on the date of acquisition.

The Group's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised profits resulting from transactions between the Group and its associates are eliminated only to the extent of the Group's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.3. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

According to the management, the Group and the Company have a single operating segment, i.e. supply and distribution of electric power. The Group and 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.

2.4. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Items in the consolidated financial statements are presented in the litas, which is the functional currency of the Company.

With effect from 2 February 2002, Lithuanian litas has been pegged to the euro at a rate of 3.4528 litas to 1 euro. On 1 January 2015, Lithuania adopted euro at exchange rate of 3.4528 litas to 1 euro.

(b) Transactions and balances

Foreign currency transactions are accounted for using the exchange rates prevailing at the dates of transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognised in the statement of profit or loss and other comprehensive income of the reporting period.

2.5. Property, plant and equipment

Property, plant and equipment is shown at fair value based on periodic valuations by external independent valuers, less subsequent accumulated depreciation and impairment. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other comprehensive income and shown as other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to profit or loss. Increases in the carrying amount that offset previous decreases are taken to the profit or loss account. All other increases in the carrying amount arising on revaluations of property, plant and equipment are recognised in other comprehensive income and credited to revaluation reserve directly in equity. Each year the difference between depreciation based on the revalued amount of the asset charged to profit or loss, and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings taking into account the effect of deferred income tax

Depreciation of property, plant and equipment is calculated using the straight-line method to write off the revalued amount of asset to its residual value over the following estimated useful lives:

Administrative buildings (at the Group)	60-75 years
Buildings	15–50 years
Whereof:	
Engineering constructions	50 years
35-110 kV transformer substation constructions	35 years
6-10 kV electricity distribution constructions	35 years
10/0.4 kV transformer constructions	35 years
Communication and operation system constructions	15–25 years
Structures, equipment and electricity networks	5–50 years
Whereof:	
35-110 kV transformer substation equipment (excl. constructions)	30 years
6-10 kV distribution equipment (excl. constructions)	30 years
10/0.4 kV capacity transformers	30 years
35 kV cables and lines	40-45 years
0.4-10 kV cables and lines	15–40 years
35-110 kV capacity transformers	40 years
Communication and operation system equipment (excl. constructions)	5–45 years
Hydrotechnical structures and equipment	50-75 years
Other property, plant and equipment	3–50 years

The useful life of property, plant and equipment reclassified from investment property and used by the Group is up to 75 years.

The residual values and useful lives of property, plant and equipment are reviewed regularly and adjusted, if appropriate, according to the procedure established at the Company.

When assets are written off or otherwise disposed, the acquisition cost and related depreciation charges are not further recognised in the financial statements, and gain or loss on such disposal is recognised in profit or loss. Gain or loss on disposal of property, plant and equipment is determined as the difference between proceeds and the net book value of assets disposed. Upon disposal of revalued asset, the corresponding amount included in revaluation reserve is transferred to retained earnings (deficit).

Construction in progress is reclassified to corresponding categories of property, plant and equipment when it is completed and ready for the intended use.

Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Borrowing costs directly attributable to the acquisition, construction or production of assets, which are assets that necessarily take a substantial period of time (longer than 1 year) to get ready for their intended use, are added to the cost of those assets.

2.6. Investment property

Investment property consists of the Company's and the Group's buildings and constructions held to earn rentals or for capital appreciation. Investment property is initially recognised at cost and subsequently measured at fair value. Deprecation is not calculated with respect to investment property. For the purpose of the financial statements, gain or loss arising from changes in the fair value is included in profit or loss in the statement of profit or loss and other comprehensive income for the reporting period.

Transfers to and from investment property are made only when there is an evidence of change in an asset's use. Some properties may be partially occupied by the Company and the Group, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Company and the Group can be sold separately, the Company and the Group account for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income is treated as investment property under IAS 40.

2.7. Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 years).

(b) Other intangible assets

Intangible assets expected to provide economic benefits to the Group and the Company in future periods are stated at acquisition cost, less any accumulated amortisation and impairment losses. Amortisation is calculated on the straight-line method over estimated useful lives of 3 to 4 years.

2.8. Impairment of non-financial assets

Assets that are subject to amortisation and depreciation are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9. Financial assets

Financial assets are classified by the Group and the Company as financial assets at fair value through profit or loss, held-to-maturity investments, loans granted and receivables, and available-for-sale financial assets. Regular purchases and sales of financial assets are recognised on the trade date. Financial assets are initially recognised at fair value plus transaction costs, except for the financial assets at fair value through profit or loss.

(a) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Loans and receivables are initially recognised at cost (the fair value of consideration) and subsequently carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss in the statement of profit or loss and other comprehensive income when these assets are derecognised, impaired or amortised.

Impairment loss is recognised when there is objective evidence that the Group and the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the amount receivable is impaired. The carrying amount of the asset is reduced, and the amount of the loss is recognised in profit or loss within 'other expenses'. When an amount receivable is uncollectible, it is written off against the allowance account for amounts receivable. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the statement of profit or loss and other comprehensive income

2.10. Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The Group and the Company do not use hedging accounting, therefore, derivative financial instruments are recognised at fair value through profit or loss. Changes in the fair value of derivatives are recognised immediately in the statement of profit or loss and other comprehensive income within finance costs

2.11. Investments in subsidiaries and associates in the Company's separate financial statements

Investments in subsidiaries and associates in the Company's separate financial statements are stated at cost less impairment loss.

2.12. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out (FIFO) basis. Acquisition cost of inventories includes purchase price and related taxes (other than those subsequently recovered by the Company and the Group from tax authorities), transportation, handling and other costs directly associated with acquisition of inventories. The acquisition cost excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

2.13. Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.14. Term deposits

Term deposits are short-term (up to 1 year) highly liquid investments with maturities longer than 3 months. Term deposits are stated at amortised cost using the effective interest rate method.

2.15. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with maturities up to 3 months.

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held in settlement bank accounts, and other short-term highly liquid investments with maturities up to 3 months, and bank overdrafts. In the statement of financial position, bank overdrafts are included in current borrowings.

2.16. Trade receivables

Trade payables are accrued when the other party has performed its obligations under the contract, and are initially recognised at fair value and subsequently estimated at amortised cost using the effective interest rate method.

2.17. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds and the redemption value is recognised in profit or loss in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group and the Company have an unconditional right to defer settlement of the liability for at least 12 month after the balance sheet date.

Borrowing costs that are attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time (longer than 1 year) to get ready for its intended use, are capitalised as part of the cost of that asset. Other borrowing costs are recognised as expenses when incurred.

2.18. Income tax

Income tax expense for the period comprises current tax and deferred tax.

(a) Income tax

Current income tax assets and liabilities are recognised to the extent their recovery from or payment to tax authorities is probable. Income tax is determined using the tax rates (and laws) that have been enacted by the date of the statements of financial position.

The standard income tax rate in Lithuania was 15% in 2014 (2013: 15%).

(b) Deferred income tax

Deferred income tax is accounted for using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised on all temporary differences that will increase the taxable profit in future, whereas deferred tax assets are recognised to the extent it is probable that they will reduce the taxable profit in future. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from initial recognition of goodwill (or negative goodwill); or if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are reviewed at each date of the statement of financial position and if it is not probable that the Group and the Company will generate sufficient taxable profit to realise these assets, they are reduced to an amount which is likely to reduce the taxable profit in future. Deferred income tax assets and liabilities are estimated using the tax rate that has been applied when calculating income tax for the year when the related temporary differences are to be realised or settled.

Deferred tax assets and liabilities are offset only where they relate to income tax assessed by the same fiscal authority or where there is a right to offset current tax assets and current tax liabilities.

(c) Current tax and deferred tax

Current tax and deferred tax are recognised as income and expenses and included in net profit or loss for the period, except to the extent that they relate to transactions or events that are recognised directly in equity in the same period, or business combinations.

2.19. Employee benefits

(a) Social security contributions

The Group and the Company pay social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group and the Company pay fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognised as expenses on an accrual basis and are included in payroll expenses. The Company paid social security contributions at a rate of 30.98% until 31 December 2013, and at a rate of 31.17% with effect from 1 January 2014.

(b) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group and the Company recognise termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan and agreements signed with employees without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are recognised at present value discounted using market interest rate.

(c) Pension benefits to employees of retirement age

Each employee of retirement age who terminates his/her employment with the Group and the Company upon retirement is entitled to receive a payment equal to 2 monthly salaries as stipulated in the Lithuanian laws. A liability for such pension benefits is recognised in the statement of comprehensive income and it reflects the present value of these benefits at the date of the statement of financial position. The aforementioned non-current liability for pension benefits to employees at the date of the statement of financial position is determined with reference to actuary valuations using the projected relative unit method. The present value of the defined non-current liability for pension benefits to employees is determined by discounting the estimated future cash flows using the effective interest rates as set for government debentures denominated in a currency in which the benefits will be paid to employees and that have maturity term similar to that of the related liability.

2.20. Grants

Government grants are recognised at their fair value where there is a reasonable assurance that the subsidy will be received and the Group and the Company will comply with all attached conditions. Government grants relating to purchase of property, plant and equipment are included in non-current liabilities in the statement of financial position and are credited to the statement of profit or loss and other comprehensive income on a straight-line basis over the expected lives of the related assets.
On revaluation of non-current assets, the grants related to non-current assets, for which impairment was recognised, are partly written off.

Government grants received as a compensation for costs or unearned income for current or previous reporting period, and all grants other than those related to assets, are considered as grants related to income. Government grant receivable as a compensation for costs or losses incurred or provided as financial support to the entity without incurring any costs in future in relation thereto, is recognised as income of the reporting period, in which it will be receivable.

2.21. Operating lease

(a) Operating lease – where the Company and the Group are lessees

Lease is recognised as operating lease, when all the risks and rewards of ownership of the leased item remain with the lessor. Operating lease payments are recognised as expenses in the statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

(b) Operating lease – where the Company and the Group are lessors

Lease is recognised as operating lease, when the lessor retains all the rewards and risks of ownership of the leased item. Payments received under operating leases are recognised as income on a straight-line basis over the lease term.

2.22. Finance lease

<u>Where the Group is a lessor</u>

Lease is recognised as finance lease, when substantially all the risks and rewards of ownership are transferred to the lessee, who usually obtains ownership of the related assets at the end of the lease.

When assets are transferred by the lessor to the lessee under a finance lease contract, the lessor records amounts receivable at a sum equal to net investment in finance lease.
At the end of the reporting period, amounts receivable to be settled within one year are classified as current amounts receivable, and the remaining are classified as non-current amounts receivable.
At the end of the reporting period, the lessor‘s amounts receivable should be tested for impairment, and reduced by the amount of allowance for doubtful receivables, if necessary.
Finance lease income is recognised over the lease period based on net investment approach (before tax), which reflects a constant periodic rate of return.

2.23. Provisions

Provisions are recognised when the Group/Company has a legal obligation or irrevocable commitment as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group/Company expects that provision amount in part or in full will be compensated, e.g. by insurance, compensation to be received is recorded as a separate asset, but only when it is virtually certain. Expenses related to provisions are recorded in profit or loss in the statement of profit or loss and other comprehensive income, net of compensation receivable. If the effect of the time value of money is material, the amount of provision is discounted using the effective pre-tax discount rate set based on the interest rates for the period and taking into account specific risks associated with the provision as appropriate. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

2.24. Revenue recognition

Revenue of the Company and the Group comprises the fair value of the consideration received or receivable for goods and services sold in the ordinary course of business. Revenue is shown net of value-added tax, returns, rebates and discounts, and after eliminating inter-company sales in case of the Group's revenue.

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and the Company and when specific criteria have been met for each of the Company's and the Group's activities, as described below.

(a) Revenue from sale of electricity

Revenue from sale of electricity to private customers is recognised in the period upon supply of electricity and receipt of payment for electricity supplied. At the end of each reporting period, revenue is accrued to account for electricity supplied but not paid yet.

Revenue from sale of electricity to business customers is recognised upon sale of electricity based on the actual consumption of electricity which is determined according to the readings of electricity meters.

(b) Revenue from connection of new customers

Fees for the connection of new customers, producers, and for the dislocation and reconstruction of electricity network objects or facilities on request of the customer, producer or other entity, which were received before 1 July 2009, are recognised as revenue upon connection.

The above-mentioned fees received before 1 July 2009 were initially recognised as deferred income and subsequently recognised as income on a proportionate basis over the useful life of the related property, plant and equipment. The related costs comprising the acquisition cost of property, plant and equipment and other costs have been capitalised and depreciated over the estimated useful life of the assets capitalised.

(c) Revenue from sale of services

Revenue from sale of services is recognised during the period in which the services have been rendered with reference to the stage of completion of the specific transaction which is determined as a percentage of services actually rendered as compared to the total services to be rendered.

(d) Revenue from sale of goods

Revenue from sale of goods is recognised when all the risks relating to loss of or damage to goods and all other incremental costs arising as a result of events occurring after the goods have been delivered to the agreed place, have been transferred by the Group to the Company's buyer in accordance with the standard sale terms and conditions (INCOTERMS) agreed with the buyer, and the collection of the related receivable amounts is certain.

(e) Interest income

Interest income is recognised on accrual basis (using the effective interest rate method). Interest received is recorded in profit or loss in the statement of profit or loss and other comprehensive income as finance income.

(f) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.25. Dividend distribution

Dividend distribution to the Company‘s shareholders is recognised as a liability in the Group‘s and the Company‘s financial statements in the period in which the dividends are approved by the Company‘s shareholders.

2.26. Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary registered shares in issue during the period. Where the number of shares changes without causing a change in the economic resources, the weighted average number of ordinary registered shares is adjusted in proportion to the change in the number of shares as if such change happened at the beginning of the previous reporting period presented.

2.27. Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of income or economic benefits is probable.

2.28. Events after the end of the reporting period

All subsequent events after the end of the reporting period (adjusting events) are accounted for in the financial statements if they relate to the reporting period and have significant impact on the financial statements.
All subsequent events that are significant but not adjusting events are disclosed in notes to the financial statements.

2.29. Inter-company offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

3. Critical accounting estimates

Accounting estimates and judgements are regularly reviewed and evaluated with reference to past experience and other factors, such as the likelihood of future events, which is deemed to be reasonable under certain circumstances.

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and contingencies. The main areas where accounting estimates were used when preparing these financial statements are described below:

(a) Revaluation and impairment of property, plant and equipment

The Group and the Company account for property, plant and equipment at a revalued amount in accordance with International Accounting Standard 16 'Property, plant and equipment'. As at 31 December 2014, valuation of the Company's property, plant and equipment was carried out. The fair value was determined with reference to report on valuation of property, plant and equipment of Lesto AB prepared by Ernst & Young Baltic. The fair value was determined using the income and cost methods.

Previous revaluation for majority of assets occurred in 2008 (except for the assets described in Note 4 where revaluations were performed as of 31 December 2013). During the intermediary years, the management did not perform valuations of PP&E 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 development of a new model for the determination of prices of electricity and the term of its approval. By the end of 2014 and beginning of 2015, legislation related to the price determination has become clearer. As a consequence, the management has measured the fair value of the PP&E as of 31 December 2014.

If the value of assets is measured based on a depreciated replacement cost method, International Valuation Standards require to perform an economic obsolescence test. 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 carrying amount of property, plant and equipment should be reduced. In other words, the carrying amount 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 of proceeds expected from disposal of assets.

According to the amended law effective from 1 June 2009, the price cap for the electricity transmission service must be determined based on the value of assets used in licensed activities of the service provider, which is estimated and approved by the National Control Commission for Prices and Energy ("the Commission") in accordance with the principles for determining 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. 1026 of the Government of the Republic of Lithuania on the Principles for Determining the Value of Assets Used in Licensed Activities of the Electricity Service Provider and based on the Methodology of Pricing approved by the Commission in 2015, when determining the price caps for electricity transmission service, the value of assets used in licensed activities of the service provider which is equal to net book amount (carrying amount) of property, plant and equipment as at 31 December 2001 increased by the amount of investments implemented and agreed with the Commission and reduced by the depreciation amount calculated according to the depreciation rates approved by the Commission. The value of network elements that are required to carry on regulated activity based on LRAIC model and the useful lives of which expire over the regulated period, is calculated using the current cost accounting method, i.e. based on current replacement cost. The provisions of Government Resolutions No 1142 and No 1026 adopted in 2009 and 2014, respectively, resulted in impairment of assets used in the company's activity.

(b) Revaluation and impairment of property, plant and equipment

The Group and the Company account for property, plant and equipment at a revalued amount in accordance with International Accounting Standard 16 'Property, plant and equipment'. As at 31 December 2014, valuation of the Company's property, plant and equipment was carried out. The fair value was determined with reference to report on valuation of property, plant and equipment of Lesto AB prepared by Ernst & Young Baltic. The fair value was determined using the income and cost methods.

If the value of assets is measured based on a depreciated replacement cost method, International Valuation Standards require to perform an economic obsolescence test. 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 carrying amount of property, plant and equipment should be reduced. In other words, the carrying amount 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 of proceeds expected from disposal of assets. The last valuation of property was carried out in 2008. Revaluation of PP&E at RST was conducted by independent property valuer Korporacija Matininkai UAB. Revaluation of buildings was based on the comparable price method, whereas valuation of machinery and structures and other PP&E was based on the replacement cost method. Valuation of PP&E at VST as at 31 December 2008 was conducted by independent property valuer Ober-Haus UAB. Valuation was based on the replacement cost method, except for valuation of other assets (that have no specific attributes of business), which was based on comparable price method.

According to the amended law effective from 1 June 2009, the price cap for the electricity transmission service must be determined based on the value of assets used in licensed activities of the service provider, which is estimated and approved by the National Control Commission for Prices and Energy ("the Commission") in accordance with the principles for determining 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 Determining the Value of Assets Used in the Licensed Activities of the Electricity Service Provider, the determination of the price cap for electricity transmission service 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. The provisions of this Resolution resulted in impairment of assets used in the Company's activities.

(b) Deferral of customer connection fees

Before 1 July 2009, the Company used to defer revenue received for the connection of new customers to the electricity network and recognise it as income over the period of 31 years, which is the average useful life of electricity equipment constructed by the Group and the Company for the purposes of connecting new customers. The Company is the only provider of electricity distribution service to the customers in the whole territory of Lithuania, therefore, management believes that the period of rendering services to customers is unlimited. As a result, the average useful life of electricity equipment constructed by the Group or the Company for customer connection was used as the best estimate of the period over which connection fees paid customers are recognised as income. For further details, see Note 15. With effect from 1 July 2009, connection fees received from customers are recognised as income upon the connection of customers.

(c) Accrued income

Revenue received from private customers is recognised based on the payments received, therefore at the end of each reporting period the amount of the revenue earned but not yet paid by private customers is estimated and accrued by the management. Accrued revenue is estimated as 1/3 of payments for electricity received in December. Such estimate is based on the Company's historical experience and average settlement term for electricity supplied to private customers. The management has estimated that the majority of private customers declare and make payment for the electricity used on approx. 20th day of the month, while electricity is supplied for a full month (30 or 31 days). Consequently, the volume of electricity used over the remaining 10 days is proportionally estimated based on the total volume of electricity supplied to the electricity supply network during the month (an actually known variable) and the total volume of electricity declared by private customers during December and multiplying the difference by the average rate per 1 kWh (Note 10).

(d) Provision for impairment of accounts receivable

Impairment loss of accounts receivable was determined based on the management's estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. This determination requires significant judgement. Judgement is exercised based on indicators of significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. Current estimates of the management could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable.

The Company's amounts receivable are assessed to determine their value and impairment individually or collectively in a group of similar receivables. In case of individually assessed receivables for impairment, the Company takes into account the available or accessible data from external sources of information on market trends and forecasts, the possible credit enhancements (collateral) provided for receivables and events providing evidence of impairment of receivables such as, for example, fulfilment of contractual terms, the borrower's actual performance, etc. The Company reviews annually whether the provisioning rates used for collectively assessed receivables are in line with the historical data of impairment of receivables and approves the provisioning rates for collectively assessed receivables for the upcoming year. Based on the Company's estimates, with effect from 2013 receivables not past due are also assessed, the recovery of a certain percentage of which is not probable in the future. For further details, see Note 9.

(e) Useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and physical wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group and the Company. The following key factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

(f) Tax audits

The tax authorities may at any time inspect the accounting registers and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The management is not aware of any circumstances that might result in a potential material liability in this respect.

(g) Usage of overdeclared electricity

Starting from the beginning of 2014, the Company reduced electricity prices. Based on the Company's estimates, there was no significant difference between the volume of electricity declared and the volume of electricity actually used by private customers in 2013.

Starting from the beginning of 2015, the Company reduced electricity prices, however, a part of private customers declared higher volume of electricity than they actually used. The Company estimated the overdeclared amount. In 2014, the difference was recognised within advance amounts received (Note 18).

(h) Disputes in respect of the Commission's Resolutions

In 2014, the Commission adopted Resolutions on recalculation of price caps for electricity distribution services through medium and low voltage networks for the year 2015; on determining the price caps for the period 2016-2020; and on unsubstantiated costs identified by the Commission during the audit. In the Company's opinion, when adopting the above-mentioned Resolutions on determining the price caps the Commission improperly interpreted and improperly applied the effective laws and other legal acts, and during the audit the Commission improperly estimated the costs required for LESTO AB to carry on its regulated activity and the costs that were attributed to regulated activity. Accordingly, the Company filed complaints to court in respect of these Resolutions (Note 28).

4. Property, plant, and equipment

GROUP	Notes	Land	Buildings	Structures and machinery	Motor vehicles	Computer, communication hardware and other office equipment	Other PP&E	Construction in progress	Total
At 31 December 2012									
Cost or revalued amount		453	404,570	5,319,492	80,907	6,493	129,202	61,213	6,002,330
Accumulated depreciation		-	(62,214)	(1,117,097)	(31,523)	(4,060)	(53,760)	-	(1,268,654)
Net book amount at 1 January 2013		**453**	**342,356,**	**4,202,395**	**49,384**	**2,433**	**75,442**	**61,213**	**4,733,676**
Additions		-	241	3,150	10,851	92	216	290,994	305,544
Disposals		-	(43)	(98)	(561)	-	-	-	(702)
Write-offs		-	(179)	(12,325)	(2)	(1)	(56)	(370)	(12,933)
Revaluation		-	497	(416)	314	13	27	-	435
Reclassifications between groups, transferred to intangible assets, inventories, assets held for sale		-	4,109,	288,454	-	10	6,260	(298,482)	351
Reclassified to investment property	6	-	(3,452)	(34)	-	-	-	(1,297)	(4,783)
Depreciation charge		-	(18,816)	(334,951)	(6,821)	(435)	(16,045)	-	(377,068)
Net book amount at 31 December 2013		**453**	**324,713**	**4,146,175**	**53,165**	**2,112**	**65,844**	**52,058**	**4,644,520**
At 31 December 2013									
Cost or revalued amount		453	399,163	5,580,418	85,879	7,862	133,083	52,058	6,258,916
Accumulated depreciation		-	(74,450)	(1,434,243)	(32,714)	(5,750)	(67,239)	-	(1,614,396)
Net book amount at 1 January 2014		**453**	**324,713**	**4,146,175**	**53,165**	**2,112**	**65,844**	**52,058**	**4,644,520**
Additions		-	407	2,385	12,361	297	270,	348,775	364,495
Disposals		-	(119)	(495)	(1,200)		(2)	-	(1,816)
Write-offs		-	(279)	(13,187)	-	(4)	(19)	(175)	(13,664)
Revaluation		-	(164,575)	(1,936,006)	(3,670)	193	(32,783)	-	(2,136,841)
Reclassifications between groups, transferred to intangible assets, inventories, assets held for sale, finance lease receivables		-	3,994	347,912	(3,820)	188	5,128	(357,222)	(3,820)
Reclassified from/to investment property	6	-	(7,113)						(7,113)
Depreciation charge		-	(19,598)	(309,748)	(8,080)	(748)	(14,533)	-	(352,707)
Net book amount at 31 December 2014		**453**	**137,430**	**2,237,036**	**48,756**	**2,038**	**23,905**	**43,436**	**2,493,054**
At 31 December 2014									
Cost or revalued amount		453	138,159	2,250,037	51,388	3,853	24,842	43,436	2,512,168
Accumulated depreciation			(729)	(13,001)	(2,632)	(1,815)	(937)	-	(19,114)
		453	**137,430**	**2,237,036**	**48,756**	**2,038**	**23,905**	**43,436**	**2,493,054**

COMPANY	Land	Buildings	Structures and machinery	Motor vehicles	Computer, communication hardware and other office equipment	Other PP&E	Construc-tion in progress	Total
At 31 December 2012								
Cost or revalued amount	273	311,656	5,309,959	118	4,593	125,630	58,364	5,810,593
Accumulated depreciation	-	(57,402)	(1,112,450)	(88)	(3,692)	(51,424)	-	(1,225,056)
Net book amount at 1 January 2013	**273**	**254,254**	**4,197,509**	**30**	**901**	**74,206**	**58,364**	**4,585,537**
Additions	-	241	2,619	-	72	27	290,760	293,719
Disposals	-	(43)	(94)	-		-	-	(137)
Write-offs	-	(179)	(12,280)	(1)		(43)	(367)	(12,870)
Revaluation	-							-
Reclassifications between groups, transferred to intangible assets, inventories, assets held for sale	-	4,078	288,064	-	10	6,260	(298,482)	(70)
Depreciation charge	-	(17,108)	(333,784)	(6)	(344)	(15,461)	-	(366,703)
Net book amount at 31 December 2013	**273**	**241,243**	**4,142,034**	**23**	**639**	**64,989**	**50,275**	**4,499,476**
At 31 December 2013								
Cost or revalued amount	273	315,693	5,574,626	109	4,689	131,610	50,275	6,077,275
Accumulated depreciation	-	(74,450)	(1,432,592)	(86)	(4,050)	(66,621)	-	(1,577,799)
Net book amount at 1 January 2014	**273**	**241,243**	**4,142,034**	**23**	**639**	**64,989**	**50,275**	**4,499,476**
Additions	-	364	1,949	-	7	53	345,864	348,237
Disposals	-	(119)	(444)	-		-	-	(563)
Write-offs	-	(279)	(13,133)	-	(1)	(8)	(175)	(13,596)
Revaluation	-	(165,815)	(1,936,822)	(5)	193	(32,783)	-	(2,135,232)
Reclassifications between groups, transferred to intangible assets, inventories, assets held for sale	-	5,800	345,897	-	188	5,128	(357,013)	-
Depreciation charge	-	(18,114)	(308,587)	(4)	(349)	(14,268)	-	(341,322)
Net book amount at 31 December 2014	**273**	**63,080**	**2,230,894**	**14**	**677**	**23,111**	**38,951**	**2,357,000**
At 31 December 2014								
Cost or revalued amount	273	63,176	2,241,117	84	686	23,182	38,951	2,367,469
Accumulated depreciation	-	(96)	(10,223)	(70)	(9)	(71)	-	(10,469)
	273	**63,080**	**2,230,894**	**14**	**677**	**23,111**	**38,951**	**2,357,000**

Write-offs mainly represent write-offs of structures and electricity network equipment which had been replaced during the reconstruction (repair).

<u>Revaluation of property plant and equipment at 31 December 2014</u>

Revaluation of the Company's property, plant and equipment

The Company accounts for property, plant and equipment at revalued amount in accordance with IAS 16 *Property, plant and equipment.* Based on the requirements set forth in IAS 16, the Company performed valuation of its property, plant and equipment with reference to the report on valuation of PP&E prepared by Ernst & Young Baltic UAB, and determined that the fair value of PP&E (including construction in progress) as at 31 December 2014 amounted to LTL 2.357 billion, which was LTL 2.135 billion lower than the carrying amount of PP&E equal to LTL 4.492 billion. A significant change in the value of PP&E was mainly caused by application of economic obsolescence. In view of the decisions adopted during the period 2009-2015 by the National Control Commission for Prices and Energy (the Commission) and based on economic obsolescence estimates (using the income method), the value of the Company's PP&E is lower than that, which is estimated under the cost method.

Valuation of the Company's PP&E was based on income and cost methods. All PP&E was attributed to Level 3 in the fair value hierarchy, as set forth in IFRS 13. The table below presents information on the Company's PP&E by fair value hierarchy level as at 31 December 2014:

	Fair value of PP&E determined with reference to		
	Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 data)	**Directly or indirectly observable inputs other than quoted prices of Level 1 (Level 2 data)**	**Unobservable inputs (Level 3 data)**
Land	-	-	273
Buildings	-	-	63,080
Structures and machinery	-	-	2,230,894
Motor vehicles	-	-	14
Other PP&E	-	-	23,788
Construction in progress	-	-	38,951
Total fair value of PP&E	**-**	**-**	**2,357,000**

Valuation of property was carried out in the following stages: (i) replacement cost of new assets was estimated; (ii) physical and functional obsolescence of assets was determined; (iii) possible recoverability of assets was assessed (using the income method).

Cost method relates to Replacement Cost New (RCN) approach at individual asset level. A direct cost method was applied to 97% of PP&E (based on the fair value as at 31 December 2014), whereby RCN was estimated for new assets. RCN includes the cost of materials, installation works, labour, transportation and handling fees, overall costs of contractor, also indirect costs, such as engineering and design costs. Replacement costs of assets are estimated with reference to the Company's historical levels of asset development costs.

During the valuation, indirect cost method was applied to assets, for which it was impossible to apply a direct cost method due to their multiple nature or for which insufficient data was available. Indirect cost method was applied to approx. 3% of PP&E (based on the fair value as at 31 December 2014). Under the indirect cost method, the current replacement cost of new assets was estimated individually for each item of assets through indexation of capitalised cost of assets (based on the indices announced by the Lithuanian Statistics and Eurostat).

RCN and replacement costs less physical and functional obsolescence (i.e. depreciated replacement cost – DRC) of assets acquired between 1 August 2014 and the date of valuation were treated as equal to the respective cost and net book amounts. Such approach was applied to approx. 7% of PP&E (based on the fair value as at 31 December 2014).

When replacement cost was estimated, it was further reduced by physical obsolescence, i.e. deterioration in condition of assets caused by use intensity. Physical obsolescence was determined using the age/ useful life approach, based on "Iowa"[1] type depreciation curves. These depreciation curves were used to determine the life cycle of asset based on economic useful life, in view of current repairs and maintenance. Based on *Iowa* curves, the useful life assets exceeds the standard useful life for financial reporting purposes, because the useful life of obsolete items of assets, if properly maintained and supported, may become longer than the standard useful lives of assets.

For all technological assets with physical obsolescence not similar to straight-line depreciation, R2[2] type depreciation curve was used; and for all assets with physical obsolescence similar to straight-line depreciation, R3 type depreciation curve was used (the useful life based on R3 type curve is slightly more similar to the useful life estimated for financial reporting purposes than that based on R2 type curve). Physical obsolescence of transformers included in the category 'Structures and machinery' was estimated according to the maintenance curves (MC depreciation curves) that were based on a real useful life cycle of transformers, taking into consideration the intervals and costs of repairs and major improvements. Physical obsolescence of buildings was

[1] Iowa curve approach is based on a study at the University of Iowa and scientific research.
[2] For more details please visit: http://www.assetinsights.net/Glossary/G_Right_Modal_Curve.html

estimated according to Marshall & Swift curve (MS depreciation curve), which is used to evaluate assets with the value not lower than 20% at all times, provided such assets are still in use (if properly maintained).

RCN was further reduced by the amount of functional obsolescence, i.e. occurrence of functional failures over a particular period as a result of technological developments in the market. Functional obsolescence was estimated separately for each category of assets, the performance of which failed to comply in full with the intended function or was lower than that of modern equivalents that were used for reference when estimating RCN.

DRC was estimated as RCN less physical and functional obsolescence. Since the Company has assets that are still used after the expiry of their standard useful life, DRC was estimated to be not lower than the hold factor applied to the assets. The table below presents hold factors and depreciation curves for each category of PP&E.

Depreciation curves and hold factors

Categories of PP& included in valuation	Depreciation curve	Hold factor
35 kV electricity lines	R2	10%
10 kV electricity lines	R2	10%
0.4 kV electricity lines	R2	10%
110 kV transformers	MC	5%
35 kV transformers	MC	5%
10 kV transformers	R2	5%
Substations		
Buildings	MS	20%
Other buildings	MS	20%
Equipment	R2	5%
10/0.4 kV substations/transformers	R2	5%
Other PP&E		
Structures and roads	MS	20%
Other PP& with useful life over 30 years	R2	5%
Other PP& with useful life less than 30 years	R3	5%

The Company reviewed the remaining useful lives of PP&E. The remaining useful lives of separate items of PP&E were estimated with reference to the above-mentioned *Iowa* depreciation curves.

Income method. Under the income method, the recoverability of assets was assessed. This method was used to estimate economic obsolescence.

When estimating economic obsolescence, a cash flow forecast was prepared for the period from IVQ 2014 to 2024. Key assumptions used in cash flow forecast to estimate economic obsolescence of assets were as follows:

- Starting from 2016, electricity distribution volume is expected to grow as much as ½ of GDP growth, e.g. if GDP growth forecast for 2016 is 3.8%, accordingly, electricity distribution growth forecast will be 1.9%.
- Over the entire forecast period, the distribution price will be lower than the price approved for the year 2014. The most significant drop in price will be in 2015, resulting in 10% lower revenues in the same year. The forecast prices for 2015-2019 period will be relatively lower, mostly due to newly introduced regulation policies, OPEX savings and adjustments for the previous period profit in excess of maximum profit set by the Commission. Starting from 2020, the price is expected to rise slightly, mainly due to a higher return on Regulatory Asset Base (RAB) and lower adjustments for previous period profit in excess of maximum profit set by the Commission.
- According to the estimates in cash flow forecast, RAB amounted to LTL 1.959 billion as at 30 September 2014. During the period 2015-2024, RAB is expected to grow as a result of higher CAPEX (LTL 5.432 billion), as set forth in the investment plan approved by the Company for the period 2015-2025, and at the end of 2024 RAB is expected to amount to LTL 4.782 billion.
- Cash flow forecast covering the period of 10 years was prepared with reference to a new regulation methodology approved by the Commission on 15 January 2015.
- Based on the provisions of the new methodology, RAB is equal to non-revalued net book amount, excluding assets not related to regulated services and/or product, assets not in use, assets kept in stock, assets put into prolonged storage, investment property, as well as assets (or part of it) financed from the EU Structural Funds, subsidies received, grants, and payments for connection of electricity customers to the grid.
- Additional assumptions used in RAB estimation were determined in view of Government Resolution No 1026 of 23 September 2014 *On Approval of Description of Procedure for Determining Regulated Prices in Electric Energy Sector* ("the Regulation"). The new regulation methodology did not include all the policies approved by

the Resolution; however, the policies approved by the Resolution were applied by the Company when preparing its cash flow forecasts. Based on the Resolution, additional component of RAB is estimated as the difference between the carrying amount of assets – less assets (or part of it) financed from the EU Structural Funds, subsidies received, grants and payments for connection of electricity customers to the grid – and RAB as at 30 June 2014 (RAB additional component). In the cash flow forecast, RAB additional component was considered in assessing 50% probability, i.e. the difference (LTL 2.135 billion) between the carrying amount of assets and the value of RAB was considered to the extent of 50% (LTL 1.067 billion). RAB additional component is used only in estimating return on investments (i.e. RAB additional component is not considered in estimating depreciation expenses) for the period 2017-2024.

- Based on the Resolution, 1/10 of RAB additional component must be included in RAB each year during the period 2015–2024 to ensure that the value of regulatory asset base (RAB) would include a full amount of RAB additional component in 2024. Since the Commission did not include RAB additional component when determining the price caps for the years 2015 and 2016, return on investments in respect of the portion of RAB additional component pertaining to the years 2015 and 2016 was included by the Company in its cash flows in 2017.
- By the Commission's Resolution No O3-947 of 19 December 2014 *On Scheduled Audit*, the Commission approved Report on Scheduled Audit of LESTO AB No E3-4 and conclusions therein, and decided to reduce the Company's income from distribution services by LTL 56.816 million arising on overdeclared regulated activity costs in excess of actually incurred regulated activity costs for the reporting years 2011-2013. This decision is to be implemented during the reporting year 2015. The Company has filed a complaint to Vilnius Regional Administrative Court in respect of the aforementioned decision, and expects to recover this amount of income during the upcoming reporting years. Accordingly, this amount of income was included in cash flow forecast in the year 2017.

The discount rate was determined using the Capital Asset Pricing Model (CAPM). It was assumed that the market player will not apply any unsystematic risk premium due to the following reasons:

- size of a business, if compared with the Lithuanian economy and other local companies (one of the largest companies in Lithuania);
- monopolised and securely regulated business;
- this model also complies with the current methodology defined in regulatory legislation, which does not provide for any additional risk premiums.

The after-tax weighted average cost of capital (WACC) is equal to 6.36% (it was used when for discounting to present value), and the supposed pre-tax weighted average cost of capital is equal to 7.5%. The pre-tax WACC of 7.5% was used in estimating return on RAB (included in annual income) starting from 2017. Accordingly, WACC of 6.13% and 6.79% set by the Commission were used for the years 2015 and 2016 in estimating return on RAB.

Based on the discounted cash flow method, the Company's business value was estimated. Subsequently, balance sheet items were eliminated from it (negative net working capital and intangible assets) and deferred income tax effects were taken into account to arrive at distributable value of PP&E that was used in estimating economic obsolescence. Deferred income tax effect was calculated in view of the difference between the fair value of PP&E and the tax base of related PP&E.
In order to distribute the value of economic obsolescence among separate items of assets so that the resulting value would reflect more accurately the fair value of the respective separate item of assets, the Company followed a policy whereby the fair value of particular item of assets should not be lower than RAB assumption used in respect of that particular item of assets (net book amount for tax purposes adjusted for the ratio of total net book amount for tax purposes and RAB value as at 30 September 2014, since RAB is not monitored at the Company at the level of separate items of assets).

Economic obsolescence was applied (i.e. distributed) to all assets, except for the following categories (or separate items of assets from different categories):

- construction in progress; because new projects are included in RAB at full value;
- assets with the fair value equal to the net book amount for the purpose of valuation;
- assets with the value before economic obsolescence lower than RAB assumption used in respect of particular item of assets;
- actual or expected write-offs of assets; because the fair value of such assets is equal to zero for the purpose of valuation.

Sensitivity analysis. Based on the provisions set forth in paragraph 93 of IFRS 13, the Company performed fair value sensitivity analysis in respect of changes in unobservable inputs using the following scenarios:

Scenario I of sensitivity analysis: if there were changes in regulatory environment and income level was established for the Company by the Commission for the period 2017-2024, return on investments would not be taken into consideration in respect of RAB additional component approved under the Resolution; accordingly, the Company's income for forecast period (2015-2024) would be LTL 422 million lower, and the fair value of PP&E would **decrease by up to LTL 2.075 billion**.

Scenario II of sensitivity analysis: if judicial authorities rejected the Company's complaint in respect of the Commission's resolution under which the Company's income from electricity distribution services was reduced by LTL 56.816 million, the Company's income for forecast period (2015-2024) would be LTL 56.816 million lower, and the fair value of PP&E would **decrease by up to LTL 2.309 billion**.

Scenario III of sensitivity analysis: if there were changes in regulatory environment and income level was established for the Company by the Commission for the period 2017-2024, return on investments (to 100% extent) would be taken into consideration in respect of RAB additional component approved under the Resolution; accordingly, the Company's income for forecast period (2015-2024) would be LTL 416 million higher, and the fair value of PP&E would **increase up to LTL 2.633 billion**.

Revaluation of assets of subsidiaries

In October 2014, independent property valuer InReal UAB carried out valuation of all buildings and structures of the Company's subsidiary NT Valdos UAB using the comparable (analogue sale price) method. Management of NT Valdos UAB believes that the values of these buildings and structures adjusted under this method as at 1 December 2014 approximated their fair value. The values of 59 items of assets were adjusted with reference to the fair values determined by independent property valuer amounting to LTL 27,835,100. From this number, increase in value was determined for 21 items of assets in amount of LTL 1,478,430, and decrease in value was determined for 3 items of assets in amount of LTL 421,194. The carrying amounts of the remaining 35 items of assets were not adjusted in view of the established materiality limit.

In October 2014 valuation of motor vehicles was carried out. The management of subsidiary NT Valdos, UAB established fair values of cars based on market prices as of 31 October 2014 which are available from VŠĮ „Emprekis" database. All 1426 items were revalued. Valuation of special purpose motor vehicles was performed by independent property valuer Ober-Haus UAB, 105 items were selected out of 404. The values of vehicles were adjusted with reference to the fair values determined by independent property valuers using the comparable method. Total value of these assets amounts to LTL 3,302,100.

In the opinion of management of Elektros Tinklo Paslaugos UAB, there were no significant indications of changes in the values of PP&E in 2014, and accordingly, no revaluation was performed for PP&E as at 31 December 2014.

The table below presents gain and loss on revaluation in 2014:

GROUP	**Recognised in other comprehensive income and revaluation reserve**	**Recognised in profit or loss**	**Total gain (loss) on revaluation**
Increase (decrease) in carrying amount	(1,341,343)	(795,498)	(2,136,841)
Write-off of grants (Note 16)	-	29,291	29,291
Total	(1,341,343)	(766,207)	(2,107,550)

COMPANY	**Recognised in other comprehensive income and revaluation reserve**	**Recognised in profit or loss**	**Total gain (loss) on revaluation**
Increase (decrease) in carrying amount	(1,346,508)	(788,724)	(2,135,232)
Write-off of grants (Note 16)	-	29,291	29,291
Total	(1,346,508)	(759,433)	(2,105,941)

Revaluation of PP&E as at 31 December 2013

As at 31 December 2013, the fair value of PP&E of the Company's subsidiary ELEKTROS TINKLO PASLAUGOS UAB was determined with reference to market value valuation reports prepared by independent property and business valuer Kovertas UAB. Valuation of PP&E was based on comparable price and cost methods.

As at 31 December 2013, the valuation of buildings of the Company's subsidiary NT Valdos UAB was carried out by independent property valuer Inreal UAB using the comparable price method.

The table below presents gain and loss on revaluation in 2013:

GROUP	Recognised in other comprehensive income and revaluation reserve	Recognised in profit or loss	Total gain (loss) on revaluation
Increase (decrease) in carrying amount	850	(415)	435

In 2010, independent property valuer performed revaluation of non-current assets that was used as in-kind contribution to the formation of share capital of NT Valdos UAB. In 2013, NT Valdos UAB performed revaluation of the selected items of assets belonging to the category of motor vehicles, and determined that the carrying amount of PP&E did not significantly differ from the fair value.

If no revaluation had been carried out for PP&E, the net book values of the Group's and the Company's PP&E would have been as follows as at 31 December 2014 and 2013:

GROUP	Land	Buildings	Structures and machinery	Motor vehicles	Computer, commu-nication hardware, other office equipment	Other PP&E	Constr-uction in progress	Total
As 31 December 2014	**556**	**179,724**	**2,842,940**	**55,969**	**1,833**	**56,465**	**43,490**	**3,180,977**
At 31 December 2013	**556**	**186,062**	**2,660,078**	**52,844**	**1,459**	**67,050**	**52,120**	**3,020,169**

COMPANY	Land	Buildings	Structures and machinery	Motor vehicles	Computer, commu-nication hardware, other office equipment	Other PP&E	Constr-uction in progress	Total
As 31 December 2014	376	147,971	2,839,131	12	478	55,685	39,006	**3,082,659**
At 31 December 2013	376	152,637	2,652,869	15	394	64,368	50,337	**2,920,996**

Measurement of the fair value of PP&E

The table below presents the Group's PP&E by hierarchy level as at 31 December 2014 (the levels of the fair value hierarchy are described in Note 27):

	Level 1	Level 2	Level 3	
GROUP	**Quoted prices in active markets**	**Other directly or indirectly observable inputs**	**Unobservable inputs**	**Total**
PP&E				
-buildings	-	5,441	131,989	**137,430**
-structures	-	354	2,236,682	**2,237,036**
-motor vehicles	-	47,940	817	**48,757**
-other PP&E	-	231	62,778	**63,009**
Total	**-**	**53,966**	**2,432,266**	**2,486,232**

The fair values of the Company's/Group's PP&E, which were determined under the income and cost methods, are

within Level 3 of the fair value hierarchy.
The fair values of motor vehicles owned by the Company's subsidiary NT Valdos UAB, which were determined using directly or indirectly observable inputs are within Level 2 of the fair value hierarchy. The sale prices of comparable objects selected by the valuer were adjusted taking into account specific characteristics of the object being evaluated. Items of assets within Level 3 of the fair value hierarchy were evaluated using the income method. The valuer was able to use inputs and data enabling to make precise forecasts of future cash flows. Future inflows were estimated with reference to rent rates of comparable objects (adjusted for such factors as location, area, condition, and other factors that affect the value) and actual rent rates of the object evaluated (adjusted for occupancy). The valuation was based on rent rates of auxiliary and administrative premises. The carrying amounts of part of items of assets of NT Valdos UAB were not adjusted in view of the estimated materiality limit.
The table below presents the Group's PP&E by hierarchy level as at 31 December 2013 (the levels of the fair value hierarchy are described in Note 27):

	Level 1	**Level 2**	**Level 3**	
GROUP	**Quoted prices in active markets**	**Other directly or indirectly observable inputs**	**Unobservable inputs**	**Total**
PP&E				
-buildings	-	5,554	76,330	**81,884**
-structures	-	172	5,801	**5,973**
-motor vehicles	-	1,893	993	**2,886**
-other PP&E	-	204	71	**275**
Total	**-**	**7,823**	**83,195**	**91,018**

5. Intangible assets

GROUP	**Patents and licenses**	**Computer software**	**Other intangible assets**	**Projects in progress**	**Total**
At 31 December 2012					
Cost	69	11,762	171	2,497	14,499
Accumulated depreciation	(25)	(7,360)	(57)	-	(7,442)
Net book amount at 1 January 2013	**44**	**4,402**	**114**	**2,497**	**7,057**
Additions	-	-	-	4,908	4,908
Reclassification from property, plant and equipment	-	3,379	100	(3,409)	70
Write-offs	-	(4)	(6)	-	
Amortisation charge	(23)	(2,629)	(47)	-	(2,699)
Net book amount at 31 December 2013	**21**	**5,148**	**161**	**3,996**	**9,326**
At 31 December 2013					
Cost	69	14,835	256	3,996	19,156
Accumulated depreciation	(48)	(9,687)	(95)	-	(9,830)
Net book amount at 1 January 2014	**21**	**5,148**	**161**	**3,996**	**9,326**
Additions	22	66	-	2,332	2,420
Reclassifications between groups	101	5,543	51	(5,695)	-
Amortisation charge	(26)	(2,750)	(70)	-	(2,846)
Net book amount at 31 December 2014	**118**	**8,007**	**142**	**633**	**8,900**
At 31 December 2014					
Cost	192	20,447	307	633	21,579
Accumulated depreciation	(74)	(12,440)	(165)	-	(12,679)
	118	**8,007**	**142**	**633**	**8,900**

COMPANY	Patents and licenses	Computer software	Other intangible assets	Projects in progress	Total
At 31 December 2012					
Cost	69	11,685	161	2,472	14,387
Accumulated depreciation	(25)	(7,333)	(55)	-	(7,413)
Net book amount at 1 January 2013	**44**	**4,352**	**106**	**2,472**	**6,974**
Additions	-	-	-	4,907	4,907
Reclassification from property, plant and equipment	-	3,378	100	(3,408)	70
Write-offs	-	(4)	(6)	-	(10)
Amortisation charge	(23)	(2,608)	(45)	-	(2,676)
Net book amount at 31 December 2013	**21**	**5,118**	**155**	**3,971**	**9,265**
At 31 December 2013	-	-	-	-	-
Cost	69	14,764	246	3,971	19,050
Accumulated depreciation	(48)	(9,646)	(91)		(9,785)
Net book amount at 1 January 2014	**21**	**5,118**	**155**	**3,971**	**9,265**
Additions	22			2,332	2,354
Reclassifications between groups	101	5,543	51	(5,695)	-
Amortisation charge	(26)	(2,713)	(67)		(2,806)
Net book amount at 31 December 2014	**118**	**7,948**	**139**	**608**	**8,813**
At 31 December 2014					
Cost	193	20,307	297	608	21,405
Accumulated depreciation	(75)	(12,359)	(158)	-	(12,592)
	118	**7,948**	**139**	**608**	**8,813**

6. Investment property

The Group's investment property comprises buildings and structures of the subsidiary NT Valdos UAB that are not used for the Group's own needs but are held for rental yields.

The summary of movement on investment property account is presented below:

GROUP	Investment property
At 1 January 2013	**141,730**
Change in fair value	575
Reclassification from PP&E on change in asset's intended use	4,783
At 31 December 2013	**147,088**
At 1 January 2014	**147,088**
Disposals	**(681)**
Change in fair value	1,135
Reclassification from PP&E on change in asset's intended use	7,113
At 31 December 2014	**154,655**

As at 31 December 2014, the fair value of investment property was determined with reference to real estate market value reports prepared by independent property valuer InReal UAB. Assets were measured using the valuation methods of comparable price, cost and income or their combinations, based on information and data collected by property valuers.

As at 31 December 2013, the fair value of investment property was determined with reference to real estate market value reports prepared by independent property valuers InReal UAB and Resolution Valuation UAB. Valuation of assets was based on comparable price and income methods.

The table below presents the Group's investment property by fair value hierarchy level as at 31 December 2014 and 2013 (the fair value hierarchy levels are described in Note 27):

At 31 December 2014	Level 1	Level 2	Level 3	
GROUP	**Quoted prices in active markets**	**Other directly or indirectly observable inputs**	**Unobservable inputs**	**Total**
Investment property:				
-buildings	-	-	152,019	**152,019**
-structures	-	-	2,636	**2,636**
Total	**-**	**-**	**154,655**	**154,655**

At 31 December 2013	Level 1	Level 2	Level 3	
GROUP	**Quoted prices in active markets**	**Other directly or indirectly observable inputs**	**Unobservable inputs**	**Total**
Investment property:				
-buildings	-	-	144,489	**144,489**
-structures	-	-	2,599	**2,599**
Total	**-**	**-**	**147,088**	**147,088**

7. Non-current receivables

Non-current receivables consist of mortgage loans granted to private individuals for a period of 25 years, and finance lease under operating lease contracts of motor vehicles to be repurchased under the contractual terms with dealers after 1 to 3 years. The mortgage loans are repayable in instalments till 2027. These loans are secured over residential housing property. In 2014, the current portion of these loans amounted to LTL 262 thousand (2013: LTL 300 thousand) and was accounted for under trade and other receivables (Note 9). These loans were issued at a fixed interest rate ranging from 0.1 to 1 per cent.

	GROUP		COMPANY	
	31 Dec 2014	**31 Dec 2013**	**31 Dec 2014**	**31 Dec 2013**
Fair value of mortgage loans granted	2,425	2,835	2,425	2,835
Carrying amount of mortgage loans granted	1,919	2,239	1,919	2,239

Non-current portion of mortgage loans is presented below:

	GROUP		COMPANY	
	31 Dec 2014	**31 Dec 2013**	**31 Dec 2014**	**31 Dec 2013**
Non-current portion of mortgage loans granted	1,657	1,939	1,657	1,939
Non-current portion of finance lease	3,213	-	-	-
Other non-current receivables	180	380	-	-
Total	**5,050**	**2,319**	**1,657**	**1,939**

The fair value of mortgage loans was estimated based on discounted cash flows at a rate of 2.21% as at 31 December 2014 (31 December 2013: 2.51%). The discount rate corresponds to the interest rate on loans granted to non-financial entities and households as published by the Bank of Lithuania. The fair value of mortgage loans is within Level 3 of the fair value hierarchy (refer to Note 27 for more details). The weighted average effective interest rate used by the Group and the Company for discounting of mortgage loans was 7.69% as at 31 December 2014 (2013: 7.65%). The fair value of finance lease receivables does not differ significantly from the carrying amount.

8. Inventories

	GROUP		COMPANY	
	31 Dec 2014	**31 Dec 2013**	**31 Dec 2014**	**31 Dec 2013**
Raw materials and spare parts	8,973	10,628	4,170	4,361
Electricity meters	2,267	3,257	2,267	3,257
Fuel	122	278	122	147
Other	1,572	2,996	1,120	2,018
Less: write-down allowance for inventories	(4,938)	(6,577)	(2,140)	(3,112)
Total	**7,996**	**10,582**	**5,539**	**6,671**

The Group's and the Company's inventories recognised as expenses during the year ended 31 December 2014 amounted to LTL 52,088 thousand and LTL 17,197 thousand (31 December 2013: LTL 50,901 thousand and LTL 14,607 thousand) respectively. These expenses were included in repairs and maintenance expenses in the statement of profit or loss and other comprehensive income.

Movement on inventory write-down allowance account in 2014 and 2013 was as follows:

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Inventory write-down at 1 January	**6,577**	**7,130**	**3,112**	**3,895**
Increase in inventory write-down during the year	67	815	67	585
Reversal of inventory write-down	(1,706)	(1,368)	(1,039)	(1,368)
Inventory write-down at 31 December	**4,938**	**6,577**	**2,140**	**3,112**

Write-down with respect to certain inventories was reversed as inventories were written off or utilised.

9. Trade and other receivables

	GROUP		COMPANY	
	31 Dec 2014	**31 Dec 2013**	**31 Dec 2014**	**31 Dec 2013**
Trade receivables	209,827	221,283	206,638	219,318
Trade and other receivables from related parties (Note 29)	15,280	19,307	10,286	13,344
Current portion of mortgage loans	262	300	262	300
Current portion of finance lease	562	-	-	-
Other receivables	7,687	3,414	6,995	3,399
Less: impairment allowance for doubtful receivables	(30,832)	(40,281)	(30,098)	(39,635)
Total	**202,786**	**204,023**	**194,083**	**196,726**

Other receivables amounting to LTL 3,248 thousand for the Group and LTL 2,569 thousand for the Company as at 31 December 2014 (31 December 2013: LTL 1,196 thousand and LTL 1,067 thousand for the Group and the Company, respectively) are not financial instruments.

The fair values of trade and other receivables approximate their carrying amounts.
Impairment provision for trade receivables is recognised when it is probable that the debtor will enter bankruptcy, fails to fulfil obligations or the payment is overdue. Based on the Company's estimates, with effect from 2013,

receivables not past due are also assessed, the recovery of a certain percentage of which is not probable in the future.

Current portions of mortgage loans are disclosed at a discounted value and are not past due.
The Group's and the Company's trade and other receivables that were not classified as doubtful:

	GROUP		COMPANY	
	31 Dec 2014	**31 Dec 2013**	**31 Dec 2014**	**31 Dec 2013**
Not past due	164,326	183,758	163,116	177,845
Past due up to 1 month	14,291	11,304	8,146	10,324
Past due from 1 to 2 months	4,018	3,769	3,291	3,703
Past due over 2 months	19,327	4,892	19,268	4,554
Total	**201,962**	**203,723**	**193,821**	**196,426**

In 2014, new provisioning rates were approved for collectively measured receivables. Since the new provisioning rates were lower than those used in 2013, receivables past due over 2 months, which had not been identified as doubtful, increased and amounted to LTL 19,268 thousand as at 31 December 2014.
For the ageing analysis of receivables from related parties refer to Note 29.

Trade receivables are non-interest bearing and are normally settled over the term of 25 to 35 days.

The Group's and the Company's trade and other receivables that were impaired:

	GROUP		COMPANY	
	31 Dec 2014	**31 Dec 2013**	**31 Dec 2014**	**31 Dec 2013**
Past due up to 3 months	3,046	6,235	3,039	6,224
Past due from 3 to 6 months	1,887	3,103	1,841	3,032
Past due from 6 to 12 months	5,067	6,892	5,011	6,642
Past due over 1 year	20,832	24,051	20,207	23,737
Total	**30,832**	**40,281**	**30,098**	**39,635**

Movements on the Group's and the Company's impairment allowance account for trade and other receivables in 2014 and 2013 were as follows:

	GROUP	COMPANY
Balance at 1 January 2013	**34,530**	**34,205**
Impairment charge for the year	11,801	11,478
Write-offs	(6,050)	(6,048)
Balance at 31 December 2013	**40,281**	**39,635**
Impairment charge for the year	(5,658)	(5,753)
Write-offs	(3,791)	(3,784)
Balance at 31 December 2014	**30,832**	**30,098**

10. Prepayments, deferred charges and accrued income

	GROUP		COMPANY	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Accrued revenue from sales of electricity	20,763	21,735	20,763	21,735
Prepayments for services	856	128	785	32
Other prepayments, deferred charges, other accrued income	927	431	79	57
Total	**22,546**	**22,294**	**21,627**	**21,824**

11. Derivative financial instruments

In 2014, the Group/Company had no derivative financial instruments.

12. Cash and cash equivalents, and term deposits

Cash and cash equivalents

	GROUP		COMPANY	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Cash at bank	35,913	26,590	14,189	8,050
Total	**35,913**	**26,590**	**14,189**	**8,050**

Presented below is the analysis of the credit quality of balances of cash and cash equivalents based on ratings established by the rating agency Moody's:

	GROUP		COMPANY	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Aa3	11,013	8,650	2,781	2,605
A1	10,099	16,728	5,131	4,232
A3	14,801	1,212	6,277	1,212
Total	**35,913**	**26,590**	**14,189**	**8 050**

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

	GROUP		COMPANY	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Cash and cash equivalents	35,913	26,590	14,189	8,050
Bank overdraft (Note 19)	(44,231)	(70,708)	(44,231)	(70,009)
Total	**(8,318)**	**(44,118)**	**(30,042)**	**(61,959)**

Term deposits

As at 31 December 2014 and 2013, the Group had no term deposits at bank.

13. Share capital

As at 31 December 2014, the Company's authorised share capital comprised 603,944,593 (2013: 603,944,593) ordinary registered shares with par value of LTL 1 each. All the shares are fully paid. The number of shares did not change during 2014 and 2013.

14. Reserves

Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5 per cent of net profit are required until the reserve reaches 10 per cent of the share capital. As at 31 December 2014 and 2013, the legal reserve was fully established.

Revaluation reserve

Revaluation reserve arises from revaluation of property, plant and equipment due to the value increase. This reserve cannot be used to cover losses.

GROUP	Note	**Revaluation reserve**	**Deferred income tax**	**Net of deferred income tax**
Balance at 1 January 2013		**1,923,479**	**(289,124)**	**1,634,355**
Gains/(losses) on revaluation of property, plant and equipment during the year	4	850	(128)	722
Transfer of revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)		(198,285)	29,743	(168,542)
Non-controlling interests' share of reserve of subsidiaries		30	(4)	26
Balance at 31 December 2013		**1,726,074**	**(259,514)**	**1,466,560**
Balance at 1 January 2014		**1,726,074**	**(259,514)**	**1,466,560**
Gains/(losses) on revaluation of property, plant and equipment during the year	4	(1,341,343)	201,202	(1,140,141)
Transfer of revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)		(182,509)	27,376	(155,133)
Reversal of reserve on valuation of assets		85,028	(12,754)	72,274
Non-controlling interests' share of reserve of subsidiaries		(2,206)	331	(1,875)
Balance at 31 December 2014		**285,044**	**(43,358)**	**241,685**

COMPANY	Note	**Revaluation reserve**	**Deferred income tax**	**Net of deferred income tax**
Balance at 1 January 2013		**1,888,558**	**(283,313)**	**1,605,245**
Transfer of revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)		(197,035)	29,555	(167,480)
Balance at 31 December 2013		**1,691,523**	**(253,758)**	**1,437,765**
Balance at 1 January 2014		**1,691,523**	**(253,758)**	**1,437,765**
Gains/(losses) on revaluation of property, plant and equipment during the year	4	(1,346,508)	201,976	(1,144,532)
Transfer of revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)		(180,902)	27,135	(153,767)
Reversal of reserve on valuation of assets		85,028	(12,754)	72,274
Balance at 31 December 2014		**249,141**	**(37,401)**	**211,740**

In 2005, Rytų Skirstomieji Tinklai AB and VST AB (On 1 January 2011, the Company took over all assets, rights and obligations of RST and VST) increased their share capital through reduction of the revaluation reserve. The Company reversed LTL 85,028 thousand of the reserve that was used to increase the share capital from retained earnings in order to account for the result of valuation of assets in 2014 in profit and loss (valuation results are given in Note 4), which does not depend on the utilisation of revaluation reserve in the previous periods.

Other reserves

Other reserves are formed based on the decision of shareholders and can be redistributed on the appropriation of the next year's profit.

15. Deferred income

	GROUP/COMPANY	
	31 Dec 2014	**31 Dec 2014**
Deferred income from customer connection fees	287,802	302,832
Deferred income from public service obligations (PSO) services	1,068	1,110
Total	**288,870**	**303,942**

Deferred income from customer connection fees:

	GROUP/COMPANY	
	2014	**2014**
Opening balance	**317,861**	**332,890**
Recognised as income in the statement of profit or loss and other comprehensive income	(15,029)	(15,029)
Closing balance	**302,832**	**317,861**

	GROUP/COMPANY	
	31 Dec 2014	**31 Dec 2014**
Non-current portion	287,803	302,832
Current portion (Note 18)	15,029	15,029
Total	**302,832**	**317,861**

With effect from 1 July 2009, all income from the connection of new customers to electricity equipment and from movement of electricity lines are recognised in the period in which works were performed. Before 1 July 2009, accrued income used to be recognised as income over the average useful life of non-current assets concerned.

16. Grants

Movements on the Group's and the Company's grants account in 2014 and 2014 were as follows:

	GROUP/COMPANY
Balance at 31 December 2012	**45,940**
Received	5,547
Reversed	-
Amortisation charge	(3,019)
Balance at 31 December 2013	**48,468**
Received	15,041
Written off	(29,291)
Amortisation charge	(3,201)
Balance at 31 December 2014	**31,017**

Grants consist of funds received from the EU Funds for the purpose of acquisition and construction of structures and electricity networks and of property, plant and equipment received at no consideration from the Government of the Republic of Lithuania.

Amortisation of grants is accounted for under the caption 'Depreciation and amortisation' in the statement of profit or loss and other comprehensive income. Depreciation charges of the related property, plant and equipment are reduced by the amount of amortisation of grants.

Following the revaluation of non-current assets in 2014, grants relating to non-current assets, in respect of which impairment was determined during the valuation, were written off. The grants were written off in order to account for the result of valuation of assets, which does not depend on the way of presentation of grants in the financial statements.

17. Trade and other payables

	GROUP		COMPANY	
	31 Dec 2014	**31 Dec 2013**	**31 Dec 2014**	**31 Dec 2013**
Trade payables	138,820	152,815	127,871	137,014
Trade payables to subsidiaries (Note 29)	-	-	20,613	21,369
Trade payables to related parties (Note 29)	122,316	160,241	121,458	159,751
Total trade payables	**261,136**	**313,056**	**269,942**	**318,134**
Taxes (other than income tax)	2,433	2,598	738	1,042
Employment-related liabilities	4,212	4,288	3,277	3,396
Other current liabilities	8,547	9,412	8,517	9,386
Total other amounts payable	**15,192**	**16,298**	**12,532**	**13,824**
Trade and other payables	**276,328**	**329,354**	**282,474**	**331,958**

Other payables amounting to LTL 6,692 thousand for the Group and LTL 4,033 thousand for the Company as at 31 December 2014 (31 December 2013: LTL 6,951 thousand for the Group and LTL 4,477 thousand for the Company) are not financial instruments

Trade payables

The above financial liabilities have the following conditions:

- Trade payables are non-interest bearing and are normally settled within the term of 60 days.
- Other payables are non-interest bearing and have an average settlement term of 6 months.

18. Advance amounts received, accrued charges and deferred income

	GROUP		COMPANY	
	31 Dec 2014	**31 Dec 2013**	**31 Dec 2014**	**31 Dec 2013**
Accrued charges	20,899	19,588	16,775	15,704
Current portion of deferred income from connection of new customers (Note 15)	15,029	15,029	15,029	15,029
Current portion of other deferred income	42	42	42	42
Accrued charges	43,200	40,412	42,535	39,996
Total	**79,170**	**75,071**	**74,381**	**70,771**

As at 31 December 2014, advance amounts received comprised advances received for the connection of new customers, advances received for electricity, and overdeclared electricity effects amounting to LTL 6,457 thousand arising from overdeclared electricity by some private customers as compared to actual consumption.
As at 31 December 2013, advance amounts received mostly comprised advances received for the connection of new customers and advances received for electricity.

19. Borrowings

	GROUP		COMPANY	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Non-current borrowings				
Borrowings from banks	344,780	299,065	344,780	299,065
Current borrowings				
Bank overdraft	44,231	70,708	44,231	70,009
Borrowings from banks	377,780	245,754	377,780	245,754
	422,011	316,462	422,011	315,763
Total borrowings	**766,791**	**615,527**	**766,791**	**614,828**

As at 31 December 2014, the Company was not in compliance with one of the financial covenants stipulated in a long-term loan agreement; therefore, the loan balance of LTL 21,807 thousand was reclassified in full to current borrowings.

All borrowings of the Group and the Company bear variable interest rate with repricing period up to 6 months. No assets have been provided as collateral for borrowings.

Non-current borrowings by maturity:

	GROUP		COMPANY	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Between 1 and 2 years	187,414	55,850	187,414	55,850
Between 2 and 5 years	157,366	243,215	157,366	243,215
After 5 years	-	-	-	-
Total	**344,780**	**299,065**	**344,780**	**299,065**

The average interest rates (%) at the financial reporting date:

	GROUP		COMPANY	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Bank overdraft	0.82	0.78	0.82	0.78
Borrowings from banks	1.03	1.21	1.03	1.21

The carrying amounts of the Group's and the Company's borrowings are denominated in the following currencies:

	GROUP		COMPANY	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
LTL	44,233	70,708	44,233	70,009
EUR	722,558	544,819	722,558	544,819
Total	**766,791**	**615,527**	**766,791**	**614,828**

The Group and the Company have the following undrawn committed credit facilities expiring within or after one year:

	GROUP		COMPANY	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Committed credit facilities	266,937	52,292	262,937	48,991

20. Deferred income tax

The Group's and the Company's income tax expense/(income) for 2014 and 2013 comprised as follows:

	GROUP		COMPANY	
	2014	2013	2014	2013
Current year income tax	36,543	34,132	36,064	34,116
Deferred income tax (income)/expense	(135,827)	(26,630)	(136,026)	(27,418)
Total	**(99,284)**	**7,502**	**(99,962)**	**6,698**

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	GROUP		COMPANY	
	2014	2013	2014	2013
Deferred income tax assets:				
Deferred income tax assets to be realised after more than 12 months	11,717	20,153	7,960	15,738
Deferred income tax assets to be realised within 12 months	15,277	3,385	14,517	3,107
Total	**26,994**	**23,538**	**22,477**	**18,845**
	-	-	-	-
Deferred income tax liabilities:				
Deferred income tax liabilities to be settled after more than 12 months	(10,222)	(326,069)	(1,859)	(320,295)
Deferred income tax liabilities to be settled within 12 months	(13,730)	(31,454)	(13,571)	(29,505)
Deferred income tax assets:	**(23,952)**	**(357,523)**	**(15,430)**	**(349,800)**

Deferred income tax assets and deferred income tax liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts offset are presented in the table below:

GROUP **Deferred income tax assets**	**Income from connection of new customers**	**Impair-ment of assets**	**Revaluation of PP&E and differences due to different depreciation rates**	**Accrued charges**	**Tax loss carry-forward**	**Tax goodwill arising on business exchange transact-tion**	**Overdecla-red electricity**	**Total**
Balance at 1 January 2013	**10,732**	**6,420**	**-**	**2,114**	**2,644**	**59**	**1,134**	**23,103**
Income tax (expense)/income recognised in profit or loss	(587)	1,666	-	277	246	(33)	(1,134)	435
Balance at 31 December 2013	**10,145**	**8,086**	**-**	**2,391**	**2,890**	**26**	**-**	**23,538**
Income tax (expense)/income recognised in profit or loss	(587)	(1,743)	5,017	(37)	(137)	(26)	969	3,456
Balance at 31 December 2014	**9,558**	**6,343**	**5,017**	**2,354**	**2,753**	**-**	**969**	**26,994**

Deferred income tax liabilities	Revaluation of PP&E and differences due to different depreciation rates	Investment relief	Write-off of grants	Total
Balance at 1 January 2013	**(367,251)**	**(16,339)**	**-**	**(383,590)**
Income tax (expense)/income recognised in profit or loss	22,879	3,316	-	26,195
Recognised in other comprehensive income	(128)	-	-	(128)
Balance at 31 December 2013	**(344,500)**	**(13,023)**	**-**	**(357,523)**
Income tax (expense)/income recognised in profit or loss	134,778	1,987	(4,394)	132,371
Recognised in other comprehensive income	201,202	-	-	201,202
Balance at 31 December 2014	**(8,522)**	**(11,036)**	**(4,394)**	**(23,952)**

COMPANY

Deferred income tax assets	Income from connection of new customers	Impairment of assets	Revaluation of PP&E and differences due to different depreciation rates	Accrued charges	Overdeclared electricity	Total
Balance at 1 January 2013	**10,732**	**6 041**	**-**	**1,664**	**1,134**	**19,571**
Income tax (expense)/income recognised in profit or loss	(587)	634	-	361	(1,134)	(726)
Balance at 31 December 2013	**10,145**	**6 675**	**-**	**2,025**	**-**	**18,845**
Income tax (expense)/income recognised in profit or loss	(587)	(1 671)	5 017	(96)	969	3,632
Balance at 31 December 2014	**9,558**	**5 004**	**5 017**	**1,929**	**969**	**22,477**

Deferred income tax liabilities	Revaluation of PP&E and differences due to different depreciation rates	Investment relief	Write-off of grants	Total
Balance at 1 January 2013	**(361,605)**	**(16,339)**		**(377,944)**
Income tax (expense)/income recognised in profit or loss	24,828	3,316		28,144
Balance at 31 December 2013	**(336,777)**	**(13,023)**		**(349,800)**
Income tax (expense)/income recognised in profit or loss	134,801	1,987	**(4,394)**	**132,394**
Recognised in other comprehensive income	201,976	-		201,976
Balance at 31 December 2014	**-**	**(11,036)**	**(4,394)**	**(15,430)**

The amount of income tax expenses reported in the statement of profit or loss and other comprehensive income attributable to the operating result for the year can be reconciled against the amount of income tax expenses that would result from applying the statutory income tax rate of 15 per cent to profit before tax:

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Profit (loss) before tax	(664,809)	55,148	(668,297)	50,070
Income tax expense (income) at a rate of 15% (2013: 15%)	(99,721)	8,272	(100,245)	7,511
Expenses not deductible for tax purposes	483	217	283	122
Income not subject to tax	(46)	(987)	-	(935)
Total	**(99,284)**	**7,502**	**(99,962)**	**6,698**

21. Revenue

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Income from electricity transmission and distribution	2,165,338	2,322,868	2,167,812	2,326,647
Income from connection of new customers	60,704	58,383	60,711	58,383
Lease of premises and motor vehicles	23,864	19,198	-	-
Other income	46,760	30,713	18,251	13,365
Total	**2,296,666**	**2,431,162**	**2,246,774**	**2,398,395**

The companies of the Group provide services of operating lease of motor vehicles and real estate by entering into lease agreements for a specified term which can span from few hours to several years. Income from operating lease of motor vehicles and real estate is recognised as income in the statement of profit or loss and other comprehensive income using the straight-line method over the term of lease.

22. Employee benefits and related social security contributions

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Wages and salaries	102,454	105,998	85,996	86,597
Termination benefits	2,232	5,491	1,952	5,189
Social security contributions	35,290	34,593	27,394	28,464
Vacation accrual	10,667	10,819	9,113	9,076
Social security contributions on vacation accrual	3,323	3,368	2,840	2,824
Total	**153,966**	**160,269**	**127,295**	**132,150**

23. Finance income and costs

	GROUP		COMPANY	
	2014	2013	2014	2013
Finance income				
Late-payment interest on trade receivables	747	2,109	953	2,511
Interest income from credit institutions	177	263	137	224
Interest income on loans granted	303	20	228	20
Derivatives – interest rate swaps	-	758	-	758
Dividends income	-	-	171	-
Other finance income	4	-	-	-
Total	**1,231**	**3,150**	**1,489**	**3,513**
Finance costs				
(Interest) paid on loans	(7,817)	(6,895)	(7,752)	(6,846)
Foreign exchange (loss)	(3)	(10)	(1)	(1)
Other (costs)	(236)	(107)	(6)	(23)
Total	**(8,056)**	(7,012)	(7,759)	(6,870)
Net finance income (costs)	**(6,825)**	**(3,862)**	**(6,270)**	**(3,357)**

24. Other expenses

	GROUP		COMPANY	
	2014	2013	2014	2013
Write-offs of property, plant and equipment	13,664	12,933	13,596	12,870
Business trips	415	265	259	194
Consultation services	1,273	417	976	160
Personnel development	1,319	1,118	1,103	1,001
Stationery	308	289	220	211
Public relations and marketing	2,289	2,108	2,210	1,948
Asset management costs	107	96	107	96
Customer service costs	7,434	8,204	7,408	8,168
Checking of equipment and devices	936	768	866	740
Taxes (other than income tax)	10,238	9,440	7,804	7,200
Provision for (reversal of) impairment for amounts receivable (Note 9)	(5,658)	11,801	(5,753)	11,478
Payments under the collective agreement and other additional payments	1,181	877	1,114	787
Insurance	454	990	119	113
Charges and dues	22	43	21	43
Medical care	118	123	79	92
Other expenses	3,254	(296)	1,225	(1,255)
Total	**37,354**	**49,176**	**31,354**	**43,846**

25. Basic and diluted earnings per share

Basic

Basic earnings per share are calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	GROUP		COMPANY	
	2014	2013	2014	2013
Net profit/(loss) attributable to shareholders of the Company (in LTL thousands)	(566,346)	46,474	(568,335)	43,372
Weighted average number of shares (thousands)	603,945	603,945	603,945	603,945
Basic earnings/(loss) per share (in LTL per share)	**(0.938)**	**0.077**	**(0.941)**	**0.072**

Diluted

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As at 31 December 2014, the Company had no dilutive potential ordinary shares issued.

26. Dividends per share

Declared dividends per share:

	2014 m.	2013 m.
Declared dividends (in LTL thousand)	181,184	102,670
Weighted average number of shares (thousands)	603,945	603,945
Declared dividends per share (in LTL per share)	**0.300**	**0.170**

During the Ordinary Meeting of Shareholders held on 30 April 2014, the Company's shareholders made a decision on profit appropriation and allocation of LTL 114,749 thousand for payment of dividends.

During the Extraordinary Meeting of Shareholders held on 30 September 2014, a decision was made to pay out dividends to the Company's shareholders for the period shorter than the financial year. Amount of LTL 66,434 thousand was allocated for payment of interim dividends.

27. Financial risk management

Credit risk

There is no significant credit risk concentration in the Group and in the Company. Credit risk or the risk of counterparties defaulting, is controlled by the application of credit terms and monitoring procedures.

The Group does issue guarantees to secure the fulfilment of obligations of third parties. The maximum exposure to credit risk is represented by the carrying amount of each item of financial asset. Therefore, the management believes that the maximum exposure to credit risk is equal to the amount of mortgage loans, loans, trade and other receivables and cash at bank less recognised impairment loss at the date of the statement of financial position.

Because of the specific nature of the Group's and the Company's operations, no collateral is required from customers.

Pursuant to the Articles of Association, free liquid funds can be invested by the Group/Company only in low-risk short-term (with the remaining maturity less than 549 calendar days) money market instruments and debts securities, i.e. term deposits, bonds, Government securities, of reliable financial institutions or entities that have been assigned a long-term credit rating not lower than "A-" according to the rating agency Fitch Ratings (or equivalent rating of other rating agencies). In exceptional circumstances, free liquid funds may be held with other financial institutions that act under the licence issued by the Bank of Lithuania, which entitles them to provide financial services. The Company is allowed to hold funds with such financial institutions in amount that does not that guaranteed under the Lithuanian Law on Insurance of Deposits and Liabilities to Investors.

The priority objective of investing activities is to ensure the security of funds and maximise return on investments in pursuance of this objective.

As at 31 December 2014, the maximum exposure to credit risk of the Group and the Company amounted to LTL 261,264 thousand and LTL 228,123 thousand (31 December 2013: LTL 253,612 thousand and LTL 227,383 thousand), respectively.

Interest rate risk

All the Group's and the Company's borrowings bear variable interest rate linked with EURIBOR, EUR LIBOR and VILIBOR and expose the Group and the Company to the interest rate risk.

The Group and the Company did not have any derivative financial instruments to hedge against interest rate risk.

The following table demonstrates the sensitivity of the Group's and the Company's profit before tax to potential shift in interest rates, with all other variables held constant (by changing the interest rate). There is no impact on the Group's and the Company's equity, except for impact on current year profit.

	GROUP		**COMPANY**	
	Increase/ decrease, percentage points	**Impact on profit before tax**	**Increase/ decrease, percentage points**	**Impact on profit before tax**
2014				
EUR	+0.01	(65)	+0.01	(65)
EUR	-0.01	65	-0.01	65
LTL	+0.02	(9)	+0.02	(9)
LTL	-0.02	9	-0.02	9
2013				
EUR	+0.25	(1,211)	+0.25	(1,211)
EUR	-0.25	1,211	-0.25	1,211
LTL	+0.15	(105)	+0.15	(105)
LTL	-0.15	(105)	-0.15	(105)

<u>Foreign exchange risk</u>

All monetary assets and liabilities of the Group and the Company are denominated in litas or the euro, and the exchange rate of the latter is fixed against the litas; therefore, the Group and the Company practically are not exposed to the foreign exchange rate risk.

<u>Liquidity risk</u>

The Group's and 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 Group's current 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 31 December 2014 were 0.34 and 0.33 (31 December 2013: 0.36 and 0.35), respectively. The Company's current 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 31 December 2014 were 0.30 and 0.29 (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 31 December 2014, the Group's and the Company's current liabilities exceeded their current assets by LTL 518,050 thousand and LTL 553,059 thousand (31 December 2013: LTL 463,677 thousand and LTL 491,764 thousand), respectively. The Group's and the Company's cash flows from operating activities were positive and in the year ended 31 December 2014 amounted to LTL 369,083 thousand and LTL 350,612 thousand (31 December 2013: LTL 369,702 thousand and LTL 359,427 thousand), respectively. During the year 2014, the Group's and the Company's repayments of borrowings amounted to LTL 55,850 thousand (2013: LTL 140,145 thousand) and proceeds from additional borrowings amounted to LTL 233,590 thousand (2013: LTL 169,698 thousand). Based on estimates of the Company's management, cash flows from operating activities will be sufficient to settle its current liabilities.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2014 and 2013 based on contractual undiscounted payments.

GROUP

	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing borrowings and other liabilities and accrued interest payable	73,392	354,299	350,115	-	777,806
Trade and other payables	269,636	-	370	-	270,006
At 31 December 2014	**343,028**	**354,299**	**350,485**	**-**	**1,047,812**
Interest-bearing borrowings and other liabilities and accrued interest payable	84,973	236,549	306,177	-	627,699
Trade and other payables	322,403	-	128	-	322,531
At 31 December 2013	**407,376**	**236,549**	**306,305**	**-**	**950,230**

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2014 and 2013 based on contractual undiscounted payments.

COMPANY

	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing borrowings and other liabilities and accrued interest payable	73,392	354,299	350,115	-	777,806
Trade and other payables	269,942	-	370	-	270,312
At 31 December 2014	**343,334**	**354,299**	**350,485**	**-**	**1,048,118**
Interest-bearing borrowings and other liabilities	84,267	236,549	306,177	-	626,993
Trade and other payables	327,481	-	128	-	327,609
At 31 December 2013	**411,748**	**236,549**	**306,305**	**-**	**954,602**

Fair value

The Group's and the Company's principal financial assets and liabilities not designated at fair value are trade receivables and other receivables, trade and other payables and non-current and current borrowings.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial asset or financial liability is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

To improve consistency in and comparability of fair value measurements and related disclosures, a fair value hierarchy is established that categorises into three levels the inputs to valuation techniques used to measure fair value.

Level 1 inputs (the highest level of accuracy) are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

The carrying amount of the Group's and the Company's financial assets and financial liabilities approximates their fair value, except for mortgage loans as disclosed in Note 7.

The fair value of borrowings is estimated based on discounted probable future cash flows using prevailing interest rates. The fair value of loans and other financial assets is estimated using market interest rates. The fair value of interest rate swap contracts is estimated using valuation techniques established for swap contracts.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

a) The carrying amount of current trade receivables and other receivables, current trade and other payables and current borrowings approximates their fair value.
b) The fair value of non-current borrowings is estimated based on the quoted market price for the same or similar loan or on the current rates available for debt with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts.

Financial instruments by category

GROUP	**Loans and receivables**	**Total**
At 31 December 2014		
Non-current receivables (Note 7)	5,050	**5,050**
Trade and other receivables (Note 9)	199,538	**199,538**
Accrued income	20,763	**20,763**
Cash and cash equivalents	35,913	**35,913**
	261,264	**261,264**
At 31 December 2013		
Non-current receivables (Note 7)	2,319	**2,319**
Trade and other receivables	202,827	**202,827**
Accrued income	21,876	**21,876**
Cash and cash equivalents	26,590	**26,590**
	253,612	**253,612**

	Other financial liabilities at amortised cost	**Liabilities at fair value through profit or loss**	**Total**
At 31 December 2014			
Borrowings	766,791	-	**766,791**
Trade and other payables	269,636	-	**269,636**
Other liabilities	370	-	**370**
	1,036,797	**-**	**1,036,797**
At 31 December 2013			
Borrowings	615,527	-	**615,527**
Trade and other payables	322,403	-	**322,403**
Other liabilities	128	-	**128**
	938,058	**-**	**938,058**

COMPANY	**Loans and receivables**	**Total**
At 31 December 2014		
Non-current receivables (Note 7)	1,657	**1,657**
Trade and other receivables	191,514	**191,514**
Accrued income	20,763	**20,763**
Cash and cash equivalents	14,189	**14,189**
	228,123	**228,123**
At 31 December 2013		
Non-current receivables (Note 7)	1,939	**1,939**
Trade and other receivables	195,659	**195,659**
Accrued income	21,735	**21,735**
Cash and cash equivalents	8,050	**8,050**
	227,383	**227,383**

	Other financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
At 31 December 2014			
Borrowings	766,791	-	**766,791**
Trade and other payables	278,441	-	**278,441**
Other liabilities	370	-	**370**
	1,045,602	**-**	**1,045,602**
At 31 December 2013			
Borrowings	614,828	-	**614,828**
Trade and other payables	327,481	-	**327,481**
Other liabilities	128	-	**128**
	942,437	**-**	**942,437**

28. Commitments and contingencies

Buyout of electricity equipment

In 2014, the Company executed simplified procedure of buyout of electricity objects (electricity networks) installed for common use using the funds of homestead owners in line with the deadlines stipulated in Resolution No. 1257 of 31 August 2010 of the Lithuanian Government *On the establishment of deadlines for the buyout from cooperatives the electricity transmission and distribution lines, transformer substations, electric facilities and other equipment designated for the transmission and distribution of electricity and installed in the territory of homestead owners using the funds of such homestead owners*, i.e. by 1 July 2011.
During the year 2014, 6 electricity networks of common use for the value of LTL 231 thousand (2013: 19 electricity networks for the value of LTL 737 thousand) were bought out. During the period from the start date of the buyout procedure until 31 December 2014, 940 electricity networks of common use of homestead cooperatives for the value of LTL 11,852 thousand were bought out. As at 31 December 2013, 14 applications with requests to buyout equipment on concessionary terms remained unsettled with the value of LTL 189 thousand.

Capital expenditure commitments

As at 31 December 2014, the Group's and the Company's capital expenditure commitments assumed under the contracts as at the date of the financial statements but not accounted for in the financial statements amounted to LTL 28,241 thousand (31 December 2013: LTL 46,050 thousand).

Legal disputes

Vilniaus Energija UAB (the claimant) filed a claim to Vilnius Regional Administrative Court, whereby it requested to award damages of LTL 32.056 million from LESTO AB.

The claimant insisted that it incurred losses of LTL 32.056 million because for the purpose of ensuring compliance with the Lithuanian Government Resolution No 1051 of 20 November 2013 and the provisions of agreement on purchase/sale of electricity signed with the claimant, in 2014 LESTO AB purchased only that volume of supported electricity, which was produced under the technical minimum mode at the thermal power plants owned by the claimant. In addition, the claimant noted that the legal acts stipulated a requirement whereby LESTO AB was obliged to purchase maximum volume, and LESTO AB failed to comply with such requirement.

In its claim, the claimant requested as follows: to recognise the provisions of agreement on purchase/sale of electricity (No80000/232945/753, dated 30 December 2013) between the claimant and respondent as void *ab initio*; to oblige the respondent to purchase the maximum volume of supported electricity in 2014 from the claimant, which was established for the claimant's thermal power plants No 2 and No 3 by the Lithuanian Government Resolution No 1051 of 20 November 2013; and to award damages of LTL 32.056 million from the respondent, as well as 6% annual interest on the awarded amount of damages from the respondent, staring from the date of initiation of the case until full fulfilment of the court's ruling, plus litigation costs incurred.

The respondent does not agree with the claimant's position that the respondent should be obliged to purchase full volume of supported electricity produced at thermal power plants No 2 and No3, because the description of PSO services and other effective legal acts do not stipulate that the respondent is obliged to purchase full volume of electricity produced at thermal power plants No 2 and No 3.

During the investigation of the case the claimant requested to apply to Constitutional Court in order to investigate whether certain provisions of the above-mentioned Resolution are not in contravention of the Lithuanian Constitution; such request of the claimant was rejected by the court; LESTO AB concluded the provisions of the agreement, in respect of which a complaint was filed, in order to comply with the requirements of the above-mentioned Resolution – in view of all this, it is probable that the court will reject the claimant's claim. In the Company's opinion, the claimant's claim has no grounds and should not be satisfied. Accordingly, it was not accounted for in the financial statements.

LESTO AB filed a complaint to Vilnius Regional Administrative Court with request to annul the related Resolutions of the Commission, oblige the Commission to eliminate the violations, and include the following items in the level of revenue used for price cap calculation when determining the price caps for electricity distribution services provided by LESTO AB through medium and low voltage networks for the upcoming period:

- difference of LTL 26.854 million for 2015, which occurred as result of improper WACC amount applied by the Commission;
- difference of LTL 16.013 million for 2015, which occurred as result of the Commission's improper application of requirements set forth in legal acts in respect of allowable return on investment for LESTO AB;
- amount of LTL 56.816 million, as a result of unsubstantiated costs identified by the Commission during the audit that have been treated by LESTO AB as attributable to regulated activity costs;
- amount of LTL 41.190 million, as a result of the Commission's improper application of the requirements set forth in legal acts in respect of allowable return on investment and required regulated activity costs for LESTO AB.

In addition, LESTO AB filed a complaint to Vilnius Regional Administrative Court with request to annul the Commission's Resolutions and oblige the Commission to eliminate the violations, which resulted in:

- lower revenue of LESTO AB from PSO services for 2015 by LTL 2.979 million;
- lower electricity acquisition costs of LESTO AB for 2015 by LTL 1.076 million.

In the Company's opinion, when the Commission adopted the relevant Resolutions it improperly interpreted and improperly applied the effective laws, exceeded its competence and acted in violation of public administration principles. In addition, during the audit the Commission's decisions were not supported with applicable legal acts, the Commission violated public administration principles, failed to comply with the principles of supervision of activities of entities, improperly estimated costs required for LESTO AB to carry on its regulated activities and costs attributable to regulated activities. Accordingly, the Resolutions, in respect of which a complaint was filed, should be treated as unsubstantiated and unlawful. The aforementioned amounts were not accounted for in the financial statements.

Guarantees issued

On 6 August 2013, the Company's subsidiary Elektros Tinklo Paslaugos UAB signed a credit agreement with SEB Bankas AB for the maximum credit limit of LTL 10,000,000. The agreement expires on 6 August 2016. The credit limit is intended solely for issuing tender and performance guarantees during the borrower's participation at public tenders, and it should not be used for the payment of credit. The credit is subject to guarantee commitment fee equal to 0.68% annual interest.

29. Related-party transactions

The Company's related parties in 2014 and 2013 were as follows:

- Lietuvos Energija UAB (known as Visagino Atominė Elektrinė UAB until 30 August 2013) (the main shareholder of the Company) and its subsidiaries and associates;
- Subsidiaries of the Company;
- Associates of the Company;

- Management of the Company including companies in which they hold executive positions or companies which are controlled by them or over which a significant influence is exercised;
- All companies which are owned by the state or over which the state exercises a significant influence (transactions with these companies are disclosed when they are material).

Transactions with related parties are presented below:

Sales of goods and services to:

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Subsidiaries	-	-	2 887	4 255
Associates	2,517	5 624	-	160
Companies of Lietuvos Energija UAB group	34,265	2,617	20,913	270
LITGRID AB group	23,765	18,397	2,603	3,042
Total	**60,547**	**26,638**	**26,403**	**7,727**

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

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Subsidiaries	-	-	79,699	88,445
Associates	27,989	29,101	26,444	27,578
Companies of Lietuvos Energija UAB group	520,281	409,568	517,993	407,623
LITGRID AB group	734,280	980,593	733,992	980,537
Total	**1,282,550**	**1,419,262**	**1,358,128**	**1,504,183**

In 2014, the number of the Company's and the Group's key management personnel was 7 (2013: 9). In 2014 and 2013, the Company's (and the Group's) key management personnel included the Chief Executive Officer, Chief Accountant and Directors of the Services. Chief Accountant used to be included until 30 November 2014. Since 1 December 2014, the Company's accounting function has been carried out by Verslo Aptarnavimo Centras UAB.

Compensation of key management personnel	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Salaries and other short-term employee benefits	1,719	2,053	1,719	2,053
Termination benefits	-	287	-	287
Total	**1,719**	**2,340**	**1,719**	**2,340**

Balances arising from transactions with related parties are presented below:

Amounts receivable from related parties

	GROUP		COMPANY	
	31 Dec 2014	**31 Dec 2013**	**31 Dec 2014**	**31 Dec 2013**
Subsidiaries	-	-	336	446
Associates	263	1,192		45
Companies of Lietuvos Energija UAB group	1,010	445	213	29
LITGRID AB group	14,007	17,670	9,737	12,824
Total	**15,280**	**19,307**	**10,286**	**13,344**

Amounts payable to related parties

	GROUP		COMPANY	
	31 Dec 2014	**31 Dec 2013**	**31 Dec 2014**	**31 Dec 2013**
Subsidiaries	-	-	20,613	21,369
Associates	5,581	4,305	5,298	4,142
Companies of Lietuvos Energija UAB group	12,193	31,967	11,743	31,663
LITGRID AB group	104,542	123,969	104,417	123,946
Total	**122,316**	**160,241**	**142,071**	**181,120**

The ageing analysis of amounts receivable from related parties as at 31 December 2014:

	Amounts receivable neither past due nor impaired	Amounts receivable past due but not impaired					Total
		Less than 30 days	30 – 60 days	60 – 90 days	90 – 120 days	More than 120 days	
COMPANY	10,286	-	-	-	-	-	**10,286**
GROUP	14,605	-	675	-	-	-	**15,280**

The ageing analysis of amounts receivable from related parties as at 31 December 2013:

	Amounts receivable neither past due nor impaired	Amounts receivable past due but not impaired					Total
		Less than 30 days	30 – 60 days	60 – 90 days	90 – 120 days	More than 120 days	
COMPANY	13,344	-	-	-	-	-	**13,344**
GROUP	18,699	32	-	-	19	557	**19,307**

30. Capital risk management

Pursuant to the Lithuanian Law on Companies the authorised share capital of a public company must be not less than LTL 100 thousand and the shareholders' equity should not be lower than 50 per cent of the company's authorised share capital. As at 31 December 2014 and 31 December 2013, the Group and the Company complied with these requirements.

When financing its business activities, the Group and the Company follow an optimal capital structure management policy seeking to make sure that the equity ratio (equity to assets ratio) exceeds 40 per cent. For the purpose of capital management the Group's and the Company's management define capital as shareholders' equity.

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Equity	1,352,578	3,242,123	1,360,819	3,254,870
Assets	2,943,087	5,086,614	2,818,351	4,966,805
Equity ratio (equity to assets ratio)	**46%**	**64%**	**48%**	**66%**

31. Investments in associates

On 14 October 2013, amendments were made to the Articles of Association of Duomenų Logistikos Centras UAB (known as Technologijų ir Inovacijų Centras UAB until 4 November 2013) in relation to the reduction of its authorised share capital from LTL 76,512,824 to LTL 58,906,598. The authorised share capital of Duomenų Logistikos Centras UAB (known as Technologijų ir Inovacijų Centras UAB until 4 November 2013) was reduced by LTL 17,606,226 by way of annulling 17,606,226 ordinary registered shares and by proportionally reducing the number of shares held by all shareholders of this company. The value of the Company's investment remained unchanged.

On 31 March 2014, the Company and Lietuvos Energija UAB signed the agreement on sale/purchase of shares, based on which the Company's proprietary shares in associate Duomenų Logistikos Centras UAB (representing 24.94% of its share capital) were sold to Lietuvos Energija UAB for the amount of LTL 19,081,561.

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 memorandum of incorporation of Verslo Aptarnavimo Centras UAB to be engaged primarily in the provision of public procurement organisation and execution, accounting and personnel administration services to the shareholders. As these support functions were based in a single company, the team of Verslo Aptarnavimo Centras UAB was joined by the specialists in different fields who moved from Lietuvos Energija UAB group. As at 31 December 2014, the Company's ownership interest in Verslo Aptarnavimo Centras UAB was 15%.

The shareholders of Verslo Aptarnavimo Centras UAB who hold 5 (five) or more percent of shares may each nominate 1 (one) candidate to the Company's board, and all shareholders who hold less than 5 (five) percent of shares may all collectively nominate 1 (one) candidate. During the voting, each member has one vote. When the number of affirmative votes is equal to the number of negative votes, the casting vote is that of the chairman of the board. Since the Group has significant power in governance of the company when the decisions are made, Verslo Aptarnavimo Centras UAB is treated as an associate.

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. On increase of share capital of Technologijų ir Inovacijų Centras UAB, LESTO AB made a cash contribution for 4,442,222 newly issued ordinary registered shares. As a result, the Company's ownership interest in Technologijų ir Inovacijų Centras UAB increased from 20% to 22.22%. On 19 December 2014, the authorised share capital of Technologijų ir Inovacijų Centras UAB was increased up to LTL 22,200,525 by issuing additional 2,200,525 ordinary registered shares. As a result of increase in authorised share capital of Technologijų ir Inovacijų Centras UAB, the Company's ownership interest in Technologijų ir Inovacijų Centras UAB decreased from 22.22% to 20.02%.

On 25 November 2013, the Company together with Lietuvos Energija UAB, Lietuvos Energijos Gamyba AB and LITGRID AB signed the memorandum of incorporation of Technologijų ir Inovacijų Centras UAB to be engaged primarily in the provision of IT, telecommunication and other services to the shareholders. On 4 December 2013, Technologijų ir Inovacijų Centras UAB was established and registered with the Register of Legal Entities at a state enterprise Centre of Registers. The authorised share capital of Technologijų ir Inovacijų Centras UAB amounts to LTL 10,000. The Company, Lietuvos Energija UAB, Lietuvos Energijos Gamyba AB, LITGRID AB have ownership interest in Technologijų ir Inovacijų Centras UAB of 20%, 50%, 20% and 20%, respectively.

Movements on investments in associates account are summarised below:

	GROUP		**COMPANY**	
	2014	**2013**	**2014**	**2013**
Opening balance	**19,490**	**18,020**	**19,084**	**19,082**
Acquisition of associates	4,742	2	4,742	**2**
Disposal of associates	(19,619)		(19,082)	
Gain/(loss) on investments in associates	381	1,468	-	-
Closing balance	**4,994**	**19,490**	**4,744**	**19,084**

The summarised statements of financial position and comprehensive income of associates for the years 2014 and 2013 are presented below:

Summarised statement of financial position	Technologijų ir Inovacijų Centras UAB		Verslo Aptarnavimo Centras UAB		Duomenų Logistikos Centras UAB	
	2014	**2013**	**2014**	**2013**	**31 Mar 2014**	**2013**
Current assets and liabilities						
Cash and cash equivalents	32	10	1,016	-	26,018	28,172
Other current assets	9,710	21	775	-	21,928	26,555
Total current assets	**9,742**	**31**	**1,791**	**-**	**47,946**	**55,014**
Financial liabilities	(761)	-	-	-	-	-
Other current liabilities	(11,671)	(17,493)	522	-	(5,601)	(10,683)
Total current liabilities	**(12,432)**	**(17,493)**	**522**	**-**	**(5,601)**	**(10,683)**
Non-current assets and liabilities				-		
Non-current assets	22,520	14,958	-		21,785	19,825
Total non-current assets	**22,520**	**14,958**			**21,785**	**19,538**
Financial liabilities			-	-		
Other non-current liabilities	(43)	-	-	-	(1,639)	(1,639)
Total non-current liabilities	**(43)**				**(1,639)**	**(1,639)**
Net assets	**19,787**	**(2,504)**	**1,269**		**62,491**	**62,230**

Summarised statement of comprehensive income	Technologijų ir Inovacijų Centras UAB		Verslo Aptarnavimo Centras UAB		Duomenų Logistikos Centras UAB	
	2014	**2013**	**2014**	**2013**	**31 Mar 2014**	**2013**
Revenue	**45,963**	**2**	**1,141**	**-**	**4,862**	**17,976**
Depreciation and amortisation	(7,004)	-	-	-	(490)	(1,730)
Interest income	10	-	-	-	-	
Interest expenses	(11)	-	-	-	-	
Profit before tax from continuing operations	**2104**	**(4)**	**(622)**	**-**	**261**	**4,581**
Income tax income/ (expenses)	(364)	-	-	-	-	(1,590)
Profit after tax from continuing operations		**(4)**	**(622)**		**261**	**2,991**
Gain on disposal of discontinued operations	-	-	**-**	**-**	**-**	**2,510**
Profit after tax from discontinued operations			**-**	**-**		**(167)**
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	**1,740**	**(4)**	**(622)**	**-**	**261**	**5,335**
Dividends received from associate	-	-	-	-	-	-

Summarised financial information	Technologijų ir Inovacijų Centras UAB		Verslo Aptarnavimo Centras UAB		Duomenų Logistikos Centras UAB	
	2014	**2013**	**2014**	**2013**	**31 Mar 2014**	**2013**
Net assets at 1 January	**(2 504)**	-	**-**	**-**	62,230	56,895
Formation/dissolution of share capital, changes in reserves	20,551	10	1,891		-	-
Profit /(loss) for the period	1,740	(4)	(622)	-	261	5,335
Business acquisition	-	(2,510)	-	-	-	-

Net assets at 31 December	**19,787**	**(2,504)**	**1 269**	**-**	**62,491**	**62,230**
Ownership interest	20.02 %	20 %	15 %	0 %	-	24.94%
Investment in associate	4,818	2	176	-	-	19,450
Carrying amount	**4,818**	**2**	**176**	**-**	**-**	**19,450**

In 2013, the Group did not recognise the Group's share in reduction of the Group's ownership interest in Technologijų ir Inovacijų Centras UAB (a newly established entity on 4 December 2013), because the reduction exceeded the Group's investment cost:

	31 Dec 2013
Group's share in reduction of ownership interest	(502)
Investment cost	2
Reduction of ownership interest not recognised	(500)

32. Investments in subsidiaries

In the Company's financial statements

	2014	**2013**
Opening balance	**203,652**	**195,628**
Increase in controlling interest in the subsidiary	-	8,024
Closing balance	**203,652**	**203,652**

In the Group's financial statements:

On 7 January 2013, the Company and LITGRID AB entered into the stock barter agreement under which 38.87% ownership interest in TETAS UAB was transferred by the Company to LITGRID AB in return for 25.03% ownership interest in ELEKTROS TINKLO PASLAUGOS UAB transferred by LITGRID AB to the Company. Following the acquisition of shares, the Company became the sole shareholder of ELEKTROS TINKLO PASLAUGOS UAB. As a result of the share exchange transaction, the value of shares of TETAS UAB held by the Company, the value of which was equal to LTL 3,610 thousand for the Group and LTL 2,488 thousand for the Company before the transaction, was established to be equal to LTL 6,752 thousand resulting in gain on revaluation amounting to LTL 3,142 thousand for the Group and LTL 4,264 thousand for the Company. The value of shares of ELEKTROS TINKLO PASLAUGOS UAB being exchanged was equal to LTL 8,024 thousand.

Presented below is the calculation of loss on increase in controlling interest in the subsidiary in 2013:

	2013
Consideration transferred – non-controlling interest attributable to the Company after the acquisition of ownership interest in the subsidiary	5,618
Value of ownership interest acquired in the subsidiary	(8,024)
Loss on increase in controlling interest in the subsidiary	**(2,406)**

The Company is a sole shareholder of ELEKTROS TINKLO PASLAUGOS UAB and it holds 53.7% of shares of the subsidiary NT Valdos UAB. In order to disclose non-controlling interest's share in the group's operations and cash flows, the summarised statements of financial position, comprehensive income and cash flows of NT Valdos UAB for the years 2014 and 2013 are presented below:

Summarised	NT Valdos UAB

statement of financial position	2014	2013
Current assets and liabilities		
Assets	29,340	27,869
Liabilities	(7,465)	(10,908)
Total net current assets	**21,875**	**16,961**
Non-current assets and liabilities		
Assets	286,298	283,770
Liabilities	(4,485)	(3,357)
Total net non-current assets	**281,813**	**280,413**
Net assets	**303,688**	**297,374**

Summarised statement of comprehensive income	NT Valdos UAB	
	2014	2013
Revenue	57,456	53,649
Profit before tax	2,200	3,405
Income tax	(277)	(660)
Other comprehensive income	4,391	(59)
Total comprehensive income	**6,314**	**2,686**
Profit (loss) attributable to non-controlling interest	2,696	1,147
Dividends paid to non-controlling interest	-	-

Summarised cash flow statement	NT Valdos UAB	
	2014	2013
Cash flows from operating activities	14,059	14,229
Income tax paid	277	-
Net cash flows from operating activities	**14,336**	**14,229**
Acquisition of PP&E and intangible assets	(16,276)	(15 529)
Proceeds from sale of non-current assets	2,781	955
Other cash flows from investing activities	38	3,057
Net cash flows from investing activities	**(13,457)**	**(11,517)**
Other cash flows from financing activities	(3)	(97)
Net cash flows from financing activities	**(3)**	**(97)**
Cash and cash equivalents at the beginning of the period	18,478	15,863
Cash and cash equivalents at the end of the period	**19,353**	**18,478**

33. Non-monetary transactions

The following main non-monetary items were eliminated for the purpose of the cash flows statement:

In 2013

<u>In the Company's financial statements:</u>

On 7 January 2013, the Company and LITGRID AB entered into the stock barter agreement under which 38.87% ownership interest in TETAS UAB was transferred by the Company to LITGRID AB for the LTL 6,751 thousand in return for 25.03% ownership interest in ELEKTROS TINKLO PASLAUGOS UAB transferred by LITGRID AB to the Company for LTL 8,024 thousand. The resulting difference in the values of shares equal to LTL 1,273 thousand was paid by the Company in cash. Following the acquisition of shares, the Company became the sole shareholder of ELEKTROS TINKLO PASLAUGOS UAB.

34. Events after the end of the reporting period

On 3 March 2015, LESTO received an official letter from Lietuvos Energija UAB (Lietuvos Energija), which owns 94.39% of shares in LESTO, containing information on anticipated changes.

According to the letter, the Board of Lietuvos Energija approved the concept of a programme aimed at identifying which activities are central, including the expected merger between LESTO and Lietuvos Dujos AB to form a single entity of distribution networks. A detailed plan for the implementation of this project is expected to be approved in April, and its implementation is expected to be accomplished by the end of 2015.

AB LESTO group
Consolidated annual report, 2014

18 March 2015

Lietuvos energija

Energetikos įmonių grupė | www.le.lt

Reporting period covered by the report

Report covers January to December of 2014.

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) 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 company's website (www.lesto.lt) and Stock exchange market NASDAQ OMX Vilnius website (www.nasdaqomxbaltic.com).

Persons responsible for the information provided in the report

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Consolidated LESTO AB (hereinafter – LESTO, Company) and its subsidiaries (hereinafter LESTO and its subsidiaries – LESTO group) 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 18 March, 2015.

CONTENT

KEY OPERATIONAL AND FINANCIAL FIGURES AND RATIOS OF LESTO GROUP

AB LESTO group key activity indicators

		2014	2013	Change +/-	Change %
Activity indicators					
Distributed electricity through medium- and low-voltage grids	*TWh*	8.39	8.21	0.19	2.3
Public and guaranteed supply	*TWh*	3.22	3.06	0.16	5.3
Electricity quality indicators					
SAIDI, minutes (with „force majeure“)	*minutes*	144.04	153.90		
SAIFI, times (with „force majeure“)	*times*	1.29	1.43		

AB LESTO group key financial indicators

		2014	2013	Change +/-	Change %
Sales revenue	thousand LTL	2,296,666	2,431,162	-134,496	-5.5
Purchases of electricity and other related services	thousand LTL	(1,515,265)	(1,667,913)	152,648	-9.2
Operating expenses (1)	thousand LTL	(308,141)	(319,328)	11,187	-3.5
EBITDA (2)	thousand LTL	466,297	460,690	5,607	1.2
EBITDA margin (3)	%	20.30	18.95		
Net profit (loss)	thousand LTL	(565,525)	47,646	-613,171	-1,286.9
		2014	**2013**		
Total assets	thousand LTL	2,943,087	5,086,614	-2,143,527	-42.1
Equity	thousand LTL	1,482,253	3,369,102	-1,886,849	-56.0
Financial debt	thousand LTL	766,791	615,527	151,264	24.6
Net financial debt (4)	thousand LTL	730,878	588,937	141,941	24.1
Return on equity (ROE) (5)	%	-38.15	1.41		
Equity capital level (6)	%	50.36	66.23		
Net financial debt / EBITDA of 12 months	%	156.74	127.84		
Net financial debt / Equity	%	49.31	17.48		

(1) Operating expenses (OPEX) = operating expenses, excluding the costs of purchase of electricity and related services, costs of depreciation, amortisation and value impairment and costs write-offs of tangible fixed assets.
(2) EBITDA (earnings before interest, taxes, depreciation and amortisation) = pre-tax profit (loss) + interest expenses – interests revenue – received dividends + costs of depreciation and amortisation + value impairment costs + write-offs of tangible fixed assets.
(3) EBITDA margin = EBITDA / revenue.
(4) Net financial debts = financial debts – cash and cash equivalents – short-term investments and time deposits – share of other non-current financial assets comprising investments in debt securities.
(5) Return on equity (ROE) = net profit (loss), restated annual expression / equity capital at the end of period.
(6) Equity capital level = equity capital at the end of period / total assets at the end of period.

CEO LETTER

Dear investors,

Our aim to ensure the interests of electricity consumers and increase the value added by reliable electrical energy was crowned with great performance and significant achievements in 2014. We have completed the fourth year of our operation with a set of improved indicators and important victories.

Pursuing our main objective to simplify the connection of new customers we shortened the process by 20 calendar days for private clients and 11 days for business clients. In 2014 these changes were perceived by more than 26.4 thousand new customers, who connected to the Company‘s network.

More than 17 % increased investment in network modernization and renewal magnified electricity network reliability and efficient service to our customers.

Annual survey was performed to measure customer satisfaction with and the quality of Company‘s services. It revealed that, the satisfaction of business customers increased from 71 to 74 points. According to the calculations based on GCSI methodology, in 2014, LESTO overall customer satisfaction rate totaled to 76 points – same as in 2013. An average index of European energy companies last year reached 70 points, while the US rate was 76 points.

Last year, together with our partners we successfully implemented the optimization of customer service network. Postal services provider Lietuvos paštas took over part of the services. In addition, we have started the cooperation with national libraries.

It is worth mentioning the smooth and timely implementation conversion of IT systems for the introduction of new currency - Euro.

While performing efficiently, we pursued to save our and consumers costs. The operating expenses last year totaled to LTL 308.141 million (EUR 89.2 million) - 3.5% less than in 2013. Costs decreased due to optimized customer service network. In pursuing higher operational efficiency, LESTO accounting and procurement functions were centralized in Verslo aptarnavimo centras – a company which is a part of Lietuvos Energija group.

Last year, by purchasing less electricity from the combined heat and power plants, LESTO contributed in saving the funds of Public service obligations. In 2014 the demand for the funds of Public service obligations was EUR 28 million (LTL 97 million) less than in 2013. Our actions will help to ensure more reasonable prices of electricity for our consumers in the future. Savings will be assessed in the calculation of the 2016 Public service obligations price.

Our efficiency reflects in the financial results. LESTO group‘s EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) amounted to LTL 466.3 million (EUR 135.0 million) – 1.2% more compared to 2013. EBITDA margin increased by 1.35 per cent points and to 20.30 %. LESTO Group revenues in 2014 amounted to LTL 2.297 billion (EUR 665.3 million) - 5.5% down compared to 2013. Revenues shrank due to the decrease of electricity prices to consumers.

We are pleased that our efforts are evaluated with awards - in spring we became the most responsible company of 2013. By the end of 2014 our social initiative "As much as needed" on energy saving was nominated as one of three finalists of "Corporate Social Responsibility Initiative" at Swedish Business Awards 2014. Also, - for the first time we were ranked among the Companies with best investors relations in the Baltic states.

All these achievements are each of our employee merit and incentive for further improvement. We will continue to seek that new customer connection process would become more efficient and consumer friendly, also, that efficient use of electricity would serve for business competitiveness and development of the country.

Respectfully,
Aidas Ignatavičius
Chief Executive Officer of LESTO AB

MATERIAL EVENTS FOR THE COMPANY IN THE REPORTING PERIOD

Regarding the establishment of the jointly owned company Verslo aptarnavimo centras UAB

On 21 July, 2014 LESTO together with „Lietuvos energija“, UAB, „Lietuvos energijos gamyba“, AB, UAB LITGAS and Technologijų ir inovacijų centras UAB 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.

Cooperation of LESTO and „Lietuvos dujos“

On 14 August, 2014, the country‘s electricity and gas distribution and supply companies started cooperation – on 14 August „Lietuvos dujos“ customer service area was launched in LESTO customer service centre located in Vilnius. This is a pilot project which aim is to evaluate opportunities for synergies in order to offer services for electricity and gas users in one place.

Both companies offer services for clients in the customer service centre which is located in Viršuliškių street 34. Four gas company‘s specialists will provide customer service in the newly established customer service area of „Lietuvos dujos“.

Approved log-term strategy

On 20 August, 2014, LESTO announced the Company‘s strategy for 2014-2020. One of the main goals enshrined in the long-term strategy is to improve the reliability of network by almost one-tenth in seven years. According to the approved long-term strategy, LESTO will seek to invest in projects that will increase a reliable and secure supply of electricity, company's value, performance and return on equity (ROE). With ambitious goals LESTO is committed to contribute for Lietuvos Energija group target – to double the value of the group of companies by 2020.

LESTO is also committed to continuing social responsibility projects, cooperation with non-governmental organizations, local self-government and academic institutions.

Long-term loan agreement

On 8 October, 2014 LESTO and AB SEB signed a long-term loan agreement according to which LESTO will be granted a loan of EUR 85 million (LTL 293.488 million). The loan will be used for outstanding loans refinancing and for financing investments that enhance network reliability and overall quality of services.

Rating of „Doing Business 2015“

On 29 October, 2014 the World Bank announced the countries‘ business environment rating of "Doing Business 2015". In 2014 the duration of electricity introduction for new business customers, compared to 2013, shortened by 11 calendar days. In 2014 the average term of electrical equipment connection for new resident users decreased by almost 20 days.

Due to public procurement of a long-term loan

On 20 November, 2014 LESTO informed that it intended to begin a public procurement for a long-term loan. The loan amount shall be EUR 75 million (LTL 258.96 million), loan term – five years. The funds will be used to refinance the Company's financial liabilities and also, for the working capital needs. The base interest rate shall be 1 month EURIBOR.

LESTO began to test „self-curing“ electricity network

Electricity distribution company LESTO began to try to „self-curing“ network. After installing this smart network element, more reliable electricity supply will be ensured for almost 5 thousand electricity users in the three areas of the country. If the failure occurs, circuit breakers will automatically restore the electricity supply for the users by using the other source. These circuit breakers that are mounted on supports will be firstly installed in the areas where the faults are the most common. The Company's investment in the project amounts more than LTL 1 million.

Gas and electric service in Vilnius – in one customer service center

Since 1 December, 2014 „Lietuvos dujų tiekimas“ and LESTO provide services for the residents of Vilnius region only in the modern customer service centre located in Viršuliškių street 34. The cooperation between the country‘s electricity and gas distribution and supply companies started in August, when the gas customer service area was launched in LESTO customer service centre located in Vilnius. The idea was successful, due to this “Lietuvos dujų tiekimas” decided to close the customer service center in Smolensko street. The natural gas distribution network operator „Lietuvos dujos“ also serves customers in the new centre. The customers‘ requests to connect them to the gas distribution system and to move the gas metering devices are accepted in the new centre.

ANALYSIS OF PERFORMANCE RESULTS

Valuation of fixed tangible assets

Based on report of fixed tangible assets‘ valuation prepared by independent company, LESTO finished the valuation process. More information about valuation of fixed tangible assets is presented in the Explanatory Notes to the Audited Financial Statements of AB LESTO for 2014.

Sales, EBITDA, EBITDA margin

During 2014 LESTO group earned LTL 2,296.7 million, Company's income share made up 97.8 % of group income i.e. LTL 2,246.4 million. Comparing with 2013 LESTO group income decreased by 5.5 %, comparing with the same period of 2012 increased by 0.6 % and comparing with the same period of 2011 increased by 2,3 % (during the twelve months of 2013 LESTO group earned LTL 2,431.2 million, in 2012 – LTL 2,283.7 million, in 2011 – LTL 2,245.5 million).

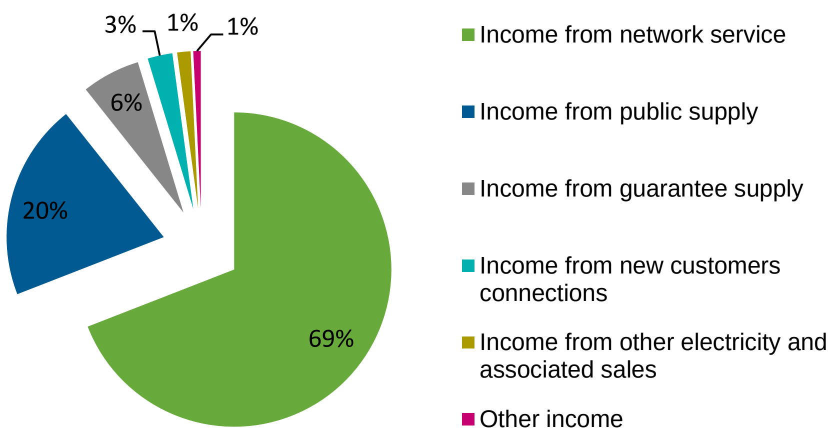
LESTO group ratios

	2014	2013	2012
EBITDA, LTL thousand	466,297	460,690	391,320
EBITDA margin, %	20.30	18.95	17.14

* EBITDA (earnings before interest, taxes, depreciation and amortisation) = pre-tax profit (loss) + interest expenses – interests revenue – received dividends + costs of depreciation and amortisation + value impairment costs + write-offs of tangible fixed assets

EBITDA of LESTO group during the twelve months of 2014 was LTL 466.3 million – 1.2 % more than during the same period in 2013.

LESTO income structure



The main source of Company's income is income from network service. In 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 6 % of Company's income. Income from connection of new customers, other electricity and associated services and income from other sources made up 5 %.

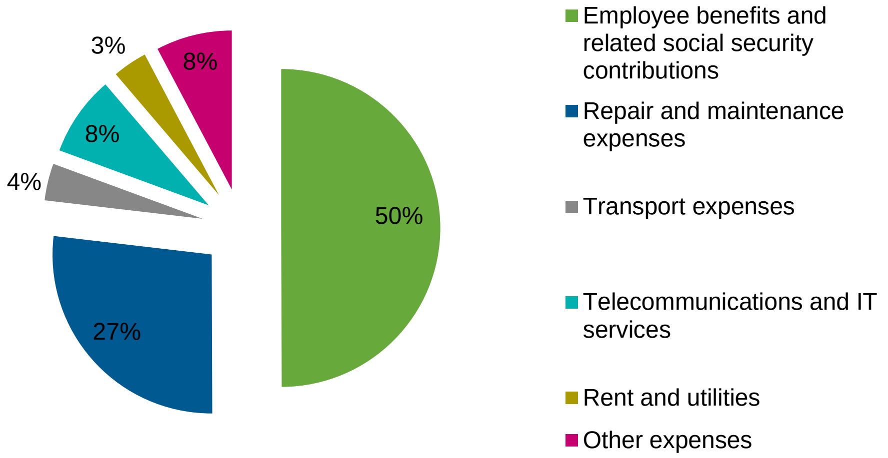
Costs

Electricity purchase and related services costs have decreased by 9.2 % compared with the same period of 2013. During the reporting period, electricity purchase and related services costs made up LTL 1,515.3 million i.e. 51.3 % of total costs. Depreciation and amortization accounted to 11.9 % of total costs. Operating expenses[1] accounted to 10.4 % of total costs, the remaining share of costs (26.4 %) consisted of revaluation and write-offs of fixed tangible assets expenses. During

[1] Operating expenses (OPEX) = operating expenses, excluding the costs of purchase of electricity and related services, costs of depreciation, amortisation and value impairment and costs write-offs of tangible fixed assets

2014, employee benefits and related social security contributions made up 50.0 % of total operating expenses, repair and maintenance accounted to 26.9 % of total operating expenses.

LESTO operating expenses structure



The results of 2014 shows that LESTO group's operating expenses decreased by 3.5 % compared with the same period of 2013. During the reporting period repair and maintenance expenses increased by 5.6 % compared with the same period of 2013 and amounted to LTL 83.0 million. Transport expenses increased by 6.9 % compared with the same period of 2013 and were equal to LTL 11.6 million, while rent and utilities costs increased by 1.3 % compared with the same period of 2013 and were equal to LTL 10.8 million. LESTO group's telecommunications and IT services increased by 10.4 % and amounted to LTL 25.1 million. During 2014, employee benefits and related social security contributions decreased by 3.9 % compared with last year and amounted to LTL 154.0 million.

Profit and profitability ratios

After valuation of assets, LESTO group results for the year of 2014 is a net loss of LTL 565.5 million, while LESTO group's net profit amounted to LTL 47.6 million in the same period of 2013, LTL 45.6 million loss in the same period of 2012 and LTL 69.3 million in the same period of 2011.

LESTO group profitability ratios

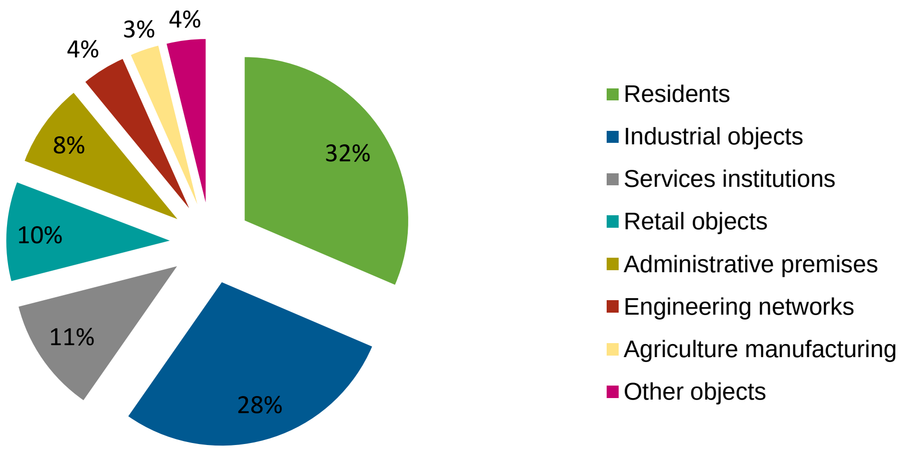
	2014	2013	2012
Net profit margin, %	-24.62	1.96	-2.00
Operating profit margin, %	-28.67	2.37	-2.02
ROA, %	-19.22	0.94	-0.88
ROE, %	-38.15	1.41	-1.33

Activity indicators

	2014 January - December	2013 January - December
Amount of electricity received to the distribution network, million kWh	9,061	8,874
Technological losses in the distribution network, million kWh	667	664
Volume of network service, million kWh	8,394	8,209
Amount of electricity sold, million kWh	3,223	3,061
Electricity quality indicators:		
SAIDI, minutes (with "force majeure")	144.04	153.94
SAIFI, times (with "force majeure")	1.29	1.43

During the twelve months of 2014 the amount of LESTO network service reached 8,394 million kWh. Electricity sales made up 38.4 % 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 5.3 % due to the rise of guarantee supply, while the volume of network service increased by 2.3 %. Technological losses experienced by the Company during the year 2014 amounted to 667 million kWh and this totalled to 7.4 % from the amount of electricity received while during the same period of 2013 technological losses totalled to 7.5 % from the amount of electricity received.

Structure of network service volumes by objects

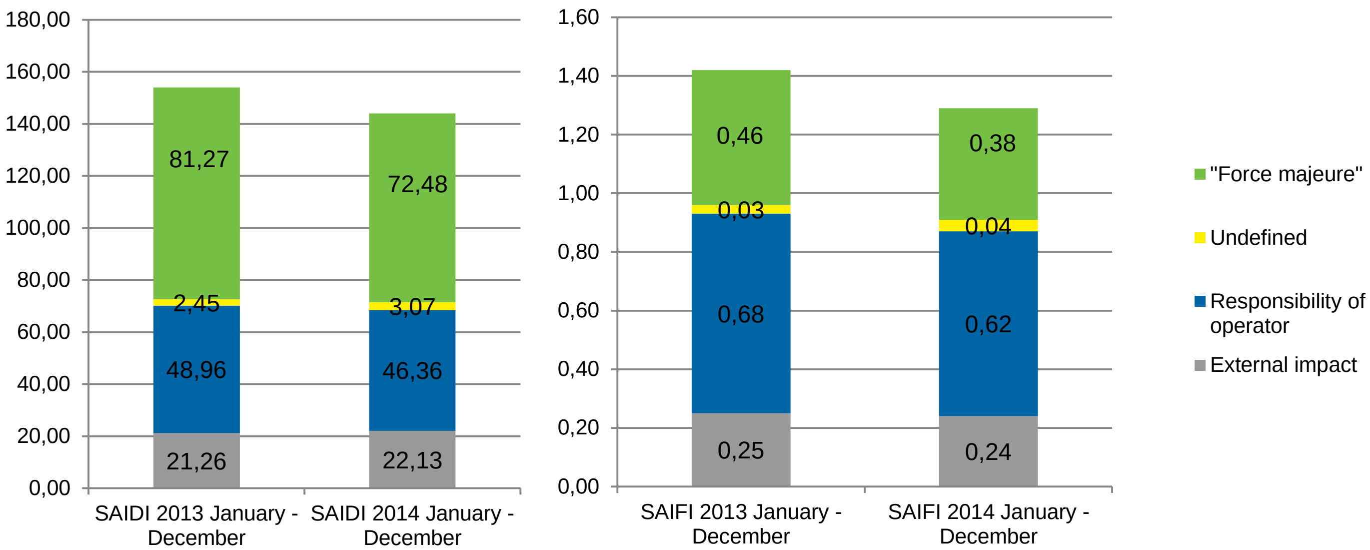


32 % of electricity network service volume was allocated to residents. Industrial and service institutions consumed 28 % and 11 % respectively. In comparison with 2013 data, the structure of electricity network service has not changed.

Distribution network reliability indexes

In the twelve months of 2014, with the influence of natural disasters ("force majeure") the system average interruption duration index (SAIDI) per customer amounted to 144.04 minutes and, compared with the same period of 2013, it has decreased by 9 minutes (SAIDI for the twelve months of 2013 was equal to 153.94 minutes). Natural phenomena omitted, SAIDI index slightly declined during the twelve months of 2014 and amounted to 71.56 minutes (SAIFI for the twelve months of 2013 was equal to 72.67 minutes). The system average interruption frequency index (SAIFI) per customer reached 0.90 times and, compared with the same period of 2013, it has slightly decreased (SAIFI for the twelve months of 2013 amounted to 0.96 times).

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



Investments

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 twelve months of 2014, LESTO investments in electricity network expansion and modernization reached LTL 350.2 million. This is 17.3 % more compared to the investment during the same period of 2013.

During the twelve months of 2014, compared with the same period of 2013, the biggest increase was in the low voltage electricity grid (81.7 %). Investment in the medium voltage electricity grid increased by 0.4 %, compared with the same period of 2013, while investment in the buyout of electricity objects decreased by 28.8 %.

LESTO investment, LTL thousand

	2014 January - December	2013 January - December	Change, %	Structure, %	
				2014	2013
Investments in expansion	**172,513**	**175,453**	**-1.7**	**49.3**	**58.8**
Connection of new customers	171,082	173,442	-1.4	48.9	58.1
Buyout of electricity objects	1,431	2,011	-28.8	0.4	0.7
Investments in maintenance	**177,654**	**123,007**	**44.4**	**50.7**	**41.2**
Low voltage electricity grid	128,747	70,841	81.7	36.7	23.7
Medium voltage electricity grid	41,989	41,809	0.4	12.0	14.0
Other investments	6,918	10,357	-33.2	2.0	3.5
Total	**350,167**	**298,460**	**17.3**	**100.0**	**100.0**

During the twelve months of 2014, LESTO has connected 26,433 new customers, 28.0 % more than in the same period of 2013 when it had 20,649 new customers connected. The permissible power for new customers was equal to 335,910 kW, which is 13.0 % more than in the twelve months of 2013, when the permissible power was 297,359 kW.

In 2014, LESTO continued reacquiring of electric power networks from gardeners' non-commercial partnerships in order to satisfy their increased needs of electric power consumption and maintenance, and to ensure reliable electric power supply and modernization of networks. During 2014, LESTO reacquired five electric power networks from gardeners' partnerships. After the acquisition process began (in 2003), LESTO reacquired 939 or 97 % of electric power networks in gardeners' partnership.

On 13 December 2013, the Company signed the contract for administration and funding of the Project "Replacement of unit transformer substations of LESTO AB by pole transformer stations" with the Ministry of Economy of the Republic of Lithuania and the LBSA (Lithuanian Business Support Agency). According to this contract, the sum allocated for funding of this Project from the EU Structural Funds amounts to LTL 7.769 million. The total value of the Project to be completed by 28 August 2015 amounts to LTL 19.423 million. The Project provides for modernization of the distribution networks, involving the replacement of 724 worn-out and obsolete unit transformer substations by modern pole transformer stations. It aims to satisfy the increased loads, as well as the requirements of electricity supply reliability and quality. The works will be carried out throughout the entire Lithuania. The target project will also contribute to the regional development. The procurement procedures have been completed by January 2015, the works have begun, 94 transformer substations have been replaced.

In the course of the contract for administration and funding of the Project “Modernization and development of AB LESTO electricity distributing networks in gardeners' partnerships” signed on 29 March 2012 between the Ministry of Economy of the Republic of Lithuania, LBSA and LESTO for modernization and development of electricity networks in 76 gardeners' partnerships located in the territory of Lithuania and served by LESTO until 2015, modernization and development works on electricity networks were completed in 75 gardeners' partnerships. The sum allocated for funding of this Project from the EU Structural Funds amounts to LTL 9.147 million.

In the course of the contract for administration and funding of the Project "Replacement of AB LESTO overhead lines by cable lines" (36 objects) signed on 28 December 2012 between the Ministry of Economy of the Republic of Lithuania, LBSA and LESTO, modernization and development works have been completed in full in 35 - objects until January 2015. The sum allocated for funding of this Project from the EU Structural Funds amounts to LTL 5.408 million.

In the course of the contract for administration and funding of the Project "Modernization of AB LESTO transformer substations" (7 transformer substations) signed on 28 December 2012 between the Ministry of Economy of the Republic of Lithuania, LBSA and LESTO, modernization of 5 transformer substations have been completed until January 2015. The sum allocated for funding of this Project from the EU Structural Funds amounts to LTL 9.436 million.

Financial ratio analysis

The value of LESTO group assets at the end of the reporting period made up LTL 2,943.1 million. Non-current assets share in total assets was equal to 90.8 %. From the beginning of the year till 31 December, 2014, due to the valuation of fixed tangible assets the value of LESTO group non-current assets shrank by 44.6 %. Cash with cash equivalents accounted to LTL 35.9 million i.e. 13.3 % of total current assets.

LESTO group liquidity ratios

	31.12.2014	31.12.2013	31.12.2012
Current liquidity ratio	0.34	0.36	0.42
Acid test ratio	0.33	0.35	0.41
Cash liquidity ratio	0.05	0.04	0.05
Working capital, LTL thousand	-518,050	-463,677	-354,000
Working capital to total assets ratio	-0.18	-0.09	-0.07

LESTO group financial leverage ratios

	31.12.2014	31.12.2013	31.12.2012
Total liabilities to total assets ratio	0.50	0.34	0.34
Debt to assets ratio	0.26	0.12	0.11
Total liabilities to equity ratio	0.99	0.51	0.51
Debt to equity ratio	0.52	0.18	0.17
Net financial debt, LTL thousand	730,878	588,937	543,701
Net financial debt to equity ratio	0.49	0.17	0.16
Long-term debt to equity ratio	0.23	0.09	0.12
Equity to total liabilities ratio	1.01	1.96	1.97
Equity to total assets ratio	0.50	0.66	0.66
P/E ratio*	-	35.00	-
Capitalization, LTL million	2,081.13	1,626.53	1,257.44

* P/E ratio is not applicable if a company reports loss

Equity of LESTO group exceeded liabilities 1.01 fold. At the end of reporting period, financial debts made up LTL 766.8 million or 52.5 % of total liabilities. Non-current borrowings were LTL 344.8 million and made up 45.0 % of all borrowings. At the end of reporting period LESTO amounts payable within one year and current liabilities made up LTL 787.4 million.

Current liabilities exceeded current assets by LTL 518.1 million. Current liquidity ratio stood at 0.34. Inventories made up only 3.0 % 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 730.9 million and consisted only 49.3 % of equity.

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 2014.

FACTORS, AFFECTING THE COMPANY'S FINANCIAL RESULTS

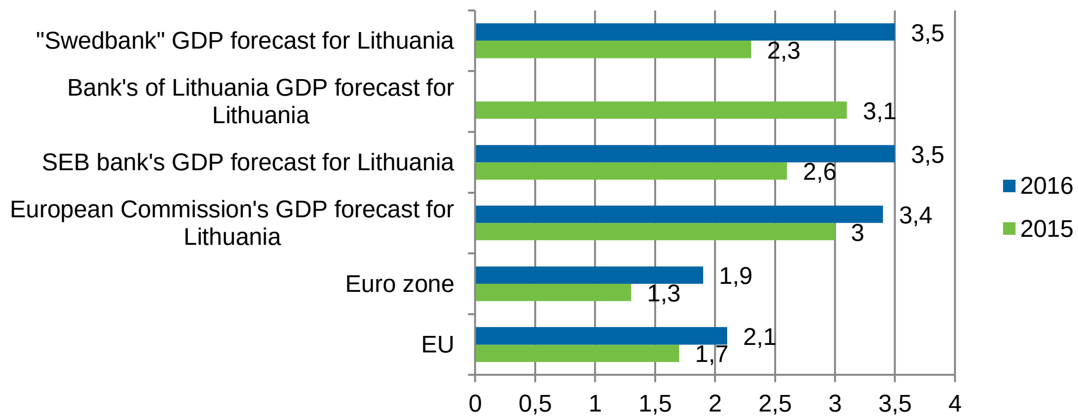
Business environment

The pace of the recovery of Europe was still quite slow in 2014, the main engine of growth was private consumption. For the first time since 2007, the economies of all European Union Member States are expected to grow again, according to the European Commission's updated forecast. Growth prospects across Europe are still limited by a weak investment environment and high unemployment. However, decrease of oil prices, the depreciation of the euro agains US dollar and the execution of investments provided in the European Commission presented Investment Plan for Europe should have have a positive impact on economic growth. It is forecasted that the European Union's gross domestic product growth will reach 1.7 %, while the euro zone's – 1.3 % in 2015. Meanwhile, in 2016 it is expected the Economic growth of 2.1 % and 1.9 % respectively[2].

During the three quarters of 2014 the real gross domestic product of Lithuania, compared to the same period of last year, increased by 3.1%. Lithuania's economy is expected to maintain growth of 3.0% in 2015, despite a fall in exports to Russia. Domestic demand is set to remain the main growth engine, as employment and real disposable incomes, while inflation remains in a low level. The European Commission forecasts that Lithuania's real GDP will grow by 3.4 % in 2016.

Meanwhile, forecasts of economists from Lithuania's banks are more cautious. In December, 2014 economists updated their previous macroeconomic forecast and reduced growth prospects. Due to the sluggish recovery in the euro zone, Lithuania's limited export opportunities in the European Union and Russia and the worsening domestic market expectations, the analysts of SEB bank reduced the GDP growth forecast from 3.2 % to 2.6 % in 2015 and from 4.0 % to 3.5 %[3] in 2016. "Swedbank" analysts also reviewed the prospects of Lithuania's economy and reduced GDP growth forecast to 2.3 % in 2015, while they predict the growth of 3.5 % in 2016[4]. In December Bank of Lithuania also reviewed the economic growth forecast for 2015 and reduced it from 3.3 % to 3.1 %[5].

The gross domestic product growth forecast for Lithuania, European Union and euro zone in 2015 and 2016, %



Since electricity consumption is closely related to the gross domestic product growth, the economic growth will affect the results of LESTO. According to the economists' macroeconomic forecasts, it is planned that the volume of network service will increase in 2015, compared to 2014.

Change of LESTO network service's volume effect on LESTO income*

Change of network service, %	Change of income, LTL thousand
+1%	22 300
-1%	-22 300

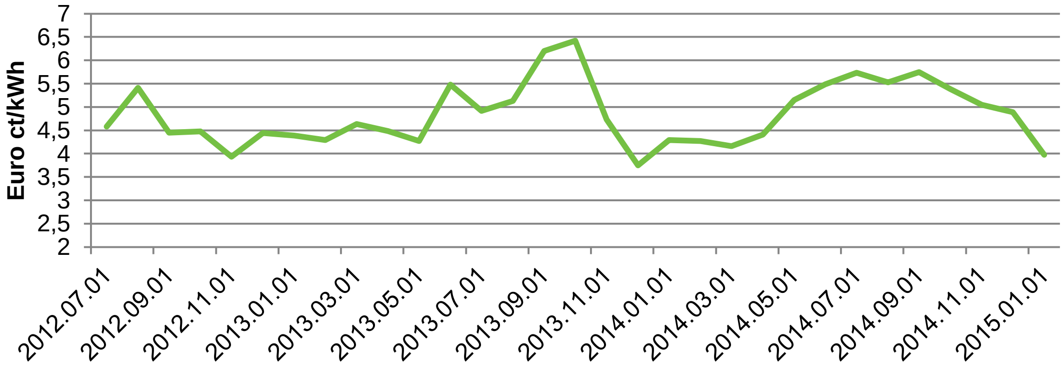
* Supposing that the tariffs established by the National Control Commission For Prices and Energy for 2014 are apllied.

2 Data source: European Commission. European Economic Forecast Winter 2015: European Economy 1/2015.
3 Data source: Lithuanian Macroeconomic Overview No. 58, December, 2014
4 Data source: „Swedbank" economy review. 27 January, 2015
5 Data source: Lietuvos bankas. Economic Outlook for Lithuania, 11 December, 2014.

Situation in electricity market

The average price of electricity in Nord Pool Spot Exchange Lithuanian trade zone was 50.13 EUR/MWh in 2014 and, compared with 2013, increased by 2.5 %. The average monthly market prices of the first four months of 2014 were lower than in the same period of 2013, while from May to August prices were higher. One of the main reasons of such increase was the price of electricity sold by participants and importers in the market, as well as the repair of Kaliningrad thermal power plant. What is more, as every summer line repairs were scheduled and permeability of used lines decreased because of hot weather in the summer months, leading to a decrease of opportunities to import electricity from the North. The prices slightly grew at the end of 2014 due to drier than normal autumn and lower hydroelectric power production. In Lithuania 10,849 GWh electricity was purchased in the market in 2014.

The average monthly prices in the electricity market



The difference between Nord Pool Spot exchange system and Estonian trade area prices at the end of December showed that, compared with Nord Pool Spot exchange system price, the price of electricity can increase by 8.75 EUR/MWh in Estonia in the first quarter of 2015 and by 8.35 EUR/MWh during all 2015. In November, 2014 derivatives were started selling in Lithuanian/Latvian electricity trade area. The difference between Nord Pool Spot exchange system and Lithuanian/Latvian trade area prices at the end of December showed that, compared with Nord Pool Spot exchange system price, the price of electricity can increase by 13.0 EUR/MWh in the first quarter of 2015. It is forecasted that the price of electricity in Lithuanian/Latvian trade area will increase by 16.65 EUR/MWh in 2015, more than double compared with Estonian trade zone.

According to proposed futures prices in the Nordic financial market on 23 December, 2014, it is expected that the average price in Estonian price area will be 39.3 EUR/MWh and in Lithuanian/Latvian electricity trading zone - about 47.9 EUR/MWh in 2015. This reflects the expectations of market participants for the year 2015: the market price of electricity, compared with 2014, will slightly increase in Estonian trade zone, but fall in Lithuania‘s and Latvia‘s trade zones[6].

Price caps for 2015

The governmental policy regarding electricity prices is significant to the Company’s activities. Service prices are controlled, price caps are set and controlled by the National Control Commission For Prices and Energy. On 19 December, 2014 the National Control Commission for Prices and Energy established the following price caps of the electricity distribution service for 2015:

- electricity distribution service received via medium voltage network – 4.068 ct/kWh or 1.178 euro cents/kWh (2014 – 4.479 ct/kWh or 1.297 euro cents/kWh);
- electricity distribution service received via low voltage network – 5.351 ct/kWh or 1.550 euro cents/kWh (2014 – 6.162 ct/kWh or 1.785 euro cents/kWh).

On 19 December, 2014 the National Control Commission for Prices and Energy established the price cap of 0.481 ct/kWh or 0.139 euro cents/kWh for 2015 on public electricity supply services (2014 – 0.52 ct/kWh or 0.15 euro cents/kWh).

On 19 December, 2014 the National Control Commission for Prices and Energy established the price cap of 29.748 ct/kWh

[6] Data source: Electricity Market Overview, December of 2014 [interactive].Watched 2015-02-09. Link: http://www.litgrid.eu/index.php/elektros-rinka/rinkos-apzvalgos/798

or 8.616 euro cents/kWh (excluding VAT) for private customers who receive electricity via medium voltage network and the price cap of 35.099 ct/kWh or 10.165 euro cents/kWh (excluding VAT) for private customers who receive electricity via low voltage network on public electricity prices for 2015 (2014 – 31.616 ct/kWh or 9.157 euro cents/kWh, excl. VAT and 2014 – 37.778 ct/kWh or 10.941 euro cents/kWh, excl. VAT, respectively).
If the predicted economic growth confirms, the price changes can have a significant negative impact on the Company's financial results.

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:

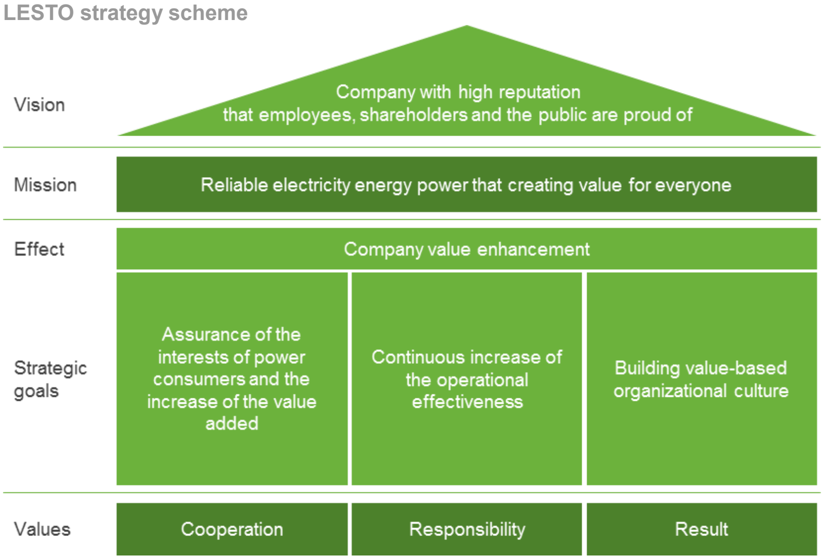
1. Cooperation
2. Responsibility
3. Result

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



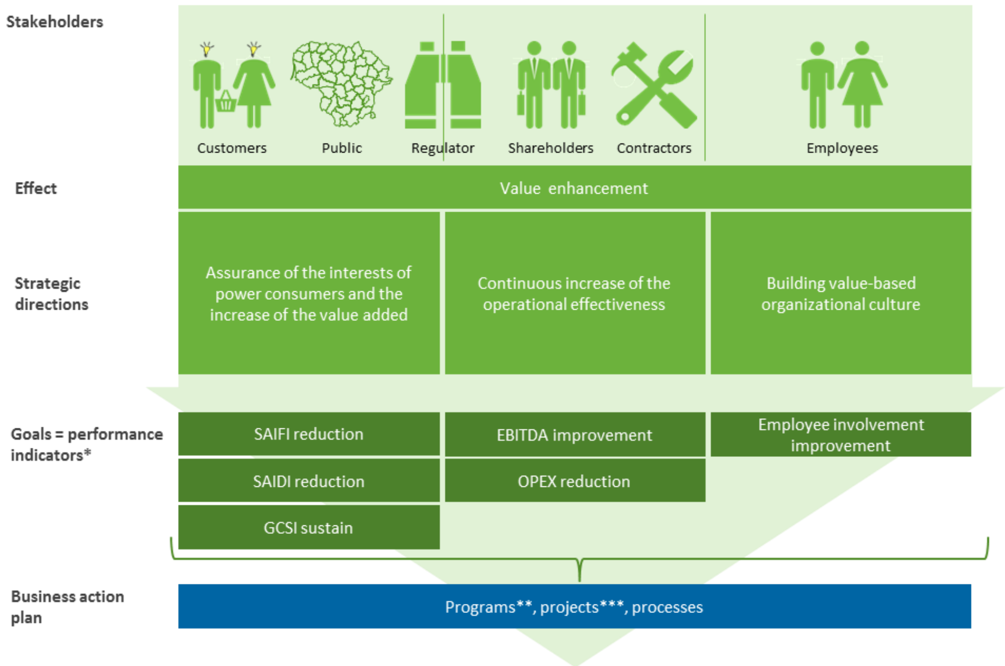
Stakeholders

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.

Linking 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 2015–2020.

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.

GSCI 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 2015–2020

	2015	2016	2020
SAIDI, min.	70.6	69.2	**63.8**
SAIFI, times	0.95	0.94	**0.89**
GCSI, score*		76	
Employee involvement, %	43	46	**62**
OPEX, EBITDA	Values are not made public		

*The value of the indicator isset signifficantly higher than the average of utility companies in Europe (i. e. at least +3 points).

Investment plan

On 3 February, 2015, LESTO announced investment plan for 2015-2025. Over the coming decade LESTO plans to carry out substantial modernization of its distribution network. Seeking to ensure reliable, safe and smartly managed services, the

Company intends to invest LTL 5.87 billion (EUR 1.7 billion) into the modernization and renewal of the network by 2025.

The company plans to make the largest investment – LTL 1,764.38 million (EUR 511 million) – into making the network more resistant to climatic phenomena. Thus, overhead lines will be replaced by subterranean or isolated overhead lines. It is planned to increase the number of such lines from 25% to 40% or build 18 thousand kilometers of underground and isolated lines over the next 11 years.

It is intended to invest LTL 1,470.89 million (EUR 426 million) into the “Safe and reliable network” program. In the course of the program, unsafe transformers, cable lines and distribution facilities will be replaced by modern equipment corresponding to current standards.

Finally, it is planned to invest LTL 455.77 million (EUR 132 million) towards the improvement of the power voltage quality. This will resolve the problem of inferior voltage for 41 thousand users by fixing almost 9,100 km of lines affected by drops in voltage.

LESTO intends to invest LTL 117.4 million (EUR 34 million) into the smart network projects. By 2025, it is planned to implement 7 projects, including the pilot projects of network automation and smart meters, introduction of a single control center and distribution network control system.

The remaining investments will be allocated to the connection of new users, IT systems upgrade and other measures.

LESTO aims to make the investments gradually, so as to minimize the effect on electricity rates. Investments will have a positive impact on the national economy. The Company plans to finance the investments using funds collected from power distribution activities and long term credits.

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).

LESTO understands risk as uncertainty for achievement of objective, conditioned by potential events and their possible consequences. The goals of the Company performance are understood extensively; they include both the goals of common character concerned with the long-term strategy and the action plan, and particular goals concerning individual business processes 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 Company, and other risk management related internal legislation.

The main LESTO risk management principles:

- risk management creates and protects the value created, while management scenarios and measures are selected so as to contribute to the achievement of the Company‘s objectives and performance improvement;
- risk management is integrated into the Company's business processes and associated with the planning process, the level of risk trends are constantly observed by monitoring performance of the Company;
- risk management is an integral part of the decision-making;
- risk management is adapted to the internal and external environment and the nature of the risks;
- risk management is systematic, structured and timely;
- risk management is dynamic, responsive to changes and repetitive;
- risk management process is transparent and comprehensive. This process involves the Company‘s employees of all levels. The adequacy and reliability of the risk is ensured by the risk management committee performing the functions of the Company's management board and at Lietuvos energija, UAB, group level - the Supervisory Board Risk Management Committee.

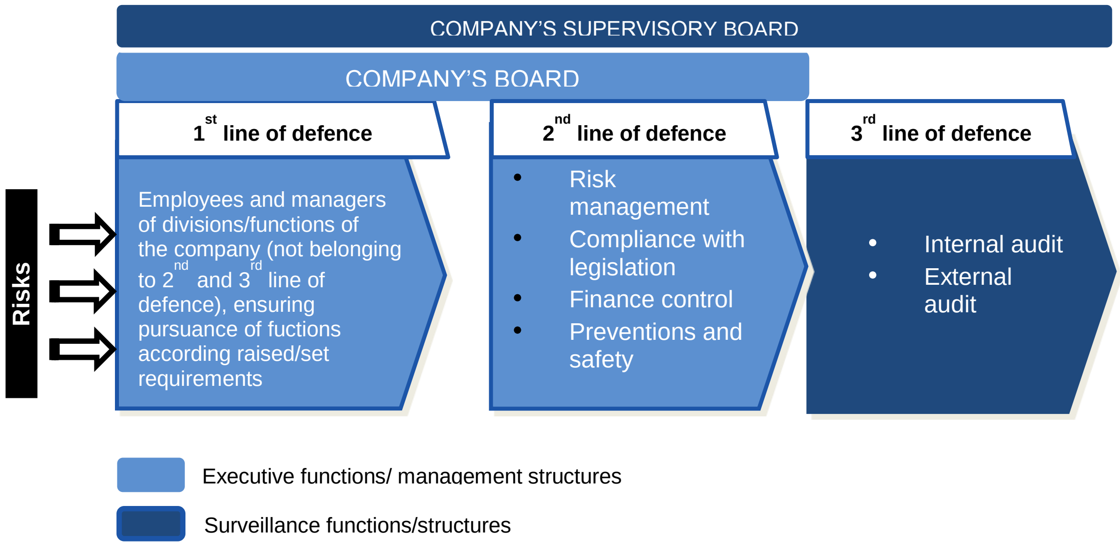
Periodic risk identification and evaluation cycle when activity (process) results residual risk and risk management means intensification runs every year during activity targets planning. During this cycle risks which can have a negative impact on activity targets and results are set. Set risks are evaluated 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 Company's Management Board, performing the functions of Risk management committee, 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 Risk management supervisory committee of Lietuvos energija, UAB Supervisory Board executes supervision on risk management and control efficiency covering all three lines of defence.

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;
- legal compliance risk;
- operational risk;
- financial risks.

Strategic Risk Management

Strategic risk. In the scope of the Company's operations risks assigned to this group are associated with the planning, unfavourable or false operating decisions, improper implementation of decisions or inadequate/overdue response to political, regulatory or technological and/or scientific (innovation applicability) changes. Market, reputation, damage to the environment and natural resources risks arising from improperly set strategy directions and depending from the sources of risk, can also be attributed to this category. 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.

By implementing electricity distribution, public and guarantee electricity supply function, the Company seeks to achieve the highest standards of reputation. This aspiration is reflected in the Company's mission, vision, strategic goals and values. The Company's managers pay great attention to the communication of the Company's mission, vision, strategic goals and values for the employees. In addition, the Company carries out social projects that consolidate the image of a socially responsible Company.

Legal Compliance Risk Management

Legal compliance risk is understood as the risk arising from the changes of regulatory, legal environment or specific areas where the specific modifications were legitimized, but they are not properly or timely transferred into the Company's internal documents or there is no possibility to implement these requirements timely and/or in full extent because of the Company's nature of business. This group of risk can also be associated with risk of compliance with various standards or certifications. That is the increase of losses and (or) loss of prestige and (or) reduction of trust, which might be influenced by external environmental factors 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.

Operational/business Risk Management

The operational/business risk is understood as the risk of loss/not receive expected revenues, the uncertain business continuity or pose a threat to employees and/or the environment, as well as the loss of confidence due to inadequate or unimplemented internal control procedures, improperly organized and managed processes, employees' errors and/or illegal actions and information systems disorders or external factors. This category includes the risks related with inappropriate management of human resources, organization microclimate, failure to secure employees' safety and health, civil, physical, fire safety, inadequate/insufficient information technology, information security failure, improper management of contracts, inefficient control of internal systems, failure to secure the quality of products/services/works, the quality of customer service, damage to the environment, nature or inefficient processes. The management of the reliability of electricity distribution disruption is very important to the Company's activities. 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.

Financial Risk Management

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.

Liquidity risk is risk that Company will not be able to accomplish fulfill their financial commitments and (or) can be forced to sell their financial actives and incur losses due to liquidity in the market.

Credit risk is risk of losses that clients and (or) other parts will not be able to fulfill their commitments to the Company.

More detailed financial risks management is is provided in clause 27 of the notes to the audited consolidated annual financial statements for 2013.

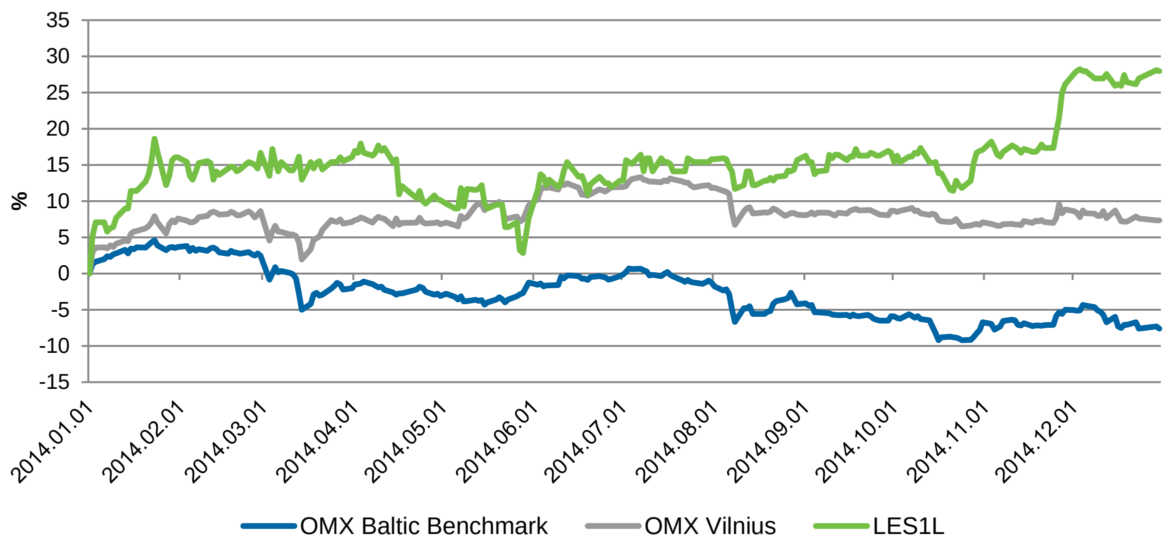
INFORMATION ON THE ISSUER'S SECURITIES AND AUTHORISED CAPITAL

LESTO share price dynamics and turnover

LESTO share price dynamics and turnover, 17-01-2011 - 31-12-2014

LESTO is one of the biggest companies by market capitalization in OMX Baltic securities exchange market. During the twelve months of 2014 LESTO share price increased by 21.71 %. The lowest LESTO share price was recorded on 28 May, 2014, the price of LESTO share was LTL 2.77. The highest point (LTL 3.45) during the reporting period was reached on 3 December, 2014. The weighted average price of LESTO share during the reporting period was LTL 3.10.

Dynamics of LESTO share price, OMX Vilnius and OMX Baltic Benchmark indexes, 01-01-2014 - 31-12-2014



Since the beginning of the year until 31 December, 2014, index OMX Vilnius increased by 7.31 %, OMX Baltic Benchmark decreased by 7.65 %, while price of LESTO share increased by 21.71 % during the twelve months of 2014.

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

Information on transactions of associated parties is provided in clause 29 of the notes to the audited consolidated annual financial statements for 2014.

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 December 31, 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.

Information about committees

There are no committees in 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 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 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 2014.

Reasons for acquisition of own shares in the accounting period

The Company did not acquire its own shares in 2014.

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

Shareholders

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

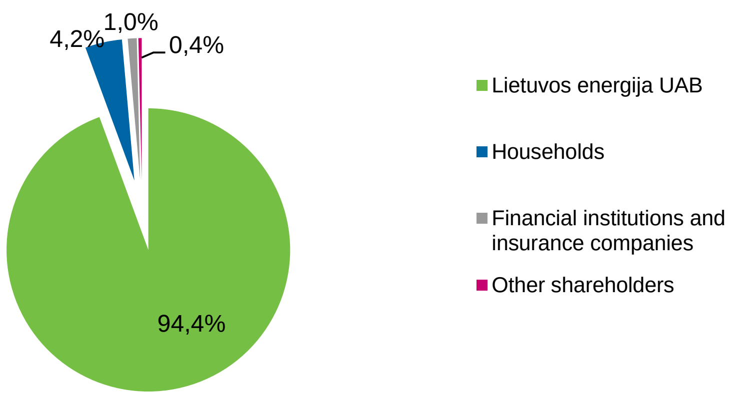
On December 31, 2014 the number of LESTO shareholders amounted to 7,065.

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, 31-12-2014

Country	Number of shareholders
Lithuania	6,867
Russia	48
Belarus	38
Estonia	31
United States	19
Latvia	13
Other countries	49
Total	**7,065**

LESTO distribution of holdings according to holder groups on 31 December, 2014



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 31 December, 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

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.

On 30 September, 2014, the Extraordinary General Meeting of Shareholders made a decision to pay out dividends for the period shorter than financial year. Company's distributable profit for the six months period ended on 30 June, 2014 was LTL 66.4 million. Dividends for the six months period ended on 30 June, 2014, per share amounted to LTL 0.11.

LESTO securities account manager

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

CUSTOMER SERVICE, SERVICE ASSESSMENT

The Number of the Customers Serviced

On 31 December, 2014, LESTO had 1.561 million contracts with private clients and 66.2 thousand contracts with business clients (in 2013, LESTO had 1.545 million contracts with private clients and 63.7 thousand contracts with business clients).

Service Channel Development

In 2014, the number of customers using the remote service channels (self-service website www.manoelektra.lt and customer service 1802) increased, while the flow of electrical energy users in LESTO customer service centers of smaller towns decreased. Due to changing customer needs, the activities of 14 LESTO Customer Service Centres that had a relatively small number of customers were transferred into seven largest Customer Service Centres from 1 October. During the fourth quarter of 2014, many important services were introduced in self-service website (applications for signing or terminating the electricity purchase / sale agreement, functionality of changing a payment plan (tariff) for business clients). In the beginning of 2015, the currency of the electricity rates (tariffs) and amounts payable were changed to euros at the self-service website.

On 31 December 2014, there were 513 thousand of registered users in the self-service website www.manoelektra.lt, including 464 thousand domestic users. During 2014, the number of the self-service website www.manoelektra.lt (in comparison with the same period of 2013) increased from 2.404 million to 3.044 million.

During 2014, more than 1 million clients received information via the short client service telephone 1802 (during relevant period of the year 2013, 938 thousand clients were served), more than 434 thousand requests of clients on various questions were received and solved (during relevant period of 2013, 471 thousand requests of clients were received and solved).

During 2014, more than 252,076 thousand clients were served by Customer Service Centres located in the five largest Lithuanian cities (in 2013, 282,739 clients were served).

Maintenance and Development of Accounting for Electricity

By investing in modernization and automation of electricity metering devices during the year 2014, the Company connected 5,043 pieces of electricity metering devices to computer-assisted power recordings reading system, thus increasing the number of electricity metering devices with remote reading up to 25,110 of units. Automation of power account equipment provides the possibility to invoice automatically the clients on electricity amount consumed per period instead of declaring amount by clients themselves.

In 2014, the Company replaced 124,202 pieces of metrologically outdated electricity metering devices. 64 % of them were used for electric energy metering in the single-phase alternating current systems, and 36 % - in the three-phase systems. The Company mounted 25,505 pieces of power account equipment for new clients. 34 % of them were intended for recording power in the single-phase alternating current systems and 66 % - in the three-phase systems.

Customer Settlement Management

LESTO customers can pay for the electricity in accordance with the average amount of the electricity they used. The settlement by the average amount of the electricity used helps to plan the expenditures evenly, despite the seasonality and changes in the amount of used electricity. It means that a client pays an equal sum each month. In addition, those users who have several objects can pay for the electricity used in the several owned residential dwellings by one payment (one bill is available as option). Monthly charges for the electricity used by the client are calculated based on the average amount of the electricity previously used by the client (in kilowatt hours, kWh), which is specified in accordance with the readings sent in by the customer or data of periodic checks of the meters. Users can find out and check the applied average payment by logging into the self-service website "Mano elektra", which is periodically updated, or by making a call to the Customer Service Center or arriving at LESTO Customer Service Center. 15% of LESTO clients pay the bills (VAT invoices) they receive. In 2014, the number of bill (VAT invoices) payments for the electricity used in comparison with 2013 increased by 25%.

Those customers who select electricity accounting by the average consumption can additionally choose the Direct Debit, when payment for electricity is automatically taken from the client's bank account every month. 13% of LESTO customers use the Direct Debit for bill payments.

Market liberalization

On 31 December 2014, independent suppliers delivered electricity to 59,192 objects. According to the Electricity Market Development Plan for Lithuania signed by the Government of the Republic of Lithuania on 8 July 2009, as of 31 December 2014, the independent electricity supplier has been chosen accordingly:

- About 94 % of objects with permissible power of 400 kW and more;
- About 84 % of objects with permissible power of 100 kW and more;
- About 71 % of objects with permissible power of 30 kW and more;
- About 57 % of objects with permissible power less than 30 kW;

The remaining objects receive the electricity from the warranty supplier (LESTO).

SOCIAL RESPONSIBILITY

The primary goal of LESTO socially responsible activities is the formation of safe and sustainable electricity consumption habit in the society, and contribution to saving energy resources and reduction of the environmental impact they produce. That is why all socially responsible actions initiated by LESTO contribute to the achievement of these goals.

Environmental Projects

Electric vehicle charging station. In July 2014, LESTO with its partners Nissan and NT Valdos provided the first impulse for the development of electric vehicle infrastructure in Lithuania: the first electric vehicle charging station was opened at J. Levelio str. in Vilnius. The project of the first electric vehicle charging station is a breakthrough in the development of electric vehicle infrastructure. New possibilities for business development and investments in the knowledge-based capital open up in Lithuania. The charging station allows charging the empty car battery just in 30 minutes. According to the electricity consumption data at the station, electric vehicle drivers used the station approximately 90 times, starting from its opening in July. At present, the largest independent Lithuanian capital electricity supplier Energijos tiekimas supplies the station with the electricity free of charge.

Paper saving and usage of the advanced technology for provision of information. The Company continuously motivates its clients to reject paper bills and billing books, encouraging them to choose the remote service channels or use the Direct Debit for payments instead. More than 90% of LESTO business clients had already proceeded to electronic billing. LESTO informs approximately 80% of its electricity users about power outages and expected duration of repair by e-mails and SMS messages.

Waste sorting and management. According to the published statistics, namely that actually one fourth of total communal waste accounts for paper, cardboard and plastic, and that offices dispose of this type of waste at most, LESTO initiated waste disposal by sorting plastic and paper at its central office with the utmost number of employees. As a contributor to the safer environment, LESTO continues serving of points for workers operating in Customer Service Centres in order to collect power saving bulbs, small-sized electronics, and batteries.

Landscape Protection. Under the implementation of the EU co-financed project, LESTO replaced the old electricity overhead lines with new cables of 100 km long in Kaunas, Panevėžys, Šiauliai, Mažeikiai and other regions, where the technical state of the overhead lines could no longer meet the user standards. Cable lines are safer, ensure reliable electricity supply and fit in the landscape. LESTO aims to install cable lines under the project in those country areas, where overhead lines' wires have become too thin, have dangerously approached the green area, and worn-out infrastructure caused many malfunctions.

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. While expanding its socially responsible activity, LESTO invited residents to act responsibly during the year, i.e. to save the environment, recycle waste and sustainably use the resources and the electricity.

Initiatives to public

LESTO implements long-term social responsibility projects for children, youth and public. All of them cover active involvement of target social groups as well as ideas concerning safe and sustainable usage of energy and environmental protection.

Loss reduction and educational project „Operation 2020“

The Company plans to proceed with the implementation of the Programme “Operation 2020” until the year 2020, which aims to motivate responsible behaviour with electric devices, increase people awareness of the safety and reduce adverse outcome arising from irresponsible and malicious behaviour of residents. This year LESTO continues active cooperation with the Association of Local Authority Heads in Lithuania, as well as participation in rallies and meetings organized by seniors. A significant support in combating theft is the public spirit – reports by citizens help quickly to identify offenders and repair damaged transformers before they burn out and stop supplying residents with electricity.

During 2014, 136 reports on illegal electricity use cases were received via the anonymous trust telephone line. According to citizen reports, eight illegal electrical connections and three illegally installed electrical branches were identified. Due to citizens reports, the Company drew up protocols for the total amount of LTL 100,000.

In 2014, compared to 2013, the number of thefts has almost unchanged, however thefts losses decreased by 18 %. The thefts of insulating oil decreased by 12 %, whereas damages declined by 15 %. The number of non-ferrous metals thefts from transformer assemblies decreased by 18 %, while damages declined by 27 %. In 2014, compared to 2013, the number of drawn protocols on electricity embezzlements decreased by 26 %, while the damages increased twofold.

Project competition for Local Authorities and Communities

LESTO with the Association of Local Authority Heads in Lithuania invited Local Authorities and their Communities to submit tenders for competition of projects on the increase of safety near devices of the electric network and public responsibility. Communities were to suggest the plans to solve the problems related to safe and sustainable electricity use and to involve as many residents into the project as possible. The aim of the project was to increase the safety of residents. Particularly desirable were the projects that encourage education and responsibility of citizens, especially among the youth. 30 applications were received from the Local Authorities and Communities. The representatives of LESTO, the Association of Local Authority Heads, associations of Lithuanian municipalities and VšĮ „Rūpi“ evaluated the submitted applications. This year seven educational and practical projects were announced as winners that will bring the most benefit for people safety near the facilities of the electricity network. It had been the third competition organized by LESTO and the Association of Local Authority Heads in Lithuania. In 2010, thirteen Local Authorities submitted 18 applications in the first competition, and five Local Authorities received financing. In 2011, in the second contest, 29 local Authorities submitted 32 applications and the prize fund was allocated for eight projects.

For the enhancement of electricity efficiency – "As much as needed"

Promotion of sustainable energy usage is one of the underlying trends of LESTO social responsibility that contributes to environmental conservation and saving energy resources due to obligations of the country to pursue the European Climate Change Programme. The Project strives at developing traditions of sustainable life of society by searching for ways of sustainable electricity use in both daily life and business.

Series of energy efficiency conferences for industry. In September 2014, LESTO with partners launched a series of energy efficiency conferences "As much as needed for the industry". The first conference, held in Šiauliai, was attended by over 70 representatives of Šiauliai and Panevėžys regional industry. The Conferences "As much as needed for the industry" refer to practical measures for energy saving in the industry, energy management automation solutions, industrial equipment maintenance strategies and sample applications. The participants of the event also learned about the change of electricity capacity and power reliability, electricity network reliability and business process and balancing the cost of electricity and its dependence factors. Partners from international companies „Schneider Electric Lietuva“, „Mano būstas LT“, „SKF Lietuva“ and Energetikų mokymo centras shared their knowledge and experience at the conference.

Days of sustainable and safe use of electricity in Lithuanian libraries. In order to contribute to environmental sustainability and saving energy resources, LESTO organized a series of events on safe use of electricity in 14 national libraries. LESTO experts advised residents on how to save energy and reduce their electricity bills. Participants of the event received the responsible electricity user manual and leaflets about energy saving. Little attendees meet with youth-oriented educational initiative "Elektromagija" characters that both solve a variety of tests related to safe electricity use and play with children and give awards to them. This initiative is for children on energy use, danger and safety issues. The goal of the initiative is to learn how to behave safely with electricity and electrical facilities, to promote interest in a responsible use of energy, environment and sustainable development ideas. In September, events on sustainable and safe use of electricity day were held in Pasvalys, Varėna, Šilutė, Joniškis, Kaišiadorys, Kelmė, Anykščiai, Ignalina and Kupiškis district libraries. More than 500 adults and children participated in the events.

National Educational Programme "Sustainable School". In order to promote the awareness of school communities and contribute to the development 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 participate in a yearlong

Educational Programme “Sustainable School”. Seventy participants from educational institutions carried out the first task – an ecological footprint study.
The results of the ecological footprint study were presented at the Forum of leaders from the school that participate in the Programme “Sustainable School”. After pooling particular individual schools’ data, the results of the study will be presented to the public in the near future. An ecological footprint is a measure indicating the amount of the planet resources necessary for meeting the consumption needs of the population. The 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 within 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 on ecological footprint is made by waste (13 %), food consumption (7 %), teachers’ mobility (4 %), supply (1 %) and water consumption (0.002 %). Other stages of the Programme “Sustainable School” will develop activities that will involve teachers and students, students’ parents and school leaders. During the campaign on 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 build their teams, consisting of teachers, students, parents and administration. These teams will develop their 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“ and companies UAB „Schneider Electric Lietuva“, UAB „Mano būstas LT“ and the National Consumer Federation.
Conference on the energy efficiency for independent energy suppliers “Energetic Dialogue 2014“. Independent suppliers distribute energy to 13 thousand LESTO business clients (58 thousand objects) that consume about 80 % of total electricity distributed to business customers. In the future, while liberalization of the market continues, the number of independent suppliers is expected to grow. LESTO, as an electricity distributing company, organized the second conference “Energetic Dialogue 2014” for independent suppliers in order to make the cooperation closer. The conference focused both on the analysis of the current situation in the electricity market and on the review of the requirements of the upcoming Energy Efficiency Directive. The survey made after the conference showed that more than 90% of the participants considered this event topical 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, the rest of the world celebrates this event on 22 April. On this occasion, LESTO attended the conference and shared the advices on sustainable energy use with other energy efficiency experts, and answered the questions.

Market, customers and investors

In business environment, LESTO strives to maintain transparent relations with all market participants – clients, partners, contractors and investors. With a view to the safety of electricity supply, economic and social benefit, every year LESTO pays considerable attention to the development and modernization of the distribution network. Creating conditions for energy saving by its sustainable use is an important aspect of this activity.
Collaboration with Lithuanian libraries. LESTO continues collaboration with libraries by launching the Project "Libraries for Innovation 2" this year. The aim of the Project "Libraries for Innovation 2" is to strengthen libraries’ ability to meet the needs of the developing community and consolidate libraries as stable communal institutions able to improve people lives. The aim of the collaboration between LESTO and the libraries is to encourage clients start using the self-service page www.manoelektra.lt in public areas.
LESTO Customer Service Centre manoelektra.lt enters the environment of mobile applications. Upon consideration of the changing Internet browsing needs of its users, LESTO introduced a mobile version of the self-service site www.manoelektra.lt. From now, users that connect to manoelektra.lt via smart phones or tablet computers will see a customized and convenient mobile interface of LESTO self-service site.

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

Customer Service Centre adaptation to the needs of disabled people. LESTO Customer Service Centre in Kaunas perfectly fits for persons with disabilities. The experts of the Project "Without Thresholds", which aims to reduce social separation of disabled people, stated it. During the visit to LESTO Customer Service Centre in Kaunas, experts checked the number of the parking places for disabled people, distance to the entrance of the building, condition of the slope from carriageway to pavement, exercise of the entry to the Customer Service Centre, condition of the water closets for disabled people and many other aspects. The findings of experts contain recommendations on the aspects that need improvements.

Employees

LESTO employees won the award of most professional energy specialists. In May, energy specialists competed in the national workmanship competition that took place at the Centre of Training for Energy Specialists. After completing the tasks and summing up the results, a team from Šiauliai region was announced as the winner. LESTO team from Panevėžys region took the second place and LESTO team from Klaipėda region - third place. Seven LESTO teams (from every region) and four contractor teams from companies „Elektromontuotojas",„Elektros tinklo paslaugos", „Žilinskis ir ko" and „Anykščių energetinė statyba" participated in this competition.

Public events

Public Power Engineer's Day events. National Electricity Association of Lithuania consisting of the largest energy companies, including LESTO, on 17th of April, invited to celebrate the Power Engineer's Day in the Energy and Technology Museum of Lithuania. The museum opened its doors to visitors to a look at the country's energy history. The event was closed by the performance of the musical band "Saulės kliošas".

Fighting corruption

LESTO does not tolerate any corruption manifestations and supports fair business and transparent collaboration with state institutions. Active internal control mechanisms intended for setting possible factors of corruption risks minimize the risk. Corruption prevention is one of the functions pursued by the Prevention and Control Department of the Company. LESTO regularly supervises its performance and takes corrective actions against detected violations and topping hazards in order to maintain the proper image of the Company. In May 2014, the policy of zero tolerance against corruption came into force.

Social responsibility

LESTO announced the report on the progress of social responsibility in 2013. Electricity distributor LESTO, member of the United Nations Global Compact, published the annual Social Responsibility Progress Report. LESTO is perhaps one of the first Lithuanian companies to prepare the Social Responsibility Report according to the newest United Nations Global Reporting Initiative Guidelines G4. In May, these Guidelines became the official standard of United Nations Global Compact and is recommended for use by all members of the Compact as a reporting tool. G4 Guidelines were drafted on the basis of incorporation of the parties concerned. Widely recognized experts from all over the world participate in its drafting and improvement.

Evaluation

LESTO social initiative "As much as needed" on energy saving was nominated as one of the three finalists of "Corporate Social Responsibility Initiative" at Swedish Business Awards in 2014.

COMPANY AND ITS MANAGEMENT BODIES

Company's organizational structure

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

LESTO 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.

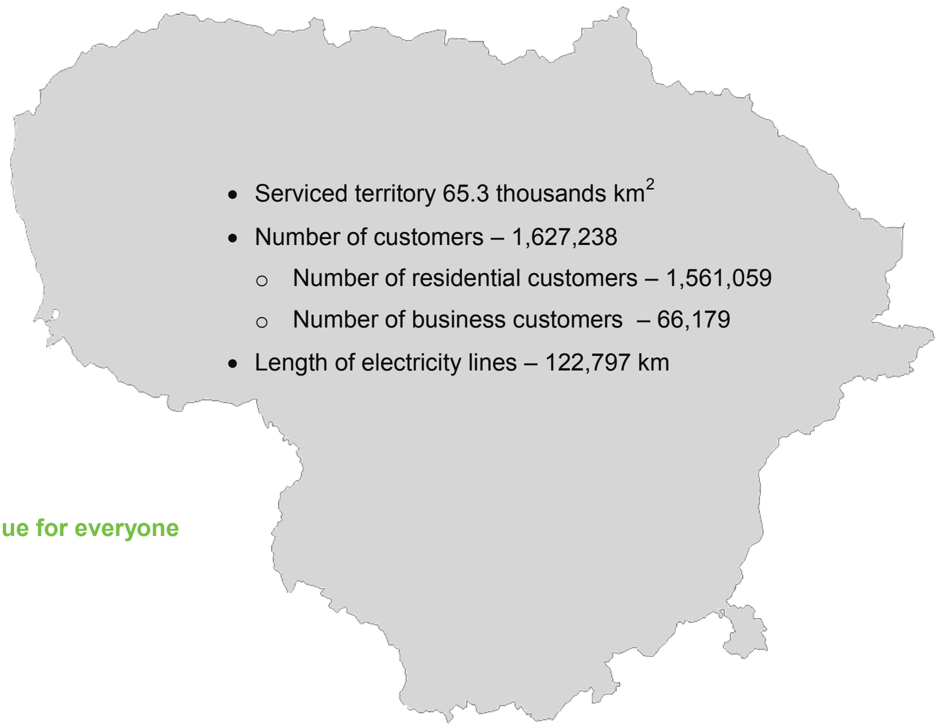
LESTO is Lithuanian distribution network operator. Company's main responsibilities include: provision of network service for customers; satisfaction of customers' needs; effective connection of new users; exploitation, maintenance, management and expansion of distributive network; assurance of network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

LESTO values

RESPONSIBILITY

COOPERATION

RESULT



- Serviced territory 65.3 thousands km^2
- Number of customers – 1,627,238
  - Number of residential customers – 1,561,059
  - Number of business customers – 66,179
- Length of electricity lines – 122,797 km

LESTO mission

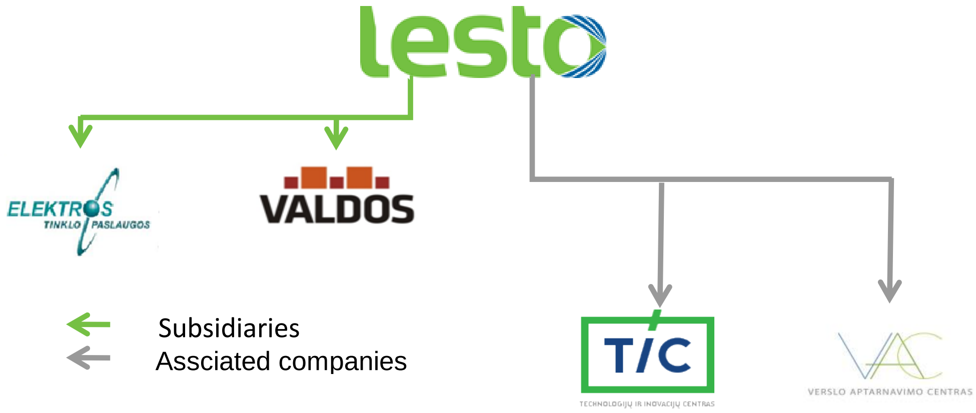
Reliable electricity energy creating value for everyone

LESTO vision

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

LESTO company group

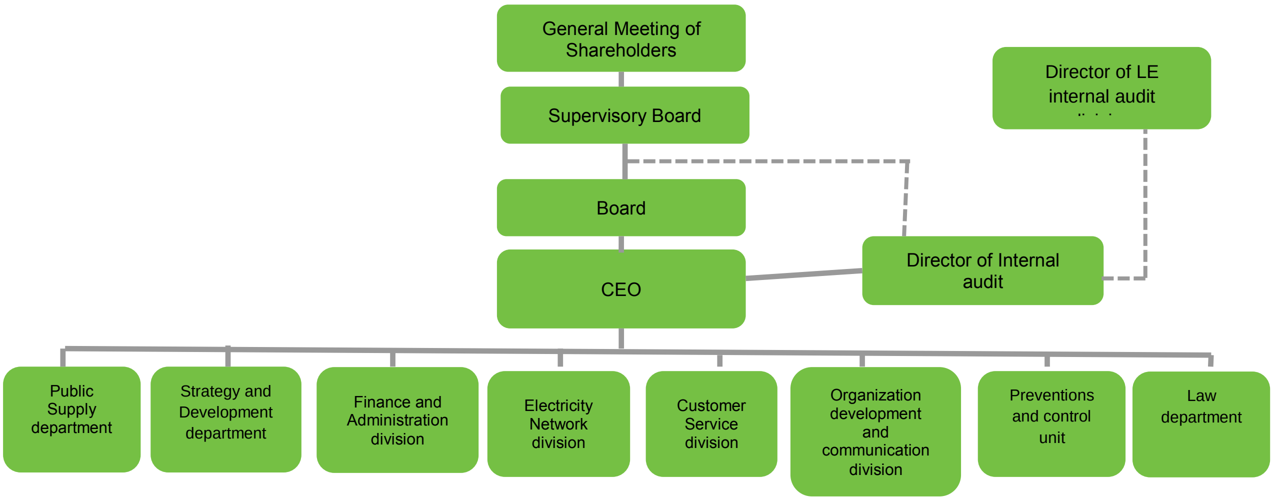
On the report signature date, LESTO with its subsidiaries ELEKTROS TINKLO PASLAUGOS UAB, NT Valdos UAB and associated companies Technologijų ir inovacijų centras UAB and Verslo aptarnavimo centras UAB, make up LESTO company group.



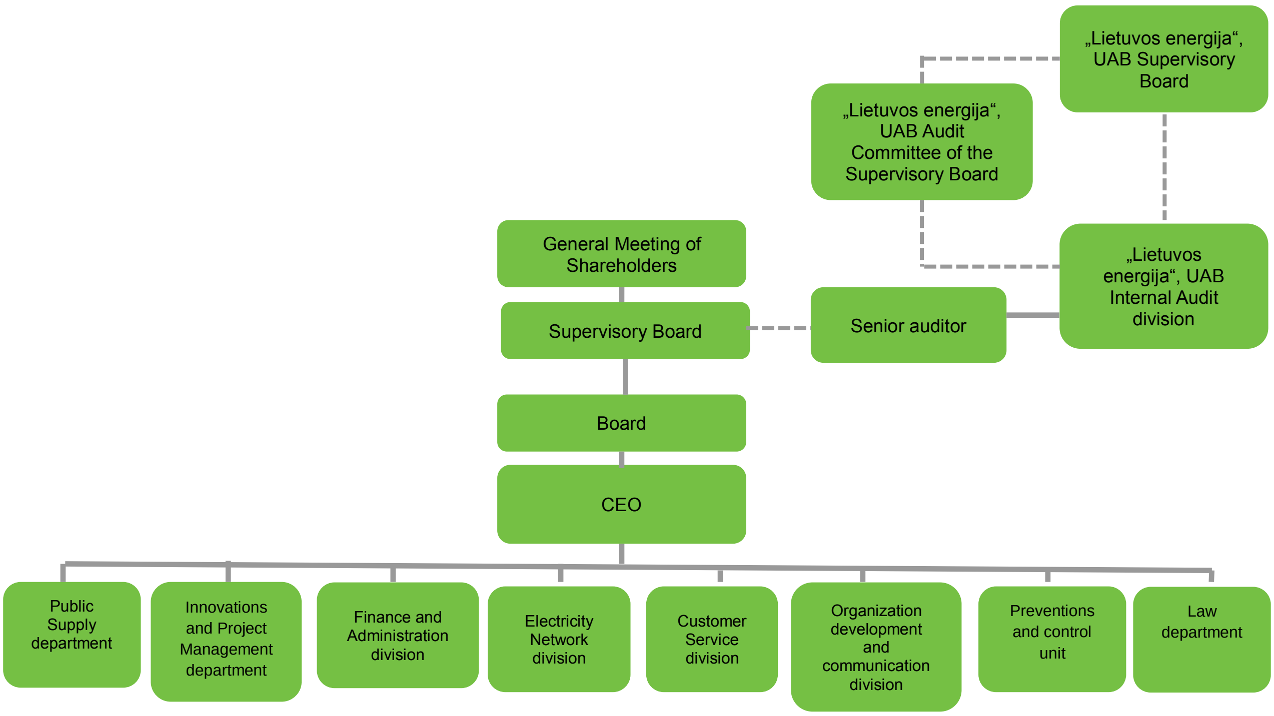
Key data on subsidiaries and associated companies

	Elektros tinklo paslaugos UAB	NT Valdos 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	etp@etpa.lt	info@valdos.eu	info@etic.lt	vac@le.lt
Website	www.elektrostinklopaslaugos.lt	www.valdos.eu	www.etic.lt	http://vac.le.lt
LESTO ownership, %, on 31 December, 2014	100	57.30	20.02	15
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.

LESTO management structure in 2014



LESTO management structure from 1 January, 2015



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.

Three General Meetings of Shareholders took place in the year 2014. Director of Finance and Administration division (CFO) and member of the Board Andrius Bendikas and LESTO chairman of the Supervisory Board Darius Kašauskas participated in the Ordinary General Meeting of Shareholders which took place on 4 April, 2014.

Director of Finance and Administration division (CFO) and member of the Board Andrius Bendikas participated in the Extraordinary General Meeting of Shareholders which took place on 25 June, 2014.

CEO Aidas Ignatavičius, Director of Finance and Administration division (CFO) and member of the Board Andrius Bendikas and LESTO chairman of the Supervisory Board Darius Kašauskas participated in the Extraordinary General Meeting of Shareholders which took place on 30 September, 2014.

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.

In 2014 ten meetings of the Supervisory Board took place which were attended by all the members of the Supervisory Board.

Remuneration and bonus system for members of the Supervisory Board

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. Remuneration for the actual work in the Supervisory Board is not paid for these members of the Supervisory Board.

On 30 September, 2013 the agreement of the Supervisory Board independent member's factual work was signed with Petras Povilas Čėsna. The hourly rate of LTL 150 is set for the independent member of the Supervisory Board for the actual work. Monthly remuneration for the independent member of the Supervisory Board is limited by LTL 3,500 (before taxes). Bonuses and other payments are not provided to the independent member of the 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	**Ilona Daugėlaitė (born in 1970)** **Member of the Supervisory Board** **In this position:** Since 31 July, 2013 **Ending of term:** 31 July, 2017	**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		
ISM University of Management and Economics, BI Norwegian Business school, Master in Management Vilniaus university, Master in Economics.	Vilnius university, Master in Hydrogeology and Engineering Geology.	Vilnius university , Qualification of Economist
Main occupation		
UAB „Lietuvos energija“, Director of Finance and Treasury division	UAB „Lietuvos energija“, Director of Organizational Development division	Lithuanian centre of Exhibition and Congress LITEXPO, chairman of the Board
Information on payments to LESTO Supervisory Board members over reporting period*, LTL		
-	-	7,350
Participation in the meetings of LESTO Supervisory Board		
10/10	10/10	10/10

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

Name of organisation, position	**Capital held and share of votes, %**	**Name of organisation, position**	**Capital held and share of votes, %**	**Name of organisation, position**	**Capital held and share of votes, %**
LESTO, chairman of the Supervisory Board	-	LESTO, member of the Supervisory Board	-	LESTO, indepedent member of the Supervisory Board	-
Lietuvos dujos, UAB, chairman of the Supervisory Board	-	Lietuvos dujos, UAB, member of the Supervisory Board	-	Lietuvos dujos, UAB, independent member of the Supervisory Board	-
„Lietuvos energija“, UAB, member of the Board, Director of Finance and Treasury division	-	„Lietuvos energija“, UAB, member of the Board, Director of Organizational Development division	-	Lithuanian centre of Exhibition and Congress LITEXPO, chairman of the Board	-
NT valdos, UAB, chairman of the Board	-	Technologijų ir inovacijų centras, UAB, chairman of the Board	-	Republic of Lithuania Seimas, public assistant of parliamentary I. Šiaulienė	-
Kauno energetikos remontas, UAB, member of the Board	-	ELEKTROS TINKLO PASLAUGOS, UAB, member of the Board	-		
Verslo aptarnavimo centras, UAB, chairman of the Board	-	Duomenų logistikos centras, UAB, chairman of the Board	-		
		Spouse has 3,150 ordinary registered shares of UAB SOLUTIONLAB PRODUCTION (company code 300629188)	63		

* 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 in 2014.

Audit committee

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 “Lietuvos energija” UAB and its group companies procedures of financial reporting;
- to observe “Lietuvos energija” UAB and its group companies 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 “Lietuvos energija” UAB and its group companies audit processes, to evaluated audit effectiveness and administration reaction to recommendations which are presented to the leadership;
- to observe “Lietuvos energija” UAB and its group companies 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 had an Internal Audit Division till 5 January, 2015. 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. The internal audit function was unified in the group of companies since 5 January, 2015. Such a solution will help to ensure the internal audit’s independence and objectivity, unified methodology and accountability, as well as more rational allocation of available audit resources and competences.

Since October, 2014 an independent member Irena Petruškevičienė joined the Audit committee of the company “Lietuvos energija” UAB.

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
Irena Petruškevičienė (independent member)	0	2014 October – 2018 October	European Commission Audit Development Committee

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 31 December, 2014 the Board of the Company consisted of the chairman of the Board Aidas Ignatavičius and the Board members: Virgilijus Žukauskas, Andrius Bendikas, Sergejus Ignatjevas and Dalia Andrulionienė.

On 25 February, 2015, the Supervisory board of LESTO decided to recall Dalia Andrulionienė from the Board of LESTO from February 27, 2015. 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 and Sergejus Ignatjevas.

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

In 2014 33 meetings of the Board took place which were attended by all the members of the Board.

Remuneration and bonus system for members of the Board

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. The fixed remuneration is set for the work in the Board: the amount of LTL 3,000 (before taxes) per calendar month for a member of the Board and the amount of LTL 5,000 (before taxes) per calendar month for a chairman of the Board. Bonuses and other payments are not provided to the members of the Board for the actual work in the Board.

				
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	**Andrius Bendikas** (born in 1973) **Member of the Board** **In this position:** Since 17 September, 2013 **Ending of term:** 17 September, 2017	**Dalia Andrulionienė** (born in 1971) **Member of the Board** **In this position:** Since 17 September, 2013 **Ending of term**:** 17 September, 2017	**Virgilijus Žukauskas** (born in 1961) **Member of the Board** **In this position:** Since 17 September, 2013 **Ending of term:** 17 September, 2017	**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 Business Administration and Management	Baltic Management Institute (BMI), Master in Business Administration	Vilnius university, Master in Economics. ISM University of Management and Economics, Master in Management	Kaunas University of Technology, Master in Electricity Supply for Industry, Cities and Agriculture.	Vilnius university, Master in Finance and Credit
Main occupation				
LESTO, CEO	LESTO, Director of Finance and Administration division	LESTO, Director of Organization Development and Communications division	LESTO, Director of Electricity Network division-vice CEO	LESTO, Director of Customer Service division
Information on payments to LESTO Board members over reporting period*, LTL				
60,000	36,000	36,000	36,000	36,000
Participation in the meetings of LESTO Board				
33/33	33/33	33/33	33/33	33/33

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

Name of organisation, position	Capital held and share of votes, %	Name of organisation, position	Capital held and share of votes, %	Name of organisation, position	Capital held and share of votes, %	Name of organisation, position	Capital held and share of votes, %	Name of organisation, position	Capital held and share of votes, %
LESTO, chairman of the Board, CEO	-	LESTO, member of the Board, Director of Finance and Administration division	-	LESTO, member of the Board, Director of Organization Development and Communications division	-	LESTO, member of the Board, Director of Electricity Network division-vice CEO	0.000012	LESTO, member of the Board, Director of Customer Service division	-
Technologijų ir inovacijų centras, UAB, member of the Board	-	Verslo aptarnavimo centras, UAB, member of the Board	-					Pylimo str. 36 Association of the First block of flats owners, chairman	-
Support fund of Lietuvos energija, member of the Board	-								
National Lithuanian Association of electricity, counsil member	-								

* 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 in 2014.

** On 25 February, 2015, the Supervisory board of LESTO decided to recall Dalia Andrulionienė from the Board of LESTO from February 27, 2015. By the decision of the Supervisory Board of „Lietuvos energija", UAB, Dalia Andrulionienė was elected to the Board of „Lietuvos energija", UAB, and will start this position from March 2, 2015.

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.

Information on payments to LESTO CEO and Director of Accounting department over reporting period*

	Salaries, LTL
CEO Aidas Ignatavičius	193,186
Director of Accounting department Zina Chmieliauskienė**	175,952
Members of the Administration total	369,138

* 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 in 2014.

** The payments for the director of Accounting department provided till 30 Novermber, 2014. The accounting function was transferred to Verslo aptarnavimo centras UAB since 1 December, 2014, there is no longer the position of director of Accounting department in the Company.

Information on LESTO 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, %
Aidas Ignatavičius	Look for the information above	-	-
Zina Chmieliauskienė	LESTO, Chief Accountant, Director of Accounting department*	-	-

* Till 30 Novermber, 2014The accounting function was transferred to Verslo aptarnavimo centras UAB since 1 December, 2014, there is no longer the position of director of Accounting department in 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.

LESTO personnel

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

During the third quarter of 2014, no structural changes affecting the number of employees have been implemented.

In the fourth quarter of 2014, while proceeding with the project of the customer service channels' optimization, the customer service network was reduced, and consequently the number of employees was reduced by 88 positions. Considering the decision made by the Board of LESTO in collaboration with „Lietuvos Energija“, UAB, Lietuvos energijos gamyba, AB, LITGAS, UAB and Technologijų ir inovacijų centras, UAB on the establishment of a joint enterprise Verslo aptarnavimo centras, UAB for organization and exercise of public procurements, provision of accounting and personnel administration services to the company shareholders, the function of organization and exercise of public procurements has been delegated to Verslo aptarnavimo centras, UAB from 1 October 2014, and accounting function - from 1 December 2014, consequently reducing the total number of positions by 73.

At the beginning of 2014 2,420 of employees were working in the Company. During the twelve months of 2014 the total number of employees of LESTO decreased by 191 or 7.9 %, and it was equal to 2,229 by the end of December, 2014. At the end of December 2014, 3,004 employees were working in LESTO Group. From the beginning of the year the number of employees declined by 6.5 % (on 1 January, 2014, LESTO Group had 3,212 employees).

LESTO employees by categories

Category	Number of employees
	31 12 2014
CEO	1
Top-level managers	6
Mid-level managers	143
Experts, specialist, workers	2,079
Total	2,229

The structure of the Company's employees by their education was as follows: 57.0 % of the employees had higher education, 21.5 % had post-secondary education, and 21.5 % had secondary or specialized-secondary education.

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. The variable part of the salary payments are determined and regulated in LESTO procedure of employees' variable remuneration determination and payment and in LESTO procedure of CEO's performance indicators determination and the variable part of the salary calculation and appointment. The maximum size of the variable part of the salary is set in LESTO procedure of employees' variable remuneration determination and payment. In LESTO procedure of CEO's performance indicators determination and the variable part of the salary calculation and appointment is provided that the variable part of the CEO's salary cannot exceed 30 % of annual fixed salary and is set by the Company's Board. According to LESTO procedure of employees' variable remuneration determination and payment, the Company's Board, taking into account the opinion of the Supervisory Board, sets the measurement indicators for the employees' general (the Company's) objectives and approves their execution. According to LESTO procedure of CEO's performance indicators determination and the variable part of the salary calculation and appointment, the variable part of the salary for the CEO is paid for the execution of objectives (indicators). The objectives (indicators) for the CEO is determined and approved by the Company's Board in accordance with the opinion of the Supervisory Board. It should be noted that the same variable remuneration determination and payment principles are applied across the entire companies group of "Lietuvos energija", UAB. According to LESTO procedure of employees' variable remuneration determination and payment, the variable part of the remuneration to the top-level managers is paid within 2 payments: the first part, equal to 80 % of all calculated and assigned variable part of remuneration (for the achieved objectives (indicators) of the reported period No 1) is paid within 30 calendar days of the decision to pay the variable part of the salary; the second part, equal to 20 % of all calculated and assigned variable part of remuneration (for the achieved objectives (indicators) of the reported period No 1), on purpose to loyalty of the top-level managers and performance continuity, is deferred and paid after 1 year within 30 calendar days of the decision to pay the second variable part of the salary and is paid together with the variable part of the salary (80 %) for the achieved objectives (indicators) of the reported period No 2. The analogous procedure of the variable remuneration payment to the CEO is determined iIn LESTO procedure of CEO's performance indicators determination and the variable part of the salary calculation and appointment.

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

Category	Average gross wage, LTL 2014 January - December
CEO	15,996
Top-level managers	15,706
Mid-level managers	6,701
Experts, specialist, workers	3,160
Total	3,441

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).

Trade Unions

The company supports the employees in voluntary grouping into trade unions and closely cooperates with them. Quarterly meetings are organized where strategic projects of the Company are discussed. The representatives of the trade unions take part in working groups when the issues on employees (occupation, re-skilling, remuneration and social matters) are under discussion.

Training

LESTO organizes training of different types for Company employees. The Company invests in training of its employees in order to ensure efficient and high-quality maintenance of power distribution network, adequate customer servicing and occupational safety. Employees improve their professional qualification in mandatory training and obtain special services certificates after completing the training programmes. 1,277 persons participated in the mandatory training in 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 types of training.

In 2014, 831 persons participated in general training with the aim to improve general competencies. The training is organized both by building internal groups of the Company and sending single employees to seminars and conferences (in

Lithuania and abroad) held by external suppliers. The Company pays considerable attention to the development of the leadership competence of the top management: a long-term management program launched at the beginning of 2014 is still in progress. In 2014, the Company partially or entirely funded studies of 14 employees in Lithuanian higher schools.

The Company seeks to engage staff in competency development programs, so they could share with others their particular knowledge and skills. 2,420 participants attended training courses this year, which were led by LESTO internal lecturers. The most of the internal training was conducted for the development of the electrical staff in pursuance of better occupational safety and improvement of customer service. The Company maintains collaboration with manufacturers and equipment suppliers that deliver their knowledge to LESTO electricity network service employees free by presenting the trends of market and innovations in the sphere of the energy. 253 employees participated in the trainings in 2014.

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

Internship

LESTO actively collaborates with educational institutions and creates conditions for university or college students to put their theoretical knowledge into practice and acquire professional skills. 95 students did the practical work in LESTO in 2014. The Company both invited students to do the mandatory practical work, looked for, and selected motivated and enthusiastic students giving them an opportunity to do the actual work in the Company on a voluntary basis. Given the demand for new employees, the Company remembers the most enthusiastic trainees and invites the most relevant of them to join LESTO team. Since the beginning of 2014, eight former trainees received job offers from the Company.

Other committees

Risk Management Supervision Committee and Nomination and Remuneration Committee are also formed in companies group of „Lietuvos energija“, UAB.

Risk Management Supervision Committee

Risk Management Supervision Committee is responsible for the submission of conclusions or proposals to the Supervisory Board on the functioning of management and control system in the Group and (or) main risk factors and implementation of risk management or prevention measures.

Main functions of the Committee:

- monitor the identification, assessment and management of risks relevant for the accomplishment of goals of the Company and Group companies;
- assess the adequacy of internal control procedures and risk management measures to the identified risks;
- assess the status of implementation of risk management measures;
- monitor the implementation of risk management process;
- analyse financial possibilities for the implementation of risk management measures;
- assess the risks and risk management plan of the Company and Group companies;
- assess the regular risk identification and assessment cycle;
- control the establishment of risk registers, analyse their data and provide proposals;
- monitor the drafting of risk management related internal documents;
- perform other functions attributed to the competence of the Committee by decision of the Supervisory Board.

Members of the Risk Management Supervision Committee of the company “Lietuvos energija” UAB at the end of the reporting period:

Name, surname	Capital held of the Issuer (%)	Term	Workplace
Antanas Danys (chairman)	0	2013 September – 2017 August	VšĮ „Lietuvos Junior Achievement“
Raimundas Petrauskas (independent member)	0	2013 September – 2017 August	Schmitz Cargobull Baltic, UAB
Donatas Kaubrys (independent member)	0	2013 October – 2017 October	Dovirma, UAB
Tomas Garasimavičius	0	2013 September – 2017 August	Government of the Republic of Lithuania

Nomination and Remuneration Committee

Nomination and Remuneration Committee is responsible for the submission of conclusions or proposals on the matters of nomination, recall or promotion of the Board Members to the Supervisory Board, also for the assessment of activities of the Board and its members and for issuing the respective opinion. The functions of the Committee also cover the formation of the common remuneration policy at the group level, establishment of the amount and composition of remuneration, principles of promotion, etc.

Main functions of the Committee:

- assess and provide proposals on the long-term remuneration policy of the Company and Group companies (the main fixed part of the remuneration, performance based remuneration, pension insurance, other guarantees and forms of remuneration, compensations, severance pays, other parts of the remuneration package), other principles of compensation for costs related to the individual’s performance;
- assess and provide proposals on the policy of bonuses of the Company and Group companies;
- monitor the compliance of the policy of remunerations and bonuses of the Company and Group companies with the international practice and good governance practice recommendations, and provide respective proposals for the improvement of the policy of remunerations and bonuses;
- provide proposals concerning bonuses upon distribution of distributable profit (losses) of the Company and Group companies of the respective financial year;
- assess the terms and conditions of agreements of the Company and Group companies with members of management bodies of the Company and Group companies;
- assess the procedures of recruitment and selection of candidates to members and senior management of the Company and Group companies and establishment of the qualification requirements;
- perform regular reviews of the structure, size, composition and activities of the management and supervisory bodies of the Company and Group companies;
- supervise how members of management bodies and employees of the Company and Group companies are notified of the professional development possibilities and how they upgrade their skills regularly;
- supervise and assess the implementation of measures ensuring the continuity of operations of the management bodies and employees of the Company and Group companies;
- perform other functions attributed to the competence of the Committee by decision of the Supervisory Board.

Members of the Nomination and Remuneration Committee of the company “Lietuvos energija” UAB at the end of the reporting period:

Name, surname	Capital held of the Issuer (%)	Term	Workplace
Aloyzas Vitkauskas (chairman)	0	2013 August – 2017 August	Ministry of Finance of the Republic of Lithuania
Virginijus Lepeška (independent member)	0	2013 August – 2017 August	„Organizacijų vystymo centras“, UAB
Tomas Garasimavičius	0	2013 August – 2017 August	Government of the Republic of Lithuania

ESSENTIAL EVENTS

Auditors

On 25 June, 2014 the Extraordinary General Meeting of Shareholders of LESTO adopted the decision on the selection of the audit company that will perform consolidated audit of financial statements and the audit for the year 2014 of LESTO and determination of payment conditions for audit services. The audit firm UAB "PricewaterhouseCoopers" was selected to carry out the consolidated audit of financial statements and the audit of LESTO financial statements for the year 2014 and to pay it for the audit services of financial statements for the year 2014 the amount of no more than LTL 100 thousand (excluding value added tax).

Other contractual agreements with auditors

The audit company has also carried out the audit of LESTO financial statements for the first half of 2014 and prepared independent auditor's report.

Essential events during the reported period

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 and the website of NASDAQ OMX Vilnius AB at 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
29-08-2014	Due to audited financial statements of LESTO company and consolidated unaudited financial statements of LESTO group for six months of 2014
08-09-2014	Regarding of the Extraordinary General Meeting of Shareholders of LESTO AB
12-09-2014	Regarding the intention to sign long-term loan agreement
30-09-2014	Decisions adopted in Extraordinary General Meeting of Shareholders of LESTO AB on 4 April 2014
08-10-2014	Due to long-term loan agreement
17-10-2014	Regarding the electricity distribution price caps, and supply service price cap for 2015
30-10-2014	Regarding the public electricity price cap for 2015
20-11-2014	Due to public procurement of a long-term loan
24-11-2014	Regarding the initiated legal proceedings by LESTO AB
28-11-2014	Due to unaudited financial statements of LESTO company and consolidated unaudited financial statements of LESTO group for nine months of 2014
28-11-2014	Regarding the publishing of prices of electricity transportation services and public electricity
19-12-2014	Regarding the decisions by National Control Commission for Prices and Energy
23-12-2014	Regarding the publishing of prices of electricity transportation services and public electricity
30-12-2014	AB LESTO Investor' Calendar 2015
13-01-2015	Regarding new service pricing methodology of electricity sector
19-01-2015	Regarding the electricity distribution price caps for 2016 and asset valuation
23-01-2015	Regarding the initiated legal proceedings by LESTO AB
03-02-2015	Regarding LESTO investment plan for 2015-2025
10-02-2015	Due to the frequency of the publication of preliminary financial results
13-02-2015	Preliminary unaudited 2014 LESTO AB company financial results: twice – up to 24 million EUR increased net profit and growth of EBIDTA margin
18-02-2015	LESTO performed a valuation of tangible fixed assets as of 31 December 2014
25-02-2015	Recall of the Member of the Board of LESTO AB

27-02-2015	LESTO group unaudited financial results 2014: due to increased operational efficiency EBITDA up by 1.5% to LTL 468 million
03-03-2015	Regarding a planned merger of LESTO AB and Lietuvos Dujos AB
10-03-2015	Regarding the initiated legal proceedings by LESTO AB

Essential events after the reporting period

On 13 January, 2015 the National Commission for Energy Control and Prices approved new methodology of electricity transmission, distribution and public supply services and public price cap setting (hereinafter - Methodology) and declared that decision of the Commission made on 25 September 2009 No. O3-139 “Regarding prices of the electricity transmission and distribution services and its methodology of price cap setting” and decision made on 9 November 2009 No. O3-199 “Regarding public electricity prices, price of public supply service and the methodology of setting its cap” are no longer valid.

LESTO distribution and public supply services and public prices caps are set in accordance with the Methodology.

On 19 January, 2015 the National Control Commission for Prices and Energy, in accordance with the new methodology of electricity transmission, distribution and public supply services and public price cap setting, approved electricity distribution price caps for 2016:

- in medium - voltage networks 1.1896 EUR cents/kWh (4.1074 LTL ct/kWh) (VAT not included);
- in low - voltage networks 1.5421 EUR cents/kWh (5.3246 LTL ct/kWh) (VAT not included).

On 3 of March, 2015, LESTO received a letter from the Company’s shareholder - Lietuvos Energija, UAB (hereinafter - Lietuvos Energija), holding 94,39 percent of LESTO shares - containing information about expected changes. The letter informs that the Board of Lietuvos Energija approved the concept of activity chain purifying programme for Lietuvos Energija group, foreseeing the merger of LESTO and Lietuvos Dujos AB to the joint venture distribution network company. It is expected that a plan of a detailed project will be approved in April, 2015 and the implementation is planned by the end of December, 2015.

Any subsequent actions and decisions will be announced by LESTO publicly according to the laws.

OTHER SIGNIFICANT INFORMATION FOR THE COMPANY

The main indications about internal control and risk management systems related to the preparation of consolidated financial statements

LESTO consolidated and the Company‘s financial statements are prepared according to International Financial Reporting Standards (IFRS) as adopted by the European Union.

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).

“Four-eyes” principle is implemented when preparing the consolidated financial statements. Verslo aptarnavimo centras, UAB providing the accounting function is responsible for the supervision of preparation and final revision of the consolidated financial statements. Also Audit Committee of Lietuvos energija, UAB observes the Company’s and their subsidiaries procedures of financial reporting.

Legal disputes

On 24 November, 2014 LESTO received information that Company's complaint regarding the partial withdrawal of National Commission’s for Energy Control and Prices decisions of 17 October 2014 No. O3-841 and No. O3-845 was accepted by Vilnius Regional Administrative Court. In Company’s opinion, decisions by National Commission for Energy Control and Prices illegally extended the regulatory period of year 2011-2013 for the year 2015 and fixed electricity distribution price cap incorrectly, failing to assess the Resolution No. 1026 on the establishment of Principles and provisions of State-regulated prices in the electricity sector, approved by the Government of the Republic of Lithuania on 24 September 2014, and improperly counting the applicable rate of return (WACC) for the year 2015.

On 22 January, 2015 LESTO received information that Company's complaint regarding the withdrawal of National Commission's for Energy Control and Prices decision of 19 December 2014 No. O3-947 on the cost inspection report of Company and related decisions No. O3-944, No. O3-945, No. O3-946, No. O3-960 was accepted by Vilnius Regional Administrative Court. The Company disagrees with the cost inspection report of the Commission dated 19 December, 2014 and considers it is not substantiated. In Company's opinion, National Commission for Energy Control and Prices improperly conducted the cost inspection and supervision of activities of economic entities, violated the principles of public administration, improperly counted the regulated public supply activities costs and actually attributed ones.

On 10 March, 2015 LESTO received informatikon that Company's complaint regarding the dismissal of National Commission's for Energy Control and Prices decision of 19 January 2015 No. O3-11 on "Setting price caps of LESTO distribution service of medium and low voltage networks for the years 2016-2020" was accepted by Vilnius Regional Administrative Court. In Company's opinion, in adopting the decision the Commission unreasonably did not followed the Procedure of principles of state-regulated prices in the electricity sector, adopted by the Government on 24 of September, 2014 as resolution No.1026.

ANNEXES

Annex 1. **Companies', whose securities are traded on a regulated market, management codex compliance disclosure form**

Following Part 3 of Article 21 of the Law on Securities of the Republic of Lithuania and Item 24.5 of the Listing Rules of AB NASDAQ OMX Vilnius, AB LESTO (in the comments hereinafter – the Company, LESTO) hereby discloses how it complies with the Corporate Governance Code for Companies Listed on the Regulated Market, as approved by the Board of AB NASDAQ OMX Vilnius, as well as with specific Principles of the Code. Where the Code or certain provisions thereof are not complied with, the non-complied provisions and the reasons for non-compliance are specifically indicated.

PRINCIPLES / RECOMMENDATIONS	YES / NO / IRRELEVANT	COMMENT
Principle I. Basic Provisions. **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The main activities of the Company and its strategic framework are publicly displayed at the Company's internet webpage and in the Company's interim and annual reports.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	The Company's management bodies work to the benefit of the Company and its shareholders while doing their best to succeed in the Company's business objectives.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	Legal acts regulating activities of the supervisory and management bodies of the Company establish collaboration principles and methods between the supervisory and management bodies of the Company and also ensure that the supervisory and management bodies operate to the best interests of the Company and its shareholders.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The Company's bodies respect the rights and interests of the persons involved in or associated with the Company's performance. Since the foundation of the Company it cooperates and participates in social partnership with the Company's employee representatives (spends funds to execute the collective agreement and to promote employees, etc.). The Company executes its financial and other obligations to creditors. Based on the results of the client satisfaction research and the tendencies in the good international practice, the Company implements systemic means designed to improve the quality of servicing of the Company's clients.

		The Company organises social projects involving children, young people, local communities and other social groups. More information on the Company's initiatives is available on the Company's website and in its annual report.
Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	According to the Company's Articles of Association a collegial Company's business supervising body – the Supervisory Board and a collegial Company's management body – the Board are formed.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	According to the Company's Articles of Association, the Board is responsible for the proper strategic management of the Company (it approves operations strategy and budget for the Company's activities, organisational structure of the Company's management, makes decision regarding other issues, specified in the legislation and assigned to the Board competence by the Company's Articles of Association). The Supervisory Board is responsible for the effective supervision of the Company's management bodies (it elects and dismisses Board members; provides the General Shareholder Meeting with offers and comments on the Company's business strategy, the Company's annual financial statements, the Company's profit (loss) allocation project, the Company's annual report, performance of the Board and the manager of the Company; provides the Company's Board with responses and offers regarding the Company's business strategy and budget for the Company's activities, makes decisions regarding other issues, specified in the legislation and assigned to the Board competence by the Company's Articles of Association).
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the	Irrelevant	According to the Company's Articles of Association a collegial Company's business supervising body – the Supervisory Board and a collegial

effective monitoring of the functions performed by the company's chief executive officer.		Company's management body – the Board are formed.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.[7]	Yes	According to the Company's Articles of Association, the Company elects a collegial Company's business supervising body – the Supervisory Board. The recommendations laid out in the principles III and IV are not implemented fully in the Company, however, the Company complies with all the requirements, as per legal acts, for setting up of a collegial body. It should be noted, that the Company is involved in transfer of electricity to the users via distribution networks, operates, maintains, manages and develops distribution networks, so it's activities are strictly regulated by legal acts and supervised by respective state institutions (National Control Commission for Prices and Energy, and others). In this way, the clarity and timeliness of the above-mentioned decision-making is ensured as well as the principles of the Company's client non-discrimination, the Company's expenses reduction and other.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.[8]	Yes	According to the article 21 of the Company's Articles of Association, the Company's Supervisory Board consists of 3 (three) members – natural persons. At least 1/3 (one third) of the Supervisory Board should consist of independent members. The Supervisory Board's decisions are accepted and its meeting shall be deemed held, if the meeting is attended by at least half of the Supervisory Board members (article 34.5 of the Company's Articles of Association). According to article 38 of the Company's Articles of Association, the Company's Board consists of 5 (five) members. The Board's decisions are accepted and its meeting shall be deemed held when the meeting is attended by at least 4 (four) or more Board members (article 60.6 of the Company's Articles of Association). From the perspective of the

[7] Provisions of Principles III and IV are more applicable to those instances when the general shareholders' meeting elects the supervisory board, i.e. a body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case the company does not form the supervisory board but rather the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board (e.g. formation of the committees), should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; item 4.4 of the Code concerning independence of the collegial body elected by the general meeting from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

[8] Definitions '*executive director*' and '*non-executive director*' are used in cases when a company has only one collegial body.

		Company, the number of members of the Board and the Supervisory Board is sufficient to ensure the proper Company's business supervision and timely and efficient Company's management.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	According to the article 21 of the Company's Articles of Association, the members of the Supervisory Board are elected according to the maximum cadency term, specified in the Law on Companies of the Republic of Lithuania – for 4 years per cadence. According to the article 38 of the Company's Articles of Association, the members of the Board are elected according to the maximum cadency term, specified in the Law on Companies of the Republic of Lithuania – for 4 years per cadence. Limitations concerning re-election of the members of the Supervisory Board and the Board are not provided in the Company's Articles of Association, nevertheless, limitations provided by valid legal acts are applied to candidates to members of mentioned bodies. The Company's Articles of Association provide a possibility to revoke (dismiss) both the separate members of the collegial boards, and the whole collegial body *in corpore,* without waiting for their mandates' terms to end (articles 27 and 45 of Articles of Association). The members of the Board (separate or the body itself) can be dismissed by the Supervisory Board (article 37 of Articles of Association), and the members of the Supervisory Board (separate or the body itself) can be dismissed by the General Shareholder Meeting (article 21 of Articles of Association).
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The chairman of the Supervisory Board, which is elected by the General Meeting of Shareholders, and the manager of the Company is not the same person. Members and the chairman of the Supervisory Board have never been the members of the Board or the manager of the Company. The manager of the Company is a member and a chairman of the Board, but this does not create assumptions for possible impartial behavior, since the Company has a properly installed Company's activities supervising body – the Supervisory Board.

Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**[9]		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	The Supervisory Board is being elected by the General Meeting of Shareholders, according to the requirements set out by the Law on Companies of the Republic of Lithuania and the Company's Articles of Association.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes / No	Information on the candidates for the Company's Supervisorry Board is presented to the shareholders in accordance with the procedure prescribed by the Law on Companies of the Republic of Lithuania at the General Meeting of Shareholders whose agenda includes consideration of the issue on election of the Supervisory Board members; the information is not made public in advance. According to the article 23 of the Company's Articles of Association, each candidate for the Supervisory Board shall submit to the General Meeting of Shareholders a declaration of the candidate's interests, specifying all the circumstances that may give rise to a conflict of interests between the candidate and the Company. Upon emergence of new circumstances that may give rise to a conflict of interests between a member of the Supervisory Board and the Company, the member of the Supervisory Board shall immediately notify the Company and the Supervisory Board of such new circumstances in written. The information on the offices held by the members of the Supervisory Board or their involvement in any other companies is collected, accumulated and disclosed in the annual report as well as the Company's website.

[9] Attention should be drawn to the fact that in the situation where the collegial body elected by the general shareholders' meeting is the board, it is natural that being a management body it should ensure oversight not of all management bodies of the company, but only of the single-person body of management, i.e. the company's chief executive officer. This note shall apply in respect of item 3.1 as well.

3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes / No	The information on the candidates for the Company's Supervisory Board members is presented to the General Meeting of Shareholders in accordance with the procedure prescribed by the Law on Companies of the Republic of Lithuania at the General Meeting of Shareholders (see the comment for Item 3.2). The information presented at the General Meeting of Shareholders covers the professional experience of and offices/positions held by the candidates, also any other information evidencing a candidate's competence. The information on the offices held by the members of the Supervisory Board or their involvement in any other companies is collected, accumulated and disclosed in the annual report as well as the Company's website.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.	Yes / No Irrelevant	According to the Law on Companies of the Republic of Lithuania, the Supervisory Board is elected and its members' competence is being assessed at the General Meeting of Shareholders. Since the patronizing company "Lietuvos Energija" UAB (hereinafter – LE), has an Audit Committee, there is no separate Audit Committee installed in the Company (see the comment for Item 4.14). LE has also established the Nomination and Remuneration committee (see the comment for Item 4.13). Therefore there is no the Nomination and Remuneration committee in the Company.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Irrelevant	If neccessary, in the meetings of the Supervisory Board or individually, the members of the Supervisory Board are regularly informed about performance of the Company and its changes as well as modifications of legal acts regulating performance of the Company and other circumstances. Till now the Company had not demand and practice to propose individual programme to newly elected members of the Supervisory Board in order to have a look to the office, organisation and performance of the Company and to organise annual inspections.

3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient[10] number of independent[11] members.	Yes	The formation of the Supervisory Board (and election of independent members) belongs to the competence of the General Meeting of Shareholders. The article 21 of the Company's Articles of Association provides, that the Company's Supervisory Board is formed of 3 (three) members, of which, at least 1/3 (one third) should be independent. At the day this report is filled, there is 1 (one) independent member of the Supervisory Board out of a total of 3 (three) members.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance-based pay systems; it	Yes	According to the article 25 of the Company's Articles of Association, following the requirements provided by legal acts and good Company's management practice, the criterion of independence is set by the General Meeting of Shareholders. While assessing the independancy of members, the Company follows requirements provided in the Corporate Governance Code for Companies Listed on the Regulated Market approved by AB NASDAQ OMX Vilnius, Item 64 of the procedure of the State property and nonproperty rights in state-owned enterprises (approved in 6 June 2012 by resolution No. 665 of the Government of the Republic of Lithuania). According to the article 23 of the Company's Articles of Association, each candidate to members of the Supervisory Board must submit to the General Meeting of Shareholders a declaration of the candidate's interests, specifying all the circumstances that may give rise to a conflict of interests between the candidate and the Company. Upon emergence of new circumstances that may give rise to a conflict of interests between a member of the Supervisory Board and the Company, the member of the Supervisory Board shall immediately notify the Company and the Supervisory Board of such new circumstances in written. At the moment of submission of the report, there is 1 (one) independent member in the Supervisory Board. See

[10] The Code does not provide for a concrete number of independent members to comprise a collegial body. Many codes in foreign countries fix a concrete number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, having regard to the novelty of the institution of independent members in Lithuania and potential problems in finding and electing a concrete number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance.

[11] It is notable that in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few major shareholders. But even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; He/she has not been in the position of a member of the collegial body for over than 12 years; He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.		also the Comment for Item 3.6.
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	Yes / No	The formation of the Supervisory Board (and election of independent members) belongs to the competence of the General Meeting of Shareholders (see also the Comment for Item 3.6). According to the article 25 of the Company's Articles of Association, following the requirements provided by legal acts and good Company's management practice, the criterion of independence is set by the General Meeting of Shareholders (See also the Comment for Item 3.7). Besides that, the article 25 of the Company's

		Articles of Association declares, that the position of the Supervisory Board's member cannot be held by: the CEO, a member of the Board, a member of the supervision/management body or administration member of electricity or gas distribution or production (mining) legal person, and any person, that has no right to take this position according to legal acts.
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Yes / No	The formation of the Supervisory Board (and election of independent members) belongs to the competence of the General Meeting of Shareholders (see also the Comment for Item 3.6). Information on the candidates for the Company's Supervisorry Board (including information about matching of candidate with independence requirements) is presented to the shareholders in accordance with the procedure prescribed by the Law on Companies of the Republic of Lithuania at the General Meeting of Shareholders (See also the Comment for Item 3.2). The information concerning elected independent members of the Supervisory Board is provided in annual report of the Company as well as on Company's website.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Irrelevant	Until now there has not been occasions in the Company when it would be facing the need to apply this recommendation. In the agreement of independent member of the Board activity signed with the independent member of the Supervisory Board there is an obligation to notify the Company and the Supervisory Board in writing about any new circumstances that may give rise to a conflict of interests between a member of the Supervisory Board and the Company.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds[12]. The general shareholders' meeting should approve the amount of such remuneration.	Yes	Independent member of the Supervisory Board is remunerated for his/her activity in the Supervisory Board according to the signed agreement of independent member of the Supervisory Board activity by determinate order and conditions. The conditions of the agreement for independent member of the Supervisory Board activity are confirmed by the General Meeting of Shareholders (Article

[12] It is notable that currently it is not yet completely clear, in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantiems) in the manner prescribed by Article 59 of this Law, i.e. from the company's profit. The current wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (tantiems) should be the only form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other forms, besides bonuses, although this possibility is not expressly stated either.

		19.1 of the Company's Articles of Association). On 26 July, 2013, the General Meeting of Shareholders made the following decisions: to confirm the conditions of the agreement for independent member of the Supervisory Board activity and to fix the hourly rate of LTL 150 (EUR 43.44) for the independent member of the Supervisory Board for the actual work (before taxes). The General Meeting of Shareholder also decided to limit the maximum payments to the independent supervisory board member to LTL 3,500 (EUR 1,013.67) (before taxes). Information about remuneration for the independent member of the Supervisory Board is published in the interim and annual reports of the Company.
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring[13] of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance[14].	Yes	The collegial body elected by the General Meeting of Shareholders – the Supervisory Board is responsible for efficient supervision of the Company's management bodies performance (it elects members of the Board and revokes them from office, submits proposals and responses to General Meeting of Shareholders concerning strategy of the Company, the Company's annual financial reports, profit (loss) allocation project, the Company's annual report, performance of the Board and the manager of the Company; submits to the Board of the Company proposals and responses concerning performance strategy of the Company as well as budget of the performance, takes decisions on other questions attributed to the competence of the Supervisory Board by legal acts and Articles of Association).
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions, (b) do not seek and accept any unjustified	Yes	All members of the Supervisory Board act in good will with respect to the Company, with due regard to the Company's interests and public welfare. Members of the Supervisory Board have the right to express their opinion concerning all questions included to the agenda that according to work regulations

[13] See Footnote 3.
[14] See Footnote 3. In the event the collegial body elected by the general shareholders' meeting is the board, it shouldprovide recommendations to the company's single-person body of management, i.e. the company's chief executiveofficer.

privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective companynot-pertaining body (institution).		of the Supervisory Board must be properly reflected in the protocol of the meeting.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half[15] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	Members of the Supervisory Board are active participants of the meetings of the collegial body and devote sufficient time to perform their duties as members of the collegial body. In 2014 there were 10 (ten) LESTO Supervisory Board's meetings, and all of them were attended by all 3 (three) members of the Supervisory Board.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	Collegial bodies of the Company follow prescribed recommendations. Before taking decisions the members of the collegial body discuss on their influence to the performance of the Company and also to all shareholders. Articles of Association oblige the collegial bodies of the Company and also each of their members to act on behalf of the Company and its shareholders. Communication with the shareholders and obligations for them are determined in accordance with requirements of legal acts.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes / No	Agreements concerning performance in the Supervisory Board are made with the members of the Supervisory Board under the decision made by the General Meeting of Shareholders. Terms and conditions of agreements with members and the Chairman of the Board for their performance in the Board are determined by the Supervisory Board. Terms and conditions of agreement made with the manager of the Company are set by the Board of the Company. Collegial bodies of the Company conclude transactions and approve them by observing the requirements set in legal acts and the Company's Articles of Association.

[15] It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies.[16] Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it.	Yes	The Company's Supervisory Board is independent from the Company's management bodies in taking their decisions that are significant to the Company's activities and strategy. The Supervisory Board acts independently under the requirements of legal acts and the Company's Articles of Association, as well as according to the guidelines, rules and other performance parameters set by patronizing company LE.
Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	Yes	The Company ensures that the Supervisory Board is supplied with all of the resources required for its activities (monitors technical aspects of the Supervisory Board meetings, provides all the required information and performs other functions specified in the Supervisory Board's Work Regulations).
When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management organs of the company concerned.	No	See the comment for Item 4.13.
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit.	No	The Supervisory Board acts and makes decisions according to the requirements of the legal acts and the Company's Articles of Association.
Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees[17]. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets	No	The Company has no committees formed. The Company's opinion is that the work of the Supervisory Board is sufficiently effective and well-organized, so that the Supervisory Board can properly execute all of the functions, that are assigned to these committees. According to the regulations of the Audit law of the Republic of Lithuania, the public interest company, which is a secondary company and whose financial reports are consolidated, may not follow the Audit law of the Republic of Lithuania requirement to form an Audit Committee, if it's patronizing company has one. Since LESTO patronizing company LE has

[16] In case the company's general meeting elected collegial body is the management board, the recommendation regarding it's independency from the company's management bodies applied in regard to the independency from the Head of the company.

[17] The Law of the Republic of Lithuania on Audit (Official Gazette, 2008, No 82-53233) determines that an Audit Committee shall be formed in each public interest entity (including, but not limited to public companies whose securities are traded in the regulated market of the Republic of Lithuania and/or any other member state).

composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.		formed an Audit Committee, a separate Audit Committee is not formed in the Company. LE, as a patronizing company, also has formed the Nomination and Remuneration Committee as well as the Risk Management Supervision Committee. The Nomination and Remuneration Committee of LE, amongst other functions, provides proposals on the Company's long-term remuneration policy, annual bonuses (tantiems) sharing policy. It also evaluates the conditions set out in the Company's agreements with its management bodies, the procedure of search and selection of candidates to become the members of the Company's management body, as well as top management members, and qualification requirement determination. It constantly evaluates the structure, size, composition and activities of the Company's management and supervision body. The Risk Management Supervision Committee of LE supervises how the Company's objective achievement risks are evaluated and managed, evaluates the internal control procedure and risk management measure adequacy comparing to the identified risks, evaluates risks and the Company's risk management plan, oversees the risk management process implementation.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	No	The Company has no committees formed. See the comments for Items 4.7, 4.12, 4.13, 4.14.

4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	No	The Company has no committees formed. See the comments for Items 4.7, 4.12, 4.13, 4.14.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	No	The Company has no committees formed. See the comments for Items 4.7, 4.12, 4.13, 4.14.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	No	The Company has no committees formed. See the comments for Items 4.7, 4.12, 4.13, 4.14.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;	No	The Nomination committee is not formed in the Company. See the comment for Item 4.7.

2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial 15 body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.		
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company. 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation. 5) Make proposals to the collegial body on suitable	No	The Remuneration committee is not formed in the Company. See the comment for Item 4.7.

forms of contracts for executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		

4.14. Audit Committee 4.14.1. Key functions of the audit committee should be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the	No	See the comment for Item 4.7. According to the provisions of the Audit law of the Republic of Lithuania, the public interest company, which is a public company and whose financial reports are consolidated, may not comply with the requirement of the Audit law of the Republic of Lithuania to form an Audit committee, if its patronizing company has one. Since LESTO patronizing company "Lietuvos energija", UAB, has an Audit Committee, there is no separate Audit committee in the Company.

audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		

4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	The legal acts of the Republic of Lithuania contain no obligation to assess the activities of the Company's Supervisory Board.
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	According to the Company's Articles of Association and the working procedure regulations of the Supervisory Board and the Board as well as the current practice, this recommendation is implemented.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.[18]	Yes	According to the Company's Articles of Association and the working procedure regulations of theSupervisory Board and the Board, the meetings of the Company's Supervisory Board are held at least once per quarter and the Board – at least once per calendar month. In case of necessity, the Board can define new meeting periodicity.

[18] The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	According to the Company's Articles of Association and the working procedure regulations of the Supervisory Board and the Board, the members of the collegial body and persons that are invited to such meetings, are informed of them in advance. They are also provided with all of the information and materials, needed to examine the questions, presented in the agenda.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decisionmaking process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	The Company does observe the recommendation . The chairman of the Supervisory Board and the chairman of the Board closely cooperate in resolving issues related to the Company's management. According to the article 34.3 of the Company's Articles of Association, the Supervisory Board is obliged to provide the possibility for the members of the Board and the CEO to attend their meetings and provide explanations, as well as the right to attend for other employees whenever issues, related with their activities, are being discussed.
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The Company's authorized share capital consists of 1 Litas (equal to 0,29 Euro) denominated ordinary shares, which provide their holders equal property and non-property rights.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The rights, provided by the shares are indicated in the Company's Articles of Association, which is publicly available at the Company's internet webpage.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.[19] All shareholders should be furnished with equal opportunity to familiarize	No	The Company's transactions are made according to the order, specified in the Law on Companies of the Republic of Lithuania and the Company's Articles of Association.

[19] The Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-terms assets accounting for more than 1/20 of the company's authorised capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.		
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	The Company convenes General Meetings of Shareholders and implements other meeting-related procedures in accordance with the procedure established in the Law on Companies of the Republic of Lithuania and creates equal possibilities to its shareholders to participate in the meeting.
6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	The Company notifies of a General Meeting of Shareholders being convened and presents to shareholders drafts of proposed decision and any other documents pertaining to the General Meeting of Shareholders being convened also information concerning decisions taken during the General Meeting of Shareholders provides in the manner and under the terms prescribed in legal acts by posting them publicly on the Company's website. All information intended for investors as well as documents are published in Lithuanian and English via informational system of stock-exchange NASDAQ OMX Vilnius and on the website of the Company.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The Company's shareholders can implement their right to participate in the General Meeting of Shareholders personally and through a representative, in case he is properly authorized to represent the shareholder or a voting right transfer contract is signed according to the regulations of the legal acts. The Company provides possibilities for the shareholders to vote by filling in the general vote ballot paper, as it is specified by the Law on Companies of the Republic of Lithuania.

6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In suchcases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	No	Currently, according to the Company's point of view, there is no need to organize the voting by means of telecommunication facilities, in addition, this would require considerable investments. However, upon the shareholders' request and by taking into account the objective possibilities, the Company would allow the to vote by means of telecommunication facilities.
Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The Company does observe the recommendations. According to article 23 of the Company's Articles of Association, each candidate member of the Supervisory Board is obliged to provide his interest declaration for the General Shareholder Meeting, where he undertakes to specify all of the circumstances, which could lead to the conflict of interest between him and the Company. In case any new circumstances arise that may cause the above-mentioned conflict, the member of the Supervisory Board is obliged to immediately inform the Company and the Supervisory Board of them in written. According to the article 40 of the Company's Articles of Association, each candidate member of the Board is obliged to provide his interest declaration for the General Shareholder Meeting, where he undertakes to specify all of the circumstances, which could lead to the conflict of interest between him and the Company. In case any new circumstances arise that may cause the above-mentioned conflict, the member of the Board is obliged to immediately inform the Company and the Supervisory Board of them in written. Apart from that, article 42 of the Company's Articles of Association provides, that the members of the Board cannot be employed or perform any duties, which would be inconsistent with their activities as a member of the Board, including managerial positions in other legal persons (excluding positions and employment in the Company and the

		company group), employment in state institutions, statute institutions. Members of the Board are prohibited to perform other duties or be employed elsewhere, with the exception of the Company duties and duties in other legal persons, where the Company is a part of and pedagogic, creative activities or copyright activities, which they are allowed to take up only with the prior consent of the Supervisory Board.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	The Company does observe the recommendations.
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	The Company does observe the recommendations.
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	According to the laws and the Company's legal acts, regulating the activities of the members of the Company's Supervisory Board and management body, the members of the Company's bodies are obliged to avoid situations, when their personal interests are in conflict with the Company's interests. They are also prohibited to vote, whenever the meeting decides upon questions, related to their responsibilities or their activities in the respective company body.
Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and	No	The Company-established practice does not include the preparation of the salary policy, director's salary approval, review

easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.		and publication order, as well as the Company's salary policy report. There is no such requirement in the legal acts. The general information on the Company's salary policy and the average salary sizes for different groups of the Company's employees are published in the Company's interim and annual reports. According to the article 25 part 5 of the Energetics law of the Republic of Lithuania, the Company publicly announces salary paid to members of the management bodies as well as any other payments related with the function of the management bodies' members.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	See the comment for Item 8.1. The annual report does not include the remuneration policy of the Company's directors for the coming and later years. The annual report provides information on the amounts of money paid out to the Company's members of the management bodies (salaries, other payments, tantieme, other profit related payments).
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned;	No	See the comment for Item 8.1. The interim and annual reports provide information on the amounts of money paid out to the Company's members of the management bodies (salaries, other payments, tantieme, and other profit related payments). It also contains information on transferred property and guarantees provided to the members of the Company's management bodies as well as other information related with their salaries.

12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) Remuneration statement should not include commercially sensitive information.		
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	See the comment for Item 8.1.
8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;	No	See the comment for Item 8.1.

3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Yes	The variable part of the salary payments are determined and regulated in LESTO procedure of employees' variable remuneration determination and payment and in LESTO procedure of CEO's performance indicators determination and the variable part of the salary calculation and appointment. The maximum size of the variable part of the salary is set in the Item 4.5 of LESTO procedure of employees' variable remuneration determination and payment. In sub-item 4.5.1 of LESTO procedure of CEO's performance indicators determination and the variable part of the salary calculation and appointment is provided that the variable part of the CEO's salary cannot exceed 30 % of annual fixed salary and is set by the Company's Board. It should be noted that the same variable remuneration determination and payment principles are applied across the entire companies group of "Lietuvos energija", UAB.

8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Yes	According to LESTO procedure of employees' variable remuneration determination and payment, the Company's Board, taking into account the opinion of the Supervisory Board, sets the measurement indicators for the employees' general (the Company's) objectives and approves their execution. According to LESTO procedure of CEO's performance indicators determination and the variable part of the salary calculation and appointment, the variable part of the salary for the CEO is paid for the execution of objectives (indicators). The objectives (indicators) for the CEO are determined and approved by the Company's Board in accordance with the opinion of the Supervisory Board.
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Yes	According to LESTO procedure of employees' variable remuneration determination and payment, the variable part of the remuneration to the top-level managers is paid within 2 payments: the first part, equal to 80 % of all calculated and assigned variable part of remuneration (for the achieved objectives (indicators) of the reported period No 1) is paid within 30 calendar days of the decision to pay the variable part of the salary; the second part, equal to 20 % of all calculated and assigned variable part of remuneration (for the achieved objectives (indicators) of the reported period No 1), on purpose to loyalty of the top-level managers and performance continuity, is deferred and paid after 1 year within 30 calendar days of the decision to pay the second variable part of the salary and is paid together with the variable part of the salary (80 %) for the achieved objectives (indicators) of the reported period No 2. The analogous procedure of the variable remuneration payment to the CEO is determined iIn LESTO procedure of CEO's performance indicators determination and the variable part of the salary calculation and appointment.
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	Irrelevant	

8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	Yes	Termination payments are calculated and paid in accordance with the article 140 of the Labour Code of the Republic of Lithuania.
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	Yes	See the comment for Item 8.10.
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	See the comment for Item 8.1.
8.13. Shares should not vest for at least three years after their award.	Irrelevant	
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Irrelevant	
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Irrelevant	
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Yes	See the comment for Item 8.1.
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Irrelevant	See the comment for Item 8.1.
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	Irrelevant	See the comment for Item 8.1.

8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Irrelevant	See the comment for Item 8.1.
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	Irrelevant	See the comment for Item 8.1.
8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.	Irrelevant	See the comment for Item 8.1.
8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.	Irrelevant	See the comment for Item 8.1.

8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.	Irrelevant	See the comment for Item 8.1.
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The Company's management system provides protection for the rights of the stakeholders that are protected by laws.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.	Yes	The Company does observe the recommendations. For example, the employee representatives are involved in consultations, negotiations and discussions regarding the Company's business optimization processes. According to the employees' collective agreement, the Company informs representatives of the professional union about the expected changes in the Company, the Company's financial situation and so on. Stakeholders may get involved in the Company's management to the extent prescribed by law.
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	The Company does observe the recommendations.
Principle X: Information disclosure and transparency **The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		

10.1. The company should disclose information on: 1. The financial and operating results of the company; 2. Company objectives; 3. Persons holding by the right of ownership or in control of a block of shares in the company; 4. Members of the company's supervisory and management bodies, chief executive officer of the companyand their remuneration; 5. Material foreseeable risk factors; 6.Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7. Material issues regarding employees and other stakeholders; 8. Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.	Yes	The Company's interim and annual reports include information on shareholders, owning more than 5 % of the issuer's share capital. The Company's interim and annual reports disclose information regarding the members of the Supervisory Board and the Board as well as CEO. According to the article 25, part 5 of the Energetics law of the Republic of Lithuania, the Company publicly announces the salary and other payments related with the functions of management bodies paid to the members of the Company's Supervisory Board and the Board. The information mentioned in the recommendation's sub-points 4 and 6 is published to the extent required by applicable legal acts and annual financial report preparation requirements. The Company discloses the information specified in this recommendation (except sub-points 4 and 6), in a number of ways: 1) The information regarding essential events is published according to the requirements of the laws (i.e. elections of the new member of the Supervisory Board and the Board, the Company's financial results); 2) Information is published at the Company's webpage (i.e. the Company's operational objectives); 3) Information is published in the annual report (i.e. the members of the Company's Supervisory Board and the Board, foreseeable essential risk factors).
10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.	Yes	The Company provides information regarding the consolidated results of the whole company group (i.e. the Company and its subsidiaries).
10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief	Yes	The information specified in item 4 of Recommendation 10.1 is provided in the Company's annual report and at the Company's website. According to the article 25, part 5 of the Energetics law of the Republic of Lithuania, the Company publicly announces the salary and other payments related with the functions of management bodies paid to the members of the Company's Supervisory Board and the Board.

executive officer as per Principle VIII.		
10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of recommendation 10.1 is under disclosure.	Yes	The information specified in item 7 of Recommendation 10.1 is disclosed to the extent required by the effective legal acts of the Republic of Lithuania. Information regarding relations of the Company and stakeholders is published in the press-releases and at the Company's webpage.
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on NASDAQ OMX Vilnius, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company discloses the information via the information disclosure system used by the Vilnius Stock Exchange in the Lithuanian and English languages simultaneously. The Company observes the recommendation and announces its material events before or after a trading session on the Vilnius Stock Exchange, except for the cases provided for by legal acts. The Company does not disclose the information likely to impact the price of the issued by it securities in its comments, interviews or otherwise by the time such information is announced via the information system of the Stock Exchange.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	In addition to the method of information disclosure referred to Item 10.5, the Company uses various information disclosure instruments (published electronic publications for public announcements published by State Enterprise Center of Registers, news agencies, publicly available Company's website) to ensure, that the disseminated information reaches as many stakeholders as possible. The Company's webpage provides information in both Lithuanian and English languages.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The Company publishes all of the information, specified in this recommendation on its webpage.
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		

11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	The Company executes its annual financial statement audit. The audit firm also verifies the compliance of the Company's annual report with its audited financial statements.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	The audit firm is being selected according to the procedure, laid out in the Public procurement law of the Republic of Lithuania, the selected audit firm is proposed to the General Shareholder Meeting by the Company's Board.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Yes	The Company does observe the recommendations.

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18-03-2015 Nr. 30200

CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 21 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, Director of Finance and Administration division, hereby do confirm that, to the best of our knowledge, the attached Consolidated Audited Financial Statements of the year 2014 of LESTO AB and the Group 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, and that the review of activities and business development as well as the condition of LESTO AB and its consolidated enterprises together with the description of the principle risks and uncertainties it faces has been described correctly in the LESTO AB and the Group Annual Report for the year 2014.

Chief Executive Officer — Aidas Ignatavičius

Director of Finance and Administration division — Andrius Bendikas