



**Lietuvos Energijos Gamyba, AB
Business Strategy Summary
2016–2020**

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STRATEGY IN BRIEF

The strategy of Lietuvos Energijos Gamyba, AB, (hereinafter referred to as “LEG” or the “Company”) was approved in 2012 and updated in 2014. Some of the actions provided for in the strategy have been carried out according to the plan, but some of them have been suspended due to the changes in the market environment and because of the effect of some other factors.

In 2016, LEG produced electrical and thermal energy, provided strategic reserve support services in the Elektrėnai Complex (EC), support services of the secondary and tertiary emergency reserve in Kruonis Pumped Storage Hydroelectric Power Plant (KPSHP) and the EC and provided other system services as well. The major clients of the Company are: the transmission system operator (hereinafter referred to as the “TSO”) (all system services provided), the National Commission for Energy Control and Prices (NCC) (which represents the interests of power consumers while the Company provides services of regulated character), the participants of the electricity exchange Nord Pool (NP) (the generation of electrical power is provided), Elektrėnų Komunalinis Ūkis, UAB, and Kietaviškių Gausa, UAB (thermal energy is provided).

Key events affecting the operations and performance results of LEG (accomplished and potential):

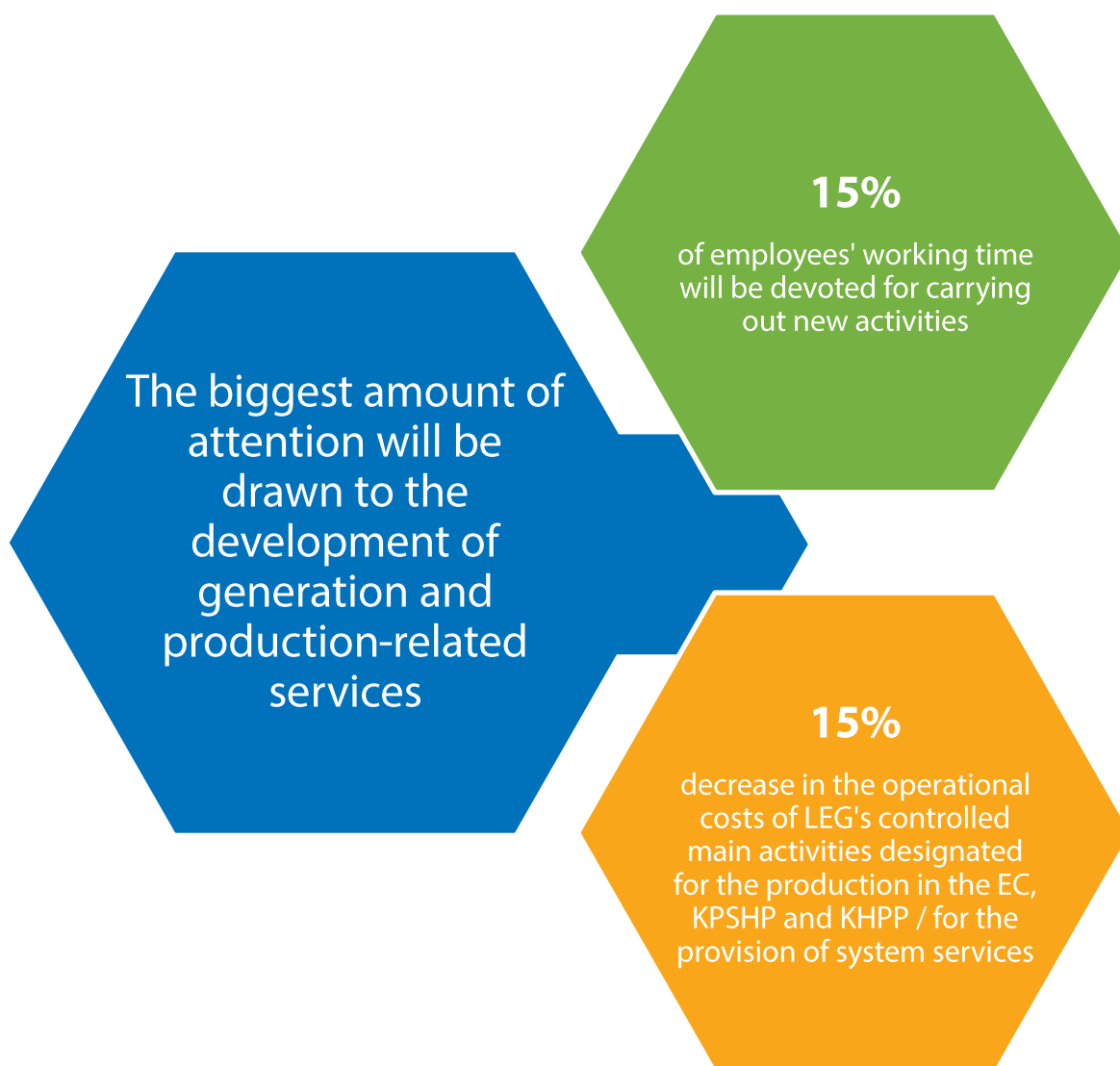
- The launch of new electricity connections with Sweden and Poland in 2016 which has had both positive and negative effect for LEG operations;
- The liquefied natural gas (LNG) terminal, which was launched in 2015, helped considerably reduce the price of natural gas in the market, consequently, the competitiveness of the combined cycle unit (CCU) operating in the EC increased;
- The ongoing low prices for emission allowances increase the competitiveness on the side of pollution-intensive production companies;
- In 2014, the decision adopted by the NCC to regulate all LEG’s activities negatively affected the financial results of the Company;
- The follow-up trends of electricity production from renewable energy sources might result in the development of projects related to LEG’s development.

Given the existing and the anticipated environment, in the period until 2020, LEG plans to focus on the increase of competitiveness and the development of services by implementing the following four strategic directions:

- High-quality services to our clients;
- Increasing operational effectiveness;
- Employee engagement and empowerment;
- Diversification of activities and development.

According to the plan for the period until 2020, the range of provided services is to expand by assessing and bringing the services of power station and boiler house maintenance to the market, providing TSOs with services of reactive power regulation in the EC, offering rental services of the available infrastructure and installations in the EC and KPSHP to medium-size and big businesses as well as other services.

The Company anticipates that with the coherent implementation of the strategy, the following results could be achieved in 2020:



PROGRESS AND CHANGES MADE WHILE IMPLEMENTING THE STRATEGY

LEG'S operational strategy for the period until 2020 was approved in 2012 and was updated in 2014. The major achievements and changes recorded so far are as follows:

- In 2012, changes in the organisation of work in hydroelectric power plants were made, maintenance services of KPSHP and KHPP were concentrated in one division. In 2015, changes of management of the combined cycle unit (CCU) and reserve power plant (RPP) took place in the EC, joint operational and maintenance teams were set up in the EC;
- The project on the construction of a biofuel boiler house in the EC was accomplished in 2015. The boiler house has been successfully operating;
- As provided for in the Strategy, following the implementation of the construction project on heating production capabilities, units 1 and 2 of the EC were decommissioned, demolition works are presently carried out. According to the plan, units 5 and 6 of the EC were decommissioned in 2016, after the new connections of electricity transmission network with Sweden and Poland were launched;
- The following investment plans have been implemented since 2012: reconstruction of flotation installations, installation of Maximo information system in the CCU, installation of infrastructure for the industrial park of KPSHP, major repairs of turbines of units 7 and 8 of the EC, installation of the new department for the preparation of water. Besides, the renovation of the surfaces of technological pipelines of KPSHP was commenced, the programme of clearing-up of the fuel facilities of the EC as provided for in the Strategy was launched and continuously pursued;
- The decreased volumes of activity, refusal of some of unused capabilities, and the implementation of installations' modernisation projects led to the reduction of the number of staff working in the EC by 27% – from 290 to 211. To carry out demolition of the EC units, employees of the production departments were reorganised into a team designated for the EC's clearing-up works;
- After the indefinite suspension of the construction of new high power generation capabilities which require additional backup reserve in Lithuania, the project on the expansion of KPSHP was also postponed. There are plans to renew the implementation of the project following the identification of favourable trends of wholesale electricity market;
- Based on the Strategy, the Company devoted considerable amount of time and effort to the change of organisation's culture, to strengthen the internal communication, to develop and improve the system of remuneration based on performance, to prepare the content of the core job descriptions to be used as a replacement, to apply LEAN principles for the organisation of operation and for the management of projects.

LEG CLIENTS AND SERVICES IN 2016

Lietuvos Energijos Gamyba is a company generating electrical power and thermal energy and providing system services required for the operation of electricity transmission network. The main LEG's clients are the transmission system operator (TSO), the National Commission for Energy Control and Prices (NCC) (which represents retail power consumers), the participants of the electricity exchange Nord Pool (NP), thermal energy consumers and LEG shareholders. The main information about LEG's clients and services rendered to them is provided below.

Transmission System Operator

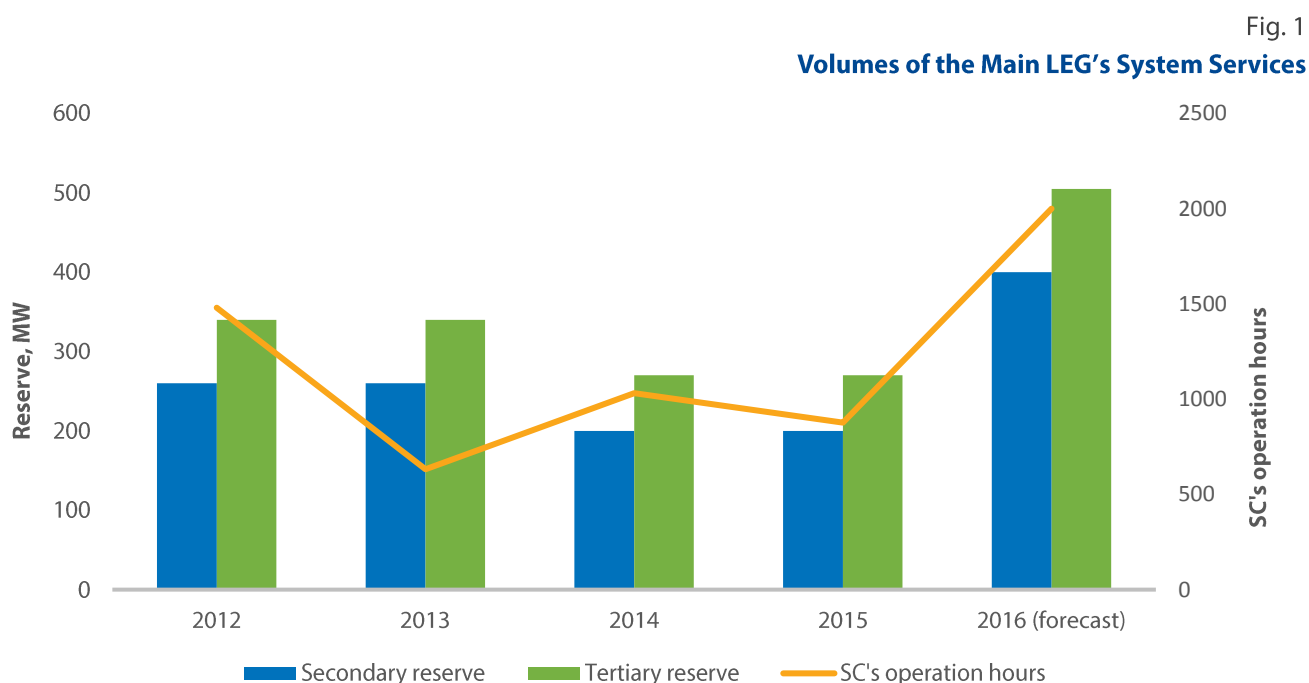
TSO is responsible for stable and reliable operation of Lithuania's energy system – both in conducting preventive maintenance and repair of transmission network, and operational activity of network management. To ensure the latter, the TSO either acquires or by means of its own technological measures provides system services.

System services help ensure the stability and reliability of the energy system's functioning, the prevention and elimination of system accidents, and the necessary power reserve meeting the established requirements for the quality and reliability of electricity supply.

System services include capacity reserve services, trade in regulated electrical energy and balancing services, management of reactive power and restoration of the system. All power plants managed by LEG are able to provide individual system services.

The demand for system services and the size of the volumes of management services of secondary, tertiary reserve and reactive power sold by the Company to the TSO has increased considerably since 2016 (see Fig. 1).

The major criteria determining the value of the provided system services is the reliability of their supply and price.



Note: services of secondary reserve and reactive power management (at SC's operation mode) are provided by KPSHP, tertiary reserve services – by the EC.

NCC (the body representing the interests of retail electricity consumers)

LEG has no direct clients that consume retail electrical power; however, it provides services to them indirectly. The EC provides “strategic reserve” services thus helping ensure the security of energy supply in cases where import is disrupted and limiting the potentials of increase in import prices by means of its production price. This activity and part of the costs intended to support the EC’s standby power are funded as public service obligations (PSO). The charge of the PSO (along with the funding of renewable energy sources) is paid by the retail electricity consumers – industrial and household clients.

Prices for system services provided by LEG to TSO are also regulated by the NCC and paid by the retail electricity consumers in the form of transmission component included in the electricity tariff.

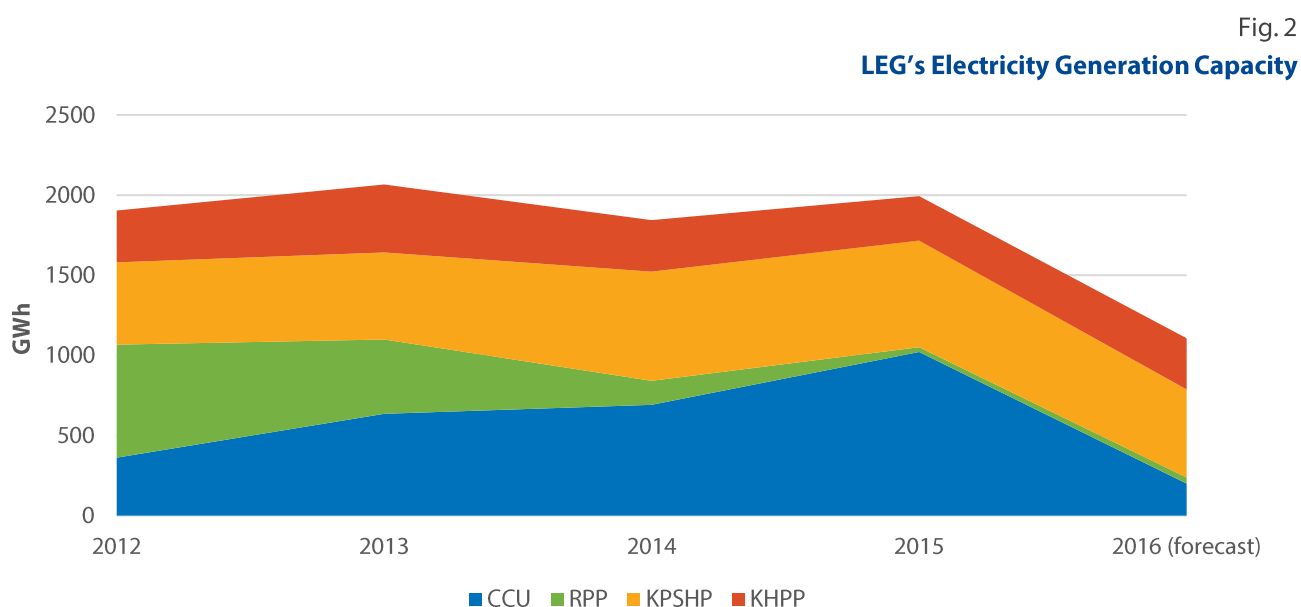
Clients who pay PSO (just like other components of the electricity tariff) and the NCC, which represents them, find the rate of the payable charge for every consumed kilowatt hour the most important, as well as the reliability of service provision in ensuring the activation of the installations providing reliable services any time the need arises (when electricity prices increase in the market).

Participants of Electricity Exchange Nord Pool (NP)

All produced electrical power is sold by LEG in the NP power exchange where it is purchased by anonymous participants of the electricity exchange, namely, the clients of wholesale market. In most cases these clients are retail power suppliers operating in the region, however, it can also be acquired by transmission system operators and other producers.

Due to anonymous trading in the exchange and standardized product of homogenous quality, clients submit their proposals to buy on the basis of quantity and quality criteria, meanwhile, sellers compete with each other solely by the price set for electrical power.

The Company produces electricity in its three power plants: the Elektrėnai Complex which includes the reserve power plant and combined cycle unit, Kruonis Pumped Storage Hydroelectric Power Plant, and Kaunas Algirdas Brazauskas’ Hydroelectric Power Plant.



On 7 October, 2015, the Government of the Republic of Lithuania decided not to allocate any quotas for electricity generation in the EC eligible for financial support. Quotas were refused taking into consideration the fact that in 2016, following the launch of new electricity connections with Poland and Sweden cheaper imported electrical power should be supplied to Lithuania. For this reason, the production of electricity in the CCU is planned solely under commercial conditions, i.e. when electricity prices in the market are sufficiently high. This mode of production is planned in the future as well. During the first 6 months of 2016, the CCU produced more than 150 GWh of electrical power under commercial conditions.

In 2015, the amount of electricity produced by the power plants managed by LEG accounted for 16.9 % of the total demand in the country. In 2016, the amount should see an even more considerable drop due to the decreasing production capacity in the EC, however, it is expected that the reduction will be counterbalanced by greater production in KHPP than in 2015.

Heat Consumers

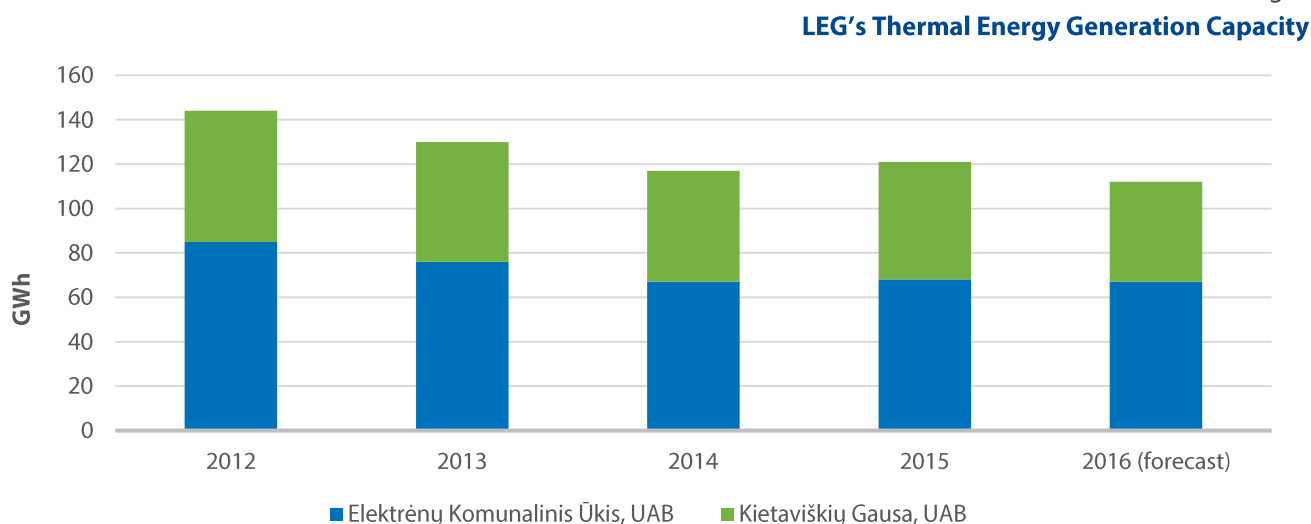
LEG is the main thermal energy supplier to Elektrėnai town and the surrounding enterprises; some heat generated in the EC is supplied to meet the needs of Vievis. The main direct clients of LEG are: the municipality-governed company, Elektrėnų Komunalinis Ūkis, UAB, which supplied thermal energy to the consumers of Elektrėnai and Vievis, and Kietaviškių Gausa, UAB, which manages a complex of greenhouses intended for growing vegetables.

The main concern of heat consumers is the retention of the needed parameters of the supplied thermal energy and heating price.

In May 2015, the construction of a new biofuel boiler house in the Elektrėnai Complex was finished. This boiler house has advanced installations which reduce pollution and are extremely effective. To combust biofuel, the technology of the fluidized bed was chosen which reduces emissions to the minimum. Logging waste resulting in Lithuania or any other unuseful wood is used for fuel. 40 MW capacity biofuel boiler house meets 90 % of heat demand of Elektrėnai town, greenhouses of Kietaviškių Gausa, AB, and of the Elektrėnai Complex. Heat is produced all year round.

Heat demand has been stable in recent years with only a slight trend of decline due to the increasing consumption effectiveness.

Fig. 3



Shareholders

The major shareholder of LEG is state-managed company Lietuvos Energija, UAB which has 96.75 % of LEG's shares. Around 6,000 small shareholders own the remaining 3.25 % of the Company's share.

The main goals of the shareholders are related to profit and return on asset return (which determine the amount of dividends and the efficiency of investments), as well as to the management of the major risks, including reputation risk.

IMPACT OF THE KEY TRENDS AND EVENTS ON LEG'S OPERATIONS

	LOW IMPACT	HIGH IMPACT
POSITIVE IMPACT	<ul style="list-style-type: none"> The LitPol Link connection which was launched in 2016 has had a positive effect on the operation of KPSHP thus increasing difference between the electricity prices at peak time/and off-peak time. The LNG terminal which was launched in 2016 has helped reduce the natural gas price in the market and increase the competitiveness of the CCU. The lack of production in Lithuania results in high demand for reactive power which may be ensured by KPSHP or the installations of units 5 and 6 of the EC adjusted for that purpose. The potential construction of Gas Interconnection Poland-Lithuania (GIPL) should lead to the reduction of gas price, and this would, in turn, increase the competitiveness of the CCU's operation. 	<ul style="list-style-type: none"> The on-going projects of Vilnius and Kaunas biofuel and waste-fired co-generation power plants present a new demand for power plant support services. It is likely that the continuation of the policy of (electricity) generation from renewable sources and the direction of synchronisation of transmission network with the continental system will result in conditions favourable for the construction of new generation capabilities. The potential construction of the connection LitPol Link II along with the changes in the restrictions of Polish TSO can lead to additional opportunities for electricity generation at full LEG's capacity and (or) determine the additional demand for reserves.
NEGATIVE IMPACT	<ul style="list-style-type: none"> The renewable sources' development policy in the EU and in Lithuania (by funding the development by use of additional subsidies) reduces wholesale electricity prices (though retail electricity prices increase due to subsidies); for this reason, the volumes of regular production capacity and margins decline. The impact increases in prospect. The development of the use of shale gas in the USA affects the consumption of carbon in North America and at the same time reduces the global prices of carbon and increases the competitiveness of electricity generated from carbon. 	<ul style="list-style-type: none"> The existing and the likely-to-remain low price of CO2 emission allowances in the EU markets create favourable conditions for pollution emitting electricity generation thus reducing the competitiveness of gas capabilities all over Europe. The NordBalt power cable which started operating in 2016 reduces the capacity of LEG's electricity sale and margins. The decision by the NCC to regulate the activities of all power plants operated by LEG limits the size of the Company's potential profit by reducing the income receivable by the EC for the PSO by the amount of commercially earned profit in all power plants.

STRATEGY FOR 2016–2020

Given the basis of the values formed within the entire Lietuvos Energija Group, its mission, the key environmental analysis' results, the Company will implement LEG's vision and organise its operations with a focus on four strategic directions (see Fig. 4). A more detailed description of strategic directions is provided in Annex 1.

The accomplishment of the mission and striving for the vision as well as the whole activity of LEG are based on three fundamental values which were formed taking into consideration the values of the LE Group.

A detailed action plan for the implementation of the strategy according to separate strategic goals is drawn up for the period of three years and is observed during this period.

Fig. 4

Mission, Vision and Strategic Directions



Electrical Power Generation

Client: participants of electricity exchange Nord Pool

One of the most important goals of LEG remains as effective use of the power plants operated by the company as possible:

- **Production in the EC:** it is likely that no quotas for electricity production in the EC eligible for financial support will be allocated in the immediate prospect; for this reason production is planned solely under commercial conditions (when the conditions in the market are favourable) and for the performance of periodical short tests of technological installations. It is likely that electricity generation by means of the CCU will mostly be sold during peak times, also during the period of breakdowns or scheduled repairs of connections with the neighbouring countries. Preparation of equipment and personnel to effectively operate in the CCU's mode of "Peak producer" by stopping and launching a unit several times a week will be of high relevance. No less important is the preservation of knowledge and skills of the EC's operational staff; for this reason special training, exercise and certification programmes will be drawn up;
- **Production in KPSHP:** profitability and production capacity largely depend on market conditions, i.e. on difference between the electricity prices at peak time and off-peak. According to plans, 100% of generated electricity will be sold in electricity exchange NP at continuously fluctuating prices. According to forecasts, with the increasing electricity generation from renewable sources and following the occurrence of one more connection with Poland, the amount of electricity produced in KPSHP will grow. By the year 2020, major repairs of some rotor assemblies of hydro units are planned, during which production capacity and revenue will be affected. Once favourable market conditions occur, projects of the 5th unit and (or) wind park in the territory of KPSHP will be carried out;
- **Production in KHPP:** production capacity mostly depends on the Neman's debit; average capacity is ~0.4TWh per year. Electricity production in KHPP is hugely affected by seasonality, i.e. most of electricity is generated during the spring overflow, least – in cold winter and hot summer. It is planned that all production output generated in KHPP will be sold in electricity exchange NP at fluctuating (different) prices so as to use the flexible production of the power plant as better as possible during the hours when the highest price is to be paid.

System Services

Client: transmission system operator

- After the commencement of use of connections of NordBalt and LitPol Link 1, the demand for secondary reserve increased to 400 MW/h and for tertiary reserve – to 505 MW/h in 2016;
- It is also anticipated that with the increase in the installed capacity of wind power plants to 500 MW, to balance deviations of production by wind power plants an increasingly more flexible electricity production capabilities will be required; for this reason the demand for regulation services provided by LEG should also increase by 2020. Yet, it is very difficult to forecast annual regulation volumes due to their instability;
- With the sharp decline in local generation and increase in the demand for regulating services of reactive power in Lithuania, LEG will assess opportunities to provide these services to the EC.

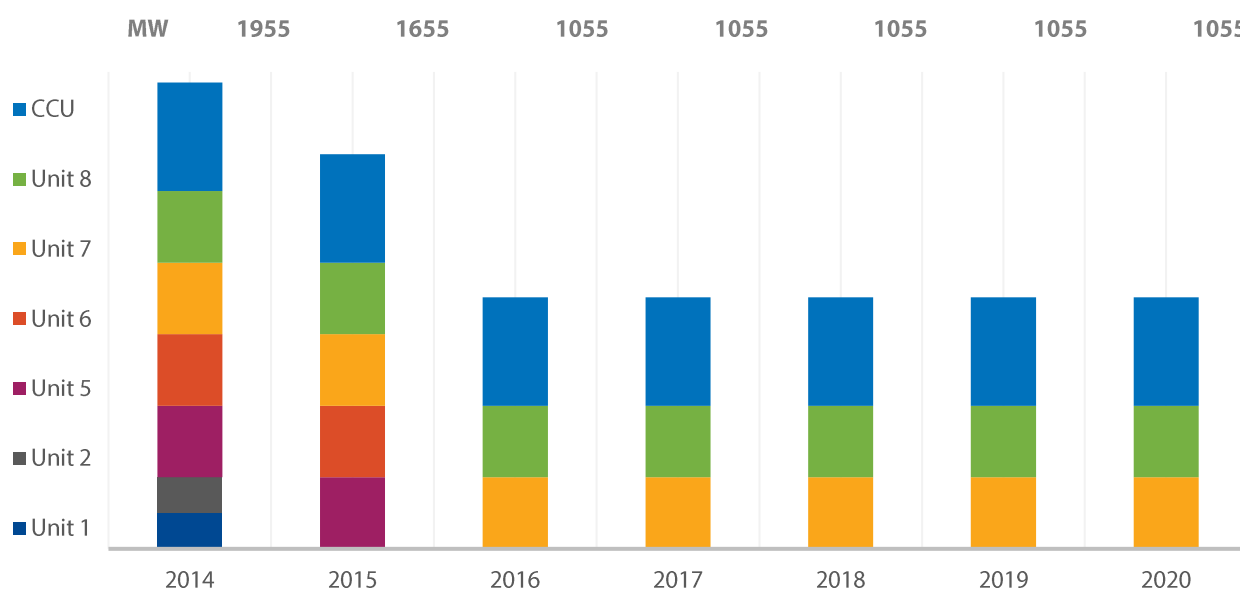
Strategic Reserve

Client: NCC (agency representing the interests of retail electricity consumers)

- In discussions over the update of the Lithuanian energy strategy and over the necessary retention of production capacity, LEG will seek EC to remain the most useful and efficient source of strategic reserve for the country. To this end (coordinating it with the provision of other services to the EC) the Company plans to use three more units of the EC by late 2023: 455 MW capacity combined cycle unit and 300 MW capacity units 7 and 8 which meet the EU requirements related to pollution while firing oil fuel. In 2020, the assessment of further preservation and investments required for operation beyond 2023 is planned;
- Implementing the operational strategy approved in 2014, units 5 and 6 were decommissioned in the early 2016. The following are among the most important goals to be achieved before 2020: ensuring reliable operation of the EC's capabilities with competitive prices and management of unused capabilities and polluted territories.

Fig. 5

Prospects of Installed Power in the EC for the period until 2020



Heat Generation

Client: heat consumers

- According to plans, 90 % (and more) of produced thermal energy will be generated from biofuel (using the biofuel boiler house to the maximum). The remaining amount will be produced by steam boilers (heat peaks, abrupt fluctuations of heat capacity in cases where the minimum hourly demand for capacity will be lower than the biofuel boiler can operate in a technologically stable manner);
- The most important goal in heat generation is to reduce heating price thus potentially increasing the amount of heat sold.

While implementing the programme of operational excellence, modernising IT systems, reviewing activity organisation mode and implementing projects for clearing up of the EC, the main aim is **to reduce the operational expenses (OPEX)** of all the main activities (electricity and thermal energy production and the provision of system services) **no less than 15 %** of the 2016 level by the year 2020. One more aim for 2020 is **to devote no less than 15 % of all LEG employees' time to the provision of new services.**

New Services

With the increase in the risks related to regulated activities and under the unfavourable competitive environment prevailing in electricity production market, one of the main goals of the company is to expand the portfolio of provided services by the year 2020 thus ensuring the continuity of the Company's operation, the return to shareholders and the preservation of jobs for employees.

While analysing the prospects of new activities and making decisions on their implementation, consideration will be taken into the possibilities (capacity) to use the available staff and employee's competences, the managed infrastructure and the facilities. It is anticipated that the new services could be directed towards the needs of other electricity and heat producers, TSO and new clients. Prospects of all new services will be assessed separately according to the deadlines specified in the operational plan.

Strategic Priorities

Client group (segment)	Strategic priority	Major activities	Key indicators	Strategic direction
TSO, participants of electricity exchange NP	1. Use the development potentials of competitive electricity generation capabilities	<ul style="list-style-type: none"> Finish the preparation for construction of a wind farm in the territory of KPSHP and fully prepare for the next stage of quota allocation; Renew the cost and benefit analysis of the development of KPSHP based on one-year experience of work in the market with new connections. 	Planned works accomplished, decisions made with regard to the continuation of projects.	High-quality services to clients
	Description: when favourable market and regulatory conditions occur, the project on the development of KPSHP will be implemented – the fifth hydro unit will be installed to help increase the total capacity of the power plant and its efficiency by developing the system of wind power plant in the region – capabilities to ensure regulation services to the system operator in a more flexible manner. The project of a new wind farm is to be also pursued in the territory of KPSHP.			
New clients: electricity and heat producers	2. Develop a model for the provision of operational and maintenance services to clients	<ul style="list-style-type: none"> Adjust the organisational structure and internal processes for a flexible provision of services; Implement a unified asset and work management system in all power plants; Strengthen employees' competences for providing services of maintenance of a wide range of installations, planning and organising works at the clients', forecasting estimates, etc. 	A new performance organisation model developed.	Diversification of activities and development
	Description: to offer a package of competitive power plant and boiler house maintenance services both within the group and in the market.			
TSO, new clients	3. Assess the potentials and develop new products and services for different markets	<ul style="list-style-type: none"> Accomplish financial analysis of installation of SC at EC; Accomplish feasibility study of technological liquids production at EC; Prepare an information package on current infrastructure at EC to potential customers. 	<ul style="list-style-type: none"> Share / percentage of LEG's personnel in new activities; Revenue from new activities. 	Diversification of activities and development
	Description: to assess the potentials of developing new products and services using the managed infrastructure and installations and the experience of personnel.			

All clients	<p>4. Increase employee engagement in the implementation of operational excellence programme</p>	<ul style="list-style-type: none"> • Implement and sustain the provision and implementation of continuous improvements (kaizen) in the Company; • Organise training of standardised work and adapt them in the main operations; • Carry out revisions of the main activity processes with the aim to increase their efficiency. 	Number of improvements offered by employees.	Employee engagement and empowerment
	<p>Description: continue the implementation of the activities designated for the excellence programme and promote the culture of continuous improvement in the Company, develop employees' competences and engage them in a wide range of activities.</p>			
Heat consumers	<p>5. Ensure the lowest possible heat price in Elektrėnai</p>	<ul style="list-style-type: none"> • Prepare fuel supply strategy and review it at least every 6 months; • Optimise heat generation processes (both technological and organisational) and look for the ways to increase the efficiency of the installations already in use. 	Heat price of the EC compared to the average heat price in Lithuania.	Increasing operational efficiency
	<p>Description: to seek a lower price of heat generated in Elektrėnai than the average heat price in Lithuania. To actively work in the field of fuel supply planning using all additional opportunities for fuel acquisition which emerge in the market. To reduce technological and organisational heat generation costs.</p>			
Shareholders, NCC	<p>6. Plan and conduct the activities of major repairs in hydroelectric power plants</p>	<ul style="list-style-type: none"> • Assess and select the most favourable time for the performance of major repairs; • Draw up detailed project plans and contractor agreements meeting the interests of LEG so as to have the work done as soon as possible. 	Timely carried out major repairs.	
	<p>Description: given the fact that major repairs will significantly negatively affect LEG's flow of income, it is important to plan, prepare and purchase the required services under the most favourable conditions and to conduct the planned major repairs of KPSHP units as well as other activities which normally require longer suspension of operation of the main installations maximally fast.</p>			
Shareholders, NCC	<p>7. Implement the programme for clearing-up activities of the EC</p>	<ul style="list-style-type: none"> • Dismantle units 5 and 6 of the EC, aboveground lines of units 1–6, accomplish other works; • Implement the programme for clearing up fuel facilities of the EC according to the plan; • To clean up the polluted territory of the EC in Obeniai land plot according to environmental requirements. 	Timely conducted clearing up activities.	
	<p>Description: by 2020, and later, continue the programme of clearing up activities which is implemented so as to reduce the costs and clean up the polluted territories as well as infrastructure which is not used. The implementation of the programme will continue focusing on the involvement of employees, where practicable.</p>			

Annex 1. Strategic Directions

High-Quality Services to Clients

LEG seeks to meet its clients' needs by ensuring that services are provided in a qualitative manner. The Company pursues the following goals: to ensure

- High accessibility to the managed heat and electricity production capabilities focusing on the planning of maintenance and repair works, carrying them out in a timely and qualitatively manner;
- High reliability of the managed installations focusing on preventive maintenance of installations, early identification of potential technological problems, strengthening the competences of operational personnel, also – investing in refurbishment of worn installations;
- The reduction of negative impact on environment by observing and coherently reducing the amounts of emissions and ensuring the management of pollution caused in the past.

Increasing Operational Efficiency

Taking into consideration the most important clients' needs, LEG seeks to increase operational efficiency determining both the prices of generated electricity and thermal energy and of provided services (strategic and backup reserve, other system services) in a targeted manner:

- The aim is to reduce the cost price of electricity and heat production by choosing an optimal strategy for fuel supply and looking for the ways to reduce the technological demand for electricity and thermal energy;
- Fixed expenses are optimised refusing the capabilities which are not used, focusing on the review of operational processes and on their improvement and qualitative project management.

Diversification of Activities and Development

Given the reducing volumes of some of the main activities, in the period from 2016 to 2020, a considerable amount of attention will be drawn to the development of generation and production-related services:

- Implementation of competitive energy projects. In the territory of KPSHP, around 75 % of infrastructure installation (co-construction) works which are required for the installation of additional hydro unit (so far as many as 4 units out of the 8 units planned in the initial project have been installed) have been carried out. Under favourable market and regulatory conditions, the project on the expansion of KPSHP will be implemented by installing the fifth hydro unit which will help increase the total capacity of the power plant, its efficiency, the possibility to ensure regulation services for the system operator in a more flexible manner with the expansion of wind power plants in the region. The territory of KPSHP will also see the continuation of a new project on a wind farm;
- At the same time the chances to use the managed infrastructure, installations and personnel competences (first of all, those of the EC) for the development of other activities related to production will be assessed. With regard to the EC, the possibility to start providing regulation services of reactive power to TSO will be assessed, as well as the possibility to install a technological line for the production

of products to be sold to the external clients and using the potentials of the available installations and the staff.

Employee Engagement and Empowerment

Referring to the good practice of foreign energy companies, LEG seeks to develop a new, value-based and result-oriented organisational culture which is founded on the principles of leadership and on greater consideration of the Company's employees and the increasing employee engagement in corporate activities. To develop organisational culture, a considerable amount of attention has to be devoted to the promotion of employee engagement, measures and tools have to be developed so as to increase the employee's obligation vis-a-vis corporate values and pave the way to the accomplishment of goals. One of the main aims to be achieved is low turnover of key employees. Taking into account the advanced average age of employees and frequent reorganisations in the sector, it is extremely important to ensure the replacement of the key LEG's employees and the training of backup so as to maintain operational continuity.

Considerable amount of consideration is planned to be devoted to employees' safety and health. The goal of the company is to implement a cultural change in this area where the employees' safety and health is ensured not only by use of preventive measures but where they become a part of organisational culture and behaviour of all employees.

Annex 2. Terms, Abbreviations and Definitions Used

TERM/ ABBREVIATION	EXPLANATION
Allowance	Emission allowance (means a permission to release 1 tonne of the equivalent of carbon dioxide during an established period of time)
EC	Elektrėnai Complex which is composed of reserve power plant, combined cycle unit and biofuel and steam boiler houses
EU	European Union
Group	Group of companies of Lietuvos Energija, UAB
PSHP	Pumped Storage Hydroelectric Plant
HPP	Hydroelectric Power Plant
CCU	Combined Cycle Unit
KPSHP	Kruonis Pumped Storage Power Plant
KHPP	Kaunas Algirdas Brazauskas' Hydroelectric Power Plant
LE	Lietuvos Energija, UAB
LEG, the Company	Lietuvos Energijos Gamyba, AB
OPEX of the main activity	The Company's operational costs after the elimination of costs of dismantling and clearing up, other costs of commercial activities, and the costs of operation of the wind farm of KPSHP
TSO	Transmission System Operator, Litgrid, AB
RPP	Reserve Power Plant (the old units of Lithuania's power plant and the ancillary infrastructure)
LNG	Liquefied Natural Gas
SC	Generator's operation at synchronous compensator's mode by providing reactive power regulation services
Strategy	LEG's operational strategy, this document
Strategic reserve	Reserve supported from the fund of public service obligations
PSO	Public service obligations
NCC, the Regulator	National Commission for Energy Control and Prices



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2016