



AB LESTO Report on Corporate Social Responsibility 2012

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About the REPORT

LESTO is a member of the “Global Compact”, initiated by the United Nations, and submits the annual progress report, that is prepared in accordance with the Global Compact principles.

The UN “Global Compact” is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

The UN “Global Compact” asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption:

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

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

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

Principle 5: the effective abolition of child labour; and

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

Environment

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

Principle 8: undertake initiatives to promote greater environmental responsibility;

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

Anti-Corruption

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

A WORD FROM THE CEO

Here is the third Social Responsibility Report of AB LESTO, which describes our progress and contributions to creating an energy- and environment-friendly society in 2012. Step by step, we are approaching our goal of becoming an efficient company that has attained public trust and is responsible for contributing to the formation of a business tradition based on sustainable development.

I am glad to be able to tell you today that year 2012 saw improvement in LESTO's all key business indicators while our rating in terms of customer trust was 10 points ahead of the energy companies in Europe. In 2012, LESTO was recognized "The Best Socially Oriented Company of the Year" at the National Responsible Business Awards, took the fourth place in the Lithuanian independent survey on preferred employers, was identified one of the ten best companies representing Lithuania at the European Business Awards while its 2011 annual report was found third best among stock-listed companies across the Baltic's.

We accept with enormous appreciation the invitation of the United Nations Development Programme in Lithuania and of the National Network of Socially Responsible Business (NNSRB) to chair NNSRB in 2013.

Alongside our goal to ensure efficient daily supply of electricity, we have been in constant search of more progressive ways to do business and to achieve more without increasing consumption. We want to share this message with our customers in educating them on how they can draw more benefits from each kilowatt-hour and save energy. We have always encouraged communities to watch and make a difference in the amount of energy they use and we have incentivized businesses to control their energy consumption and to improve and optimize their processes. The second conference on rational use of energy arranged in partnership with *Verslo žinios* daily received even greater attention and confirmed that improved energy efficiency creates a competitive advantage for business.

As part of upgrading the electricity sector, in 2012 we built more than the usual number of power cable lines, which ensure not only safer transmission of electricity and prevention of the effects of natural disasters, but also preservation of untouched landscape. Reconstructed transformer substations, new power lines and modernised electricity networks bring good-quality electricity to thousands of people.

With a view to sharing knowledge and competence, we have included long-term civic awareness initiatives in our responsible activity, are proactive in providing information on safe and rational use of electrical energy as well as offer advice and promote interest in promising technologies, for instance, electromobility.

To us, one of the crucial aspects of our social responsibility is volunteering of our staff and their personal contributions to the creation of a more sustainable society and environment as they join environmental projects and unite to help those in need, as we did in cooperation with the Caritas organisation.

Our philosophy of socially responsible business is not only about reducing consumption of paper, water or other resources. What is important is the awareness that we must achieve our mission with minimum environmental impact, thus playing a due role in addressing the climate change problem. We view this as a challenge for business that brings new opportunities and creates real value for the society. For this reason we have included the principles of sustainable development into our strategic goals.

Business, social and environmental interests, if combined responsibly, lead us directly towards the future based on the principles of sustainable development. The future where our grandchildren can enjoy the same opportunities as we used to have.

Respectfully
Dr. Arvydas Tarasevičius
Chief Executive Officer, LESTO



Philosophy of Socially Responsible Activities

Socially responsible activity in LESTO means ethical behaviour of the Company with its employees, customers (market), the public and the environment. We understand that ensuring the security and quality of electricity supply, respecting our customer needs, and the interests of the employees, it is necessary to achieve the lowest possible impact on the environment.

The main goal of LESTO social responsibility is to cultivate the skills of safe and rational use of electricity in the society, to contribute to the conservation of energy resources and their environmental impact, therefore all social responsibility activities initiated and carried out by LESTO contribute to these objectives.

The Company responsibility while acting in the market included responsible behaviour in cooperation with all concerned: customers, suppliers, contractors, state agencies. Particular attention was paid to the company customer service quality; it expanded the spectrum of the services that help you save time and money. Work with customers was based on the principles of respect, understanding of their needs, professional and expeditious decisions.

LESTO mission: Reliable electricity for the meaningful life of everyone

LESTO vision: A flagship company with public confidence.

In 2012, while implementing a Development Program project of the United Nations "Gateway: social and environmental business innovation", the Company decided to review its socially responsible activities through the prism of sustainable development and to involve the employees in this process. socially responsible activities through the prism of sustainable development and to involve the employees in this process. The project is carried out through the experts, i.e., a public institution "Environmental Innovation and Technology Center" (ECAT), where the lectures and debate have been attended by over 140 employees. The outcome of the project is the direction of sustainable development in the activities of AB LESTO social responsibility.

The result of the Project is sustainable development activities of LESTO AB, including management, environmental protection (technologies), business environment and development, and the following principles:

- assurance of energy supply which promotes economic and social development while preserving the environment;
- efficient use of natural resources;
- resourceful and efficient use of energy, and reduction of the environmental impact during electricity distribution and use;
- promotion of sustainable approach to the environment of the employees, the public and the suppliers.

At the end of 2012, there was approved a strategic project „Implementation of the principles of sustainable development” in 2013, which covered the policy of sustainable development, determination of the indicators, employee involvement and cultivation of sustainable development competences.

Looking to the Future. In the long-term activity strategy up to 2020, LESTO provides steps that will allow it to become a company which is effectively functioning, optimally using the resources, customer-oriented and confidence building in the public. To achieve these, the company plans to increase the efficiency of customer servicing and business processes by optimizing the costs through modern management techniques and reducing the losses in electricity network, ensuring reliable operation of the network, and satisfying the customers' needs.

LESTO values

COOPERATION – we work in a team and take responsibility upon ourselves.

RESPECT – we respect every human being and the environment in which we live.

COMMITMENT – we are proud to represent energy sector and serve our community.

POSITIVE ATTITUDE – we spread good mood, and often look forward, not backward.

INNOVATIVENESS – we are constantly improving ourselves and personally initiate changes

About the Company

LESTO is Lithuanian distribution network operator. Company's main responsibilities include: provision of network service for customers; satisfaction of customers needs; effective connection of new users; exploitation, maintenance, management and expansion of distributive network; assurance of network security; optimization of operating costs and reduction of technological losses. LESTO geographical market is Lithuania. LESTO serviced territory 65.3 thousands km², length of electricity lines – 124,631 km. Number of customers 1,592,626 (number of residential customers 1,528,055; number of business customers – 64,571).

LESTO company group

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

Activity indicators

In 2012, LESTO improved all key performance indicators, and the company management increased the company value for its shareholders and the society.

The reduced technological costs had highly significant positive impact on the financial results. Technological losses experienced by the Company during the twelve months of 2012 amounted to 691 million kWh, this was 20 million kWh less compared to the same period of 2011. During the twelve months of 2012 technological losses totalled to 7.8 % from amount of electricity received. The reduction of technological costs and more efficient operation of the company enabled to improve the financial results of the Group.

The increase of the performance of LESTO Group reflects in EBITDA (earnings before interest, taxes, depreciation and amortization) margin, in 2012 it rose to 17.12 per cent (in 2011, it was 16.13 per cent).

EBITDA of LESTO AB Group during the twelve months of 2012 was 390.96 mln. LTL – 7.93 % more than 2011.

LESTO group profitability ratios	2012	2011
Net profit margin, %	-2.00	-2.73
Operating profit margin, %	-2.02	-3.09
EBITDA, LTL thousand	390,964	362,246
EBITDA margin, %	17.12	16.13
ROA, %	-0.88	-1.16
ROE, %	-1.33	-1.68

LESTO group results for the twelve months of 2012 is a net loss of 45,6 million LTL, it is 25,7 % less than 2011 twelve months net loss. During the twelve months of 2012 LESTO group earned LTL 2,283.7 million, Company's income share made up 98.7% of group income i.e. LTL 2,253.1 million. Comparing with the twelve months of 2011 LESTO group income increased by 1.7 %.

The Reliability of Electricity Supply

The indicators reflecting the reliability of LESTO electricity supply have been improving throughout the company activity. In 2012, regardless of the influence of natural disasters ("force majeure") the system average interruption duration index (SAIDI) per customer was equal to 76.67 minutes, the system average interruption frequency index (SAIFI) per customer reached 1.06 times. In 2011, power supply quality indicators, regardless of natural disasters, were: SAIDI – 84.68 min and SAIFI – 1.12 times.

During the 2012 the amount of LESTO network service reached 8,113 million kWh. Electricity sales made up 44.5 % of this amount, to the rest customers LESTO granted only network service. Comparing with 2011, the amount of electricity received and volume of network service increased. This was due to the increased number of new customers and the improved economic situation in Lithuania.

Development and expansion of the activities

Activity indicators	2012	2011
Amount of electricity received to the distribution network, million kWh	8,804	8,562
Technological losses in the distribution network, million kWh	691	711
Volume of network service, million kWh	8,113	7,851
Amount of electricity sold, million. kWh	3,609	4,168
Electricity quality indicators:		
SAIDI, minutes (with "force majeure")	288.10	302.57
SAIFI, times (with "force majeure")	1.83	2.19

The Company Management

LESTO performs the functions of electricity distribution and is a public supplier, so in order to ensure the equal rights of consumers, transparency in decision-making the company activity is strictly regulated by law and supervised by the respective state authorities.

The Company management bodies are the general shareholders' meeting, the Board of 5 members and CEO. Decisions on the four-year elected board members are taken at the general shareholders' meeting. The rights of all shareholders are equal.

The LESTO statute provides that there must be a certain number of independent members in the Board, so it should be noted that two (Darius Maikštėnas and Edita Jonikienė) of the five members of the Board is a business representative not related to power sector companies and public authority that regulate the activities of electricity sector. Independent member D. Maikštėnas also became the Chairman of the Board.

Shareholders

On December 31, 2012 number of LESTO shareholders amounted to 7,431 (in 2011, it was – 7,739).

Shareholders who owned more than 5 % of the issuer's authorized capital on 31 December, 2012.

Full names of the shareholders (names of companies, types, headquarter addresses, company register code)	Number of ordinary registered shares	Share of authorized capital, %	Votes granted by shares owned, %
Visagino atominė elektrinė, UAB Žvejų str.14, Vilnius, company reg. No. 301844044	499,026,209	82.63	82.63
E.ON Ruhrgas International GmbH, Brüsseler Platz 1 45131 Essen, Germany HRB No 21974	71,040,473	11.76	11.76

On 17 January 2011 LESTO shares were included in the Main List of NASDAQ OMX Vilnius. LESTO shares are not traded in other regulated markets.

HUMAN RIGHTS

LESTO does not tolerate any violation of human rights, speaks out against discrimination and forced labor, child labor, and for a fair and transparent remuneration policy, it complies with the laws on overtime and working time, respects the right of workers to rest and does not tolerate any kind of harassment or violence.

PERSONNEL

LESTO personnel policy is focused on the personnel training of occupational skills and formation of organizational culture, creating more value to the employees and the public. In March 2012, the company was recognized as one of the most attractive employers in Lithuania, in the CV Market survey it took the fourth place.

Personnel. On December 31, 2012, there were 2555 employees in the company: 9 managers, 2075 professionals and middle managers, 471 workers.

Category	Number of employees		Change, %
	12 31 2012	12 31 2011	
Top-level managers	9	9	0,0
Middle-level managers and specialists	2,075	2,243	-7.5
Workers	471	638	-26.2
Total	2,555	2,890	-11.6

The structure of employees according to education was following: 54.7% employees had higher education, 25.3% had post-secondary education, 20.0% - secondary or specialized-secondary education.

Responsible Job Cuts

In order to increase the Company's efficiency in the first quarter of 2012, when implementing Distribution network strategy, finished transferring electric energy repair and technical maintenance works to the market. Company sought to ensure all social guarantees to those employees, which they had working in LESTO AB, signed bilateral agreements with contractors which won in public procurement. 44 workers were transferred to new workplaces.

Since July, one of the customer service functions (meter readings write down) has been transferred to external service providers. These changes have had an impact on the number of employees of AB LESTO. From the beginning of the year 2012 the number of employees of AB LESTO company declined 11.6 per cent, from 2,890 employees in 1 January, 2012, up to 2555 employees in 31 December, 2012.

In 2012, the total number of dismissed employees was 275 (most of them were dismissed because of the above mentioned structural changes, while optimizing the processes, and reducing the number of posts; there were dismissed 191 men, 84 women), 149 persons were employed (69 men and 78 women).

Monitoring of Equal Opportunities

- The most of employees are men. There are 1896 of them, women make up 659. This is due to the specifics of activities in the electricity network companies: there a large proportion of employees in traditionally considered masculine occupations are men, women seldom choose job in field electrical and technological spheres. This is as well reflected in the positions of the leading employees of the company (managers, project managers, senior specialists, and the like) according to gender: directors of departments: 23 men, 4 women; heads of divisions / customer service center managers: 56 men, 25 women; group leaders: 70 men, 7 women.

Distribution of employees by gender in the highest levels of the management of the company: CEO is male and the heads of four departments – Electricity Network, Public Supplier, Customer Service, Strategy and Development – are run by men, and three departments – Personnel and Communications, Internal Audit, Finance and Administration, – are supervised by women.

- In 2012, 13 men and 70 women (who substituted those on maternity leave) worked under fixed-term employment contracts; 589 women and 1883 men worked under open-ended contracts.
- In 2012, 104 employees took parental leave, among them 96 women and 8 men. The number of days of the maternity leave in 2012 amounted to 25 824-calendar days. The possibility to take the parental leave until a child reaches the age of 1 month was used by 65 company employees. During 2012, paternity leave days amounted to 1 764-calendar days.
- In 2012, men due to sickness were absent from work 11 451 calendar days (on average 6 days), women were absent 3026 days (on average 4.6 days).

Workers' Trade Unions

The company supports the employees in voluntary grouping into trade unions and closely cooperates with them. Quarterly meetings are organized where strategic projects of the company are discussed. The representatives of the trade unions take part in working groups when the issues on employee occupation, re-skilling, remuneration and social matters are under discussion. In 2012, the representatives of the trade union actively participated in providing the offers for the development of the company employee incentive scheme. The company provides funding and support for the trade unions for the sports and cultural activities, designates the premises for meetings, conferences, allows them to use working tools and internal communication, computer equipment, and under separate agreement to use transport services.

There are eight trade unions in the company with about 850 employees in them.

Collective Agreement

Under the Collective agreement, the workers are given additional paid vacation days; for example, in cases of their marriage they receive 2 days; when the employees lose a loved one, they are given 4 days and are awarded a material benefit. In 2012, additional vacation days were given to 97 employees.

An extraordinary material support is given to the employees who have three or more under-age children or disabled dependents, as well as to those who raise alone the under-age children and receive no financial support from a parent. This opportunity was used by 72 employees.

Under the Collective agreement, the company financially supports the employees after a complicated illness, accidents, in cases of losses due to natural disasters. In 2012, such support was given to 7 employees.

Performance Management System

In our company the annual interview is an employee performance management tool which ensures that the personal goals for employees are set taking into consideration the goals of the company. Employee performance management is one of the most important and effective tools of the management in our company which helps achieve the goals of organization and develop positive relationship between managers and their subordinates; allows plan the career of employees and increase their motivation.

The annual interview allows evaluate the achievement of goals set up for the employee and establish the new ones, forms the feedback culture between a superior and a subordinate. During it, there are discussed not only the goals but also the possibilities of improvement of personnel skills, career and educational opportunities. The objectives are fixed, coordinated, approved, modified and evaluated in the electronic system; they must be measurable, specific, time-defined, achievable and motivating.

Development of Employee Competencies

LESTO organizes three types of training courses.

- During formal and informal training sessions the employees improve their qualification and receive special work permit certificates. In 2012, the compulsory trainings involved 973 employees.
- The Company organizes staff trainings for general education competencies. These trainings are organized in groups within the company, as well as individual employees are sent to the seminars and conferences organized by external suppliers. In 2012, open trainings in Lithuania (external conferences, seminars) were attended by 858 employees.
- The third type of LESTO trainings was internal training in the Company that were carried out by the employees themselves. Internal trainers taught the employees the particularities of negotiations, stress management, MS Excel skills, project management, effective leadership, successful recruitment and administration, effective time management and other. There are 21 internal trainers and courses on 20 subjects. In the twelve months of 2012 the internal training involved 1492 participants.

In the course of preparation of the training programs and in order to ensure the quality of the training, close cooperation is promoted with training suppliers, ongoing training evaluation surveys are carried out. In order to make the training organization process easier and faster, in 2012 special IT system was created.

Payment system

The introduced remuneration system has placed LESTO among other most innovative companies of the country that compensate their employees for work performed by the results achieved, the value created for the organization and the team. Remuneration system is formed by applying Hay Group methodology, which guaranteed an objective job evaluation on the basis of appropriate education, problem complexity and level of responsibility that falls on a particular position. This system allows the Company to effectively manage the costs and ensures LESTO strategic objectives and business management logics be reflected in the payroll system.

Internal Programs for Employees

The „Talent Program“. The aim of this program is to notice and evaluate the best employees and those with the potential to grow. Individual career and self-development plans are developed for the Program participants; they are given the opportunity to join the strategic project work groups and thus enrich their functions, to expand knowledge, to consult with career experts, to participate in additional training, to meet with interesting, success accompanied business people.

The idea is that the “Talent Program” becomes a regular process of the company, which will contribute to the development of targeted potential of the employees, to the increase of the employee engagement and retention. In 2011, the program involved 34 employees; in 2012 – 24 employees. In 2013, the Program is planned to be continued.

Ambassador Program. This is the program of internal communications in order to encourage the employees to deal with any problems and initiate changes, to share their ideas and to implement them, to help in development of a new unifying organizational culture, to promote volunteering. The Program aims to create a new culture in all levels of the employees, to help them get involved in the processes inside the organization.

Every active and positive employee able to boldly express his/her opinion can become an ambassador. In 2012, this voluntary program was attended by 42 employees.

In 2012, the ambassadors implemented 18 initiatives, which involved over 580 employees. Most attention was paid to such initiatives as "Let's Do It", determination of sustainable development policies with the employees being involved, blood donation, heart screening campaigns, biking, cooperation with the organization "CARITAS" "Share Merry Christmas".

Occupational Safety and Health

Caring for your employees, we have organized their medical examination. Field workers were vaccinated against tick-borne encephalitis 911 employees (in 2011, it was – 870 employees), and those who have contact with the customers from influenza 640 employees (in 2011, it was – 640 employees). For medical service of our employees in 2012 we spent 115 thousand LTL (in 2011, it was – 127 thousand LTL).

Sports Activities

The company promotes a healthy lifestyle, sports activities and physical health care. In 2012, favorable conditions for workers to exercise were created in 27 cities in Lithuania. The employees could choose either a swimming pool, or a gym, or play basketball. Klaipeda region organized regional basketball tournament. Vilnius and Kaunas teams of the employees represented LESTO company, and participated in urban basketball competitions.

Internship

LESTO actively cooperates with educational institutions and allows university and college students to apply their theoretical knowledge and practical skills and to acquire practical skills from the Company's employees. In 2012, LESTO received 136 students for their internship (They spent 7 450 days in LESTO). The Company received not only the student coming for the mandatory internship. The company was looking for motivated and enthusiastic students and provided the chosen ones with the opportunity to practice in the Company on a voluntary basis. If necessary, LESTO invites the former trainees to get employed in the Company. In 2012 seven former trainees joined the Company.

Integration of New Employees

In order to make the integration of new employees into the team smooth there is a publication "Newcomer's Guide" which helps get acquainted with the principles of the company activities. In order to ensure proper socialization process, managers are encouraged to assign for new employees "buddy" of the same department personnel, who are responsible for a broad range of assistance to new staff during the probationary period.

LESTO also organize "Newcomer's Days", during which the new employees and trainees students get acquainted with the company managers and activities of the departments. The newcomers get acquainted to the company's strategic directions, the main principles of operation of the energy sector, basics of electrical engineering.

In 2012, LESTO employed 147 new persons. Most of them were accepted to the positions of a customer service manager, there were 36, a similar number 37 were engineers of different profiles, and nine electricians.

ENVIRONMENTAL PROTECTION

In the everyday activities, the Company encourages the application of the working tools, which reduce labor expenditure and pollution, actively seeking for the ways how to reduce the negative impact of energy facilities to people and the environment. LESTO invests in environmentally friendly modern technology. LESTO while implementing the environmental projects attempt to reduce the negative impact of energy facilities to people and the environment and to encourage a wider public participation in the initiatives.

In 2012 as in 2011, the company has not received any warnings or penalties for any environmental impact.

Waste Management

LESTO takes care of waste management. It has contracts with waste management companies. 150 tons of waste were transferred to waste collectors in 2012 (175 tonnes in 2011) this was electrical equipment unfit for further usage.

The Company has signed a contract with the Electrical and Electronic Equipment Manufacturers and Importers Association EEPA on the collection of energy saving bulbs, batteries and small electronics waste; for this purpose there were special boxes placed in customer service centres of the Company. According to preliminary data LESTO collected about 235 kg of electronic waste.

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Documentation

In order to reduce the use of paper and document management costs for paper invoices and correspondence administration, our company has implemented an electronic document management system (DocLogix), where all documents are managed and archived electronically.

The company newsletter "People of Electricity" designed for 2555 of our employees was also prepared in electronic format only. Unnecessary to print documents such as interim or annual reports, reports on social responsibility, are prepared in electronic format only.

Correspondence

The recipients of the e-mail messages of the company employees are encouraged to print the information only when it is necessary.

Accounts

Instead of usually used paper bills, we encourage our customers to choose the electronic ones. Electronic document management and archiving is easier and faster: the customers receive their bills by e-mail message and can pay them without leaving their home or by connecting to the self-service system from any computer..

Electronic System of Accounts was implemented at the end of 2009 by the LESTO predecessor companies. The first Lithuanian environmentally-friendly invoice logo "Eco invoice" was designed in 2010. This logo was granted to the companies that opted for electronic invoices, with which they could label all their electronic bills. This was intended to encourage environmentally responsible accounting and the creation of a business community with responsible thinking.

In spring of 2010, in the name of the customers that opted out paper accounts 200 oak trees were planted in the Lithuanian "Millennium oak-wood". At the end of 2012, 89 % of LESTO business customers were using electronic invoices (in 2011, it was – 85 %).

Environmental Campaigns.

More than 400 workers of the electricity distribution network operator LESTO across Lithuania joined the initiative "Let's Do It 2012" and collected more than 35,000 kilograms of various wastes, which pollute the environment by irresponsible people. AB LESTO invited people to behave responsibly throughout the year: to protect the environment, bring waste for recycling, rationally use the resources and electric power.

Environmentally-Friendly Technologies. Electric Cars

In 2010, LESTO in the event "Vilnius CO₂ Green Drive" has installed and switched on the first electric vehicle charging station and in 2011 it analyzed the models of electric vehicles on the market, the potential of charging decisions, and made forecasts of the development dynamics, energy consumption, income and infrastructure costs for Lithuania. In order to promote the use of environmentally friendly means of transport, AB LESTO invited a group of interested companies, public institutions and other organizations to develop the infrastructure for electric vehicles in Lithuania, to promote and support the development of environmentally friendly and energy-efficient technologies; there is no consensus on the subject in the country yet. It is expected that a group of companies will design and test the first pilot project of electric vehicles in Vilnius.

LESTO envisions great potential for future development of electric vehicles; energy - efficient new technologies and their installation in the automotive industry becomes more competitive on the market, especially in comparison with the old cars using traditional fossil-fuel.

In order to widely disseminate the idea and get the society acquainted with the opportunities offered by electric vehicles, LESTO publishes the information on its website
<http://www.lessto.lt/lt/socialine-atsakomybe/elektromobiliai/1200>.

Natural Heritage: Protection of Stork Nests

LESTO are actively engaged in implementation of one of the most important and oldest nature protection directives, i.e. the Birds Directive in Lithuania.

LESTO together with the Lithuanian Ornithological Society and the Institute of Ecology for the Nature Research Center and the partners implement the project of the European Union Financial Instrument for the Environment LIFE + "The White Stork Protection in Lithuania. The stork nests built on the electricity poles are not safe either to birds or to people. When the storks touch the electrical wires they often get fatally injured; and LESTO incur losses due to electrical leakage and breaks in wires.

Therefore, the aim of the project is to ensure the protection of the white storks by installing special platforms on electric poles which were safe for birds and airlines. In 2012 LESTO installed 1,519 artificial stork nets on electricity poles, during the project LESTO installed a total of 3,260 artificial nets.

MARKET and investors

In the business environment, LESTO seeks to maintain transparent relationships with all market participants, i.e. customers, partners, contractors and investors.

Electrical network modernization

Every year LESTO taking care of the security of energy supply and of economic and social benefits to the society, pays much attention to the development and modernization of the distribution network. An important aspect of the environmental protection is better conditions for energy conservation, more rational use of it.

LESTO by modernizing and expanding the electricity sector, a large part of it being older than 30 years, invests in environmentally friendly modern technologies. During the reconstruction of old electrical substations there are installed wastewater and rainwater collection facilities which meet the highest quality standards that no pollutants enter to the environment. Outdated, worn out power transformers are replaced with quieter operating ones, and less overloaded transformers are replaced with lower - power transformers, in order to use the existing assets more efficiently and reduce the power losses.

LESTO pays much attention to electricity network development and updating. This helps to provide the society with economic and social benefits, to increase the reliability and quality of electricity supply, to facilitate more rational use of energy, all this contributes to the Company's environmental policy. In 2012, LESTO investments in electricity network expansion and modernization reached 322.8 million LTL. This was 9.3 per cent more compared to the investment in 2011. In 2012, the biggest increase (24.8 %) was in investment in the reconstruction and overhaul of 0.4 - 10 kV electricity network. Investment in the reconstruction of 110/35/10 kV transformer substations and 10 kV distribution subsections has increased by 2%.

Electric meters

LESTO replaces old induction electric meters with new electronic meters, which are twice as accurate. The installed electronic electric meters already make up 47 per cent of the total number of the meters installed. During 2012, further developing the electricity metering equipment automation, the Company has added 2,438 electrical metering devices of electricity consumption of the business customers to an automated reading system, and currently by means of remote data scanning it receives the information from 17,773 energy metering devices which record the electric energy consumption of the customers. Electricity metering equipment automation has enabled automatically submit bills for electricity consumption for the clients, eliminating a need for customers to declare electricity consumption.

During 2012, LESTO in total installed 172 thousand of metering devices, of which 118 thousand units were for the replacement of outdated electricity meters. This is 4 per cent more in comparison with 2011. 95 per cent of the installed meters were electronic. In 2012, the company for the installation of one new metering device spent approximately 5 per cent less of the funding than in 2011.

Cabling

In order to avoid damage of power air lines and any detriment during natural disasters, LESTO purposefully changed the air lines to underground cable lines. During the reporting period 1,243 kilometers (2011. – 1012,9 km) of underground (cable) lines were laid. Cable lines significantly reduce the number of failures during the operation, their maintenance is less expensive. Moreover having changed the airlines to the cables the landscape becomes more attractive.

Since 2003, overhead power lines are consistently replaced with cables. Currently, the underground cable lines make up already 24 per cent of the electricity distribution network.

Connection of Gardeners' Community Networks

In 2012, LESTO continued the redemption of gardeners community networks in order to meet the rising demands of gardeners electricity consumption and infrastructure maintenance needs, and ensure reliable, secure electricity supply and network modernization which is especially true when people permanently settle in gardeners communities. Electricity metering, network maintenance and repair works, especially after the storms, were quite a burden for the gardeners communities.

All networks have been redeemed in their current state and the customers got individual metering devices installed. During 2012, LESTO redeemed 33 electrical networks from the gardeners communities. Since the beginning of the redemption process in 2003, LESTO redeemed 915 (882 in 2011) or 94.8 per cent (91 per cent in 2011) of the power networks of the gardeners communities.

LESTO modernizes the distribution networks in the gardeners communities according to the project signed in 2012 under which the electrical networks of 76 gardeners communities is planned to be updated and expanded. The project initiated in 2012 will be funded by the EU Structural Funds with up to 12.46 million LTL. In the year 2012, LESTO completed the works in 43 gardeners communities.

Corruption prevention

LESTO does not tolerate any corruption and speaks up for fair business and transparent communication with the public authorities. The risk is minimized by the operating complex internal control mechanisms designated to identify potential corruption risks. Corruption prevention is one of the functions of Department of Prevention and Control in the company. The Department initiated a meeting with the Special Investigation Service on the topic "Fight against corruption". LESTO employees were introduced to the state anti-corruption policy, the key legislation in this field, and corruption prevention measures, the responsibility for corruption-related crimes, there have been analyzed the corruption phenomena, their causes, and the harm done.

Transparency

- LESTO implemented more than 90 % public procurement procedures, calculated by procurement value, were performed by Central Public Procurement Information System (CVP IS) means. The system enables procuring organizations to organize all the procurement cycle by electronic method and procurers can conveniently and easily under "one-window" principle participate in public procurement.
- The National Control Commission for Prices and Energy (NCC) stated that LESTO had adequately met the unbundling requirements of the distribution activities; the separation complies with the provisions of the 1 and 3 paragraphs of Article 54 of the Electricity Law. That is, the unbundling of the distribution shall ensure the independence between the management and the control of the distribution activities from transmission, supply and production activities and the commercial interest of these activities.

According to the European Parliament and Council Directive 2009/72/EC (OJ 2009 L 211, p. 55) of July 13, 2009 concerning common rules for the internal market in electricity when the internal system operator is a subdivision of a vertically integrated undertaking, and at least from the point of the legal form, organizational structure and decision-making procedure it shall be independent from other types of activities not related to distribution.

Investors

LESTO seeks to maintain close relationships with existing and potential investors in the company..

In our website, we place timely information which is regularly updated and relevant to investors. You will find the lists of shareholders, information on material events, past periodic and annual financial reports and our plans for the future: the investor's calendar as well as trading in shares information in real time.

Timely publication of the company information is equally available to all who are the shareholders and potential investors. A treasury manager maintains relationships with our shareholders.

In 2012 there were no records for the stock exchange rules violations.

In the seventh awards of the Baltic States stock market (NASDAQ OMX) for the title of the most transparent companies in 2012 the annual report of LESTO of 2011 was declared the third best among the companies of the Baltic countries listed on the market that provided their reports. In the overall standings LESTO got into the top ten of the most transparent companies in the Baltic countries. 14 companies from Estonia, 12 from Latvia and 25 Lithuanian companies competed for the awards; the contestants were selected from 81 companies which listed shares in the Baltic countries.

LESTO is one of the biggest companies by market capitalization in OMX Baltic securities exchange market. On 3 May, 2012 LESTO share price reached the highest point during the reporting period – LTL 2.22. LESTO share price reached the lowest point (LTL 1.90) on 2 January, 2012. During the reporting period LESTO share price increased by 9.44 %.

Market liberalization

From January 1, 2010, a free electricity market operates in Lithuania. According to the electricity market development plan, all customers are free to choose an independent electric supplier. LESTO as electricity distribution operator actively encourages business to enter the free market. The representatives of large companies received information, were invited to the meetings and presentations and were consulted on the liberalization of the electricity market.

In order to make it easier, LESTO has implemented an automated data collection system, which helps to quickly provide information to energy suppliers and business enterprises that are no longer subject to the public supplier

prices. The outcome of the project "Customer Service Data" is that independent suppliers have the opportunity to login to the portal and see the potential customers.

On July 8 2009,the Electricity Market Development Plan was approved by the Government of the Republic of Lithuania	The fact: the percentage of the objects which chose an independent supplier by 2012-12-31
Since 2010, independent suppliers were chosen by large electricity users with the permissible power of 400 kW or more;	About 90 per cent of the objects
Since 2011 – by the users with the permissible power of 100 kW or more;	About 76 per cent of the objects
Since 2012 – by the users with the permissible power of 30 kW or more;	About 58 per cent of the objects

On December 31, 2012, the independent supplier was chosen by 7,461 clients. The remaining objects are further supplied with electric power by the warranty supplier (LESTO).

CLIENTS

Remote Channel Promotion

The number of LESTO private customers makes up to 1528055, business makes up to 64 571 thousand. The company aims to provide more services by remote channels to the customer without leaving his/her home via e. mail, by an SMS message, by 24 hour operating customer service phone 1802, on a self-service website "My electricity" or website www.lesto.lt in order to save the money of the customers as well as of the company that all the necessary information and services be available to the customers anytime and anywhere.

The customers are invited to order new payment books online or by the short number 1802, and not to go to customer service centers. The books are sent by post free of charge. It is especially convenient for older clients or those living in remote areas. In this way, in 2011, the customers ordered 70.836 books (49.5 thousand in 2011).

Information by short number 1802 has been given for more than 902 thousand clients (for more than 730 thousand customers during 2011).

The site www.lesto.lt

Website gives the clients the most important relevant information in English and Russian, therefore it can be widely used by the representatives of ethnic minorities. The site is adapted for the disabled people. During 2012, the site www.lesto.lt was visited 2,506,854 times (1.7 million visits in 2011) by 1,010,807 unique visitors (699 thousand unique visitors in 2011).

The self-service website "My Electricity"

The information on customer payments, inspection of metering devices and modification dates, announcements about the changes in power supply or tariffs is presented there. The customers can order the settlements books (5421 customers ordered them in 2012), they can report about temporal energy stopping or the debt paid. In 2012, the monthly average of visits of "My Electricity" by unique users was equal to 90 thousand (in 2011 it was 65 thousand). The number of website users at the end of the year amounted to 250 thousand (in 2011 it was 168.5 thousand). During 2012, the number of visitors of LESTO "My Electricity" (in comparison to 2011) increased from 1.375 million up to 1,726 million, the number of unique system visitors from 726 thousand to 978 thousand. For customer convenience there had been installed a function to take a harmonization act from the self-service website. By the end of the year about 85 per cent of the business customers made use of it.

Customer service centres are equipped with self-service websites, where you can join the site "My electricity", make payments, check your readings, find the relevant information. During 2012, the customer service centers of five largest Lithuanian cities served 322 thousand customers.

Payment by Direct Debit

2012 The Company continuously encourages customers to give up paper bills and billing books and move to a remote service channels or direct debit. During 2012, more than 63 thousand customers have signed direct debit agreements, which help saving both the company and the customer time and resources. At the end of the year, there were almost 140 thousand customers that made their payments by direct debit. (At the end of 2011, this number reached 53.2 thousand, and compared with 2010, it increased more than 8 times). Direct debit agreement has already been signed about 140 thousand clients.

The result of motivation of the customers to make use of remote channels and address LESTO online in 2012 is 27,962 electronic queries (in 2011 – 21 383). This is more than 2330 queries per month (in 2011 – 1782) If it were a paper letter weighing, for example, 3 grams it would in total make more than 838 kg of paper! (in 2011 – 642 kg).

Improvement of services taking into account the opinion of the customers

Each year, customer satisfaction surveys not only help to meet the expectations of the customers and improve the quality of services, but primarily they help to set the priorities for the next year.

In 2012, the opinion survey revealed that the company's customer satisfaction rate is higher than the average rates of energy and utilities in Europe and the world. The quality of LESTO services and servicing has exceeded the customer expectations. The customer satisfaction rate calculated according to the GCSI * methodology, is 10 points higher than the benchmark GCSI index of European energy companies. In 2012, LESTO indicator was 75, while the average indicator of European energy companies was 65 index points, the rate of the companies of the world was 71.

For comparison: in 2011, market research and consulting company TNS LT having polled our customers according to the TRI * M methodology found that the index of private client satisfaction with services and servicing corresponds to the average of European energy sector (index of 53). The business customer satisfaction rate was 50 (European 53). For comparison, in 2010 (before the merger of the distribution companies) the private client satisfaction index was 51 in East Lithuania, and in Western it was 49. The business customer satisfaction index was 52 and 46, respectively.

In 2012, the satisfaction of LESTO customers was increasing in all aspects; the greatest positive changes were noticed by the customers in the information clarity, and ease of www.lessto.lt site and self-service site www.manoelektra.lt; they appreciated the fact that the staff promptly resolves the arising problems, and the electricity is qualitatively served (no voltage jumping or flickering light).

** LESTO customer satisfaction survey invoked GCSI, Global Customer Satisfaction Index research methodology, which is based on American Customer Satisfaction Index (hereinafter ACSI). GCSI is a global franchise of ACSI research methodology. The instrument consists of 17 questions which are summarized in six groups of indicators: customer expectations, quality assessment, perceived value estimates, customer satisfaction, customer loyalty, and customer complaints. The survey of LESTO customer satisfaction was carried out on September 4 - October 5 in 2012 by UAB "SYNOPTICOM. The scope of the survey was 1107 residential customers and 916 business customers.*

THE SOCIETY

LESTO implements large-scale long-term social responsibility projects for children, young people and the general public, which combine active involvement of the communities and target groups, the ideas of safe and effective energy use and environmental sustainability.

Educational project "Electromagic" for children and young people on safety and energy saving

The youth - targeted initiative "Electromagic" (www.elektromagija.lt) encourages the pupils to behave safely with electricity and equipment, to take interest in responsible use of energy and innovative environmentally friendly technologies.

On the website the virtual heroes tell about electricity; children acquire knowledge about safety, electrical hazards and possibilities by playing interactive games, participating in the competitions which foster the ideas on sustainable use of the environment.

In the project site www.elektromagija.lt playful virtual characters tell about electricity, and children by playing interactive games acquire knowledge on safety, electricity threats and its potential. Site visitors are encouraged to join the creation of site contents: In 2012 a creative contest was organized – children were invited to create short stories about "Electro-Magic" country life and its characters.

At the end of the year LESTO published the third eco-Christmas contest - children were invited to design a 2013 calendar with environmentally-friendly activities in each month. 23 schools participated in the competition. The "Electromagic" competitions were attended by over 600 pupils, 22 thousand of site visitors viewed the site more than 172 thousand times.

During the project LESTO cooperate with the Lithuanian schools and their communities.

In 2012 „Electro-Magic“ introduced an updated educational movie and a game about the origin of electricity and its way to the home of the population.

The company actively helped Nordic Council of Ministers Office (NORDEN) in Lithuania in creation of an interactive game "Battle for the Earth" (www.musisdelzemes.lt), the purpose which was to develop the habits of sustainable use of energy resources. LESTO AB prepared all informational content required for this game.

Project on Energy Efficiency: „To the Extent Required“

The promotion of rational use of energy is one of the priority directions of the social responsibility of the company, thus contributing to environmental sustainability and conservation of energy resources and to the obligations of the country pursuing the goals of the European Union climate change program.

The project is designated to promote and realize the ideas of rational use of energy resources in order to develop the traditions for a rational society. The aim is to find out rational energy consumption patterns in daily life and for business. The visitors of the project site www.tiekkiekreikia.lt can find tips for sustainable consumption, ask questions and get advice from competent experts. The site was updated in 2012.

The company organized the second conference on rational use of energy for companies and organizations "Energy Efficiency Solutions - More Competitive Business." The conference where practical experience in implementation of sustainable solutions has been shared was visited by over 200 participants. 92 per cent of the participants that filled in the evaluation questionnaire of the event stated that their expectations were justified, and even 98 per cent indicated that they would participate in such an event again.

During the event, the companies were invited to join the "The Green Protocol". This is the company initiated agreement and the only of its kind; the companies confirm that they are familiar with sustainable ideas that promote rational use of electricity; they second the ideas and promise to apply them in practice. A regularly updated list of the companies is published in the project site www.tiekkiekreikia.lt (At the end of 2012 the "Green Protocol" has been signed by 107 companies). The Protocol enterprises are invited to compete in the contest, and the company that was the most rational power user and the most active enthusiasts of sustainable use are awarded special prizes, designed by jeweller Simonas Daukantas, which symbolize the idea of sustainability.

"Earth Day"

While promoting a sustainable behaviour in the environment, the Company has actively commemorated the "Earth Day". There was made an educational video about the sustainable use at home; together with the environmentally friendly program "Top 10" of the National Consumer Federation there was carried out a population survey on the rational use of electricity which showed that people are aware of sustainability opportunities but they are little concerned about.

European Sustainable Energy Week

AB LESTO also participated in the European Sustainable Energy Week 2012 in Lithuania. The Company expert on rational use of electricity participated in the popular web site video - conference and answered the questions of the visitors, and presented the options on rational use of energy. The web conference was organized together with the Lithuanian National Consumer Federation's project "TOP-10".

The Initiative on Loss Mitigation and Public Education "Operation 2020"

The program "Operation 2020" is planned to continue up to 2020 with the aim to promote responsible behaviour with electric net equipment, enhance the awareness of the population on security of electrical equipment and reduce negative effects caused by irresponsible or malicious behaviour of the population.

The important part of "Operation 2020" was live meetings of LESTO staff with the local population of the regions. In 2012, there were active meetings of the LESTO employees with local self-government (administration, heads of local municipalities, police) promoting to find ways how to solve the most pressing population problems related to security, updating of electric network or lighting, and how to increase public responsibility.

In order to prevent thefts of the distribution network equipment LESTO cooperate with major infrastructure companies - TEO, AB, AB "Lithuanian Railways, Electronics collectors association (EEPA), Recycling Association (APJA). In 2012 an agreement between companies was strengthened by new member Metal scrap buyers association. Companies agreed on common measures and working groups.

LESTO cooperates in good faith with the municipalities and the Chiefs. "The Association of Chiefs of Local Authorities of Lithuania " is the main partner in initiative "Operation 2020", that is also dedicated to promoting citizenship and responsibility.

During the project, an anonymous trust line +370 5 255 2555 of the electronic form "I want to declare" (www.lesto.lt) was made public in order to help clarify the power evaders or to inform about impaired network devices. In 2012, there were received 95 calls of the population by the confidence line of LESTO, and 104 reports were received on the Internet. These reports helped LESTO to exact the total 169.4 thousand LTL amount of losses previously incurred due to illegal actions.

Events

- This year was commemorated the 120-year anniversary when the first electric light bulb was lightened in Lithuania, and on April 17, a professional holiday of workers in the energy sector was celebrated. As every year, AB LESTO invited the public to the educational events of the holiday. The anniversary has received particular public attention: the events, workshops, tours, which were organized in the Energy Museum, have been visited by more than 2,000 people.

In order to draw public attention to the importance of caring for the security storks, in July, the Company announced the photo contest "Stork Season", in which it was possible to win the opportunity to look at the Earth from a stork flight. 270 participants from all over Lithuania, that photographed the storks in their environment, competed in the contest, sending 588 photographs. All of them are published on the website of Social Responsibility Section.

On October 1 of 2012, in commemoration of the International Day of Older Persons, the Company invited seniors in the public libraries in 45 cities, where LESTO experts shared valuable information on how to reduce electric bills and get information about electricity supply and services, talked about energy saving bulbs and lighting myths and taught to use self-service website. LESTO invited seniors throughout the week to visit Lithuanian Energy and Technology Museum for free. In order to improve older people's education on current electricity related issues, LESTO started to cooperate with the only website in Lithuania for seniors www.draugauki.me.

Accountability to society

The progress reports on social responsibility activities in LESTO are prepared annually, in Lithuanian and English. The reports are published on the company website (Social Responsibility section) and on the website "The Global Compact" www.globalcompact.org.

The information about social responsibility activities is presented in all LESTO periodic and annual audited company activities reports, which are published at the stock exchange.

About all these activities LESTO publishes press releases, presents on the company's website: www.lesto.lt and on the pages of social responsibility initiatives www.tiekkiekreikia.lt, www.elektromagija.lt and on the website of the Ministry of Economy "State-owned enterprises (<http://vvi.ukmin.lt/apielSA>).

The award, evaluation

- 2012, in the national socially responsible business awards of 2011, LESTO was awarded as "The Best Socially Oriented Company" in the category of large Lithuanian companies. The award was "For the Progress in the Development of Community-Based Projects, Closely Linked to the Goals and a Systematic Approach to Partnership."

Fifty-one companies participated in the competition, thirty one large Lithuanian enterprises applied for the title of "The Best Socially Oriented Company". The National Responsible Business Award is initiated by the Ministry of Social Affairs and Labour of the Republic of Lithuania, together with the United Nations Development Program in Lithuania. National Responsible Business Award is given to the companies that contribute the most to the social welfare and its strengthening, reduce the environmental impact in Lithuania, and their activities demonstrate the company's commitment to act transparently and behave fairly with employees, society and the state, to assess the business impact on the environment and reduce the impact of such adverse effects.

- UNDP office in Lithuania recommended to present LESTO socially responsible activity campaigns as the samples of good practice. The Project presentation is given in a world journal which was distributed at the largest conference on sustainable development Rio +20 (Rio de Janeiro, Brazil) of this year. The Conference, held on June 20-22, was already the fourth world summit where the issues on the world development and environment were addressed.
- United Nations Development Programme (UNDP) and the National Responsible Business Network in Lithuania (NRBNL) invited LESTO to become the leading company of the NRBNL in 2013. NRBNL is socially responsible businesses unifying entity in Lithuania. The main network's mission is to promote responsible business ideas and their development as an essential condition for sustainable development in Lithuania.

