

AB LESTO Report on Corporate Social Responsibility

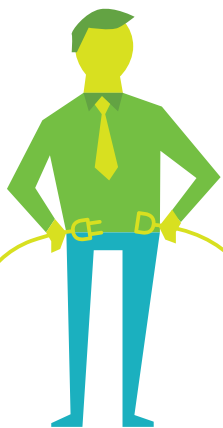
17 May 2015



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About the report

LESTO is a member of the “Global Compact” initiative by the United Nations and submits an annual progress report, which is prepared in accordance with the Global Compact principles and UN Global Reporting Initiative guidelines. These guidelines are recommended to the UN Global Compact members to use as an instrument helping with a company’s sustainable performance measurement, presentation and accountability to its internal and external stakeholders.

The Global Compact covers the implementation of ten responsible operation principles and obliges member organisations to follow them: encourage firms not to harm the environment, community and other businesses, and in a joint effort with the United Nations authorities and non-governmental organisations participate in the process of solving social and environmental problems, and contribute to the development of society and economic growth.

Overall, this is the fifth LESTO social responsibility report (date of most recent previous report – 17 May 2014) provided in Lithuanian and English. Reports are published on the company’s website www.lessto.lt (in the social responsibility section), on the NASDAQ Baltic stock exchange website together with the annual financial report as well as the Global Compact website www.globalcompact.org.

This Report presents LESTO activities carried out in the field social responsibility in 2014: relations with clients (market), environmental activities as well as relations with the Company’s employees and the public. The Report outlines strategic directions, actions and achievements in the field of social responsibility accomplished by LESTO in 2014.

LESTO Report was prepared in compliance with the GRI G4 requirements. The Report complies with the G4 (“Core”) requirements. An independent audit of this social responsibility report was not conducted.

Please email any questions, comments or observations regarding the improvement of social responsibility report at agne.juraviciene@lessto.lt.



Word from the CEO



To us, social responsibility does not just represent ideas and values, which we rely on in our daily activities and making future plans. It represents concrete decisions and is a vital part of day-to-day operations and our behaviour.

We act on our responsibility to contribute to the public welfare by ensuring uninterrupted power supply and distribution. We actively educate people on questions regarding safe and rational use of energy. Additionally, we concentrate on fast development and implementation of new, advanced and energy-saving technology.

In 2014, we expanded our cooperation with industrial and manufacturing companies, established partnerships with the country's libraries and involved school communities in practical, long-term energy-saving activities like ecological footprint calculation. We started the development of a new "greener" transport initiative and opened the country's first high-speed electric vehicle charging station.

Last year, special attention was paid to a more active involvement of the Company's employees in all social responsibility activities. They suggested and implemented various initiatives, acted as lecturers in different events and spread the knowledge of energy saving in their local communities and schools. This way, we are moving towards achieving one of our goals - making social projects a part of our internal company culture.

To ensure we are moving in the right direction each year we conduct a customer satisfaction survey. This year it revealed that business customer satisfaction rate rose from 71 to 74 points over the past year. We promise to keep improving and creating value for each of our customers.

We are pleased to say that our efforts were not left unnoticed. The Company received a number of awards including the "Most Responsible Company" award in spring of 2013 and by the end of the year our "As Much As Needed" initiative, which encourages energy-saving, was ranked in the top three "Social Responsibility Initiatives of the Year" at the Swedish Business Awards. We highly value the recognition given to us by our investors and for the first time LESTO was ranked among the companies maintaining the best investor relations in the Baltic states.

All of these achievements would not have been possible without the hard work of our employees and they encourage the Company to improve even more. We hope that you will appreciate our efforts and the value we create.

Bets regards,

Aidas Ignatavičius
Chief Executive Officer, LESTO

A handwritten signature in black ink, appearing to read 'A. Ignatavičius', written over a set of horizontal dashed lines.

Principles and priorities of socially responsible activities

To us, socially responsible activities represent ethical treatment of employees, customers (market), the public and the environment. Acting in a socially responsible manner, we seek to set the example and encourage other companies to base their operations on the principles of responsible and sustainable development, because we believe that this is the only path that can ensure social and economic well-being.

We direct our Company's activities in one main direction, which encourages sustainable use of human and natural resources all around us, and starts with energy consumption. In a broad sense, energy efficiency is the first step towards reducing our environmental impact.

We see responsible and sustainable development as a result of permanent power supply, which promotes economic and social development while preserving the environment: improvement of operational efficiency and technological development, and answering the needs of employees and community, while all this is carried out with a minimal impact on the environment. In order to achieve it, we need to ensure power transmission efficiency, rational use of energy, increase of electricity production from renewable sources and natural resource preservation.

Our socially responsible activities are based on raising energy efficiency while making a positive impact on energy consumption patterns in society, promoting conservation of energy resources and thus preserving the environment.

By implementing socially responsible activities, we seek to contribute to public welfare not only by ensuring an uninterrupted power supply, but also by implementing projects relevant to local communities, actively educating and consulting on the issues of safe and rational use of energy in order to make a positive impact on energy consumption patterns and promote interest in advanced technologies.

LESTO operations are based on the following principles of sustainable development:

- 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 environmental impact caused by electricity distribution and use;
- promotion of a sustainable approach to the environment among the Company's employees, suppliers and the public.

Priorities of Socially Responsible Activities Conducted by LESTO

- Raising energy efficiency
- Reducing environmental impact through energy preservation
- Safe and responsible use of electricity

LESTO Mission and Vision

Vision	High-Reputation Company, which is prided by its employees, shareholders and the public
Mission	Reliable electricity creating value for everyone

Reliability named in the Company's mission statement is associated with the quality of electricity distribution, supply continuity, rational investments and responsible decision-making.

The Company's vision highlights strategic importance of LESTO to the Lithuanian state, the Company's focus on high quality of services, maximum transparency and financial stability.

LESTO Values



The values reflect the notion that we constantly feel the responsibility for our actions; we work together and always strive to achieve the best results for all stakeholders.

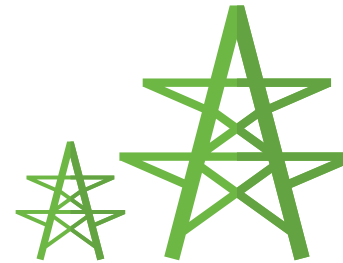
All these elements are viewed as instruments helping to achieve our main strategic goal, which is to increase the Company's value. Increasing the value of the company is perceived as

a sustainable balance between following strategic directions that are linked by the Balanced Scorecard methodology and other relevant perspectives:

1. Ensure the interests of electricity consumers are represented and increase their added value (customer perspective).
2. Continuously improve operational efficiency (internal processes perspective).
3. Form value-based organisational culture (Employee education perspective).

LESTO activities comply with:

LESTO Code of ethics
LESTO Personnel policy
LESTO Social responsibility policy
LESTO Corporate communication policy
The Ten Principles of the United Nations Global Compact



About the company

LESTO is a Lithuanian distribution network operator, whose main operations include electricity supply and distribution. The Company owns a medium and low voltage distribution network and is the sole electricity distribution service provider in Lithuania.

LESTO's geographical market is Lithuania. LESTO serviced territory covers 65,3 thousands km², while overall length of electricity lines reaches 121,698 km. LESTO serves 1,608,898 customers (1,545,204 - number of residential customers; 63,694 - number of business customers).

Company's activities are regulated by the Law on Energy of the Republic of Lithuania, Law on Electricity of the Republic of Lithuania and other legal acts.

On 21 July 2014, LESTO together with UAB "Lietuvos energija", UAB "Lietuvos energijos gamyba", UAB "LITGAS" and UAB "Technologijų ir inovacijų centras" signed a contract on the establishment of their joint venture UAB "Verslo aptarnavimo centras". One of the main goals of the new company is to strengthen and develop added value within the energy sector by providing public procurement organisation and execution, accounting and personnel administration services to the state-owned energy companies within the group.

LESTO Company Group

On the date of signing of this report, LESTO with its associated companies UAB “Technologijų ir inovacijų centras” and UAB “Verslo aptarnavimo centras” formed the LESTO company group (hereinafter “LESTO group”).



On 31 March 2014, LESTO and UAB “Lietuvos energija” concluded a share sale and purchase agreement. By signing this agreement the Company transferred to UAB “Lietuvos energija” shares of its owned associated company UAB “Duomenų logistikos centras”, which comprise 24.94% of UAB “Duomenų logistikos centras” authorised capital.

On the date of the submission of this report, LESTO’s main office was located at Aguonų St. 26, LT-03212 Vilnius, Lithuania.

Activity Indicators

On the basis of the results of a long-term evaluation of tangible property, in 2014 LESTO group’s net loss totalled LTL 565.5 million, while in 2013 LESTO group’s consolidated net profit amounted to LTL 47.6 million. For the same period in 2012, LESTO group’s net loss was LTL 45.6 million, while in 2011 the group’s net loss amounted to LTL 69.3 million.

In 2014, LESTO group made a LTL 467.7 million profit before interest, taxes, depreciation and amortization (EBITDA), which is 1.5% more than a year ago during the same period.

During 2014, LESTO group made a LTL 2,296.7 million income. Company’s revenue amounted to 97.8% of the group’s revenue and equalled LTL 2,246.4 million. Comparing with 2013, LESTO group’s income decreased by 5.5%, while comparing to 2012, it increased by 0.6% and comparing with 2011, it increased by 2.3% (in 2013 LESTO group’s revenue reached LTL 2,431.2 million, in 2012 it reached LTL 2,283.7 million and during 2011 it totalled LTL 2,245.5 million).

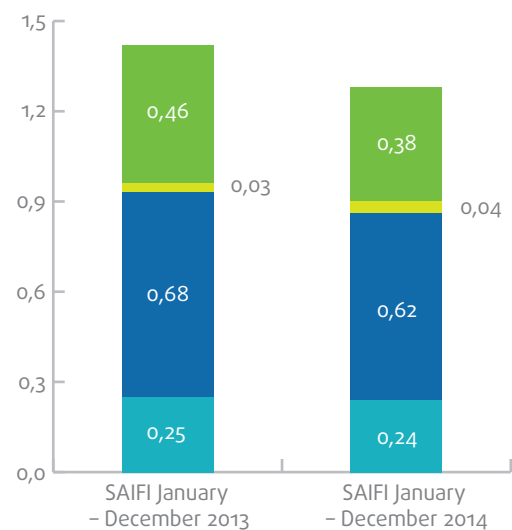
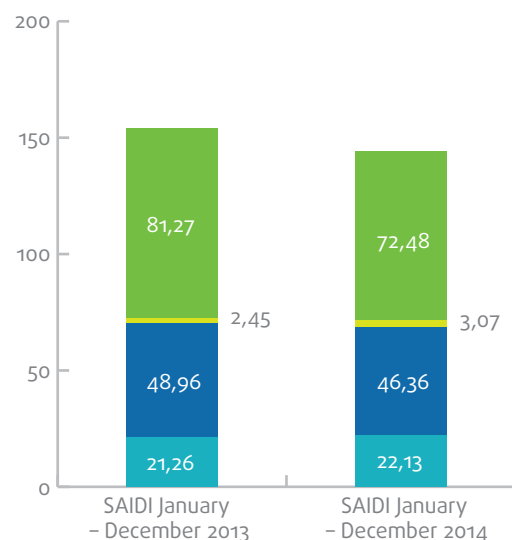
Income, Costs and Profitability

LESTO group’s profitability ratios	2014	2013	2012
Net profit margin, %	-24,62	1,96	-2,00
Operating profit margin, %	-28,67	2,37	-2,02
EBITDA, LTL thousand LTL	466 297	460 690	391 320
EBITDA margin, %	20,30	18,95	17,14
ROA, %	-19,22	0,94	-0,88
ROE, %	-38,15	1,41	-1,33

The Reliability of Electricity Supply

In the twelve months of 2014, considering the influence of natural disasters (“force majeure”) the system average interruption duration index (SAIDI) per customer amounted to 144.04 minutes and, compared with the same period of 2013, it decreased by 9 minutes (for the twelve months of 2013 it amounted to 153.94 minutes). Without the influence of natural disasters, SAIDI index decreased during the twelve months of 2014 and amounted to 71.56 minutes (for the twelve months of 2013 it equalled 72.67 minutes). Without the influence of natural disasters, the system average interruption frequency index (SAIFI) per customer for the twelve months of 2014 reached 0.90 times and, compared with the same period of 2013, it decreased slightly (SAIFI for the twelve months of 2013 amounted to 0.96 times).

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



During the twelve months of 2014, the amount of energy delivered through LESTO service network reached 8,394 million kWh. Electricity sales made up 38.4% of this amount, while to the remaining customers LESTO only provided energy transfer service. Comparing with the same period of 2013, the amount of electricity sold increased by 5.3%, while the volume of transferred energy increased by 2.3%. Technological distribution losses experienced by the Company during the twelve months of 2014 amounted to 667 million kWh, which makes 7.5% from the total amount of electricity received. During the same period of 2013 technological distribution losses totalled to 7.8%.

Activity Indicators	2014 January - December	2013 January - December
Amount of electricity received to the distribution network, million kWh	9 061	8 874
Technological losses in the distribution network, million kWh	667	664
Volume of network service, million kWh	8 394	8 209
Amount of electricity sold, million kWh	3 223	3 061
Electricity quality indicators:		
SAIDI, minutes (with "force majeure")	144,04	153,94
SAIFI, times (with "force majeure")	1,29	1,43

LESTO Management

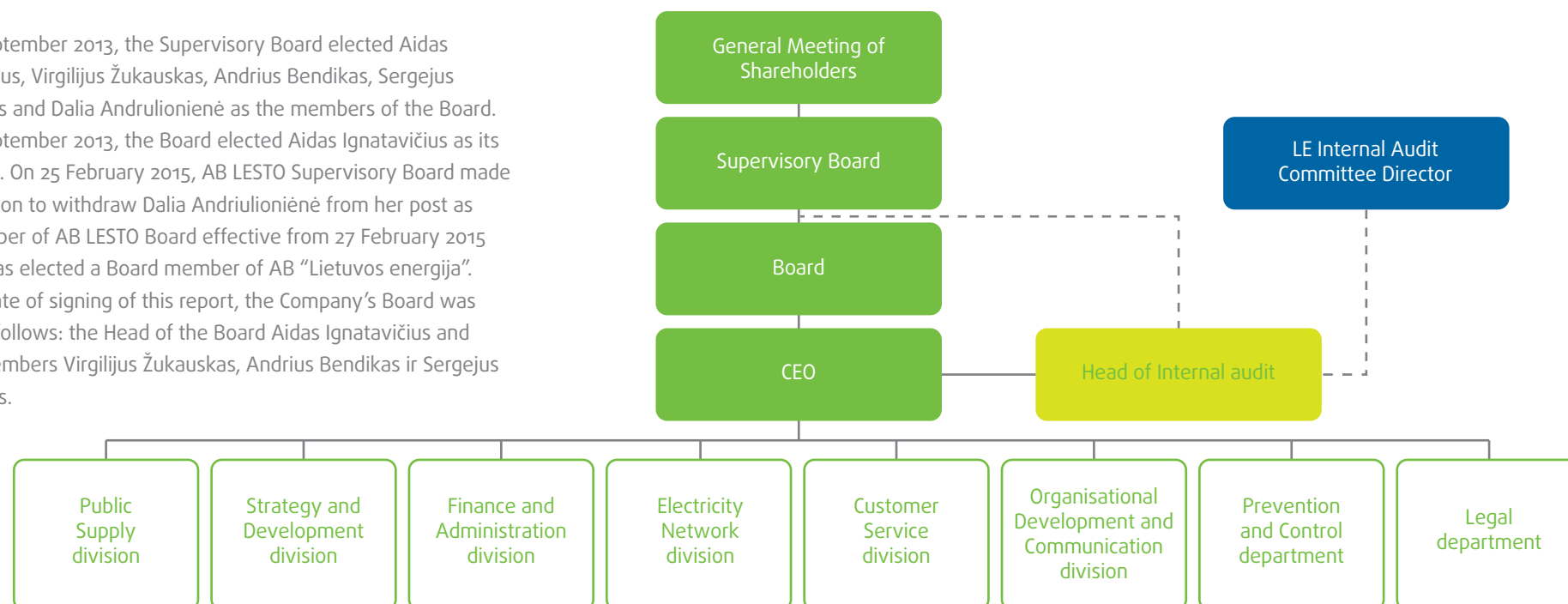
LESTO performs electricity distribution functions and is a public supplier, so in order to ensure the equal rights of consumers and transparency in decision-making the Company's activities are strictly regulated by law and supervised by the relevant state authorities.

According to the Articles of Association, the Company's management bodies are the General Shareholders' Meeting, a collegial supervisory body - the Supervisory Board, a collegial management body - the Board and the sole governing body - the CEO.

On the date of signing of this report, the Company's Supervisory Board consisted of the Supervisory Board Chairman Darius Kašauskas and Supervisory Board members Ilona Daugėlaitė and Petras Povilas Česna (independent member). On 26 July 2013, Ilona Daugėlaitė and Darius Kašauskas were elected by the General Shareholders' Meeting; the third member of the Supervisory Board was not elected on that occasion. On 30 September 2013, the General Shareholders' Meeting elected Petras Povilas Česna as an independent LESTO Supervisory Board member. On 18 November 2014, Darius Kašauskas was elected as the Chairman of the Supervisory Board.

● Force majeure ● Unidentified ● Energy provider's responsibility ● External effects

On 17 September 2013, the Supervisory Board elected Aidas Ignatavičius, Virgilijus Žukauskas, Andrius Bendikas, Sergejus Ignatjevas and Dalia Andriulionienė as the members of the Board. On 17 September 2013, the Board elected Aidas Ignatavičius as its Chairman. On 25 February 2015, AB LESTO Supervisory Board made the decision to withdraw Dalia Andriulionienė from her post as the member of AB LESTO Board effective from 27 February 2015 as she was elected a Board member of AB "Lietuvos energija". On the date of signing of this report, the Company's Board was listed as follows: the Head of the Board Aidas Ignatavičius and Board members Virgilijus Žukauskas, Andrius Bendikas ir Sergejus Ignatjevas.



Shareholders

On December 31 2013, the total number of LESTO shareholders reached 7,188.

On December 31 2014, the total number of LESTO shareholders reached 7,065.

On 21 May 2014, LESTO received a notice from UAB "Lietuvos energija" informing that UAB "Lietuvos energija" and E.ON Ruhrgas International GmbH signed LESTO share sale and purchase agreement. According to this agreement, UAB "Lietuvos energija" purchased 71,040,473 LESTO shares (representing 11.76% of all LESTO shares) from E.ON Ruhrgas International GmbH. Following the share purchase, UAB "Lietuvos energija" owns 94.39% of the Company's shares, while the remaining shares (5.61%) belong to other shareholders.

Shareholders who owned more than 5 % of the issuer's authorised capital as of 31 December 2014

Full names of the shareholders (company name, type, business address, company registration number)	Number of ordinary registered shares	Share of authorised capital, %	Votes granted by shares owned, %
UAB "Lietuvos energija", Žvejų St. 14, LT-09310 Vilnius, Company registration number 301844044	570 066 682	94.39	94.39

LESTO shares are officially listed on AB NASDAQ OMX from 17 January 2011. The Company's shares are not traded on other regulated markets.

Description of the Supply Chain

Lithuanian distribution network operator LESTO serving as a public (and guaranteed) electricity supplier purchases all the electricity required for its individual and business customers using legitimate and available means in order to achieve the best available purchase price. LESTO activities are regulated. LESTO price caps are set and controlled by the National Control Commission for Prices and Energy. LESTO signs contracts with individual electricity producers and suppliers, and evaluates each proposal according to the criteria based on the lowest possible electricity price. Usually LESTO trades under bilateral contracts with suppliers (combined heat and power, renewable power plants and other suppliers or importers). In cases of energy shortage, additional energy could be acquired in the energy market where trading is anonymous and different prices are formed each hour. Electricity trade is conducted every hour as the need for (demand) and the ability to provide energy (supply) varies constantly.

Additionally, LESTO purchases a variety of goods and services from suppliers operating in the market, in order to ensure the efficient performance of the Company. Such purchases are made in accordance with the Public Procurement Act. During 2014, the Company (I-III quarter - LESTO and in the IV quarter - UAB "Verslo aptarnavimo centras", which took on public procurement functions) participated in 1,557 public procurement competitions and signed 1,528 contracts.

Precautionary Approach

From LESTO's perspective, risk is understood as uncertainty regarding the achievement of an objective, conditioned by potential events and their possible consequences. LESTO's operational objectives are understood in broad terms, because they include both common objectives concerning the Company's vision, mission, values and strategy, and specific objectives related to the individual business processes of the Company. The Company's Risk Management policy is based on the assessment of possible negative influences affecting the Company's objectives and performance functions (processes) as well as results. Risk identification, analysis, assessment and management are performed systematically in accordance with UAB "Lietuvos energija" group's Risk Management Policy, Risk Management Procedure approved by the Company and other internal legal acts relating to risk management.

The Company's Risk Management Policy is based on the COSO (Committee of Sponsoring Organisations of the Treadway Commission) ERM (Enterprise Risk Management), AS/NZS ISO 31000:2009 (Risk management – Principles and guidelines) and ISO/IEC 27005:2011 (Information technology – Security techniques – Information security risk management) principles.

Membership in organisations

In 2014, LESTO was a member of the following Lithuanian and international organisations.

Lithuanian organisations:

- National Lithuanian Electrical Association
- Association of HR Professionals
- Lithuanian Association of Responsible Business (from March 2014, prior to that – member of the National Network of Responsible Business)

International organisations:

- Member of the Global Compact initiative by the United Nations



Human rights

LESTO does not tolerate any violation of human rights; it supports fair and transparent remuneration policy, complies with the laws regulating working hours and overtime, respects the right of workers to rest and does not tolerate any kind of harassment or violence. The Company condemns all kinds of discrimination as well as forced and child labour.



Employees

The Company's employees are its main asset, the most important link when pursuing the set objectives. The Company's personnel policy is aimed at developing the professional abilities of its employees and forming the organisation's culture, which ensures creating more value for clients, partners and the society.

Since its establishment, the Company has been cooperating and maintaining social partnership with the representatives of employees (allocates funds for the performance of the collective contract, employee encouragement initiatives and others). Based on customer survey results and best trends in international practices, the Company implements systematic measures to improve its customer service. The Company organises social projects involving children, young people, local communities and other social groups.

Based on the 2014 survey data collected by the Lithuanian job search portal CVbankas.lt, LESTO was rated as the most attractive employer in the energy sector.

Personnel

As of December 2014, LESTO employed 2,229 members of staff.

LESTO employees by categories

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

The Company's employee structure based on their education was as follows: 57.0% of employees had higher education, 21.5% had non-university higher education and 21.5% had secondary or specialised-secondary education.

Responsible Job Cuts

In the first quarter of 2014, due to the Order of the Director of the State Metrology Service on the "Approval of time intervals between electronic power meter checks", the numbers of electric energy meters fitted metrologically by the Company's staff have decreased, thus the number of jobs for electricity metering staff working under the Customer Service division decreased by 40.

In the second quarter of 2014, continuing a Unified dispatcher control system implementation project, Vilkaviškis and Marijampolė dispatcher offices were merged and, as a result, the number of Electricity Network Office employees decreased by 3.

The third quarter of 2014 did not see any structural changes affecting the number of employees.

In the fourth quarter of 2014, the Company continued the project on the optimisation of customer service channels. As a result, customer service network was reduced and the number of jobs decreased by 88. The Board of LESTO together with UAB "Lietuvos energija", UAB "Lietuvos energijos gamyba", UAB "LITGAS" and UAB "Technologijų ir inovacijų centras" signed a contract on the establishment of their joint venture UAB "Verslo aptarnavimo centras". The main services it offers to its shareholders include public procurement organisation and execution, accounting and personnel administration to the shareholders, who jointly control the Company. Therefore, on 1 October 2014 UAB "Verslo aptarnavimo centras" took over the Company's public procurement functions and from 1 December 2014 it became in charge of the accounting too, which influenced the change in the overall number of jobs, reducing it by 73. The majority (87%) of staff agreed to move to the new company, one person remained in LESTO and the remaining employees rejected the new job proposal.

These changes made an impact on the number of LESTO employees. During 2014, the number of Company's employees decreased by 7.9%, from 2,420 employees on 31 December 2013 to 2,229 employees on 31 December 2014.

Monitoring of Equal Opportunities

Most of the Company's employees are male and that is influenced by the type of work performed by an electricity network provider: women rarely choose technological professions, which would require them to perform electro technical work in field conditions as well as similar specialities.

At the end of 2014, the Company employed 1,716 male and 447 female members of staff on a permanent basis. A total of 13 male and 53 female employees worked on a fixed-term contract. A total of 111 male and 45 female employees held managerial positions.

Total workforce by region and gender (2014):

Regionai	Vyrai	Moterys
Vilniaus regionas	398	245
Kauno regionas	263	73
Klaipėdos regionas	285	49
Šiaulių regionas	240	46
Panevėžio regionas	188	28
Alytaus regionas	165	34
Utenos regionas	191	24

Viso: 2229

Distribution of employees by gender in the highest levels of management of the Company: the Company CEO is male as are the heads of three subordinate (to the CEO) departments including Electricity Network, Customer Service and Finance and Administration, while Organisation Development and Communications department is supervised by a woman.

During 2014, LESTO recorded no cases of discrimination or other incidents related to human rights violations within the Company.

Trade Unions and Collective Agreement

The Company supports the desire of employees to voluntarily form trade unions and closely cooperates with them. Quarterly meetings are organised to discuss strategic projects of the Company. The representatives of trade unions take part in working groups when the issues regarding employee occupation, re-qualification, remuneration and social matters are discussed. The Company funds and supports trade union organised sports and cultural activities

Eight trade unions operate within the Company and count almost 40% of the Company's staff as their members, bringing the total to 850 employees.

On 7 March 2014, a new collective agreement was approved at the staff conference of electricity distribution network operator LESTO, which will ensure higher level of protection for LESTO employees and more additional benefits not currently specified in the Labour Code of the Republic of Lithuania. The new collective agreement determines a one month longer (comparing to the Labour Code of the Republic of Lithuania) warning period before the termination of the employment contract (upon the initiative of the employer when an employee is not at fault, according to Article 129 of the Labour Code of the Republic of Lithuania), i.e. employees who should receive a two month warning, will now receive a three month warning according to the new collective agreement. Internal candidates will receive priority over external candidates during the recruitment process in cases, when both meet the same qualification requirements. When planning the annual salary budget, LESTO will take into account the projected country's inflation rate for the upcoming calendar year.

The collective agreement applies to all of the Company's employees.

Performance Management System

Employee performance management is one of the most important management and effective leadership techniques, which helps in achieving the organisation's objectives and building positive relationships between managers and their subordinates, allowing planning employee careers and increasing their motivation.

An annual interview serves as an employee performance management tool, helping to ensure that our employees' personal goals are set in line with the Company's goals. Objectives are coordinated, approved and assessed in the electronic system; they must be measurable, specific, time-defined, achievable and motivating. An annual interview helps to assess how employees manage to achieve their goals and set new ones, form the feedback culture between managers and subordinates. Staff competence development, education and career opportunities are also discussed during the annual interview.

In 2014, 17% of the Company's employees (15% in 2013) were appraised during an annual interview.

Training

LESTO organises different types of training for the Company's employees. The Company invests in training of its employees in order to ensure efficient and high-quality maintenance of power distribution network, effective customer service and occupational safety. During 2014, the Company organised a mandatory training for 1,277 members of staff to raise their qualification, by the end of which they obtained certificates allowing them to perform tasks, requiring special skills. The employees participated in trainings for workers handling AMKA cables, workers operating in high-altitude conditions, performing insulation, electrical grounding, automatic induction switch replacement, resistance measurements, management of high-scaler and logging operations, first aid and hygiene skills, and in other types of training.

In 2014, 831 employees participated in general training sessions aiming to improve general competencies. Such trainings are organised for groups formed within the Company as well as for individual employees, who are sent to seminars and conferences organised by external suppliers (in Lithuania and abroad). The Company pays considerable attention to the development of leadership competences of its top management staff and, therefore, at the beginning of this year it launched a long-term management programme, in which some of the Company's employees take part today. This year, studies of 14 LESTO employees in Lithuanian higher education institutions were partially or fully funded by the Company.

The Company seeks to engage skilled and knowledgeable staff in competency development programmes, so to enable them to share their specific knowledge and skills with others. This year, 2,942 participants attended internal training courses, which were led by LESTO internal lecturers. The major part of the training was designed to develop the skills of electrotechnical staff and aimed at providing better occupational safety and improving customer service. The company also regularly collaborates with manufacturers and equipment suppliers who share their knowledge with LESTO electricity network services and electricity metering group staff free of charge and present market trends and innovations in the field of energy. In 2014, a total of 253 employees participated in such trainings.

In order to ensure the quality of organised trainings, training programmes are prepared in cooperation with training suppliers. Also, ongoing training evaluation surveys are carried out.

The Company pays great attention to its best employees and this is why it has been developing a talent management system for several years now. In 2014, employees included in the Company's talent list participated in various educational programs introduced in centres of excellence and training seminars.

Remuneration System

Remuneration policy introduced by LESTO and its implementation put the Company alongside the most progressive companies of the country, which remunerate their employees for the work performed according to the results achieved and value created for the organisation and the team. The remuneration system was developed on the basis of "Hay Group" methodology ensuring objective evaluation of an employee's post according to a range of factors including required education, complexity of problems and responsibility level of a specific post. This system supports efficient management of the Company's expenses and ensures that strategic goals and business management logic would be reflected in the payroll system.

The Company's employee remuneration package consists of financial, non-financial and emotional rewards. Financial reward system includes a monthly paid fixed salary indicated in the employment contract, as well as a variable part of the salary paid for the achievement of set performance results and other premiums (for overtime, night work, etc.) paid according the collective agreement and other internal legal acts.

The variable part of the salary is determined and paid in accordance with the Procedure for the determination and payment of the variable part of the salary of LESTO employees as well as the Procedure for the establishment of performance indicators and the determination and payment of the variable part of the salary approved by the Company's CEO. The maximum amount of the variable part of the salary is established in the Procedure for the determination and payment of the variable part of the salary of LESTO employees. Procedure for the establishment of performance indicators and the determination and payment of the variable part of the salary approved by the Company's CEO provides that the variable part of the of the CEO's salary can amount up to 30% of their annual fixed salary and is determined by the Company's Board. Procedure for the determination and payment of the variable part of the salary of LESTO employees provides that the Company's Board, taking into account the opinion of the Supervisory Board, determines measuring indicators for the Company's staff's set objectives and approves their implementation. Procedure for the establishment of performance indicators and the determination and payment

of the variable part of the salary approved by the Company's CEO provides that the variable part of the of the CEO's salary is paid for the achievement of set goals (indicators). The Company's Board, taking into account the opinion of the Supervisory Board, determines and approves goals (indicators) set for the CEO. It should be noted that the same Procedure for the determination and payment of the variable part of the salary is applied across the UAB "Lietuvos energija" company group. Procedure for the determination and payment of the variable part of the salary of LESTO employees establishes that the variable part of the salary of top-level managers is paid in two instalments: the first part, which amounts to 80% of the total calculated amount of the variable part of the salary, (for the objectives (indicators) achieved over the reporting period No.1) is paid within 30 calendar days from the day of the decision on payment of the variable part of the salary; the payment of the second part, which amounts to 20% of the total calculated amount of the variable part of the salary (for the objectives (indicators) achieved over the reporting period No.1), aiming to secure the loyalty of top-level executives and their performance continuity, is postponed and performed within 30 calendar days from the day of the decision on payment of the second part of the variable part of the salary; the latter is paid together with the 80% of the variable part of the salary calculated for the results (indicators) achieved during the reporting period No.2. Procedure for the establishment of performance indicators and the determination and payment of the variable part of the salary approved by the Company's CEO establishes a similar procedure for the payment of the variable part of the salary to the Company's CEO.

Non-financial rewards are an indirect form of remuneration of employees, which the Company uses to reward its staff's efforts, encourage their involvement and loyalty, promote employees' welfare and enrich activities of the Company. This comes in the form of company events, greetings on special occasions, recognition and evaluation through awarding employees, who achieved especially good performance results, health promotion and employee development and training. Emotional rewards are difficult to measure, but have great importance to the involvement of employees

in the Company's operations, a factor that includes the Company's reputation, organisational culture, values and career options provided. By getting involved in various internal communication programs employees gain an opportunity to share their ideas, ask questions and get acquainted with colleagues with the support of an internal website.

Average wage of LESTO employees

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

For comparison, the minimum wage (gross) until 2014 October 1st was LTL 1,000 (EUR 289.62), from 2014 October 1st - 1035 Lt (EUR 300).

Occupational Health

Taking care of our employees, we organise medical examination for the Company's staff. In 2014, medical examinations were performed for 1,167 employees (1,154 employees in 2013). Field workers were vaccinated against tick-borne encephalitis (478 employees), while employees who have direct contact with customers received flu vaccinations (493 employees). In 2014, the Company spend over 23 thousand euros providing medical services to its employees.

Sports Activities

The Company promotes a healthy lifestyle, sports activities and personal health care. In 2014, the Company created favourable conditions for its staff to exercise in 37 cities across Lithuania. Company employees could attend a swimming pool or a gym, or choose to play basketball.

Integration of New Employees

In order ensure the smooth integration of new employees into their team, the Company organises “Newcomer’s Days” when the new employees get acquainted with the Company’s management and department activities. The newcomers get introduced to the energy sector’s structure, the Company’s strategic goals, mission, vision, values, the main principles operating in the energy sector and the basics of electrical engineering.

The management assigns a mentor to new employees, usually a member of staff from the same department, who becomes responsible for providing all kinds of assistance to new employees during their trial period.

Internship Opportunities

LESTO actively collaborates with educational institutions and creates conditions for university or college students to put their theoretical knowledge into practice and acquire professional skills. In 2014, 95 students completed internships with LESTO. The Company not only offered internship places for students, who must do an internship as a part of their degree, but also looked for and selected motivated and enthusiastic students giving them an opportunity to do an internship with the Company on a voluntary basis. Whenever the Company is looking for new employees, we remember the most enthusiastic interns and invite the most suitable candidates to join the LESTO team. Since January 2014, 8 of our former interns were offered jobs with the Company



Market, investors and clients

In a business environment LESTO strives to maintain transparent relations with all market participants including clients, partners, contractors and investors.

Electricity Network Division

Striving to ensure the security of energy supply as well as economic and social benefits to the society, each year LESTO devotes a lot of efforts to the expansion and modernisation of the distribution network. An important environmental aspect of these efforts is that better conditions will be provided for energy conservation and its rational use.

Constructions promoting the use of anti-pollution measures were installed: equipment for the collection of transformer insulating oil, reconstruction of transformer substations, worn-out, old constructions were replaced by less noisy ones, which reduce the outside noise level.

Investment into network modernisation and upgrading rose by 17% and helped to increase the grid’s reliability and provide better service for our customers. For 2014, the investments amounted to LTL 350.2 million, which is 17.3% higher comparing to 2013.

Comparing to 2013, the year of 2014 saw the highest increase in investment into the 0.4-10 kV power network reconstruction (81.7%). Investment into the 110-35kV network reconstruction rose by 0.4%, while investments into the redemption of energy facilities decreased by 28.8%.

LESTO continued the redemption of electricity distribution networks from gardeners' partnerships seeking to meet the rising electricity consumption demands and infrastructure maintenance needs, as well as ensuring a reliable and safe supply of electricity and network modernisation. In 2014, LESTO redeemed electricity distribution networks in five gardeners' partnerships. Since the beginning of the redemption process in 2003, LESTO redeemed 939 or 97% of all electricity grids belonging to gardeners' partnerships.

Electricity network modernisation and development work was completed in 75 gardeners' partnerships located in Lithuania and serviced by LESTO.

According to the contract between LESTO, the Ministry of Economy of the Republic of Lithuania and PE Lithuanian Business Support Agency (hereinafter "LBSA"), public procurement procedures were finalised before January 2015 and 94 (out of 724 planned) complex transformer stations showing all signs of wear-and-tear were replaced with modern post transformer stations. This project will contribute to the reliability of electricity supply and quality requirements.

Implementing the contracts on funding and administration of the project signed between LESTO, the Ministry of Economy of the Republic of Lithuania and LBSA led to successful completion of modernisation works in 5 distributive transformer substations and network development and modernisation works in 35 objects, which included the replacement of overhead electricity lines with cable lines. When replacing the old electricity power lines in 2014, over 1,000 km of new cable lines were laid, which helped to significantly reduce the level of potential dangers to the environment experienced during thunderstorms as well as visual pollution.

LESTO is in a process of replacing old induction electricity meters with new electronic meters, which are two times more accurate. Automated meter reading system opens

up more opportunities for both the Company and its customers: it allows reducing electricity network losses, planning and implementing network investments more effectively, managing electricity meter operations and improving the efficiency of billing and bill submission processes for the customers. Multifunction meter units collect detailed data and allow customers to monitor daily and monthly electricity consumption. In 2014, LESTO connected 5,043 electric meters to the automated meter reading system, thus increasing the number of electric meters, from which data is being collected remotely, to 25,110 units.

Investors

LESTO seeks to maintain close relationships with existing and potential Company investors. In 2014, for the first time LESTO was ranked among the best companies in the Baltic states for maintaining investor relations.

The Company's website is constantly updated with information relevant to the investors: lists of shareholders, notifications regarding major events, periodic and annual financial reports for the past years and plans for the future including an investor's calendar, as well as real-time information on trading shares. Statements commenting on the financial results of the Company (press release) are published several times a year. All investor information and documents are published in Lithuanian and English languages through NASDAQ Baltic stock Exchange. At the beginning of April, during a meeting organised for companies listed on the NASDAQ OMX stock exchange in Vilnius, the member of AB LESTO Board and Finance and Administration Division Director Andrius Bendikas introduced a report titled "AB LESTO Yesterday. Today. Tomorrow."

Company information is equally available to all shareholders and potential investors.

LESTO relations with shareholders are maintained with the help of the Company's Treasury Manager.

No stock exchange related offences were recorded in 2014.

Market Liberalisation

Free electricity market has been operating in Lithuania since 1 January 2010. According to the electricity market development plan, all customers are free to choose an independent electricity supplier. As electricity distribution operator LESTO actively encourages businesses to enter the free market. The representatives of large companies were sent relevant information, invited to participate in meetings, presentations and consultations. LESTO provides extensive information on the liberalisation of electricity market on its website and via 1802 telephone number.

LESTO introduced an automated data collection system, which quickly provides information to energy suppliers and businesses that are no longer subject to the public supplier prices. As a result of "Customer Service Data" project, independent suppliers now have an opportunity to login to the designated portal and see their potential customers.

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

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

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

"Energy Dialogue 2014"

Further liberalisation of the market will likely see the growth of the number of independent suppliers. Acting as an electricity distributor and seeking closer cooperation, LESTO held the second conference for independent suppliers "Energy Dialogue 2014". During the conference, attention was paid not only to the analysis of the current situation in the electricity market, but also to the upcoming review of the implementation of requirements of the Directive on Energy Efficiency. The survey held after the event showed that the conference was relevant for more than 90% of participants and they would agree to participate in it for the second time.

Customer service

As of data of 31 December 2014, LESTO had 1.561 million contracts with private customers and 66.2 thousand contracts with commercial customers (as of 31 March 2014, LESTO had 1.545 million contracts with private customers and 63.7 thousand contracts with commercial customers).

Customer satisfaction with our services and the quality of services provided in 2014 was measured by conducting an annual survey. It revealed that over the years the level of satisfaction of business customers' has increased from 71 to 74 points. In 2014, the overall LESTO customer satisfaction rate calculated in accordance with GCSI research methodology accounted for 76 points, just like in 2013. While European energy companies' index average last year rose to 70 points and US corporate index reached 76 points.

To conduct LESTO clients' satisfaction survey Global Customer Satisfaction Index (GCSI) methodology was used, which is based on the American Customer Satisfaction Index (ACSI). GCSI is a global franchise of ASCI research methodology. The instrument consists of 17 questions that are summarized into 6 rate groups: client expectations, assessment of quality, assessment of understood value, client satisfaction, client loyalty and client complaints. UAB "Synopticom" performed the LESTO customer satisfaction survey in August-September 2014. A total of 1,098 private and 919 business clients took part in the survey.

Last year, together with our partners we successfully implemented the customer network transformation, which led to partial move of our services to Lithuanian post offices and libraries across the country. Information system adjustments relating to the introduction of the euro were also implemented successfully.

After an annual evaluation of research results, LESTO prepared a plan of the measures, which will improve the quality of customer service as well as other services. Last year's changes covered: self-service website www.manoelektra.lt, restructured customer service network, optimisation and centralisation of the Company's processes, which made the process of providing the usual services to our customers faster and more convenient and also included an installation of customer notification system on the past energy supply failures and their planned removal time.

Development of Customer Support Channels

In 2014, the number of clients using remote customer support channels continued to grow (self-service website www.manoelektra.lt and telephone provided customer service through the telephone number 1802), while the numbers of energy consumers seeking help at LESTO customer service centres in smaller cities have decreased. Due to changes in customer behaviour, the operation of 14 LESTO customer service centres that received the lowest numbers of customers will be changed. Starting from 1 October this year, they will be restructured into 7 major customer service centres. In the last quarter of 2014, a range of new customer-relevant services were installed in the self-service website. They include request to form or rewrite an electricity supply contract and functionality of rate plan change for business customers). At the beginning of 2015, self-service website was adopted to display electricity tariffs (prices) and payable amounts in euros.

As of 31 December 2014, the number of customers registered at the self-service website www.manoelektra.lt reached 513 thousand, out of which 464 thousand were private customers. During 2014, the number of www.manoelektra.lt website visits, comparing to the same period in 2014, rose from 2.404 to 3.044 million.

In 2014, customer service via telephone number 1802 was provided to more than 1 million customers (during the first quarter of 2014, 938 thousand customers were assisted on the phone) and over 434 thousand various customer queries were received and resolved (during the first quarter of 2014, 471 thousand queries were received and resolved).

In 2014, more than 252,076 customers (282,739 in 2013) were served in customer service centres located in the five major Lithuanian cities.

On 14 August 2014, country's electricity and natural gas distribution and supply companies began their cooperation: on 14 August, "Lietuvos dujos" customer service area was opened within the LESTO customer service centre in Vilnius. This is a pilot project allowing both companies to evaluate their synergies and providing a chance to offer a range of services to electricity and gas customers in one place.

Both companies invite customers to obtain services at the customer service centre, which is located at Viršuliškių Skersgatvis 34. Four natural gas specialists will consult customers in the newly opened "Lietuvos dujos" service area.

Customer Settlement Management

LESTO customers can pay for electricity in accordance with an average amount of electricity they consumed. Payments based on the average amount of electricity used help planning the expenditures evenly. Despite the seasonality and changes in the amount of electricity used, clients pay an equal sum each month. In addition, customers owning several properties can pay for the electricity used in a number of their owned apartments by one payment (one bill is available as an option). Customers' monthly electricity charges are calculated based on the average amount of electricity they previously consumed (in kilowatt hours, kWh), which is specified in accordance with readings sent in by the customer or data collected during periodic electricity meter checks. Users can check the average payment applied to them by logging into the self-service website "Mano elektra", which is periodically updated, calling the Customer Service Centre or upon their arrival at one of LESTO Customer Service Centres. 15% of LESTO customers choose to pay for the Company's services on the basis of VAT invoices. In 2014, the number of VAT invoice payments for electricity used, comparing with 2013 data, increased by 25%.

Customers who select electricity accounting method based on their average consumption can additionally choose the Direct Debit payment option. In this case, electricity payment is automatically taken from their bank account every month.

13% of LESTO customers use the Direct Debit option for their VAT invoices. Every customer choosing to pay by Direct Debit is personally informed about their individual payment rate. At the request of LESTO customers who opt for Direct Debit payments, payment rates can be recalculated after a periodical meter reading check is performed or upon the change of electricity price. In addition, customers may choose the most convenient payment date on which the bill for the electricity consumed will be deducted automatically.

Customers have an opportunity to declare their electricity consumption readings on the constantly updated self-service website "Mano elektra".

Corruption Prevention

Fighting corruption

LESTO does not tolerate any manifestations of corruption and supports fair business and transparent collaboration with state institutions. Complex internal control mechanisms are set in place in order to identify possible corruption risk factors and minimise the risk of corruption. Corruption prevention is one of the functions pursued by the Prevention and Control Department of the Company. LESTO regularly supervises its performance, improves operation practices, takes action to deal with any detected violations and removes any resulting hazards in order to maintain the good name of the Company. LESTO introduced its zero-tolerance policy on corruption in May 2014, obliging all employees to familiarise themselves with it.

The Company constantly cooperates with authorities and is ready to provide all necessary information and assistance.

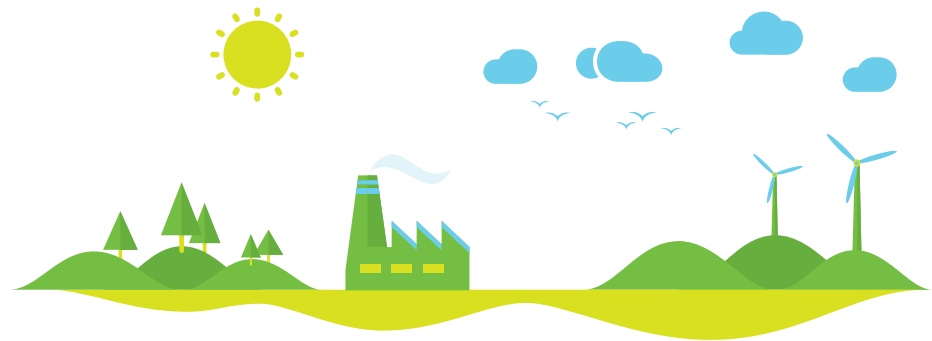
Transparency

In accordance with Part 1 of Article 7 of the Law on Public Procurement of the Republic of Lithuania, through using Central Public Procurement Information System AB LESTO shall announce all of its procurement projects with the exception of low-value purchases and technical specification projects, and, additionally, shall provide this information on its website as well as publish public procurement reports and provide information about any ongoing procurement.

Among other requirements, participating suppliers must provide proof confirming that for at least 5 years the supplier did not participate in any activities related to corruption, bribery, fraud, tax avoidance or money laundering (as specified in Part 1 of Article 45 of the European Council Directive 2004/18/EC). Companies participating in large public procurement projects must provide relevant evidence of professional qualifications (of BS EN ISO 9001: 2001 (ISO 9001: 2001) standard) or an equivalent standard certificate, or an equivalent document issued by one of the European

Community Member States, certifying that the supplier's quality management system meets the relevant standard (submit copies of certificates).

LESTO complies with the principles of transparent communication and does not pursue commercial purposes when publicising any information. The company does not buy any outsourcing or promotional publications or articles in the media and only publishes information that is relevant to electricity consumers, i.e. information regarding the Company's services, social responsibility issues or seeking to promote public spirit.



Environment Protection

In its day-to-day activities, the Company encourages the application of working tools, which reduce labour expenditure and pollution, actively seeks to find ways to reduce the negative impact of energy facilities on people and the environment, invests in environmentally friendly modern technologies, contributes and organises inclusive and responsible energy consumption promoting initiatives.

“Darom 2014”

Over 350 LESTO employees joined “Darom 2014” initiative and collected garbage in public places including parks, lake shores, river banks and elsewhere

Electric Vehicle Charging Station

In July 2014, LESTO together with its partners Nissan and NT Valdovs opened the first electric vehicle charging station in Lithuania, located at J. Leleivio St. in Vilnius. When using this station, rechargeable electric battery can be charged in just 30 minutes. Based on the charging station's electricity consumption data, since its opening in July an average of 1000 kwh is charged every month. At present, the largest independent Lithuanian capital electricity supplier Energijos tiekimas supplies the station with electricity free of charge.

Saving Paper

The Company constantly encourages its customers to opt out of paper bills and billing books and choose remote customer service channels as well as Direct Debit for payment options instead. More than 90% of LESTO business clients already opted for electronic bills. Approximately 80% of the Company's customers are informed about power outages and expected duration of their repair by text message and email free of charge.

Employee newsletter “Elektros žmonės” is also prepared only in electronic format. Employee emails contain reminders that recipients should print the information contained only if necessary.

Waste Sorting and Management

According to the published statistics stating that one fourth of overall communal waste accounts for paper, cardboard and plastic, and that offices dispose of this type of waste the most, LESTO initiated a waste disposal programme in its central office, which has the largest number of employees, aimed at sorting plastic and paper waste. Contributing to safer environment, LESTO continues to facilitate its staff, operating in Customer Service Centres, with collection points for power saving bulbs, small-sized electronics and batteries.

Landscape Protection

As a part of a EU-funded project, LESTO replaced old power lines with over a 1,000 km of new cables in Kaunas, Panevėžys, Šiauliai, Kuršėnai, Mažeikiai and other areas where the standard of electricity lines no longer met consumer demand. Cable lines are safer, ensure reliable electricity supply and preserve the landscape beauty. LESTO laid the new cables in regions, where overhead lines' wires became too thin, came dangerously close to green areas or worn-out infrastructure caused many malfunctions.

Commemoration of the World Earth Day

Although in Lithuania international Earth Day is celebrated on 20 March, in the rest of the world it is marked on 22 April. On this occasion, LESTO took part in a conference, where together with other energy efficiency experts they shared advice on the rational use of energy and responded to readers' questions posted on the biggest web portal in Lithuania.



Society

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



“Operation 2020” Initiative: Loss Reduction and Resident Education

“Operation 2020” programme aims to encourage responsible behaviour with electricity network equipment, increase public awareness on the safe handling of electric devices and reduce negative consequences resulting from irresponsible and malicious behaviour of local residents. In 2014, LESTO continued its cooperation with the Association of Heads of Local Authorities of Lithuania and took part in their organised events and meetings.

Significant support in combating theft comes from members of local public. When residents report theft incidents, it helps to quickly identify perpetrators and repair damaged transformers before they burn and cut off power supply to local residents.

In 2014, 136 reports on illegal electricity use were received from residents through a confidence telephone line. Based on the reports, 8 illegal electricity connection cases

were recorded as well as 3 cases of illegally installed electrical branches. Thanks to the resident reports, damage compensation reports were drawn for an amount exceeding LTL 100 thousand.

Comparing to 2013, theft numbers in 2014 remained almost the same, while the overall amount of losses caused by theft decreased by 18%. The amount of stolen insulating oil decreased by 12% leading to a 15% drop in theft losses. Numbers of coloured metal theft from transformer substations went down by 18%, while the losses incurred dropped by 27%. Comparing to 2013, the total number of reports started due to the fact of electricity theft decreased by 26%, however, the amount of damage caused increased twice.

In order to prevent theft from the distribution network equipment, LESTO cooperates with major infrastructure companies including AB TEO, AB “Lithuanian Railways”, Electronics Collectors’ Association (EEPA) and Recycling Association (APJA) “Metalų supirkėjų asociacija”. The Association of Heads of Local Authorities of Lithuania is LESTO’s main partner in the initiative “Operation 2020” aimed at educating residents and promoting public spirit as well as the sense of social responsibility. Residents are encouraged to call upon noticing damaged network equipment, tree branches that fell too close to the power lines or upon suspicion of electricity theft or equipment. LESTO tries to involve local communities in its operations across all of the Company’s departments. It also seeks to establish dialogue with local residents, participates in local community activities (meetings with elders, representatives and leaders of local authorities and local governments).

Project Competition for Local Authorities and Communities

In 2014, together with the Association of Heads of Local Authorities of Lithuania, LESTO invited local authorities and their communities to submit applications for the competition of projects aimed at increasing safety in areas surrounding electric network equipment and raising the sense of public responsibility. Communities were to suggest plans to solve the problems related to safe and sustainable use of electricity and involve as many residents into the project as possible. The aim of the

project was to increase the safety of local residents. Projects aimed at encouraging education and raising the sense of public responsibility among locals, especially among youth, were particularly desirable. This year 30 applications were received from local authorities and communities. The representatives of LESTO, the Association of Heads of Local Authorities of Lithuania, associations of Lithuanian municipalities and VšĮ Rūpi evaluated the submitted applications. This year, 7 educational and practical projects were announced as winners. Their planned activities will give the greatest benefit to the public and ensure safe behaviour near electrical devices across the network. This is the third competition organised by LESTO and the Association of Heads of Local Authorities of Lithuania. During the first competition organised in 2010, 18 applications from 13 elderships were submitted and, as a result, financing was allocated to 5 elderships. During the second competition organised in 2011, 32 applications from 29 elderships were submitted and prize money was distributed among 8 projects.



"As much as needed" Project Enhancing Electricity Efficiency

Promotion of sustainable energy use is one of the underlying trends strengthening LESTO's sense of social responsibility, which contributes to environmental and energy resource conservation and Lithuania's obligation to implement the European Climate Change Programme. The Project strives to develop sustainable living traditions within Lithuanian society through searching for ways to improve sustainable use of electricity in both daily life and business.

The "Green Protocol" and "Conference for Business on Power Efficiency"

For the fourth year now companies are invited to join the "Green Protocol". It is an arrangement unique to Lithuania, based on which companies and organisations confirm that they are familiar with the environment saving ideas, which stimulate rational use of energy; they support such ideas and commit to putting them into practice. For the fourth consecutive year a contest is organised based on the "Green Protocol" initiative. This year, the prize for the organisation implementing the most rational use of electricity went to UAB "Dzūkijos vandenys", which finished the reconstruction of its sludge processing plant in 2013, equipping it with a cogenerator that now produces electricity from biogas. On 14 February, the annual rational energy use conference was attended by 230 participants representing more than 160 Lithuanian companies, which seek to learn more about the latest energy efficiency trends and solutions allowing reducing their energy consumption. For the first time, the "Green Ambassador" nomination was introduced as a part of the competition. Employees of companies that signed up to the "Green Protocol" were nominated for the most creative and effective efforts to promote energy efficiency ideas within their companies, involving other employees and implementing or encouraging the implementation of innovative technologies. UAB "AQ Wiring Systems" was named the first "Green Ambassador". UAB "ENERGUS" received a special award for the implementation of efficient energy saving solutions. In 2013, it managed to save almost LTL 4 million when providing electric energy saving services to its customers.

Energy Efficiency Conference Series for Industrial Enterprises

Industrial companies are our close partners not only in the world of business, but also in our strive to achieve environmental objectives. Although efficient use of energy in the industrial sector improved significantly in the last year, it could still get a lot more rational. Therefore, it encouraged us to work with our partners and organise a series of energy efficiency conferences “As Much as Needed for Industry”. These conferences attracted interest. The conferences held in four major Lithuanian cities introduced energy efficiency strategies and practical solutions to more than 320 representatives of biggest industrial companies in Lithuania.

Modern Street Lighting Project

At present, about 150-160 thousand street lamps are installed in Lithuanian cities and many of them use sodium lamps with a power output range between 70 and 250 W.

At the end of 2013, LESTO together with Birštonas Municipality and Italian public lighting company “Enel Sole” started LED lighting fixtures’ efficiency pilot project “As Much as Needed for the City” in Birštonas. Over the course of the project, 14 street lighting fixtures were replaced with the LED street lighting fixtures. LESTO installed the necessary equipment and funded the lighting fixtures’ replacement works.

A year-long pilot project showed that the new lamps consumed 43% less energy than the old sodium lamps and the efficiency could be improved even more reaching up to 70%, once street lighting control stations are installed with light intensity control technology.

Rational and Safe Use of Electricity Days in Lithuanian Libraries

In order to encourage residents to contribute to environmental and energy resource conservation, LESTO organised rational and safe use of electricity events in 14 national libraries. During the events, LESTO specialists advised residents how to conserve energy and reduce their electricity bills. Participants received responsible energy consumption manuals and “recipe” books with tips on energy conservation. Young participants met with the characters of youth-oriented educational initiative “Electro”, who solved a variety of electrical safety-related tests with children, played games and gave away various prizes. This initiative concentrates on children and youth education on energy use, potential threats and security issues. The initiative aims to encourage students to learn safe handling of electricity and electrical equipment, stimulate interest in responsible energy consumption, environmental protection and sustainable development.

These events were attended by more than 500 hundred adults and children.



Educational Project on Power Saving for Children and Youth "Elektromagija"

Educational initiative "Elektromagija" is aimed at reaching school-age children and seeks to educate them on the benefits, hazards and safety questions associated with the use of electricity. The initiative aims to encourage students to learn safe handling of electricity and electrical equipment, stimulate interest in responsible energy consumption, environmental protection and sustainable development.

In 2014, the Company continued its initiatives and invited children to participate in a board game design competition, resulting in 14 players winning impressive magical prizes.

National Education Programme "Sustainable School"

In order to raise the awareness among school communities and contribute to the development of sustainable, energy-efficient and environmentally friendly Lithuanian society, LESTO and Lithuanian Youth Centre together with their partners invited Lithuanian educational institutions to participate in a yearlong educational programme "Sustainable School". The first stage of the programme involved 70 educational institutions performing ecological footprint (visible, indicating how much of the planet's resources is required to satisfy our consumer needs) studies. It was the first time for this type of study to be carried out in Lithuania and its results were presented during a forum organised in Vilnius for principals of participating schools. Throughout the year, 17 schools introduced and implemented changes allowing reducing our ecological footprint. LESTO representatives together with other partners selected the most creative and best-performing participants and organised additional educational activities for them.

Free "Energetics Days" Events

April 17th symbolises the starting day of an electrical era in Lithuania. On this day, the country's energy sector workers celebrate their professional holiday. On 17 April, National Lithuanian Electricity Association, which unites the country's biggest energy companies including LESTO, invited everyone to celebrate Energetics Day in Lithuanian Energy and Technology Museum. The museum opened its doors for visitors so that everyone could get to know the country's energy history free of charge. The celebration was crowned with an evening concert of Lithuanian band "Saulės kliošas".

Improvements in Services for Clients with Special Needs

LESTO customer service centre in Kaunas is fully adapted for clients with special needs. This conclusion was made by "Be slenksčių" project experts. The project aimed to reduce social exclusion of people with disabilities. As a part of the project, a group of specialists visited Kaunas customer service centre and checked how many parking spaces for people with disabilities were available close to the centre, the distance to the entrance of the building, condition of a slope leading to the pavement, condition of entry to the customer service centre designed for customers with disabilities, condition of toilets for the disabled and many other aspects. Conclusions prepared by the specialists presented a number of recommendations on what could be improved.

Public Opinion Surveys

At the end of 2014, LESTO ordered "Baltijos tyrimai" to perform a survey on electricity usage habits. Compared to two years ago, survey results revealed that average amount of electricity consumed per household remained stable, but electricity usage habits have changed. Residents know more electricity-saving tips, but a significantly less number of people try to save electricity because of its price. The number of people, whose motive to save electricity is linked to their habit of saving, increased by 12% (a total of 36%). The number of respondents who save electricity because they want to sustain the environment also rose and now amounts to 15%.

Survey on electricity usage habits was ordered by LESTO and performed by Lithuanian and British market and public opinion research company “Baltic Surveys”. The survey was carried out in December 2014. A total of 1,045 Lithuanian residents were interviewed in the 15 to 74 years age group.

Evaluation

On 4 March 2014, Lithuanian Association of Responsible Business (LAVA) held its general assembly where 7 members of the Association’s Congress were elected: UAB “Pakmarkas”, UAB “Kvalitetas”, AB LESTO, Vilniaus kooperacijos kolegija, UAB “SDG”, AB “Vilniaus baldai” and AB TEO representatives.

Last year LESTO collected two awards in the field of social responsibility: at “PR LAPĖS” event organised by Vilnius University Public Relations Masters’ students the Company was named the most socially responsible company of 2013. LESTO was also named the most socially responsible company of 2013 by the “Investors’ Forum”, an umbrella association uniting the largest investors in the Lithuanian economy.

Accountability to Society

LESTO social responsibility progress reports are prepared annually, in Lithuanian and English languages. These reports are published on the Company’s website (in the Social responsibility section), Stock Exchange “NASDAQ Baltic” website and “Global Compact” website www.globalcompact.org.

LESTO publishes press releases regarding its activities and provides information on its website www.lesto.lt as well as social responsibility initiatives’ websites www.tiekkiekreikia.lt, www.elektromagija.lt, and on the website of the Ministry of Economy in the “State-owned enterprises” section (<http://vkc.vtf.lt/imoniu-socialine-atsakomybe/apie-isa>).

LESTO Report was prepared in compliance with the “Global Reporting Initiative” (GRI) G4 requirements. The Report complies with the G4 “Core” requirements. An independent audit of this social responsibility report was not conducted.

In the future, the Company plans to consider social responsibility report auditing option as well as a decision to move to the G4 “Comprehensive” option.

GRI Report Content and Limits of its Aspects

GRI report content was chosen taking into account LESTO long-term strategy, survey on the public opinion about the Company, media monitoring analysis and an assessment of aspects that the Company considers the most important in the long run as well as existing Company policies (communication, personnel, compensation and social responsibility) and the Code of Ethics. Report content and limits of its aspects are also set out in accordance with the GRI G4 and methodological tools.

Aspects important for LESTO were identified in 2014, while aspects important to the parties concerned were identified during a survey performed before LESTO 2015-2020 investment plan was drafted. The latter aspects are described in the LESTO 2015-2020 investment plan.

LESTO provides information reflecting both positive and negative aspects of the organisation’s performance. The information provided was collected and presented in a consistent way so that stakeholders could analyse changes and compare the level of the Company’s efficiency with other organisations. The information provided is fairly accurate and detailed enough to allow stakeholders to evaluate the Company’s activities. The report was submitted on time and according to planned schedule. The report provides information in an understandable and clear way. Report information was collected, documented, formed, analysed and published in a way allowing to make sure its high quality and significance.



Aspects significant to LESTO:

Economy:

- Economic efficiency
- Market
- Indirect economic effects

Environment Protection:

- Biodiversity
- Products and services

Social field:

- Education and training
- Local communities
- Non-discrimination

Suinteresuotosiems šalims reikšmingi aspektai (detalūs):

	Clients	Society	Regulators	Energy sector	Shareholders
Uninterrupted power supply	●	●	●	●	●
Quality power supply	●	●	●	●	●
Operational efficiency and transparency	●	●	●	●	●
Fast electricity supply restoration after a storm	●	●		●	●
Power supply unit safety		●	●	●	●
Operative provision of information and quick problem solving	●	●		●	
Reducing visual pollution / invisible electrical network	●	●			●
Partnership in performing energy efficiency surveys and social responsibility projects	●	●			
Reducing electrical network impact on the environment and wildlife		●			●
Electrical device noise level		●			

Limits of Significant Aspects within the Company and Beyond

Significant Aspects	Aspect Limits	Affected Group(s)
Economic efficiency	Organisation's internal and external environment	Shareholders and investors
Market	Organisation's external environment	Clients, investors and suppliers
Indirect economic effects	Organisation's external environment	Clients, investors and suppliers
Biodiversity	Organisation's external environment	State institutions and the public
Products and services	Organisation's external environment	Clients and the public
Education and training	Organisation's internal environment	Employees
Non-discrimination	Organisation's internal and external environment	Employees, state institutions
Local communities	Organisation's external environment	The public

Stakeholder Involvement

LESTO aims to establish dialogue with all stakeholders who are interested in its activities. Based on the "Global Reporting Initiative" methodological recommendation, LESTO tried to involve stakeholders into the social responsibility report drafting process. LESTO identified the following stakeholders:

Clients	Society	Regulators	Energy Sector	Shareholders
1. Big business clients	Environment protection	17. National Commission for Energy Control and Prices	24. LITGRID	27. LE
2. Small business clients	7. State Service for Protected Areas		25. Small producers	28. Small shareholders
3. Private clients	8. Directorate General of State Forests	18. Ministry of Energy of the Republic of Lithuania	26. Independent EE suppliers	29. Ministry of Finance of the Republic of Lithuania
4. State Consumer Rights Protection Authority	9. State Forest Agency	19. The Ministry of Agriculture of the Republic of Lithuania		30. Investuotojų asociacija
5. Lithuanian National Consumer Federation	10. Lithuanian Ornithological Society	20. State Energy Inspectorate		
6. Lithuanian Confederation of Industrialists	Self-government	21. EU Directorate-General for Energy		
	11. Municipalities	22. ACER		
	12. Association of Heads of Local Authorities of Lithuania	23. Government of the Republic of Lithuania		
	Science and Research			
	13. Universities (KTU, VGTU, VU, KU)			
	14. Lithuanian Energy Institute			
	15. Lithuanian Hydrometeorological Service			
	Other			
	16. State Department of Tourism			

Basic requirements for stakeholder identification and selection

The Company's main strategic direction is aimed at increasing the Company's value in the long term. Five key stakeholder groups are identified specifying all the parties concerned under each group. These stakeholder groups were analysed when developing LESTO 2015-2020 investment plan.

To achieve this goal, it is important to balance the needs of all stakeholders: shareholders, customers, investors, employees and various social groups. LESTO has particularly great importance in its external environment due to the specifics of services it provides: electricity transmission is significant on all economic levels as well as for every citizen individually.

Internal stakeholder groups were selected in accordance with the Company's long-term strategy. External stakeholder groups were selected on the basis of Lithuanian and EU legislation governing business activities as well as the Company's experience in collaboration with public groups.



The Company's Approach to Stakeholder Involvement

LESTO seeks to actively cooperate with each named stakeholder group. Both company employees and executives were involved in the report preparation process. Specialists in charge of development of socially responsible activities within the Company took into account its ongoing activities and cooperation, and when preparing LESTO 2015-2020 investment plan they identified and included in stakeholder questionnaire a range of questions on separate areas of social responsibility. The questionnaire was sent to 95 stakeholders and 49 of them responded (Lithuanian National Consumers Federation, State Service for Protected Areas and 30 other territories, Municipalities, Lithuanian Confederation of Industrialists, independent suppliers, Association of Heads of Local Authorities of Lithuania, State Consumer Rights Protection Authority and others).

Summarised stakeholder expectations and stakeholder groups were presented and expectations important for each of the groups were noted separately. Picture 4 presents a summarised analysis of LESTO stakeholders' expectations.

External stakeholder groups were asked to evaluate the influence of the following expectations (regarding the Company's environmental impact, important economic, environmental and social aspects) on their institution, operations and local community.

GRI Content Inegledex

General standard disclosures

GRI code	Description	Relevant pages in the Annual Report	Relevant Pages in the Report on Corporate Social Responsibility	External Assurance
Strategy and Analysis				
G4-1	Statement from the most senior executive on the importance of organisation's sustainable development		5	No
Bendrovės apibūdinimas				
G4-3	Report the name of the organisation	9-10		Yes
G4-4	Report the main trademarks and services	9-10		Yes
G4-5	Report the address of the Company's headquarters	9-10		Yes
G4-6	Report the countries where the Company operates	9-10		Yes
G4-7	Report the type of ownership and legal form	9-10		Yes
G4-8	Report markets where the Company operates (according to geographical boundaries, sectors, clients, etc.)	90		Yes
G4-9	Report the size of the organisation	80		Yes
G4-10	Number of employees	97		No
G4-11	Report the percentage of all employees subject to collective contract agreements		13	
G4-12	Describe the organisation's supply chain		10	
G4-13	Report any significant changes occurring during the reporting period and regarding the organisation's size, structure, ownership or its supply chain	101-104		Yes
G4-14	Report how the precautionary approach is applied by the organisation		10	
G4-15	List externally developed economic, environmental and social charters		6	
G4-16	List memberships in national and international organisations		10	

Identified Significant Aspects and Boundaries				
G4-17	List all entities included in the organisation's consolidated financial statements	91		Yes
G4-18	Explain the process for defining the report content and the aspect boundaries		26	No
G4-19	List all the significant aspects identified in the process of defining the report content		27	No
G4-20	For each significant aspect, report the aspect boundaries within the organisation		28	No
G4-21	For each significant aspect, report the aspect boundaries outside the organisation		28	No
G4-22	Report any effects caused by restatement of information provided in previous reports and the reasons for such restatement		28	No
G4-23	Report significant changes from previous reporting periods in regard to content and aspect boundaries		26	No
Stakeholder Involvement				
G4-24	Provide a list of stakeholder groups related to the organisation		28	No
G4-25	Provide basic requirements for stakeholder identification and selection		29	No
G4-26	Report the organisation's approach to stakeholder engagement, its nature and specifics according to the type of a stakeholder group		29	No
G4-27	Report the main topics that were discussed with stakeholders		29	No
Report Parameters				
G4-28	Reporting period		3	No
G4-29	Date of the most recent report		3	No
G4-30	Reporting frequency		3	No
G4-31	Provide the contact point for questions regarding the report		3	No
G4-32	Report the type of the report Indicate the report's GRI index		30-32	No
G4-33	Report the organisation's policy and current practice regarding external auditing for the report		26	No
Management				
G4-34	Report the organisation's management structure	92-95		Yes
Ethics and Integrity				
G4-56	Describe the organisation's values, principles, standards and norms of behaviour such as codes of conduct or codes of ethics	74-90		Yes

List of Aspects Affecting the Company and Specific Indicators

Aspects Affecting the Company	DMA and Indicators	Omissions	External Assurance	Page / Source
Economy				
Economic efficiency	Report direct economic value generated and distributed (G4-EC1)	-	Yes	Annual Report 47
Market	Comparison of standard entry level wage to local minimum wage (G4-EC5)	-	No	Social Responsibility Report 15
Indirect economic effects	Report the extent and of development of significant infrastructure investments and services supported (G4-EC7)	-	Yes	Annual Report 70-71
Environment Protection				
Biodiversity	Habitats protected or restored	-	No	Social Responsibility Report 21
Products and services	Extent of impact mitigation of environmental impacts of products and services (G4-EN27)	-	No	Social Responsibility Report 22-25
Social Field				
Education and training	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings (G4- LA10)	-	Yes	Annual Report 98-100
Non-discrimination	Total number of incidents of discrimination and corrective actions taken (G4- HR3)	-	No	Social Responsibility Report 12
Local communities	Percentage of operations with implemented local community engagement, impact assessments, and development programs (G4-SO1)	-	No	Social Responsibility Report 22-25