



---

**LIETUVOS ENERGIJOS GAMYBA, AB**

---

**CONSOLIDATED INTERIM REPORT  
FOR THE SIX-MONTH PERIOD  
ENDED 30 JUNE 2014**

## **TABLE OF CONTENTS**

<b>Information about the Company</b>	<b>4</b>
<b>Information about the Group</b>	<b>5</b>
<b>Information about Securities and Shareholders of the Company</b>	<b>6</b>
Information about Authorized Capital and Securities of the Company	6
Information about Shareholders of the Company	7
<b>Management of the Company</b>	<b>8</b>
Information about Management Bodies of the Company	8
Members of Management Bodies of the Company	9
Information on Committees	11
<b>Business Strategy of the Company</b>	<b>13</b>
<b>Overview of Operations</b>	<b>14</b>
Key Performance Indicators and Prospects	14
Operations of Subsidiaries	16
Research and Development projects	17
<b>Financial Results of the Company and the Group</b>	<b>18</b>
Investments in Noncurrent Assets	19
<b>Material Events</b>	<b>20</b>
Material events in the Reporting Period	20
Material events after the end of Reporting Period	21
<b>Human Resources</b>	<b>22</b>
<b>Social Responsibility</b>	<b>23</b>
<b>Environmental Protection</b>	<b>24</b>
<b>Risk Management</b>	<b>24</b>

---

**CONSOLIDATED INTERIM REPORT**  
**For the six-month period ended 30 June 2014**

---

**Reporting Period**

The Consolidated Interim Report provides information to shareholders, creditors and other stakeholders of Lietuvos Energijos Gamyba, AB about the activities of Lietuvos Energijos Gamyba, AB and its subsidiaries in January – June 2014

**Legal basis for the preparation of the Consolidated Interim Report**

The Consolidated Annual Report of Lietuvos Energijos Gamyba, AB ("the Company") and its subsidiaries (hereinafter the Company and its subsidiaries collectively referred to as the "Group") has been prepared by the Administration of the Company in accordance with Resolution of the Bank of Lithuania No 03-48 of 28 February 2013 "Concerning approval of the Rules for Preparation and Submission of Periodic and Additional Information", and Resolution of the Government of the Republic of Lithuania of 7 March 2012 (No 258) "Concerning approval of the Guidelines for Ensuring Transparency of Operations of State-Controlled Companies and appointment of a managing body".

**Persons responsible for the information provided in the Consolidated Interim Report**

<b>Title</b>	<b>Name</b>	<b>Telephone</b>
Chief Executive Officer of Lietuvos Energijos Gamyba, AB	Juozas Bartlingas	+370 5 278 2900
Director of Finance and Legal Department of Lietuvos Energijos Gamyba, AB	Eglė Čiužaitė	+370 5 278 2910

## INFORMATION ABOUT THE COMPANY

### Information about the Company and its contact details

<b>Name</b>	Lietuvos Energijos Gamyba, AB (until 5 August 2013: – Lietuvos Energija, AB)
<b>Legal form</b>	Public company; private legal person with limited civil liability
<b>Registration date and place</b>	20 July 2011, Register of Legal Persons of the Republic of Lithuania
<b>Company code</b>	302648707
<b>Registered office address</b>	Elektrinės g. 21, LT-26108 Elektrėnai, Lithuania
<b>Address for correspondence</b>	A. Juozapavičiaus g. 13, LT-09311 Vilnius, Lithuania
<b>Telephone</b>	+370 5 278 2907
<b>Fax</b>	+370 5 278 2906
<b>E-mail</b>	<a href="mailto:info@le.lt">info@le.lt</a>
<b>Website</b>	<a href="http://www.gamyba.le.lt">www.gamyba.le.lt</a>

### Core activities of the Company

The generation and supply of electricity as well as electricity import, export and trade. The Company may engage in any other activities that are not in contravention of its objectives and the Lithuanian law.

### Information about branches and representative offices of the Company

The Company has no branches or representative offices.

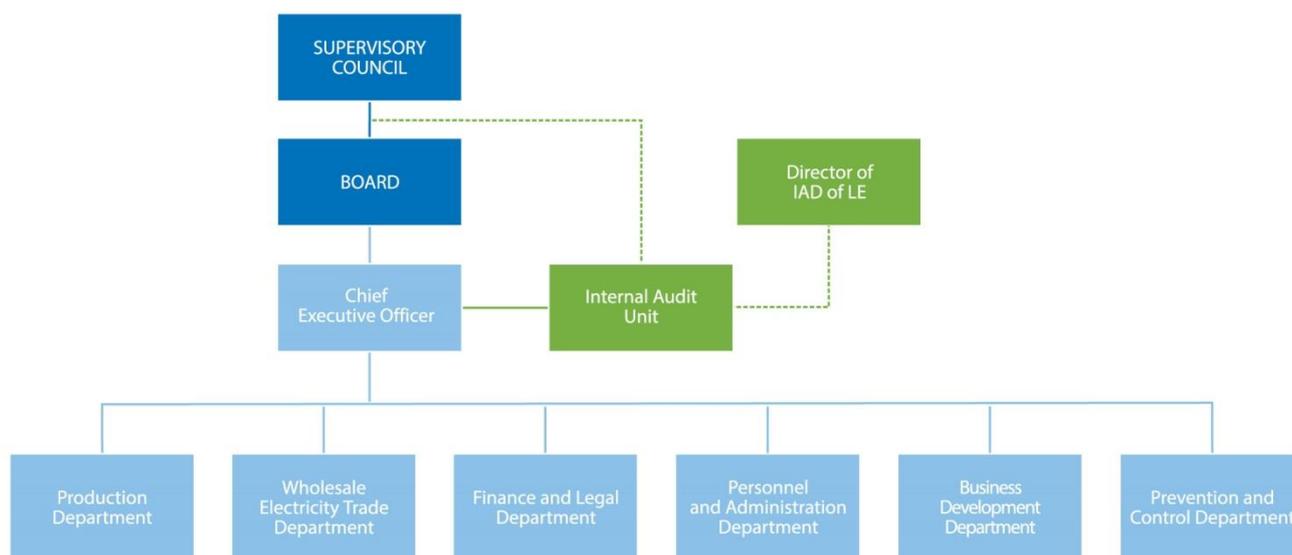
### Divisions and organizational structure of the Company

The Company is comprised of state-owned power generation facilities:

- Elektrėnai complex with a reserve power plant (formefr Lietuvos Elektrinė) and a combined-cycle unit,
- Kruonis Pumped Storage Hydroelectric Plant (Kruonis PSHP),
- Kaunas Hydroelectric Power Plant (Kaunas HPP)

Structure of the Company is shown in Figure 1.

Figure 1  
**Structure of the Company (as of 30 June 2014)**



## INFORMATION ABOUT THE GROUP

As of 30 June 2014, the Company has direct control over the following wholly-owned subsidiaries: UAB Kauno Energetikos Remontas and Energijos Tiekimas UAB.

Indirectly, via UAB Kauno Energetikos Remontas, the Company holds the majority of votes in UAB Gotlitas. The Company also has the majority of votes in Geton Energy OÜ and Geton Energy SIA via Energijos Tiekimas UAB.

Apart from these subsidiaries, the Company takes part in the management of the following companies: NT Valdos, UAB (41.73 % of shares), UAB Geoterma (23.44 % of shares), and UAB Technologijų ir Inovacijų Centras (22.22 % of shares) and AS Nordic Energy Link under liquidation (25 % of shares).

Structure of the Group is shown in Figure 2.

Figure 2  
**Structure of the Group (as of 30 June 2014)**



### Data on the companies forming the Group

Name	Registration date and place, business ID	Contact details	Shareholding of the Group	Core business
<b>UAB Kauno Energetikos Remontas</b>	27 April 2000, Register of Legal Persons of the Republic of Lithuania, company code 135617795	Chemijos g. 17, LT-51331 Kaunas, Lithuania Tel. +370 37 456 702 Fax +370 37 452 948 Email: ker@ker.lt www.ker.lt	100 %	Repairs of energy installations, manufacture of metal structures
<b>Energijos Tiekimas UAB</b>	21 October 2009, Register of Legal Persons of the Republic of Lithuania, company code 302449388	P. Lukšio g. 1, LT-08221 Vilnius, Lithuania Tel. +370 5 278 2770 Fax +370 5 278 2750 Email: info@etiekimas.lt www.etiekimas.lt	100 %	Independent power supply
<b>UAB Gotlitas</b>	30 September 2003, Register of Legal Persons of the Republic of Lithuania, company code 136031358	R. Kalantos g. 119, LT-52311 Kaunas, Lithuania Tel. +370 37 370 390 Fax +370 37 370 390 Email: gotlitas@gmail.com www.gotlitas.lt	100 %	Accommodation services, trade
<b>Energijos tiekimas OÜ</b>	6 March 2013, Republic of Estonia, company code 12433862	Narva mnt 5, 10117 Tallinn, Estonia Tel. +372 622 5366 Email: info@etiekimas.ee	100 %	Independent power supply
<b>Energijos tiekimas SIA</b>	28 February 2013, Republic of Latvia, company code 40103642991	Bezdelīgu g. 12, LV-1048 Rīga, Latvia Tel. +371 677 98006 Email: info@etiekimas.lv	100 %	Independent power supply

## **INFORMATION ABOUT SECURITIES AND SHAREHOLDERS OF THE COMPANY**

### **Information about Authorized Capital and Securities of the Company**

The authorised capital of the Company amounts to LTL 635,083,615 and has been divided into 635,083,615 ordinary registered shares with par value of one Litas each. All the shares have been fully paid for.

As of 30 June 2014, the Company has 635,083,615 ordinary registered shares with par value of one Litas each

All the shares of the Company are ordinary registered shares of the same class and grant equal rights to their holders.

The Company has not acquired or transferred own shares during the reporting period. The Company has not acquired its own shares. No subsidiary has acquired shares of the Company either.

On 1 September 2011, shares of the Company were listed on the Official Trading List of NASDAQ OMX Vilnius. The shares of the Company are traded on NASDAQ OMX Vilnius Securities Exchange ("VSE").

ISIN code LT0000128571.

Abbreviation of securities – LNR1L.

Shares of the Company have not been traded in other regulated markets.

Securities of the Company's subsidiaries are not traded publicly as subsidiaries are limited companies and are 100 per cent owned by the Company.

More information about the trading of the shares during the reporting period – in the table below and in Figure 3.

#### **Price and turnover of the Company's shares in January – June 2014**

	<b>Litas</b>	<b>Euro</b>
Last trading session price	2.469	0.715
Maximum price	2.590	0.750
Minimum price	1.364	0.395
Average price	2.008	0.529
Turnover, shares	1,138,669	1,138,669
Turnover	2,286,640.78	662,256.95

Figure 3  
**Dynamics of the price and number of the Company's shares since the start of trading**



As of 30 June 2014, market capitalisation of the Company was LTL 1,567.9 million (EUR 454.1 million) compared with LTL 815.7 million (EUR 236.3 million) as of the same date in 2013 and LTL 864 million (EUR 250.2 million) as of the end of 2013.

## CONSOLIDATED INTERIM REPORT For the six-month period ended 30 June 2014

### Information on agreements with intermediary of public trading in securities

On 21 December 2010 the Company has concluded an agreement on keeping of accounting for the Company's securities and on management of personal securities accounts with Swedbank, AB. The agreement expires on 31 December 2014.

### Restrictions on transfer of securities

No restrictions on transfer of securities were applied to the Company.

### Information about Shareholders of the Company

On 30 June 2014 the total **number of shareholders of the Company was 6,115.**

Shareholders, holding more than 5 per cent of the share capital and votes, as on 30 June 2014, are shown in the table below:

#### Shareholders, holding more than 5 per cent of the share capital and votes (as on 30 June 2014)

Name	Class of shares	Number of shares	Share of authorised capital, %	Share of votes in the authorised capital, %
<b>Lietuvos Energija, UAB</b> Company code – 301844044 Žvejų g. 14, LT-09310 Vilnius, Lithuania	Ordinary registered shares	610,515,515	96.13	96.13
Other shareholders	Ordinary registered shares	24,568,100	3.87	3.87
<b>TOTAL</b>	Ordinary registered shares	635,083,615	100	100

### Shareholders having special control rights and description of such rights

None of the shareholders of the Company has special control rights. All the shareholders of the Company have equal rights (property and non-property rights) provided for in the Republic of Lithuania Law on Companies and the Articles of Association of the Company.

### Restrictions on voting rights

There were no restrictions on voting rights in the Group.

### Agreements between shareholders on restrictions of the transfer of securities

To the best of the Company's knowledge, there were no agreements between shareholders of the Company due to which transfer of securities and/or voting rights can be restricted.

### Dividend

The ordinary general meeting of the Company's shareholders held on 4 April 2014 approved the distribution of the Company's profit of 2013 and decided to allocate LTL 150 million to payment of dividends (approximately LTL 0.24 dividend per share).

Dividends were paid to the persons who at the end of the tenth business day following the day of the general meeting of shareholders that approved payment of dividends, i.e. at the end of the business day of 18 April 2014 were the shareholders.

## MANAGEMENT OF THE COMPANY

### Information about Management Bodies of the Company

According to the Articles of Association valid as of 30 June 2014, management bodies of the Company include:

- the General Meeting of Shareholders;
- the Supervisory Council;
- the Board;
- the Managing Director – Chief Executive Officer.

#### General Meeting of Shareholders

The General Meeting of Shareholders is the supreme body of the Company. The scope of competence and the procedure for its convention and adoption of decisions by the meeting are established by the laws, other legal acts and the Articles of Association.

The Articles of Association of the Company may be amended according to the procedure established in the Republic of Lithuania Law on Companies, by the decision of the general meeting of shareholders adopted by at least 2/3 (two-thirds) majority vote of the shares of the shareholders attending the meeting.

In the period of January – June 2014, two general meetings of shareholders of the Company were convened:

1. The ordinary general meeting of shareholders held on 4 April adopted the resolutions on the approval of the consolidated annual report 2013 of the Company and its subsidiaries, on the approval of the audited consolidated

Articles of Association of the Company are published in the Company's website section 'Management of the Company'.

financial statements and the Company's annual financial statements of 2013, and on the distribution of the Company's profit of 2013. By the latter resolution, the funds of LTL 150 million were allocated for payment of dividends.

2. The extraordinary general meeting of shareholders held on 25 June adopted the resolutions on auditor's selection and establishment of remuneration for auditing services. PricewaterhouseCoopers UAB was selected to carry out auditing of the Company's financial statements 2014, the ceiling remuneration of LTL 80,000, excluding VAT, was established for the above-mentioned auditing services.

Information on the shareholders' votes is available on the Company's website, under the section [For Investors](#).

The general meetings of shareholders of the Company held in January – June 2014 were attended by the Chair of the Company's Board and the Chief Executive Officer and the Director of Financial and Legal Department of the Company.

#### Supervisory Bodies

##### Supervisory Council

As stated in the Articles of Association of the Company, the Supervisory Council is a collegiate body exercising supervision over operations of the Company. It consists of three members – natural persons. At least one-third of the Supervisory Council's members are independent members. The Supervisory Council is elected for the period of four years by the general meeting of shareholders. The Chairman of the Supervisory Council is elected by the members of the Supervisory Council from among themselves. The Supervisory Council and its members start and terminate their activities according to the procedures established in legal acts.

The person that puts up a candidate for the position of the member of the Supervisory Council must submit to the general meeting of shareholders a written statement about the candidate's qualifications, experience in managing positions, and fitness for the position of the member of the Supervisory Council. The following persons may not be elected as Members of the Supervisory Council: the Chief Executive Officer, a member of the Board, a person occupying a position of a member of a supervisory body, management body or the administration in an energy company engaged in the electricity or gas transmission operations, and any person who is not entitled to occupy such position on other grounds established in legal acts.

In case if a member of the Supervisory Council is recalled, resigns or ceases to occupy this position for any other reason but the shareholders of the Company holding more than 1/10 of total voting rights oppose elections of individual members of the Supervisory Council, then the Supervisory Council forfeits its powers and must be elected anew. In case of election of

individual members of the Supervisory Council, such members may only be elected for the period remaining until the end of the term of the current Supervisory Council.

The scope of competence of the Supervisory Council includes the following main powers:

- electing and recalling Members of the Board;
- overseeing activities of the Board and the Chief Executive Officer;
- furnishing the general meeting of shareholders with feedback and proposals for the operating strategies of the Company, annual financial statements, proposed allocation of profit/loss and the Annual Report of the Company as well as activities of the Board and the Chief Executive Officer;
- furnishing the general meeting of shareholders with feedback and proposals for the decision on declaring dividend for a period shorter than one financial year and on preparing interim financial statements and interim report for this purpose;
- making proposals to the Board and the Chief Executive Officer for recalling those decisions adopted by them which are in contravention of the laws and other legal acts, the Articles of Association of the Company or decisions by the general meeting of shareholders;
- resolving other matters of supervision over the Company and its management bodies falling within the scope of competence of the Supervisory Council as stated in these Articles of Association and in the decisions of the general meeting of shareholders.

The Supervisory Council of the Company was formed on 5 August 2013.

#### Management Bodies

##### The Board

The Board is a collegiate management body of the Company. The scope of competence and the procedure for the adoption of

decisions and election and replacement of members are established by the laws, other legal acts, the Articles of Association, and Work Regulations of the Board.

## CONSOLIDATED INTERIM REPORT For the six-month period ended 30 June 2014

The Board consisting of 5 (five) members is elected by the Supervisory Council for 4 (four) years according to the procedure established by the Articles of Association of the Company and the legal acts. The Board reports to the Supervisory Council and the general meeting of shareholders. The Board elects its Chairman from among its members.

The person that puts up a candidate for the position of the Member of the Board must submit to the Supervisory Council a written statement about qualifications of the candidate, his/her experience in managing positions, and fitness for the position of the Member of the Board. The following persons may not be elected as Members of the Board: a person occupying a position of a member of a supervisory body, management body or the administration in an energy company engaged in the electricity or gas transmission operations, member of the Supervisory Council of the Board, and any person who is not entitled to occupy such position on other grounds established in legal acts.

In case if the Board is recalled, resigns or ceases to perform its duties for any other reason prior to expiry of its term of office, the new Board will be elected for the new term of the Board. In case of election of individual members, such members may only be elected for the period until the end of the term of the current Board.

The Board has the right to adopt decisions on:

- the Company's acting as a founder or a member of a legal person;
- any transfer to third parties or encumbrance of the shares/interests held by the Company, or of rights attached thereto;

- formation or termination of branches and representatives offices of the Company;
- bond emissions;
- disposal of facilities which are owned by the Company and which are specified in the Republic of Lithuania Law on Enterprises and Facilities of Strategic Importance to National Security and Other Enterprises Important to Ensuring National Security;
- transactions the value of which exceeds 10,000,000 (ten million Litass);
- other decisions provided for in the Articles of Association of the Company.

In certain cases, prior to adopting a decision the Board must obtain an opinion of the Supervisory Council and approval of the general meeting of shareholders.

Taking opinions of the Supervisory Council into consideration, the Board elects and recalls the Chief Executive Officer of the Company, sets his/her remuneration and other terms and conditions of employment contract, approves his/her job regulations, and give incentives to and impose penalties on him/her.

### The Managing Director – Chief Executive Officer

The Chief Executive Officer is a one-man management body of the Company. The Chief Executive Officer organises and directs operations of the Company, acts on its behalf, and has the right to conclude transactions single-handedly except for cases established in these Articles of Association and the laws. The scope of competence of the Chief Executive Officer and the election and recalling procedures are established by the laws, other legal acts and the Articles of Association of the Company.

## Members of Management Bodies of the Company

### Members of the Supervisory Council (as of 30 June 2014)

Name	Term of office	Shareholding in the Company	Participation in other companies and organisations	Interests in other companies (if over 5%)
<b>Dalius Misiūnas</b> Chairman	5 August 2013 – to date	–	Lietuvos Energija, UAB – Chief Executive Officer and Chairman of the Board. National Electricity Association – President. EURELECTRIC – Member of Council of Directors. Association of KTU Alumni – President.	–
<b>Liudas Liutkevičius</b> Member	5 August 2013 – to date	–	Lietuvos Energija, UAB – Director for Production and Services, Member of the Board. NT Valdosa, UAB - Member of the Board. Energijos Tiekimas UAB -Member of the Board. UAB Kauno Energetikos Remontas – Member of the Board. UAB LITGAS - Member of the Board.	–
<b>Pranas Vilkas</b> Independent members	5 August 2013 – to date	–	–	–

No changes took place in the composition of the Company's Supervisory Board during the reporting period. The expected end of the term of office of the current Supervisory Board of the Company is 5 August 2017. Further information on the members of the Company's Supervisory Board is available on the Company's website, under the section [Company Management](#).

Six meetings of the Company's Supervisory Board were held in the period of January – June 2014. Five of the meetings were attended by all three members, while one meeting was attended by two members.

**CONSOLIDATED INTERIM REPORT**  
**For the six-month period ended 30 June 2014**

**Members of the Board (during the reporting period)**

Name	Term of office	Shareholding in the Company	Participation in other companies and organisations	Interests in other companies (if over 5%)
<b>Juozas Bartlingas</b> Chairman of the Board, Chief Executive Officer	17 September 2013 – to date	–	–	–
<b>Eglė Čiužaitė</b> Member of the Board, Director of Finance and Legal Department	17 September 2013 – to date	–	UAB Geoterma, member of the Board.	–
<b>Adomas Birulis</b> Member of the Board, Director of Business Development Department	17 September 2013 – to date	–	UAB Technologijų ir Inovacijų Centras, member of the Board.	–
<b>Darius Kucinas</b> Member of the Board, Director of Production Department	17 September 2013 – to date	–	–	–
<b>Vidmantas Saliotis</b> Member of the Board, Director of Wholesale Department	17 September 2013 – to date	–	Nord Pool Spot – Member of Client Advisory Council EURELECTRIC – Member of Market Committee.	–

No changes took place in the composition of the Company's Board during the reporting period. The expected end of the term of office of the current Board of the Company is 17 September 2017. Further information on the members of the Company's Board is available on the Company's website, under the section [Company Management](#).

In the period January – June 2014, the Board met for 23 times. All members of the Board attended 21 of them, while two meetings were attended by four out of five Board members (80%).

**Members of Administration of the Company (as of 30 June 2014)**

Position	Name	Start date	End date	Shareholding in the Company
Chief Executive Officer	Juozas Bartlingas	2013-09-17	To date	–
Chief Financier and Head of Accounting Division	Giedruolė Guobienė	2011-08-01	To date	–

**Information on amounts paid, other assets transferred and guarantees provided by the Company to these persons collectively and average amounts per member of a collegiate management body, Chief Executive Officer and Chief Financier of the Company in the reporting period**

	Pay in January – June 2014, LTL	Other payments in January – June 2014, LTL	TOTAL, LTL
All members of the Supervisory Council collectively	–	11,100	11,100
Per member of the Supervisory Council on average *	–	11,100	11,100
All members of the Board collectively	556,633	104,639	661,272
Per member of the Board on average	111,327	20,928	132,255
Chief Executive Officer	148,485	30,500	178,985
Chief Financier	67,635	–	67,635

\* According to the Company's Articles of Association (namely, Articles 21 and 25), the Supervisory Board shall consist of a minimum of 1/3 (one third) independent members and payment of remuneration to independent members of the Supervisory Board can be established by the general meeting of shareholders for their activities in the Supervisory Board. Terms and conditions of the agreements and independence criteria of the members of the Supervisory Board are established by the general meeting of shareholders following the requirements established by the legislation and good corporate governance practices.

## Information on Committees

As of 30 June 2014, the Supervisory Council of Lietuvos Energija, UAB, as a parent company of the Group had the following committees: Audit Committee, Risk Management Supervision Committee, Appointments and Remuneration Committee. Their activities cover Lietuvos Energija, UAB, and its directly and indirectly controlled subsidiaries including Lietuvos Energijos Gamyba, AB.

### Audit Committee

As of 30 June 2014, the Supervisory Council of Lietuvos Energija, UAB, had an Audit Committee which also performed the functions of the Group's Audit Committee in accordance with the Law on Audit.

Main functions of the Audit Committee:

- oversee the process of drawing up of the financial statements of the Company and the Group's companies, with a focus on the appropriateness and consistency of accounting policies applied;
- oversee the effectiveness of the internal control system and risk management systems in place at the Company and the Group's companies; perform analyses and reviews of the need for and appropriateness of such systems; conduct reviews of existing internal control systems;
- oversee the adherence to the principles of independence and objectivity by the certified auditor and the audit firm and make relevant recommendations; make recommendations for the selection of auditor;
- oversee the conduct of audits of the Company and the Group's companies, evaluate the effectiveness of the audits and management's response to the recommendations made by the auditors in the management letter;
- oversee the effectiveness of the internal audit function of the Company and the Group's companies, analyse the need for and appropriateness of such function, make recommendations on matters related to the internal audit and take action as required;
- make proposals for the internal audit plans of the Company and the Group's companies, make recommendations for the regulations of internal audit units of the Company and the Group's companies, for the appointment and dismissal of the head of the internal audit unit, approval of his/her job regulations, and incentives/sanctions upon him/her;
- monitor compliance of the activities of the Company and the Group's companies with the Lithuanian laws and regulations and the Articles of Association and operating strategies;
- assess and analyse other matters falling within the scope of the Audit Committee as decided by the Supervisory Council;
- perform other relevant functions identified in the, Lithuanian laws and regulations and the Corporate Governance Code for the Companies Listed on NASDAQ OMX Vilnius.

### Members of the Audit Committee (as of 30 June 2014)

Member	Shareholding in the Company	Start of work in the Committee	Institution/company and position
<b>Rasa Noreikienė</b> Chairperson	-	August 2013	Ministry of the Economy of the Republic of Lithuania, Vice-Minister
<b>Aušra Vičkačkienė</b> Member	-	August 2013	Ministry of Finance of the Republic of Lithuania, Director of Asset Management Department
<b>Danielius Merkinas</b> Independent member	-	August 2013	UAB Nordnet, Finance Director
<b>Gintaras Adžgauskas</b> Member	-	August 2013	World Energy Council, Lithuania Committee, Director

### Risk Management Supervision Committee

Main functions of the Committee:

- monitor the identification, assessment and management of risks relevant to the attainment of objectives of the Company and the Group;
- assess appropriateness of internal control procedures and risk management measures with respect to the risks identified;
- assess progress in the implementation of risk management measures;
- monitor the risk management process;
- analyse availability of funding for the implementation of risk management measures;
- assess the periodic risk identification and assessment cycle;
- exercise control over risk registers, analyse data therein and make proposals;
- monitor the drawing up of internal risk management documentation;
- perform other functions falling within the scope of the Committee as decided by the Supervisory Council.

**CONSOLIDATED INTERIM REPORT**  
**For the six-month period ended 30 June 2014**

**Members of the Risk Management Supervision Committee (as of 30 June 2014)**

Member	Shareholding in the Company	Start of work in the Committee	Institution/company and position
<b>Antanas Danys</b> Chairperson	–	August 2013	Public Entity „Lietuvos Junior Achievement“, Board Member
<b>Žydrūnė Juodkienė</b> Member	–	August 2013	Ministry of Energy of the Republic of Lithuania, Vice-Minister
<b>Tomas Garasimavičius</b> Member	–	August 2013	Energy Advisor to the Prime Minister of the Republic of Lithuania
<b>Raimundas Petrauskas</b> Independent member	–	August 2013	Schmitz Cargobull Baltic, UAB, Chief Executive Officer
<b>Donatas Kauburys</b> Independent member	–	October 2013	UAB Dovirma, Director

<sup>1</sup> From 11 July 2014, Ž. Juodkienė does not hold the office of the Vice-Minister of Energy of the Republic of Lithuania.

**Appointments and Remuneration Committee**

Main functions of the Committee:

- make assessments and proposals for the longterm remuneration policy of the Company and the Group's companies (fixed pay, performance-based pay, pension insurance, other guarantees and remuneration forms, compensations, severance pay, etc.) as well as the principles of compensation for expenses related to the person's activities;
- make assessments and proposals for tantieme policy of the Company and the Group's companies;
- monitor compliance of the remuneration and tantieme policies of the Company and the Group's companies with international practice and good governance guidelines, make proposals for the improvement of such policies;
- make proposals for tantiemes in the process of allocation of profit of the Company and the Group's companies for a financial year;
- assess terms and conditions of agreements between the Company/the Group's companies and members of their management bodies;
- assess the procedures for recruitment and hiring of candidates to positions in management bodies and top management of the Company and the Group's companies as well as the setting of qualifications requirements therefor;
- assess, on a continuous basis, the structure, size, composition and activities of management and supervisory bodies of the Company and the Group's companies;
- oversee the process of informing members of management bodies and employees of the Company and the Group's companies about opportunities for skills improvement;
- oversee and assess the implementation of measures ensuring continuity of activities of management and supervisory bodies of the Company and the Group's companies;
- perform other functions falling within the scope of the Committee as decided by the Supervisory Council.

**Members of the Appointments and Remuneration Committee (as of 30 June 2014)**

Member	Shareholding in the Company	Start of work in the Committee	Institution/company and position
<b>Aloyzas Vitkauskas</b> Chairperson	–	August 2013	Ministry of Finance of the Republic of Lithuania, Vice-Minister
<b>Tomas Garasimavičius</b> Member	–	August 2013	Energy Advisor to the Prime Minister of the Republic of Lithuania
<b>Virginijus Lepeška</b> Independent member	–	August 2013	UAB Organizacijų Vystymo Centras, Chairman of the Board

**Significant agreements to which the Company is a party and which would take effect, would be amended or would cease in case of changes in the Company's control status** – none.

**Agreements between the Company and members of its management bodies or its employees providing for a compensation in case of their resignation or dismissal without a valid reason or termination of employment due to changes in the Company's control status** – none.

**Information about significant related-party transactions** is presented in the Explanatory Notes to the Interim Financial Information for the six-month period of 2014.

**Detrimental transactions concluded in the reporting period on behalf of the Company (transactions not in line with the Company's objectives or normal market conditions; infringing interests of the shareholders or other stakeholders etc.) which have had or might have an adverse impact on the Company's operations and/or operating result as well as information on transactions involving a conflict of interest between the responsibilities that the Company's management, majority shareholders or stakeholders have to the Company and their private interests and/or positions held elsewhere** – none.

## BUSINESS STRATEGY OF THE COMPANY

On 25 June 2014, the Company's Board approved the document of the business strategy of Lietuvos Energijos Gamyba, AB 2014-2020 (hereinafter referred to as the Strategy). The latter document defines the long-term business strategy of the Company: strategic directions and objectives of operations and their indicators measuring the implementation of the Strategy. The Strategy for 2014-2020 was drawn by the Company taking into consideration the internal and external environment factors and most probable values of the main presumptions that have the greatest impact on the Company's operations and setting challenging strategic objectives with the expected outcomes oriented to the purposes set by the shareholder.

### Strategic directions

The strategic objectives of the Company will be attained by working along the four strategic directions:

- **Increase value of the Company:** By consistently increasing the profitability of commercial activities; eliminating those production capacities that are not in use; investing in the modernisation of other capacities; increasing process efficiency and cutting operating costs.
- **Ensure quality of service to the clients (TSO, suppliers, customers):** By reducing the dependence on the state support (public interest services (PIS)); formulating an electricity portfolio that is in line with the wishes of electricity suppliers; ensuring optimal electricity prices for suppliers and end customers; fulfilling the obligations of a socially responsible company to the public and increasing the focus on environmental protection.

The Strategy envisages that in 2014–2020:

- profitability of the Company will increase in accordance with the general objectives of the Group provided for in the strategy of Lietuvos Energija, UAB, the main shareholder of the Company;
- until 2019, revenues of the Company will decrease due to stronger competition on the exchange and shrinking production volumes at the Elektrėnai Complex (market liberalisation effect), however, later stabilisation is expected due to additional revenues from commercial activities of the Company;
- approximately LTL 450 – 650 million will be invested in the two main development projects (the biofuel thermal power plant and (if market conditions are favourable) the construction of Unit 5 of Kruonis PSHP).
- **Increase operational efficiency:** By reviewing and optimising the business principles through the use of LEAN principles and tools; improving project management; developing the employees' competences; optimising the production capacities under the Company's control and abandoning those units which are not used in full.
- **Create an organisational culture based on corporate values:** By increasing the employees' involvement and developing the leadership competences; ensuring continuity of business by planning future competence requirements and organising timely employee training and/or requalification; attracting and retaining human resources, reducing the scope of key employees' turnover, implementing and consistently applying the system of providing replacement/substitute personnel; and effecting a cultural change in the health and safety at work area.

Figure 4  
**Strategic Directions of the Company 2014–2020**



## OVERVIEW OF OPERATIONS

### Key Performance Indicators and Prospects

The Company conducts wholesale trading in electricity in the wholesale market (i. e. between power generation companies and electricity suppliers). The Company sells electricity and provides power balancing services to public and independent suppliers operating in the Lithuanian market; it also exports electricity and sells it on an electricity exchange.

The Company generates the required amounts of electricity at its three power plants (the Elektrėnai complex consisting

of a reserve power plant and a combined-cycle unit, the Kruonis PSHP and the Kaunas HPP), purchases electricity from other suppliers and power generating companies under contracts, imports electricity and buys it on an electricity exchange.

The Company also provides system services to the Lithuanian transmission system operator LITGRID (TSO).

### Operations and prospects

<b>Elektrėnai complex</b> Reserve power plant and combined-cycle unit	<b>Kruonis Pumped Storage Hydroelectric Plant</b>	<b>Kaunas Hydroelectric Power Plant</b>	<b>Electricity trading</b>
 <p><b>Capacity: 1955 MW</b></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>The larger part of the electricity generation will be concentrated at the most efficient unit – the combined-cycle unit.</p> <p>A project on the construction of new heat energy production facilities is being implemented.</p>	 <p><b>Capacity: 900 MW</b></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>As the need for regulation increases, and on completion of the power links with Sweden and Poland, the power plant will increase its generation volumes and will provide more system services.</p> <p>The Company plans to implement a Kruonis PSHP development project.</p>	 <p><b>Capacity: 100,8 MW</b></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>The plant is going to maximise the generation of green energy, depending on natural conditions, and to provide system services.</p>	 <p>The Company conducts wholesale trading in electricity in the wholesale market, i. e. between power generation companies and electricity suppliers.</p> <p>On completion of the power links with Sweden and Poland, trading will become more active due to wider opportunities for trading in electricity and system services in the interconnected systems.</p> <p>The Company seeks to maintain its market share by an efficient combination of its production capacities and the electricity purchasing in both Lithuania and the neighbouring markets.</p>

### Indicators of electricity generation in January – June 2014

The Company has permits for electricity production of indefinite term. During 6 months of 2014, the Company sold the total of 0.597 TWh electricity generated in the Company's controlled power plants. During the same period in 2013, the Company generated and sold 0.739 TWh, i.e. 23.8% more electricity.

If compared with the same period last year, production of subsidised electricity generation in Elektrėnai complex experienced the major decrease. Relatively dry spring resulted in decreased production in Kaunas HPP as well (see Figure 5).

In 2014, Elektrėnai complex did not start electricity generation until April, i.e. no electricity was generated in January – March in Elektrėnai. This year, Elektrėnai complex units operate according to the schedule agreed with the TSO, as it was planned, i.e. generate electricity in the period from 1 April till 15 October. During the latter period, the units are operating in order to secure reliable operation of the electricity system, because repairs and limited capacities of other electricity generation sources result in the shortage of electricity and rise in its prices on the exchange during the warm season. Orientation of the generation by Elektrėnai complex to the above-mentioned period results also in improved efficiency of the use of PSO funds. Full of

## CONSOLIDATED INTERIM REPORT For the six-month period ended 30 June 2014

nearly full quota of the subsidised electricity generation of 0.9 TWh established for Elektrėnai complex is planned to be generated there during the established period.

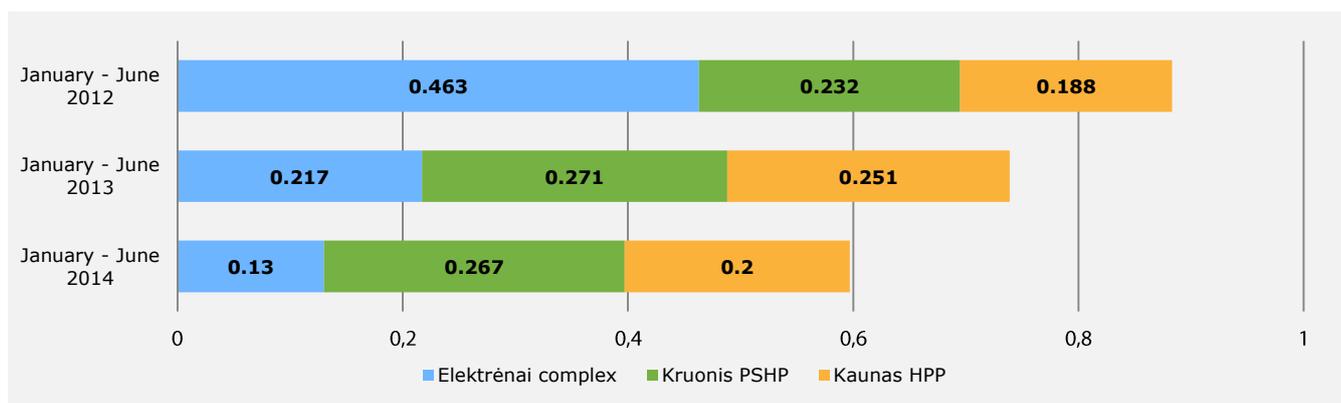
The Company produces electricity also from renewable energy sources. Kaunas HPP uses hydro energy - inexhaustible, flexible and clean national energy resource. Kaunas HPP generated and sold 0.2 TWh electricity during six months of 2014. It is 20% less than during six months in 2013. The average monthly water debit in the River Nemunas in January and February 2014 was bigger, while in March it was close to the long-term average debit, but the major impact on the production rates of Kaunas HPP in the first 6 months of 2014 was made by comparatively dry

second quarter of the year. There was no big spring flood in the Nemunas, April was drier than usual, which resulted in decreased river water level, consequently Kaunas HPP operated at lower capacity than usually. Precipitation in May – June did not exceed the standard climate rate, the water level in the rivers, including the Nemunas, remained low.

Production volumes of Kruonis PSHP in the first half year of 2014 were very similar to the volumes in first 6 months last year – the power plant generated and sold 0.267 TWh electricity in the first 6 months of 2014. During the same period in 2013, the power plant produced 0.271 TWh electricity (2% more).

Figure 5

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



### Indicators of electricity trade in January – June 2014

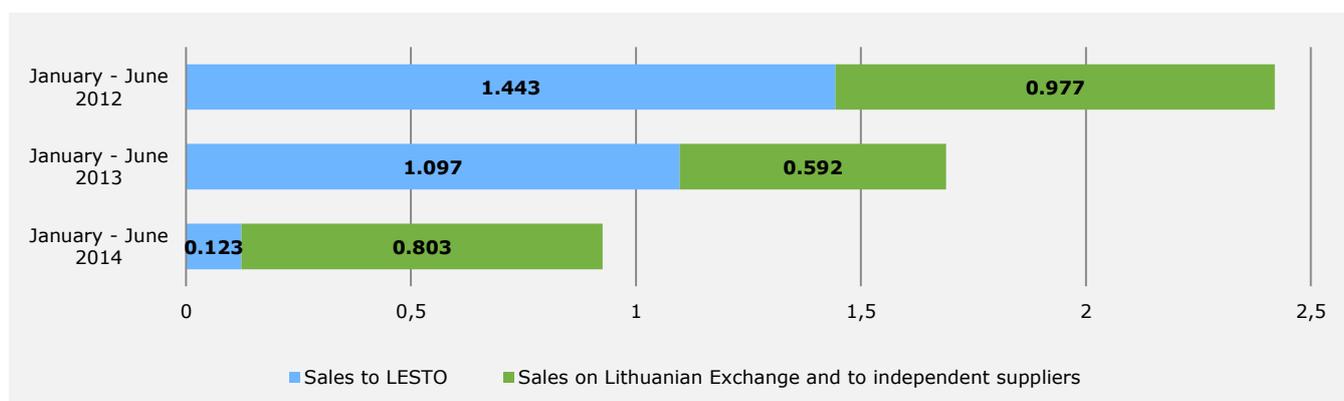
During the period of January – June 2014, the Company sold 0.926 TWh electricity on the domestic market, which is 45% less than during 6 months in 2013, when the trade of 1.689 TWh was reached (see Figure 6).

The central reason for such decrease that failure to sign bilateral contracts since early 2014 to secure the demand of the distribution network operator LESTO AB.

Starting from 8 January 2014, the company has been performing the functions of the assigned company, i.e. buying all electricity planned to be generated in wind farms and selling it in the Lithuanian trading zone of the Nord Pool Spot (NPS) electricity exchange. In 6 months of 2014, the company bought 0.268 TWh electricity in total from wind farms and traded it on the exchange.

Figure 6

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



### System services

System services are aimed at ensuring stability and reliability of the energy system, prevention of and response to system emergencies, and the requisite power reserve in accordance with the established requirements for the sup-

ply quality and reliability. The system services include power reserving, trade in regulation power and balancing power, reactive power management, and system recovery services.

Power reserving service is a means to ensure the reliable operations of the energy system when, in emergency situations, power generation volumes drop or consumption increases suddenly. In such cases the power generating company provides the service of securing the power reserve and the maintaining of reserve power in the standby production facilities, i. e. the secondary and/or tertiary reserves are used. Secondary power reserve is the power of the installations or hydroelectric units in operation; such power can be activated within 15 minutes. Tertiary (cold) reserve is the power of the generating sources maintaining by the generating company that can be activated within 12 hours. All the three power plants managed by the Company provide the secondary and tertiary power reserve services. The secondary power reserve is ensured by the Kaunas HPP, Kruonis PSHP and the Elektrėnai complex, and the tertiary power reserve is ensured by the Elektrėnai complex. In January – June 2014, the Company sold 0.87 TWh of electricity as secondary power reserve and 1.17 TWh of electricity as tertiary power reserve (in January – June 2013: 0.66 TWh and 0.69 TWh respectively).

The regulation power service is required in order to balance the surplus and deficit of power in the energy system. Trading in the regulation power is conducted in real time, ensuring the reliable operations of the energy system every hour. Where there is not enough power in the system and the TSO gives an instruction to increase the generation, the Company increases its generation volumes and sells the requisite amount of regulation power to the TSO.

## Activities of the Subsidiaries



The main activities of **UAB Kauno Energetikos Remontas** include diagnostics, modernisation, repairs, mounting of energy equipment, production of spare parts for energy equipment, manufacture of metal constructions for power engineering and industries, spare parts of boilers and engines, hermetic oil transformers. Following the reorganisation of the energy sector in 2010, the company became the main company servicing production plants.

In the first half of 2014, UAB Kauno Energetikos Remontas continued working on the contracts in progress, successfully participated in tenders for new contracts. Filter and Vapor consortium and UAB Kauno Energetikos Remontas in the first half of 2014 started designing, installation of new heat production capacities and construction works in Elektrėnai complex. It is the largest project currently implemented by UAB Kauno Energetikos Remontas.

The goal aspired by the company is to enhance its operations and to make them more efficient, therefore the company is actively engaged in LEAN system installation.

In case of surplus of power in the energy system, the TSO instructs the Company to reduce the volumes and the Company purchases the surplus regulation power from the TSO. In January – June 2014, the Company sold 0.02 TWh and purchased 0.01 TWh of regulation power (in January – June 2013: 0.02 TWh and 0.02 TWh respectively).

The balancing power is the actual deviation from the power generation/consumption schedule planned by the TSO. Trade in the balancing power is conducted after the end of reporting month; it encourages the market participants to prepare accurate power generation and consumption forecasts. For example, if, during any hour, the Company generates a smaller amount of energy than scheduled, it has to buy the difference from the TSO (purchase of balancing power); and vice versa, if the hourly generation volume is larger than planned, it has to sell the difference to the TSO (sale of balancing power).

Reactive power control service is a system service aimed at levelling out any fluctuations in the loads of the power system and to ensure the requisite voltage and frequency levels. The reactive power control service is provided by the Kruonis PSHP operating in the synchronous condenser mode.

System recovery after complete failure is the service aimed at effective start-up of the power-generating source after full or partial failure of the power system, without using power supply from the network. The service is provided by both Kruonis PSHP and Kaunas HPP.



**Energijos Tiekimas UAB** is the largest independent Lithuanian capital electricity supplier. The main fields of activities of Energijos Tiekimas UAB include independent electricity supply, including electricity planning, forecasting, balancing, purchasing, trading, import, export, and all other activities related with this field of business.

The key activity of the company is electricity trading on the free market. The company boasts the largest portfolio of clients in Lithuania, amounting to over 6 thousand clients, and it is the only certified supplier of electricity generated in Lithuania from the renewable resources – Green Lithuanian energy.

In early 2014, Energijos Tiekimas UAB introduced a new product tied with the exchange price. By choosing this flexible price package, the price paid by a client for consumed electricity varies every month. It depends on the electricity prices effective on the NPS electricity exchange. Every hour of consumed electricity is charged the price of the hour in question effective on the NPS exchange plus fixed supply margin. Agreements are signed for indefinite term and can be cancelled upon 30 days notice. This offer was very well received by the clients.

In the first half of 2014, Energijos Tiekimas UAB continued its business expansion on the Latvian and Estonian markets, which it entered in summer 2013. During the reporting period, Energijos Tiekimas UAB changed the names of its subsidiaries operating abroad into GETON ENERGY, signed agreements with large clients.

## Research and Development Projects

The Company uses long-term strategic planning to identify the lines of development of the Company and to estimate the required investments in the replacement or rehabilitation of production facilities. This forms the basis for a sound investment policy of the Company.

The Company implemented the following R & D projects during January – June 2014:

### Investigations into Syderiai geological structure

The feasibility of constructing an underground natural gas storage facility in Telšiai District was continued to be analysed in January – June 2014, processing of the data collected during the seismic and geological investigations was completed, and a simulation model was prepared for the tank of the storage facility. The model enables an assessment of the storage from the geologic point of view and of its behaviour during the gas pumping and retrieval processes as well as determination of the operating parameters of the storage facility.

All the findings and conclusions of/on the investigations were submitted to the Ministry of Energy. The Ministry has instructed specialists of the Company to carry out a cost-benefit analysis of the project to enable the Government, which has initiated the project, to adopt an informed decision on further steps in the project.

### Project of the development of heat production facilities in Elektrėnai

In the first half of 2014, Company continued the project of the development of new heat production capacities in Elektrėnai complex, which was launched by the Company in 2011. The project of construction of new heat production capacities in Elektrėnai consists of several parts, the main of which are construction of biofuel and steam boiler plants.

The document authorising construction of biofuel boiler plant offering cheaper and cleaner heat production was issued this February. Once the construction permit was obtained, the project contractor Filter and Vapor consortium and UAB Kauno Energetikos Remontas started construction works without any delay, laid the foundations, on which the biofuel boilers manufactured in Finland were mounted in May. Delivery of the biofuel boilers is a very important stage of the project of the development of new heat production capacities in Elektrėnai, which was completed by the contractor successfully. The total thermal capacity of the biofuel boilers is 40 MW. In June, the auxiliary boiler devices, including air heaters, smoke condensation economisers, electrostatic filters and chimney were delivered to Elektrėnai, where they were successfully

mounted on the newly-built foundations. Two newly-mounted modern electrostatic filters are intended to remove solid particles and ashes from smoke which are formed while burning biofuel in a furnace. Efficiency coefficient of the latter equipment is up to 98%. Construction of monolith biofuel warehouse is also according to the timetable.

The new biofuel boilers are planned to start producing heat energy during the heating season of 2014-2015.

In April, the contractor was issued a document authorising construction and started building the steam boiler plant. Three steam boilers using natural gas, the total heat capacity of which is 50 MW, were delivered from Vapor Boilers plant in Finland to the building site in Elektrėnai in March 2014. In June 2014, the boilers were mounted in the steam boiler plant under construction in the territory of Elektrėnai complex. Steam boilers are fitted with fully-automated natural gas burners emitting low volumes of NOx. The construction works of the steam boiler plant are planned to be completed in September, while the boiler plant will be put into operation in early October.

### Installation of the infrastructure for an industrial park in the territory of Kruonis PSHP

In January – March 2014, the Company completed the planned works under the project on engineering infrastructure installation in the industrial park situated in the territory of Kruonis PSHP. The territory has been prepared for direct foreign investments that will enable the development of hi-tech activities at this attractive location having all the requisite infrastructure.

Under the project, approx. 5 km of roads had to be reconstructed in addition to the installation of the engineering infrastructure including a water supply system with water wells and a stormwater discharge system. At the end of December 2013, the road reconstruction and the stormwater collector installation works were completed; in February 2014, the wellfield installation works – the last part of the project – were finished. A second phase of the project is being planned.

### Assessment of the wind energy potential at Kruonis PSHP

At the beginning of 2014, integrated measurements of wind speed and directions and other meteorological parameters were started in the territory of Kruonis PSHP for the purpose of the initial assessment of the location's potential for the construction of a wind farm. The Company will decide on the feasibility of such construction based on the measurement results.



## FINANCIAL RESULTS OF THE COMPANY AND THE GROUP

Indicators of the Company and Group of the first half of 2013 presented in the table below were recalculated because of rectification of the material mistakes, related with the adjustment of the depreciation of the fixed tangible assets. The indicators of the first half of 2013 of the Group also underwent corrections because of cessation of some activities.

The indicators of the Company and the Group of the first half of 2012 were not recalculated due to the impact of the above-mentioned corrections, therefore the latter indicators cannot be directly compared with the indicators of the respective periods in 2013–2014.

### Financial Results of the Company and the Group\*

	Company			Group		
	6 months of 2014	6 months of 2013	6 months of 2012	6 months of 2014	6 months of 2013	6 months of 2012
<b>FINANCIAL INDICATORS (LTL '000)</b>						
Sales income	318,599	478,079	517,496	321,701	482,559	616,163
Other operating income	3,877	3,826	1,101	45,954	15,430	48,706
EBITDA* (earnings before tax + interest costs – interest income – dividend received + depreciation & amortisation + non-current & current asset impairment losses)	117,421	129,875	64,297	121,919	135,699	69,969
Operating profit	87,938	66,283	29,159	89,966	69,349	30,429
Net profit on continued operations	77,305	53,215	27,032	75,520	55,219	26,178
Profit before tax	88,228	58,842	30,393	86,677	61,275	29,797
Cash flows from operations	78,891	183,827	117,225	79,498	202,554	107,108
Liabilities to financial institutions	548,625	575,035	613,407	557,856	585,919	627,865
<b>RATIOS</b>						
Liabilities / equity	1.40	1.37	1.22	1.42	1.36	1.23
Financial liabilities / equity	0.42	0.43	0.37	0.42	0.43	0.37
Financial liabilities / assets	0.18	0.18	0.16	0.17	0.18	0.17
<b>LOAN COVERAGE RATIO</b>						
Loan coverage ratio (EBITDA / (interest costs + loans repaid in the reporting period)) <sup>1</sup>	6.55	2.47	1.64	6.64	2.45	1.78
<b>PROFITABILITY RATIOS</b>						
Operating profit margin	27.27%	13.75%	5.62%	24.47%	13.93%	4.58%
Profit before tax margin	27.36%	12.21%	5.86%	23.58%	12.30%	4.48%
Net profit margin	23.97%	11.04%	5.21%	20.54%	11.09%	3.94%
Return on equity <sup>2</sup>	5.95%	3.99%	1.61%	5.72%	4.04%	1.54%
Return on assets <sup>2</sup>	2.47%	1.68%	0.73%	2.36%	1.71%	0.69%
Earnings per share, LTL <sup>2</sup>	0.12	0.08	0.04	0.12	0.09	0.04
P/E <sup>3</sup> (share price / earnings)	20.28	15.33	33.42	20.76	14.77	34.51

<sup>1</sup> Repaid loans do not include refinanced loans.

<sup>2</sup> The indicator was calculated by using the net profit of the reporting period only, i.e. of the half year.

<sup>3</sup> The indicator was calculated as a ratio between the share price at the end of the reporting period and the profit per share of the reporting period.

\* Audited financial information of Lietuvos Energijos Gamyba, AB and unaudited financial information of Lietuvos Energijos Gamyba, AB group of companies is shown on the table for January – June 2014.

## CONSOLIDATED INTERIM REPORT For the six-month period ended 30 June 2014

The profitability indexes of the first half year of 2014 are significantly better than the ones of the same period in 2013, despite reduced incomes from trading in 2014. Incomes from controlled activities in the first half of 2014, i.e. incomes from electricity and heat production in Elektrėnai complex and reservation of capacities supplied by Elektrėnai complex and Kruonis PSHP, accounted for approximately 41% of the total incomes of the Group (40% during the same period in 2013).

### Financial status report

On 30 June 2014, the Company's obligations to financial institutions amounted to LTL 548,6 million, which were liabilities under long-term loan agreements. Group's liabilities to financial institutions amounted to LTL 557,9 million. Liabilities of Kauno energetikos remontas UAB under long-term and short-term loan and hire purchase agreements amounted to LTL 9,2 million on 30 June 2014.

The major structural changes in the assets of the Company and the Group during the first half of 2014, if compared with the first half of 2013, were related with decreased balance of cash funds due to the payment of dividends.

### Statement of comprehensive income

#### Income

The Company's income amounted to mLTL 321.7 in the first half of 2014. Income from trading in, balancing and regulation of electricity, power reservation and public service obligations as well as income from sales of heating energy constituted the major share of the income. To compare with the corresponding period of 2013, the Company's income dropped by 33.1%, of which trade income fell by 13%, power reservation income – by 11%, income from public service obligations – by even 39%. In the first half of 2014 the Group's income totalled mLTL 367.7 and was by 26.1% smaller than in the corresponding period of 2013.

#### Expenses

Over January – June 2014 the Company had mLTL 234.5 of expenses; the Group's expenses constituted mLTL 277.7. The largest share of the Company's expenses (mLTL 168.4 or 72%) and the Group's expenses (mLTL 168.4 or 61%) were expenses incurred in relation to procurement of electricity and the related services as well as fuel costs

### Investments in fixed assets

In the first half of 2014 the Company's investments into tangible fixed assets constituted mLTL 21.8, these of the Group – mLTL 22.2. The major share of the Group's investments, i. e. mLTL 14.7, were investments into biofuel boiler house in Elektrėnai.

related to production of electricity. The depreciation and amortization costs incurred by the Company and the Group in the first half of 2014 constituted, respectively, mLTL 38.5 and 39.6.

Operational costs of the Group, excluding procurements in relation to electricity and production of electricity as well as depreciation and amortization costs, revaluation of emission allowances and impairments, in the first half of 2014 amounted to mLTL 77.9 and comparing to the costs incurred in the first half of 2013 grew by mLTL 56.9 as a result of the costs of the contractual works incurred by the subsidiary company Kauno energetikos remontas UAB.

#### Profit

In the first half of 2014 the Company earned mLTL 86.7 of profit before taxes, while the net profit from continuing operations amounted to mLTL 75.5. The net profit margin of the Group grew during the first half of 2014 to compare with the corresponding period of 2013 from 11.1% (first half of 2013) to 20.5% (first half of 2014).

The Company earned mLTL 77.3 of net profit from continuing operations. The net profit margin of the Company almost doubled during the first half of 2014 to compare with the first half of 2013 by increasing from 11.0% (first half of 2013) to 24.0% (first half of 2014).

During the first half of 2014 Kauno energetikos remontas UAB Group earned mLTL 0.2 of net profit, Energijos tiekimas UAB Group – mLTL 1.5 of net profit. The shares of Duomenų logistikos centras UAB as of March 31 2014 were sold.

#### Cash flow statement

Net cash flows from operating activities in the first half of 2014 constituted mLTL 78.9 for the Company and mLTL 79.5 for the Group. Net cash flows of the Company and of the Group from operating activities in the first half of 2013 were, respectively, mLTL 183.8 and 202.6.

Net cash flows of the Company and of the Group from investment activities were negative in the first half of 2014 constituting mLTL 31.7 (mLTL 62.1 in the first half of 2013). Cash flows of the Group from financial activities were negative in the first half of 2014 constituting mLTL 167.7 (mLTL 79.0 in the first half of 2013).

## **MATERIAL EVENTS IN THE REPORTING PERIOD**

### **A strategy of Lietuvos Energija Group approved**

On 16 January 2014, the Board of the parent company Lietuvos Energija, UAB approved the Operating Strategy of the Lietuvos Energija, UAB Group for 2014–2020. The strategy sets out the operating goals of the Group, their implementation programmes and target financial results. It is estimated that the value of the Group will double by 2020. The strategy has been published in [www.le.lt](http://www.le.lt).

### **Loan agreement concluded**

On 21 February 2014, the Company and SEB Bankas concluded a loan agreement for a loan of up to EUR 158 million (LTL 546 million) for 10 years. The loan funds are intended for the refinancing of three long-term loans received by the Company in 2005 and 2010 from consortia of banks operating in Lithuania and the European Bank for Reconstruction and Development.

This is one of the largest business financing transactions in the history of Lithuanian business banking during the years of independence. It contributes to the optimisation investments made by a strategic national company in the projects implemented at Elektrėnai complex. The refinancing of the existing loans will reduce the regulated operating costs of the Company, whereas administration of the obligations will be more convenient. In addition, the diminishing credit risk of the Company allows expecting favourable crediting terms in the future.

### **Gross bidding arrangement**

In March 2014, the Company started trading on Nord Pool Spot exchange according to the gross bidding arrangement. This means that now the Company conducts all its electricity purchase and sale transactions separately, which contributes to enhancing the non-regulated market transparency and increasing its efficiency.

Now the Company can assess the benefits of the fixed-price transactions better, which enables it to increase the efficiency of its trading activities. At the same time, the Company contributed to the development of a transparent electricity market in the Baltic States.

### **Nordic Energy Link AS under liquidation**

The general meeting of shareholders of Nordic Energy Link AS (NEL) held on 19 March 2014 decided to liquidate NEL, in which the Company has a shareholding.

NEL was formed in 2004 with the aim of implementing a project on the interconnection of the energy systems of the Baltic States and Finland by constructing a power cable on the Baltic Sea bed (Estlink 1). The cable was handed over to Elering and Fingrid, the transmission system operators of Estonia and Finland, respectively, on 30 December 2013, therefore, as stipulated in the Memorandum of Association of NEL, the company's shareholders passed a decision on its liquidation.

The Company holds 25% of the shares of NEL. Other NEL shareholders include Latvenergo AS and Eesti Energia AS, holding 25% and 50% respectively.

### **Sale of shares in UAB Duomenų Logistikos Centras**

On 31 March 2014, the Company concluded an agreement on sale – purchase of its shares in Duomenų Logistikos Centras UAB with the parent company Lietuvos Energija, UAB.

Under this agreement the Company sold to Lietuvos Energija, UAB 31,835,166 (thirty one million eight hundred thirty-five thousand one hundred and sixty-six) ordinary registered shares in Duomenų Logistikos Centras UAB. These shares account for 54.04% of the authorised capital of Duomenų Logistikos Centras UAB.

### **Pledged share of the Company's assets**

On 12 May 2014, following the decision of the Company's Management Board and the Supervisory Board, the combined cycle unit owned by the Company and units 7 and 8 of the Lithuanian Power Plant were pledged through a subsequent mortgage. The above assets was pledged by the Company in line with its obligations under the crediting agreement of 21 February 2014 concluded with AB SEB. The Agreement does not foresee any other measures to secure the performance of the obligations.

### **The Company has obtained OHSAS occupational safety and health certificate**

On 17 May 2014 the Company received OHSAS 18001:2007 certificate to confirm that the Company's occupational safety and health (OHS) management system complies with the requirements of this management standard.

The Company has been recognised for the virtually continuous improvements of the OHS policy which is a part of the Company's management system covering organisational structure, planning activities, distribution of responsibilities, practical operations, internal regulations and procedures, methods, process management and resources required for the implementation, maintenance and enhancement of the OHS policy. The Company has also been recognised for safeguarding the occupational safety and health in terms of mitigation of accidents at work.

### **The Company's activities were presented to the investors**

On 3 June 2014, Ms Eglė Čizaitė, Director of the Legal Department and a member of the Company's Management Board, presented the Company's activities and results in a traditional meeting of the managers of the NASDAQ OMX Baltic listed companies and investors (CEO meets investors).

### **Optimal operation scenario of Elektrėnai complex has been established**

On 11 June 2014 the Company announced the findings from the project "Perspectives of Elektrėnai Complex" initiated in February 2014 (hereinafter Analysis). Drawing on the findings of the Analysis, a recommended operational scenario for the Elektrėnai complex embracing the old units of Lithuanian Power Plan and the combined cycle gas turbine unit was established.

In accordance with the optimal operational scenario of the Elektrėnai complex, the exploitation of the units 1 and 2 of the reserve power station (with 150 MW capacity each) should be phased out once the new biofuel boiler house, currently being constructed in Elektrėnai, comes into operation, while the units 5 and 6 (with 300 MW capacity each) should be phased out once the connections with

Sweden and Poland start functioning. Hence from 2016 the power generation capacities in Elektrėnai complex would consist of a modern 455 MW capacity combined cycle gas turbine unit and units 7 and 8 of the reserve power station (with 300 MW capacity each) able to generate electricity by using both gas and fuel oil. The total installed capacity of the power station would be 1055 MW.

## **MATERIAL EVENTS AFTER THE END OF REPORTING PERIOD**

### **The authorised capital of UAB Technologijų ir Inovacijų Centras has been increased**

On 10 July 2014, new Articles of Association of Lietuvos Energijos Gamyba, AB associated company UAB Technologijų ir Inovacijų Centras featuring increased authorised capital were entered at the Registry of Legal Entities of the Republic of Lithuania. The authorised capital of UAB Technologijų ir Inovacijų Centras was increased from LTL 10,000 to 20,000,000.

In the framework of the increase of the authorised capital of UAB Technologijų ir Inovacijų Centras, the Company has paid for 4,442,222 newly issued ordinary registered shares by a cash contribution. After the increase of the authorised capital of UAB Technologijų ir Inovacijų Centras the number of the shares held by the Company increased from 20% to 22.22% of the total shares of UAB Technologijų ir Inovacijų Centras.

### **Agreement on the establishment of a joint company UAB Verslo Aptarnavimo Centras signed**

On 21 July 2014, the Company together with Lietuvos energija UAB, AB Lesto, UAB LITGAS and UAB Technologijų ir Inovacijų Centras signed the agreement on the establishment of a joint company UAB Verslo Aptarnavimo Centras. One of the main purposes of the new company is to enhance and provide value added in energy sector through organisation and realisation of public procurements, provision of accounting and personnel administration services to state governed companies of the energy group.

UAB Verslo Aptarnavimo Centras was registered in the Registry of Legal Entities on 30 July 2014, the authorised capital of the company is LTL 100,000. Lietuvos Energija UAB, Lietuvos Energijos Gamyba AB, AB LESTO, UAB LITGAS and UAB Technologijų ir Inovacijų Centras have respectively acquired 50%, 20%, 20%, 5% and 5% of the shares of UAB Verslo Aptarnavimo Centras.

### **The National Commission for Energy Control and Prices has adopted a legal act affecting the Company's operations**

In the meeting of 7 August 2014 the National Commission for Energy Control and Prices adopted the decision

concerning the findings of the electricity generation market research (Decision). In this Decision, the National Commission for Energy Control and Prices recognises the Company to be an entity with significant market power in the electricity generation market and in addition to other provisions sets obligations, effective from 1 January 2015, in relation to pricing and publishing of information on the costs of the regulated operations.

As part of the public consultation with regard to the draft Decision the Company has noted that the research of the generation market was based on wrong assumptions. Therefore the Company considers that the Decision of the National Commission for Energy Control and Prices concerning recognition of the Company as an entity with significant market power in the electricity generation market and the related obligations to the Company should not be applied.

The Company considers that the Decision/ legal acts adopted on its basis may affect the Company's operations.

### **The Company has become a member of NASDAQ OMX Commodities exchange**

At the beginning of August 2014 the Company was one of the first Lithuanian companies to join the derivative financial instruments market NASDAQ OMX Commodities. The Company hence pursues its aim to actively contribute to the integration of the North European and Baltic electricity markets.

NASDAQ OMX Commodities is an exchange of derivative instruments hosting trading in financial instruments linked with the electricity price on Nord Pool Spot exchange. Trading in financial instruments allows to manage risks related to fluctuation of electricity prices.

Joining the trade at NASDAQ OMX Commodities is a strategic step of the Company whereby the Company wishes to demonstrate the need of such a platform and its commitment to becoming an active member thereof.

## HUMAN RESOURCES

The main purpose of the human resources (HR) policy of the Company is to attract and retain highly-qualified employees and to create, together with them, a long-term partnership relationship and a common successful future of the Company.

In January – June 2014, the Company continued the process of formation of new organisational culture. At the end of 2013, the Human Resources Management Policy of the Lietuvos Energija Group was approved. It establishes the general principles of human resources management and defines the underlying provisions for the HR management and implementation of strategic objectives.

### Employees of the Company

As of 30 June 2014, the Company employed 502 people (including employees on child care leave) including specialists and line managers 58%, blue-collar workers 40%, and top management 2%.

The main principles of the HR policy were further consolidated: the uniform performance evaluation and remuneration system based on the competence model and the employees training procedures were improved, the principles of long-term HR planning and staff recruitment have been established.

The Company's remuneration system is built on the principles of fairness, clarity, universal application and comparison. Pay received by all employees of the Company including management consists of the fixed part, the variable part, and extra pay.

The distribution of employees by position levels and the information on average pay is provided below. The pay amounts include the fixed pay, the variable pay, and the extra pay for extraordinary performance.

### Number of employees of the Company and average pay (as of 30 June 2014):

	CEO	Top management	Line management	Experts, specialist, blue-collar workers
Distribution of employees by position levels	1	7	39	455
Average pay, LTL	18,333	13,278	6,987	3,629

Men account for 78% and women account for 22% of the Company's employees.

39% of the employees have higher educational attainment, 15% further education, and 46% vocational secondary education

### Number of employees of the Company and its subsidiaries:

	Total number of employees as of 30 June 2013	Total number of employees as of 30 June 2014	Change, %
Lietuvos Energijos Gamyba, AB	503	502	-0.2
Energijos Tiekimas UAB	18	18	0
UAB Kauno Energetikos Remontas	224	245	+9.4
<b>TOTAL</b>	<b>745</b>	<b>765</b>	<b>+2.7</b>

### Training and recruiting of the staff

Drawing on the framework of competences the Company pursues targeted training and qualification enhancement of its staff, therefore the staff is encouraged to participate in training for the enhancement of their qualification and development of the required skills. Vocational training allows the staff to update their technical skills that are mandatory for their work and to obtain the required qualification certificates and attestations. By participating in seminars and conferences the staff gets familiar with energy related innovations and good practices. In the first half of 2014 technical training was attended by 124 employees of the Company, management training – by 84 employees. Visits of the staff into other manufacturing companies are

also arranged to allow the staff to get familiar with the organisation of work at production units, deployed innovations, production equipment, problem solutions, etc.

To attract young skilled specialists the Company is actively cooperating with education institutions, provides opportunities for the students of higher and vocational education institutions to apply their theoretical knowledge and to gain practical skills. In March 2014 the Company participated in Career Days launched by Kaunas Technology University, Vilnius Gediminas Technical University, ISM Management and Economics University. Over the first half of 2014, the Company hosted 8 students for their practicum purposes.

Students performing practicum at the Company come from the leading universities of Lithuania as well as from abroad. The Company hosted a student from a Stockholm School of

Economics based in Latvia and a student from Sheffield University of England.

### **Collective agreement**

On 28 February 2014, during the Company employees conference a new edition of the Collective Agreement was approved, which would provide greater protection for company employees and many additional benefits not covered by the Labour Code of the Republic of Lithuania.

The purpose of the collective agreement is to ensure efficient work of the Company and represent the rights and legitimate interests of all the Company's employees. Signing the Collective agreement aims to maintain higher than set by the law levels of wages, health and safety, training

and other work conditions for different categories of employees.

Agreement sets forth work, pay, social, economic and professional conditions and guarantees that are not governed by laws and other normative legal acts. It gives additional security to employees (payments in cases of accidents, illness, death of a relative, support after birth of a child, an additional day of paid leave after the birth of a child, marriage, death of a relative and in other cases).

### **Organisational Culture Development**

In the beginning of 2014, the Company carried out the employee opinion survey, which Company organizes to find out what its employees feel about the Company's key business areas, such as the work environment and the Company's organizational culture, the dissemination of information in the Company, career and growth opportunities, remuneration and evaluation. The results almost similar to the previous year's results. They showed that a growing number of the Company's employees involve themselves in, understand and support the activities of the Company and pride themselves to be a part of the Company. After analysing the results, the Company engage employees and together prepare an action plan providing for improving the Company's activities that received lower evaluation by the workers.

In the first quarter of 2014, the Company continued the Dialogue on Values project aimed at the communication and practical implementation of values. The first Game of Values was organized hosted the Values Ambassadors group of twelve selected from the Company's employees for the project. The same group of employees previously collected, analysed and discussed the most current situations in the Company's activities connected with our corporate values. Thus, new operating behaviour models were developed and implemented, which conform to the values and core business objectives of the Company.

The Company has analysed the findings of the research and together with its employees has prepared organisational strengthening action plan aimed at the improvement of the Company's operational areas that have not brought a sufficiently positive feedback from the staff, and at encouraging the participation of the staff.

The company gives priority to proactive communication with the employees. In March (first quarter) of 2014, the Company's executives and board members had the meetings with the employees of all divisions. During the meetings, participants discussed the Company's operating results for 2013, ongoing and planned projects news and changes in performance appraisal system. Company executives responded to the employees' concerns.

## **SOCIAL RESPONSIBILITY ACTIVITIES**

The Company's social responsibility activities are based on its values and reflect the Company's attitude towards its activities, involvement of social, environmental and operational transparency principles into the internal processes of the Company and its relationship with the stakeholders.

### **Promotion of the sense of community**

To reinforce its relations with the community of Elektrėnai region where its major activities are based the Company organises traditional events under the heading "Lietuvos Energijos Gamyba presents". In the first half of 2014 two meetings were organised: in March – with singing actors, father and son, Saulius Bareikis and Jokūnas Bareikis; in June - with the writer, film director and song author Vytautas V. Landsbergis. All in all seven meetings of the cycle were held. The Company organises these events in cooperation with Elektrėnai library. The Company wants to mobilise the community of the city and the region and to involve its staff by offering them unique encounters with famous, interesting and original people.

### **Cleaning of the environment initiative**

In April 2014, the Company's staff assembled new sporting equipment, installed waste bins on the shores of Elektrėnai Lagoon and at the eve of the campaign "DAROM" renown all over Lithuania contributed to the cleaning of the environment initiative. In Elektrėnai, Kaunas and Kruonis more than 350 bags of waste was collected during the cleaning of the environment campaign.

### **Educational activities**

The Company is positive about and welcomes excursions into its facilities: combined cycle unit, Kruonis PSHP, Kaunas HPP. The Company thereby seeks to contribute to energy education of the society and the youth in particular. During the first half of 2014 the power plants had more than 1200 visitors from different companies, schools and other institutions, received delegations from abroad. During the reference period the largest number of excursions (40) were held at Kruonis PSHP, 23 excursion were arranged to Kaunas HPP, combined cycle unit was visited by 9 excursion delegations.

## **ENVIRONMENTAL PROTECTION**

As part of its activities, the Company is committed to protection of environment, sustainable consumption of natural resources, deployment of modern, efficient, and environmentally safe technologies for the purposes of its manufacturing operations, following environmental legislations and standards, professional application of preventive measures mitigating adverse impact on the environment.

The major environmental issues raised – safe exploitation of the equipment, ecologically safe consumption of hazardous substances, management of the generated waste, safeguarding the permitted fluctuation limits of the water level at Kaunas Lagoon and the Nemunas river below Kaunas HPP, etc. The Company complies with all the applicable environmental protection requirements.

The Company's objects have Environmental Protection Management System in place in line with the requirements of the LST EN ISO 14001:2005 standard. The requirements with regard to air, surface water, underground water, soil pollution monitoring and protection measures set in integrated pollution prevention and control permits are also complied with.

During the first half of 2014 Elektrėnai complex transferred for utilisation 68 t of sleepers, 1,350 t of hazardous

substances of waste sludge, 599 t of liquid fuel ashes, 1,220 t of construction waste, sold 450 t of electro-technical waste, 1,650 t of waste black metal. The municipal waste collected in the territory of the object is removed by a contracted specialised company; over the January – June period about 120 m<sup>3</sup> of municipal waste were generated.

During January – June 2014, Kruonis PSHP transferred for utilisation 7 t of hazardous waste (oily water), 0.57 t of non-hazardous waste, sold 12.9 t of waste black metal. The municipal waste collected in the territory of the object is removed by a contracted specialised company; over the January-June period about 16.6 t of municipal waste were generated.

During January – June 2014, Kaunas HPP transferred for utilisation 0.02 t of hazardous waste and 0.35 t of non-hazardous waste. The municipal waste collected in the territory of the object is removed by a contracted specialised company; over the six month's period about 3.24 t of municipal waste were generated.

Waste paper and carton generated in all power stations is transferred to the relevant waste processing companies.

## **RISK MANAGEMENT**

The key risk factors related to the Company's activities and their management measures:

- To avoid break downs and accidents of the equipment, the Company is preparing repair plans and technical maintenance schedules, monitors the implementation of the measures specified therein, invests into upgrading of the existing and procurement of new equipment. To ensure continuity of the Company's operations continuity plans are drawn, updated and tested on an ongoing basis.
- The Company has been certified in accordance with the ISO 14001:2004 standard, the maintenance of the certification ensures that the Company complies with the environmental requirements and mitigation of damage to the environment; to ensure occupational safety and health the Company maintains the OHSAS 18001:2007 certificate, is periodically checking working places and the quality of work organisation, while its employees receive instructions and are provided with personal protective equipment.

- For the purpose of recruitment and maintenance of skilled employees the Company has launched remuneration and motivation system, is drawing staff training plans, has adopted a programme for rotation of positions.
- To manage the risks resulting from the external factors the Company takes the initiative to be represented in decision making bodies, issues comments, proposals with regard to draft legislation, takes part in open consultations and negotiations.
- For the purposes of mitigation of financial risks the Company maintains a more than sufficient credit limit in its bank account, draws cash flow forecasts, monitors borrowing prices, enters into refinancing agreements; for safeguarding of cash flows of the Company and managing of credit risk the Company verifies qualification and solvency of suppliers as part of its public procurement procedures and strictly monitors payment schedules.

### **The main characteristics of the internal control and risk management systems in relation to drawing of consolidated financial statements**

The Group's consolidated financial statements are drawn up in accordance with the International Financial Accounting Standards (IFAS) approved by EU.

The Company collects and analyses financial statements from its subsidiary companies on a monthly basis. The Company consolidated the financial statements of its subsidiary companies. The chief financial officer of the Company safeguards the financial statements are properly consolidated and drawn up and makes sure the data of the Group's companies is collected in a timely and accurate

manner. The drawing up of the Company's financial statements, internal control and financial risk management systems, legal acts governing compilation of the consolidated financial statements are controlled and managed.

The information about the management of the Company's and the Group's financial risk is provided in Note 4 to the consolidated interim financial statements of Lietuvos Energijos Gamyba, AB, for the six-month period ended on 30 June 2014.