

2015

LIETUVOS ENERGIJOS GAMYBA, AB

THE REPORT ON SOCIAL
RESPONSIBILITY



Lietuvos
energija

GAMYBA



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ABOUT THE REPORT

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

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

This report presents the operations of Lietuvos Energijos Gamyba in 2015. Reports of this kind have been also drafted before. They were announced via the exchange and on the website of the Company. The report is available in Lithuanian and English. The report has not been audited or reviewed by any third parties.

This report should be read along with the Annual Report of Lietuvos Energijos Gamyba for 2015.

CEO FOREWORD



Dear shareholders, clients, partners and members of staff,

The challenges Lietuvos Energijos Gamyba faced in 2015 had been anticipated in the Company's strategy. The energy market has been changing very fast. For this reason, we re-distributed our capabilities and set ourselves the task to increase the Company's flexibility, to reduce activity maintaining costs and to adapt to the changes in the market as efficiently as possible. We have been also determined to act responsibly in terms of the environment, staff and the public as well as the market. We hold the view that responsibility is essential precondition for increasing the Company's value and contributing to the growth of wealth of all stakeholders.

By separating electricity generation from thermal energy production the Company finished building the biofuel boiler house in Elektrėnai last year and started the demolition of units 1 and 2. To crystallise its activity as of a manufacturing enterprise, the Company separated commercial wholesale electricity sale. Meanwhile, to achieve its strategic goal to reduce the demand of public services, the board of Lietuvos Energijos Gamyba adopted a decision regarding the decommissioning of units 5 and 6 from the beginning of 2016.

It should be noted that following the termination of use of facilities which were of poor technical condition, were hardly ever used, and required high maintaining costs, a big step forward was made in achieving the Company's

strategic goals. First, it will help reduce the burden of subsidies transposed on electricity consumers. Second, it will enable the Company to increase its value focusing on ensuring the reliability of equipment required for energy safety, its efficient use and on increasing the competitiveness of the Company's operations.

To prepare for 2016, namely, for the Company's activity without production quotas and for the operation in the market, which due to the occurrence of new connections has encountered even more considerable changes, the specialists of the Elektrėnai Complex (controlled by the Company) adapted to the new conditions by focusing on work at the mode of ensuring strategic reserve. Optimal capabilities are used in the Complex to ensure the electricity demand; thermal energy is generated from biofuel. Meanwhile, hydro-power plants continue producing competitive electrical power.

All this results from responsible attitude and professional work of the employees of Lietuvos Energijos Gamyba. This report is about them and our achievements in creating a favourable environment for workers, contributing to stronger communities and environmental protection. We also guarantee that the principles of the UN Global Compact, namely, human rights, employee well-being, environmental protection and intolerance for corruption, will remain our key operational principles.

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

ABOUT THE COMPANY



Object and Purpose of Operations

In 2015, Lietuvos Energijos Gamyba, AB (hereinafter referred to as "Lietuvos Energijos Gamyba" or the "Company") engaged in production of electrical power and thermal energy as well as in trading in electricity.

The main purpose of the activity of Lietuvos Energijos Gamyba is to operate in an efficient manner and to contribute to ensuring the country's energy security. The Company makes a significant contribution to the process of increasing the efficiency, competitiveness and transparency of Lithuania's electricity industry and ensuring the protection of consumers' interests.

The Company is in charge of state-controlled electricity production capabilities, namely, the back-up power plant and the combined cycle unit in Elektrėnai Complex, the Kruonis Pumped Storage Hydroelectric Plant (hereinafter

referred to as the "Kruonis PSHP") and the Kaunas Algirdas Brazauskas Hydroelectric Power Plant (hereinafter referred to as the "Kaunas HPP"). The Elektrėnai Complex produces thermal energy for Elektrėnai consumers, Kietaviškės greenhouse complex, and the Company's own needs.

In 2015, the Company traded in electricity in the wholesale market (i.e., in the environment of collaboration between electricity producers and suppliers). The Company sold electricity and provided electricity balancing services to public and independent suppliers operating in the Lithuanian market, and also traded in electricity on the electricity exchange. The Company also provides its systematic services to LITGRID, AB, the operator of the Lithuanian transmission system.

Mission and Vision

In carrying out its activity in 2015, the Company referred to its mission and vision as follows:

The mission of the Company was to offer reliable, effective, and diversified energy solutions which meet the needs of the current and future consumers.

The vision of the Company was to become the national electricity producer and to effectively operate in the integrated European electricity market.

Values

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

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

Strategy

Acting on the basis of the values and mission of the Company and having regard to the assessment of the environment, Lietuvos Energijos Gamyba organizes its operations along four strategic lines that are described in the Operating Strategy of the Company for 2014-2020 approved by the Board of Lietuvos Energijos Gamyba on 25 June 2014:

1. Augment value of the Company
2. Ensure the quality of services provided by the Company (to the transmission system operator, suppliers, customers)
3. Increase the efficiency of operations
4. Create organisational culture based on the corporate values.

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

The corporate operating strategy for 2014-2020 is published on the Company's website.

According to plans, given the changes that recently took place in the energy sector, the year 2016 will see the update of the Company's long-term performance strategy.

Management

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

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

Supervisory Board

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

The scope of competence of the Supervisory Board as specified in the Articles of Association of the Company

includes the supervision over the activities of the Board and the CEO, and the provision of feedback on and proposals with regard to the Company's strategy, finances and activities, as well as decisions to the general meeting of shareholders, the Board, and the CEO.

On 2 December 2015, Dalius Misiūnas resigned from the position of a member (chairman) of the Supervisory Board. Mindaugas Keizeris was elected to hold the post of the chairman of the Supervisory Board. He has been taking this position since 20 November 2014. The new member of the Supervisory Board Dominykas Tučkus has been holding this position since 21 December 2015.

Composition of the Supervisory Board as of 31 December 2015



Mindaugas Keizeris
Chairman

Education: Master of International Business, Vilnius University; Bachelor of Business Administration and Management, Vilnius University.
Workplace: Lietuvos Energija, UAB, member of the Board, Director for Strategy and Development.



Dominykas Tučkus
Member

Education: Master of Finance, Bachelor of Business Management and Administration, L. Bocconi University (Milan, Italy).
Workplace: Lietuvos Energija, UAB, member of the Board, Production and Service Director.



Pranas Vilkas
Independent Member

Education: Engineer-Mechanic, Kaunas University of Technology (former Kaunas Polytechnic Institute).

Management Board

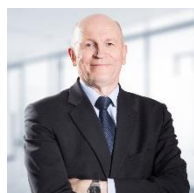
The Board which is composed of five members for the term of office of four years is elected and dismissed by the Supervisory Board in accordance with the Articles of Association of the Company. The Board is accountable to the Supervisory Board and the general meeting of shareholders. The Board elects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

The scope of competence of the Board, the procedures of decision-making, election and dismissal of members are

regulated by laws, other regulations, Articles of Association of the Company and the Rules of Procedure of the Board.

On 2 December 2015, Eglė Čiužaitė was deposed from the position of a member of the Board (and became a member of the Board of Energijos Skirstymo Operatorius, AB). On 31 December 2015, Mindaugas Kvekšas was elected to take the post of the new member of the Board.

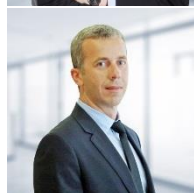
Composition of the Board as of 31 December 2015



Juozas Bartlingas*
Chairman

Education: Technician-electrician, Kaunas Polytechnic Institute; engineer-electrician, Kaunas University of Technology.

Workplace: Lietuvos Energijos Gamyba, AB, CEO.



Darius Kucinas
Member

Education: Electrical engineer, Kaunas University of Technology.

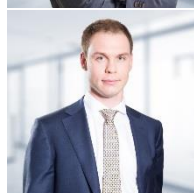
Workplace: Lietuvos Energijos Gamyba, AB, Director of Production Department.



Adomas Birulis
Member

Education: Master of Renewable Energy and Business Management, Newcastle University (England); Bachelor of Business Information Management, Vilnius University.

Workplace: Lietuvos Energijos Gamyba, AB, Director of Business Development Department.



Vidmantas Saliotis*
Member

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

Workplace: Lietuvos Energijos Gamyba, AB, Director of the Department of Wholesale Trading in Electricity



Mindaugas Kvekšas
Member

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

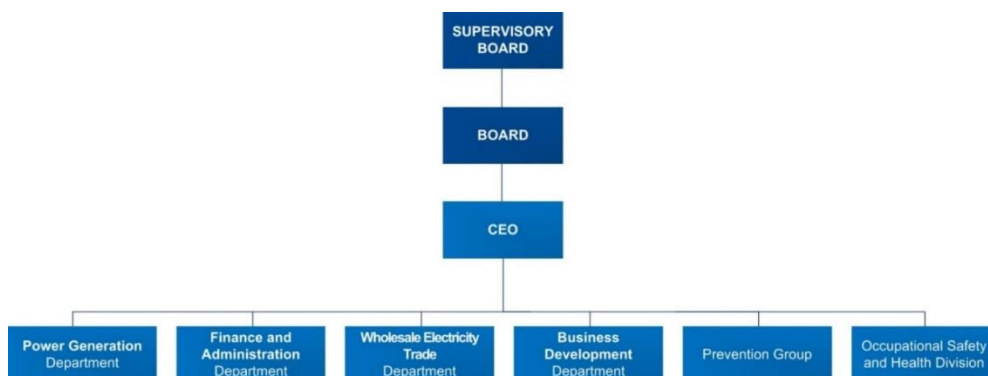
Workplace: Lietuvos Energijos Gamyba, AB, Head of Finance and Administration Department

* On 19 February 2016, Juozas Bartlingas submitted a request on the resignation from the office of the Member (Chairperson) of the Company's Management Board and the office of CEO. The Supervisory Board of the Company satisfied the request the same day and assigned Eglė Čiužaitė to the Management Board. The same day, Vidmantas Saliotis was removed from the office in the Management Board of the Company. He has taken the lead over Energijos Tiekimas, UAB since November, 2015.

Organisational Structure

The chart represents the Company's organisational structure which came into force on 1 January 2015. This structure was valid in the Company for the entire year.

After part of commercial wholesale trading in electricity was sold in 2015, from 1 January 2016 the Department for Wholesale Trading in Electricity was removed.



Company Group

To optimise the structure of the group of energy companies controlled by the state, in March 2015, parent company Lietuvos Energija, UAB, acquired the shares of Energijos Tiekimas, UAB and Kauno Energetikos Remontas, UAB which are the subsidiaries of Lietuvos Energijos Gamyba, in April – the shares of NT Valda, UAB. The aim is to make the companies focus on their major activities and to simplify the management of the Group. The shares of the aforementioned companies were acquired according to the

market values determined by independent real estate appraisers.

At the moment of the announcement of this report the Company and the associate companies Geoterma, UAB, Technologijų ir Inovacijų Centras, UAB, and Verslo Aptarnavimo Centras, UAB constituted Lietuvos Energijos Gamyba Group. The Company owns the following amounts of shares of the aforementioned companies: 23.44 %, 20.01 % and 15 %, accordingly.

Informacija apie Bendrovės akcininkus

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

ISIN code LT0000128571.

Ticker – LNR1L.

Total number of shareholders as of 31 December 2015: 6,109.

Total number of shareholders as of 31 December 2014: 6,137.

List of shareholders whose shares account for more than 5% of the Company's authorised capital (as of 31 December 2015)

Name	Class of shares	Number of shares	% of authorised capital	% of voting shares
Lietuvos Energija, UAB Business ID – 301844044 Žvejų g. 14, 09310 Vilnius	Ordinary registered shares	610,515,515	96.13*	96.13*
Other shareholders	Ordinary registered shares	24,568,100	3.87	3.87
TOTAL	Ordinary registered shares	635,083,615	100.00	100.00

* The redemption of the shares of former LIETUVOS ELEKTRINĖ, AB started on 9 February 2016 in accordance with the Resolution No. 1126 of the Government of the Republic of Lithuania of 26 October 2015 (ended on 9 May 2016). During the shares redemption process, 3,866,497 shares of the Company were transferred to Lietuvos Energija, UAB (they comprise 0.61% of the total issue of the Company's shares). At the day of publication of this report Lietuvos Energija, UAB manages 96.74% of the shares of the Company.

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

Membership in Organizations

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

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

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

OVERVIEW OF THE COMPANY'S OPERATIONS IN 2015

Environment Review

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

To manage risks arising from external factors and to present a reasoned position of the Company,

representation of the Company at decision-making institutions has been initiated. The Company actively provides comments and proposals concerning draft legal acts and participates in open agreement procedures as well as discussions.

Regulation

Acting in accordance with the Republic of Lithuania Law on Electricity, the National Commission for Energy Control and Prices (NCECP) regulates the selling prices for electricity and reserve power being sold by power generating companies and independent suppliers that have significant market power. Every year, by decision of NCECP, price ceilings are set for the power reserving services provided by the power plants controlled by Lietuvos Energijos Gamyba.

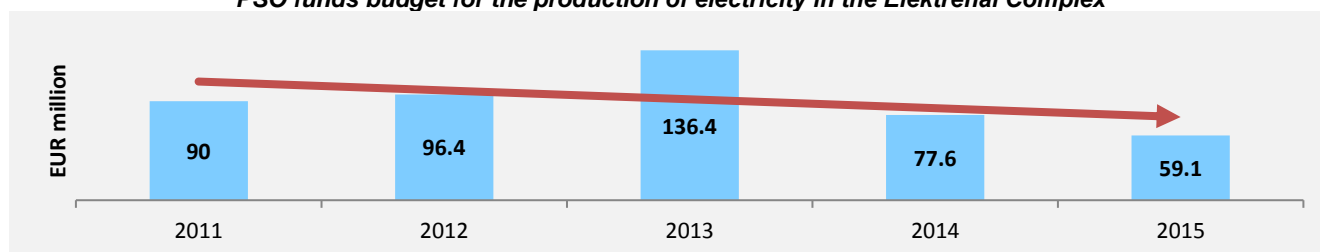
The Company receives income for public service obligations (PSO) as the operations of this energy facility are indispensable for ensuring the security of electricity

supply and the sufficient power reserves in the energy system.

In 2015, the quota for the production of electricity in the Elektrėnai Complex eligible for financial support amounted to 1.1 TWh. From 2016, no quotas have been allocated for combined heat and power plant and the Elektrėnai Complex.

The Company seeks to reduce the need for public service obligations (PSO) by generating electricity in Elektrėnai, thoroughly planning and making investments as well as reducing the Company's operational costs.

PSO funds budget for the production of electricity in the Elektrėnai Complex



Wholesale Market

In 2015, the Company traded in electricity on the wholesale market, i.e. in the environment of collaboration between electricity producers and suppliers. From 2016, the trading in electricity generated by the Company started to be conducted by Energijos Tiekimas, UAB according to a corresponding agreement.

Wholesale market for electricity is an environment of the relations between suppliers and producers. Here, the market principles are realized through competition among power generating companies (which strive to maximize their electricity sales) and of suppliers (whose aim is to buy electricity on most favourable terms).




The Lithuanian bidding area of Nord Pool Spot (NPS), in which Lietuvos Energijos Gamyba conducts its trading, was established on 18 June 2012. Since then, electricity producers and suppliers in Lithuania are participants of a major electricity exchange that is operating in a transparent manner.

Electricity on the corresponding exchange is purchased by anonymous participants operating on the exchange, namely, the clients of the wholesale market. In often case these clients are retailers operating in the region but electricity can also be bought by the operators of the transmission system or any other producers. Due to anonymous character of trading on the exchange and the standardised product of homogenous quality sellers compete with each other solely in terms of the factor of electricity price.

At present, trading in electricity on the exchange is conducted according to the principles of day-ahead trading ('Elspot') and intraday trading ('Elbas'). On the day-ahead electricity market, electricity is traded for each hour of next day. The amounts and prices of electricity traded on the exchange vary from hour to hour depending on the supply and demand at each specific hour. The intraday trading enables market participants to trade in electricity one hour rather one day prior to the actual supply.

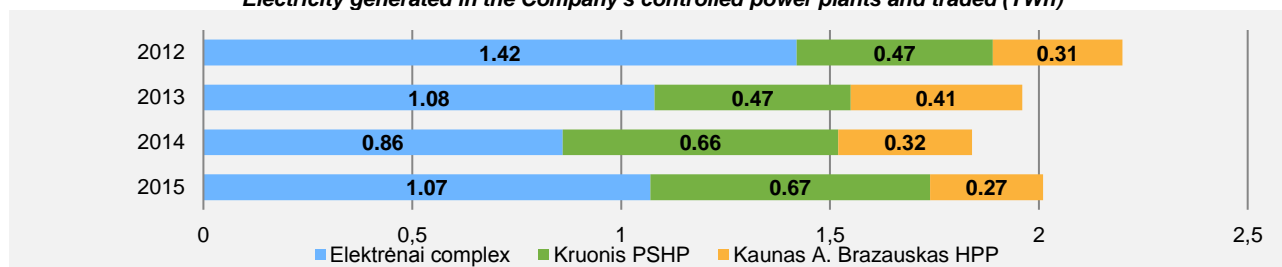
Key Indicators of the Activity

Indicators of Electricity Generation

Elektrėnai complex Reserve power plant and combined-cycle unit	Kruonis Pumped Storage Hydroelectric Plant	Kaunas Algirdas Brazauskas Hydroelectric Power Plant
 <p>Capacity – 1055 MW*</p> <p>The main power plant in the Lithuanian power system, having the greatest production capacities in the country and maintaining the tertiary reserve for ensuring the security of energy supply and reserves.</p> <p>A project on the construction of new heat energy production facilities completed in 2015.</p> <p><small>*The capacity of the power plant referred to is as of 1 January 2016 when the operation Units 5 and 6 of the reserve power plant was terminated.</small></p>	 <p>Capacity – 900 MW</p> <p>Kruonis PSHP is designed for the balancing of electricity generation and consumption as well as for the power system's emergency prevention and response. Kruonis PSHP is responsible for the securing the larger part of the emergency reserve required for the Lithuanian power system.</p> <p>Kruonis PSHP is unique power plant in the Baltics.</p>	 <p>Capacity – 100,8 MW</p> <p>Kaunas HPP is the largest power plant in Lithuania that uses renewable energy sources.</p> <p>Kaunas HPP contributes to the balancing of electricity generation and consumption and levels out the power system. It is one of the power plants in the Lithuanian power system that can start an autonomous operation in case of the total power system failure.</p> <p>Energy is sold under the brand of Green Lithuanian Energy.</p>

The Company has permits of unlimited duration to produce electricity. In total, almost 2.007 TWh of electricity produced in the power plants managed by the Company were sold in 2015. Compared to 2014, in 2015 the total amount of electricity produced in all power plants of the Company grew by 9 per cent; growth was mostly caused by the increased production of electricity to be supported in the Elektrėnai complex (see Figure below).

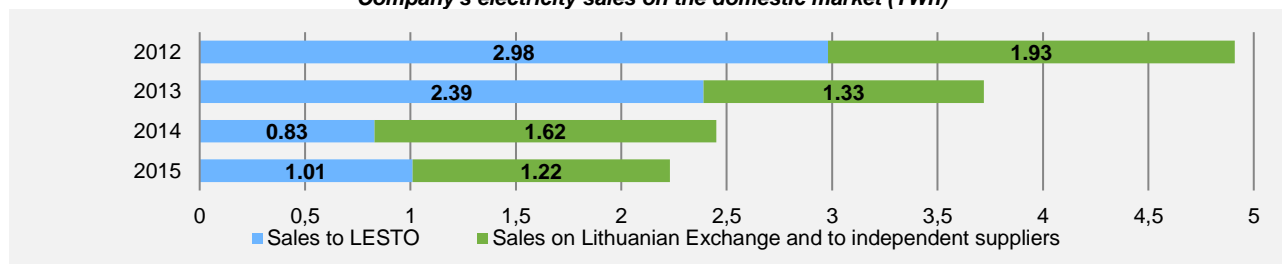
Electricity generated in the Company's controlled power plants and traded (TWh)



Indicators of Electricity Trading

In 2015, the Company sold nearly 2.229 TWh of electricity, which is 6% less than in 2014, when sales totalled slightly over 2.448 TWh (see Figure below).

Company's electricity sales on the domestic market (TWh)



Key Financial Indicators

		2015	2014	Change	
				+/-	%
KEY OPERATING INDICATORS					
Electricity generation volume	TWh	2.01	1.84	0.17	9.3
Electricity sales in free market	TWh	1.22	1.62	-0.39	-24.4
KEY FINANCIAL INDICATORS OF THE GROUP					
Revenues	EUR'000	221,424	254,930	-33,506	-13.1
Costs of purchase of electricity, fuel and related services	EUR'000	137,629	144,062	6,433	-4.5
Operating expenses ¹	EUR'000	32,470	33,245	775	-2.3
EBITDA ²	EUR'000	48,241	71,009	-22,768	-32.1
EBITDA margin ³	%	21.8%	27.9%	-6.1 p. p.	
Net profit (loss)	EUR'000	-3,096	41,043	-44,139	-107.5
Change					
		31/12/2015	31/12/2014	+/-	%
Assets total	EUR'000	837,348	932,977	-95,629	-10.2
Equity	EUR'000	346,196	374,479	-28,283	-7.6
Financial debts	EUR'000	146,260	165,814	-19,554	-11.8
Net financial debts ⁴	EUR'000	80,084	86,380	-6,296	-7.3
Return on equity (ROE) ⁵	%	-0.9	11.0	-11.9 p.p.	
Equity level ⁶	%	41.3	40.1	1.2 p.p.	
Net financial debts / 12-month EBITDA	%	166.0	121.6	44.4 p.p.	
Net financial debts / Equity	%	23.1	23.1	0.0 p.p.	

¹ Operating expenses (OPEX) = operating expenses less costs of purchase of electricity and related services, depreciation and amortisation costs, impairment losses and costs of non-current tangible asset write-offs.

² EBITDA (earnings before interest, tax, depreciation and amortisation) = profit (loss) before tax + interest costs – interest income – dividend received + depreciation and amortisation costs + impairment losses + non-current tangible asset write-offs.

³ EBITDA margin = EBITDA / Revenues.

⁴ Net financial debts = Financial debts – Cash and cash equivalents – Short-term investments and term deposits – Share of non-current other financial assets consisting of investments in debt securities.

⁵ Return on equity (ROE) = Net profit (loss), restated annual expression / Equity at the end of the period.

⁶ Equity level = Equity at the end of a period / Total assets at the end of the period.

Investments

In 2015, the Company's investments in non-current tangible and intangible assets amounted to EUR 14.1 million.

Most-significant changes in 2015

Clarification of activities – the Company sold part of business of commercial wholesale electricity trade

In the beginning of 2015, the Company's parent company Lietuvos Energija, UAB started the implementation of the activity chain clarification programme of the group of companies belonging to Lietuvos Energija. During the reporting period, the clarification of the Company's production activity provided in the programme was

implemented – a part of the commercial electric power wholesale activity performed by the Company was separated.

According to the sale and purchase agreement, since 2016 this activity will be taken over by another company of the

group Energijos Tiekimas, which currently performs retail electric power trade activities and where the electric power trade activity is going to be concentrated.

The part of business sold to Energijos Tiekimas will consist of the trade in financial derivatives, which is not related to physical generation of electric power, and the provision of the balancing service. After this part of business is sold, the Company will continue receiving income for the electric power sold in the market and generated in its operated power stations, as well as for the provided systematic services.

In order to determine the price of the sold part of the commercial electric power wholesale business transparently and objectively, an independent evaluation of the part of the electric power wholesale business was performed. According to the evaluation results and after risk assessment of the sold activity, the companies have agreed that the initial price of the agreement is EUR 13.1

New biofuel boiler house put into operation in Elektrėnai

On 6 May 2015, a certificate of completion of a biofuel-fired boiler house in the Elektrėnai Complex was issued. Construction of the biofuel boiler house was started in February 2014. Highly efficient state-of-the-art equipment that contributes to the control of environmental pollution has been installed in the boiler house. The boiling-layer furnace technology that minimises pollutants' emissions to the atmosphere has been selected for the biofuel combustion process as the most suitable for the biomass. Logging waste and wood that is not useful for other industries are used as a fuel.

A 40 MW boiler plant will meet approx. 90% of the heat demand of Elektrėnai town, Kietaviškių Gausa UAB greenhouse company, and Elektrėnai Complex. Heat generation will be continued throughout the year.

Units 5 and 6 have been decommissioned; the dismantling of units 1 and 2 continues

The board of the Company made a decision to terminate the use of units 5 and 6 of the reserve power plant in Elektrėnai as from the new year. Dismantling operations of these units will preliminarily start at the beginning of 2017, after units 1 and 2 have been dismantled.

The decommissioning of units 5 and 6 (the capacity of each is 300 MW) of the power plant was provided for in the long-term strategy of the Company published in mid-2014. The units are being decommissioned as a result of poor technical condition, low future use potential, and high maintenance costs. These units, which began producing electricity in 1967-1968, have not been operational for several years; recently, they have been mothballed.

million. The sum will be paid by Energijos Tiekimas during the period until 31 March 2017. Additional EUR 8 million (EUR 2 million per year) may be paid subject to the results of the sold activity during the period until 2019. It is determined that the maximum final price of the agreement can reach EUR 21.1 million.

The Company and Energijos Tiekimas signed agreement on sale of commercial part of business of wholesale electricity trade on 12 October 2015. Title of ownership of the part of business passed to Energijos Tiekimas on 1 January 2016.

It is expected that the separation of the part of the electric power trade activity will enable to improve the efficiency of the activity performed by the group of companies belonging to Lietuvos Energija, as well as to reduce operating expenses of the Company and will make the Company's activity clear.



Electricity produced by old Elektrėnai units, considering the market situation, the price of natural gas, the low efficiency of the units, and high maintenance costs, is no longer competitive on the market.

The project of dismantling units 5 and 6 will be implemented by the same employees who are currently decommissioning units 1 and 2. The use of units 1 and 2 of the reserve power plant was terminated at the beginning of 2015. Within a year, the thermal asbestos insulation of the units and the masonry of the boilers were removed and recovered; over 4000 tonnes of scrap metal were dismantled and sold. The completion of the dismantling works of these units is anticipated before the end of 2016.

COMPANY'S PROGRESS IN THE FIELD OF CORPORATE SOCIAL RESPONSIBILITY

Social Responsibility Principles

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

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

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

public, in environment protection and operations in the market.

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

The Company draws up and implements annual corporate social responsibility plans, implements them and presents the results in publicly available Corporate Social Responsibility Report.

About the UN Global Compact

The United Nations initiative Global Compact is the biggest voluntary initiative to encourage businesses to adopt sustainable and socially responsible policies which are supported not only by business companies but also other organisations, trade unions, public and civil society organisations in 145 countries all over the world.

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

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

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

The key principles of the Global Compact:

Human rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2: make sure that they are not complicit in human rights abuses.

Labour

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

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

Principle 5: the effective abolition of child labour; and

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

Environment

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

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

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

Anti-Corruption

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

Human Rights

In the process of development of its activities and provision of its services in various communities, the Company respects the principles of the human rights' protection, supports the international human rights protection within the sphere of its operations, does not commit any violations of the human rights and comes out against such violations.

Employees

The Company respects the rights of its employees and comes out against child's work and against any discrimination both in the employee hiring process and among current employees. Trade unions are active and there is a valid collective agreement in the Company. Objective self-assessment by the employee and an assessment of the employee's competences by his/her supervisor is the only way in which employees are assessed in the Company. The Company is concerned about the improvement of its employees' competences. There are transparent wage setting and payment procedures in place. The Company is also concerned about the employees' health, therefore, it organised informal events on its own initiative and invites all employees to them. The Company also tries to ensure that the organisational culture is favourable to its employees.

The number of the employees of the Company

As at 31 December 2015, 429 employees worked in the Company (including employees on child care leave); 61 per cent of them were specialists and medium-level managers, 38 per cent were workers, and 1 per cent were highest level managers. At the end of 2014, 474 employees worked in the Company. The main reasons for the change of the

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

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

number of employees: employees of the internal audit subdivision moved to work in Lietuvos Energija, employees of the Electricity Wholesale Trade Department were transferred to Energijos Tiekimas, long-service employees retired. Several employees left the Company because of work organisation changes.

Number of Employees

Categories of employees	Number of Employees 31/12/2014	Number of Employees 31/12/2015
CEO	1	1
Senior management	5	4
Middle management	35	33
Experts, specialists, workers	433	391
Total	474	429

Equal Opportunities

Men account for 83% and women for 17% of the Company's employees. This is due to the specificity of the Company's operations: specialties related to technology are more often chosen by men.

There are no female members in the Supervisory Board of the Company. One of the five Board Members (top level management) is female.

Since 19 February 2016, the Company has been headed by a female CEO.

The Company provides employment opportunities for people of various age and experience. In 2015, the majority of the Company's employees were aged from 35 to 54, having a 10 years' or a longer record of service with the

Company. These are highly qualified and experienced specialists who form the basis of the Company's production divisions where staff knowledge and experience are very important. People in the said age group account for 54% of all employees of the Company. Around 17% of the Company's employees were aged from 25 to 34. The majority of them work in divisions which perform auxiliary functions.

Almost 53% of the Company's employees have higher education, 35% - higher non-university and vocational training education, and 12% - secondary education.

During 2015, no discrimination cases or other incidents of violation of human rights were recorded in Lietuvos Energijos Gamyba.

Organisational culture

For two consecutive years, employee engagement research has been carried out in the Company to help determine the areas important for increasing further employee engagement. After the research, discussion of the results takes place in all subdivisions of the Company and specific measures are agreed upon at the level of the

Company as well as individual subdivisions, the goal of which is to improve the areas of activity of the Company that were insufficiently highly evaluated by the employees and to encourage the employees' engagement.

In 2015, the Company continued the values dialogue project intended for values communication. The values game sessions were conducted by a group of ambassadors of twelve values chosen from the staff of the Company for the project. The main goal of this project was to talk about values and specific behaviours that reflect them in various situations from real work life. Thus, models of new work behaviours corresponding to the values and the main activity goals of the Company were created and implemented. Within two years, eight values dialogue sessions were organised in total, with most employees of the Company participating.

The collective agreement, the staff trade unions

There are four trade unions in the Company, which unite approximately 300 employees of the Company. The Company supports its employees' uniting into trade unions and maintains close cooperation ties with them. Meetings are organized on a periodic basis for the discussion of relevant issues and common projects are carried out. The Company allots funding for cultural and sports activities organized by the trade unions.

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

Employee Performance Management

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

Particular attention was paid in 2015 to the employees substitution programme, where the main goal is to ensure that when necessary, the Company will have employees with necessary qualifications. In accordance with this programme, substitute specialists are trained, i.e.

Evaluation of Performance

The performance evaluation process starts with a 360° investigation, which evaluates general and leadership competences of directors and specialists. Competences are evaluated by the employees themselves, their managers and colleagues. The procedure of managing the employees' activity stipulates that an annual performance evaluation conversation between a manager and an

Development of Competences

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

Pay

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

In the context of forming organisational culture, the code of conduct of the Company's staff was updated as well to reflect the values of the Company and specific behaviours.

The Company prioritised proactive communication with employees. In 2015, traditional meetings of the directors and board members of the Company with the employees of all subdivisions took place. During the meetings, results of the Company's activity, the news of current and future projects, and other issues important to the employees were discussed.

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

In accordance with the collective agreement, the employees receive support in case of accidents, illness, death of family members; they are provided with additional payments after the birth of a child or if a family has many children; additional paid vacation days are granted after the birth of a child, after marriage, after the death of a family member and in other cases.

employees who, with purposefully organised education, will be able to substitute, when necessary, for employees holding positions important for the continued activity of the Company – employees whose training takes a long time, who are difficult to find on the labour market due to the specific nature of the activity and the necessary experience. The substitution programme is mostly intended for the subdivisions of the Production Department. We see substitution as an opportunity for growth and improvement, for strengthening our professional competences.

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

In 2015, 225 employees of the Company participated in technical training, and 168 employees took part in management training. In 2015, in total 316 unique employees (i.e. if the same employee took part in several training programmes, he or she is counted as one employee) participated in training. In addition, employees are taken on excursions to other production companies to familiarise themselves with the work organisation of production subdivisions, innovations, production equipment, problem solutions, etc. 23,27 h of training per employee took place in 2015.

The constant part of the remuneration is set up for employees on the basis of the level of post and a particular employee's expertise. The variable part of the remuneration is paid for measurable work results – for

reaching goals or indicators set for each particular post. Directors and specialists of supporting activity subdivisions have annual goals; the variable remuneration part of production specialists and workers depends on monthly performance results.

Additional monetary remuneration encompasses social support, material support, additional paid vacation, one-time bonuses granted to employees for additional work

load, notable work results, proposals and implementation of innovative ideas. Additional non-monetary remuneration includes training paid for by the Company, events organised by the Company for the employees and their children, services of the medical aid station, and vaccinating the employees against seasonal diseases.. EUR 230,000 was allocated to additional remuneration in 2015.

Number of the Company's employees and average pay (as of 2015)

	CEO	Top management	Middle management	Experts, specialists and workers
Numbers of employees by position levels	1	4	33	391
Average pay, EUR	6,038	4,502	2,153	1,126

Occupational Health and Safety at Work

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

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

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

The Company's employees are involved in the process of procurement of personal protective equipment. The procurement of such tools is conducted based on the cost effectiveness criterion seeking to provide the employees with convenient personal protective equipment of good quality.

Employment and Internships

Voluntary employee turnover in the Company is insignificant. When a new employee is needed, internal selections are organised first. If there are no suitable candidates for the position in question within the Company, the search continues outside the Company. While looking for employees according to the internal rotation system, 27 employees of the Company were promoted in 2015 (vertical career), 15 employees were transferred to similar posts in other subdivisions (horizontal career). To expand career opportunities of the employees and to encourage the movement of employees within the companies of the Lietuvos Energija group, 11 employees were transferred to other companies in the group. To integrate new employees into the activity and the team of the Company more effectively, adaptation plans are prepared for newcomers, which provide for special measures, meetings with directors and employees who are responsible for certain spheres of activity. Thus, a new

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

The Company organizes 'Safety Days' for the purpose of checking, whether the employees comply with the safety at work regulations. Groups of employees have been established and a procedure for the follow-up on the elimination of deficiencies found during the checks is in place.

In 2015, nine accidents were recorded in the Company during which a few employees suffered minor injuries (in 2014 – 24). All the accidents were investigated and the conclusion was drawn that in all cases the injured employees failed to comply to the health and safety at work regulations.

No lethal and serious injuries and no emergencies were recorded in the Company in 2015.

No major breakdowns were recorded in the Company in 2015.

employee becomes familiar with the working environment and company culture faster as well as receives all necessary work-related information.

In order to attract young highly qualified professionals, the Company actively cooperates with educational institutions, creates opportunities for higher education and vocational training students to apply theoretical knowledge and acquire practical skills during practice. In March 2015, the Company participated in Career Days events organised by Kaunas University of Technology, Vilnius Gediminas Technical University, and ISM University of Management and Economics. In 2015, 13 students did practical training in the Company: 5 from Kaunas University of Technology, 3 from Elektrėnai Vocational Training Centre, 2 from Vilnius Gediminas Technical University, and 3 from other universities..

Society Relationships

Promoting the Community Spirit: Lietuvos Energijos Gamyba Presents

To strengthen contacts with the community of Elektrėnai region where its main activities are carried out the Company organises traditional events called “Lietuvos Energijos Gamyba Presents”. In 2015, four meetings with celebrities who are famous for their extraordinary achievements were held. The events are free of charge; they are widely attended by the community members and the Company employees. In 2015, such events were attended by over 400 people of different age and by about

70 employees. In total, in 2015, as many as 13 meetings of this cycle were organised. The Company organises them in cooperation with Elektrėnai Library. The aim is to encourage the urban and district communities as well as the Company's employees to gather in one place and to offer them take part in unique meetings with famous, interesting and ingenious people.

Taking Care of the Smallest Ones

On the eve of the 1st of September, the children living in Elektrėnai Children Care Home, namely, those who study in the primary school, were given sets prepared for primary school pupils. In cooperation with Elektrėnai municipality, such sets were also provided to the families in need of social support as well as to those Company employees who raise children of a primary school age.

On Christmas eve the children of Elektrėnai Children Care Home and children from socially supported families were invited to a performance in Elektrėnai Centre of Culture and also received Christmas gifts.

Education – Energy Specialists' Day

On the 17th of April, the energy specialists celebrate their professional day. The National Lithuanian Energy Specialists Association which unites the largest energy companies and among the list of members of which Lietuvos Energijos Gamyba is also included, invited energy specialists to celebrate 17 April to the Lithuanian Energy and Technology Museum. In 2015, the Energy and Technology Museum organised free educational events: guided tours, funny games and a hilarious concert by cello players from Latvia, on family day popular performances were played for the little ones.

The aim of the events was to familiarise the public with the activities of the companies of the sector, to provide opportunity for the public to communicate with people working in the Lithuanian energy sector and to know more about their specialty.

Lectures were held about the first power plant in Vilnius which was followed by an alternative (renewable) energy review, orientation games, exhibit on the subject of energy “Daily Life and Adventures at Work” revealing what the energy specialists do.

Education – Tours Around Power Plants

The Company gladly and free of charge accepts visitors in its objects, namely, the unit of combined cycle, Kruonis PSHP, Kaunas HPP. The Company also seeks to contribute to teaching the public, in particular, the young generation, about the energy sector. In 2015, the above-

mentioned power plants received almost 2,500 visitors from different enterprises, schools and other institutions as well as foreign delegations. The highest number of visits over the aforementioned period was organised in Kruonis PSHP.

Support

Lietuvos Energijos Gamyba provides support through the Lietuvos Energija Support Foundation established in 2014. Support for projects, programmes and other activities of public significance, provided by the Group's companies, is centrally managed by this foundation. The operation of the foundation ensures transparency of support and forms a solid basis for corporate social responsibility.

The budget of the Foundation is formed by contributions made by the Groups companies. The contributions account for up to 1 percent of the consolidated net profit of the Group and are made once in a year according to an established procedure. All the information related to the foundation is published in the Social Responsibility section of www.le.lt.

Environmental Protection

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

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

Environmental Management Standard

The Company maintains ISO 14001:2005 certificate. Its globally recognized certificate indicates that the Company meets the requirements for the identification, monitoring, management and improvement of the main environmental protection aspects. The certificate is valid for the products and services of the Company's power plants in Elektrėnai, Kruonis and Kaunas. This means that the strict global environmental requirements are fulfilled by all the power plant operations: the electricity and thermal energy generation and the operation of the power, heat, turbine, natural gas, oil and petroleum product facilities at the

Environment Clean-up Initiative

Employees of the Company took part in an annual campaign under the title 'Let's Do It', which is popular all over Lithuania, by cleaning up the shores of water bodies in Elektrėnai, Kaunas and Kruonis and collecting litter.

Waste Sorting

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

The Green Protocol

It has been five years now since the Company joined the Green Protocol initiated by ESO. It is the only agreement of this type in Lithuania whereby companies and organizations confirm that they are committed to the practical application of the concepts of environmental protection and electric energy efficiency.

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

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

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



Market Activities

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

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

Zero Tolerance Towards Corruption

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

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

Transparent Procurement

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

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

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

More information and the contacts:
www.gamyba.le.lt