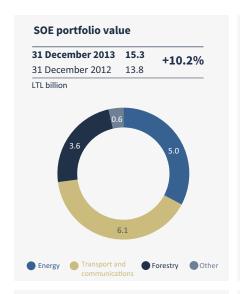
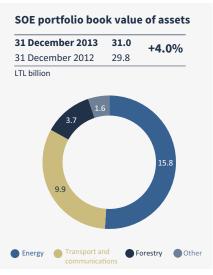
State-Owned Enterprises in Lithuania

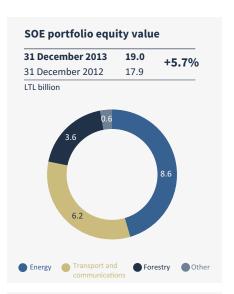
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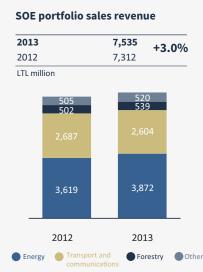


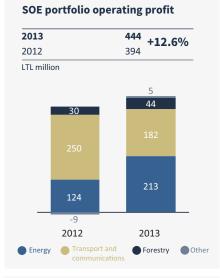
SOE Portfolio:Brief Overview

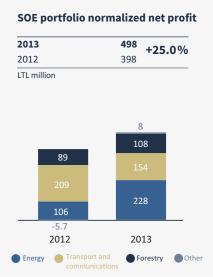


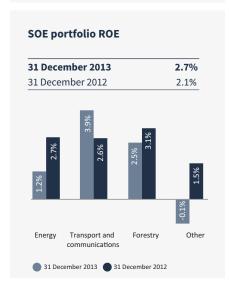


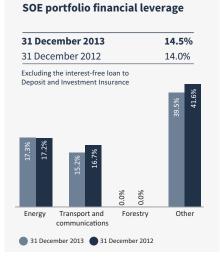


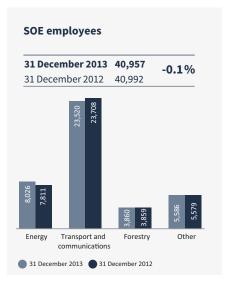












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Dear all,



In 2013, the state-owned enterprises once again were an important element of the rapidly growing Lithuanian economy: these enterprises earned about LTL 7.5 billion in revenue and their normalised net profit amounted to approximately LTL 0.5 billion - an increase of 25%, compared to 2012. Value added generated by the enterprises continued to grow steadily as well and amounted to almost LTL 3.6 billion in 2013.

The energy sector deserves a separate mention. As the profit from the enterprises of this sector more than doubled, they earned over LTL 200 million of normalised net profit. To a large extent this achievement is attributable to the Lietuvos Energija Group. The corporate governance reform launched by the Group, which enabled it to optimise the processes, allocate costs in a more efficient way and enhance the necessary competences, is an example that could be followed by other state-owned enterprises.

The state-owned enterprises have a vital mission of ensuring that transport and energy infrastructure promotes sustainable long-term economic development and serves the strategic interests of the state. Carrying out this mission, the enterprises have continued successful implementation of the Rail Baltica, Swedish and Polish power link, liquefied natural gas terminal construction and other strategic investment projects. Of equal importance was the implementation of the European Third Energy Package on the electricity and gas markets, contributing to the development of a market that would serve customer interests the best.

To achieve successful implementation of strategic projects and sustainable longterm growth of state-owned enterprises, we have to ensure that these enterprises are transparent and accountable to the Government and the public and that their governance is compliant with the best international practices. While implementing international good practice in this field, we are engaged in constant cooperation with the Organisation for Economic Co-operation and Development (OECD). As we strive for membership in this organisation, we are committed to further implement the enhancement of corporate governance transparency, setting of clear objectives, governance depoliticisation and other international practices. Guided by the OECD recommendations, in late 2013 we launched the unbundling of the commercial and non-commercial (special obligations) functions. This report for the first time provides detailed information on non-commercial functions of all state-owned enterprises, the costs associated with them and their influence on the operating results. We hope that in the future this unbundling of the functions will allow not only setting the objectives for the enterprises in a more efficient manner but will also help to ensure a better quality of carrying out the assigned non-commercial functions at the lowest possible cost.

It is important to remember that the implementation of international good corporate governance practice is an ongoing process; therefore, we should not stop where we are. In the nearest future, we are planning to continue our efforts to achieve a more transparent and efficient fulfilment of non-commercial functions. Moreover, we have drafted amendments to legislation that will allow attracting competent and independent professionals to the boards of not only public and private limited companies but also state enterprises. These and many other tasks demand close interdepartmental cooperation and mobilisation. I believe that as we understand the importance of state-owned enterprises for the economy of the country and work together we will make the state a model shareholder of these enterprises.

> Yours sincerely, Evaldas Gustas Minister of Economy

Lithuanian State Ownership Policy: An Overview

Increasing of transparency and efficiency of the SOEs' activities was declared as one of the priorities of the Lithuanian Government for 2014.

Examples of many foreign countries demonstrate that state-owned enterprises (SOEs) can operate efficiently, bring benefits to their customers and compete on the market successfully, while their operating results can equal or even surpass those of private companies. Modern and effectively functioning SOEs may contribute significantly to state budgets, and the additional funds may be distributed to various areas, ranging from pensions and remuneration for teachers and doctors to important state-scale investment projects. At the same time, these companies, after establishing modern governance models, become an example of transparent and accountable business, thus promoting a sustainable development of the economy. The aim of turning stateowned enterprises into modern and effective companies requires great responsibility and long-term professional supervision of SOEs. It is important that the state has a clear ownership policy and establishes high transparency requirements for these enterprises. It is therefore natural that increasing of transparency and efficiency of the SOEs' activities was declared as one of the priorities of the Lithuanian Government for 2014 and has been mentioned in annual recommendations to Lithuania by the European Commission for the last several years.

State Ownership Policy

The general experience of foreign states shows that implementing good governance into SOEs is an important but complicated endeavour. Its main challenge is striking the balance between the state's commitment to actively perform its ownership functions (such as setting financial and other goals, and monitoring) and the unbiased regulation of a sector in which the enterprise operates.

For these reasons, various countries adopt legislation laying down an ownership policy that clearly defines the rights and duties of all state institutions, offices and undertakings participating in SOE governance. Documents setting the ownership policy also define a procedure used to determine remuneration for members of collegial governing bodies, formalise the principles for their selection, and indicate the expected SOE results. By establishing clear ownership functions, the state seeks to become an active owner of its property: it would set the goals for the enterprises, demand effective operations and good results from them, but would not interfere with their every-day business.

OECD Guidelines

In 2005, the Organisation for Economic Cooperation and Development (OECD) adopted the *Guidelines on Corporate Governance of State-Owned Enterprises*, a document defining the key principles of SOE governance. These *Guidelines* represent an agreement among the most advanced and economically developed countries and have been recognised as an international benchmark. *The Guidelines* are available on the OECD website at www.oecd.org.

The OECD *Guidelines* provide concrete suggestions on how different SOE governance problems can be solved. For example, they suggest that the state should define its ownership policy and clearly separate the ownership implementation and regulatory functions. The *Guidelines* also describe the exemplary roles of members of the SOE collegial bodies (boards and supervisory boards) and provide recommendations for their composition and selection procedures. The document stresses the necessity to establish equal competition conditions for SOEs and private sector companies, to take

into account the interests of all SOE shareholders and related parties, and to seek the greatest possible transparency of SOEs. These and other suggested changes would help the states to ensure professional governance of their enterprises. The principles laid down in the OECD recommendations must be implemented by all states that seek membership in this organisation. The reorganization of the SOE governance in Lithuania was also largely based on the recommendations from these Guidelines.

Key Legal Acts in Lithuania

For a long time after Lithuania regained independence, SOEs in the country have barely undergone any changes: there was lack of transparency, the enterprises weren't given high goals, and there was no single centralised institution that would analyse the activities of SOEs. In 2009, the Ministry of Economy prepared an overview of Lithuania SOEs, which showed that the efficiency of SOE operations was inadequate.

Based on this overview, a concept for the enhancement of efficiency of SOEs was prepared. This document established the lines for SOE governance reform in order to enhance the efficiency of enterprises and defined the principles and expected results of this reform.

Based on the OECD recommendations and on the good international practice, a few years ago the Government passed a resolution, which laid down the guidelines for ensuring the transparency of operations of SOEs and appointed a coordinating body (referred to as the Transparency Guidelines), and another resolution, which approved the procedure for the implementation of property and non-property rights of the state at state-owned enterprises (referred to as the Ownership Guidelines). The first resolution laid down high transparency and accountability standards for all SOEs, whereas the second one defined the Government ownership policy with respect to SOEs. The Ownership Guidelines provided principles that should be followed in defining strategic and financial objectives, appointing board members, separating ownership implementation and regulatory functions, etc. The Ownership Guidelines enshrined three essential measures for enhancing SOE governance – strong shareholders, strong management and clear objectives.

Lithuanian Ownership Policy

1. Application of the Ownership Guidelines

The provisions laid down in the Ownership Guidelines are compulsory and must be followed by all state institutions participating in SOE governance. The rule of 'comply or explain' applies to some of the provisions of the Ownership Guidelines, which means that any deviation from these provisions is possible only when that is required for objective reasons: in such cases each deviation must have a rational justification and explanation.

2. Governance Coordination Centre

To ensure consistent and professional SOE governance, the Government has adopted a decision to establish the Governance Coordination Centre (GCC) - an institution which would monitor and analyse how well the state policy toward SOEs is implemented. Under the Ownership Guidelines, the performance of GCC functions was assigned to the State Property Fund which established a special division for this purpose in September 2012. Before the Ownership Guidelines, the responsibilities of SOEs' coordination and collection of relevant information fell under the competency of the Ministry of Economy.

The Ownership Guidelines define the essential GCC functions. The GCC has the duty of analysing financial and non-financial information disclosed by SOEs and the trends

Transparency **Guidelines**

Specifies information to be disclosed by all SOEs about their activities, and the time limit for the provision of such information

Obligates SOEs to prepare interim financial statements

Obligates all SOEs to apply International Accounting Standards to their accounting practices

Obligates enterprises to provide information on special obligations performed

Obligates the coordinating institution (Governance Coordination Centre) to prepare aggregate reports on SOEs and their operations

Ownership **Guidelines**

Defines the functions of the **Governance Coordination Centre** (GCC), and assigns the performance of GCC functions to the State Property Fund

Obligates institutions representing the state to separate the ownership implementation and SOE regulatory functions

Groups all SOEs, sets objectives for each group, and obligates SOEs to prepare strategies and comply with them

Obligates major SOEs to have boards and key committees

Instructs to have independent members on boards at major enterprises, lists the requirements for candidates to SOE boards and formalises the process of their selection

SOE objectives **Group 1B** Group 2 **Group 1A** (includes 67 (includes 43 (includes 25 SOEs) SOEs) SOEs) Growth in Implementation Growth in business of the state's business value social and (yield from value, and dividends safeguarding political or profit of national objectives; contributions) profitable strategic interests operations have secondary role **Examples: Examples: Examples:** Lithuanian Lietuvos Ignalina Nuclear Shipping Power Plant Energija Company Lithuanian Oil Klaipėdos Giraitė Nafta **Products Agency** Armament Lithuanian Regional road Factory Railways enterprises LITEXPO

of activities of these enterprises, and publishing aggregate SOE reports. The GCC also coordinates the implementation of the good practice of strategic planning in state-owned enterprises, assesses the ambitiousness of strategic objectives set by SOEs and monitors strategy implementation indicators. The centre takes part in the process of nominating board members: upon request from institutions representing the state, the GCC provides technical services to them in the search for and selection of board members. Finally, the GCC evaluates compliance with the *Ownership Guidelines* and the *Transparency Guidelines* and submits its opinion and recommendations to the Government.

3. Clear Objectives

Seeking to make SOEs operate as efficiently as possible, the states must clearly identify objectives set for SOEs, while these objectives have to be harmonised with the long-term strategies of the enterprises. To the greatest extent possible, the objectives must quantifiable, and the enterprises should be subject to regular evaluation with respect to how they achieve the set objectives. SOEs can operate efficiently only when they clearly know what the state expects from them.

3.1. State Objectives for SOEs

All Lithuanian SOEs were divided into three groups by the state objectives:

- **Group 1A.** This group includes enterprises from which the state expects growth in their business value and a yield from dividends or profit contributions.
- **>> Group 1B.** This group comprises companies from which the state expects, in addition to growth in their business value and a yield from dividends or profit contributions, safeguarding of national strategic interests: national economic security, implementation of strategic projects, quality infrastructure and other objectives.
- **>> Group 2.** Governing the enterprises included in this group, the state gives priority to the implementation of social and political objectives, and profitable activities have a secondary role. The enterprises of this group must engage in non-commercial operations which other profit-making companies would refuse to perform or would do that for a higher price.

Having divided all SOEs into these three groups, the state started to expect to achieve the pre-set return on its capital invested in Group 1A and Group 1B enterprises, the rate of which is calculated by the GCC and approved by the Government every three years. For 2013–2015, the Government set the minimum 5% average target return on equity for these enterprises (except forest enterprises), and the target average gross net profit of at least LTL 97 million for forest enterprises. With respect to enterprises assigned to Group 2, the state has begun demanding the most possible transparent and efficient use of funds in their operations.

3.2. SOE Strategies

SOEs must have clear strategic plans that would serve as a means of communication between the Government, an institution implementing the shareholder rights, boards of enterprises and the management. The Government has obligated all SOEs to prepare their operational strategies for the minimum of three years and to update them at least once a year. The strategies must specify the lines along which enterprises will develop their activities, long- and short-term objectives and concrete indicators that would be used to measure the targets. The plans should also specify the effect of strategic projects on the value of an enterprise, their funding sources, analysis of the environment in which the enterprise operates, its available resources, etc.

By 15 November of each year, enterprises must present the projects of their strategies to the Governance Coordination Centre which provides feedback, recommendations and suggestions for their improvement.



4. Boards

One of the essential factors for profitable and effective operations of an enterprise is a competent, motivated, and independent board. The board is the key governing body that sets a company's strategic priorities, evaluates management activities and ensures accountability of executives.

4.1. Compulsory Boards in Largest SOEs

The Ownership Guidelines divide all Lithuanian SOEs into five categories by revenue and the value of assets owned. Category 1 includes the largest SOEs (Lietuvos Energija, Klaipėdos Nafta, etc.), while Category 5 comprises the smallest SOEs. The Guidelines state that all SOEs of Category 1 or 2 and all SOEs of strategic importance must have active boards. The formation of boards at smaller SOEs (assigned to Categories 3, 4 and 5) is at the discretion of institutions representing the state.

4.2. Composition of Collegial Governing Bodies

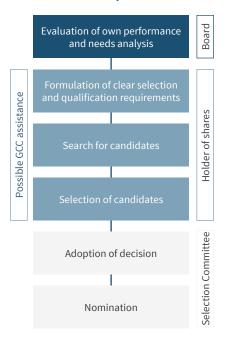
The Ownership Guidelines have established that at a state-owned enterprise the majority of members of the collegial body elected by a general shareholders meeting (GSM) (in most companies this means a board, but in some energy enterprises the GSM elects a supervisory board and not a board) should include persons not employed at that enterprise. It is recommended that the CEO of the enterprise is not elected the Chairperson of the board (if he/she has been elected a board member), except for those cases where SOE has a supervisory board. It is noteworthy that the provisions of the Ownership Guidelines on the composition of collegial governing bodies and the described process of selection of candidates only apply to state-owned public and private limited companies.

According to their legal form, all state-owned enterprises (SOEs) are divided into statutory enterprises and state-owned public limited companies and private limited companies. Statutory enterprises are companies established using state assets or by transferring them to the state under the procedure prescribed by law, and they are owned by the state. Statutory enterprises use and dispose of assets transferred to and acquired by them in trust. Lithuania has 86 statutory enterprises.

State-owned public and private limited companies are private legal entities with limited liability in which all or part of shares are owned by the state. In Lithuania, 20 SOEs have the legal form of a public limited company and 31 SOEs have the legal form of a private limited company.

One of the essential factors for profitable and effective operations of an enterprise is a competent, motivated and independent board.

Process of selection of SOE board members defined in the Ownership Guidelines



Under the Law on State and Municipal Enterprises, only civil servants of an institution implementing the rights and duties of the owner and the CEO of that enterprise may be board members of a statutory enterprise. Therefore, the target composition of the board and the process of selection of candidates indicated in the Ownership Guidelines only apply to state-owned companies (SOEs that have the form of a public or private limited company).

The Ownership Guidelines lay down the general and specific criteria which each candidate to members of a SOE collegial governing body must comply with, if so determined by the Selection Committee (it is dealt with in greater detail in section 5.3 of this part). The general criteria indicate that a candidate must have university education, he/she should not be deprived of the right to perform appropriate duties or this right should not be restricted, the candidate has not been suspended definitively from his/her duties during the last five years as a result of inappropriate performance of the duties, the candidate may not have unexpired convictions for any criminal act or be a civil servant who or whose relatives may be involved in conflict of public and private interests.

The specific criteria require members of a collegial body to have certain knowledge necessary for the enterprise. The *Ownership Guidelines* state that each collegial body elected by the SOE general shareholders meeting must include persons with knowledge of fields such as an appropriate economic sector, financial and strategic planning and management. Separate members of the collegial body may have not all the required knowledge and skills, but the collegial body as a unit must possess them all. Therefore, in search for new members for the collegial body, account must be taken of the available and missing competences.

The above-mentioned collegial bodies must have the capacity to take objective and independent decisions, which requires having the sufficient number of members who meet the independence criteria. The *Ownership Guidelines* contain a requirement that in state-owned enterprises of Categories 1 and 2 at least 1/3 of the GSM elected members should be independent. A member is considered to be independent if he/she is not a civil servant or an employee of an institution representing the state. Also, such a person or his/her close family member may have no or for the last few years may have had no employment relationships with the enterprise (except their possible membership in the collegial body), or any business and other contractual relationships.

4.3. Selection of Candidates

Members of collegial bodies elected by the GSM in Category 1 and 2 state-owned enterprises must carry out their annual performance evaluation and needs analysis. This way it can be determined what competences the collegial body lacks to achieve the company's objectives. The results of the performance evaluation and needs analysis must be reported to the holder of shares and the GCC, which must forward the summary information with recommendations to the Selection Committee.

It is the Selection Committee that, under the Ownership Guidelines, is authorised to elect new members of collegial governing bodies. This committee includes the Minister of Economy, the Minister of Finance and the head of the holder of shares (an institution that owns SOE shares), which initiates the work of the Selection Committee. The number of such selection committees must be the same as that of the holders of shares assigned to Categories 1 and 2.

Where appropriate, the holder of shares may consult with the GCC concerning the evaluation of the collegial body or the activities of its members or their replacement. The GCC also may help to find candidates for members of the collegial body who would meet the general and specific criteria indicated. However, the final decision on which person or persons should be nominated in any case must be taken by the Selection Committee.

5. Committees

The Law on Audit of the Republic of Lithuania stipulates that the boards of all public interest entities must have audit committees which would enhance the internal control of the company: monitor the process of preparation of the enterprises' financial statements, the efficiency of various internal systems, the auditing process, etc. Part of Lithuanian SOEs is public interest entities and audit committees are compulsory for them. However, the Ownership Guidelines state that even the major Lithuanian SOEs (assigned to Category 1 or 2) that need not have audit committees must set up internal control committees performing the functions of the audit committee. At least one member of the internal control committee should be an independent board member with competences in the financial field.

Each Category 1 or 2 SOE must also have a remuneration committee that would prepare proposals concerning remuneration systems for the enterprise's executives.

These committees are advisory bodies to the board. The minimum number of members of the internal control and remuneration committees at each enterprise must be three, and executives of the enterprise may not be members of these committees.

6. Remuneration

With a view to attracting as many independent professionals from the private sector to collegial bodies as possible, such persons may receive remuneration for their work. The issue of members of collegial bodies must be discussed at the general shareholders meeting of each enterprise. However, it is recommended to pay a fixed remuneration to members of the boards and supervisory boards of state-owned enterprises, not exceeding 1/4 of the salary of the chief executive of the enterprise, and remuneration to chairpersons of the boards and supervisory boards not exceeding 1/3 of the chief executive's salary.

It should be noted that no remuneration is paid to civil servants or employees of an institution representing the state for work on boards or supervisory boards as work in such bodies is part of their main duties.

SOE Transparency

Transparency of operations is especially important for state-owned enterprises as SOE owners are, although indirectly, all citizens of a state. Publicly available key information on the management of assets owned by the state provides a basis for accountability of the Government and prevents the possible political interference in the operations of such enterprises. To achieve good corporate governance, it is necessary not only to publish clear objectives for SOEs and their managers, but also to assess periodically how SOEs have achieved those objectives.

Based on the world's best practice and the OECD Guidelines, in July 2010 the Government adopted the Transparency Guidelines stipulating that SOEs must comply with transparency requirements similarly to companies listed on the stock exchange. It also issued recommendations for SOEs to follow international standards in their accounting practices and audits of annual financial statements.

In December 2013, the Transparency Guidelines were supplemented by a Government resolution obligating SOEs to provide, along with their annual financial statements, information on their special obligations implemented (these obligations are dealt with in greater detail in section 4 of this part).

1. Application of the Transparency Guidelines

The Transparency Guidelines must be followed by all Lithuanian SOEs, and state-ow-

ned enterprises are recommended also to take action to make all their subsidiaries comply with these *Guidelines*. It is noteworthy that all SOEs are required to abide not only by the *Transparency Guidelines* but also by the governance code of the companies listed on NASDAQ OMX Vilnius with respect to information disclosure, regardless of whether a SOE is or is not listed on the stock exchange.

2. Information Provided

In Lithuania SOEs must prepare their financial statements on a quarterly basis. All SOEs must also draw up annual reports (public and private limited companies) or annual activity reports (state enterprises), which are documents that take annual financial and other operational indicators into account, specify the number of employees, the annual remuneration fund, salaries of top management, procurement and investments that were implemented during the financial year, are in progress or are planned, etc. Lithuania's major SOEs must also prepare four interim reports or interim activity reports.

These documents are to be submitted by the deadlines specified in the *Transparency Guidelines* and are published on the internet to make them easily accessible to the public.

3. Summary Reports

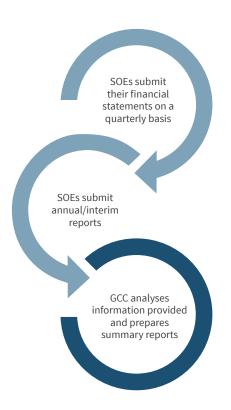
The documents indicated in the *Transparency Guidelines* are submitted to the Governance Coordination Centre which aggregates the data and prepares summary reports on SOEs. Thus a general overview of the SOE activities is presented to the public five times a year. This periodicity has been chosen with a view to establishing regular public accounting of enterprises, monitoring changes in the SOE portfolio and taking adequate response actions.

Summary reports present financial information and the SOE sector dynamics, discuss the principles of implementing these enterprises' governance and ownership functions, and the major and most important companies are reviewed separately. From 2014, the GCC also analyses and provides information on the fulfilment of special obligations and their financial information. All these reports are submitted to the Government and published on the GCC website (http://vkc.vtf.lt/en). This website also publishes all SOE financial statements, annual and quarterly reports and activity reports of enterprises.

4. Disclosure of Information on Special Obligations

Based on the OECD *Guidelines* and with a view to enhancing transparency of operations and facilitating financial analysis, Lithuanian SOEs have been obligated to separate their commercial and non-commercial activities (the so-called *special obligations*) in their reports. This means that SOEs must publish also the costs of all social commitments or public obligations assumed, various subsidies granted, financial support, etc. Lithuanian SOEs will have to assess the scope of these functions and their influence on the results. This is necessary in order to set clear and transparent mechanisms of financing non-commercial functions, which would prevent market distortions – in their commercial activities, enterprises must act under the conditions of fair competition.

From 2014, the Governance Coordination Centre is obligated, in addition to summary reports on SOEs, also to provide summary information on special obligations implemented by SOEs. The first analysis of this kind is present in the section 'Special Obligations of SOEs' (page 24) of this report. The section contains information on special obligations, their scope in state-owned enterprises, the purposes of separating commercial and non-commercial functions and further plans for improving the financing mechanism for special obligations.



Jermyn Brooks: **Good Governance of SOEs**



Jermyn Brooks is Chair of Transparency International's (TI) Business Advisory Board, Member of TI's International Board of Directors, Independent Chair of the Global Network Initiative, and a Member of the Board of the Centre for Humanitarian Dialogue. In 2000, Mr. Brooks joined TI as Executive Director and CFO. He was a Founding Member of the World Economic Forum's Partnering Against Corruption Initiative (PACI) and chaired the 10th Principle Working Group of the United Nations Global Compact. Brooks joined TI after a career with an international audit company PricewaterhouseCoopers where he was elected worldwide Chairman of the firm in

1997. Mr. Brooks also has extensive experience of serving as the non-executive corporate director and often acts as an independent consultant on corporate governance and anti-corruption.

In July 2014, Mr. Brooks visited Vilnius to give lectures in the annual Transparency International School on Integrity organized by non-governmental organization Transparency International Lithuania. During his visit Mr. Brooks met with the Governance Coordination Centre and shared some of his insights on the good governance of state-owned enterprises.

Firstly, it is crucial to understand that similar governance principles apply to all organizations. Both private and state-owned enterprises should have a proper organizational structure with clear delegation of authority and all the usual organizational regulations. In general, the same rules that are shown to be efficient in the private sector can operate very well in the SOE sector. Essentially, it means that roughly 95% of management principles that proved to deliver good results in the private sector should be incorporated into the management of well-run SOEs.

It is necessary to find the balance between the overly excessive and the insufficient levels of political intervention into the SOE governance. These enterprises are owned by the state and therefore the relationship between the board/management and the state must be very clearly defined. However, the government should not get down to the level of micromanagement. Only strategic decisions could be decided either on the government level or by civil servants who represent the state as the owner or shareholder of an SOE, but the day-to-day business should be left to be run by professional managers.

The main task for the government is to give the SOEs ambitious goals and make clear that the ultimate goal of the SOEs is to bring benefit for their owners - the society. Sometimes an SOE - especially if it receives subsidies or donations from the state or has non-commercial functions - appears to be more of a governmental organization than a for-profit enterprise. However, the budgeting system in governmental institutions differs significantly from that in the private sector. Therefore even those SOEs that perform non-commercial functions or receive donations from the state should follow the best examples set by the private sector and try saving as much as possible and increasing the efficiency as much as possible instead of operating in accordance to the flawed perception that the entire given budget must be spent.

For this reason non-commercial goals – if there are any – need to be very clearly stated. The SOE needs to prepare a budget, where clearly and transparently stated non-commercial goals are taken into account. It does not have a direct profit and loss responsibility because by being assigned non-commercial goals, the enterprise is given targets which usually won't allow it to operate in profit. However, such an enterprise should still put in effort so as to carry out the assigned non-commercial functions at lowest possible costs – a task that requires a transparent and efficient financing system of non-commercial functions.

Different legal forms of SOEs should not become a pretext to avoid implementation of transparent and efficient governance principles. You can have the whole spectrum of SOEs, ranging from organizations which carry out solely commercial functions all the way to enterprises that provide a necessary public service at a loss. There are different legal forms of SOEs in Lithuania as well – there are corporate legal forms and statutory enterprises. However, regardless of the legal form of an SOE or the functions it carries out, one should try to maximize the efficiency of the way these companies are working. Therefore it's important for policy-makers to understand that bringing changes to such enterprises is actually not about stubbornly doing things in a particular way – it's all about maximizing the efficiency for the benefit of society.

A very important role in the governance of SOEs is played by the boards. In order to help SOEs maximize the benefit they provide to the society, the boards of SOEs should be comprised of specialists with good command of business principles. Of equal importance is electing the right chair of the board. It's difficult to say whether the chairperson should be an independent person or someone from the public sector. However, it is quite clear that the CEO of the company should not also be the chairman of its board.

The SOEs' boards should consist of active members who can offer relevant knowledge and insights that would benefit the company. Unfortunately, in various countries SOEs' boards are comprised of people who are looking for what to do when they perhaps lose a high office. Whenever it is possible, such occurrences should be avoided. Moreover, there should be a clear distribution of responsibilities within the board as well as between the board and the senior management. It is also advisable that the SOEs have specific committees, like risk committee, finance committee or audit committee, which would be composed either of members of the board or people accountable to them.

Finally, it should be emphasized that the SOEs can be an enormous force for good in implementing corporate social responsibility (CSR) standards across a country. If the SOEs insisted that all of their suppliers sign up to anti-corruption, environmental or employment standards, then through their supply chain they could have a large beneficial impact on privately-run businesses of all sizes. This can be achieved by having an open bidding system and demanding that only companies that have the right CSR standards can bid to provide an SOE with products or services. Similar models are currently being implemented by Transparency International in, for example, Egypt or India. SOEs can have a significant impact, particularly because SOEs are often involved in very large scale infrastructure projects and the incentives to get these contracts on the part of the private sector are very great.

SOE Good Corporate Governance Index

The annual SOE report presents the assessment of the SOE good corporate governance practice already for the second year in a row. Compared to the previous year, this time the list of criteria has been extended slightly and is not limited only to the formal requirements for good corporate governance set out in the Ownership Guidelines and the Transparency Guidelines, but also takes into account the world good corporate governance practice, the OECD recommendations, and experience of foreign countries. Thus efforts have been made to represent the quality of corporate governance of different enterprises in the best possible way and encourage them to go further, without limiting themselves to the fulfilment of compulsory requirements only. This means that this year the enterprises have been subject to higher requirements, and some of the criteria that in the previous year had been applied only to the major enterprises (for example, the presence of various committees in boards) or to a certain group of enterprises (for example, the presence of independent board members only at state-owned public and private limited companies) were applied to all SOEs this

As a result of these changes, it is not possible to compare this year's good corporate governance index with that presented in the SOE annual report for 2012. Thus the estimates of the 2012 index have been adjusted in this report for the purpose of comparability. It should be noted that often an assessment depends not only on an enterprise's efforts to improve the quality of governance, but also on the existing legal environment. For example, the legal form of 'the state enterprise' currently limits the possibility of including independent members in boards. Nevertheless, the key purpose of the index is to assess the quality of governance of the enterprises irrespective of the reasons that gave rise to that particular governance model.

Similarly to the previous year, three key criteria were selected for compiling the good corporate governance index: transparency, boards, and quality and implementation of corporate strategies. These aspects of SOE governance are constantly monitored by the Governance Coordination Centre which presents annual reports to the Government on the quality of strategic plans and publishes interim and annual summary reports on SOE activities.

The good corporate governance index has been compiled on the basis of questionnaires completed by SOEs and/or institutions exercising the rights of SOE owner or shareholder; the questionnaires were completed during the period from 28 April 2014 to 31 June 2014. In addition, the index includes the results of the SOE strategy quality assessment carried out by the Governance Coordination Centre at the end of 2013. With regard to the provisions of the Ownership Guidelines, the SOE profitability was chosen as one of the index criteria, which was evaluated on the basis of the SOE return on equity and net profit indicators for 2013.

When designing the index, the size, legal form and activity objectives of the enterprises were taken into consideration (enterprises engaged in commercial operations were subject to higher profitability requirements than enterprises carrying out noncommercial activities).

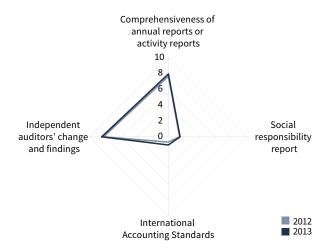
The index incorporates data on all SOEs collected from the enterprises themselves or institutions exercising the rights of their owner or shareholder, with the exception of the Lithuanian Athlete Training Facility that provided no information. The Giraitė **Armament Factory** failed to provide information on its board. It is noteworthy that in the analysis the enterprise EPSO-G was replaced with its subsidiary Litgrid.

This year the list of criteria has been extended, seeking to quality of corporate governance of different enterprises and to encourage the implementation of necessary requirements only.

Transparency

The transparency of the SOEs was assessed according to the following criteria:

- >> Comprehensiveness of the SOE summary reports (annual reports) with respect to the requirements of the Transparency Guidelines;
- >> SOE social responsibility reports;
- >> Change of independent auditors and the auditors' (unconditional or modified) opinion on the SOE financial statements, provided in the audit findings;
- **»** Application of the International Accounting Standards in compiling the financial statements as recommended in the Transparency Guidelines.



Each SOE has to prepare annual reports (public and private limited companies) or annual activity reports (state enterprises), the comprehensiveness and publicity of which areensured by the requirements of the Transparency Guidelines. The SOE survey has revealed that, compared to 2012, the quality of the enterprises' summary reports and annual reports has slightly improved. The reports prepared are fairly detailed; however, similarly to the previous year, the provided overview of the risk factors is still insufficient and there is too little information on the dividend policy or the size of profit contributions. The lack of information on the risk factors in the activity reports prevents the shareholder from having a reasonable opinion on the possible future activities of an SOE, and indicates possible problems with SOE strategic planning and risk management. This is particularly relevant for the forestry sector enterprises in whose activity reports the presentation of the risk factors is the most inadequate among all SOEs.

Based on international good practice, enterprises should be accountable not only to the shareholder but also to all other interested parties, including creditors, employees, customers and the public. The practice when companies, taking the needs of all interested parties into account, integrate social, environmental and ethical principles in their activities is called corporate social responsibility (CSR). In estimating the good corporate governance index this year, the SOE social reasonability has been assessed on the basis of two criteria: comprehensiveness of information on implemented social and environmental initiatives provided in the enterprises' activity reports or annual reports (this requirement is set out in the Transparency Guidelines), and whether enterprises have separate CSR reports in place. The survey has shown that the reports of only one-fifth of the enterprises present detailed information on the social responsibility policy implemented, while separate CSR reports are published only by **LESTO** and **Lietuvos Energijos Gamyba**, subsidiaries of **Lietuvos Energija**. For this reason, both this and the previous year this criterion was almost the same and very low.

The International Accounting Standards (IAS) increase the comprehensiveness and reliability of financial statements; corporate financial statements become comprehensible and comparable on an international level, differences in the accounting practice as well as the risk of distortion are reduced. Although the Transparency Guidelines recommend applying IAS to all SOEs, at the end of 2013 the International Accounting Standards were used only by 14 out of 136 SOEs. Even though the number of such enterprises remains small, it is noteworthy that it has increased over the year: at the end of 2012 only nine SOEs were using IAS (IAS were introduced in the accounting of Kaunas Airport, Palanga International Airport, the Lithuanian Radio and Television Centre, Indėlių Ir Investicijų Draudimas and Investicijų Ir Verslo Garantijos. As a result of the increased number of SOEs applying IAS, this 2013 good corporate governance index criterion improved slightly compared to 2012. With regard to the major enterprises (classified within Categories 1 and 2) for which the application of IAS is most relevant, only eight companies out of 25 were using the International Accounting Standards. The remaining 17 enterprises, including among others the **Lithuanian** Railways, the Klaipėda State Seaport Authority and the road maintenance enter**prises**, were applying the business accounting standards.

The assessment of the quality of SOE financial statements is facilitated by the opinions of independent auditors, who have conducted an enterprise's financial audit, presented in the auditors' findings. Such opinions may be unconditional (the financial statements in all significant aspects meet the requirements of the financial accounting standards applied) and conditional (significant distortions are found in the financial statements, or the audit evidence is not sufficient to justify the findings that the financial statements are not distorted). Auditors' conditional opinions have been expressed at least once within the last three years with respect to 13 SOE financial statements, and 14 SOEs have received such auditors' opinions at least twice. Compared to the 2012 data when these numbers had been 32 and 17, respectively, an improvement is evident. However, this year's index also included the question on how often the enterprises had changed their independent auditors in the last seven years. The fact that as many as 10 enterprises have not changed their independent auditors even once and another 25 enterprises have changed their auditors just once raises concerns. The attachment to one auditor increases the possibility of corruption; therefore, the regular change of independent auditors is good practice. It is the inadequate change of independent auditors that made the criterion of the 'Change and findings of independent auditors' improve only slightly.

Boards

Compared to the previous year, this year several important changes have been made in assessing the SOE boards. First, the supervisory boards rather than the boards of Lietuvos Energija and Litgrid were included in the assessment as in these enterprises the supervisory boards are the major collegial governing bodies directly elected by the shareholders and supervising the work of the executives.

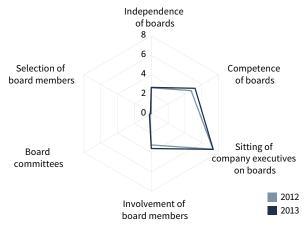
The second change was that certain good corporate governance requirements, which under the Ownership Guidelines should be applied only to major state-owned public and private limited companies, have been used for all SOEs this year.

The SOE boards were assessed on the basis of the following aspects:

- >> Independence of board members (number of independent members on company boards and the number of SOE board members not taking part in sector policy making);
- >>> Competences of the board (competences in the fields of finance, strategic planning and the relevant sector were assessed, as indicated in the provisions of the Ownership Guidelines):

- Sitting of SOE executives on boards (supervisory boards);
- >>> Board members' involvement in board work: sitting on several boards and the number of board meetings called;
- >> Formation of board committees;
- >> Procedure for selection of board members.

The number of SOEs with boards increased by one enterprise over the year; of 136 enterprises assessed when compiling the index, SOE boards existed at 116 enterprises: 39 companies and 77 state enterprises. It should be noted that some major SOEs such as **Visagino Energija** (Category 2) and the **Lithuanian Oil Products Agency** (Category 1) still have no boards.



The involvement of independent members in SOE boards helps the boards to achieve a higher level of autonomy and expertise. In most European countries independent members comprise one-third or more members on SOE boards. In Lithuania this practice is quite new: of all SOEs, the collegial bodies of only 11 enterprises have independent members. With respect to the major SOEs, **Lietuvos Energija** has three independent members of the supervisory board, the enterprises **Klaipėdos Nafta**, **Lithuanian Post**, **Lithuanian Shipping Company** and **Lithuanian Radio and Television Centre** each has two independent members on their boards, and the **Lithuanian Railways** has only one independent board member. It is noteworthy that the-**Lithuanian Railways** is the only enterprise that fails to comply with the Ownership Guidelines principle which requires each Category 1 and 2 enterprise to have at least one-third of independent board members. Of the minor enterprises, the **Lithuanian Mint** and **LITEXPO** both have two independent members on their boards, whereas **Smiltynės Perkėla** and **Toksika** have only one independent member each.

SOEs with the status of a state enterprise have no independent board members at all. The reason behind it is that, in accordance with the Law on State and Municipal Enterprises of the Republic of Lithuania, 'board members of state enterprises may only include civil servants of an institution exercising the rights of that enterprise's owner and the chief executive of that enterprise'. At present, the Parliament is debating an amendment to this law that will allow involving independent members in the boards of state enterprises.

Out of 136 enterprises, only 60 enterprises (including 42 **forest enterprises**) have indicated that their board members take no part in the policy making of the sector in which the enterprise operates. This shows that SOE managers have not yet succeeded in implementing one of the key principles of good practice: to unbundle the functions of exercising the enterprises' ownership rights from the policy making (sector regulatory) functions.

The involvement of independent members in SOE boards helps the boards to achieve a higher level of autonomy and expertise.

The board competence assessment indicator has slightly improved: more enterprises or institutions exercising their owner or shareholder rights have indicated that their boards possess all the three key competences (strategic planning, finance and sector) identified in the Ownership Guidelines. It should be noted that these competences have been gained mostly through the board members' work in the public sector. This demonstrates that SOE boards may lack the experience in business management, which is necessary in order to ensure successful competition of SOEs in the market. 21 enterprises indicated that all the three competences their board members possess were gained in the private sector.

Normally SOE boards (supervisory boards) do not include employees of those SOEs (the collegial bodies of 61 enterprises have their employees, but as many as 42 of such undertakings are forest enterprises where one of the board members is the forest management official of a respective forest enterprise), and none of the SOEs has its CEO as chairman of the board (supervisory board). This means that the SOE boards enjoy considerable independence from management.

For analysing the involvement of board members in board work, the following two criteria were taken into account: whether board members of an enterprise sit on boards of more than three other companies and the frequency of SOE board meetings. As many as 87 SOEs have indicated that at least one member of their boards sits on the boards of more than three enterprises. This practice fails to ensure that a board member will devote sufficient time and attention to understanding the enterprise's activity and its problems. It should be noted that the same board members sit on the boards of the forest enterprises and the road maintenance enterprises, companies engaged in the same type of activities in each respective sector. This leads to the opinion that in reality one common board could control each of these enterprise groups. The survey has also shown that as many as 79 SOEs held less than six board meetings in 2013. The absolute record breaker with the number of meetings called is Investicijų Ir Verslo Garantijos whose board held as many as 55 meetings during 2013 (this is determined by the unique character of the functions of this enterprise's board). Meanwhile, on the opposite side was Mintis which called only two meetings during the year. The 42 forest enterprises each called also only 3.5 meetings on average in 2013.

It should be noted that SOEs do not apply the practice of board committee formation. Based on the information provided by the enterprises, the Audit Committees exist only in three SOEs (Lietuvos Energija, Klaipėdos Nafta and Lithuanian Shipping Company), and the Remuneration Committee that makes decisions regarding management remuneration has been formed only at Lietuvos Energija. In this respect, Category 1 and 2 enterprises fail to comply with principle stipulated in the Ownership Guidelines, which requires the establishment of these committees in the largest SOEs. As mentioned before, this year the presence of these committees has been assessed in all SOEs and not only in the largest enterprises.

Transparent and professional selection of board members is especially important with a view to ensuring the formation of independent and competent boards. Unfortunately, this indicator received very poor assessment in both the previous and this year. Lietuvos Energija is the only company that has at least one board member appointed by the Selection Committee, which, in accordance with the Ownership Guidelines, is supposed to approve candidates for all major SOEs. In addition, only two enterprises (Lietuvos Energija and Lithuanian Mint) held an open selection when appointing their board members. The assessment of the board member selection criterion shows that special attention should be devoted to the improvement and the enhancement of transparency of the board formation process in order to select independent and professional boards.

Transparent and professional selection of board members is especially important with a the formation of independent and competent boards.

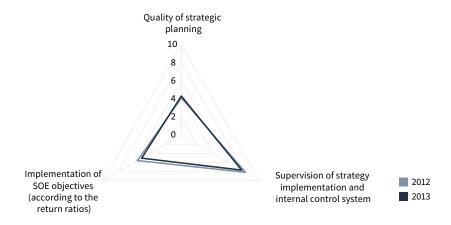
Strategic Planning and Internal Control

The assessment of strategic planning and internal control within SOEs includes:

- >> The results of the SOE strategy quality assessment carried out by the Governance Coordination Centre at the end of 2013;
- Information provided by the SOEs on the performance of their internal control systems and internal audit;
- >> The SOE evaluation with regard to the profitability indicators achieved in 2013.

The preparation of strategic plans is currently the weakest link in the SOE strategic planning and strategy implementation. Of the total SOE strategic plans prepared, 21% were evaluated by the Governance Coordination Centre as well or very well prepared (17% in 2012), while 34% were rated as of unsatisfactory quality and subject to correction (32% in 2012).

As of 31 June 2013, there were only 24 independent members on the boards or the supervisory boards of the SOEs or their major subsidiaries.



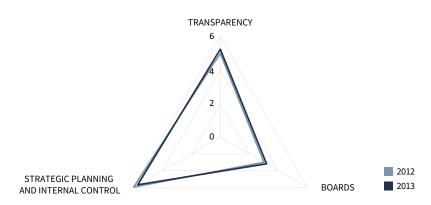
Almost all SOEs or the institutions exercising their owner or shareholder rights indicated that the enterprises conducted systematic supervision of their strategy implementation, and 45% claimed that they have the procedure for strategy implementation laid down in their internal documents (50% in 2012). In addition, based on the questionnaire information, almost all SOEs had a fully or partially operational internal control system and the internal control procedures and measures for managing the risk factors in place. Almost all major state-owned enterprises have periodic audits. The criterion of the strategy implementation supervision and the internal control system was similar both in 2012 and 2013. However, due to the lower number of enterprises which indicated having the strategic implementation supervision procedure laid down in their internal documents, this year the result of this criterion has slightly dropped.

Nevertheless, even the internal control procedures in place fail to ensure good SOE results. In 2013, out of 60 enterprises assigned to Groups 1A and 1B, 23 enterprises exceeded the 5% annual rate of return set by the Government for 2013–2015 (the assessment excluded the forest enterprises which have an individual general profit target set for them). As a comparison, in 2012 there had been 21 such enterprises out of 59. However, with regard to Group 2 enterprises that have the purpose of achieving profitable operations (a positive ROE ratio), the target was attained only by 25 out of 33 enterprises that submitted the questionnaires (31 out of 34 in 2012). For this reason, this year's criterion of implementation of the SOE targets was lower than that of the previous year.

General SOE Good Corporate Governance Index

To sum up the results of the SOE good corporate governance index, slight improvements are observed when it comes to transparency and boards; however, there is also a small deterioration in strategic planning and internal control. The area that needs the greatest improvement is the boards. As of 31 June 2013, there were only 24 independent members on the boards or the supervisory boards of the SOEs or their major subsidiaries (i.e. Lietuvos Energijos Gamyba, LESTO and Litgrid). Compared to the situation in February 2013, this number increased only by one member.

the individual obvious leader is



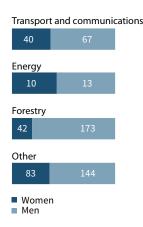
With regard to the individual enterprises, the obvious leader is Lietuvos Energija. Its subsidiaries are the only enterprises that publish the social responsibility reports, and the supervisory board of Lietuvos Energija itself has as many as three independent members out of the total of seven persons (independent members at its subsidiaries Lietuvos Energijos Gamyba and LESTO also account for one-third of their supervisory boards). The enterprise has the Remuneration and Audit Committees as well as some additional ones. Moreover, it was one of only the two SOEs to organise a public selection of a member for its collegial body.

| NO. | NAME OF ENTERPRISE | TRANSPARENCY | BOARDS | STRATEGIC PLANNING AND INTERNAL CONTROL | GOOD CORPORATE GOVERNANCE INDEX |
|-----|--|--------------|--------|--|--|
| 1. | Lietuvos Energija Group | 8.89 | 8.89 | 5.65 | 7.81 |
| 2. | Klaipėdos Nafta | 7.79 | 5.92 | 7.92 | 7.21 |
| 3. | Oro Navigacija | 7.90 | 3.67 | 9.10 | 6.89 |
| 4. | Smiltynės Perkėla | 5.75 | 5.83 | 8.92 | 6.83 |
| 5. | Investicijų Ir Verslo Garantijos | 7.63 | 4.31 | 7.79 | 6.57 |
| 6. | Litgrid | 6.68 | 7.06 | 5.81 | 6.51 |
| 7. | Žemės Ūkio Informacijos Ir Kaimo Verslo Centras | 7.49 | 3.67 | 8.29 | 6.48 |
| 8. | Lithuanian Shipping Company | 7.90 | 5.86 | 5.16 | 6.31 |
| 9. | Lithuanian Post Group | 6.98 | 6.47 | 5.27 | 6.24 |
| 10. | Lithuanian Exhibition and Congress Centre LITEXPO | 4.33 | 4.39 | 9.88 | 6.20 |

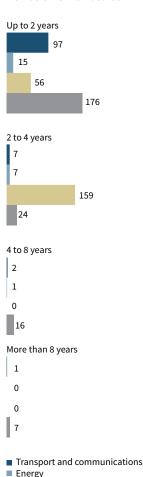
With the amendment to the Law on State and Municipal Enterprises of the Republic of Lithuania and independent members joining the boards of state enterprises, the top ten could look different next year. However, the majority of the provisions regarding transparency, boards and strategic planning that comply with the OECD recommendations and good practice already exist in the Transparency Guidelines and the Ownership Guidelines, and all that is needed is just a little bit more attention to their implementation so that the governance of as many Lithuanian SOEs as possible would be based on provisions that are in line with the international good practice.

Overview of SOE Board Members

Gender of board members



Length of time board members work on boards



Strategic governance of SOEs is often entrusted to a collegial body – a board or a supervisory board. Therefore, with a view to enhancing the efficiency and competitiveness of SOE activities, it is important to ensure that board members meet at least the minimum requirements for qualification and independence. To find out the competences, work experience and education of board members, in the first half of 2014 the Governance Coordination Centre carried out a survey among SOEs and (or) institutions exercising their owner or shareholder rights (IESRs) on the members of the collegial bodies of state-owned enterprises. Full or partial information was provided by 136 SOEs or IESRs. Presented in this section below is an analysis of 116 SOE boards. In the first half of 2014, **EPSO-G** had no collegial body, but instead of it the analysis includes the collegial body of its subsidiary **Litgrid**.

As of 31 May 2014, SOEs had 572 posts for board members, held by 252 persons. The majority of members filled these posts only at one or several SOEs; however, there are persons among them who perform these duties at as many as 21 SOEs. The cases of the **road maintenance enterprises** and the **forest enterprises** are exceptional. Eleven state enterprises engaged in road maintenance functions are governed only by five persons. Meanwhile, the duties of board members at the **forest enterprises** are performed by eight persons, of whom each one governs 21 **forest enterprises**, constituting a total of 42 boards (together with the forest management official from each forest enterprise). It should be noted that, in the case of **Lietuvos Energija** and **Litgrid**, members of the supervisory boards rather than of the boards were included in the analysis as the boards of these companies are composed of their executives and it is their supervisory boards that represent a collegial body directly elected by the shareholders and supervising the work of the companies' top management.

In various OECD countries while forming the boards efforts are made to attract members of the most varied age, experience, competence, profession and origin, and the gender equality principle is complied with (e.g., in Sweden there should be at least 40% of each gender represented on boards). On the boards of Lithuanian SOEs, women fill 31% of the posts. In the energy sector, women account for 43% of all board members. The smallest share of women (20%) is found on boards at the enterprises in the forestry sector.

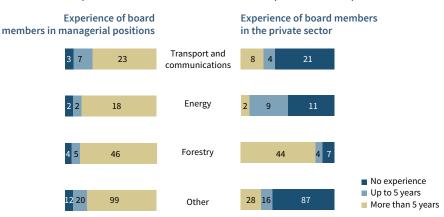
The average length of work of board members on boards within different enterprises is two years, but SOE boards have members who have been performing these duties for more than eight years. Based on the survey questionnaires completed by SOEs or IESRs, the number of such board members at the beginning of 2014 was eight, including the board members of the SOEs assigned to Categories 1 and 2 – **Klaipėda State Seaport Authority** and **Registrų Centras**. The board of the **sanatorium Pušyno Kelias** is the oldest in terms of the length of time in office as its members have been performing their duties for nine years on average. As a board's term of office normally lasts four years, such statistics indicate that either the boards of the majority of enterprises were formed rather recently or many enterprises have a high turnover of board members. The latter trend could have a negative effect on the efficiency of boards' work and the consistent implementation of long-term objectives.

Based on the good practice from private sector and foreign countries, nominees for board members are most often persons with long-term experience in executive positions. Also, the board members' experience in business structures is taken into consideration. In Lithuania, just below one-tenth of unique SOE board members about whom information was provided (21 out of 241) have no experience in managerial positions (the positions of head of a division or department at an enterprise or a state institution are also considered to be a managerial job). However, more than a half of all these unique board members (126) have never worked in the private sector before.

Forestry

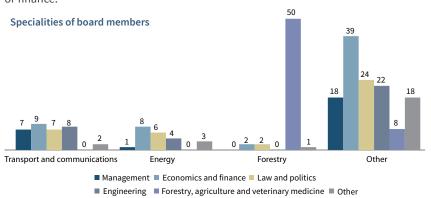
Other

During this survey, work at SOEs (except for work on SOE boards or supervisory boards) was considered as work in the private sector. For this reason, the largest share of board members with experience in the private sector was found among the forestry sector where the majority of board members had gained experience in state-owned forest enterprises (as forest management officials). It is also noteworthy that the Law on State and Municipal Enterprises of the Republic of Lithuania stipulates that board members of state enterprises (SEs) may only include civil servants of an institution implementing the rights of that enterprise's owner, and the CEO of that enterprise. Therefore, a large part of board members of 86 enterprises that have the legal form of a state enterprise are civil servants with no work experience in the private sector.



As required under the Ownership Guidelines, all members of SOE boards in Lithuania have higher education. The majority of board members (85% or 205 persons) have a Master's or an equivalent degree, of which 7 persons possess a Master's degree in Business Administration (MBA). Eighteen board members have completed only Bachelor studies, and 18 persons have a doctoral degree.

For ensuring its efficient work, each board must have all the necessary competences, e.g., financial, legal, managerial, knowledge of a specific sector of economy, etc. Specialities enjoying the greatest popularity among board members of Lithuanian SOEs are those of a forester, agronomist or a veterinarian (24%) and economist or accountant (24%). Out of all the board members about whom information was provided, 17% have a legal education; 14% are engineers, and 11% are persons who have completed management studies. Studies in forestry, agriculture or veterinary medicine have been completed by those board members who work at forest or agricultural enterprises. One-fourth of all the board members in the transport and communications sector enterprises are engineers, and about 30% of the board members in the transport and communications and energy sectors as well as the sector of other enterprises have education in economics and finance (banking). Evaluating the education of board members by individual sectors, it is evident that strategic governance of Lithuanian SOEs involves persons with different competences who often comply with the specific character of an enterprise's operations. Only the forestry sector appears to be exceptional as it significantly lacks representatives of the fields of management, economics or finance.



Education of board members Bachelor Master Master of Business Administration (MBA) PhD

Special Obligations of **SOEs**

Until now, special obligations performed by SOEs in Lithuania have not been identified or defined clearly. To solve these problems, in 2013 the Government began the separation of special obligations.

Implementing the state asset management policy, Lithuanian state-owned enterprises are often engaged in both commercial activities and special activities and functions assigned by the state so as to ensure the implementation of the state's social and strategic objectives or the provision of public services (for example, the **Lithuanian Post** has an obligation to ensure the provision of universal postal services and the delivery of periodicals to subscribers in rural areas). The special functions of national importance performed by SOEs incorporate non-commercial special obligations (hereinafter 'special obligations') that bring no profit to the enterprises and their fulfilment entails losses which are financed from the state budget or from profit of commercial activities.

Special obligations are functions performed by SOEs that a company would not assume on a commercial basis (or would do that for a price higher than the set price) and that are assigned to enterprises by decisions of the shareholder/owner, i.e. the state.

The performance of special obligations, unless compensated from the state budget, has a negative effect on an enterprise's overall financial results (including its commercial activity). An illustrating example could be the passenger transportation on local routes by the **Lithuanian Railways:** this activity is loss-making and is covered by profit from the company's commercial activities. Therefore, when evaluating SOEs and work of their governing bodies as well as determining operational objectives and the required rates of return, it is important to ensure due separation and elimination of the special obligations effect on an enterprise's financial results. SOE commercial activities should be evaluated separately, with a focus on business value growth and return on capital invested by the state. The evaluation of the implementation of special obligations, which often reflect the strategic, social and political objectives of the state, should be carried out using a separate methodology based on the evaluation of both the specific price, quality and scope criteria and the efficiency of implementation. This requires a transparent and clear division of SOE activities into commercial functions and special obligations.

Problems of Carrying Out Special Obligations in Lithuania

Until now, special obligations performed by SOEs in Lithuania have not been identified or defined clearly, and no criteria for their scope and quality have been established. Part of SOEs has not carried out separate accounting and analysis of the financial results of special obligations. Therefore, the scope and price of special obligations performed by SOEs, as well as their influence on overall SOE results, were unknown. The inadequate transparency of financing made it impossible to determine whether enterprises performed and financed their non-commercial functions efficiently as often the state funds for the performance of special obligations were allocated regardless of the capital costs (the acceptable rate of return). Also, up to this date there are many aspects of the legal framework that still need to be improved.

To solve these problems, in 2013 the Government began the separation of special obligations. An amendment to the Transparency Guidelines established the disclo-

sure of information on special obligations performed by SOEs together with annual reports, as well as publicity of this information. In order to help the enterprises ensure the correct identification of special obligations performed as well as help separate the evaluation of financial results from special obligations and commercial activities, the Ministry of Economy has approved recommendations for identifying SOE special obligations and providing information on them (hereinafter 'the Recommendations').

The separation of special obligations and commercial functions has two aims:

- "Identifying special obligations performed by SOEs, estimating their scope and price of performance and determining the effect of such performance on the enterprises' operating results;
- >> Enhancing the transparency and accountability of SOEs as well as implementing the good governance practices of SOEs and the recommendations of the Organisation for Economic Cooperation and Development (OECD).

Benefit of separation of special obligations (SOs)

| | Will allow defining SOs, determining their scope and price of performance on the scale of all Lithuanian SOEs |
|---|---|
| | Will allow analysing the effect of SOs on the operating results, and assessing SOE operational risks |
| | Will provide information for governance decisions of better quality and disclose the potential for increasing efficiency |
| To the state/shareholders/ institutions implementing the | Will allow setting separate objectives for SOE commercial activities and SOs, and improve comparability with similar enterprises |
| owner's rights and duties | Will disclose the potential for improving the SO regulation and compensation mechanisms |
| | Will allow identifying the criteria and accountability for the performance of functions, and enable the beginning of SO implementation monitoring |
| | >> Will allow controlling the use of budget funds assigned for the performance of SOs |
| | >> Lithuania will become the leading country in the implementation of the SOE good governance practices |
| | The scope of special obligations and their effect on SOE activities will be disclosed |
| | to the public and other market participants for the first time |
| To the public and other market participants | Will allow ensuring equal competitive conditions for all market participants as well as reducing market distortions |
| | Will create conditions for enhancing the quality of public services provided to the society |
| | >> Financial objectives will be set for enterprises' commercial activities, while SOs will |
| | be evaluated according to the implementation criteria |
| | More detailed information will allow conducting a comprehensive evaluation of an enterprise's results and taking governance decisions of better quality to improve the enterprises' performance |
| To state-owned enterprises | » Quality separation of cost accounting will be useful in justifying the cost of regulated pricing services and the service charges determined on its basis |
| | Will serve as an impulse for improving the accounting policy and developing the information systems |
| | Will reveal legal loopholes, cases of cross-subsidies and other undue practices: this will create preconditions for initiating adequate and sufficient compensation mecha- nisms |
| | |

OECD Recommendations

Implementing the separation of special obligations, Lithuania follows the OECD Guidelines on Corporate Governance of State-Owned Enterprises and the recommendations for accounting and transparency – documents that summarise international good practices. In separating commercial functions from special obligations, the OECD recommends complying with the three key criteria:

- >> Fulfilment of special obligations must be assigned by legal acts, be clearly regulated and public, and enshrined in the enterprises' articles of association and operational documents.
- >> In the SOE accounting, the financial results of special obligations should be separated from the results of other activities.
- >> Transparent models of compensation of special obligations must be applied that would minimise market distortions, and any financial support received, including direct payments and state guarantees, must be disclosed to the public.

The appropriate compliance with these provisions is important for ensuring equal conditions of competition for public and private sector entities as well as it promotes public discussion on the relevance of obligations assigned, their impact on the budget and alternative sources of financing. The OECD stresses that, following the identification of SOE special obligations, it is necessary to discuss each of them, once again evaluate their relevance, and try to find alternatives that would have a minor effect on both market distortions and the efficiency of SOEs. Discussions about financing mechanisms for special obligations could also promote the use of measures that distort competition to a lesser extent.

Direct funding
from the state
budget is public
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minimises market
distortions.

Mechanisms of Compensating Special Obligations

Having regard to the financing mechanisms for special obligations, the recommended direct funding from the state budget is public and transparent, and therefore it enhances accountability, distributes the cost of performance of special obligations evenly among all taxpayers and minimises market distortions. When a competitive market exists, it is recommended to organise a tendering procedure for the procurement of services involving alternative suppliers, by 'commercialising' the provision of services and promoting efficiency. For implementing this mechanism, an accurate estimation of the costs of performance of special obligations is especially important.

When the performance of special obligations is compensated from the segments of an enterprise's commercial activities, it has a negative effect on the possibilities of SOEs to achieve the set financial targets. Thus, the Government may set lower return expectations for enterprises that perform special obligations. Nevertheless, such a compensation mechanism reduces transparency and accountability and negatively affects cash flows of enterprises.

Other possible financing mechanisms such as consumer charges, direct payments to consumers or receipt systems have both advantages and disadvantages and are suitable in exceptional cases, but they are not universal. Meanwhile cross-subsidies, often used by enterprises, 'conceal' the cost of performance of special obligations and diminish transparency, promote inefficiency and artificial increase of costs; therefore, they are less desirable.

Disclosure of Financial Information on Special Obligations

In 2014, following the new version of the Transparency Guidelines and the Recommendations of the Ministry of Economy, SOEs for the first time have provided infor-

mation on their non-commercial functions, i.e. functions which are not financially attractive, but their performance helps to implement the state's social and political objectives or is related to the strategic interests of the country. The data on functions performed were provided for 2012 and 2013.

The financial data on special obligations are presented on the basis of information provided by enterprises about their non-commercial functions and the effect of these functions on the financial results, as well as the analysis of the Governance Coordination Centre. The aggregate information on non-commercial functions disclosed for the first time allows conducting an objective evaluation of:

- » the impact of non-commercial functions assigned by the state on the profitability of the SOE portfolio and other financial indicators;
- >> the scope of the costs of performance of non-commercial functions funded from the budget and not reflected in the profit and loss statements.

It is noteworthy that the analysis excludes the functions assigned to enterprises by the state, the regulated pricing of which ensures compensation of costs by consumers, i.e. commercial special obligations (for example, electricity generation, distribution, transmission and other related services). Excluded are also the functions that, if evaluated separately, are not financially attractive, but are necessary for receiving financial benefit from other (commercial) functions (for example, reforestation and enlargement of forest resources). It is expected that this analysis will help to increase the efficiency of mechanisms of financing special obligations and ensuring their quality performance, and will enable enterprises to set more accurate financial objectives in the future, with account of the burden of performance of non-commercial functions placed on them.

Financial Results of SOE Special Obligations

| PROFIT (LOSS) | | 2012 | | | 2013 | |
|-------------------------------------|---|------------------------|------------|---|------------------------|------------|
| STATEMENT (LTL '000) | COMMERCIAL FUNCTIONS AND THE NON-ALLOCATED PART | SPECIAL OBLIGATIONS | TOTAL | COMMERCIAL FUNCTIONS AND THE NON-ALLOCATED PART | SPECIAL OBLIGATIONS | TOTAL |
| Sales revenue | 6,864,841 | 395,540 | 7,260,381 | 7,063,593 | 465,549 | 7,529,143 |
| Cost of goods sold | 4,227,871 | 380,153 | 4,608,024 | 4,111,733 | 489,821 | 4,601,553 |
| Gross profit (loss) | 2,636,970 | 15,387 | 2,652,357 | 2,951,861 | -24,271 | 2,927,589 |
| Operating expenses | 2,236,337 | 194,764 | 2,431,100 | 2,415,228 | 151,275 | 2,566,503 |
| Operating profit (loss) | 400,633 | -179,376 | 221,256 | 536,633 | -175,547 | 361,086 |
| Grants related to revenue | 5,693 | 8,510 | 14,202 | 8,228 | 9,251 | 17,480 |
| Other activities | 42,737 | 5,869 | 48,607 | 46,059 | 731 | 46,789 |
| Financial and investment activities | -23,484 | 3,876 | -19,607 | -31,562 | 1,857 | -29,705 |
| Profit (loss) before tax | 425,579 | -161,121 | 264,458 | 559,358 | -163,707 | 395,650 |
| BALANCE SHEET (LTL '000) | | 31 DEC 2012 | | | 31 DEC 2013 | |
| Total assets | 25,812,221 | 3,838,813 | 29,651,033 | 26,702,274 | 4,116,090 | 30,818,364 |
| ROA | N/A | N/A | N/A | 2.1% | -4.1% | 1.3% |

Based on information received from 137 SOEs, more than a half of them perform special obligations. In 2013, 74 enterprises had special obligations, but as many as 42 of them were forest enterprises and 11 were road maintenance undertakings. Of the enterprises that performed special obligations, 12 enterprises that incurred

Based on information received from 137 SOEs, more than a half of them special obligations in 2013.

costs from special obligations did not account for such costs in part or in full in the profit and loss statements; instead, these costs were directly compensated from the state budget or other sources of funding, reducing the cost of goods sold or operating expenses by the amount of the compensation. Presented below is the aggregate financial information of all SOEs, divided into the segments of special obligations and commercial functions and the non-allocated part. The total portfolio of SOE special obligations includes 134 enterprises. Due to the lack of comparable data for 2012, the **Public Investment Development Agency** and **Lietuvos Žirgynas** have been excluded from the portfolio. The portfolio also excludes **Kiaulių Veislininkystė** as this enterprise was not yet operating in 2013. The aggregate financial data do not match the SOE portfolio information because the number of enterprises included in the SO portfolio differs from that of the SOE portfolio and because the financial data of some enterprises were corrected with a view to disclosing the true impact of special obligations on the enterprises.

Sales Revenue and Profit

In 2013, the portfolio's total sales revenue amounted to LTL 7.5 billion. Most of this sum (93.8%) was earned from activities not classified as special obligations. In 2012, revenue from commercial activities had accounted for an even larger share (94.6%) of total sales revenue. With a view to disclosing both sales revenue and profit (loss) before tax of special obligations with greater accuracy, revenue and profit before tax of the **Lithuanian Oil Products Agency** for 2012 were reduced by LTL 44.6 million due to a one-time inconsistency of revenue and expenses as a result of the different quantity of fuel sold and purchased. Also, in order to disclose the true impact of special obligations on the company's financial results, both in 2012 and 2013 the asset depreciation deductions and the losses incurred from the bankruptcy of the banks accounted for in 2012 were eliminated from the operating expenses of the **Ignalina Nuclear Power Plant**.

In 2013, the performance of SOE special obligations operations brought sales revenue of LTL 465.5 million, but the cost of goods sold and operating expenses exceeded revenue significantly, which resulted in LTL 163.7 million loss before tax from special obligations. Meanwhile, profit before tax earned from commercial activities and the non-allocated part amounted to as many as LTL 559.4 million. In 2012, loss from special obligations had been almost identical to that incurred in 2013 and had stood at LTL 161.1 million, although revenue had been lower by LTL 70 million due to lower revenue from the sale of fuel generated by the **Lithuanian Oil Products Agency**. In 2012, profit before tax of commercial activities and the non-allocated part had been by 23.9% lower than in 2013 and constituted LTL 425.6 million due to less favourable results of the **Lietuvos Energija Group**.

Assets

In 2013, assets of enterprises included in the portfolio totalled LTL 30.8 billion, of which only 13.4% (LTL 4.1 billion) were directly assigned to the functions of special obligations. In 2012, assets of the functions of special obligations had been by LTL 277.3 million lower and had accounted for 12.9% of the portfolio's total assets. In 2013, the greatest share of assets from special obligations (LTL 2.1 billion) was owned by the Ignalina **Nuclear Power Plant**. The 2013 ROA of commercial functions and the non-allocated part was 2.1%, whereas the activities of special obligations alone generated a negative return on assets (-4.1%) to the state.

Special Obligations Generating Highest Costs

Below is the information on special obligations that generate the highest costs.

The state incurs the greatest expenses for the maintenance of roads of national importance and the implementation of traffic security. Eleven enterprises engaged in these activities incurred expenses of LTL 201.5 million in 2013. Although these activi-

| ENTERPRISE | SPECIAL OBLIGATION | SO REVENUE (LTL '000) | SO COSTS (LTL '000) | COSTS EXCLUDED FROM PROFIT (LOSS) STATEMENT (LTL '000) | LOSS OF ENTERPRISES NOT COVERED FROM EXTERNAL SOURCES (LTL '000) |
|-----------------------------------|--|-----------------------|---------------------|--|---|
| Road maintenance enterprises | Maintenance of roads of national importance and implementation of traffic safety measures on such roads | 197,907.7 | 201,474.1 | 0.0 | -3,566.4 |
| Lithuanian Railways Group | Public services of passenger transport by rail on local routes | 35,381.1 | 154,986.9 | 717.0 | -118,888.8 |
| Lithuanian Oil Products Agency | Purchase, sale and renewal (replacement) of the national oil product stock | 134,600.8 | 134,601.2 | 0.0 | -0.4 |
| | Sum of special obligations: | 66,341.8 | 77,048.0 | 13,968.9 | 3,262.7 |
| Lithuanian Post Group | Ensuring the provision of universal postal services throughout the territory of the Republic of Lithuania at least 5 working days a week | 53,296.4 | 50,033.8 | 0.0 | 3,262.7 |
| | Delivery of periodicals to subscribers in rural areas | 13,045.3 | 27,014.2 | 13,968.9 | 0.0 |
| Forest enterprises | Development of forest selection, conservation of genetic resources of forest, afforestation, protection of forests (fire prevention, sanitary protection) and forest adaptation to scientific and public needs | 0.0 | 26,708.8 | 870.5 | -25,638.3 |
| Ignalina Nuclear Power Plant | Safe decommissioning of the Ignalina Nuclear Power Plant | 8,656.2 | 22,484.6 | 0.0 | -13,828.4 |
| Other special obligations: | | 34,500.8 | 71,651.2 | 32,302.5 | -5,047.9 |
| Total special obligations | | 477,388.4 | 688,954.8 | 47,858.9 | -163,707.5 |

ties are funded from the state budget, in 2013 the enterprises' expenses outweighed the funding received, and the loss from special obligations had to be covered using the profit earned from commercial activities.

As many as LTL 155 million were spent to ensure passenger transport by rail on local routes. In carrying out these activities, the Lithuanian Railways earned only LTL 35.4 million worth of revenue, while the remaining expenses were covered with profit from commercial activities. Similarly to the Lithuanian Railways, many other enterprises compensate losses incurred in performing special obligations with profit from commercial operations.

In 2013, the total portfolio return on assets (using the profit before taxation) accounted for 1.3%. However, if enterprises were to receive full compensation for the performance of special obligations and needed not cover losses with profit from commercial activities, the profitability of the portfolio would increase by as much as 0.6 percentage points and would reach 1.9%. The portfolio's return on assets is calculated by dividing the profit from commercial activities by average total assets of 2012 and 2013 (of both the commercial and the non-allocated part and special obligations). The capital costs of special obligations were excluded from the estimation of the potential return, and the financial target from special obligations was taken as zero. Taking into account the capital costs of special obligations and considering them equal to return on assets earned from commercial functions (2.1%), special obligations had to earn LTL 87.7 million instead of the incurred loss of LTL 163.7 million, and potential profit before tax of the total portfolio would amount to LTL 647 million in this case.

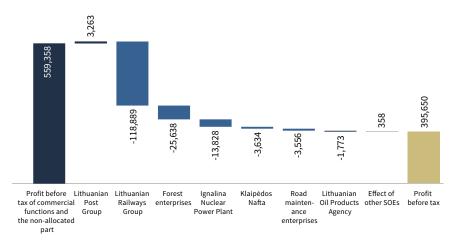
Special Obligations with the Greatest Impact on **Portfolio Profitability**

Below is the information on profit before tax of special obligations in the SOE portfolio by the enterprises which perform special obligations.

In 2013, SOEs earned a profit before tax of LTL 559.4 million from commercial and nonallocated activities. In performing special obligations, the Lithuanian Post reported a LTL 3.3 million profit before tax in 2013. This profit was earned from activities related to ensuring the provision of universal postal services throughout the territory of the Republic of Lithuania. However, the Lithuanian Post incurred a loss before tax of LTL 14 million from the delivery of periodicals to subscribers in rural areas, which was compensated by deducting the same amount from expenses, and the incurred loss was not reflected in the enterprise's financial statements.

Taking into account the capital costs of special obligations them equal to return on assets earned from commercial *functions* (2.1%), special obligations had to earn LTL 87.7 million instead of the incurred loss of LTL 163.7 million.

Loss before tax of special obligations by the enterprises (LTL '000)



The greatest
loss from the
performance of
special obligations
was incurred by the
Lithuanian Railways
– in 2013, the
enterprise posted a
loss before tax of LTL
118.9 million from
passenger transport
on local routes.

The greatest loss from the performance of special obligations was incurred by the **Lithuanian Railways**. In 2013, the enterprise posted a loss before tax of LTL 118.9 million from passenger transport on local routes, mostly compensated from profit of commercial activities. In the reference year, the state compensated only LTL 717 thousand worth of loss incurred. The actual loss from this activity amounted to LTL 126.8 million, but in 2013 the **Lithuanian Railways** received LTL 8 million of public money for compensating unearned revenue.

In 2013, 42 **forest enterprises** incurred losses of LTL 25.6 million from their special obligations. The special obligations performed by the **forest enterprises** include the development of forest selection, conservation of the genetic resources of forests, afforestation, protection of forests (sanitary protection, fire prevention), and the adaptation of forests to scientific and public needs. In 2013, the forest enterprises received LTL 871 thousand worth of grants and reduced their operating expenses by this amount. These grants are not shown in the enterprises' financial statements.

In 2013, the **Ignalina Nuclear Power Plant** incurred a loss of LTL 13.8 million from the decommissioning of the plant and the management, storage and disposal of nuclear and radioactive materials and waste. With a view to reflecting the actual level of loss from these activities, in 2013 the restatement of asset impairment equal to LTL 21.1 million was eliminated from the company's operating expenses.

Implementing the LNG Terminal project and operations, in 2013 **Klaipėdos Nafta** incurred LTL 3.6 million worth of operating expenses and, together, loss before tax as this special obligation generated no revenue that year.

The **road maintenance enterprises**, while performing their special obligations (maintenance of roads of national importance and implementation of traffic safety measures on such roads) in 2013, incurred a loss before tax of LTL 3.6 million. All 11 **road maintenance enterprises** posted losses from their core business, or special obligations, in 2013. The greatest loss (LTL 823 thousand) was incurred by **Kauno Regiono Keliai**.

The special obligations performed by the **Lithuanian Oil Products Agency**, in particular the implementation of the programme on the holding and management of the national oil products stock and the purchase, sale or renewal (replacement) of the national oil products stock, in 2013 brought losses of LTL 1.8 million. All losses were incurred while implementing the programme on the holding and management of the national oil products stock as in 2013 the amounts of the agency's oil product sales and purchases were almost identical. Moreover, in the process of implementation of the programme on the holding and management of the national oil products stock,

expenses amounting to LTL 2.8 million were directly compensated, using this amount to reduce the actual expenses incurred by the agency. The annual audited financial statements show the already reduced expenses.

The overall effect of 16 enterprises, whose financial results from special obligations are not explained in greater detail, on the portfolio's profit (loss) before tax was positive: these enterprises earned LTL 358 thousand. Of the 16 enterprises, six enterprises posted losses from their special obligations, while special obligations of the remaining 10 enterprises brought insignificant profits.

Disclosure of Special Obligations by the Sectors

Below is the financial information on special obligations by the four sectors. In providing the financial information on special obligations by the sectors, the costs incurred and their compensations, that are not reflected in the enterprises' profit and loss statements, have been added to the cost of goods sold, operating expenses and grants related to revenue. The final result - profit and loss before tax - has remained unchanged.

| PROFIT (LOSS) STATEMENT (LTL '000) | ENER | GY | TRANSPO COMMUNIO | | | | OTHER | |
|-------------------------------------|-----------|-----------|---------------------|-----------|---------|---------|-----------|-----------|
| | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 |
| Sales revenue | 27,649 | 135,023 | 340,628 | 302,442 | 0 | 0 | 27,263 | 28,084 |
| Cost of goods sold | 27,191 | 134,652 | 339,477 | 341,914 | 0 | 0 | 13,820 | 14,006 |
| Gross profit (loss) | 458 | 371 | 1,151 | -39,471 | 0 | 0 | 13,443 | 14,078 |
| Operating expenses | 26,103 | 24,617 | 147,848 | 102,362 | 25,461 | 26,709 | 39,918 | 44,695 |
| Operating profit (loss) | -25,645 | -24,246 | -146,696 | -141,833 | -25,461 | -26,709 | -26,475 | -30,617 |
| Grants related to revenue | 4,143 | 4,047 | 21,418 | 22,641 | 799 | 1,071 | 27,050 | 29,352 |
| Other activities | 5,684 | -420 | 0 | 0 | 0 | 0 | 185 | 1,151 |
| Financial and investment activities | 3,298 | 1,384 | 0 | 0 | 0 | 0 | 578 | 474 |
| Profit (loss) before tax | -12,520 | -19,236 | -125,278 | -119,193 | -24,662 | -25,638 | 1,338 | 360 |
| BALANCE SHEET (LTL '000) | | | | | | | | |
| Total assets | 2,219,404 | 2,558,005 | 2,021,784 | 2,229,467 | 29,539 | 27,295 | 1,967,601 | 1,657,097 |

In 2013, the greatest sales revenue from special obligations (LTL 302.4 million or as many as 65% of the portfolio's total revenue) was posted by the transport and communications sector enterprises. The largest revenue (LTL 197.9 million) was earned by 11 road maintenance enterprises. The Lithuanian Post also earned LTL 66.3 million, down by LTL 45.3 million year-on-year. Even though the transport and communications sector enterprises earned the greatest sales revenue, the cost of goods sold and operating expenses were also the highest there. For this reason, the sector's loss before tax amounted to as many as LTL 119.2 million in 2013. The largest loss (LTL 118.9 million) was reported by the **Lithuanian Railwais**. Meanwhile, the difference between revenue and expenses of the Lithuanian Post was almost completely compensated from the state budget.

The forestry sector enterprises generated no sales revenue from special obligations both in 2012 and 2013, and only incurred operating expenses. In 2013, operating expenses of the forestry sector (42 forest enterprises) stood at LTL 26.7 million, and its loss before tax was LTL 25.6 million due to the reduction of expenses (grants received) by LTL 1.1 million.

In the energy sector, almost all sales revenue from special obligations (99.7%) was earned by the Lithuanian Oil Products Agency. However, the biggest loss before tax was incurred by enterprises that earn no revenue but only incur expenses from special

In 2013, the greatest sales revenue from special obligations (LTL 302.4 million or as many as 65% of the portfolio's total revenue) was posted by the transport and communications sector enterprises.

obligations. Loss before tax of the **Ignalina Nuclear Power Plant** in 2013 amounted to LTL 13.8 million, and of **Klaipėdos Nafta** to LTL 3.6 million.

In 2013, enterprises not classified within any of the three sectors discussed above earned revenue of LTL 28.1 million from special obligations. The cost of goods sold and operating expenses totalled LTL 58.7 million, but the sector of other enterprises incurred no loss before tax and posted a profit of LTL 360 thousand since as many as LTL 29.4 million of the cost of goods sold and operating expenses were excluded from the profit and loss statement and were directly compensated from the state budget or other funding sources. In 2013, operating expenses of **Žemės Ūkio Informacijos Ir Kaimo Verslo Centras** were reduced by LTL 18 million, of the **State Land Fund** by LTL 7.6 million, and of the **national centre of remote sensing and geoinformatics**, **Gis-Centras**, by LTL 2.9 million.

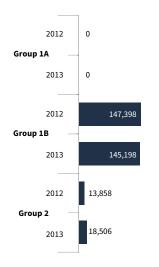
The largest assets assigned to the activities of special obligations were owned by the energy sector enterprises: in 2013, the value of these assets amounted to LTL 2.6 billion, of which as many as LTL 2.1 billion were controlled by the **Ignalina Nuclear Power Plant**. While performing special obligations in 2013, the transport and communications sector enterprises used LTL 2.2 billion worth of assets (although the major part of this or LTL 1.2 billion were amounts receivable of internal transactions of the **Lithuanian Railways**, which were not included in the consolidated financial statements of the **Lithuanian Railways Group**). The assets of special obligations in the sector of other enterprises totalled LTL 1.7 billion, of which LTL 1.1 billion was the debt to the state of Lithuania taken over by **Turto Bankas**. This amount is not included in the audited annual balance sheet of **Turto Bankas**. In 2013, the forestry sector enterprises controlled only LTL 27.3 million worth of assets related to special obligations. The value of Lithuania's commercial state forests (LTL 3,062 million) is attributed to the commercial activities carried out by the **forest enterprises**.

Disclosure of Special Obligations by the Groups of Enterprises

Of all enterprises included in the portfolio of special obligations, the majority of the enterprises (67) are assigned to Group 1B. The objective of this group's enterprises is business value growth and a yield from dividends or profit contributions, as well as the safeguarding of the national strategic interests. Of the said 67 enterprises, as many as 47 undertakings perform special obligations, and losses incurred by them account for the greater part of total losses from special obligations. In both 2013 and 2012, special obligations of Group 1B enterprises showed loss before tax: in 2013 its amount stood at LTL 145.2 million, and in 2012 it had equalled LTL 147.4 million. Such large losses can be explained by the fact that the greatest loss-makers, namely the **Lithuanian Railways** and the **42 forest enterprises**, are attributed to this particular group.

Of the 41 enterprises assigned to Group 2 (companies that should be engaged in non-commercial activities), 14 enterprises performed no special obligations during the reference period, and 27 companies performing such obligations posted a loss before tax of LTL 18.5 million in 2013. The biggest portion of this loss (LTL 13.8 million) was incurred by the **Ignalina Nuclear Power Plant**. Of the 14 enterprises that perform no special obligations (non-commercial special obligations), as many as six undertakings, among them **Lietuvos Kinas**, **Lietuvos Paminklai**, **the Centre for the Testing and Rehabilitation of Athletes**, **the Parliament Publishing House Valstybės Žinios**, **the Kaunas Petrašiūnai Labour Market Training Centre**, and **Lietuvos Veislininkystė** have indicated their engagement in purely commercial activities, although Group 2 enterprises are supposed to carry out non-commercial activities, i.e. activities that would not be performed by for-profit entities or would be carried out by them for a higher price.

Loss before tax from special obligations by the groups of enterprises (LTL '000)



The portfolio of special obligations also includes 26 enterprises attributed to Group 1A, i.e. the group that seeks business value growth and a yield from dividends or profit contributions. All the 26 companies of this group performed no special obligations, and all their activities are considered to be commercial.

Conclusions

More than a half of SOEs (74 out of 137) perform special obligations. Six enterprises attributed to Group 2, i.e. companies that should be engaged mostly in non-commercial activities, have disclosed that they do not carry out any of non-commercial functions. Institutions implementing the owner's rights with respect to these enterprises should reconsider the objectives set for them.

In 2013, the total costs of non-commercial functions amounted to LTL 689 million. This sum includes the costs incurred by 12 enterprises (LTL 47.9 million) that are not accounted for in the profit and loss statements (they are compensated with cost reducing grants). In 2013, SOEs incurred a loss of LTL 163.7 million from their special obligations, which was offset mostly by profit from commercial activities. The greatest losses were posted by the Lithuanian Railways and the forest enterprises, or LTL 118.9 million and LTL 25.6 million, respectively. Meanwhile, profit before tax from commercial activities of all SOEs stood at LTL 559.4 million. If special obligations were compensated in full and the enterprises needed not cover losses with profit from commercial activities, SOE return on assets would increase from 1.3% to at least 1.9%. The difference would be even more significant if the capital costs were taken into account: lost profit could amount to about LTL 90 million.

To enhance the transparency of performance of special obligations and the use of state funds, enterprises with special obligations are recommended to ensure that the accounting systems in place allow for a qualified separation of the costs and assets for commercial and non-commercial functions, and make such information publicly available. It is noteworthy that at present not all enterprises have proper accounting systems, and the disclosure of information on grants received and non-commercial functions performed is not always adequately transparent.

Information collected on the costs of performance of special obligations will allow evaluating what amendments to legislation are required in order to improve the control of performance of non-commercial functions, the setting of objectives and the efficient use of funds. Based on the good practice, cross-subsidies should be abandoned as much as possible in the long run, and non-commercial functions should rather be financed through the state procurement of services from enterprises at a reasonable price.

Based on the good practice, crosssubsidies should be abandoned as much as possible non-commercial functions should rather be financed through the state procurement of services from enterprises at a reasonable price.



The number of SOEs was stable during the year, with 137 enterprises owned by the state, but the SOE portfolio comprises 134 enterprises.

As of 31 December 2013, the number of SOEs was 137. This number does not include **Lietuvos Tyrimų Centras** against which insolvency proceedings had been instituted on 26 August 2013, and in early 2014 this enterprise was declared bankrupt.

On 30 January 2013, the shares of **Geležinkelio Apsaugos Želdiniai** were transferred to the **Lithuanian Railways Group**. Although the shares of **Geležinkelio Apsaugos Želdiniai** were transferred to the **Lithuanian Railways Group**, the number of SOEs, compared to the end of 2012, stayed the same as in early 2013 **Viešujų Investicijų Plėtros Agentūra (Public Investment Development Agency (VIPA))** was incorporated in this number.

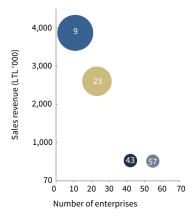
In total, the SOE portfolio that is taken into consideration in this report includes the financial results of 132 SOEs, **Lietuvos Dujos**, and **Amber Grid**. The latter two companies (in August 2013, **Lietuvos Dujos** was divided into two companies: **Lietuvos Dujos** and a transmission system operator **Amber Grid**) were not considered state-owned enterprises as at the end of 2013 the state only owned shareholdings of 17.7% in each of them. However, the financial results of the SOE portfolio incorporate the value of **Lietuvos Dujos** and **Amber Grid** shares owned by the state and of the dividends paid to the state during the year.

Financial data of the SOE portfolio for 2012 used in this report does not match the one used in the report "State-owned enterprises in Lithuania. Annual report 2012" due to the transfer of the **Litgrid Group** ownership to **EPSO-G** in the second half of 2012. In order to improve the comparability of the data, in the report of 2012, the SOE portfolio included the financial results of **Visagino Atominė Elektrinė** (currently **Lietuvos Energija**) consolidated with financial results of the **Litgrid Group**; meanwhile, in the report of 2013, consolidated data of **Lietuvos Energija** and **EPSO-G** was used.



All SOEs are divided into the following four sectors: transport and communications, energy, forestry, and other enterprises. The latter sector includes enterprises not classified within any of the first three sectors. The energy sector consists of nine SOEs, Lietuvos Dujos, and Amber Grid. In 2013, sales revenue of the energy sector accounted for 51.4% of total portfolio revenue. The transport and communications sector includes 23 enterprises that generated 34.6% of the portfolio turnover. The forestry sector consists of 42 forest enterprises and the Lithuanian Forest Inventory and Management Institute (these companies together generated 7.2% of total sales revenue). The sector of other enterprises incorporates as many as 57 undertakings, but their total sales revenue constituted only 6.8% of the SOE portfolio turnover. Due to the lack of comparable data, the portfolio overview excludes the following five SOEs assigned to the sector of other enterprises: Lietuvos Žirgynas, VIPA, Mokslas Ir Technika, Lietuvos Veislininkystė, and Kiaulių Veislininkystė. The chart on the right shows the number of enterprises in the sectors and the sectors' sales revenue (the sizes of the circles match sales revenue).

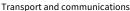
The results of the SOE portfolio were affected by the bankruptcies of the banks Snoras and Ūkio Bankas. The balance of the funds at Ūkio Bankas, which was not written off and exceeded the insurance amount of EUR 100 thousand, was accounted for on the Balance Sheet of Oro Navigacija (LTL 14.1 million). Kėdainių Miškų Urėdija accounted its loss of LTL 385 thousand due to the bankruptcy of Ūkio Bankas as expenses of financial activities for 2013. The funds of Klaipėdos Regiono Keliai (LTL 2.3 million), Panevėžio Regiono Keliai (LTL 1.7 million), and Telšių Regiono Keliai (LTL 1.2 million), lost as a result of the bankruptcy of the bank Snoras, were written-off. Due to the accounting policy of the enterprises, no corrections were made in the Profit and Loss Statements, while the relevant values of the receivables and the retained earnings were reduced in the Balance Sheets. Taking the comments of the auditors and the Governance Coordination Centre into consideration, Taurages Regiono Keliai recorded its losses of LTL 3.2 million retrospectively for 2012.



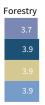
- Energy
- Transport and communications
- Other

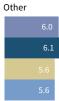
Employees ('000)











31 Dec 201031 Dec 201131 Dec 201231 Dec 2013

At the end of 2013, SOEs had a total of 40,957 employees, or 35 persons fewer than at the end of the previous year. More than a half (57.9%) of the workforce were employed in the transport and communications sector, and the three largest employers, including the **Lithuanian Railways Group**, the **Lithuanian Post Group**, and the **Lietuvos Energija Group**, provided employment to 57% of all SOE workforce.

Compared to the end of 2012, the number of employees dropped in the energy sector (by 215 employees or 2.7%) and the sector of other enterprises (by 7 employees or 0.1%). The largest decreased in employment occurred at the Lietuvos Energija Group (243 employees or 5.3%) and **Lithuanian Post** (219 employees or 3.4%, largely due to the development of deliveries of postal items by car). The biggest growth of the employee number – from 12,329 to 12,770 – was observed in the **Lithuanian Railways Group**.

Market Value of the SOE Portfolio

At the end of 2013, the market value of the SOE portfolio amounted to LTL 15.3 billion, up by 10.2% year-on-year. The book value of equity, which is equated to the market value, grew by 12.1% to LTL 8.6 billion. This growth depended mostly on the 14.9% increase (to LTL 6.1 billion) of the transport and communications sector book value of equity. The book value of assets of the energy sector went up by 6.5% to LTL 1.4 billion. Growth of the book value of equity in the forestry sector and the sector of other enterprises was less significant – 3% and 5.2%, respectively.

The market value of enterprises in the forestry sector is comprised of the gross book value of their equity (LTL 514.8 million) and the value of commercial forests estimated using the discounted cash flow method. Based on the valuation carried out by the Governance Coordination Centre in early 2014, the value of commercial forests amounted to LTL 3,062 million and, compared to the 2012 value, increased by 3.1%.

| SOE PORTFOLIO VALUE AS OF 31 DEC 2013 (LTL '000) | MARKET VALUE | CASH FLOW METHOD | BOOK VALUE | TOTAL |
|--|--------------|---------------------|------------|------------|
| Energy | 3,647,319 | 0 | 1,350,472 | 4,997,792 |
| Change from 31 Dec 2012 | +12.5% | | +6.5% | +10.8% |
| Transport and communications | 5,896 | 0 | 6,119,951 | 6,125,846 |
| Change from 31 Dec 2012 | -42.3% | | +14.9% | +14.8% |
| Forestry | 0 | 3,062,000 | 514,768 | 3,576,768 |
| Change from 31 Dec 2012 | | +3.1% | +5.2% | +3.4% |
| Other | 0 | 0 | 550,428 | 550,428 |
| Change from 31 Dec 2012 | | | +3.0% | +3.0% |
| Total | 3,653,215 | 3,062,000 | 8,535,620 | 15,250,835 |
| Change from 31 Dec 2012 | +12.4% | +3.1% | +12.1% | +10.2% |

SOE Market Value on NASDAQ OMX Vilnius Stock Exchange

At the end of 2013, LESTO accounted for the largest part of the market value of SOE shares held by the state (36.8% or LTL 1,344 million), while the **Lithuanian Shipping Company** made up the smallest portion (0.2% or LTL 5.9 million). The total value of state-owned shares increased mostly due to a change in the value of the state-owned interest in **LESTO**, constituting LTL 305 million from the beginning of the year, and a change in the value of the state-owned interest in **Litgrid**, amounting to LTL 117.2 million.

| 31 DEC 2013 | SHARE VALUE (LTL '000) | STATE-OWNED INTEREST | VALUE OF THE STATE- OWNED INTEREST 31 DEC 2013 | | CHANGE OF THE STATE-OWNED INTEREST FROM |
|------------------------------------|---------------------------|-------------------------|--|-------------------------------------|---|
| | | | (LTL '000) | PERCENTAGE IN THE TOTAL VALUE | 31 DEC 2012 |
| LESTO Group | 1,626,534 | 82.63% | 1,343,969 | 36.8% | +29.4% |
| Litgrid Group | 1,030,882 | 97.50% | 1,005,137 | 27.5% | +13.2% |
| Lietuvos Energijos Gamyba Group | 863,970 | 96.13% | 830,547 | 22.7% | +3.4% |
| Klaipėdos Nafta | 383,734 | 72.32% | 277,503 | 7.6% | -20.9% |
| Lietuvos Dujos | 625,292 | 17.70% | 110,684 | 3.0% | -30.9% |
| Amber Grid* | 449,005 | 17.70% | 79,479 | 2.2% | N/A |
| Lithuanian Shipping Company | 10,405 | 56.66% | 5,896 | 0.2% | -42.3% |
| SOES INDEX | 4,989,823 | - | 3,653,215 | 100% | +12.4% |
| OMXV index of all shares: | | | | | +18.7% |

^{*}Trading launched from 1 August 2013

The SOE share index shows changes in the value of state-owned enterprises listed on the Stock Exchange from the beginning of 2013. As from 1 August 2013, the enterprise Amber Grid, in which the shareholding of the state accounted for 17.7% at the end of the reference period, was added to the SOE index.

At the end of November 2013, the enterprises Litgrid and LESTO reported better-thanexpected financial results for the first nine months, which pushed up the value of their shares in the last months of 2013. The value of Lietuvos Energijos Gamyba shares went up by 3.4% as in September the company reported better results for the first half-year than in 2012. At the end of 2013, the value of shares (market capitalisation) of **Lietuvos Dujos** was by 30.9% lower than at the end of 2012, despite the 11.5% rise in the price of these shares. The decline in value was determined by the separation of the natural gas transmission activities and the establishment of the undertaking Amber Grid on this basis, which took over part of the assets, equity and liabilities of Lietuvos **Dujos**. A comparison of the value of **Lietuvos Dujos** shares at the end of 2012 and the aggregate value of shares of Lietuvos Dujos and Amber Grid at the end of 2013 shows that the share value increased by 18.7% over the year. During the reference period, Klaipėdos Nafta shares fell by more than one-fifth due to less favourable financial results reported for 2012 and the investors' concern over the effect of the LNG Terminal on the enterprise's financial results. The value of shares of the Lithuanian Shipping Company dropped as well: the deteriorating results of the company depreciated the shares by 42.3% from the beginning of the year, although the market of bulk carriers was recovering rapidly for some time (during the same period, the value of Baltic Dry Index soared by 202.7%).

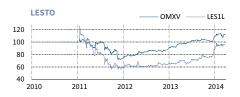
In 2013, the index of all shares on NASDAQ OMX Vilnius increased by 18.7%, while the change in the value of state-owned shares was 12.4%.

P/E Ratio

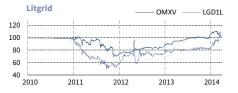
With a view to determining the share value of listed Lithuanian SOEs, the price-toearnings (P/E) ratio was estimated. This ratio is calculated as market capitalisation to net earnings of a company and reflects investor expectations and the evaluation of the company's current and future situation. However, this ratio is more of a reference nature and is only meaningful when compared within a certain timescale and in the context of similar enterprises. To analyse comparable companies, the P/E ratios of West and East European, as well as Russian undertakings operating in the respective sectors, estimated on the basis of the financial results for 2013, were used. A detailed





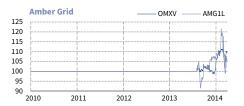












Shares of some listed SOEs are relatively cheaper than sector average.

methodology for comparable company identification is presented in the section 'Evaluation Methodology' at the end of the report.

The P/E ratios of listed Lithuanian SOEs within the same sectors are notably different, reflecting differences in the enterprises' operations. In the energy sector, the shares of **LESTO** and **Litgrid** are valued at 34.1 and 40.7 respectively, but the value of **Lietuvos Energijos Gamyba** shares is significantly lower (8.0). Within the context of foreign comparable companies, the valuation of **LESTO** and **Litgrid** complies with sector average (37.6), but the shares of **Lietuvos Energijos Gamyba** could be valued as cheap.

The P/E ratios of **Klaipėdos Nafta** and **Lietuvos Dujos** that belong to the oil and gas distribution sector are similar (10.8 and 9.9), but they are considerably lower than the average of comparable foreign companies operating in this sector (32.9) and show uncertainty of investors about the future of these enterprises. Meanwhile, the value of **Amber Grid** shares (27.7) is not much below the comparable sector average.

| LISTED LITHUANIAN SOES | | P/E | | COMPARABLE FOREIGN SECTORS | P/E |
|------------------------------------|-------|------|------|----------------------------|------|
| | 2011 | 2012 | 2013 | | 2013 |
| LESTO Group | - | - | 34.1 | Energy | 37.6 |
| Litgrid Group | - | 34.9 | 40.7 | Energy | 37.6 |
| Lietuvos Energijos Gamyba Group | 536.0 | 21.6 | 8.0 | Energy | 37.6 |
| Klaipėdos Nafta | 10.3 | 11.7 | 10.8 | Oil and gas distribution | 32.9 |
| Lietuvos Dujos | 10.1 | 12.2 | 9.9 | Oil and gas distribution | 32.9 |
| Amber Grid | N/A | N/A | 27.7 | Oil and gas distribution | 32.9 |
| Lithuanian Shipping Company | - | - | - | Shipping | 23.3 |

In some years, **LESTO** and **Litgrid** were loss-making; therefore their P/E ratios could not be calculated then. The **Lithuanian Shipping Company** was posting losses for the last three years, so its P/E ratio is not provided either. The P/E ratio of **Amber Grid** only was estimated for 2013, a year when the enterprises launched its operations.

The following tables contain summarised financial information of all SOEs based on the audited financial statements for 2013.

Aggregated SOE Financial Information

Biological assets

Non-current assets

| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
|--------------------------------------|-------------|-------------|
| Sales revenue | 7,312,142 | 7,534,597 |
| Cost of goods sold | 4,815,783 | 4,881,864 |
| Gross profit (loss) | 2,496,359 | 2,652,733 |
| Operating expenses | 2,150,987 | 2,255,294 |
| Profit (loss) from other activities | 49,120 | 46,940 |
| Operating profit (loss) | 394,492 | 444,380 |
| Operating profit margin | 5.4% | 5.9% |
| EBITDA | 1,628,254 | 1,691,850 |
| EBITDA margin | 22.3% | 22.5% |
| Financial and investment activities | -36,495 | 9,105 |
| Profit (loss) before taxes | 357,997 | 453,485 |
| Profit tax | 65,246 | 39,146 |
| Net profit (loss) | 292,750 | 414,339 |
| Minority interest | 10,078 | 31,439 |
| Normalised net profit (loss) | 398,387 | 498,018 |
| Normalised net profit margin | 5.4% | 6.6% |
| BALANCE SHEET (LTL '000) | 31 DEC 2012 | 31 DEC 2013 |
| Intangible assets | 416,692 | 402,751 |
| Tangible assets | 20,072,776 | 20,996,167 |
| Financial assets | 637,619 | 586,656 |
| Other non-current assets | 1,073,453 | 1,060,159 |

2,974,843

25,175,382

3,066,626

26,112,359

| Inventories, prepayments and contracts in progress Amounts receivable within one year Other current assets Cash and cash equivalents | 951,265 1,954,174 877,665 843,035 | 924,764 1,924,105 627,017 1,408,235 |
|---|--|--|
| Current assets TOTAL ASSETS | 4,626,139 29,801,521 | 4,884,121 30,996,481 |
| Total equity | 17,938,602 | 18,966,885 |
| Minority shareholder equity | 1,115,212 | 1,103,464 |
| Grants and subsidies | 5,463,038 | 5,403,419 |
| Non-current liabilities | 3,952,018 | 3,919,657 |
| Current liabilities | 3,063,453 | 2,706,519 |
| Liabilities | 7,015,471 | 6,626,176 |
| Of which financial liabilities* | 2,507,181 | 2,755,825 |
| TOTAL EQUITY AND LIABILITIES | 29,801,521 | 30,996,481 |

| RATIOS | 31 DEC 2012 | 31 DEC 2013 |
|----------------|-------------|-------------|
| Normalised ROA | 1,3% | 1,6% |
| Normalised ROE | 2.1% | 2.7% |
| D/E* | 14.0% | 14.5% |
| D/E** | 26.5% | 28.8% |

| TOTAL | 150,036 | 155,659 |
|---|---------|---------|
| Raw material tax | 67,717 | 73,212 |
| Property tax | 21,118 | 24,184 |
| Dividends and profit contributions to the state | 61,201 | 58,263 |
| Assigned profit contributions | 21,377 | 28,007 |
| Assigned dividends (share of the state) | 39,824 | 30,256 |
| RETURN TO THE STATE (LTL '000) | 2012 | 2013 |

| EMPLOYEE INFORMATION | 2012 | 2013 |
|----------------------|--------|--------|
| Number of employees | 40,992 | 40,957 |
| Number of executives | 470 | 465 |

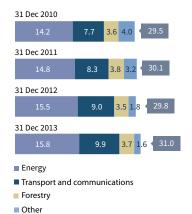
Assets and Investments

At the end of 2013, the total book value of the SOEs assets amounted to LTL 31 billion -4% more than at the end of 2012. The book value of assets of the energy sector enterprises increased by 2.3% to LTL 15.8 billion and accounted for more than a half of the total asset value. The transport and communications sector saw the highest growth - of 10.1% to LTL 9.9 billion - in the value of its assets. During 2013, the equity value of the SOE portfolio went up by 5.7% to LTL 19 billion. The largest growth in the equity value (by 13.8% to LTL 6.2 billion) was recorded in the transport and communications sector. The equity value of the energy sector edged up by 1.6% to LTL 8.6 billion, and in the forestry sector and the sector of other enterprises this indicator grew by 3.4% (to LTL 3.6 billion) and 4.9% (to LTL 0.6 billion), respectively. The amount of grants and subsidies in the SOE portfolio shrank by 1.1% to LTL 5.4 billion.

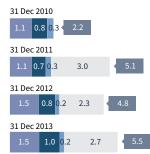
The financial liabilities of the SOE portfolio, including the interest-free loan to **Indėliu** Ir Investiciju Draudimas for payment of insurance claims, went up by 14.8% to LTL 5.5 billion. Due to the bankruptcy of Ūkio Bankas the need for compensation of deposit insurance claims increased by LTL 784 million and the interest-free loan granted by the Ministry of Finance to Indelig Ir Investicijy Draudimas enlarged to LTL 2.7 billion. Excluding this loan, SOE financial liabilities amounted to LTL 2.8 billion and were by 9.9% higher than those at the end of 2012. This growth was determined mostly by the increase of financial debt of Lithuanian Railways.

The next page contains information on changes in the book value of assets in the SOE portfolio by the enterprises that had the greatest effect on the results of the total portfolio.

Assets (LTL billion)



Financial liabilities (LTL billion)

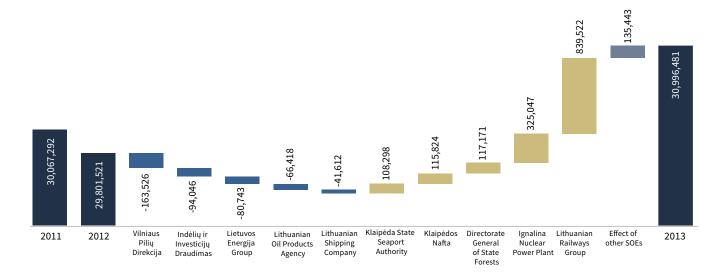


- Energy
- Transport and communications
- Forestry
- Other (Government loan to Indėlių Ir Investicijų Draudimas)

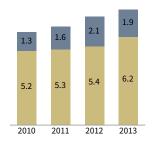
^{*}Financial liabilities and D/E ratio in the tables exclude the interest-free loan granted by the Ministry of Finance to the state enterprise Indėlių Ir Investicijų Draudimas.

^{**}This D/E ratio was estimated by including the interest-free loan granted by the Ministry of Finance to the state enterprise Indėlių Ir Investicijų Draudimas in financial liabilities.

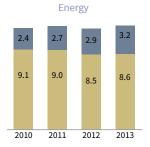
Change in assets of the SOE portfolio by the enterprises (LTL '000)



Transport and communications

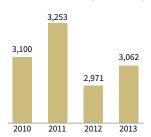


■ Grants and subsidies (LTL billion)
■ Equity (LTL billion)



Grants and subsidies (LTL billion)Equity (LTL billion)

Value of forests (LTL million)



The Lithuanian Railways Group's assets increased by 15.5% to LTL 6.3 billion, which had the greatest effect on the enlargement of the value of assets of the total SOE portfolio. Assets of the enterprise were pushed up by grants and subsidies of LTL 413.8 million received during 2013. However, the total amount of grants and subsidies declined by LTL 245.3 million to LTL 1.5 billion as LTL 640 million of grants and subsidies were transferred to the enterprise's authorised capital. Therefore grants and subsidies of the whole transport and communications sector contracted by 11.5% to LTL 1.9 billion. Assets of the Lithuanian Railways Group also grew due to financial liabilities, which went up from LTL 542.4 million to LTL 782.3 million as a result of loans granted by banks for the funding of the Rail Baltica project and the acquisition of rolling stock. Equity of the enterprise increased by LTL 720 million over 2013, resulting from an increase of the authorised capital by LTL 649 million and LTL 98 million growth of reserves. These changes had no effect on the enterprise's cash flows. In 2013, the enterprise invested LTL 1,069.4 million in non-current assets. The investments included modernisation and development projects of the IX B corridor, development of Klaipėda railway junction, installation of infrastructure diagnostic systems, construction of second tracks on separate railway sections, fit-out of the Traffic Control Centre, modernisation of an infrastructure of the connecting railway line Klaipėda-Pagėgiai, and construction of an intermodal terminals at the Vilnius and Kaunas public logistics centres.

The Ignalina Nuclear Power Plant's assets increased by LTL 325 million in 2013 due to growth of grants and subsidies from LTL 1.3 billion to LTL 1.6 billion for investment in construction that would ensure safe storage of radioactive waste. Growth of grants and subsidies of the Ignalina Nuclear Power Plant contributed to the increase in the total value of grants and subsidies of the energy sector by 11.5% to LTL 3.2 billion during the reference period.

42 forest enterprises posted an increase in assets by 3.3% to LTL 3.7 billion in 2013. The increase mostly depended on the revaluation of the 2013 year-end value of commercial state-owned forests at the beginning of 2014. Due to the higher average price for timber, this value went up from LTL 2,971 million to LTL 3,062 million.

Klaipėdos Nafta's assets went up by 20.7% to LTL 676 million over the year. This growth in assets was determined by LTL 35.6 million net profit used to increase other reserves of the enterprise, and by the LTL 51.2 million loan received in 2013 from

the European Investment Bank for the partial funding of the LNG Terminal. During the reference period, the enterprise's investments in modernisation of the oil terminal made up LTL 36 million and investments in the LNG Terminal project stood at LTL 63.6 million.

The Klaipėda State Seaport Authority's assets enlarged by LTL 108.3 million to LTL 1.7 billion, mostly for the reason that equity equivalent to assets, which can be only under state ownership according to law, was increased by LTL 86.3 million using retained earnings. Assets grew also due to LTL 34.5 million tranche of the loan provided by the Nordic Investment Bank. The enlarged assets were invested in the dredging of the port area near the quays. In 2013, investments of the Klaipėda State Seaport Authority in non-current assets stood at LTL 297.2 million.

Vilniaus Pilių Direkcija had the greatest effect on the decrease of the asset value in the portfolio. In 2013, assets of the enterprise went down by LTL 163.5 million to LTL 104.4 million. A part of a building valued at LTL 176.2 million was transferred to the National Museum Palace of the Grand Dukes of Lithuania. Following the asset transfer, grants and subsidies of the enterprise were reduced by the same amount. Grants and subsidies of the whole sector of other enterprises shrank by 37% to LTL 255 million mostly for this reason.

Indėlių Ir Investicijų Draudimas' assets contracted by 42.7% to LTL 126.4 million during the reference period. Such a significant decrease in assets was caused by receivership expenses of the enterprise which exceeded the loan provided by the Ministry of Finance by LTL 80 million. For this reason, financial assets of the enterprise shrank: the sum of Lithuanian bonds held in Litas was reduced by LTL 35 million and the sum of Lithuanian bonds issued in other currencies was cut by LTL 19 million.

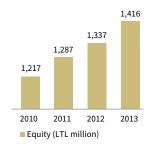
The Lietuvos Energija Group's assets declined by 0.8% (or LTL 80.7 million) to LTL 9.7 billion during the year for several reasons: a LTL 97.5 million reduction in assets of the hydroelectric power plant, the pumped storage hydroelectric plant and the standby power plant due to depreciation; a reduction in the value of the Group's plant and equipment from LTL 4,228.7 million to LTL 4,164.4 million as a result of depreciation; and a LTL 58 million reduction of short-term loans. The fall in the value of assets was mitigated by higher retained earnings that grew from LTL -207.6 million to LTL 30.2 million.

The Lithuanian Oil Products Agency's assets shrank by LTL 66.4 million in 2013. The main reason was a decline in the value of contracts in progress by LTL 61.8 million, following the transfer of the unfinished buildings of the Vilnius fuel oil storage facility to the State Property Fund at the beginning of 2013.

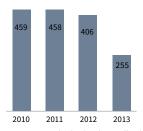
The Lithuanian Shipping Company's asset value went down by 20.3% to LTL 163.1 million year-on-year. The reduction was determined by a decline in the book value of vessels from LTL 182.9 million to LTL 132.3 million. The high 2013 losses also resulted in a significant fall in the company's equity (from LTL 123 million to LTL 81.8 million), which was below the minimum authorised capital required under the Company Law.

Other SOEs' assets grew by LTL 143.4 million during the year, contributing to growth of total assets in the SOE portfolio. Of the 83 enterprises, of which no detailed explanations of changes in their assets were provided, assets of 41 enterprises increased, while those of 42 undertakings declined.

Klaipėda State Seaport Authority

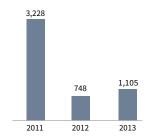


Other enterprises



■ Grants and subsidies (LTL million)

Indėlių Ir Investicijų Draudimas

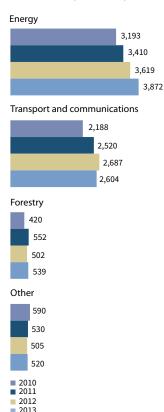


■ Receivership expenses (LTL million)

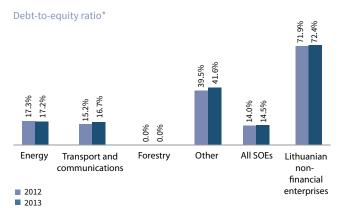
Lithuanian Shipping Company



Sales revenue (LTL million)



At the end of 2013, the SOE debt-to-equity ratio stood at 14.5%, having increased by a half percentage point year-on-year. The highest debt-to-equity ratio in 2013, amounting to 41.6%, was in the sector of other enterprises, while the lowest D/E ratio was observed in the forestry sector where the enterprises had almost no financial liabilities and showed a 0% ratio both in 2012 and 2013 (including the estimated value of commercial forests that increased equity).



*This D/E ratio was calculated excluding the interest-free loan, granted by the Ministry of Finance to Indélių Ir Investicijų Draudimas, from financial liabilities.

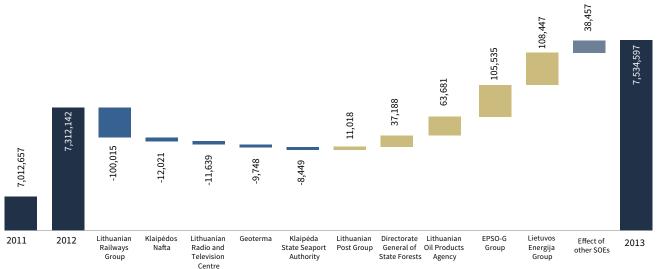
Although the debt-to-equity ratio of both the total SOE portfolio and most separate sectors increased, it still remains fairly low compared to the average of Lithuania's non-financial enterprises. According to the Bank of Lithuania, in 2013 the average D/E ratio of non-financial enterprises amounted to 72.4% and was five times higher than that of state-owned enterprises.

The low debt-to-equity ratio shows that enterprises are more ready to finance investments with more expensive equity than with less costly debt. Although such a conservative capital structure determines lower business risk, profitable enterprises are likely to have possibilities for increasing both their profitability ratios and contribution to the state budget through a more active use of external finances. Therefore the enterprises are recommended to review their financing strategy and set the optimum debt-to-equity ratio.

Sales Revenue

In 2013, sales revenue of the SOE portfolio amounted to LTL 7.5 billion and increased by 3% year-on-year. Growth of sales revenue was posted in the forestry and energy sectors (7.3% and 7% respectively) and the sector of other enterprises (3%). Revenue of the transport and communications sector contracted by 3.1% to LTL 2.6 billion during the same period.





The Lietuvos Energija Group's sales revenue went up by 3.9% to LTL 2.9 billion, mostly due to a 1.2% increase in the quantity of electricity transmitted and an increase of the PSO (public service obligations) component in the average transmission service and electricity transmission tariff. Revenue growth was influenced also by a discrepancy in the supply and consumption schedule of the Lithuanian electricity system in Q3 2013, which made Litgrid activate greater reserve power, and Lietuvos Energija received a larger revenue flow from balancing, regulation, and power redundancy services. The Lietuvos Energija Group was one of the two enterprise groups that produced the greatest effect on sales revenue growth of the SOE portfolio.

The EPSO-G Group's sales revenue increased by LTL 105.5 million to LTL 613.9 million over the year, mostly due to a 71.7% increase (to LTL 186.8 million) in revenue from the trading in balancing/regulation of electricity, as purchases of the balancing electricity suppliers were by 48% higher, compared to 2012. Revenue growth was determined also by the 0.7% rise in the total volume of electricity transmitted. As a result of the higher price for the system (power redundancy) services, revenue from these services went up by 45.2% to LTL 93.8 million.

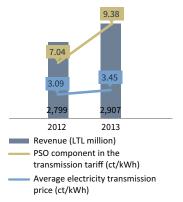
The Lithuanian Oil Products Agency's sales revenues rose by 80.4% to LTL 142.9 million in 2013. This rise depended on the renewal of the national reserve of RON 95 petrol (16,000 tonnes) and diesel (34,000 tonnes), which was sold and replaced with new petrol and diesel fuel. In 2013, revenue from stock sales constituted LTL 134.6 million. As a comparison, in 2012 the enterprise had received LTL 71.8 million revenues from stock sales.

42 forest enterprises' sales revenue increased by 7.5% to LTL 531.9 million during the reference year. In 2013, the forest enterprises sold 2.7% more round timber at a price 5.5% higher than in 2012. For this reason, round timber sales revenue of the enterprises went up by 8.4% to LTL 484.8 million, which was the main cause of growth in total sales revenue of these undertakings. Out of 42 forest enterprises, sales revenue of only four enterprises shrank during the year.

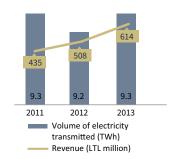
The Lithuanian Post Group's revenue enlarged by 5.8% to LTL 201.7 million in 2013. Although the total amount of services provided was almost stable, the number of higher value added services increased. Registered and insured postal shipments grew by 9.8%, resulting in LTL 6.9 million higher revenue than in 2012. Revenue from courier services went up by 6% to LTL 13.3 million due to the 10.5% rise in the quantity of services provided. Revenue from postal services (universal and other postal services) climbed by 6.9% to LTL 109.5 million during the reference year.

The Lithuanian Railways Group's sales revenue dropped by LTL 100 million to LTL 1,637 million. The largest decline (LTL 118.5 million) was observed in revenue from freight transportation and the use of railway infrastructure, which amounted to LTL 1,315.3 million. Due to lower volumes of the handling of Belarusian petroleum products and chemicals and Russian ferrous metals at Klaipėda Seaport, in 2013 Lithuanian Railways transported 2.7% less total freight year-on-year. It is the Lithuanian Railways Group that reduced total sales revenue of the SOE portfolio the most.

Lietuvos Energija Group



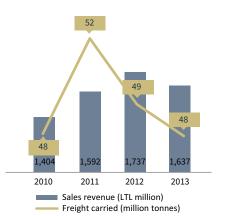
EPSO-G Group



Forest enterprises



Lithuanian Railways Group

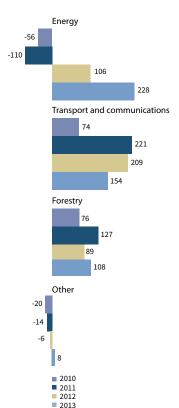




Klaipėda State Seaport Authority



Normalised net profit/ loss (LTL million)



Klaipėdos Nafta sales revenue declined by 8.7% to LTL 126.9 million in 2013, mostly due to the 16% reduction in the volume of petroleum products loaded to the storage facilities of the terminal, compared to 2012. The decrease in loading was caused by several factors: the key client, ORLEN Lietuva, reduced its exports by sea as the company was expanding sales in the CIS countries; a significant drop in the profitability of oil refining, which forced the refineries to cut the production and export of oil products; and the overhaul of the Mazyr refinery (Belarus) in the second half-year, which resulted in lower production during that time.

The Lithuanian Radio and Television Centre's revenue went down by 15.7% to LTL 62.6 million in 2013. Since analogous television had been switched off on 29 October 2012, revenue from radio and television broadcast and distribution and access services declined from LTL 39.2 million to LTL 24.6 million, or by 37% year-on-year. The fall in sales revenue was mitigated by revenue from data transmission services which grew by 9% – from LTL 31.9 million to LTL 34.7 million.

Geoterma had its heat production suspended from 16 April to 5 November, which pushed down the enterprise's revenue by 57.4% to LTL 7.2 million in 2013. The production of heat was stopped due to lower demand for heat from Klaipėdos Energija; a part of the remaining demand was also ensured in better conditions by Fortum Klaipėda, which produced heat from waste.

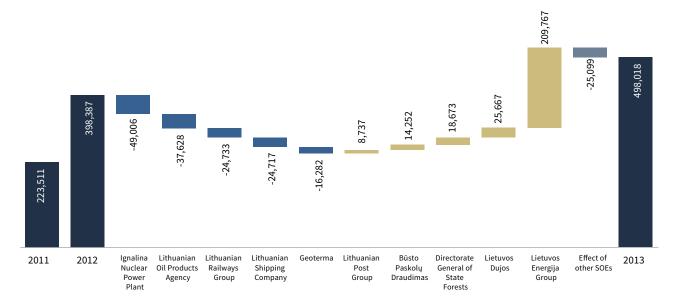
The Klaipėda State Seaport Authority's revenue was 5.1% lower year-on-year and amounted to LTL 158.6 million. Revenue from charges, constituting 85.8% of revenue from the seaport's core activities, dropped by 6.3% to LTL 136.1 million. In 2013, revenue from charges fell as lower volumes of petroleum products, bulk natural and chemical fertilisers, and general cargo pushed down freight handling at Klaipėda Seaport by 5.2% from 2012. The handling of petroleum products contracted as a result of Russia's increased interest in handling petroleum products via national seaports and lower volumes of oil refined by ORLEN Lietuva. Meanwhile, the handling of bulk products shrank due to the redistribution of the fertiliser sales market between Russian and Belarusian companies, the delayed autumn trading season, and the falling sale prices of fertilisers.

Other SOEs' revenue increased by LTL 38.5 million during the year, which also contributed to growth of total sales revenue of the SOE portfolio. Of the 81 enterprises, of which no detailed explanations of changes in their sales revenue were provided, sales revenue of 40 enterprises went up, of 40 enterprises declined, and of one enterprise stayed on the same level.

Normalised Net Profit

In 2013, normalised net profit of the SOE portfolio amounted to LTL 498 million, up by 25% year-on-year. The biggest growth was observed in the energy sector where normalised net profit went up by 115.3% to LTL 228 million, while the largest drop (26.4%, to LTL 154 million) in normalised net profit was posted by the transport and communications sector. It should be noted that in 2013 the sector of other enterprises operated at a profit, while in 2012 it had incurred a loss of LTL 6 million.

Change in normalised net profit of the SOE portfolio by the enterprises (LTL '000)



The Lietuvos Energija Group's net profit in 2013 amounted to LTL 140.8 million, although the Group had been incurring losses for the last three years (in 2012, it had posted a net loss of LTL 68.9 million). The Group earned a profit as growing revenue from transmission services boosted sales revenue by more than LTL 108.4 million, while operating expenses shrank by LTL 94.8 million mostly due to the LTL 89.5 million decrease in expenses for the purchase of gas and fuel oil. The Lietuvos Energija Group had the greatest effect on the growth of normalised net profit in the energy sector and the total SOE portfolio. The profitable operations of the Group pushed up the return on equity of the whole energy sector by one and a half percentage points to 2.7% year-onyear.

Lietuvos Dujos paid dividends to the State of Lithuania for 2012, which at the end of 2013 owned a 17.7% shareholding in the enterprise. The dividends totalled LTL 38.4 million and were LTL 25.7 million larger than those paid for 2011. Paid dividends are added to financial revenue of the SOE portfolio, thus representing a significant contribution to normalised net profit of the portfolio.

42 forest enterprises' normalised net profit in 2013 grew by 21.1% to LTL 107.2 million as a result of the 2.7% increase in the volume of round timber sold and the 5.5% higher average price of round timber. For these reasons, revenue of the forest enterprises climbed by 7.5%. The increased revenue determined normalised net profit growth as expenses of core activities went up at a lower rate (5.4%). Since revenue enlarged by LTL 5.5 million, mandatory deductions from wood in the rough and standing timber, which are used to increase normalised net profit of the forest enterprise, went up to LTL 73.2 million.

Būsto Paskolų Draudimas cut itsnormalized net loss from LTL 33.1 million to LTL 18.9 million during the year, due to the 45% decrease in expenses for insurance claims. Expenses were pushed down by higher amounts recovered, which grew by 65.4% to LTL 34.1 million, even though the amount of claims only increased by LTL 3.5 million.

Lietuvos Energija Group



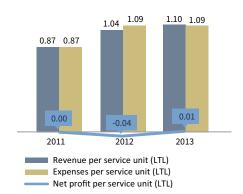
Lietuvos Dujos



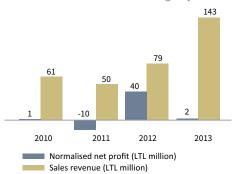
Forest enterprises



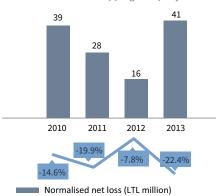
Lithuanian Post



Lithuanian Oil Products Agency

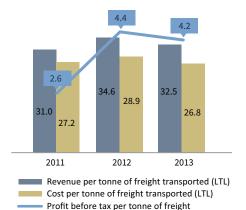


Lithuanian Shipping Company



Lithuanian Railways

Return on equity



The Lithuanian Post Group was profitable in 2013, earning normalised net profit of LTL 1.6 million, although in 2012 it had incurred a net loss of LTL 7.2 million. The enterprise operated at a profit due to LTL 11 million higher revenue, although operating expenses stayed almost on the same level due to the re-established impaired asset value of LTL 13.2 million shown in the accounts.

The Ignalina Nuclear Power Plant's net profit contracted from LTL 56.2 million to LTL 7.2 million due to increases in the asset value accounted for in the Profit and Loss Statement. In 2012, gross administrative expenses of the enterprise had been reduced by LTL 65.1 million, and in 2013 they were cut by LTL 21.1 million. It is the changes in these expenses that contributed to changes in the plant's profitability as no significant variations in revenue were observed during the reference period.

The Lithuanian Oil Products Agency's normalised net profit in 2013 shrank from LTL 39.9 million to LTL 2.3 million. Normalised net profit of the enterprise is dependent on the quantity and quality of the oil products reserve required to be stored. In 2012, sales of fuel oil and petrol had stood at LTL 64.2 million and LTL 7.6 million respectively, while the cost of goods sold (the fuel price paid for the quantity of fuel required to be stored) had amounted to LTL 27.2 million. The cost had been significantly lower than revenue as the quantity of the required fuel oil reserve had decreased. In 2013, the enterprise's normalised net profit declined as the quantities of fuel sold and purchased were almost identical.

The Lithuanian Shipping Company's net loss increased from LTL 16.4 million to LTL 41.1 million in 2013. One of the main reasons for the increase was the impairment of four vessels equalling LTL 22.1 million and the rise of administrative expenses by the same amount. The company's losses were pushed up also by cost growth (15.4%) which was higher than the increase in revenue (10.1%). The cost grew as a result of the 46.5% rise in fuel expenses and a two-fold increase in port expenses. Growth of these expenses was related to the use of vessels under short-term (separate route) contracts.

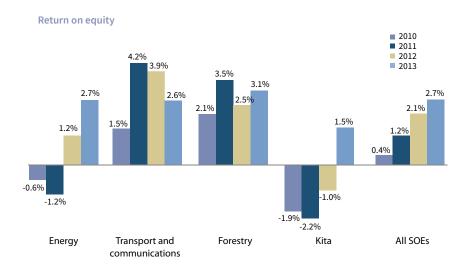
The Lithuanian Railways Group's net profit shrank by 19.2% to LTL 104.4 million in 2013. Net profit went down as revenue decreased at a higher rate than did the cost (by 5.8% and 5.1% respectively), and also due to the 3.8% rise in operating expenses year-on-year. The decline in profit was caused mostly by the LTL 18.8 million increase in salary expenses, and higher depreciation costs which grew by LTL 9.7 million. As a result of Lithuanian Railways' falling profit as well as higher losses of the Lithuanian Shipping Company, the return on equity in the transport and communications sector edged down by 1.3 percentage points during the reference year and stood at 2.6%.

Geoterma incurred a net loss of 16.6 million in 2013. As a comparison, in 2012 the enterprise's net loss had amounted to LTL 272 thousand. Losses grew as the value of assets was reduced by LTL 14.3 million following their revaluation in 2013. Operating expenses of the enterprise increased by the same amount, and this increase was a significant contribution to higher losses.

Other SOEs incurred normalised net losses of LTL 25.1 million in 2013, and by this amount reduced growth of normalised net profit of the total SOE portfolio. Of the 82 enterprises, of which no detailed explanations of changes in their net profit or loss were provided, 57 enterprises earned normalised net profit, while 25 undertakings incurred normalised net losses.

transported (LTL)

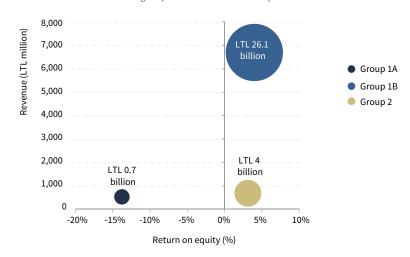
In 2013, the return on equity of the SOE portfolio accounted for 2.7%, up by 0.6 percentage point year-on-year. During the reference period, the largest growth in the return on equity was observed in the sector of other enterprises, and this ratio also went up in the energy and the forestry sectors. The transport and communications sector was the only sector that witnessed a drop in return on equity in 2013.



Implementation of State Objectives

The Ownership Guidelines approved by the Government divide all SOEs into three groups: 1A, 1B, and 2. Group 1A enterprises are engaged in exclusively commercial activities and the state expects them to increase the value of business as well as pay larger dividends and profit contributions to the state budget. Group 1B enterprises have dual objectives: they must make efforts to increase the value of business, but at the same time they should implement social or political objectives set by the state, secure strategic interests of the state, etc. Finally, Group 2 enterprises first of all must strive to implement social and political objectives of the state and engage in noncommercial activities. However, with a view to ensuring the continuity of activities, they should not be loss-making.

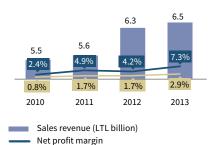




was expected to show the largest profit posted losses, while other operated at a profit.



Group 1B enterprises

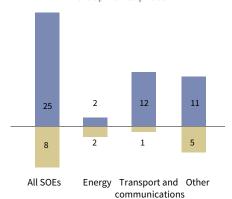


Group 2 enterprises

ROE



Group 2 enterprises



- Number of enterprises that earned normalised net profit
- Number of enterprises that incurred losses

Group 1A comprises 29 enterprises included in the portfolio, the largest ones being **Visagino Energija**, the **Lithuanian Shipping Company**, and **Geoterma**. This group is the smallest in terms of the value of assets and revenue: in 2013, the value of Group 1A assets totalled LTL 731.4 million, while its revenue amounted to LTL 309.5 million. Despite the expectations towards the highest profitability and contribution to the state budget in the form of dividends from this group, the return on equity of its enterprises was the lowest of all the groups: in 2013, their ROE was negative and stood at -14%. This result was mostly determined by the loss of LTL 41.1 million of the **Lithuanian Shipping Company** (ROE -40.2%), the largest enterprise of this sector. However, even after excluding the results of this company, Group 1A return on equity still stood negative at -3.3%. In 2013, the highest normalised net profit was posted by **Visagino Energija** (LTL 5.8 million) and the **Lithuanian Exhibition and Congress Centre LITEXPO** (LTL 3.3 million).

In terms of revenue and assets, Group 1B is the largest. This group comprises 70 enterprises included in the SOE portfolio. In 2013, the aggregate book value of its assets constituted LTL 23 billion (66.4% of the total value of the SOE portfolio), while the group's revenue amounted to LTL 6.5 billion (86.1% of the total revenue of the SOE portfolio). This group includes the major SOEs of the energy and transport and communications sectors such as the **Lietuvos Energija Group**, **Lithuanian Railways**, **Klaipėda State Seaport Authority**, **Lithuanian Post**, **Klaipėdos Nafta**, and the airports. It also incorporates 42 **forest enterprises**.

Evaluating the profitability of Group 1B is the most difficult task as these enterprises have both commercial objectives and non-commercial ones required for securing the state interests. Despite the special obligations assigned to this group, its return on equity had shown stable growth in the last four years, and in 2013 ROE accounted for 2.9%.

In 2013, Group 1B earned an aggregate net profit of LTL 399.9 million (after eliminating the effect of non-standard taxes to the state and losses sustained due to the banks' bankruptcies), which was almost two times higher year-on-year. The group's profitability growth was affected mostly by the activities of two largest enterprises, **Lithuanian Post** and **Lietuvos Energija**, which, having incurred losses in 2012, generated profit during the reference period. In 2013, the net profit margin of these enterprises increased by 4.5 and 7.3 percentage points respectively year-on-year.

A factor that influenced the aggregate rate of return of Group 1B enterprises was that the return on equity of the **forest enterprises** was calculated by including the value of commercial forests, estimated on the basis of the discounted cash flow method, in the value of equity. According to the valuation carried out by the Governance Coordination Centre in early 2014, the commercial forest value amounted to LTL 3,062 million and made up 85.7% of the total value of equity of the forest enterprises at the end of 2013. The return on equity, calculated with the forest value included, was 3%. If a decision was taken to include the forest value in the Balance Sheets of the forest enterprises and an independent valuation was conducted, the return rates of these enterprises could change depending on the determined value of forests.

Among the biggest Group 1B enterprises, the best profitability ratios were achieved by **Klaipėdos Nafta** (in 2013, ROE stood at 6.4%) and the **Klaipėda State Seaport Authority** (6%). The largest loss maker of this group in 2013 was the Lithuanian Radio and Television Centre, which incurred a loss of LTL 6.4 million.

Group 2 comprises 33 enterprises included in the SOE portfolio. In 2013, the book value of this group's assets constituted LTL 4 billion, and revenue stood at LTL 742.9 million. The biggest enterprises of this group are the **Lithuanian Oil Products Agency**, 11 road maintenance enterprises, **Oro Navigacija**, the **Centre of Registers**, and **Regitra**.

It should be noted that this group's return on equity, which in 2012 had climbed to as much as 7.7% (as a result of the reversal of impairment of the Ignalina Nuclear Power Plant assets and the non-standard profit earned from the sale of the fuel oil state reserve by Lithuanian Oil Products Agency), in 2013 amounted to 2.3%. Such a ratio complies with the objectives set by the state for this group (to be profitable).

The highest profit in Group 2 was accounted for by Regitra (LTL 8.2 million net profit, excluding non-standard taxes and losses due to the banks' bankruptcies) which posted 15.9% ROE for the reference period. In 2013, this group had eight loss-making enterprises, and the biggest loss was sustained by the State Property Fund (LTL 0.9 million).

Implementation of Objectives Set by the Government

At the end of 2012 the Government decided that enterprises engaged in commercial activities (enterprises of Groups 1A and 1B) should have to achieve an average annual return on equity of at least 5% for 2013-2015, while forest enterprises should strive to achieve an annual aggregate net profit of at least LTL 97 million on average during the same period (after deducting property and raw material taxes to the state from operating expenses).

In 2013, the average return on equity of Group 1A and 1B enterprises amounted to 2.4% or two times less than the requirement set by the Government. The ratio determined by the Government was achieved by 11 of 29 Group 1A enterprises and 10 of 70 Group 1B enterprises. During the reference period, return on equity of the transport and communications sector enterprises accounted for 2.8%, and in the energy sector ROE was 0.4 percentage point lower. The worst results were observed in the sector of other enterprises, which posted a negative return on equity (-2.8%).

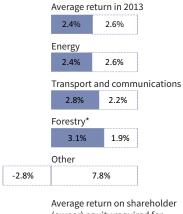
The highest return on equity (3.1%) was achieved by the forestry sector. However, forest enterprises, which constitute almost the whole sector, are not subject to the return on equity requirement. Under the Government's decision, forest enterprises had to earn an annual consolidated net profit of LTL 97 million on average in 2013-2015. In 2013, these enterprises posted a consolidated net profit of 107.5 million, exceeding the required amount by LTL 10.5 million.

Return from SOEs to the State

The 2013 return from SOEs to the state stood at LTL 155.7 million, up by 3.7% yearon-year. Of this amount, the sum of dividends assigned and profit contributions to the state constituted LTL 58.3 million, which was LTL 2.9 million less than in 2012. The change in non-standard taxes to the state was insignificant.

Enterprises of the transport and communications sector should contribute LTL 20.6 million of dividends to the state budget for 2013, or LTL 11.9 million less than for 2012. Lithuanian Railways assigned LTL 10.6 million dividends. Due to implementation of Rail Baltica, which is a project of national significance, the sum of the dividends of the company was reduced from LTL 84.9 million. The Lithuanian Post will pay out LTL 8.5 million dividends to the state for 2013, Vilnius International Airport will pay out LTL 2 million of profit contributions. Enterprises engaged in the maintenance of regional roads will contribute LTL 0.7 million to the state budget, an amount two times lower than that paid for the previous reference period. The Klaipėda State Seaport Authority, which in 2013 earned a net profit of LTL 81.5 million, has been relieved from payment of dividends for the period of implementation of the project on construction of the LNG Terminal that has strategic importance.

The forest enterprises and the Lithuanian Forest Inventory and Management Institute assigned LTL 19.3 million for payment of profit contributions, up by 45.3% year-on-year.



(owner) equity required for 2013-2015

5.0%

Implementation of requirements for forest enterprises set by the Government (LTL '000)

Average consolidated net profit indicator required by the owner for 2013-2015

97,000

Consolidated net profit indicator of forest enterprises in 2013

107 526

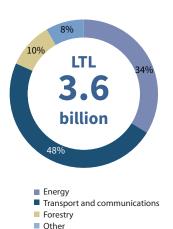
Return from SOEs to the state (LTL million)



- Assigned dividends (state-owned share)
- Assigned profit contributions
- Property tax
- Raw material tax

^{*}As forest enterprises are not subject to the return on equity requirement, their results were not included in the average 2013 return.

Value added generated by **SOEs in 2013**



In the sector of other enterprises, the sum of dividends and profit contributions assigned amounted to LTL 15.3 million and was LTL 2.8 million larger than in 2012. This growth was influenced mostly by Investicijų Ir Verslo Garantijos which assigned dividends amounting to LTL 1.7 million (the enterprise had paid no dividends for 2012). A significant contribution of LTL 1.8 million for 2013 will be paid to the state budget by Problematika. The return from Detonas and the Agricultural Loans Guarantee Fund to the state will constitute LTL 1 million from each enterprise. The Lithuanian Exhibition and Congress Centre LITEXPO will contribute LTL 0.5 million to the budget as payment was reduced from potential LTL 1.9 million.

Enterprises of the energy sector assigned LTL 257.4 thousand of dividends to the state for the reference period, comprising the dividends allocated by Klaipėdos Nafta. It is noteworthy that the return from the energy sector to the state is the lowest among all

In 2013, non-standard taxes paid by SOEs shrank by LTL 8.6 million and amounted to LTL 97.4 million. The lion's share of non-standard taxes was paid by the forest enterprises: the raw material tax of LTL 73.2 million and the property tax of LTL 7 million. Enterprises of the transport and communications sector paid the largest property tax (LTL 12.2 million).

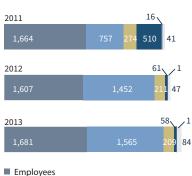
Value Added of SOEs

The value added statement (VAS) shows how much value is created through joint efforts of an enterprise's equity owners, managers, and employees. First of all, this statement reveals the direct contribution of an enterprise to the state budget and allows evaluating how the created value added is distributed among stakeholders such as shareholders (owners), creditors, employees, and the state which receives taxes paid by the enterprises. This statement is especially useful for SOEs as many of them must harmonise the objective of making profit with the fulfilment of the special obligations assigned and the satisfaction of public interests. In addition, SOEs provide financial return to shareholders in the form of not only net profit but also of taxes paid to the budget. Therefore, the VAS helps to estimate the aggregate value added generated by such enterprises for the state.

Below is a statement of value added created by all enterprises included in the SOE portfolio, except for Lietuvos Dujos and Amber Grid, in which the state only had a minority interest at the end of 2013. Value added was calculated on the basis of audited financial statements of SOEs for 2013 and information provided by the enterprises on employee remuneration funds, paid taxes and interest expenses.

| VALUE ADDED (LTL MILLION) | 2011 | 2012 | 2013 |
|---|-------|-------|-------|
| Revenue from core activities | 6,981 | 7,312 | 7,535 |
| Revenue from other activities | 69 | 67 | 73 |
| Acquisition costs of goods and services | 3,636 | 3,998 | 4,064 |
| Value added before financial activities | 3,414 | 3,381 | 3,544 |
| Result of financial activities | -150 | -3 | 54 |
| Value added for allocation | 3,264 | 3,378 | 3,598 |
| ALLOCATION OF VALUE ADDED (LTL MILLION) | 2011 | 2012 | 2013 |
| Equity owners | 567 | 108 | 143 |
| Dividends and profit contributions to the state | 510 | 61 | 58 |
| Dividends to minority shareholders | 16 | 1 | 1 |
| Interest to creditors | 41 | 47 | 84 |
| Employees | 1,801 | 1,755 | 1,837 |
| Wages | 1,158 | 1,122 | 1,173 |
| Social insurance taxes | 507 | 485 | 509 |
| oo clar moarance taxes | | | 303 |

Generated value added (LTL million)



- Funds intended for
- investments
- State taxes
- Dividends and profit contributions to the state
- Dividends to minority shareholders
- Interest to creditors

| Generated value added | 3,263 | 3,379 | 3,598 |
|---|-------|-------|-------|
| Share of net profit | -609 | 218 | 317 |
| Depreciation | 1,367 | 1,234 | 1,247 |
| Funds intended for investments | 757 | 1,452 | 1,565 |
| State taxes | 274 | 211 | 209 |
| Funds from the national budget and EU funds used to finance employee remuneration costs | -136 | -148 | -156 |
| Employee remuneration costs compensated from the state budget, structural EU or other funds | 136 | 148 | 156 |
| English and the second | | | |

In 2013, value added generated by all SOEs amounted to almost LTL 3.6 billion, up by 6.5% year-on-year. Revenue from core activities grew by 3% (or LTL 223 million), while expenses for generating value added went up by 1.7% (or LTL 66 million). The final result was affected also by the result of financial activities (accounting for 1.5% of value added) which improved significantly (by LTL 54 million) and was influenced mostly by the Ignalina Nuclear Power Plant. In 2013, the enterprise increased the result of its financial activities by LTL 27.8 million due to the LTL 29.5 million decrease in expenses for financial activities as in the 2012 statements, the depreciation of debt from Ūkio Bankas and Snoras bank had been included.

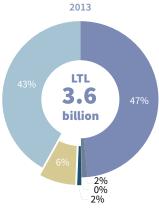
Analysing individual SOE sectors, value added of transport and communications enterprises grew insignificantly in 2013, exceeding LTL 1.7 billion, while the contribution of the energy sector to the country's economy constituted LTL 1.2 billion (up by 7.9% from 2012). Forestry and other enterprises generated value added of LTL 358 million (up by 10.5%) and LTL 301 million (up by 19.9%), respectively.

A comparison of value added generated by SOEs against Lithuania's gross domestic product (GDP) has shown that in 2013 the contribution of SOE to the economy accounted for 3%, i.e. up by 0.03 percentage point year-on-year. The most significant share of value added was created by a few major SOEs: value added generated by the Lithuanian Railways Group amounted to about LTL 1.1 billion, while value added of the groups of Lietuvos Energija and EPSO-G was LTL 893.1 million and LTL 205.8 million respectively. The aggregate contribution of these three groups of enterprises to the country's GDP constituted 1.9% in 2013.

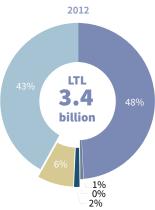
Of the total value added generated in 2013, 46.7% were assigned to employee remuneration: salaries, social insurance taxes, and other payments. This number excludes LTL 156 million (4.3% of total value added) of expenses for employee remuneration compensated from the state budget or EU funds, which are not shown in the Profit and Loss Statements. These expenses only represent a redistribution of funds between different stakeholders (national and supranational institutions and SOEs employees) and have no effect on the amount of value added for allocation.

Equity owners (the state, minority shareholders and creditors) have 4% of total generated value added or LTL 142.6 million assigned to them. Creditors will receive LTL 83.7 million in the form of interest. This shows that SOEs have relatively few financial liabilities. The state also collects value added in the form of taxes. In 2013, this share shrank from 6.2% to 5.8% of the total generated value added and constituted LTL 209.3 million. Part of all taxes paid to the state is non-standard (raw material and property) taxes. Non-standard taxes paid to the state by SOEs in 2013 grew by 9.3% and amounted to LTL 97.4 million. Most of them were paid by the forestry sector enterprises and equalled LTL 80.5 million, with the raw material tax paid by forest enterprises constituting the largest share (LTL 73.2 million). The highest property tax, or LTL 12.1 million, was paid by the transport and communications sector. Energy enterprises paid LTL 1.8 million of property taxes, and the sector of other enterprises contributed LTL 2.9 million in the form of the property tax.

Following the distribution of value added to all interested parties, about 43.5% of value added generated in 2013 (almost LTL 1.6 billion) could be kept by the enterprises.

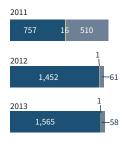


- Employees
- Interest to creditors
- Dividends to minority shareholders
- Dividends and profit contributions to the state
- State taxes
- Funds intended for investments



- Employees
- Interest to creditors
- Dividends to minority shareholders
- Dividends and profit contributions to the state
- State taxes
- Funds intended for investments

Distribution of value added between the enterprise and owners (LTL million)



- Dividends and profit contributions to the state
- Dividends to minority shareholders
- Funds intended for investments

SOE value added per employee increased by 6.9% year-on-year and constituted LTL 93 thousand in 2013. These are funds intended for development, investments for the impairment of assets, repayment of debt, financing of the working capital, and other needs of the enterprises. Compared to 2012, this amount increased by 7.8%.

Return on Equity According to DuPont Analysis

In 2013, the return on equity of the SOE portfolio stood at 2.7% as SOE normalised net profit grew by 25% and equity increased by 5.7%. The most significant effect on the portfolio results were made by the energy and the transport and communications sectors, which included the largest SOEs. The aggregate assets of these sectors' enterprises accounted for 83%, net profit made up 89%, sales revenue constituted 86%, and equity stood at 78% of the respective items of the total SOE portfolio.

DuPont analysis

DuPont analysis is a recognised and widely used method of analysis of results of company activities that allows breaking down return on equity into distinct elements, determining sources of return, evaluating their effect on the result and identifying the potential for the improvement of operations. Return on equity (ROE) broken down in this manner represents the product of operating efficiency (measured by net profit margin), use of asset efficiency (measured by asset turnover) and financial leverage of a company:

ROE = Net profit margin (Net profit/Sales revenue) × **Asset turnover** (Sales revenue/Assets) × **Financial leverage** (Assets/Equity)

The increase of any of the three elements has a positive effect on return on equity of a company. Nevertheless these indicators to a great extent depend on the sector in which a company operates. Therefore it is reasonable to analyse them only within the context of comparable companies.

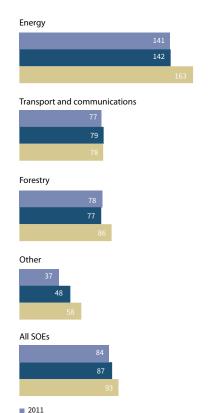
Analysing individual SOE sectors, energy enterprises increased all the three ratios year-on-year and achieved 2.66% return on equity in 2013 (as a comparison, in 2012 return on equity in this sector had been 1.2%). Although the asset turnover of energy enterprises (the efficiency of use of assets in generating sales revenue) went up insignificantly and was still relatively low (0.24), the growth of return on equity was determined by the 2.96 percentage points increase in the net profit margin of the energy sector. This change was greatly influenced by the two-fold increase in normalised net profit of energy enterprises. The biggest contributor to this change was **Lietuvos Energija**, which enlarged its net profit by LTL 210 million during the reference year.

The results of the transport and communications sector, compared to the previous year, decreased as return on equity went down from 3.86% to 2.64%. The decrease in return on equity was determined by lower asset turnover and profitability of the enterprises.

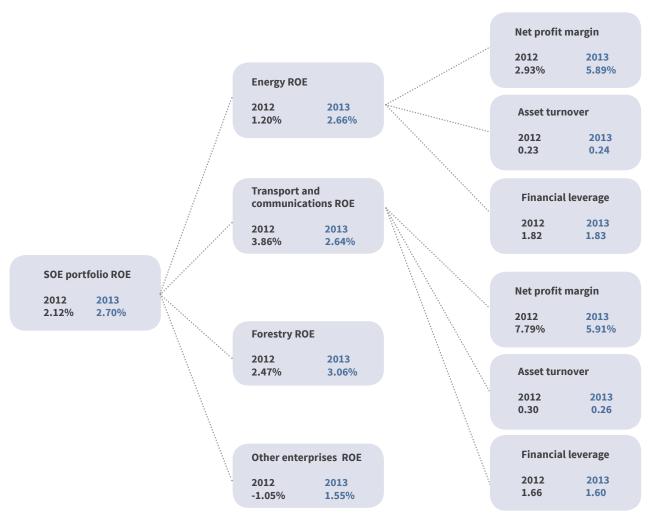
It must be noted that return on equity of the forestry sector and the sector of other enterprises increased in 2013, but the effect of these sectors' results on the improvement of the aggregate result of the portfolio was less significant as the weight of the two sectors in the total SOE portfolio is considerably lower than that of the energy and the transport and communications sectors.

A comparison of the average results of Lithuanian SOEs and comparable West and East European and Russian companies of the respective sectors (a detailed methodology for identifying comparable companies and compiling comparable indicators is presented in the section 'Valuation Methodology' at the end of the report) shows that return on equity of both the energy and the transport and communications sectors'

Value added per employee (LTL '000)



2013



enterprises tends to fall behind that of comparable companies: return on equity of the Lithuanian energy sector is more than a two times lower, while the foreign comparable companies of transport and communications earn more than a three-fold higher return to their shareholders.

| | Energy | | Transport and communications | |
|--------------------------|--------------------|------------------------------------|------------------------------|------------------------------------|
| | Lithuanian SOEs | Foreign comparable companies | Lithuanian SOEs | Foreign comparable companies |
| ROE | 2.66% | 5.36% | 2.64% | 8.93% |
| Net profit margin | 5.89% | 4.41% | 5.91% | 5.13% |
| Asset turnover | 0.24 | 0.65 | 0.26 | 0.92 |
| Financial leverage ratio | 1.83 | 1.86 | 1.60 | 1.81 |

Although the Lithuanian enterprises in both the energy and the transport and communications sectors slightly outpace the foreign comparable companies by the net profit margin, they clearly lag behind their foreign counterparts in terms of the average asset turnover ratios of the two sectors. Increasing the efficiency of asset use could help the Lithuanian enterprises to secure a higher return to shareholders. The efficiency of asset use can be increased in two ways: by enlarging revenue and retaining the existing asset base, or by rejecting less efficient assets.

It is noteworthy that the financial leverage of the transport and communications sector is lower than that of the comparable companies. This allows drawing a conclusion that the capital structure of these companies is still relatively conservative and the companies have a potential for additional borrowing. In terms of the debt-to-equity ratio, the energy enterprises have almost achieved the market average; therefore these enterprises should carry out an especially detailed assessment of their financial risk before assuming new liabilities that increase their financial leverage.

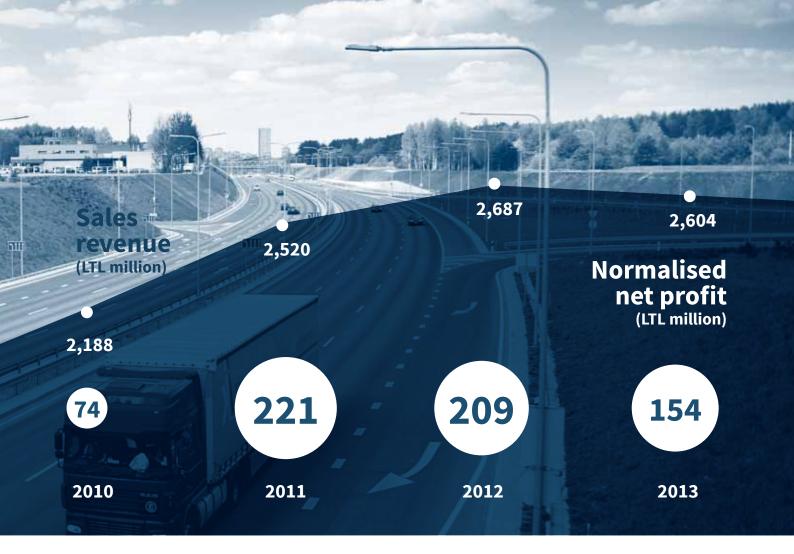


The state owns 23 enterprises that provide road maintenance, railway, water transport, airport, postal and telecommunications services in the transport and communications sector, which in 2013 together controlled 32% of total SOE assets and earned 34.6% of total SOE revenue. Almost six out of ten employees at state-owned enterprises work in the transport and communications sector.

The table below shows 10 major enterprises by the category and sales revenue.

| Enterprise | Field of activity | Turnover in 2013 (LTL '000) | Assets at the end of 2013 (LTL '000) | Number of employees at the end of 2013 | Interest owned by the state (%) |
|--|--|-----------------------------------|--|--|---------------------------------------|
| Lithuanian Railways Group | Passenger and freight transportation | 1,637,004 | 6,258,669 | 12,770 | 100.0% |
| Lithuanian Post Group | Provision of postal and courier, financial services | 201,713 | 235,198 | 6,208 | 100.0% |
| Klaipėda State Seaport Authority | Klaipėda seaport infrastructure management | 158,553 | 1,745,657 | 242 | 100.0% |
| Lithuanian Shipping Company | Freight transportation by sea | 92,337 | 163,096 | 340 | 56.7% |
| Oro Navigacija | Provision of specialised services in national airspace | 89,225 | 166,768 | 306 | 100.0% |
| Lithuanian Radio and Television Centre | Radio and television broadcast services | 62,589 | 141,709 | 383 | 100.0% |
| Vilnius International Airport | Operation of Vilnius airport | 58,542 | 337,603 | 347 | 100.0% |
| Šiaulių Regiono Keliai | Maintenance of roads of national importance | 40,075 | 61,469* | 326 | 100.0% |
| Kauno Regiono Keliai | Maintenance of roads of national importance | 32,120 | 55,668* | 328 | 100.0% |
| Automagistralė | Maintenance of roads and related infrastructure | 31,359 | 47,766* | 308 | 100.0% |

^{*}Assets of the enterprise net of the value of roads



Financial Results

In 2013, revenue of the transport and communications sector enterprises stood at LTL 2.6 billion, down by 3.1% or LTL 83 million year-on-year. The reduction of the sector's portfolio revenue was determined by LTL 100 million lower revenue of Lithuanian Railways, which dropped to LTL 1.6 billion as a result of significantly lower volumes of NATO freight forwarding and the reduced flow of chemicals and ferrous metals from the East to Klaipėda Seaport. The portfolio of the sector was also affected by the Klaipėda State Seaport Authority as its revenue, due to lower transit freight volumes, plummeted by LTL 8.5 million to LTL 158.6 million. Meanwhile, revenue of the **Lithuanian Post Group** rose by LTL 11 million to LTL 201.7 million.

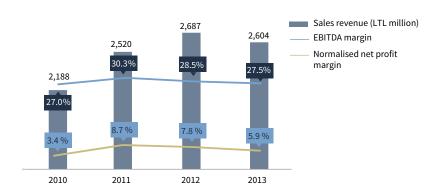
The fall in revenue was directly reflected in the prime cost of the sector, which in 2013 declined by 2.4% to LTL 1,892.3 million. Meanwhile, operating expenses went up by 5.8% to LTL 563.2 million. Operating expenses of the **Lithuanian Shipping Company** increased the most as a result of the impairment of vessels by LTL 22.1 million. Operating expenses of the Lithuanian Railways, the largest SOE in terms of employee number, grew by 3.8% to LTL 183.7 million due to the partial re-establishment of the salaries that were cut during the financial crisis.

In 2013, net profit earned by the transport and communications sector shrank by 26.4%, compared to 2012, and amounted to LTL 154 million. The factors that had the greatest negative effect on the result were net profit of the Lithuanian Railways **Group** that fell by LTL 24.7 million to LTL 104.4 million and net loss of the **Lithuanian Shipping Company** that increased from LTL 16.4 million to LTL 41.1 million. In 2013, the best result within the transport and communications sector was reported by the Lithuanian Post Group where the net loss of LTL 7.2 million in 2012 became a net profit of LTL 1.6 million in 2013.

The 2013 net profit of the enterprises belonging to transport and communications sector decreased by more than one-fourth.

| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
|--|--------------------------|--------------------------|
| Sales revenue | 2,686,580 | 2,603,566 |
| Cost of goods sold | 1,938,971 | 1,892,300 |
| Gross profit (loss) Operating expenses | 747,609 532,186 | 711,267 563,200 |
| Profit (loss) from other activities | 34,351 | 34,093 |
| Operating profit (loss) | 249,774 | 182,160 |
| Operating profit margin | 9.3% | 7.0% |
| EBITDA | 766,634 | 715,710 |
| EBITDA margin | 28.5% | 27.5% |
| Financial and investment activities | -24,516 | -19,255 |
| Profit (loss) before tax Profit tax | 225,258 26,686 | 162,905 |
| | | 19,672 |
| Net profit (loss) Minority interest | 198,572 -7,082 | 143,233 -18,119 |
| Normalised net profit (loss) | 209,308 | 153,980 |
| Normalised net profit margin | 7.8% | 5.9% |
| BALANCE SHEET (LTL '000) | 31 DEC 2012 | 31 DEC 2013 |
| | | |
| Intangible assets Tangible assets | 34,751 7,997,090 | 46,830 8,931,098 |
| Financial assets | 13,437 | 14,462 |
| Other non-current assets | 14,552 | 14,247 |
| Biological assets | 0 | 0 |
| Non-current assets | 8,059,829 | 9,006,637 |
| Inventories, prepayments and contracts in progress | 277,929 | 290,929 |
| Amounts receivable within one year | 420,024 | 307,956 |
| Other current assets Cash and cash equivalents | 61,106 199,810 | 77,397 242,313 |
| Current assets | 958,870 | 918,596 |
| TOTAL ASSETS | 9,018,699 | 9,925,233 |
| Equity | 5,448,423 | 6,202,565 |
| Minority shareholder equity | 54,056 | 36,254 |
| Grants and subsidies Non-current liabilities | 2,124,647 723,215 | 1,879,307 905,710 |
| Current liabilities | 722,413 | 937,651 |
| Liabilities | 1,445,629 | 1,843,361 |
| Financial liabilities | 828,869 | 1,036,140 |
| TOTAL EQUITY AND LIABILITIES | 9,018,699 | 9,925,233 |
| RATIOS | 31 DEC 2012 | 31 DEC 2013 |
| Normalised ROA | 2.4% | 1.6% |
| Normalised ROE | 3.9% | 2.6% |
| D/E | 14.3% | 16.7% |
| | | |
| RETURN TO THE STATE (LTL '000) | 2012 | 2013 |
| Assigned dividends (share of the state) | 32,532 | 20,614 |
| Assigned profit contributions | 2,599 | 2,795 |
| Dividends and profit contributions to the state: Property tax | 35,131 12,133 | 23,409 12,157 |
| TOTAL | 47,264 | 35,566 |
| EMPLOYEE INFORMATION | 2012 | 2013 |
| Number of employees | 23,520 | 23,708 |
| Number of employees Number of executives | 102 | 102 |
| | | |

The book value of assets managed by enterprises of this sector enlarged by 10.1% during 2013 - to LTL 9.9 billion. Again, the greatest effect on the portfolio was made by the Lithuanian Railways Group as its assets went up by 15.5% to LTL 6.3 billion due to the increase of equity and financial liabilities intended for funding the Rail Baltica project. Since net profit shrank and the book value of equity increased by 13.8%, return on equity in the transport and communications sector went down from 3.9% in 2012 to 2.6% in 2013.



Enterprises from the transport ant communications sector earned LTL 143.2 million in revenue in 2013 and paid out LTL 20.6 million in dividends.



In 2013, the sector's debt-to-equity (D/E) ratio edged up by 2.4 percentage points to 16.7%. The majority of transport and communications enterprises, including all road maintenance enterprises, conducted their operations in 2013 without any financial liabilities. The total value of grants and subsidies provided to the sector shrank by 11.5% to LTL 1.9 billion over the year. **Lithuanian Railways**, the company that receives the lion's share of grants and subsidies in this sector, reduced its amount of grants and subsidies by LTL 245.3 million to LTL 1.5 billion on its Balance Sheet in 2013.

The State's share of dividends and profit contributions assigned by the transport and communications sector enterprises for 2013 constituted LTL 20.6 million, while in 2012 it amounted to LTL 32.5 million. The majority of dividends was appointed by Lithuanian Railways - LTL 10.6 million. The initial sum of LTL 84.9 million in dividends was reduced due to Rail Baltica – a project of national importance that is undertaken by the company. Lithuanian Post will pay out LTL 8.5 million in dividends and Vilnius International Airport - LTL 2 million. The Klaipėda State Seaport Authority's duty to make profit contributions was lifted due to its high demand for investments to implement projects of national importance, including the LNG Terminal construction project.

Railways

The territory of Lithuania is crossed by two railway corridors that are of strategic importance at a European level: one in the North-South direction that connects Poland with the Baltic States, and the other one in the East–West direction that connects Ukraine and Belarus with Klaipėda Seaport. The North–South corridor is not fully integrated due to different gauge types used in the Baltic States and Poland. Upon implementation of the international transport project Rail Baltica, a railway line will connect Warsaw, Kaunas, Vilnius, Riga, Tallinn, and, via a train ferry, Helsinki. In early 2014 an agreement was reached on the connection of the Vilnius passenger rail track integration into the European railway line, which should be implemented during second phase of the project.

Lithuanian railway infrastructure is operated in trust by the state-owned enterprise **Lithuanian Railways**.

Passenger Transportation

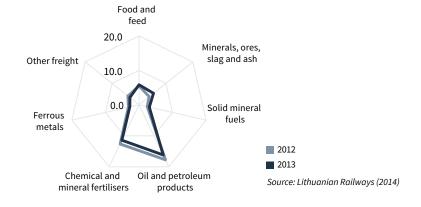
In 2013, the number of passengers carried by railways stood at 4.8 million, which accounted for a mere 1.2% of all passengers transported in Lithuania. The upgrading of the rolling stock fleet and the marketing programmes allowed increasing the number of passengers slightly. However, construction of Rail Baltica forced the company to change the traffic schedules and routes of some trains, which had a negative effect on the overall growth of the passenger number. Compared to 2012, the number of passengers transported was up by 0.9%. Of all passengers transported by rail, 78.6% were carried on local routes and 21.4% on international routes.

The economic situation in Russia resulted in a decreased number of passengers travelling to and from the Kaliningrad region by transit. Due to strong competition with air transport, the number of travellers on the Vilnius–Moscow and the Vilnius–St. Petersburg routes also fell down by 10.6% and 3.5% respectively. Compared to 2012, the number of passengers on the Vilnius–Minsk route increased by 31.1%. The reason for this was that in 2013 train formations of **Lithuanian Railways** were launched on this route, and the travel time was cut by one hour.

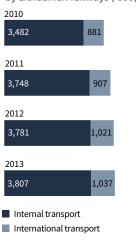
Freight Transportation

In 2013, **Lithuanian Railways** transported 48 million tonnes of freight, down by 2.7% year-on-year. Of this amount, 68.5% was freight carried by international routes, which shrank by 4.6% or 1.6 million tonnes, compared to 2012. The decline in international transport was caused by lower transit volumes via Klaipėda Seaport: due to a conflict in the fertiliser market between Russia's Uralkalij and Belarus' Belaruskalij production plants, the flow of chemicals contracted significantly; the change of oil suppliers stopped the transport of petroleum products from Belarus, and the flow of ferrous metals from Russia decreased as well. However, an increase was observed in transit transport to Kaliningrad.

Structure of freight transported by Lithuanian railways in 2012–2013 (million tonnes)

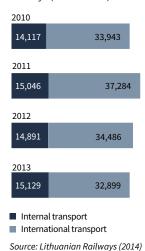


Number of passengers transported by Lithuanian railways ('000)



Source: Lithuanian Railways (2014)

Freight transported by Lithuanian railways (tonnes '000)



In 2013, no significant changes occurred in the local transport market: freight carried constituted 15.1 million tonnes, up by 1.6% year-on-year. The major customers in this market still are the big Lithuanian industrial enterprises: ORLEN Lietuva, Lifosa, Achema, Akmenės Cementas, and Dolomitas. Of all freight transported by rail, 57.5% is oil, petroleum products, and chemical and mineral fertilisers.

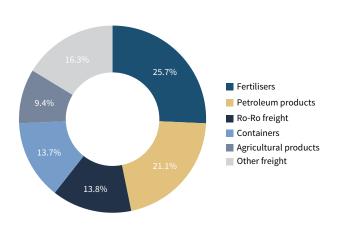
Maritime Transport

Lithuania's maritime transport includes the Lithuanian merchant fleet, Klaipėda State Seaport, Šventoji State Seaport, and the Būtingė oil terminal of ORLEN Lietuva, as well as other companies and agencies providing services to vessels. Among the biggest players in the maritime transport sector are state-owned enterprises such as the Lithuanian Shipping Company and the Klaipėda State Seaport Authority (hereinafter the **Seaport Authority**).

Vessels of the Lithuanian Shipping Company account for almost a third of the Lithuanian merchant fleet. At the end of 2013, the company controlled 10 merchant vessels. The Seaport Authority is entrusted with the management of Klaipėda and Šventoji Seaports. The latter seaport is still in the development phase and will be devoted to recreational ships. Klaipėda Seaport has 38 specialised terminals, and its annual freight handling capacity amounts to 45 million tonnes.

In the reference year, Klaipėda Seaport handled 33.4 million tonnes of maritime freight, down by 5.4% year-on-year. The greater part (62.9%) of freight handled is Lithuanian freight, of which 14,000 tonnes are exports, while imports are two time smaller and amount to 7,000 tonnes. Transit freight is handled mostly in Belarus (26.6%) or Russia (7.9%).

Freight structure at Klaipėda Seaport in 2013

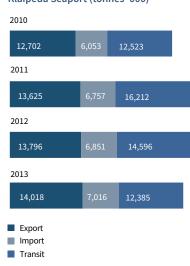


Source: Klaipėda State Seaport Authority (2014)

In 2013, Klaipėda Seaport served a record number of passengers – 345,300 persons, of which 32,700 arrived by cruise liners, up by 22% year-on-year. Compared to other Baltic seaports, such passenger flow is small: Tallinn Seaport served 9.2 million passengers, and Riga Seaport was visited by 0.8 million passengers during the reference year.

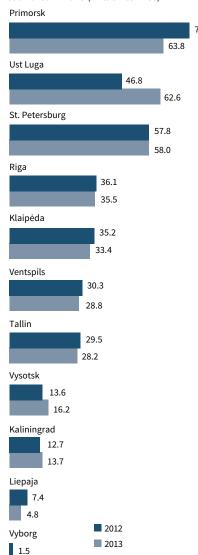
In 2013, the aggregate freight handling of the seaports on the eastern coast of the Baltic Sea went up slightly and amounted to 355.5 million tonnes. During the reference period, the biggest changes occurred at the Russian seaports of Ust Luga (freight handling up by 15.8 million tonnes) and Primorsk (freight handling down by 11 million tonnes), mostly due to changes in the volumes of crude oil and petroleum products.

Handling volumes at Klaipėda Seaport (tonnes '000)



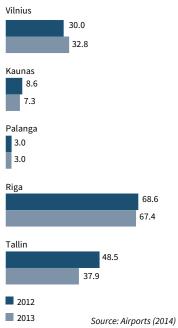
Source: Ministry of Transport and Communications (2014)

Handling at seaports of Baltic countries in 2013 (million tonnes)



Number of flights at airports ('000)

1.5



Source: Klaipėda State

Seaport Authority (2014)

If we look only at the Baltic States' seaports, the leader among them by the volume of freight handled, just as in 2012, is Riga Seaport, with Klaipėda Seaport lagging behind by 1.9 million tonnes. However, considering the fact that the flows of maritime freight in Latvia are distributed among Riga, Ventspils and Liepaja seaports, maritime freight handling in Lithuania (including 9 million tonnes at the Būtingė terminal) is 1.6 times lower than that in Latvia.

Airports

Lithuania operates three passenger airports that have international statuses and their infrastructure management is entrusted to **Vilnius International Airport**, **Kaunas Airport**, and **Palanga International Airport**. Air traffic control, communication and flight control services are provided by **Oro Navigacija**, an enterprise of strategic importance. Another airport operating in Lithuania is Šiauliai Airport. It is mostly used for military aviation purposes and is under the management of a company owned by the Šiauliai City Municipality.

November 2013 saw the entry into force of a law, under which **Vilnius International Airport**, **Kaunas Airport**, and **Palanga International Airport** will be reorganised into a state-owned company **Lithuanian Airports**. The purpose of reorganisation is to establish a network of three Lithuanian airports and, through their coordinated development, make it the most popular airport network in the region due to the variety of quality services offered, effective infrastructure management and sustainable business partnership.

In 2013, Vilnius, Kaunas and Palanga Airports served a total of 3.5 million passengers and 43,100 flights. Compared to 2012, the number of passengers at the Lithuanian airports grew at a higher pace than did the number of flights. In 2013, the number of passengers served was up by 10.1%, while the intensity of flights increased only by 3.7%. The number of passengers per flight rose by 6.2%.

The change of the Vilnius Airport strategy, aimed at attracting a larger number of cheap air carriers, altered the long-standing segmentation of airport activities and the distribution of passengers. In 2013, 76.1% of all flights were operated at Vilnius Airport which served 2.7 million passengers – up by 20.6% year-on-year. Meanwhile, Kaunas Airport lost 6% of its market, mostly due to the transfer of 13 flights of the airline Ryanair to Vilnius Airport. During the reference period, the number of passengers at Kaunas Airport shrank by 16.2% to 695,500. The activities of Palanga Airport are closely related with tourism in Western Lithuania and South-Western Latvia, and the airport serves the largest passenger flows during the warm season. In the reference year, the number of passengers and flights served stayed similar to that in 2012, or 128,000 and 3,000, respectively.

The key passenger carriers at the Lithuanian airports are the low-cost airlines Ryanair and Wizz Air, which in 2013 transported 43% and 16% of all passengers, respectively. In 2013, a national carrier, Air Lithuania, came into the air transportation market.

The number of flights served at all Lithuanian airports increased from 41,300 in 2012 to 43,100 in 2013. Meanwhile, the number of flights served in Riga and Tallinn contracted by 1,200 and 10,600, respectively. Despite the growth of its market share, Vilnius Airport still serves fewer flights than do the main airports of the other Baltic States.

In terms of the number of passengers served at the airports, Vilnius Airport has served more passengers than Tallinn Airport for two years in a row, but only half as many as Riga Airport has.

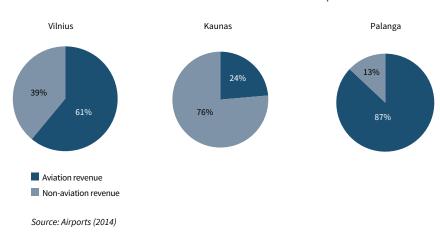
In 2013, the handling of freight and postal shipments at the Lithuanian international airports, including Šiauliai Airport, increased by 10.2% year-on-year and totalled 15,900 tonnes. During the reference year, the largest freight flow was served at Vilnius Airport where freight handling increased by 39.3% to 8,300 tonnes. Meanwhile, the volume of freight and postal shipments at Kaunas Airport shrank by 1,300 tonnes to 2,100 tonnes.

According to the 2013 results, Riga Airport retains the leading position among the three Baltic States by the volume of freight flows served. The amount of freight and postal shipments handled there, which in 2013 enlarged by 62.5%, is 2.5 times larger than that of Tallinn Airport and 3.5 times higher than the amount handled by all Lithuanian airports.

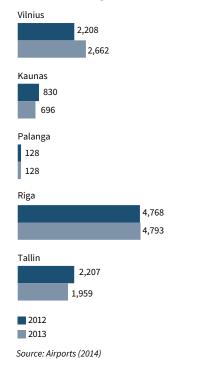
Non-aviation services (lease of premises and parking lots, advertising, catering and retail services, etc.) at airports help to reduce revenue fluctuations arising from competition on the aviation services market. At the world's major airports revenue from non-aviation activities accounts for more than 50% of total revenue.

In 2013, the largest revenue from non-aviation activities in Lithuania was generated by Vilnius Airport, constituting LTL 22.8 million (39% of total revenue of this airport). Due to the growing number of passengers and partner expectations, non-aviation revenue of Vilnius Airport increased by 17% year-on-year: revenue from the lease of premises and buildings went up by 23%, and that from advertising rose by as many as 40%. Among all Lithuanian airports, the largest share (76.4%) of revenue from nonaviation services in total revenue was posted by Kaunas Airport, which applies small charges in its work with low-cost airlines.

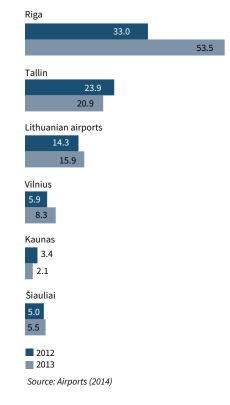
Aviation and non-aviation revenue of Lithuanian airports



Number of passengers at airports ('000)



Cargo and postal item services at airports ('000)



Energy

This sector is the most strategically important SOE sector. SOEs attributed to this sector generate and supply almost one fourth of the country's electricity demand, they also own electricity transmission and distribution networks. Having carried out the restructuring of enterprises, electricity generation and distribution were liberalized and separated from transmission. The same goal is set to be achieved in the gas sector by the end of 2014, upon the implementation of the EU Third Energy Package and completion of construction the LNG Terminal.

SOEs operating in the energy sector generate and supply electricity and heat to consumers, and provide different related services. In addition, this sector includes **Klaipėdos Nafta** that offers oil and petroleum product transhipment services and is responsible for construction of the Liquefied Natural Gas (LNG) Terminal in Lithuania. The energy sector also incorporates the companies **Lietuvos Dujos** and **Amber Grid**, which are not considered SOEs as at the end of 2013 the state only held 17.7% of their shares, but the value of the state's shareholding and dividends received are included in the total results of the sector. Ten biggest enterprises attributed to this sector are listed in the table below.

| Enterprise | Field of activity | Turnover in 2013 (LTL '000) | Assets at the end of 2013 (LTL '000) | Number of employees at the end of 2013 | State's interest at the end of 2013 (%) |
|--|---|-----------------------------------|--|---|---|
| Lietuvos Energija Group | The Lietuvos Energija Group includes the Lietuvos Energijos Gamyba Group and the LESTO Group. The Group's activities comprise electricity and heat generation and supply, electricity trading and distribution | 2,907,537 | 9,727,225 | 4,378 | 100.0% |
| Lietuvos Dujos* | Natural gas import, distribution services | 1,537,267 | 1,050,511 | 1,364 | 17.7% |
| EPSO-G Group | The company controls the Lithuanian electricity transmission system operator Litgrid | 613,902 | 2,555,393 | 673 | 100.0% |
| Amber Grid* | Lithuanian natural gas transmission system operator | 169,291 | 1,748,927 | 356 | 17.7% |
| Lithuanian Oil Products Agency | Storage of petroleum products | 142,896 | 329,722 | 6 | 100.0% |
| Klaipėdos Nafta | Petroleum product export and import | 126,860 | 675,834 | 382 | 72.3% |
| Visagino Energija | Heat and water supply, wastewater treatment | 73,502 | 194,287 | 212 | 100.0% |
| Geoterma | Heat generation | 7,246 | 29,627 | 19 | 99.1% |
| Ignalinos Atominė Elektrinė (Ignalina Nuclear Power Plant) | Decommissioning of the Ignalina Nuclear Power Plant | 422 | 2,116,463 | 2,103 | 100.0% |
| Radioactive Waste Management Agency | Radioactive waste management and disposal | 66 | 1,420 | 19 | 100.0% |

^{*}Turnover, assets and number of employees of Lietuvos Dujos and Amber Grid have been disclosed for information purposes only. However, the SOE portfolio only includes the state's interests in and dividends received from these companies.



Financial Results

In 2013, sales revenue of energy enterprises amounted to LTL 3,872.4 million, up by 7% year-on-year. The largest share of this increase (79.6% of the total increase in the sector's sales revenue) was determined by the results of three SOEs generating the highest revenue, in particular the Lietuvos Energija Group, the EPSO-G Group, and Klaipėdos Nafta. Revenue of the EPSO-G Group, which controls the Litgrid Group, went up by 20.8% to LTL 613.9 million as a result of higher revenue from the trading in balancing/regulation electricity and power redundancy services. Revenue of the Lietuvos Energija Group grew by 3.9% to LTL 2,907.5 million in 2013. The main reasons that influenced revenue growth were the 1.2% increase in the quantity of distributed electricity, the 11.7% rise in the average electricity transmission price and the enlargement of the PSO component in the transmission service tariff by one-third. Overall growth of the Group's revenue was inhibited by the falling revenue from the supply and trading services due to lower supply and generation volumes, and by the electricity generation quota reduced in 2013. The shrinking revenue from the petroleum product handling services and from the sale of heavy petroleum products and stocks pushed down revenue of **Klaipėdos Nafta** by 8.7% to LTL 126.9 million.

The total cost of goods sold of the energy sector enterprises increased by 4.7% to LTL 2,355.6 million, and operating expenses went up by 4.2% to LTL 1,305 million. The increase in the total cost of goods sold was influenced mostly by the EPSO-G Group where the cost grew by 35.3% to LTL 291.8 million in 2013 (such growth was determined mainly by the increase of the electricity balancing/regulation expenses to LTL 156.5 million and the rise of the cost of system services to LTL 64.2 million), and by the Lithuanian Oil Products Agency which posted an almost four-fold increase in the cost of goods and services sold for 2013 year-on-year, amounting to LTL 135.7 million. The Lithuanian Oil Products Agency saw the biggest growth in the cost of the state stocks sold as a large quantity of products was purchased for achieving the 2013

Sales revenue of energy enterprises went up by 7% compared with 2012

| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
|--|----------------------------|----------------------------|
| | | |
| Sales revenue Cost of goods sold | 3,618,540 2,249,913 | 3,872,432 2,355,576 |
| | | |
| Gross profit (loss) Operating expenses | 1,368,627 1,251,821 | 1,516,855 1,304,958 |
| Profit (loss) from other activities | 7,482 | 1,413 |
| Operating profit (loss) | 124,289 | 213,310 |
| Operating profit margin | 3.4% | 5.5% |
| EBITDA | 774,868 | 855,976 |
| EBITDA margin | 21.4% | 22.1% |
| Financial and investment activities | -21,359 | 21,074 |
| Profit (loss) before taxes Profit tax | 102,930 28,302 | 234,384 7,946 |
| Net profit (loss) | 74,628 | 226,438 |
| Minority interest | 16,445 | 49,114 |
| Normalised net profit (loss) | 105,931 | 228,028 |
| Normalised net profit margin | 2.9% | 5.9% |
| BALANCE SHEET (LTL '000) | 31 DEC 2012 | 31 DEC 2013 |
| Intangible assets | 366,738 | 340,986 |
| Tangible assets | 11,032,972 | 11,171,979 |
| Financial assets Other non-current assets | 245,979 969,505 | 244,744 943,526 |
| Biological assets | 909,505 | 943,320 |
| Non-current assets | 12,615,193 | 12,701,235 |
| Inventories, prepayments and contracts in progress | 459,142 | 424,009 |
| Amounts receivable within one year | 1,423,747 | 1,493,606 |
| Other current assets | 526,581 | 287,005 |
| Cash and cash equivalents | 446,090 | 917,603 |
| Current assets TOTAL ASSETS | 2,855,561 15,470,754 | 3,122,223 15,823,458 |
| Equity | 8,494,854 | 8,626,545 |
| Minority shareholder equity Grants and subsidies | 1,047,752 | 1,051,973 |
| Non-current liabilities | 2,899,193 2,701,474 | 3,232,938 2,579,051 |
| Current liabilities | 1,375,232 | 1,384,924 |
| Liabilities | 4,076,706 | 3,963,975 |
| Of which financial liabilities | 1,466,011 | 1,485,447 |
| TOTAL EQUITY AND LIABILITIES | 15,470,754 | 15,823,458 |
| RATIOS | 31 DEC 2012 | 31 DEC 2013 |
| Normalised ROA | 0.7% | 1.5% |
| Normalised ROE | 1.2% | 2.7% |
| D/E | 17.3% | 17.2% |
| RETURN TO THE STATE (LTL '000) | 2012 | 2013 |
| Assigned dividends (only the state's share) | 289 | 257 |
| Assigned profit contributions | 0 | 0 |
| Dividends and profit contributions to the state | 289 | 257 |
| Property tax | 1,938 | 1,870 |
| TOTAL | 2,227 | 2,128 |
| EMPLOYEE INFORMATION | 2012 | 2013 |
| Number of employees | 8,026 | 7,811 |
| Number of executives | 121 | 122 |

required reserve, which significantly pushed up the recorded cost. Despite growth in revenue, the cost of the Lietuvos Energija Group dropped by LTL 55.7 million (3%) due to the lower volume of electricity supplied and generated in the units of the Lithuanian Power Plant. In 2013, significant changes in operating expenses occurred at Geoterma, the Radioactive Waste Management Agency and Visagino Energija. Operating expenses of these enterprises soared by 894.8% (to LTL 15.8 million), 194% (to LTL 108 thousand) and 57.5% (LTL 10.7 million), respectively. The increase of operating expenses at Geoterma is attributed to a sizeable decrease in the value of noncurrent tangible assets recorded in 2013 as the recoverable value of buildings, plant and equipment fell significantly. The Radioactive Waste Management Agency also accounted for higher operating expenses due to the depreciation of non-current assets that, together with the amortisation of assets, is no longer attributed to expenses covered by state subsidies. Operating expenses of Visagino Energija went up from LTL 6.8 million to LTL 10.7 million due to the sharp rise of expenses related to heat and the supply of hot water.

In 2013, the gross operating profit of the energy sector amounted to LTL 213.3 million and grew by as many as 71.6% over the year. This change was influenced mostly by the Lietuvos Energija Group that posted operating profit of LTL 152 million, while the result at the end of the 2012 financial year had been a loss of LTL 51.3 million. This Group's companies, **LESTO** and **Lietuvos Energijos Gamyba**, both improved the financial results of their activities: as LESTO's revenue increased at a higher rate that did its expenses, the company, having emerged from the loss incurred in 2012, posted an operating profit of LTL 57.5 million, while Lietuvos Energijos Gamyba doubled its operating profit to LTL 122.7 million.

Net profit of the energy sector increased along with the growing operating profit. In 2013, normalised net profit of this sector's enterprises amounted to LTL 228 million and was more than two times larger than normalised net profit earned in 2012. A factor contributing greatly to this growth was the profitable activities of the Lietuvos **Energija Group**: in 2013, the Group earned a net profit of LTL 140.8 million, while in 2012 the result had been a net loss of LTL 68.9 million. This was determined by the increased revenue of the Group, the 4% (LTL 39.2 million) drop in operating expenses and the especially improved profitability of commercial activities. The chart below shows the change in normalised net profit of the major energy sector enterprises.

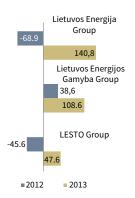
In recent years, the return ratios of the energy sector enterprises have been low due to the regulation of service pricing applied to distribution and transmission network operators. Since 2009, depreciation costs included in the distribution and transmission tariffs have been calculated on the basis of the asset value used in the licensed activity as set by the National Commission for Energy Control and Prices (NCC), rather than on the value indicated in the financial statements of the enterprises. Upon change in the regulation, no valuation of the enterprises' assets was carried out and no corrections of their value were made in their balance sheets; therefore, the asset value set by the regulator at present is three times lower than the value of assets indicated in the financial statements of **LESTO** and **Litgrid**. This difference has a significant impact on the profitability ratios that may fail to disclose the actual operating results. The ratios of return on equity and assets of **Lietuvos Energija** increased from -1.2% to 2.3% and from -0.7% to 1.4%, respectively, due to the sizeable enlargement of net profit in 2013. Meanwhile, return on equity of EPSO-G grew insignificantly and accounted for 1.8%. It is noteworthy that the ratios of **Klaipėdos Nafta**, which in 2012 had witnessed growth, fell (return on assets dropped from 7.7% to 5.8%, while return on equity edged down from 8.0% to 6.4%), because the value of both the assets and equity went up and net profit generated by them declined year-on-year.

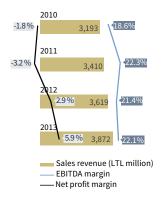
The results of Lietuvos Dujos and Amber Grid were not included in the 2013 portfolio or taken into account as the state only held minority interest of 17.7% in each of these companies at the end of 2013. The 2013 SOE portfolio only incorporates the market value of these companies' shares owned by the state (in 2013, the value of Lietuvos

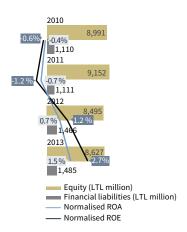
Net profit of major energy sector enterprises in 2012-2013 (LTL million)



Net profit of Lietuvos Energija and its subsidiaries in 2012-2013 (LTL million)







Dujos shares owned by the state amounted to LTL 110.7 million and that of **Amber Grid** shares to LTL 79.5 million) and the dividends paid to the state over the year (in 2013, **Lietuvos Dujos** paid almost LTL 38.4 million worth of dividends to the state from its 2012 profit, while **Amber Grid**, which in 2012 had not yet carried out any activity, during the period of preparation of this report still had no decision on the distribution of the 2013 profit or on its dividend policy).

According to information collected by the beginning of July 2014, the amount of dividends and profit contributions to the national budget allocated by the energy sector enterprises for 2013 stood at LTL 9.7 million. The major part of this amount (LTL 9.4 million) is dividends allocated by **Lietuvos Dujos**. The remaining LTL 257 thousand were assigned by **Klaipėdos Nafta** for which the sum of dividends payable was reduced to 1% of annual net profit by a Government decision due to the need for funds and liabilities assumed to the banks in relation to the implementation of the LNG Terminal project. The other enterprises of the sector failed to contribute to the revenue of the state budget in the form of dividends or profit contributions. It should be noted that in 2013 the majority of dividends assigned to the state for 2012 was also dividends of **Lietuvos Dujos**, and the amount paid by the company was as much as four times larger and stood at LTL 38.4 million. In 2013, **Klaipėdos Nafta** also had the permission only to pay 1% of its annual net profit in the form of dividends to the state: the sum was almost the same and amounted to nearly LTL 300 thousand.

The charts on the left show changes in sales revenue, equity, financial liabilities and profitability of the sector in 2010–2013.

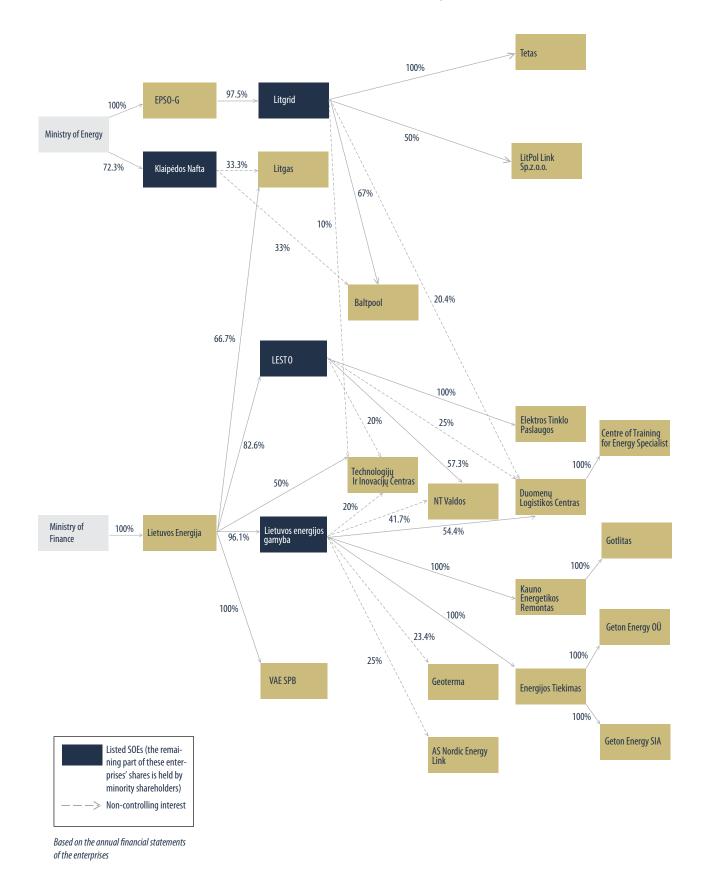
Electricity Sector

According to the requirements of the EU Third Energy Package, with a view to increasing the efficiency of the electricity sector, ensuring equal market conditions and promoting competition, the restructuring of this sector launched in 2010 has broken it down into separate elements performing different functions. The principle of separation of electricity activities is focused on three main functions: generation, transmission and distribution of electricity.

The electricity generation functions are performed by **Lietuvos Energija** which, through its subsidiary **Lietuvos Energijos Gamyba**, controls three subdivisions engaged in generation: the Lithuanian Power Plant situated near Elektrėnai, the Kruonis Pumped Storage Hydroelectric Plant and the Kaunas Hydroelectric Power Plant. Capacity of these three power plants ensures the country's energy safety: in 2013, electricity generation at these plants accounted for about 22% of the country's consumer demand. An entity in charge of electricity trading is the state-owned enterprise **EPSO-G** which, through its subsidiary **Litgrid**, maintains the stable operation of Lithuania's electricity system, manages energy flows and provides conditions for competition on the open electricity market. **Litgrid** is responsible for the integration of the Lithuanian electricity system with the European electricity infrastructure and single electricity market. An entity in charge of electricity transmission to national consumers via distribution networks is the company **LESTO** (another subsidiary of **Lietuvos Energija**), established in January 2011. The restructuring defined in the EU Third Energy Package was completed in September 2012.

Another aspect of restructuring of the electricity sector has been the establishment of a free electricity market in 2010 where at present electricity can be purchased by suppliers, all legal entities and other non-household consumers (the last phase of deregulation of the electricity market is planned from 2015, which will enable also household consumers to purchase electricity for prices based on free market conditions), and the electricity price is not controlled by the NCC. In June 2012, Lithuania became a bidding area of Nord Pool Spot (the Nordic-Baltic electricity exchange) and also has sped up its integration with the European electricity market. The activities of the Nord Pool

Energy sector state-owned enterprises, their subsidiaries and associated companies at the end of 2013 financial year



Spot exchange are supervised by the Regulatory Board that includes the regulators of Sweden, Norway, Finland, Denmark and Estonia. The Regulatory Board can also admit the NCC, which is in charge of the regulation of operations in the energy sector such as the issue of licenses authorising entities to engage in activities in the energy sector, the determination of requirements for the reliability of electricity transmission and the quality of services and other related functions.

Electricity Generation

The Lithuanian electricity generation block consists of the subunits controlled by **Lietuvos Energijos Gamyba**: the Lithuanian Power Plant, the Kaunas Hydroelectric Power Plant, and the Kruonis Pumped Storage Hydroelectric Plant. This company of strategic importance, indirectly controlled by the state, performs the functions of electricity and heat generation, import and export, and trading on the internal market and has a large aggregate capacity of electricity generation in Lithuania.

According to the NCC, in 2013 electricity generation in Lithuania declined from 4.7 TWh to 4.4 TWh. Of the total amount of electricity generated, 53.6% were produced using fossil fuels, 34.1% of electricity supplied to the grid was from renewable energy sources, and the remaining 12.3% came from the Kruonis Pumped Storage Hydroelectric Plant. In 2013, the contribution of **Lietuvos Energijos Gamyba** to the total amount of electricity generated in Lithuania stood at 2.081 TWh (down by 6% year-on-year). Of this amount, 1.114 TWh were generated at the Elektrėnai complex, 0.424 TWh at the Kaunas Hydroelectric Power Plant (a quantity larger by one-third as a result of a higher average debit of the river Nemunas) and 0.543 TWh at the Kruonis Pumped Storage Hydroelectric Plant that retained fairly stable volumes of production.

The total amount of electricity generated in Lithuania, which had reduced sizeably after the decommissioning of the Ignalina Nuclear Power Plant, continued to shrink. According to the NCC, in 2010–2013 the volumes of generation fell by 22.8%. Having increased in 2011 due to the growing demand and contracting production in Lithuania, electricity import began to decline in the beginning of 2012. Electricity export had edged up in 2011, but contracted later, and the level of export reached in 2013 was lower than that in 2010. An overview only of the last two years shows a significant drop in both electricity import and export (by 11.2% and 66.0% respectively). At that time, the structure of electricity generation underwent changes by the type of fuel used: from 2010 the share of electricity from renewable energy sources had increased more than one-and-half times (from 0.9 TWh to 1.5 TWh) and in 2013 accounted for a third of all electricity generated in Lithuania.

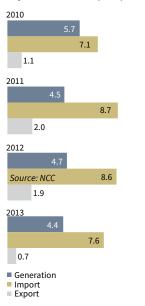
Transfer

Transmission and distribution network operators are enterprises that provide services of electricity transfer from the producer to the consumer.

The electricity transmission service or its transfer via high voltage (330–110 kV) installations from producers to suppliers or consumers is the responsibility of the Lithuanian transmission system operator **Litgrid**. The sole company operating on this market manages the high voltage electricity transmission network, ensures quality, reliable and effective transmission, administers public service obligations (PSOs), trades in balancing/regulation electricity and reserve power, and engages in the balancing of electricity system. According to the NCC, in 2013 the amount of electricity transmitted via the transmission networks shrank by 1.8%. Losses in the networks and electricity consumption for own needs declined by a similar percentage (by 1.7% to 244 GWh).

Electricity is transmitted to most consumers via low- and medium-voltage networks, and enterprises that manage these networks are referred to as distribution network operators (DNOs). In Lithuania, the function of a distribution network operator is car-





ried out by the company **LESTO** established in 2011 and indirectly controlled by the state. In addition to this company, holders of distribution licences are another five market players, in particular Achema, Lifosa, Akmenės Cementas, E Tinklas and Korelita, that distribute electricity on the territories of their enterprises. **LESTO** ensures the operation, development, maintenance, safety and reliability of the distribution networks, meets other needs of consumers and conducts the effective connection of new consumers. Currently, the company serves as many as 1.6 million consumers and has a well-developed infrastructure throughout the territory of Lithuania.

The final electricity tariff for the consumer consists of two components: one of them prices electricity as a commodity and may be subject to change due to the possibility of choice of an independent supplier on the free market, while the other applies a charge to electricity transmission. The second component is paid to the electricity transmission and distribution operators and is set by the NCC on an annual basis with account of the costs of electricity transmission.

Supply

Following the restructuring of the energy sector in 2010, the separation of electricity transmission and supply was launched in Lithuania just as in the other EU member states. Thus, the deregulated supply market saw the emergence of a number of independent electricity suppliers in addition to the public supplier. At the end of 2013, the number of market participants holding licenses of independent electricity suppliers reached 67, of which 25 were registered as operating entities that performed their function of purchasing electricity from producers and importers and selling it to eligible consumers (those entitled to choose an independent supplier). Since 2012, more and more consumers have benefited from this right: since 2012 consumers with the permissible power limit above 30 kW, since 2013 all other non-household consumers, and from 2015 this option will be available also to all household consumers.

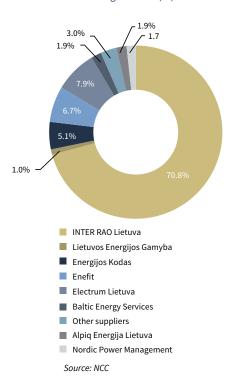
So far the public supplier whose functions in Lithuania are performed by **LESTO** has been obligated to sell electricity to all regulated consumers that have not chosen or that have lost an independent supplier. Differently from the price of electricity from independent suppliers, the price of electricity supplied by LESTO is regulated and approved by the NCC.

In February 2014, the Nord Pool Spot electricity exchange, on which Lithuania became a bidding area in 2012, had 360 registered market participants, of which 19 were legal entities registered in Lithuania. The amount of electricity traded on the Lithuanian electricity exchange fell by 29.4% over the year or from 7.5 TWh in 2012 to 5.3 TWh in 2013. In 2013, just as in 2012, the largest share of both the sales and purchase markets was held by INTER RAO Lietuva (70.8% of the sales market and 44.8% of the purchase market), which also experienced the biggest growth of the shares on both markets. Compared to 2012, the share of Elektrum Lietuva on the sales market shrank the most (from 12.2% to 6.7%), as did the share of **Lietuvos Energijos Gamyba** on the purchase market, falling from 14.4% to 5.7%.

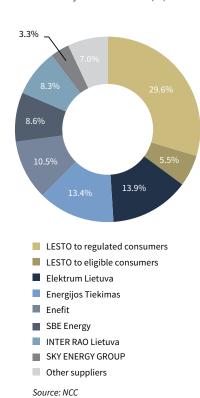
In 2013, independent suppliers supplied 5.6 TWh of electricity to consumers, while the public supplier **LESTO** provided 2.6 TWh to regulated consumers and 0.5 TWh to eligible consumers on the electricity retail market. The quantities of electricity supplied by **LESTO** on the retail market indicate a 7.5% reduction in the company's market share (from 42.6% to 35.2%). Meanwhile, the most dynamic growth in 2013 among independent electricity suppliers, whose importance is constantly increasing, was posted by INTER RAO Lietuva (its market share going up by 8.2 percentage points) and Enefit (6 percentage points growth).

Compared to 2012, total electricity demand and final consumption in Lithuania remained almost the same and amounted to 11.3 TWh and 9.6 TWh respectively.

Structure of sales market on the exchange in 2013 (%)

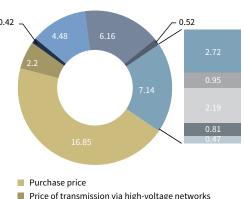


Structure of retail electricity market in 2013 (%)



Due to the lower price of PSOs. price of the electricity went down to 37.78 ct/kWh in 2014.

Structure of average electricity price in 2014 (ct/kWh net of VAT)



- Price of transmission via high-voltage networks
- System services
- Price of distribution via medium-voltage networks
- Price of distribution via low-voltage networks
- Public supply service price
- PSOs: PSOs of the Lithuanian Power Plant
- PSOs of combined heat and power plants
- PSOs of renewable energy sources
- Strategic projects Other PSOs

Source: NCC

Electricity Price

The electricity price for consumers consists of several components: the electricity purchase, transmission, distribution and supply price and the price of system services and PSOs. Electricity transmission, distribution and public supply prices are regulated by the NCC. The average public electricity price set by the NCC for 2014 is 37.78 ct/kWh net of VAT. The chart below shows the price structure.

The components of the infrastructure electricity price did not change in principle. However, due to more than a two-fold drop in the price of system services and the lower price of PSOs, the electricity price cap for final consumers in 2014, compared to the annual price set in January 2013, went down by 6.33%. The price of PSOs fell by 23.9% from 9.38 ct/kWh to 7.14 ct/kWh. The share of the PSO funds allocated to the Lithuanian Power Plant (by 16.8 percentage points) and the funding for the combined heat and power plants (by 5.7 percentage points) shrank the most, while the largest growth was observed in the share of the PSO funds for the generation and balancing of electricity from renewable energy sources (RES) (by 10.3 percentage points).

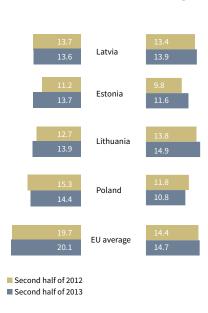
Electricity Prices for Households in EU Member States

According to information of the EU statistical office Eurostat, in the second half of 2013 Lithuanian household consumers paid for electricity for their non-commercial needs 2.2% more than did consumers in Latvia and 1.5% more than did consumers in Estonia. Compared to 2012, this price rose by 9.4% in Lithuania and by 22.3% in Estonia, but went down by 0.7% in Latvia. Compared to the EU average, the electricity price in the second half of 2013 in Lithuania was lower by 30.8% (47.99 ct/kWh).

Meanwhile the Lithuanian commercial consumers paid the highest price for electricity among the Baltic States during the same period: 7.2% more than commercial consumers did in Latvia and 28.4% more than commercial consumers did in Estonia. Compared to 2012, the price applied to commercial consumers in the second half of 2013 increased in all the three Baltic States.



Electricity price for industrial consumer (including taxes, EUR/100 kWh)



Source: Eurostat

Natural Gas Sector

Similarly to the electricity sector, the activities of the Lithuanian gas sector are divided into the supply, transmission and distribution subsectors. Until now, Lietuvos **Dujos** has played an especially important role and held a large market share both as a supplier and as a distribution operator or importer in the gas sector. By June 2014, the Lithuanian state only owned a 17.7% interest in this company, while the remaining stake was shared between the German concern E.ON Ruhrgas International GmbH (38.9%) and Russia's natural gas supplier Gazprom (37.1%). Following the acquisition of shares in 2014, Lietuvos Energija has an interest of 96.6%, while the minority shareholders own 3.4% of Lietuvos Dujos.

Just as in the case of the electricity sector, 2011 saw the beginning of reform of the gas sector in accordance with the requirements of the EU Third Energy Package for the purpose of separating supply and production from infrastructure services (distribution and transmission). In 2012, **Lietuvos Dujos** submitted to the NCC its action plans of the separation of activities and control and prepared an investment project worth LTL 8.5 million designed to separate the transmission system operator and establish a new company. The endeavour was implemented in August 2013 as the transmission system operator **Amber Grid** launched its operations. Preparations are also under way to set up a gas distribution operator since its functions currently are performed by six gas undertakings holding distribution licenses: Lietuvos Dujos, Achema, Druskininkų Dujos, Intergas, Fortum Heat Lietuva and Josvainiai. At the end of 2013, the transmission activities were conducted by one company (Lietuvos Dujos until 1 August, later continued by Amber Grid), the distribution activities were conducted by six enterprises and the supply activities were conducted by undertakings whose number went up from 8 to 11. The functions of the market operator were performed by Baltpool, which is a subsidiary of **Litgrid** and which had begun operations on 1 March 2012.

Competition on the Lithuanian gas market is expected to be promoted following the launch of the LNG Terminal. This project is the responsibility of the company Klaipėdos Nafta, and construction of the terminal should be completed at the end of 2014. The launch of the LNG Terminal will ensure an alternative source of natural gas, this way enhancing the country's energy security. The terminal will also provide conditions for the development of the natural gas market in Lithuania, as well as the possibility to enter the LNG market and use the benefits of more flexible and varied pricing and the spot market.

Natural Gas Consumption Trends

In 2013, natural gas consumption in Lithuania stood at 2,679.6 million cubic metres, of which 154.1 million cubic metres were consumed by households and 2,525.5 million cubic metres by non-household consumers. This means that natural consumption shrank by 18.4% since 2012 and was by 16.6% lower than in 2008. Gas consumption was pushed down by the use of alternative fuels for electricity and heat generation and the lower demand from fertiliser manufacturers. However, both electricity and heat producers and Achema, a manufacturer of fertilisers and other chemical products, still remain the key natural gas consumers in Lithuania.

According to the NCC, the volume of natural gas imports in 2013 amounted to 2,700.9 million cubic metres, down by 18.7% year-on-year. Among the five gas importers in 2013, the decrease in imports was influenced by the lower volumes of natural gas import by Lietuvos Dujos, Dujotekana, Haupas, and Achema. In 2013, the Kaunas Combined Heat and Power Plant was the only enterprise that posted an increase in gas imports. In 2013, Gazprom continued to operate as the sole supplier of natural gas imports (Dujotekana acquired gas via Gazprom's intermediary LT Gas Stream). An overview of the 2008-2013 period shows that import volumes in the natural gas sector went down by 13.6%. Lower import volumes during this period are seen in the

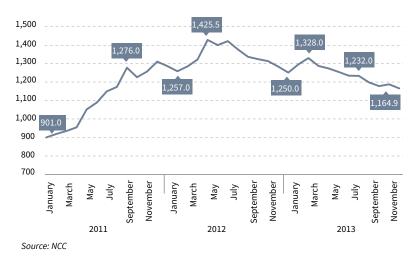
2011 saw the beginning of reform of the gas sector in accordance with the requirements of the EU Third Energy Package for the purpose of separating supply and production from infrastructure services (distribution and transmission).

of all enterprises. The largest fall in gas imports was reported by Haupas (25.2%), the Kaunas Combined Heat and Power Plant (24.1%), and Dujotekana (21.9%). Gas imports of **Lietuvos Dujos** in 2013 were by 11.6% lower than those in 2008.

The price of natural gas imports is directly dependent on the price of alternative fuels and the Euro/US Dollar exchange rate. Compared to prices in the previous years, in 2013 the prices of alternative fuels dropped (of fuel oil by 7.9%, and of diesel by 2.7%), and the Euro depreciated against the Dollar by 3.5%. These factors pushed down the average natural gas import price from 1,311.7 LTL/1,000 cubic metres in 2012 to 1,241.3 LTL/1,000 cubic metres. A more detailed chart of gas import prices is shown below.

An alternative way of purchasing or selling natural gas is a natural gas exchange. At present, Lithuania has two gas exchanges: GET Baltic and Baltpool. In 2013, a total of 57.6 million cubic metres of natural gas for the average price of 1,156.39 LTL/1,000 cubic metres was traded on the exchanges.

Gas import price (LTL/1,000 cubic metres)



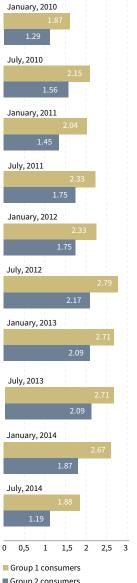
Natural Gas Price for Households

The natural gas tariff for households consists of two components: a fixed monthly charge paid for the support of the gas system, ensured capacity and maintenance services, and a variable part which depends on the amount of gas consumed. Lietuvos Dujos consumers that are attributed to Group 1 (consumption of up to 500 cubic metres a year) paid a monthly fixed charge of LTL 1.95 in 2013. For Group 2 consumers (consumers that consumed more than 500 cubic metres a year) the fixed charge was LTL 13.81 in that year.

Due to the lower distribution cost per one cubic metre of gas consumed, Group 2 consumers pay a smaller variable component of the natural gas price: in 2013, the tariff for them was LTL 2.09 per cubic metre, while Group 1 consumers paid LTL 2.71 per cubic metre. Since 2013, the variable component of the natural gas price has included also a surcharge of LTL 0.038, intended for the collection of funds to be used for the installation of infrastructure of the LNG Terminal.

From 1 January 2014, the variable component for Group 1 and Group 2 consumers was LTL 2.67 and LTL 1.87 per cubic metre respectively, and since 1 July an even lower variable component has been applied (LTL 1.88 and LTL 1.19 per cubic metre respectively) as a result of the change of the terms of the contract between Lietuvos Dujos and Gazprom (an illustration of the change of the variable component is shown in the chart on the previous page). This change was affected by the new formula for the calculation of the gas import price, which pushed down the projected gas import price

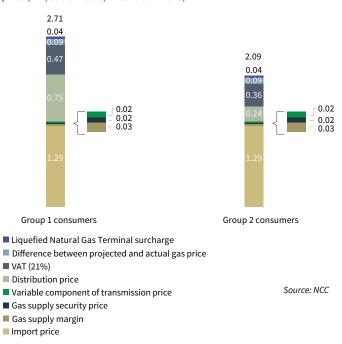
Changes in the variable component of natural gas tariffs in 2012-2014



■ Group 2 consumers

Source: Lietuvos Dujos

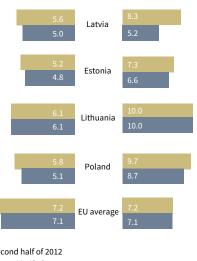
Structure of the variable component of the natural gas price (LTL/cubic metre, first half of 2013)



significantly (from 1,180 LTL/1,000 cubic metres to 933.93 LTL/1,000 cubic metres). The new tariffs also include compensations for the discrepancy between the projected and actual import prices in 2013, which Lietuvos Dujos is obligated to repay in 2014–2016, in this manner reducing the prices and ensuring their stability.

In the second half of 2013, the average natural gas price for households of the EU member states was EUR 7.1, and in Lithuania it amounted to EUR 6.1 per 100 kilowatt hours. However, taking the EU member states' purchasing power into account (upon elimination of the differences of price levels between them), gas prices for Lithuanian households exceed the EU average significantly (the EU average is 7.1 purchasing power standards (PPS), and the Lithuanian indicator stands at 10 PPS). During this period, Lithuania posted the fourth highest natural gas price in the EU, adjusted by the purchasing power: only households in Bulgaria, Greece, and Portugal paid a higher natural gas price adjusted by the purchasing power.

Natural gas price for households (net of tax, EUR/100 cubic metres) Natural gas price for households adjusted by the purchasing power (net of tax, EUR/100 cubic metres)



■ Second half of 2012

■ Second half of 2013

Source: Eurostat



In 2013, the number of state-owned enterprises in the forestry sector underwent no changes. The sector consists of 43 state-owned enterprises: 42 **forest enterprises** that manage and use entrusted state-owned forests and carry out integrated forestry activities there, and the **Lithuanian Forestry Inventory and Management Institute** that engages in forestry management activities and prepares and implements land management projects for land reform. The **forest enterprises**' assets account for 99.9%, revenue makes up 98.7%, and employees constitute 97.1% of the total respective items of this sector. The sole owner of all enterprises in the forestry sector is the state.

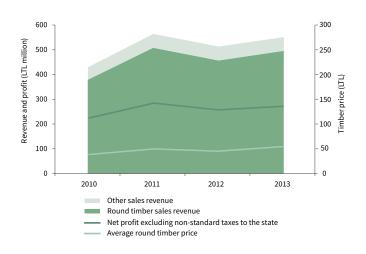
| Enterprise | Field of activity | Turnover in 2013 (LTL '000) | Assets at the end of 2013 (LTL '000*) | Number of employees at the end of 2013 |
|--|--------------------------------|-----------------------------------|---|--|
| 10 largest forest enterprises by turnover: | | | | |
| Panevėžys Forest Enterprise | | 22,612 | 24,151 | 142 |
| Ukmergė Forest Enterprise | | 21,259 | 19,755 | 143 |
| Tauragė Forest Enterprise | | 21,223 | 24,246 | 169 |
| Trakai Forest Enterprise | | 19,767 | 18,990 | 99 |
| Kretinga Forest Enterprise | Integrated forestry activities | 17,339 | 26,551 | 139 |
| Jurbarkas Forest Enterprise | integrated forestry activities | 16,789 | 22,770 | 91 |
| Švenčionėliai Forest Enterprise | | 16,468 | 18,718 | 125 |
| Telšiai Forest Enterprise | | 16,329 | 16,752 | 119 |
| Vilnius Forest Enterprise | | 15,180 | 19,037 | 89 |
| Mažeikiai Forest Enterprise | | 15,150 | 12,048 | 92 |
| Other forestry sector enterprises: | | | | |
| Lithuanian Forestry Inventory and Management Institute | Forest management projects | 7,041 | 5,458 | 113 |

 $^{{}^{\}star}\mathsf{Balance}\ \mathsf{Sheet}\ \mathsf{data}\ \mathsf{of}\ \mathsf{forest}\ \mathsf{enterprises}\ \mathsf{exclude}\ \mathsf{the}\ \mathsf{value}\ \mathsf{of}\ \mathsf{forests}\ \mathsf{managed}\ \mathsf{by}\ \mathsf{these}\ \mathsf{enterprises}.$



Financial Results

In 2013, sales revenue of the forestry sector grew by LTL 36.5 million (7.3%) to LTL 538.9 million – the best result in five years. As much as 90% of the turnover of the whole sector is revenue from the sale of round timber. For this reason, the financial results of the sector tend to fluctuate depending on timber price changes as sales volumes change insignificantly (in 2013, round timber sales volumes went up from 3,500 to 3,600 cubic metres). The average price of round timber sold, which in 2012 has dropped by 9.6% to LTL 126 per cubic metre, in 2013 rose by 5.5% to LTL 133 per cubic metre. This timber price leap had a positive effect on revenue from the sale of round timber, pushing it up by LTL 37.5 million to LTL 484.8 million during the year.



A sharp increase in round timber prices determined better results of forest enterprises.

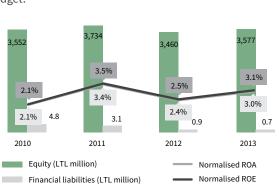
The largest share in the cost of goods sold is the expenses for round timber processing, which in 2013 increased by 7.9% to LTL 181 million as a result of higher sales volumes. Accordingly, the total cost of the forestry sector went up by 5.8% to LTL 225.4 million. During the reference period, operating expenses constituted LTL 277.7 million, up by 4.6% year-on-year. Operating tax costs that are directly dependent on the amount of revenue earned increased the most. In 2013, they climbed by 10.3%, amounting to LTL 82.2 million at the end of the year. The largest share (43.3%) of operating expenses, intended for reforestation and enrichment of forest resources, constituted LTL 120 million (up by 2.4%), while expenses for the implementation of ecological and social activities made up LTL 25.8 million.

The higher round timber prices and sales volumes determined the increase of net profit of the forestry sector to LTL 38.7 million, up by 43.5% from 2012. Following the normalisation of net profit, i.e. elimination of expenses for non-standard property and raw material taxes and expenses incurred from the banks' bankruptcy, in 2013 the result of the forest sector enterprises amounted to LTL 107.5 million. During the reference year, normalised net profit margin grew by 2.3 percentage points and reached 20%.

With a view to providing a more objective representation of the asset base of the enterprises that generate revenue in this sector, the book value of assets of the **forest enterprises** presented in this report have been increased by the value of commercial forests calculated using the discounted cash flow method. Based on the forest valuation carried out by the Governance Coordination Centre as of 31 December 2013, the value of biological assets was increased by 3.1% – from LTL 2,971 million in 2012 to LTL 3,062 million. The main reason of such forest value growth was a leap of round timber sales prices in 2013 which also pushed up the average timber sales price of the last five years used for the valuation. The higher value of forests managed by the **forest enterprises** had the greatest effect on the change in total assets of the forestry sector that in 2013 enlarged by 3.4% to LTL 3,659 million.

In 2013, both non-current assets (excluding the forest value) and current assets of the **forest enterprises** grew by 4.6%, constituting LTL 358.2 million and LTL 233.3 million, respectively. Capital investments increased the book value of the forest enterprises' material assets by 4.3% to LTL 335.2 million. According to information of the Directorate General of State Forests, in 2013 capital investments amounted to LTL 57.4 million, i.e. down by LTL 3.3 million year-on-year. The largest share of investments (LTL 10.5 million) was intended for road maintenance and development.

The book value of equity of the forestry sector enterprises increased by 3.4% to LTL 3,576.8 million, due to the growth in forest value. In 2013, grants and subsidies for the sector increased by 6.5% to LTL 35.8 million, of which LTL 7 million were devoted to financing capital investments of the **forest enterprises**. Liabilities of the forestry sector, which in 2012 had constituted LTL 47.1 million, declined to LTL 46.4 million, and financial liabilities shrank from LTL 862.8 thousand to LTL 668 thousand. Estimating the prospects of return to the state, the **forest enterprises** have significant reserves for restructuring their capital and this way attempting to enlarge their contribution to the state budget.



Both non-current and current assets of forest enterprises experienced growth. In 2013, normalised return on assets (ROA) of the forestry sector enterprises edged up by 0.6 percentage point – from 2.4% to 3%, while normalised return on equity (ROE) increased from 2.5% to 3.1% and was the highest in comparison with the other SOE sectors.

| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
|--|----------------------------|-------------------------|
| Sales revenue Cost of goods sold | 502,410 213,096 | 538,923 225,416 |
| Gross profit (loss) | 289,314 | 313,507 |
| Operating expenses | 265,435 | 277,722 |
| Profit (loss) from other activities | 5,977 | 8,094 |
| Operating profit (loss) | 29,856 | 43,880 |
| Operating profit margin | 5.9% | 8.1% |
| EBITDA | 70,416 | 86,724 |
| EBITDA margin Financial and investment activities | 14.0% 2,090 | 16.1% 974 |
| | | |
| Profit (loss) before tax Profit tax | 31,945 4,976 | 44,854 6,161 |
| | | |
| Net profit (loss) Normalised net profit (loss) | 26,970 88,820 | 38,693 107,526 |
| Normalised net profit margin | 17.7% | 20.0% |
| | | |
| BALANCE SHEET (LTL '000) | 31 DEC 2012 | 31 DEC 2012 |
| Intangible assets | 383 | 471 |
| Tangible assets | 322,082 | 336,259 |
| Financial assets | 11,727 | 15,465 |
| Other non-current assets Biological assets* | 5,713 2,971,000 | 7,165 3,062,000 |
| | | |
| Non-current assets* Inventories, prepayments and contracts in progress | 3,310,905 91,868 | 3,421,360 92,960 |
| Amounts receivable within one year | 34,400 | 32,502 |
| Other current assets | 31,907 | 35,593 |
| Cash and cash equivalents | 72,014 | 76,607 |
| Current assets TOTAL ASSETS | 230,190 3,541,095 | 237,662 3,659,022 |
| Equity* | 3,460,361 | 3,576,768 |
| Minority shareholder equity | 0 | 0 |
| Grants and subsidies | 33,637 | 35,823 |
| Non-current liabilities | 376 | 369 |
| Current liabilities | 46,720 | 46,062 |
| Liabilities | 47,096 | 46,431 |
| Financial liabilities TOTAL EQUITY AND LIABILITIES | 863 2 E41 00E | 668 2 659 022 |
| TOTAL EQUITY AND LIABILITIES | 3,541,095 | 3,659,022 |
| RATIOS | 31 DEC 2012 | 31 DEC 2012 |
| Normalised ROA | 2.4% | 3.0% |
| Normalised ROE | 2.5% | 3.1% |
| D/E | 0.0% | 0.0% |
| | | |
| RETURN TO THE STATE (LTL '000) | 2012 | 2013 |
| Assigned profit contributions | 13,314 | 19,346 |
| Property tax Raw material tax | 5,048 67,717 | 7,315 73,212 |
| TOTAL | 86,079 | 99,874 |
| | 00,013 | 33,014 |
| EMPLOYEE INFORMATION | 2012 | 2013 |
| Number of employees | 3,860 | 3,859 |

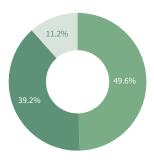
^{*}The consolidated book values of non-current assets and equity of the forest enterprises were increased, using the discounted cash flow method, by the forest value (biological value), which at the end of 2013 was estimated at LTL 3,062 million. The ratios were estimated according to the increased values of non-current assets and equity.

88

88

Number of executives

Breakdown of forest land by ownership (as of 1 January 2013)



- Forests of state importance
- Private forests
- Forests reserved for the restitution of ownership and

Source: State Forest Service, Statistics Lithuania

Logging in forests of different types of ownership (million cubic metres)



| 2010 | |
|------|--|
| 3.8 | |
| | |



| 2012 | |
|------|--|
| 3.8 | |
| | |

| 2013 | |
|------|---|
| 3.9 | |
| 3.5 | Γ |

State forests

Private forests

Source: State Forest Service

Contribution of Forest Enterprises to the State Budget

For the management and possession of state property, excluding standard business taxes, each year **forest enterprises** pay property and raw material taxes and profit contributions to the state budget. For the use of state property by trust, **forest enterprises**, similarly to other state-owned enterprises, pay a 2% (property) tax from the owner's capital. The property tax amount calculated for these enterprises for 2013 constitutes LTL 7.3 million from the owner's capital with a total worth of LTL 364.4 million. Also, **forest enterprises** are subject to a 15% deduction from revenue earned from the sale of wood in the raw wood and uncut forest (raw material tax), which in 2013 amounted to LTL 73.2 million. For the possession of the state property in conducting commercial activities, **forest enterprises** have the duty of assigning 50% of the profit from the previous financial year (profit contributions) to the state budget. In 2013, profit contributions of **forest enterprises** equalled LTL 19.2 million, and the enterprises had to pay LTL 99.7 million (LTL 85.9 million in 2012) of non-standard taxes and profit contributions to the state budget.

Area of Lithuanian Forests

According to information of the State Forest Service, forests in Lithuania cover 2,174,000 hectares or 33.3% of the country's territory (as of 1 January 2013). Forests of state importance make up almost a half of all forest land, i.e. 1,077,700 hectares, of which 1,038,600 hectares are under the management of 42 **forest enterprises** and the Curonian Spit National Park. In addition, **forest enterprises** also manage forests designated for the restitution of ownership that account for 11.2% of the total forest area. Private forests constitute 39.2% of the forest area in Lithuania.

| KEY FOREST INDICATORS AS OF 1 JANUARY | 2012 | 2013 |
|---|---------|---------|
| Forest land acc. to public records of forests (ha '000) | 2,172.9 | 2,173.6 |
| Forest coverage (%) | 33.3 | 33.3 |
| Forest area per capita (ha) | 0.68 | 0.73 |
| Total volume of timber with bark (million cubic metres) | 501.3 | 510.2 |
| Average volume of timber per ha (cubic metres) | 240.4 | 234.7 |
| Annual increment in stands volume per ha (cubic metres) | 8.2 | 8.5 |

Sources: State Forest Service and Statistics Lithuania

71.2% of all forests of state importance are commercial forests. In 2013, round timber logging in them amounted to 3.9 million cubic metres; as a comparison, logging in private forests totalled 3.5 million cubic metres. Total logging in Lithuanian forests increased by 0.2 million cubic metres – to 7.4 million cubic metres.

Lithuanian Wood Industry

In 2013, round timber export grew by one-fourth and amounted to 2 million cubic metres or 27% of total round timber logged in Lithuania. Wood import constituted 0.4 million cubic metres during the same period. This means that 5.7 million cubic metres of round timber were left for consumption in Lithuania (in 2012, this number had been 5.9 million). The major consumers of timber supplied by **forest enterprises** are Lithuanian industrial enterprises that manufacture wood products, furniture, paper and paper products.

In the reference year, the value of products sold by the wood sector went up by 12.5% (or LTL 859.7 million) and constituted LTL 7.7 billion, while the general growth of Lithuania's industrial production accounted for 0.8% or LTL 546.7 million.

The highest relative change (24.3%) was recorded in the paper and paper product sector, but the product value growth in the wood sector was affected mostly by the value of wood and wood products which in 2013 enlarged by LTL 375.8 million to LTL 2.8 billion. Despite the more rapid growth of the latter sectors, the largest share of revenue (49.2% or LTL 3.8 billion) was earned by furniture manufacturers. In 2013, the wood sector products accounted for 10.8% in the Lithuanian industry structure (compared to 9.6% in 2012).

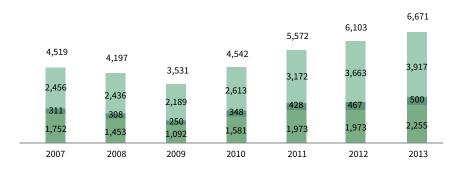
Sales revenue from production of wood industry (LTL million)

| YEAR | TOTAL INDUSTRY | MANUFACTURE OF WOOD AND WOOD PRODUCTS | MANUFACTURE OF PAPER AND PAPER PRODUCTS | MANUFACTURE OF FURNITURE | TOTAL WOOD SECTOR |
|------|-------------------|---|---|-----------------------------|-------------------------|
| 2013 | 71,664.9 | 2,818.0 | 1,105.3 | 3,793.5 | 7,716.8 |
| 2012 | 71,118.2 | 2,442.2 | 889.6 | 3,525.3 | 6,857.1 |
| 2011 | 66,149.9 | 2,445.4 | 880.3 | 2,970.3 | 6,296.1 |

Source: Statistics Lithuania

The largest portion of products of the wood sector is exported. As the world economic crisis had abated, the export of wood products has been growing steadily every year and in 2013 reached LTL 6.7 billion – almost twice as much as in 2009. Compared to 2012, the export of wood products from Lithuania in 2013 was up by 9%. The majority of exports is furniture (products of a relatively higher value added), which stood at LTL 3.9 billion, while the export of wood and wood products amounted to LTL 2.3 million.

Export of wood products of Lithuanian origin (LTL million)

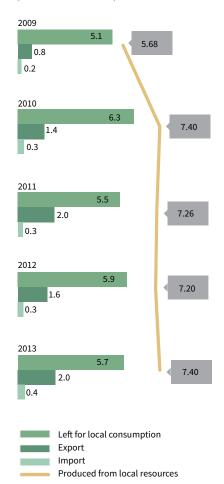


- Wood and wood products
- Paper and paper products
- Furniture

Source: Statistics Lithuania

The largest export markets, including re-export, of the Lithuanian wood sector are Russia, Germany and Sweden. Despite a decrease in export of paper and paper products to Russia (it fell by 13.8% in 2013, compared to 2012), Russia remains the largest importer of Lithuanian paper and paper products - it imports 30.7% of these products, worth LTL 311.1 million. The majority of timber and timber products is exported to Germany (LTL 438.2 million). 2013 saw rapid increases of exports to Russia (29%) and Latvia (48%); as a result, the export of timber and timber products increased by 15.7% to LTL 2.8 million. For four years in a row, Sweden has remained the largest buyer of Lithuanian furniture. The value of furniture exported to Sweden in 2013 totalled LTL 733.3 million. For the second year in a row, furniture exports to Russia (LTL 650.2 million) have been rapidly increasing: this growth reached 49% in 2012 and in 37.3% in 2013. The total furniture exported by Lithuania amounted to LTL 4,708.6 million in 2013, which is 10.3% more than in 2012.

Logging and trade in round timber (million cubic metres)



Forestry

Source: State Forest Service

Wood export by export market (LTL million)

| COUNTRY | 2012 | 2013 | CHANGE | SHARE |
|-----------------|---------|---------|--------|--------|
| Germany | 441.9 | 438.2 | -0.8% | 15.9% |
| Latvia | 195.7 | 289.7 | +48.0% | 10.5% |
| Russia | 162.9 | 210.1 | +29.0% | 7.6% |
| Other countries | 1,587.9 | 1,826.5 | +15.0% | 66.1% |
| Total | 2,388.5 | 2,764.5 | +15.7% | 100.0% |

Paper export by export market (LTL million)

| COUNTRY | 2012 | 2013 | CHANGE | SHARE |
|-----------------|---------|---------|--------|--------|
| Russia | 360.7 | 311.1 | -13.8% | 30.7% |
| Ukraine | 127.5 | 132.7 | +4.1% | 13.1% |
| Latvia | 90.0 | 95.6 | +6.2% | 9.4% |
| Other countries | 430.2 | 473.6 | +10.1% | 46.8% |
| Total | 1,008.4 | 1,013.0 | +0.5% | 100.0% |

Furniture export by export market (LTL million)

| COUNTRY | 2012 | 2013 | CHANGE | SHARE |
|-----------------|---------|---------|--------|--------|
| Sweden | 627.4 | 733.3 | +16.9% | 15.6% |
| Russia | 473.4 | 650.2 | +37.3% | 13.8% |
| Germany | 600.3 | 585.0 | -2.6% | 12.4% |
| Other countries | 2,567.4 | 2,740.1 | +6.7% | 58.2% |
| Total | 4,268.6 | 4,708.6 | +10.3% | 100.0% |

Sources: Statistics Lithuania

As Lithuanian furniture manufacturers further enhance their position and brands on international markets, the visible trend of moving from the sale of rough wood to the sale of furniture and other products generating higher value added is expected to continue.

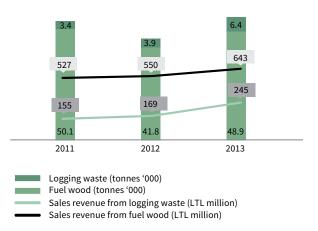
Solid Biofuel Market

The active use of renewable energy sources is one of the key priorities of the energy strategy for the EU Member States. Lithuania is committed to increase the share of energy from renewable sources in final energy consumption up to 23% by 2020 (in 2012, this share had accounted for 21.7%). It is possible to implementing this commitment by increasing the share of renewable energy sources (RES) in the district heating (DH) sector to at least 60%. In 2013, this share accounted for 32.8%.

The largest RES potential is found in solid biofuel (fuel wood and wood waste, straw and energy crops). In 2013, solid biofuel consumption for the generation of electricity and district heating went up by 14% to 356,000 tonnes of oil equivalent. The largest amount (52.6%) was consumed by households, while consumption for electricity and district heating stood at 34.7%. Demand for solid biofuel is estimated to grow further as a result of the increased use of these fuels in the DH sector.

The increase of the scale of production of raw materials for biofuel in state forests has been one of the priorities of the activities of the Directorate General of State Forests since 2010. Therefore, the supply and sales volumes of logging waste have enlarged more than three-fold since 2010. In 2013, the amount of logging waste offered to biofuel producers by **forest enterprises** stood at 280,000 cubic metres (up by 30,000 cubic metres year-on-year), purchases of which amounted to 245,000 cubic metres (by 76,000 cubic metres or 45% more than in 2012).

Sale of biofuel by forest enterprises



Source: Directorate General of State Forests

According to scientists from the Lithuanian Forest Inventory and Management Institute, the collection of all logging waste accounts for about 15% to 20%. Estimates of the Lithuanian Biomass Energy Association show that the potential of logging waste (i.e. tree tops, small trunks, stumps, bark and branches) in Lithuania constitutes about 2.6 million cubic metres a year, of which 1 million cubic metres could be used for biofuel production without violating the requirements of environmental sustainability. Forest enterprises that manage half of the Lithuanian forest area could collect about 0.5 million cubic metres a year for sale, i.e. twice as much as the quantity sold in 2013.

Forest enterprises earned LTL 55.3 million from the sale of biofuel in 2013 (LTL 45.7 million in 2012). Revenue from the sale of logging waste, compared to 2012, grew by 64.1% to LTL 6.4 million. Sales of fuel wood have been climbing steadily every year as well: in 2013, wood sales of **forest enterprises** were higher by 16.8% (643,000 tonnes) and revenue went up by 17% (LTL 48.9 million).

In 2013, the price of fuel wood sold by forest enterprises fluctuated from LTL 110 per tonne of firewood with the highest heat content (Group 1) to LTL 66 per tonne of Group 3 firewood and, compared to 2011, was down by one-fifth. The price of logging waste, which in 2013 was LTL 26 per tonne, has grown by 18.2% from 2011. Biofuel prices are expected to increase as a result of the growing domestic consumption of this fuel and participation on international biomass markets.

According to information of the National Commission for Energy Control and Prices, in 2013 the price of biofuel ranged between LTL 645 per tonne of oil equivalent during the heating season and LTL 518 per tonne of oil equivalent outside the heating season, and was three times lower than the natural gas price (the average 2013 price amounted to LTL 1,784 per tonne of oil equivalent).

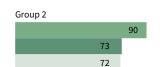
Since the beginning of 2014, **forest enterprises** have participated on the biofuel raw material exchange Baltpool which was established in the second half of 2013 with a view to ensuring transparent and competitive trading in biofuel. The majority of biofuel market players are already registered on the exchange. There is especially strong competition among the suppliers. As of 4 July 2014, the exchange had 120 participants registered, of which 93 are biofuel suppliers. Trading on the exchange is promoted by a Government Resolution that has entered into force from 2014, under which heat producers must purchase at least 10% of biofuel raw materials on the exchange.

Forest enterprises have also made their offers of wood in chips on the exchange, but have not concluded a single transaction yet, and they only trade in pure logging waste and fuel wood under bilateral agreements.

Prices of biofuel sold by forest enterprises (LTL per ton)



110











Source: Directorate General of State Forests



SOEs attributed to this sector perform various functions important for the state such as minting coins, providing hallmark and calibration services, assessing construction designs, taking care of cultural sites, etc. Many enterprises of this sector are the only ones to carry out such activities in Lithuania and have no competitors even in the private sector. Under the law, four companies from this sector – **Detonas, Šilutės polderiai, Jonavos Grūdai**, and **Giraitė Armament Factory** – are considered enterprises of strategic importance for national security or enterprises important for ensuring such security. The table below shows ten major enterprises of this sector.

| Enterprise | Field of activity | Turnover in 2013 (LTL '000) | Assets at the end of 2013 (LTL '000) | Number of employees at the end of 2013 | State's interest (%) |
|--|--|-----------------------------------|--|--|-------------------------|
| Centre of Registers | Administration of the Immovable Property Register, the Register of Legal Entities and other registers | 99,186 | 72,965 | 1,580 | 100.0% |
| Regitra | Administration of the Road Vehicle Register and the Register of Drivers | 78,784 | 60,967 | 512 | 100.0% |
| Infostruktūra | Provision of secure state data transmission network services and Internet services | 30,034 | 27,266 | 54 | 100.0% |
| Lietuvos Paminklai | Management of cultural heritage sites and places | 28,590 | 2,705 | 76 | 100.0% |
| Giraitė Armament Factory | Manufacture of small calibre ammunition | 20,955 | 68,868 | 69 | 100.0% |
| Lithuanian Exhibition and Congress Centre LITEXPO | Organisation of meetings and business events, lease of halls and conference rooms | 20,060 | 47,364 | 95 | 98.8% |
| State Land Fund | Provision of land management, land use planning, geodetic, GIS, soil analysis and evaluation, land reclamation cadastre services | 17,923 | 43,592 | 367 | 100.0% |
| Lithuanian Mint | Minting of circulation and collectors coins | 17,843 | 22,003 | 56 | 100.0% |
| Problematika | Laboratory tests and analysis of road building materials, products and articles | 14,748 | 27,034 | 98 | 100.0% |
| State-owned enterprise under Pravieniškės Penitentiary No. 1 | Manufacture of different pieces of furniture, racks, metal articles | 14,612 | 11,196 | 80 | 100.0% |



A total of 62 SOEs are attributed to the sector of other enterprises. The number of SOEs in this sector decreased during 2013 as, with regard to the nature of operations of these enterprises, the Lithuanian Oil Products Agency was moved to the energy sector, and the Lithuanian Radio and Television Centre was transferred to the transport and communications sector. The number of the sector's enterprises shrank also because bankruptcy proceedings were initiated against the Lithuanian Research Centre on 26 August 2013, and because the shares of Geležinkelio Apsaugos Želdiniai were transferred to the Lithuanian Railways Group. In 2013, the sector of other enterprises welcomed two newly-established undertakings. The **Public Invest**ment Development Agency was included in the sector of other enterprises following its registration with the Register of Public Legal Entities on 11 April 2013. Another addition was **Kiaulių Veislininkystė** which on 27 December 2013 was separated from Lietuvos Veislininkystė and began operating as an independent entity. Moreover, Mokslas Ir Technika was included in the sector of other enterprises after the company had started providing data on its activities to the **Governance Coordination Centre**. Of the companies attributed to the sector of other enterprises, 13 are public limited companies, 28 are private limited companies and 21 are state enterprises. The largest enterprise of this sector in terms of assets, turnover and the number of employees is the **Centre of Registers**, which in 2013 provided LTL 99.2 million worth of services.

Financial Results

In 2013, revenue of the sector of other enterprises went up by 3% and constituted LTL 519.7 million. The largest revenue (LTL 99.2 million) was generated by the Centre of Registers (up by 6.7% year-on-year). Revenue of Regitra and Infostruktūra showed insignificant changes and amounted to LTL 78.8 million and LTL 30 million, respectively. In this sector, the largest growth in revenue (from LTL 12.9 million to LTL 20.1

| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
|--|------------------------|------------------------|
| Sales revenue Cost of goods sold | 504,612 413,803 | 519,677 408,573 |
| Gross profit (loss) | 90,808 | 111,104 |
| Operating expenses | 101,545 | 109,414 |
| Profit (loss) from other activities | 1,311 | 3,340 |
| Operating profit (loss) | -9,426 | 5,030 |
| Operating profit margin | -1.9% | 1.0% |
| EBITDA | 16,336 | 33,441 |
| EBITDA margin Financial and investment activities | 3.2% | 6.4% |
| | 7,290 | 6,312 |
| Profit (loss) before tax Profit tax | -2,136 5,282 | 11,342 5,367 |
| Net profit (loss) | -7,419 | 5,975 |
| Minority interest | 715 | 444 |
| Normalised net profit (loss) | -5,671 | 8,484 |
| Normalised net profit margin | -1.1% | 1.6% |
| BALANCE SHEET (LTL '000) | 31 DEC 2012 | 31 DEC 2013 |
| Intangible assets | 14,820 | 14,464 |
| Tangible assets | 720,633 | 556,832 |
| Financial assets | 366,477 | 311,984 |
| Other non-current assets | 83,683 | 95,222 |
| Biological assets | 3,843 | 4,626 |
| Non-current assets | 1,189,455 | 983,127 |
| Inventories, prepayments and contracts in progress Amounts receivable within one year | 122,326 76,002 | 116,866 90,041 |
| Other current assets | 258,071 | 227,022 |
| Cash and cash equivalents | 125,120 | 171,713 |
| Current assets TOTAL ASSETS | 581,518 1,770,974 | 605,641 1,588,786 |
| Equity | 534,963 | 561,007 |
| Minority shareholder equity | 13,405 | 15,236 |
| Grants and subsidies | 405,560 | 255,351 |
| Non-current liabilities | 526,952 | 434,528 |
| Current liabilities | 303,498 | 337,883 |
| Liabilities | 830,451 | 772,410 |
| Financial liabilities* | 211,439 | 233,569 |
| TOTAL EQUITY AND LIABILITIES | 1,770,974 | 1,588,786 |
| RATIOS | 31 DEC 2012 | 31 DEC 2013 |
| Normalised ROA | -0.2% | 0.5% |
| Normalised ROE | -1.0% | 1.5% |
| D/E* D/E** | 39.5% 460.4% | 41.6% 524.6% |
| U/L | 400.470 | 324.070 |
| RETURN TO THE STATE (LTL '000) | 2012 | 2013 |
| Assigned dividends (share of the state) Assigned profit contributions | 7,002 5,464 | 9,384 5,866 |
| Dividends and profit contributions to the state: | 12,467 | 15,250 |
| Property tax TOTAL | 1,999 14,446 | 2,842 18,092 |
| | | |
| EMPLOYEE INFORMATION | 2012 | 2013 |
| Number of employees (at the end of the period) | 5,586 | 5,579 |
| Number of executives (at the end of the period) | 159 | 153 |

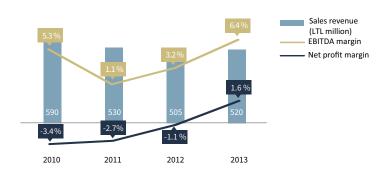
^{*}Excluding the interest-free loan granted by the Ministry of Finance to Indélių Ir Investicijų Draudimas.

ety produints.
**This D/E ratio was calculated by including in the financial liabilities the interest-free loan granted by the Ministry of Finance to Indélių Ir Investicijų Draudimas.

million) was posted by the Lithuanian Exhibition and Congress Centre LITEXPO. The lion's share (92%) of this enterprise's revenue consisted of revenue from its core activities involving the organisation of exhibitions and conferences. It was influenced by the increased number of events of the EU Presidency. Jonavos Grūdai saw the biggest decline in revenue – from LTL 14.7 million to LTL 11.0 million. Total revenue from services provided by the enterprise shrank by 24% year-on-year.

Changes in the sector's net profit were affected mostly by **Būsto Paskolų Draudimas**, which in 2013 reduced its net loss from LTL 34.7 million to LTL 19.9 million. The main reason for that was the LTL 13.5 million increase in the recovered amounts. Būsto Paskolų Draudimas continued to be the biggest loss maker of the sector: its loss accumulated due to high expenses for insurance claims, amounting to LTL 69.5 million in 2013. Regitra also made a significant contribution to net profit changes of this sector by earning a net profit of LTL 8.2 million. Compared to 2012, the net profit of this enterprise increased by 9.5% as a result of more services provided in cyberspace. Investicijų Ir Verslo Garantijos was profitable as well and, due to the LTL 1.2 million fall in provisions and expenses for insurance claims, posted an 18.1% increase (or LTL 5.3 million) in its annual net profit. Net profit of the Lithuanian Exhibition and Congress Centre LITEXPO increased more than twice and reached LTL 3.3 million as a result of the increased number of the EU Presidency events.

Changes in the value of assets and liabilities of the sector of other enterprises were influenced largely by the growth of amounts payable and liabilities of Indėlių Ir Investicijų Draudimas from LTL 2.3 billion to LTL 2.8 billion. This resulted from the increased debt to the Ministry of Finance that went up by 20.3% (or LTL 457.8 million). The loan covers the deposit insurance fund deficit from liabilities to depositors of Ūkio Bankas. Therefore this loan, similarly to the previous interest-free loan granted to the enterprise by the Ministry of Finance, was not included in the total financial liabilities of the sector.

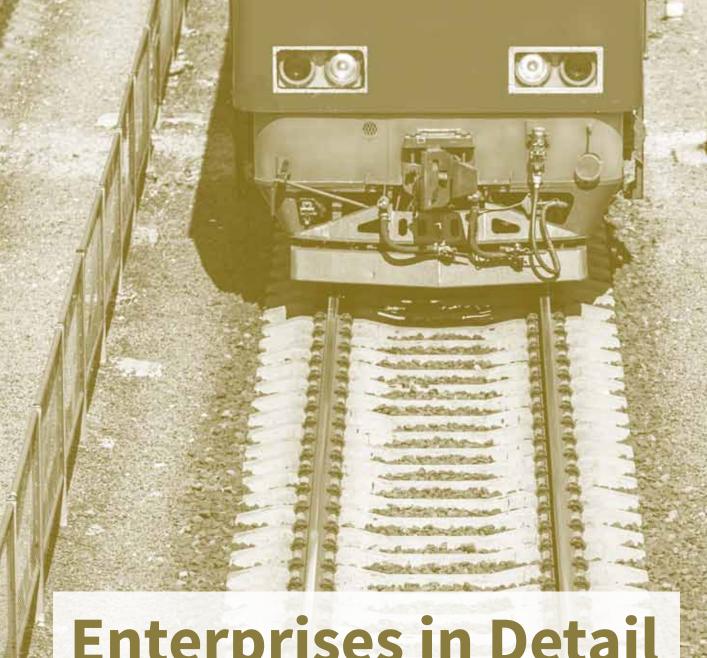




The return to the state of the sector of other enterprises for the year 2013 stood at LTL 15.3 million, of which 38.5% were profit contributions and 61.5% were dividends paid. The largest sums of dividends for 2013 were assigned by **Regitra** (LTL 3.9 million), **Investicijy Ir Verslo Garantijos** (LTL 2.4 million), and **Problematika** (LTL 1.8 million).

The overview further briefly presents the major events of this sector.

- » On 27 December 2013, an extraordinary general meeting of shareholders of **Lietuvos Veislininkystė** took place, after which a part of the activities (the pig farming division) was separated from the enterprise and a new company, **Kiaulių Veislininkystė**, was established on the basis of the assets, rights, and duties assigned to this part.
- "> 23 May 2014 saw the reorganisation of the **state-owned enterprises under the Alytus**, **Marijampolė**, and **Pravieniškės Penitentiaries**. The aim of the reorganisation was to optimise the activities of state-owned enterprises that have the purpose of employing convicted persons and preparing them for working after release, and to improve the operating efficiency of these enterprises. The state-owned enterprises subordinated to the Prison Department were loss making; therefore, for the purpose of optimising their activities, the three enterprises were reorganised through a merger into a new state-owned legal entity **Mūsų Amatai**. The rights and duties of this enterprise will be implemented by the Prison Department under the Ministry of Justice of the Republic of Lithuania.
- **»** By its judgement of 19 January 2007, the Vilnius Regional Court initiated restructuring proceedings against the enterprise **Visagino Statybininkai**. Until 31 December 2013, the enterprise had organised its operations in accordance with the guidelines set out in the restructuring plan, and with documents regulating the activities of the company. As the enterprise had failed to implement the objectives of the restructuring plan, the Vilnius Regional Court terminated the proceedings by its ruling of 13 February 2014. On 4 February 2014, the Ministry of the Economy of the Republic of Lithuania filed an application to the Panevėžys Regional Court for opening insolvency proceedings. The management of the enterprise does not consider the option to continue the company's operations.
- According to the Centralised State Property Management Strategy for 2009–2016 that was approved by the Government, the **State Property Fund** and **Turto Bankas** are to become one company through a merger establishing a centralised state-owned property manager (CPM). The enterprise will be charged with the functions of implementing the centralised management of state-owned immovable property, privatising state- and municipal-owned shares transferred to the CPM in trust, collecting debts owed to the state and administering loans, state guarantees and other property obligations transferred under agency agreements. The CPM will be established on 1 October 2014, following the merger of the **State Property Fund** with **Turto Bankas** under the law passed by the Parliament on 20 March 2014.
- 3 11 April 2013 saw the registration of a new state-owned enterprise, the Public Investment Development Agency (VIPA), under the Ministry of Finance of the Republic of Lithuania. The share capital of the enterprise constitutes LTL 350 thousand, and all the shares are owned by the state. VIPA provides financial services, and implements and administers financial instruments for public sector investments in public infrastructure and modernisation of public services.



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The Lithuanian Railways Group

Freight and passenger railway transportation services, administration of the railway network, and management, maintenance and development of the public railway infrastructure

The Group also includes the following subsidiaries of Lithuanian Railways: Geležinkelio Tiesimo Centras, Vilniaus Lokomotyvų Remonto Depas, Geležinkelių Projektavimas, Gelsauga, Geležinkelio Apsaugos Želdiniai, and the associated undertaking Voestalpine VAE Legetecha.

www.litrail.lt

- >> Reduced flow of transit shipments to Klaipėda Seaport pushed down revenue and profit
- >> LTL 556 million worth of loans were signed to provide funding for investments

In 2013, the Lithuanian Railways transported 48 million tonnes of freight, or 2.7% less than a year before. Local freight transportation was stable and amounted to 15.1 million tonnes, while international freight transportation volumes shrank by 4.6% to 32.9 million tonnes. International freight volumes fell due to reduced transit shipments via Klaipėda Seaport – transit constituted 11.8 million tonnes, down by 16.1% from 2012. The flow of petroleum products and chemicals from Belarus and the flow of ferrous metals from Russia declined.

The Group's revenue dropped by 5.8% to LTL 1,637 million. Revenue from freight transportation and the use of railway infrastructure fell the most – by LTL 118.5 million to LTL 1,315.3 million. The cost of goods sold of the Group contracted by 5.1% to LTL 1,347.9 million. Because of lower volumes of NATO freight forwarding via the territories of other countries, the expenses for railway services in foreign countries were more than two times lower and stood at LTL 83.3 million. Contrary to the cost of goods sold, operating expenses grew by 3.8% to LTL 183.7 million, mainly because of the re-establishment of the salaries cut during the financial crisis. Net profit of the Lithuanian Railways Group plummeted by 19.2% to LTL 104.4 million. During the reference period, the authorised capital of the enterprise was increased by LTL 648.5 million, using LTL 639.8 million worth of grants targeted at increasing the authorised capital.

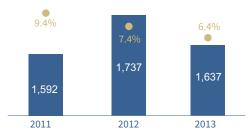
The financial liabilities of the Group went up from LTL 542.4 million to LTL 782.4 million. In June 2013, a loan agreement for LTL 393.6 million was signed with the Nordic Investment Bank on the funding of the Rail Baltica project and infrastructure projects. Also, a loan agreement for LTL 172.6 million intended for the acquisition of rolling stock for the railways was concluded with the European Investment Bank.

The Group's return on equity went down from 4.7% in 2013 to 3.4% in 2013. ROE declined as a result of the lower profit and increased equity of the enterprise.



Sales revenue (LTL million)

Net profit margin



| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
|--------------------------------------|-----------|-----------|
| Sales revenue | 1,737,019 | 1,637,004 |
| Cost of goods sold | 1,420,736 | 1,347,914 |
| Gross profit (loss) | 316,283 | 289,091 |
| Operating expenses | 176,998 | 183,744 |
| Profit (loss) from other activities | 27,950 | 29,887 |
| Operating profit (loss) | 167,235 | 135,234 |
| EBITDA | 530,467 | 513,134 |
| Net profit (loss) | 129,107 | 104,374 |
| Net profit margin | 7.4% | 6.4% |

| BALANCE SHEET (LTL '000) | 31 DEC 2012 | 31 DEC 2013 |
|------------------------------|-------------|-------------|
| Non-current assets | 4,974,499 | 5,769,193 |
| Current assets | 444,648 | 489,475 |
| Cash and cash equivalents | 70,841 | 120,867 |
| Total assets | 5,419,146 | 6,258,669 |
| Equity | 2 725 455 | 3 445 944 |
| Grants and subsidies | 1 700 604 | 1 455 290 |
| Liabilities | 993 087 | 1 357 435 |
| Financial liabilities | 542 364 | 782 357 |
| Total equity and liabilities | 5 419 146 | 6 258 669 |

| RATIOS | 31 DEC 2012 | 31 DEC 2013 |
|--------|-------------|-------------|
| ROA | 2.5% | 1.8% |
| ROE | 4.7% | 3.4% |
| D/E | 19.9% | 22.7% |
| | | |

| RETURN TO THE SHAREHOLDERS (LTL '000) | 2012 | 2013 |
|---------------------------------------|--------|--------|
| Allocated dividends (total) | 29,942 | 10,616 |

| EMPLOYEE INFORMATION | 2012 | 2013 |
|--|--------|--------|
| Number of employees | 12,329 | 12,770 |
| Number of employees holding managerial positions | 6 | 6 |
| Average monthly salary of one employee | 13,826 | 13,799 |

SHAREHOLDERS

| State-owned share | 100% |
|-------------------|------|
| | |

MANAGEMENT

| Director General | Stasys Dailydka |
|--------------------------------------|---|
| Chairman of the Board of Directors | Saulius Girdauskas (Ministry of Transport and Communications) |
| Members of the Board of Directors | Ričardas Čepas* (Newsec/Re&Solution) Tomas Karpavičius (Ministry of Transport and Communications) Alfonsas Macaitis (Ministry of Transport and Communications) Andrius Šniuolis (Ministry of Transport and Communications) |

^{*}Independent member

The Lithuanian Post Group

Provision of universal and other postal services, as well as courier, financial, etc. services

Lithuanian Post controls the subsidiaries, UAB Lietuvos Pašto Finansinės Paslaugos, UAB LP Mokėjimų Sprendimai and UAB Baltic Post.

www.post.lt

31 DEC 2012 31 DEC 2013

100%

- >>> Revenue increased by 5.8%, while operating expenses barely changed
- >> Group operated at a profit, posting a net profit of LTL 1.6 million
- >> 185 PayPost outlets were operating throughout Lithuania

In 2013, Lithuanian Post provided 183 million units of services, i.e. 0.2% more than in 2012. With a view to strengthening its market position, in 2012 the enterprise had acquired the network of retail outlets of the bankrupt Snoras Bank, which comprises 214 mini banks in the whole of Lithuania. At the end of 2013, 185 PayPost outlets housed in these mini banks were already in operation.

In 2013, the Group posted 5.8% higher sales revenue (or LTL 201.7 million) than in 2012. Although the total amount of services provided was almost stable, the number of higher value added services increased. Registered and insured postal shipments grew by 9.8%, resulting in 15.9% higher revenue than in 2012. Revenue from courier services went up by 6% to LTL 13.3 million due to the 10.5% rise in the quantity of services provided. Revenue from postal services (universal and other postal services) climbed by 6.9% to LTL 109.5 million.

In 2013, labour-related expenses, constituting the largest share (63.5%) of operating expenses, increased by 5.6% to LTL 126.8 million. Growth was determined by the development of the PayPost financial services network and of the subsidiary UAB Baltic Post. The increase of these expenses was offset by the reduction of other expenses from LTL 22.8 million to LTL 8.2 million due to the re-established impaired asset value of LTL 13.2 million shown in the accounts. As a result, operating expenses in 2013 were almost stable and amounted to LTL 199.5 million.

The value of the 2013 EBITDA of the Lithuanian Post Group constituted LTL 11.5 million, up by LTL 10.4 million from 2012. During the reference period, the Lithuanian Post Group earned a net profit of LTL 1.6 million, while in 2012 it sustained a net loss of LTL 7.2 million. The main reason for that was the LTL 11 million increase in revenues, while operating expenses stayed almost on the same level. In 2013, Lithuanian Post earned a net profit of LTL 10.6 million, but the LTL 9 million loss incurred by UAB Baltic Post significantly cut the Group's net profit. Compared to the end of 2012, the financial liabilities of the enterprise went up almost twofold to LTL 46.3 million due to higher receivables as no compensation was received for losses resulting from the service of delivery of periodicals to subscribers in rural residential areas.



Sales revenue (LTL million)

Net profit margin



| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
|--------------------------------------|---------|---------|
| Sales revenue | 190,695 | 201,713 |
| Operating expenses | 199,371 | 199,464 |
| Profit (loss) from other activities) | 2,715 | 1,767 |
| Operating profit (loss) | -5,961 | 4,016 |
| EBITDA | 1,031 | 11,461 |
| Net profit (loss) | -7,151 | 1,586 |
| Net profit margin | -3.7% | 0.8% |

| BALANCE SHEET (LTL '000) | 31 DEC 2012 | 31 DEC 2013 |
|------------------------------|-------------|-------------|
| Non-current assets | 147,789 | 135,670 |
| Current assets | 78,777 | 99,528 |
| Cash and cash equivalents | 12,010 | 14,052 |
| Total assets | 226,566 | 235,198 |
| Equity | 106,028 | 107,227 |
| Grants and subsidies | 1 | 1 |
| Liabilities | 120,537 | 127,970 |
| Financial liabilities | 23,890 | 46,279 |
| Total equity and liabilities | 226,566 | 235,198 |

| -3.2% | 0.7% |
|-------|--|
| -6.5% | 1.5% |
| 22.5% | 43.2% |
| | |
| 2012 | 2013 |
| 387 | 8,481 |
| | |
| 2012 | 2013 |
| 6,427 | 6,208 |
| 10 | 10 |
| 7.941 | 9,057 |
| | -6.5% 22.5% 2012 387 2012 6,427 |

| SHAREHOLDERS | |
|-------------------|--|
| State-owned share | |

| МΛ | МΛ | GE | ME | MT |
|----|----|----|----|----|

RATIOS

| Director General | Lina Minderienė |
|---------------------------------------|--|
| Chairman of the Board of Directors | Arijandas Šliupas (Ministry of Transport and Communications) |
| Members of the Board of Directors | Irma Kirklytė (Ministry of Transport and Communications) |
| Vytautas Kudz | ys* (Lithuanian Confederation of Industrialists) |
| J | Janina Laskauskienė (Ministry of Transport and |
| | Communications) |
| Linas S | asnauskas* (independent business consultant) |

^{*}Independent member

Klaipėda State Seaport Authority

Klaipėda Seaport infrastructure management: collection of charges for the use of infrastructure, land lease, development and reconstruction activities



www.portofklaipeda.lt

.. DEC..... .. DEC....

Cargo handling at seaport declined, while the number of passengers increased

>> Profit of the enterprise shrank by 6.7% to LTL 83.1 million

In 2013, Klaipėda Seaport handled 33.4 million tonnes of cargo - 5.2% less than in 2012. The lower handling volumes at Klaipėda Seaport were determined mostly by a 14.4% drop in the volume of petroleum products (7.1 million tonnes handled), a 10.3% decline in the volume of bulk natural and chemical fertilisers (6.9 million tonnes handled), and a 3.1% decrease in the amount of general cargo (10.6 million tonnes handled). The handling of petroleum products contracted as a result of Russia's falling interest in handling petroleum products via national seaports, as well as a result of lower quantity of processed oil from ORLEN Lietuva. Meanwhile, the volume of bulk products dropped due to the redistribution of the fertiliser sales market between Russian and Belarusian companies. During the reference period, the number of passengers at Klaipėda Seaport amounted to 345,312, up by 1.5% from 2012. In terms of cargo handled, Klaipėda Seaport ranked fifth among the Baltic Sea ports on the eastern coast, surpassing Tallinn, Ventspils, Vysotsk and other seaports. Cargo handling at Klaipėda Seaport accounted for 9.4% of the total amount handled at the Baltic Sea ports on the eastern coast.

In 2013, the enterprise's investments were the largest in its history, reaching LTL 301 million – three times as much as in 2012. The biggest investment projects in 2013 were the dredging and widening of the seaport navigation channel (costing LTL 106.2 million), construction of infrastructure for the LNG Terminal and the dredging of the port area (LTL 68 million), as well as investments in other projects for the improvement of the seaport and the ship terminal. These dynamic investment activities boosted the value of the non-current assets of the enterprise by 18% or LTL 256 million, while the liabilities only increased by LTL 28.2 million.

Sales revenue of the Klaipėda Seaport Authority was 5.1% lower than in 2012 and amounted to LTL 158.6 million. The revenue from charges, constituting 85.8% of revenue from the seaport's core activities, dropped by 6.3% to LTL 136.1 million, while the revenue from land lease climbed by 2.6% to LTL 21.3 million.

The operating expenses of the enterprise increased 3.3%, i.e. by LTL 2.4 million, but the total expenses declined by LTL 0.7 million. The increase was influenced by the LTL 3.7 million higher costs for non-deductible VAT. In the reference period, the loss from financial activities decreased by LTL 4.8 million to LTL 1.7 million. Lower handing volumes in 2013 pushed the net profit down by 6.7% to LTL 83.1 million, while in 2012 the result had stood at LTL 89 million.



Sales revenue (LTL million)

Normalised net profit margin



| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
|--------------------------------------|---------|---------|
| Sales revenue | 167,002 | 158,553 |
| Operating expenses | 73,280 | 75,726 |
| Profit (loss) from other activities | 61 | 298 |
| Operating profit (loss) | 93,784 | 83,126 |
| EBITDA | 130,475 | 119,471 |
| Net profit (loss) | 87,324 | 81,460 |
| Normalised net profit (loss) | 89,014 | 83,081 |
| Normalised net profit margin | 53.3% | 52.4% |

| BALANCE SHEET (LTL '000) | 31 DEC 2012 | 31 DEC 2013 |
|------------------------------|-------------|-------------|
| Non-current assets | 1,420,049 | 1,676,286 |
| Current assets | 217,310 | 69,371 |
| Cash and cash equivalents | 41,944 | 23,039 |
| Total assets | 1,637,360 | 1,745,657 |
| Equity | 1,336,937 | 1,416,182 |
| Grants and subsidies | 202,924 | 203,794 |
| Liabilities | 97,498 | 125,682 |
| Financial liabilities | 68,774 | 84,306 |
| Total equity and liabilities | 1,637,360 | 1,745,657 |

| KATIUS | 31 DEC 2012 | 31 DEC 2012 |
|----------------|-------------|-------------|
| Normalised ROA | 5.8% | 4.9% |
| Normalised ROE | 6.8% | 6.0% |
| D/E | 5.1% | 6.0% |
| | | |

| RETURN TO THE SHAREHOLDERS (LTL '000) | 2012 | 2013 |
|---|-------|-------|
| Assigned profit contributions | 873 | 0 |
| Property tax | 1,690 | 1,621 |
| Total contributions and non-standard taxes to the state | 2,563 | 1,621 |

| EMPLOYEE INFORMATION | 2012 m. | 2013 m. |
|---|---------|---------|
| Number of employees | 243 | 242 |
| Number of employees holding managerial positions | 5 | 5 |
| Average monthly salary of one employee holding a managerial position (gross, LTL) | 11,068 | 11,587 |

SHAREHOLDERS

DATIO

| State-owned share | 100% |
|-------------------|------|

MANAGEMENT

| Director General | Arvydas Vaitkus | | |
|---------------------------------------|---|--|--|
| Chairman of the Board of Directors | Tomas Karpavičius (Ministry of Transport and Communications) | | |
| Members of the Board of Directors | Juozas Darulis (Ministry of Transport and Communications) Saulius Kerza (Ministry of Transport and Communications) Andrius Šniuolis (Ministry of Transport and Communications) Jurgita Šoblinskienė (Ministry of Transport and Communications) | | |

Lithuanian Shipping Company

Maritime freight water transport services



www.ljl.lt

- >> Enterprise earned 10% higher revenues, but the loss ratio increased
- >> Enterprise changed the focus of vessel use
- >> Revaluation of vessels was carried out

The Lithuanian Shipping Company (LSC), with a view to adapting to market changes, has pursued an optimal balance in using the vessels under short- and long-term lease contracts. At the end of 2013, four of the 10 vessels were used under long-term lease contracts, while at the end of 2012 the number of such vessels had been eight. The remaining fleet was used for short-term contracts.

In 2013, the LSC sales revenue went up by 10.1% to LTL 92.3 million, compared to 2012. As more vessels started operating under separate route contracts, fuel expenses increased by 46.5% compared to 2012 - to LTL 31.9 million, and port expenses increased 201.6% to LTL 10.9 million (according to contracts of this kind, the ship owner has to cover own expenses). All this made the company's total cost to rise by 15.4%or LTL 13.8 million. Expenses for ship repair, which in 2012 had constituted LTL 5.1 million, were considerably lower in 2013 and amounted to LTL 1.6 million. During the reference period, the enterprise sustained a net loss of LTL 41.1 million, i.e. 2.5 times higher than in 2012. Company's EBITDA stood at LTL 3,588 thousand in 2013 - 64.7% (or LTL 6,586 thousand) less than in 2012.

One of the main reasons for the high 2013 loss was the impairment of four vessels by LTL 22.1 million (in 2012, the LSC had re-estimated the liquidation value of the vessels, which then had reduced vessel depreciation costs and extended the useful life of vessels). The high 2013 losses significantly reduced the amount of equity of the enterprise from LTL 123 million to LTL 81.8 million, which was below the minimum authorised capital required under the Company Law. At the end of 2013, current liabilities exceeded current assets by LTL 60 million, while in 2012 this difference had been LTL 34 million. According to independent auditors, these circumstances increase the risk of default in 2014.

In 2013, the LSC Board of Directors approved sale contracts concerning the motor vessels Skalva and Asta. The sale of Skalva in December 2013 had no material effect on the financial results. Following the sale of the motor vessel Asta in 2014, the number of vessels operated by the enterprise dropped to nine.



Sales revenue (LTL million)

Net profit margin



| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
|--------------------------------------|---------|---------|
| Sales revenue | 83,874 | 92,337 |
| Cost of goods sold | 89,203 | 102,980 |
| Gross profit (loss) | -5,328 | -10,644 |
| Operating expenses | 10,415 | 30,820 |
| Profit (loss) from other activities | 519 | 439 |
| Operating profit (loss) | -15,224 | -41,025 |
| EBITDA | 10,174 | 3,588 |
| Net profit (loss) | -16,432 | -41,149 |
| Net profit margin | -19.6% | -44.6% |

| 31 DEC 2012 | 31 DEC 2013 |
|----------------------|---|
| 195,789 | 142,168 |
| 8,919 | 20,928 |
| 369 | 1,602 |
| 204,707 | 163,096 |
| 122,969 | 81,821 |
| 0 | 0 |
| | |
| 81,738 | 81,275 |
| 81,738 56,398 | 81,275 52,819 |
| | 195,789 8,919 369 204,707 122,969 |

| RATIOS | 31 DEC 2012 | 31 DEC 2013 |
|--------|-------------|-------------|
| ROA | -7.8% | -22.4% |
| ROE | -12.6% | -40.2% |
| D/E | 45.9% | 64.6% |
| | | |

2012

2013

RETURN TO THE SHAREHOLDERS (LTL '000)

| Allocated dividends (total) | 0 | 0 |
|--|------|------|
| | | |
| EMPLOYEE INFORMATION | 2012 | 2013 |
| Number of employees | 341 | 340 |
| Number of employees holding managerial | 4 | 4 |

| Number of employees | 341 | 340 |
|---|--------|-------|
| Number of employees holding managerial positions | 4 | 4 |
| Average monthly salary of one employee holding a managerial position (gross, LTL) | 10,231 | 8,768 |

SHAREHOLDERS

| State-owned share | 56,7% |
|--------------------|-------|
| DFDS TOR LINE A/S | 5,5% |
| Other shareholders | 37,8% |

MANAGEMENT

| Director General | Audronis Lubys |
|------------------------------------|---|
| Chairman of the Board of Directors | Saulius Girdauskas (Susisiekimo ministerija) |
| | |

Andrius Šniuolis (Ministry of Transport and Communications) Members of Stepas Telešius* (UAB ACME Grupė) the Board of Mindaugas Utkevičius *(AS LHV Capital) **Directors** Eglė Vyšniauskaitė (Ministry of Transport and Communications

Members of the **Supervisory Board**

Ona Barauskienė (Ministry of Transport and Communications) Gytis Kaminskas* (Baltic Legal Solutions Lietuva) Tomas Karpavičius (Ministry of Transport and Communications) Laimutė Tinglum* (UAB Scandinavian Accounting and Consulting) Evaldas Zacharevičius (Lithuanian Maritime Safety

*Independent member

Administration)

Vilnius International Airport

Airport operation, lease of premises and parking lots, advertising services



www.vno.lt

- >> Number of flights and passengers served increased
- » Normalised net profit of the enterprise grew almost five-fold
- Merger of the airport with Palanga International Airport and Kaunas Airport has started

In 2013, Vilnius International Airport carried 2,661,900 passengers, or 20.6% more than in 2012. The share of Vilnius International Airport on the Lithuanian passenger air transport market in 2013 amounted to 76%, up by six percentage points from 2012.

Compared to 2012, the number of flights served grew by 9.3% to 32,778. As the number of passengers carried increased at a higher rate, the average number of passengers per flight served went up. The amount of freight carried in 2013 rose from 5,927 tonnes to 8,255 tonnes.

During the reference period, six new air carriers started operations at Vilnius International Airport. In December 2013, regular flights to/from the airport were operated by 21 airlines, while charter flights were conducted by five carriers. Another 12 destinations were added to the route list. In total, regular flights to 44 airports in 22 countries were operated from Vilnius International Airport.

Sales revenue of Vilnius International Airport amounted to LTL 58.5 million and was up by 13.9% from 2012. An increase was observed in revenue from both aviation services (from LTL 31.7 million to LTL 35.6 million) and non-aviation activities (from LTL 19.5 million to LTL 22.8 million). Revenue from airport charges, constituting the largest share of the airport's revenue, grew by 13.2% to LTL 32.9 million. Expenses of core activities increased by 7.5% to LTL 53.6 million. As revenue grew at a higher rate than expenses of core activities did, in 2013 normalised net profit of Vilnius International Airport reached LTL 4.4 million, while in 2012 the result had been LTL 0.9 million.

In November 2013 a law had entered into force, under which Vilnius International Airport, Palanga International Airport, and Kaunas Airport were reorganised to a company Lithuanian Airports in July 2014. The goal of the reorganisation is to build a network of three Lithuanian airports, by coordinated actions to become the most popular network of the airports in the region, and to offer a larger variety and a higher quality of services.



Sales revenue (LTL million)

Normalised net profit margin



| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
|--------------------------------------|--------|--------|
| Sales revenue | 51,385 | 58,542 |
| Expenses of core activities | 49,859 | 53,574 |
| Profit (loss) from other activities | 0 | 0 |
| Operating profit (loss) | 1,527 | 4,968 |
| EBITDA | 15,395 | 19,119 |
| Net profit (loss) | 628 | 4,093 |
| Normalised net profit (loss) | 895 | 4,370 |
| Normalised net profit margin | 1.7% | 7.5% |

| BALANCE SHEET (LTL '000) | 31 DEC 2012 | 31 DEC 2013 |
|------------------------------|-------------|-------------|
| Non-current assets | 304,006 | 301,898 |
| Current assets | 23,445 | 35,706 |
| Cash and cash equivalents | 11,374 | 21,270 |
| Total assets | 327,451 | 337,603 |
| Equity | 244,011 | 249,190 |
| Grants and subsidies | 40,918 | 42,991 |
| Liabilities | 42,522 | 45,423 |
| Financial liabilities | 32,727 | 27,273 |
| Total equity and liabilities | 327,451 | 337,603 |

| RATIOS | 31 DEC 2012 | 31 DEC 2013 |
|---|-------------|-------------|
| Normalised ROA | 0.3% | 1.3% |
| Normalised ROE | 0.4% | 1.8% |
| D/E | 13.4% | 10.9% |
| RETURN TO THE SHAREHOLDERS (LTL '000) | 2012 | 2013 |
| Assigned profit contribution | 314 | 2,047 |
| Property tax | 314 | 325 |
| Total contributions and non-standard taxes to the state | 629 | 2,372 |
| EMPLOYEE INFORMATION | 2012 | 2013 |
| Number of employees | 334 | 347 |
| Number of employees holding managerial positions | 6 | 6 |
| Average monthly salary of one employee holding a managerial position (gross, LTL) | 9,205 | 9,246 |

| MANAGEMENT | |
|------------------------------------|--|
| Director General | Gediminas Almantas |
| Chairman of the Board of Directors | Arijandas Šliupas (Ministry of Transport and Communications) |
| Members of the Board of Directors | Indrė Bernotaitė (Ministry of Transport and Communications) |
| | Gražvydas Jakubauskas (Ministry of Transport and |
| | Communications) |
| | Janina Laskauskienė (Ministry of Transport and |
| | Communications) |
| | Vilius Veitas (Ministry of Transport and |

Communications)

Kaunas Airport

Provision of public services in operating Kaunas International Airport and providing aviation and non-aviation services



www.kaunas-airport.lt

31 DEC 2012 31 DEC 2013

0.0%

- >> Number of passengers served declined by 16%
- >>> Revenue of the enterprise decreased by 25%
- >> Enterprise sustained normalised net loss of LTL 2.3 million

In 2013, the number of passengers at Kaunas Airport decreased by 16%, compared to 2012, and amounted to 696,000. During the reference period, the Lithuanian passenger market share held by Kaunas Airport accounted for 20% and shrank by six percentage points from 2012. The contraction of the number of passengers served and of the market share of the enterprise was a result of the transfer of flight routes from Kaunas to Vilnius Airport by Ryanair. During the winter season, the company served flights to four destinations from the Kaunas airport - 13 destinations less than during the same period in 2012.

In 2013, the number of flights at Kaunas Airport totalled 7,312 and was 14.6% lower than a year before. During the reference period, the amount of freight and postal shipments handled at the airport constituted 2,112 tonnes, i.e. 37.2% less than in 2012.

Compared to 2012, sales revenue decreased by 24.6% to LTL 7.4 million. This decrease was influenced mostly by a drop in revenue from passenger airline fees and advertising, which, compared to 2012, declined by 48.5% to LTL 856.2 thousand and by 89.3% to LTL 215.5 thousand, respectively. The cost of goods sold during the same period only fell by 6.6% to LTL 7.4 million. Meanwhile the operating expenses increased by 14.7% to LTL 2.8 million due to the adoption of the International Accounting Standards. As a result of a significant drop in the revenue, in 2013 Kaunas Airport incurred a normalised net loss of LTL 2.3 million, compared to a normalised net profit of LTL 17 thousand earned in 2012.

In November 2013 a law had entered into force, under which Vilnius International Airport, Palanga International Airport, and Kaunas Airport were reorganised to a company Lithuanian Airports in July 2014. The goal of the reorganisation is to build a network of three Lithuanian airports, by coordinated actions to become the most popular network of the airports in the region, and to offer a larger variety and a higher quality of services.



Sales revenue (LTL million)

Normalised net profit margin



| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
|--------------------------------------|-------|--------|
| Sales revenue | 9,798 | 7,387 |
| Cost of goods sold | 7,868 | 7,351 |
| Gross profit (loss) | 1,930 | 36 |
| Operating expenses | 2,449 | 2,810 |
| Profit (loss) from other activities | 223 | 103 |
| Operating profit (loss) | -296 | -2,671 |
| EBITDA | 1,754 | -412 |
| Net profit (loss) | -392 | -2,762 |
| Normalised net profit (loss) | 17 | -2,325 |
| Normalised net profit margin | 0.2% | -31.5% |

| BALANCE SHEET (LTL '000) | 31 DEC 2012 | 31 DEC 2013 |
|------------------------------|-------------|-------------|
| Non-current assets | 165,727 | 161,339 |
| Current assets | 2,571 | 1,611 |
| Cash and cash equivalents | 1,221 | 58 |
| Total assets | 168,298 | 162,950 |
| Equity | 42,942 | 42,727 |
| Grants and subsidies | 115,616 | 111,546 |
| Liabilities | 9,740 | 8,677 |
| Financial liabilities | 4,064 | 4,142 |
| Total equity and liabilities | 168,298 | 162,950 |

RATIOS

Normalised ROA

| Normalised ROE | 0.0% | -5.4% |
|---|-------|-------|
| D/E | 9.5% | 9.7% |
| | | |
| RETURN TO THE SHAREHOLDERS (LTL '000) | 2012 | 2013 |
| Assigned profit contribution | 0 | 0 |
| Property tax | 481 | 514 |
| Total contributions and non-standard taxes to the state | 481 | 514 |
| EMPLOYEE INFORMATION | 2012 | 2013 |
| Number of employees | 123 | 124 |
| Number of employees holding managerial positions | 2 | 2 |
| Average monthly salary of one employee holding a managerial position (gross, LTL) | 6,917 | 6,500 |
| | | |

| MANAGEMENT | |
|---------------------------------------|--|
| Director General | Acting Director General Jonas Gurskas |
| Chairman of the Board of Directors | Arijandas Šliupas (Ministry of Transport and Communications) |
| Members of the Board of Directors | Indrė Bernotaitė (Ministry of Transport and Communications) Vilius Veitas (Ministry of Transport and |
| | Communications) |

Palanga International Airport

Operation of airport infrastructure suitable for small and medium aircraft



www.palanga-airport.lt

>> Revenue increased, while expenses declined

>> Normalised net profit stood at LTL 321 thousand

The aircrafts served at Palanga International Airport in 2013 carried 127,900 passengers and 69 tonnes of freight. Compared to 2012, the number of passengers decreased by 1%. Due to fewer regular flights, the number of aircraft served at Palanga International Airport shrank by 2% to 2 988

During the reference period, commercial air transport operations constituted the largest share (76.4%) of all flights at Palanga International Airport. The airport was dominated by the air carrier SAS which operated 45% of all flights and carried 56% of all passengers. The airlines Norwegian Air Shuttle and airBaltic carried 22% and 20% of all passengers respectively.

Compared to 2012, revenue from core activities in 2013 increased by 1.5% to LTL 5.5 million. Revenue from aviation activities increased by 2.1% to LTL 4.8 million, while that from non-aviation services shrank by LTL 20.3 thousand to LTL 713.2 thousand. Revenue from service of aviation refueling to aircrafts had a large impact on the growth of aviation operating revenue – revenue from this service was 29% larger than in 2012. Moreover, the airport charges increased by 2% as this fee is calculated based on the weight of the aircrafts. Levies collected grew due to the fact that the airlines operated larger aircrafts. The enterprise's expenses for core activities, compared to 2012, went down by 2.3% to LTL 3.6 million, and no expenses were incurred for other activities and financial activities. Revenue growth and lower expenses boosted profitability of the airport which posted a normalised net profit of LTL 321 thousand for 2013, while in 2012 the result had amounted to LTL 182 thousand.

In implementing the recommendations of the Transparency Guidelines, Palanga International Airport for the first time modelled its financial statements on International Financial Reporting Standards (IFRS).

In November 2013 a law had entered into force, under which Vilnius International Airport, Palanga International Airport, and Kaunas Airport were reorganised to a company Lithuanian Airports in July 2014. The goal of the reorganisation is to build a network of three Lithuanian airports, by coordinated actions to become the most popular network of the airports in the region, and to offer a larger variety and a higher quality of services.



Sales revenue (LTL million)

Normalised net profit margin



| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
|--------------------------------------|-------|-------|
| Sales revenue | 5,409 | 5,488 |
| Expenses of core activities | 3,661 | 3,577 |
| Gross profit (loss) | 1,748 | 1,911 |
| Profit (loss) from other activities | 0 | 0 |
| Operating profit (loss) | -128 | 40 |
| EBITDA | 1,078 | 1,283 |
| Net profit (loss) | -27 | 112 |
| Normalised net profit (loss) | 182 | 321 |
| Normalised net profit margin | 3.4% | 5.9% |

| BALANCE SHEET (LTL '000) | 31 DEC 2012 | 31 DEC 2013 |
|------------------------------|-------------|-------------|
| Non-current assets | 143,393 | 141,432 |
| Current assets | 4,792 | 5,767 |
| Cash and cash equivalents | 3,692 | 4,411 |
| Total assets | 148,185 | 147,199 |
| Equity | 104,681 | 104,793 |
| Grants and subsidies | 42,731 | 41,245 |
| Liabilities | 773 | 1,161 |
| Financial liabilities | 0 | 0 |
| Total equity and liabilities | 148,185 | 147,199 |

| RATIOS | 31 DEC 2012 | 31 DEC 2013 |
|----------------|-------------|-------------|
| Normalised ROA | 0.1% | 0.2% |
| Normalised ROE | 0.2% | 0.3% |
| D/E | 0.0% | 0.0% |
| | | |

| RETURN TO THE SHAREHOLDERS (LTL '000) | 2012 | 2013 |
|---|------|------|
| Assigned profit contribution | 0 | 56 |
| Property tax | 246 | 246 |
| Total contributions and non-standard taxes to the state | 246 | 302 |

| EMPLOYEE INFORMATION | 2012 | 2013 |
|---|-------|-------|
| Number of employees | 71 | 70 |
| Number of employees holding managerial positions | 3 | 3 |
| Average monthly salary of one employee holding a managerial position (gross, LTL) | 8,556 | 7,806 |

MANAGEMENT

| Acting Director General | Vaida Gendrolytė |
|--------------------------|--|
| Chairman of the Board of | Arijandas Šliupas (Ministry of Transport and |
| Directors | Communications) |
| Members of the Board of | Indrė Bernotaitė (Ministry of Transport and |
| Directors | Communications) |
| | Vilius Veitas (Ministry of Transport and |
| | Communications) |

Lithuanian Radio and Television Centre

Radio and television broadcast services, the hosting of the equipment of broadcasters and telecommunication operators at the sites of the enterprise, and the provision of telephony, mobile internet, and data transmission services



www.telecentras.lt

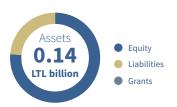
- >> Revenue of the company declined by almost 16%
- >> Arrears of the public enterprise Lietuvos Nacionalinis Radijas Ir Televizija to the company shrank from LTL 8.6 million to LTL 7 million
- >> Company adopted the International Financial Reporting **Standards**

As the analogue terrestrial television had been switched off in 2012, the company focused on the improvement of the network of digital terrestrial television stations. At the end of 2013, the company was operating 63 digital television transmitters. In addition, it hosted digital television transmitters also of other operators at its sites. Under an order of the Lithuanian Communications Regulatory Authority, in 2013 the company changed the frequencies of 39 digital terrestrial television broadcast stations. The 4G internet MEZON provided by the company is accessible to about 70% of the Lithuanian population, while the 4G WIMAX communication network ranks as the second largest 4G network in Lithuania.

In 2013, sales revenue of the company was 15.7% lower than in 2012 and constituted LTL 62.6 million. Revenue from radio and television broadcast and distribution and access services declined from LTL 39.2 million in 2012 to LTL 24.6 million in 2013, or by 37%. Revenue from data transmission services went up by 9% from LTL 31.9 million to LTL 34.7 million. Since analogous television had been switched off on 29 October 2012 under a Government decision, revenue of the company sizably decreased, but the fall in the cost was not as significant – the cost dropped by 8.6% to LTL 48.7 million due to fixed infrastructure costs. Operating expenses shrank by 7.3% to LTL 18.9 million. Adoption of the International Financing Reporting Standards had an impact on the operating expenses of the company.

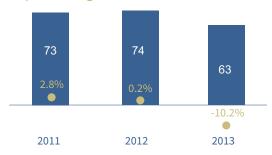
In 2013, the company sustained a net loss of LTL 6.4 million, while in 2012 it had posted a net profit of LTL 0.1 million.

At the end of 2013, debt outstanding totalled LTL 10.4 million. The arrears of the public enterprise Lietuvos Nacionalinis Radijas Ir Televizija to the company, compared to the end of 2012, decreased by 18.7% to LTL 7 million.



Sales revenue (LTL million)

Net profit margin



| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
|--------------------------------------|--------|--------|
| Sales revenue | 74,228 | 62,589 |
| Cost of goods sold | 53,294 | 48,703 |
| Gross profit (loss) | 20,934 | 13,886 |
| Operating expenses | 20,375 | 18,894 |
| Profit (loss) from other activities | 371 | -986 |
| Operating profit (loss) | 930 | -5,994 |
| EBITDA | 20,748 | 13,479 |
| Net profit (loss) | 114 | -6,410 |
| Net profit margin | 0.2% | -10.2% |

| BALANCE SHEET (LTL '000) | 31 DEC 2012 | 31 DEC 2013 |
|------------------------------|-------------|-------------|
| Non-current assets | 129,773 | 116,869 |
| Current assets | 26,090 | 24,840 |
| Cash and cash equivalents | 1,427 | 4,143 |
| Total assets | 155,863 | 141,709 |
| Equity | 115,336 | 108,008 |
| Grants and subsidies | 0 | 33 |
| Liabilities | 40,527 | 33,668 |
| Financial liabilities | 31,439 | 23,744 |
| Total equity and liabilities | 155,863 | 141,709 |

| RATIOS | 31 DEC 2012 | 31 DEC 2013 |
|---------------------------------------|-------------|-------------|
| ROA | 0.1% | -4.3% |
| ROE | 0.1% | -5.7% |
| D/E | 27.3% | 22.0% |
| | | |
| RETURN TO THE SHAREHOLDERS (LTL '000) | 2012 | 2013 |

RETURN TO THE SHAREHOLDERS (LTL '000)

| Allocated dividends (total) | 919 | 0 |
|---|-------|--------|
| EMPLOYEE INFORMATION | 2012 | 2013 |
| Number of employees | 394 | 383 |
| Number of employees holding managerial positions | 5 | 5 |
| Average monthly salary of one employee holding a managerial position (gross, LTL) | 9,676 | 10,172 |

SHAREHOLDERS

| State-owned share | 100% |
|-------------------|------|

MANAGEMENT

| Director General | Remigijus Šeris |
|------------------------------------|--|
| Chairman of the Board of Directors | Arijandas Šliupas (Ministry of Transport and Communications) |
| Members of the Board of Directors | Saulius Kerza (Ministry of Transport and Communications) Janina Laskauskienė (Ministry of Transport and Communications) |
| | Arūnas Šikšta* (Director of International Business School at Vilnius University) Viktorija Trimbel* (Quantum Capital) |

^{*}Independent member

Road Maintenance Enterprises

Maintenance and repair of national roads, construction and repair of various roads, streets and squares, landscaping and contracting activities

www.lakd.lt

31 DEC 2012 31 DEC 2013

- >> In 2013, road deaths decreased by 15%
- >> Revenue of road maintenance enterprises increased, but growth of expenses for core activities was higher
- » Road maintenance enterprises accounted for a loss of LTL 9 million retrospectively, due to the bankruptcy of Snoras bank

In 2013, 3,418 accidents occurred on Lithuanian roads – a figure that was higher by 26 accidents, compared to 2012. Road traffic injuries rose from 3,952 to 4,040, but road deaths went down from 302 to 258.

In the reference period, the operating revenue of the road maintenance enterprises amounted to LTL 264.8 million, up by 4.1% from 2012. Revenue of the enterprise Šiaulių Regiono Keliai increased the most – by 11.7% to LTL 40.1 million. The increase was determined mostly by growth of revenue from contracting activities. Along with growing revenue, an increase was recorded also in the cost of goods sold (by 4% to LTL 242.5 million) and operating expenses (by 5.2% to LTL 22.6 million) of the road maintenance enterprises. Among the state-owned road maintenance enterprises, the companies that cut the cost of goods sold the most in 2013 were Tauragės Regiono Keliai (by 4% to LTL 12.8 million), Utenos Regiono Keliai (by 0.7% to LTL 20.5 million), and Vilniaus Regiono Keliai (by 0.4% to LTL 27.5 million).

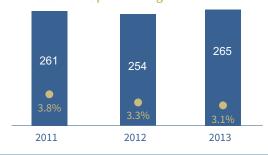
In 2013, all road maintenance enterprises earned a total net profit of LTL 1.7 million (down by 10.7% from the 2012 result). The drop was due to a LTL 152 thousand decrease in profit from financial and investment activities. All the eleven enterprises operated at a profit, posting a normalised net profit of LTL 8.4 million in total, i.e. by 2% less than in 2012.

A total loss of LTL 8.9 million was accounted for in the portfolio of the road maintenance enterprises resulting from the bankruptcy of Snoras bank. Tauragės Regiono Keliai cut the 2011 retained earnings by LTL 3.2 million and adjusted the amounts of other receivables on the 2012 Balance Sheet. Telšių Regiono Keliai cut the 2013 retained earnings by LTL 1.2 million and adjusted the amounts of other receivables on the 2013 Balance Sheet. The same was done by Klaipėdos Regiono Keliai (by LTL 2.3 million) and Panevėžio Regiono Keliai (by LTL 1.7 million).



Sales revenue (LTL million)

Normalised net profit margin



| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
|--------------------------------------|---------|---------|
| Sales revenue | 254,346 | 264,817 |
| Cost of goods sold | 233,232 | 242,476 |
| Gross profit (loss) | 21,114 | 22,342 |
| Operating expenses | 21,455 | 22,568 |
| Profit (loss) from other activities | 2,419 | 2,285 |
| Operating profit (loss) | 2,078 | 2,058 |
| EBITDA | 34,936 | 35,055 |
| Net profit (loss) | 1,937 | 1,730 |
| Normalised net profit (loss) | 8,506 | 8,339 |
| Normalised net profit margin | 3.3% | 3.1% |

| Non-current assets 335,385 334,774 Current assets 93,638 97,250 Cash and cash equivalents 34,775 36,681 Total assets 429,023 432,024 Equity 409,714 406,938 Grants and subsidies 0 0 Liabilities 19,309 25,086 Financial liabilities 0 0 | BALANCE SHEET* (LTL '000) | 31 DEC 2012 | 31 DEC 2013 |
|--|------------------------------|-------------|-------------|
| Cash and cash equivalents 34,775 36,681 Total assets 429,023 432,024 Equity 409,714 406,938 Grants and subsidies 0 0 Liabilities 19,309 25,086 Financial liabilities 0 0 | Non-current assets | 335,385 | 334,774 |
| Total assets 429,023 432,024 Equity 409,714 406,938 Grants and subsidies 0 0 Liabilities 19,309 25,086 Financial liabilities 0 0 | Current assets | 93,638 | 97,250 |
| Equity 409,714 406,938 Grants and subsidies 0 0 Liabilities 19,309 25,086 Financial liabilities 0 0 | Cash and cash equivalents | 34,775 | 36,681 |
| Grants and subsidies 0 0 Liabilities 19,309 25,086 Financial liabilities 0 0 | Total assets | 429,023 | 432,024 |
| Liabilities 19,309 25,086 Financial liabilities 0 0 | Equity | 409,714 | 406,938 |
| Financial liabilities 0 0 | Grants and subsidies | 0 | 0 |
| | Liabilities | 19,309 | 25,086 |
| | Financial liabilities | 0 | 0 |
| Total equity and liabilities 429,023 432,024 | Total equity and liabilities | 429,023 | 432,024 |

| Normalised ROA | 1.9% | 1.2% |
|---|-------|-------|
| Normalised ROE | 2.0% | 2.0% |
| D/E | 0.0% | 0.0% |
| RETURN TO THE SHAREHOLDERS (LTL '000) | 2012 | 2013 |
| Assigned profit contribution | 1,401 | 692 |
| Property tax | 7,728 | 7,775 |
| Total contributions and non-standard taxes to the state | 9,129 | 8,467 |
| EMPLOYEE INFORMATION | 2012 | 2013 |
| Number of employees | 2,741 | 2,706 |
| Number of employees holding managerial positions | 47 | 47 |
| Average monthly salary of one employee holding managerial position (gross, LTL) | 7,675 | 8,513 |

^{*} Upon eliminating the book value of roads and current liabilities due to asset appreciation, accounted for at the end of 2012 following the transfer of the road maintenance enterprises to the Lithuanian Road Administration.

MANAGEMENT (DIRECTOR GENERAL)

RATIOS*

| MANAGEMENT (DIRECTOR GENERAL) | |
|-------------------------------|-----------------------|
| Automagistralė | Vladislovas Molis |
| Alytaus regiono keliai | Bronius Vaičiulionis |
| Kauno regiono keliai | Vidmantas Lisauskas |
| Klaipėdos regiono keliai | Petras Kaučikas |
| Marijampolės regiono keliai | Juozas Litvinas |
| Panevėžio regiono keliai | Rolandas Žagaras |
| Šiaulių regiono keliai | Piotras Bakanovas |
| Tauragės regiono keliai | Vytautas Povilaika |
| Telšių regiono keliai | Romualdas Kačerauskas |
| Utenos regiono keliai | Edmantas Šakalys |
| Vilniaus regiono keliai | Petras Džervus |
| | |

Klaipėdos Nafta

Storage of crude oil and petroleum products, loading and related services, implementation of the LNG Terminal project



www.oil.lt | www.sgd.lt

- >> Loading of petroleum products decreased by 15%
- >> Company earned a 14% lower net profit
- Agreement on the funding of construction of the LNG Terminal was signed with the EIB

In 2013, Klaipėdos Nafta loaded 5.9 million tonnes of petroleum products in the storage facilities of the terminal, i.e. 16% less than in 2012. The decrease in loading was caused by several factors: the key client, ORLEN Lietuva, reduced its exports by sea as the company was stepping up sales in the CIS countries. Another factor contributing to the fall in loading volumes was a significant drop in the profitability of oil refining, which forced the refineries to cut the production and export of oil products. In addition, the Mazyr refinery (Belarus) underwent an overhaul in the second half-year, which resulted in lower production during that time.

In 2013, sales revenue of Klaipėdos Nafta stood at LTL 126.9 million, i.e. 8.7% less than in 2012. The cost of goods sold shrank by 6.5% to LTL 76.1 million. The expenses for gas included in the cost declined by 25.9% to LTL 14.6 million, but the depreciation and amortisation expenses grew by 8% to LTL 24.4 million due to the integration of the Subačius fuel storage area in September 2012. Thus the overall decrease in expenses was not that substantial. The enterprise's operating expenses exceeded the 2012 numbers by 17.4% and amounted to LTL 12.6 million as a result of a LTL 2.1 million increase in the administrative costs of the liquefied natural gas (LNG) terminal project. The higher operating expenses and the LTL 80 thousand loss from financial and investment activities that had replaced the profit of LTL 1.8 million pushed down the net profit of the enterprise by 14% to LTL 35.6 million.

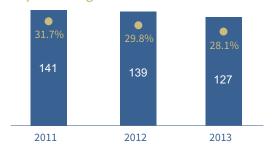
In the reference period, the enterprise signed a financing agreement with the European Investment Bank (EIB) on a up to EUR 87 million (LTL 300 million) credit for the implementation of the LNG Terminal project, EUR 15 million of which was already used by the end of 2013.

February 2014 witnessed the completion of construction of a vessel Independence for the LNG Terminal. Klaipėdos Nafta has leased the vessel from the Norwegian company Hoegh LNG under a 10-year leasing contract. Currently, construction of a quay and a gas pipeline launched in 2013 is under way. The works should be completed and the LNG Terminal is expected to begin operations in late 2014. The Rules for using the Terminal, and the allocation of capacities have already been agreed upon with the National Commission for Energy Control and Prices.



Sales revenue (LTL million)

Net profit margin



| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
|--------------------------------------|---------|---------|
| Sales revenue | 138,881 | 126,860 |
| Cost of goods sold | 81,336 | 76,089 |
| Gross profit (loss) | 57,545 | 50,771 |
| Operating expenses | 10,734 | 12,606 |
| Profit (loss) from other activities | 108 | 244 |
| Operating profit (loss) | 46,919 | 38,409 |
| EBITDA | 69,817 | 63,289 |
| Net profit (loss) | 41,437 | 35,649 |
| Net profit margin | 29.8% | 28.1% |

| Non-current assets 447,650 523,681 Current assets 112,360 152,153 Cash and cash equivalents 79,834 89,895 Total assets 560,010 675,834 Equity 536,412 571,651 Grants and subsidies 0 0 Liabilities 23,598 104,183 Financial liabilities 0 51,346 Total equity and liabilities 560,010 675,834 | BALANCE SHEET (LIL '000) | 31 DEC 2012 | 31 DEC 2013 |
|---|------------------------------|-------------|-------------|
| Cash and cash equivalents 79,834 89,895 Total assets 560,010 675,834 Equity 536,412 571,651 Grants and subsidies 0 0 Liabilities 23,598 104,183 Financial liabilities 0 51,346 | Non-current assets | 447,650 | 523,681 |
| Total assets 560,010 675,834 Equity 536,412 571,651 Grants and subsidies 0 0 Liabilities 23,598 104,183 Financial liabilities 0 51,346 | Current assets | 112,360 | 152,153 |
| Equity 536,412 571,651 Grants and subsidies 0 0 Liabilities 23,598 104,183 Financial liabilities 0 51,346 | Cash and cash equivalents | 79,834 | 89,895 |
| Grants and subsidies 0 0 Liabilities 23,598 104,183 Financial liabilities 0 51,346 | Total assets | 560,010 | 675,834 |
| Liabilities 23,598 104,183 Financial liabilities 0 51,346 | Equity | 536,412 | 571,651 |
| Financial liabilities 0 51,346 | Grants and subsidies | 0 | 0 |
| , | Liabilities | 23,598 | 104,183 |
| Total equity and liabilities 560,010 675,834 | Financial liabilities | 0 | 51,346 |
| | Total equity and liabilities | 560,010 | 675,834 |

| RATIOS | 31 DEC 2012 | 31 DEC 2013 |
|--------|-------------|-------------|
| ROA | 7.7% | 5.8% |
| ROE | 8.0% | 6.4% |
| D/E | 0.0% | 9.0% |
| | | |

2012

10,959

2013

11,402

RETURN TO THE SHAREHOLDERS (LTL '000)

holding a managerial position (gross, LTL)

| Allocated dividends (total) | 410 | 356 |
|--|--------|--------|
| EMPLOYEE INFORMATION | 2012 | 2013 |
| Number of employees | 360 | 382 |
| Number of employees holding managerial positions | 27 | 32 |
| Average monthly salary of one employee | 10.050 | 11 400 |

SHAREHOLDERS

BALANCE CHEET (LTL (000)

| State-owned share | 72.3% |
|--------------------|-------|
| UAB Achema Group | 10.2% |
| Other shareholders | 17.5% |

MANAGEMENT

| Director General | Rokas Masiulis |
|--|--|
| Chairman of the Board of Directors | Not appointed |
| Members of the Board of Directors Rokas | Rytis Ambrazevičius* (Nexetic Representative Office in the Baltics) Mindaugas Jusius* (AB Swedbank Life Insurance) Valdas Lastauskas (Ministry of Energy) s Masiulis (Director General of AB Klaipėdos Nafta) |
| Manchania dales | Figure 14 and 17 and 18 and 18 April 18 and 18 April 18 A |

Eimantas Kiudulas* (UAB Klaipėdos LEZ) Supervisory Agnė Amelija Petravičienė (Ministry of Energy) Romas Švedas* (independent consultant)

^{*}Independent member

The Lietuvos Energija Group

Electricity and heat production and supply, electricity trading and distribution, natural gas trading and supply, as well as maintenance and development of the electricity sector



The Lietuvos Energija Group includes the electricity and heat producer and trader Lietuvos Energijos Gamyba (owns 96.1% of shares), the electricity distribution network operator LESTO (82.6%) and their subsidiaries, as well as LITGAS (66.67%, since 15.10.2013) and VAE SPB (100%).

www.le.lt

- >> Group operated at a profit
- >> Performance efficiency increased, with EBITDA margin going up from 18.6% to 23.4%
- >> Name of the enterprise changed to Lietuvos Energija

In 2013, the Lietuvos Energija Group earned revenue of LTL 2,907.5 million, i.e. 3.9% more than from its continuous operations in 2012. Revenue growth was influenced mostly by a larger quantity of electricity transmitted (1.2%) and an increase of the PSO (public service obligations) component in the average transmission service and electricity transmission tariff. Contrary to revenue, the cost of goods sold of Lietuvos Energija in 2013 dropped by 4.3% to LTL 2,308.3 million. The cost fell mostly as a result of the lower volume of electricity generated in the units of the Lithuanian Power Plant.

In 2013, the Group's EBITDA went up by 30.7% to LTL 680.2 million, compared to 2012. During the reference period, the Lietuvos Energija Group earned a net profit of LTL 140.8 million, while in 2012 it had sustained a net loss of LTL 68.9 million (from continuous operations).

During the reference period, the Group underwent reorganisation of corporate governance. The Articles of Association of the enterprise were amended in July 2013 by a decision of the Ministry of Finance, establishing a collegial supervisory body - a Supervisory Board, consisting of seven members. In September 2013, the Supervisory Board elected a new Board of Directors of the enterprise comprising only employees of the Group. Currently, the Board of Directors has five members. In addition, on 30 August the Group and its controlling company Visagino Atominė Elektrinė changed the name to Lietuvos Energija.

Lietuvos Energija became the largest shareholder of the natural gas transmission and distribution company Lietuvos Dujos. On 21 May 2014 Lietuvos Energija bought 38.9% of shares in Lietuvos Dujos and 11.76% of shares in electricity distribution network operator LES-TO from the German company E.ON Ruhrgas International for LTL 336.9 million. On 19 June, Lietuvos Energija bought the remaining shares of Lietuvos Dujos from Russian company Gazprom (37.1%) and from minority shareholders for LTL 262.3 million. After these deals, Lietuvos Energija owns 96.6% of shares in Lietuvos Dujos shares and 94.4% of shares in LESTO.



Sales revenue (LTL million)

| Net profit | margin | | | |
|--------------------|--------|---------------|--------------------|--|
| 2,705 | | 2,799 | 2,908 • 4.8% | |
| -3.3% • 2011 | | -2.5% 2012 | 2013 | |

| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
|---|-----------|-----------|
| Sales revenue | 2,799,090 | 2,907,537 |
| Cost of goods sold | 2,412,467 | 2,308,338 |
| Gross profit (loss) | 386,623 | 629,199 |
| Operating expenses | 437,915 | 447,195 |
| Operating profit (loss) | -51,292 | 152,004 |
| EBITDA | 520,543 | 680,202 |
| Net profit (loss) | -68,948 | 140,819 |
| Net profit margin | -2.5% | 4.8% |
| Minority share in the net profit (loss) | -6,818 | 10,879 |

| BALANCE SHEET (LTL '000) | 31 DEC 2012 | 31 DEC 2013 |
|------------------------------|-------------|-------------|
| Non-current assets | 8,779,165 | 8,594,425 |
| Current assets | 1,028,803 | 1,132,800 |
| Cash and cash equivalents | 122,176 | 558,396 |
| Total assets | 9,807,968 | 9,727,225 |
| Equity | 6,139,782 | 6,252,705 |
| Minority shareholder equity | 711,864 | 699,228 |
| Grants and subsidies | 1,125,450 | 1,091,511 |
| Liabilities | 2,542,736 | 2,383,009 |
| Financial liabilities | 1,255,991 | 1,180,088 |
| Total equity and liabilities | 9,807,968 | 9,727,225 |
| | | |

| RATIOS | 31 DEC 2012 | 31 DEC 2013 |
|---------------------------------------|-------------|-------------|
| ROA | -0.7% | 1.4% |
| ROE | -1.2% | 2.3% |
| D/E | 20.5% | 18.9% |
| | | |
| RETURN TO THE SHAREHOLDERS (LTL '000) | 2012 | 2013 |
| Allocated dividends (total) | 0 | 0 |
| | | |
| | | |

| EMPLOYEE INFORMATION | 2012 | 2013 |
|---|--------|--------|
| Number of employees | 4,621 | 4,378 |
| Number of employees holding managerial positions | 55 | 60 |
| Average monthly salary of one employee holding a managerial position (gross, LTL) | 13,795 | 14,276 |

SHAREHOLDERS

| State-owned share | 100% |
|-------------------|------|
| | |

| M | A | N | A | G | E | M | E | N | Т |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | |

| Director General | Dalius Misiunas |
|---|---|
| Chairman of the Board of Directors | Dalius Misiūnas (Director General) |
| Members of the Board of Directors Darius Ka | Ilona Daugėlaitė (Organisational Development Council Director) išauskas (Finance and Treasury Service Director) |
| | Mindaugas Keizeris (Strategy and Development Service Director) |

Liudas Liutkevičius (Production and Service Director)

Members of the **Supervisory Board**

Antanas Danys* (PE Lietuvos Junior Achievement Tomas Garasimavičius (Government Office) Žydrūnė Juodkienė (Ministry of Energy) Šarūnas Kliokys* (UAB Avestis) Virginijus Lepeška* (UAB Organizacijų Vystymo Centras) Rasa Noreikienė (Ministry of Economy) Aloyzas Vitkauskas (Ministry of Finance)

^{*}Independent member

The Lietuvos Energijos Gamyba Group

Electricity and heat production and supply, and electricity

The enterprise is the manager of the Lithuanian Power Plant and the combined cycle unit, as well as of the Kaunas Hydroelectric Power Plant and the Kruonis Pumped Storage Hydroelectric Plant. The enterprise controls



the subsidiaries Kauno Energetikos Remontas (owns 100% of shares), Energijos Tiekimas (100%) and Duomenų Logistikos Centras (54.04%)

www.gamyba.le.lt

- >> New corporate governance system implemented
- >> Net profit increased more than two times, even though revenue decreased
- >> Name of the enterprise was changed to Lietuvos **Energijos Gamyba**

In 2013, Lietuvos Energijos Gamyba generated 1.96 TWh of electricity - 11% less than in 2012. The quantities generated declined as, due to the reduced volumes of subsidised generation, the Lithuanian Power Plant produced 1.08 TWh of electricity, down by 23.9% from 2012. During the reference period, the Kaunas Hydroelectric Power Plant generated 0.41 TWh of electricity. As a result of a higher-than-average debit of the River Nemunas, the volume of sustainable and green electricity generated by the plant was almost one-third larger than in 2012. In 2013, electricity generation at the Kruonis Pumped Storage Hydroelectric Plant stood at 0.47 TWh and was almost stable as compared to 2012. Practically throughout October and for a few days in November, the complex in Elektrėnai generated electricity over the quota, having a negative effect on the results of the Group's commercial activities.

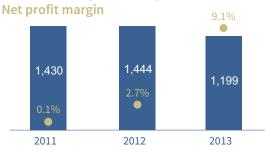
In 2013, sales revenue of the Lietuvos Energijos Gamyba Group (including revenue from other activities) declined by 16.9% to LTL 1,199.4 million due to lower generation volumes and especially strong competition on the free market. Revenue of the Group from regulated activities, including subsidised electricity generation, heat production and power redundancy services, shrank by 13.5% and accounted for 43% of the Group's total revenue. Meanwhile revenue from commercial activities fell by 19.4%, to LTL 683.2 million. The Group's operating expenses fell by even more - by 22.4% to LTL 1,076.7 million, mostly as a result of decreased expenses for purchases of electricity or related services, and for gas and fuel oil.

The Group's successful choice of the electricity trading strategy and a decrease of variable costs in 2013 determined a higher profitability. The Group's net profit stood at LTL 108.6 million and was higher by LTL 70 million than in 2012.

During the reference period, the enterprise Lietuvos Energijos Gamyba underwent reorganisation of corporate governance. In July 2013, a general meeting of shareholders approved a new version of the Articles of Association, establishing a collegial supervisory body - a Supervisory Board, consisting of three members. In September 2013, the Supervisory Board elected a new Board of Directors, which only comprised employees of the enterprise. Currently, the Board of Directors has five members. In addition, on 5 August the national electricity producer Lietuvos Energija changed its name to Lietuvos Energijos Gamyba.



Sales revenue (LTL million)



| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
|---|-----------|-----------|
| Sales revenue | 1,443,814 | 1,199,396 |
| Expenses of core activities | 1,386,642 | 1,076,691 |
| Operating profit (loss) | 57,172 | 122,705 |
| EBITDA | 170,006 | 239,263 |
| Net profit (loss) | 38,607 | 108,608 |
| Net profit margin | 2.7% | 9.1% |
| Minority share in the net profit (loss) | 1,547 | 2,398 |

| BALANCE SHEET (LTL '000) | 31 DEC 2012 | 31 DEC 2013 |
|------------------------------|-------------|-------------|
| Non-current assets | 2,994,093 | 2,861,252 |
| Current assets | 417,862 | 450,353 |
| Cash and cash equivalents | 34,345 | 219,746 |
| Total assets | 3,411,955 | 3,311,605 |
| Equity | 1,333,518 | 1,413,497 |
| Minority shareholder equity | 41,498 | 43,896 |
| Grants and subsidies | 1,100,461 | 1,062,730 |
| Liabilities | 977,976 | 835,378 |
| Financial liabilities | 679,150 | 564,534 |
| Total equity and liabilities | 3,411,955 | 3,311,605 |

| RATIOS | 31 DEC 2012 | 31 DEC 2013 |
|---------------------------------------|-------------|-------------|
| ROA | 1.1% | 3.3% |
| ROE | 2.6% | 7.7% |
| D/E | 50.9% | 39.9% |
| | | |
| RETURN TO THE SHAREHOLDERS (LTL '000) | 2012 | 2013 |
| Allocated dividends (total) | 25,403 | 150,000 |
| | | |
| | | |

| Attocated dividends (total) | 23,403 | 130,000 |
|---|--------|---------|
| EMPLOYEE INFORMATION | 2012 | 2013 |
| Number of employees | 1,180 | 1,104 |
| Number of employees holding managerial positions | 10 | 9 |
| Average monthly salary of one employee holding a managerial position (gross, LTL) | 12,346 | 14,954 |
| | | |

SHAREHOLDERS

| Lietuvos energija (shares indirectly owned by the State) | 96.1% |
|---|-------|
| Other shareholders | 3.9% |

MANAGEMENT

| Director General | Juozas Bartlingas |
|------------------------------------|---|
| Chairman of the Board of Directors | Juozas Bartlingas |
| Members of the Board of Directors | Adomas Birulis (Director of Business Development Department) |
| | Director of Finance and Law Department) |

Darius Kucinas (Director of Department of Power Generation) Vidmantas Salietis (Director of Wholesale Electricity Trade Department)

Members of the **Supervisory Board** Liudas Liutkevičius (Production and Service Director, Member of the Board of Directors of Lietuvos energija, UAB)

Dalius Misiūnas (Director General, Chairman of the Board of Directors of Lietuvos energija, UAB) Pranas Vilkasi

^{*}Independent member

The LESTO Group

Electricity transmission and supply to customers via distribution networks, connection of new customers, and operation, maintenance, management and development of distribution networks

The enterprise directly controls the following subsidiaries: Elektros Tinklo Paslaugos (owns 100% of shares) and NT Valdos (57.30%).



www.lesto.lt

>> Group operated at a profit

>> Quantities of electricity transmitted went up, while those of sold declined

Sales revenue of the LESTO Group rose by 6.5% to LTL 2,431.2 million, compared to 2012. The change in revenue was caused by higher PSO (public service obligations), electricity transmission service and acquisition prices. Expenses of the Group's activities grew by 1.9%, amounting to LTL 2,373.6 million. The most significant rise was observed in the electricity purchase expenses, which went up 4.6% to LTL 1,667.9 million. Also, repair expenses increased by 17.3%.

In 2013, the Group earned a net profit of LTL 47.6 million, while in 2012 it had incurred a net loss of LTL 45.6 million. The Group's EBIT-DA for the reference period was 17.3% higher than in 2012 and stood at LTL 458.6 million. EBITDA increased due to a LTL 30 million drop in the depreciation and amortisation expenses.

In 2013, LESTO transmitted 8,209 million kWh of electricity to customers, i.e. 1.2% more than in 2012. The electricity sales volume accounted for 37.3% of this number; to the remaining customers LESTO only provided the transmission. The increase in the quantity of transmitted electricity was determined by the growing number of new customers and the improved economic situation in Lithuania. Compared to 2012, the quantity of electricity sold shrank by 15.2% to LTL 3,061 million kWh as a result of the customers' choice to use services of independent suppliers.

In 2013, LESTO's investments in the connection of new customers and maintenance of the electricity networks amounted to LTL 298.5 million, down by 7.6% from 2012. A total of 20,649 new customers were connected, i.e. 13.9% more than in 2012.

During the reference period, LESTO underwent reorganisation of corporate governance. In July 2013, a general meeting of shareholders approved a new version of the Articles of Association, establishing a collegial supervisory body – a Supervisory Board, consisting of three members. In September 2013, the Supervisory Board elected a new Board of Directors, which only comprised employees of the enterprise. Currently, the Board of Directors has five members.

On 21 May 2014 Lietuvos Energija bought 11.76% of shares in LESTO from the German company E.ON Ruhrgas International for LTL 117.89 million. After the deal, Lietuvos Energija owns 94.4% of shares in LESTO.



Sales revenue (LTL million)

| Net pi | rofit n | nargin | | 1 | | |
|--------|--------------------|--------|---------------|---|-------|--|
| | 2,245 | | 2,284 | | 2,431 | |
| | -2.7% • 2011 | | -2.0% 2012 | | 2013 | |

| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
|---|-----------|-----------|
| Sales revenue | 2,283,653 | 2,431,162 |
| Expenses of core activities | 2,329,790 | 2,373,620 |
| Operating profit (loss) | -46,137 | 57,542 |
| EBITDA | 390,964 | 458,581 |
| Net profit (loss) | -45,586 | 47,646 |
| Net profit margin | -2.0% | 2.0% |
| Minority share in the net profit (loss) | 346 | 1,172 |

| BALANCE SHEET (LTL '000) | 31 DEC 2012 | 31 DEC 2013 |
|------------------------------|-------------|-------------|
| Non-current assets | 4,910,270 | 4,822,861 |
| Current assets | 260,241 | 263,753 |
| Cash and cash equivalents | 30,066 | 26,590 |
| Total assets | 5,170,511 | 5,086,614 |
| Equity | 3,431,430 | 3,369,102 |
| Minority shareholder equity | 131,452 | 126,979 |
| Grants and subsidies | 45,940 | 48,468 |
| Liabilities | 1,693,141 | 1,669,044 |
| Financial liabilities | 576,767 | 615,527 |
| Total equity and liabilities | 5,170,511 | 5,086,614 |

| RATIOS | 31 DEC 2012 | 31 DEC 2013 |
|--------|-------------|-------------|
| ROA | -0.9% | 0.9% |
| ROE | -1.3% | 1.4% |
| D/E | 16.8% | 18.3% |
| | | |

| RETURN TO THE SHAREHOLDERS (LTL '000) | 2012 | 2013 |
|---------------------------------------|---------|---------|
| Allocated dividends (total) | 102,671 | 114,749 |
| | | |

| EMPLOYEE INFORMATION | 2012 | 2013 |
|---|--------|--------|
| Number of employees | 3,384 | 3,212 |
| Number of employees holding managerial positions | 24 | 22 |
| Average monthly salary of one employee holding a managerial position (gross, LTL) | 11,965 | 13,347 |

SHAREHOLDERS *

| Lietuvos Energija | 94,4 proc. |
|--|------------|
| (shares indirectly owned by the State) | 94.4% |
| Other shareholders | 5.6% |

^{*} Shareholders are presented as they were during the reporting period (June 30, 2014). At the end of the reporting period (December 31, 2013), LESTO shareholding structure was as follows: Lietuvos Energija (indirectly owned by the State) – 82.6%, E.ON Ruhrgas International GmbH – 11.8%, other shareholders – 5.6%.

MANAGEMENT

| Director General | Aidas Ignatavičius |
|-------------------------------------|--|
| Chairman of the Board of Directors | Aidas Ignatavičius (Director General) |
| | Dalia Andrulionienė (Director of Organisation Development and Communications Division) Andrius Bendikas (Director and Finance and Administration Division) gnatjevas (Director of Customer Service Division) kauskas (Director of Electricity Network Division) |
| Members of the Supervisory Board | Petras Povilas Čėsna* Ilona Daugėlaitė (Lietuvos Energija, UAB) Darius Kašauskas (Lietuvos Energija, UAB) |

^{*}Independent member

The Litgrid Group

Litgrid (subsidiary of the SOE EPSO-G) is an operator of Lithuania's electricity transmission system, managing electricity flows in Lithuania and maintaining stable operation of the national electricity grid



The Litgrid Group includes Tetas (owns 100% of shares) and Baltpool (67%). In addition, Litgrid owns 50% of the shares in LitPol Link and 20% of the shares in Duomenų Logistikos Centras.

www.litgrid.eu

- >> Increased trading in balancing/regulation electricity pushed up the Group's revenue by 21%
- >> Net profit margin edged down by 1 percentage point
- >> New corporate governance system implemented

In 2013, revenue of the Litgrid Group amounted to LTL 613.9 million, i.e. 20.8% more than in 2012. Revenue of the enterprise increased mostly due to 71.7% growth of revenue from balancing/regulation electricity trading, which went up to LTL 186.8 million. This growth was a result of 48% higher electricity purchases by the balancing electricity suppliers, compared to 2012.

Operating expenses of the enterprise went up by 22.4% to LTL 587.6 million. In 2013, expenses for the purchase of electricity and related services increased from LTL 215.7 million to LTL 291.8 million. Of this amount, electricity balancing/regulation expenses rose the most (or by 83.4% to LTL 156.5 million) as a result of higher sales volumes. Other operating expenses grew by 29.8% to LTL 92.2 million. This growth was determined by the LTL 21.2 million decrease in the value of receivables for balancing electricity supplied, shown in the accounts.

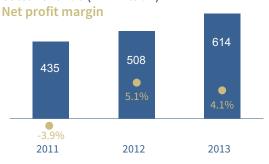
Compared to 2012, in 2013 EBITDA was almost stable and amounted to LTL 156.8 million. Net profit constituted LTL 25.4 million, down by 2.9% from 2012. The Group earned its whole annual profit in the first three quarters of 2013 as the last quarter brought a loss of LTL 3.9 million due to an increase in other expenses (Q4 expenses accounted for 44.6% of annual expenses). Other expenses went up mostly due to higher provisions for receivables. The National Commission for Energy Control and Prices will evaluate the 2013 difference between the projected and actual expenses and revenue of the supply of system services, and will deduct this difference (LTL 20.9 million) from revenue and profit of system services for 2015.

In 2013, investments of the Litgrid Group stood at LTL 206 million. Of these, 74% were investments in the implementation of strategic electricity projects. The enterprise is implementing Lithuania's strategic electricity projects - the international power links NordBalt (Lithuania-Sweden) and LitPol Link (Lithuania-Poland). The remaining investments are intended for the reconstruction and development of the transmission networks.

During the reference period, the enterprise underwent reorganisation of corporate governance. In May 2013, a general meeting of shareholders approved a new version of the Articles of Association, establishing a collegial supervisory body - a Supervisory Board, consisting of three members. In September 2013, the Supervisory Board elected a new Board of Directors, comprising five members.



Sales revenue (LTL million)



| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
|---|---------|---------|
| Sales revenue | 508,367 | 613,902 |
| Expenses of core activities | 480,040 | 587 635 |
| Operating profit (loss) | 28 327 | 26 267 |
| EBITDA | 154 610 | 156 794 |
| Net profit (loss) | 26 114 | 25 357 |
| Net profit margin | 5,1% | 4,1% |
| Minority share in the net profit (loss) | 109 | -312 |

| BALANCE SHEET (LTL '000) | 31 DEC 2012 | 31 DEC 2013 |
|------------------------------|-------------|-------------|
| Non-current assets | 2,114,629 | 2,185,988 |
| Current assets | 380,041 | 361,861 |
| Cash and cash equivalents | 127,387 | 81,562 |
| Total assets | 2,494,670 | 2,547,849 |
| Equity | 1,534,868 | 1,508,539 |
| Minority shareholder equity | 4,390 | 259 |
| Grants and subsidies | 304,971 | 423,955 |
| Liabilities | 654,831 | 615,355 |
| Financial liabilities | 184,068 | 221,523 |
| Total equity and liabilities | 2,494,670 | 2,547,849 |

| RATIOS | 31 DEC 2012 | 31 DEC 2013 |
|--------|-------------|-------------|
| ROA | 1.0% | 1.0% |
| ROE | 1.5% | 1.7% |
| D/E | 12.0% | 14.7% |
| | | |

| RETURN TO THE SHAREHOLDERS (LTL '000) | 2012 | 2013 |
|---------------------------------------|--------|---------|
| Allocated dividends (total) | 45,000 | 112,819 |

| EMPLOYEE INFORMATION | 2012 | 2013 |
|---|--------|--------|
| Number of employees | 701 | 670 |
| Number of employees holding managerial positions | 16 | 13 |
| Average monthly salary of one employee holding a managerial position (gross, LTL) | 12,919 | 12,650 |

SHAREHOLDERS

| EPSO-G (shares indirectly owned by the State) | 97.5% |
|---|-------|
| Other shareholders | 2 5% |

| THE STATE OF THE S | |
|--|---|
| Director General | Daivis Virbickas |
| Chairman of the Board of Directors | Daivis Virbickas (Director General) |
| Members of the Board of Directors | Rimantas Busila (Director of Finance Department) Vidmantas Grušas (Director of Transmission Network Department) Rolandas Masilevičius (Director of ITT and Administration Department) Karolis Sankovski (Director of Strategic Infrastructure Department) |
| Members of the Supervisory Board | Violeta Greičiuvienė (Ministry of Energy) Audrius Misevičius (Office of the Government) Aleksandras Spruogis (Ministry of Energy) |

Forest Enterprises

Forest maintenance and reforestation, logging and timber trading



www.gmu.lt

- >> Amount of round timber sold by the forest enterprises increased by 3%
- >> Average price of sold timber went up to LTL 133
- >> Sales revenue grew by 7.5%
- >> Normalised net profit of the forest enterprises rose by 21%

In 2013, the 42 forest enterprises of Lithuania sold 3.6 million cubic metres of round timber, or 2.7% more than in 2012. The average price of sold timber increased from LTL 126.2 in 2012 to LTL 133.1 in 2013.

During the reference period, sales revenue of the forest enterprises constituted LTL 531.9 million – 7.5% more than in 2012. Revenue from the sale of round timber, which accounts for the largest share of total revenue, rose by 8.4% to LTL 484.8 million, and the cost of goods sold increased by 7.9% to LTL 181 million. The cost growth resulted mostly from the increased sales volume of round timber (LTL 4.8 million influence on the increase) and the rise of the cost of production (LTL 8.4 million influence on the increase). The cost of seed and planting stock fell by LTL 1.2 million due to the lower sales volume.

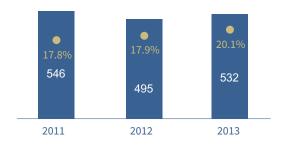
Operating expenses of the forest enterprises went up by 4.6% to LTL 276.6 million. Growth of expenses was determined mostly by a 10.7% increase in non-standard taxes to LTL 80.5 million. Although the cost of goods sold and operating expenses of the forest enterprises increased in 2013, the growth rate of sales revenue was higher, therefore normalised net profit rose by 20.7% to LTL 106.8 million.

During the reference period, assets of the forest enterprises increased by 3.3% to LTL 3,653.6 million. The change mostly resulted from the re-estimated value of state forests, which went up from LTL 2,971 million to LTL 3,062 million due to the higher average price of timber. As the value of forests is not included in the Balance Sheets of the forest enterprises, the Governance Coordination Centre sets the value of forests at the end of each year using the discounted cash flow method.



Sales revenue (LTL million)

Normalised net profit margin



| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
|--------------------------------------|---------|---------|
| Sales revenue | 494,694 | 531,882 |
| Cost of goods sold | 206,785 | 219,791 |
| Gross profit (loss) | 287,909 | 312,091 |
| Operating expenses | 264,321 | 276,644 |
| Profit (loss) from other activities | 5,978 | 8,095 |
| Operating profit (loss) | 29,565 | 43,541 |
| EBITDA | 69,989 | 86,228 |
| Net profit (loss) | 26,723 | 38,414 |
| Normalised net profit (loss) | 88,551 | 106,839 |
| Normalised net profit margin | 17.9% | 20.1% |

| BALANCE SHEET (LTL '000) | 31 DEC 2012 | 31 DEC 2013 |
|------------------------------|-------------|-------------|
| Non-current assets* | 3,310,213 | 3,420,228 |
| Current assets | 226,181 | 233,336 |
| Cash and cash equivalents | 69,450 | 73,395 |
| Total assets | 3,536,393 | 3,653,564 |
| Equity | 3,456,746 | 3,481,514 |
| Grants and subsidies | 33,637 | 35,823 |
| Liabilities | 46,010 | 45,227 |
| Financial liabilities | 863 | 668 |
| Total equity and liabilities | 3,536,393 | 3,653,564 |

| RATIOS | 31 DEC 2012 | 31 DEC 2013 |
|----------------|-------------|-------------|
| Normalised ROA | 2.4% | 3.0% |
| Normalised ROE | 2.5% | 3.0% |
| D/E | 0.0% | 0.0% |

*The consolidated book values of non-current assets and equity of the forest enterprises were increased by the forest value, which at the end of 2013 was estimated (using the discounted cash flow method) at LTL 3,062 million. The ratios were estimated according to the increased values of non-current assets and equity

| RETURN TO THE SHAREHOLDERS (LTL '000) | 2012 | 2013 |
|---|-------------------|-------------------|
| Assigned profit contribution | 13,191 | 19,207 |
| Property tax | 5,022 | 7,288 |
| Raw material tax | 67,717 | 73,212 |
| Total contributions and non-standard taxes to the state | 85,929 | 99,707 |
| to the state | | |
| EMPLOYEE INFORMATION | 2012 | 2013 |
| | 2012 3,738 | 2013 3,746 |
| EMPLOYEE INFORMATION | | |

| MANAGEMENT | |
|---|------------------------|
| Director of the Directorate General of State Forests | Benjaminas Sakalauskas |
| Deputy Director of the Directorate General of State Forests | Petras Kanapienis |
| Deputy Director of the Directorate General of State Forests | Gintaras Visalga |



In consideration of the financial results of the portfolio of municipal-owned enterprises (MOEs) for 2013, the overview starts with the number of companies making up the portfolio, analysis by accounting indicators such as the value of assets, equity and financial liabilities, sales revenue, operating profit and profitability, the return from MOEs to the municipalities and employee information. The overview goes on to describe financial results of five MOEs sectors (heating, water, RWMC, transportation and other).

In 2013, the number of MOEs decreased by 10 and at the end of the year amounted to 272. The summary overview of the MOE portfolio for 2013 includes 262 MOEs. The financial results of 10 enterprises were excluded due to the non-comparability of the data or the lack of them in the Register of Legal Entities. Of the 272 enterprises, five undertakings failed to provide their financial data for 2013 and thus were excluded from the portfolio, another four enterprises were not included due to the lack of financial data for the previous year, and one company was only established during the reference period. The analysis comprised 59 out of 60 municipalities: Panevėžys district municipality was the only one not included in the portfolio as it owns no enterprises. The Vilnius City MOE portfolio, which is the largest in terms of assets and revenue, excludes three out of 10 enterprises due to the lack or non-comparability of data: two enterprises (Vilniaus Planas and Vilniaus Miesto Būstas) were not included in the portfolio as they had no comparable data for the previous periods, while Vilniaus Viešasis Transportas was eliminated due to failure to provide the 2013 data to the Centre of Registers. The analysis also excludes one enterprise from each Vilnius, Šakiai, Mažeikiai, and Kėdainiai districts as they failed to supply their data for 2013 to the Register of Legal Entities.

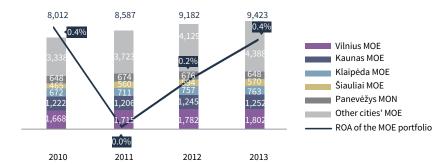
The number of MOEs amounted to 272 in 2013; however the overview of the MOE portfolio for 2013 includes 262 enterprises.

| Sales revenue 2,343,374 2,403,628 2,697,15 2,633,054 Cost of goods sold 2,022,655 2,114,863 2,276,430 2,268,866 Gross profit (loss) 320,719 288,765 333,285 364,188 Operating expenses 292,023 293,162 308,923 333,635 Protif (loss) from other activities 26,173 29,423 24,121 20,674 Operating profit (loss) 54,869 25,026 48,482 51,227 Operating profit margin 2,3% 1,0% 1,9% 1,9% Financial and investment activities -12,300 -22,622 -22,193 -4,694 Extraordinary gain 206 106 104 14 18 Extraordinary expenses 338 -14 93 30 Profit (loss) before taxes 42,437 2,524 26,340 46,521 Profit (loss) before taxes 42,437 2,524 26,340 46,521 Profit (loss) before taxes 1,24,40 0,0 0,0 4,6521 | PROFIT AND LOSS STATEMENT (LTL '000) | 2010 | 2011 | 2012 | 2013 |
|---|--------------------------------------|-------------|-------------|-------------|-------------|
| Cost of goods sold 2,022,655 2,114,863 2,276,430 2,268,866 Gross profit (loss) 320,719 288,765 333,285 364,188 Operating expenses 229,203 293,162 308,923 333,635 Protif (loss) from other activities 26,173 29,423 24,121 20,674 Operating profit (loss) 54,869 25,026 48,482 51,227 Operating profit margin 2,3% 1,0% 1,9% 1,9% Financial and investment activities -12,300 -22,622 -22,193 -4,694 Extraordinary expenses 338 -14 93 30 Profit (loss) before taxes 42,437 2,524 26,340 46,521 Profit tax 8,844 2,145 7,527 10,740 Net profit margin 1,4% 0,0% 1,0% 1,0% Net profit margin 1,4% 0,0% 0,7% 1,4% Minority interest 17,337 16,219 11,871 12,718 Tangible assets | · | | | | |
| Operating expenses 292,023 293,162 308,923 333,635 Protif (loss) from other activities 26,173 29,423 24,121 20,674 Operating profit (loss) 54,869 25,026 48,482 51,227 Operating profit margin 2,3% 1,0% 1,9% 1,9% Financial and investment activities -12,300 -22,622 -22,193 -4,694 Extraordinary gain 206 106 144 18 Extraordinary expenses 338 -14 93 30 Profit (loss) before taxes 42,437 2,524 26,340 46,521 Profit tax 8,844 2,145 7,527 10,740 Net profit margin 1,4% 0,0% 0,7% 1,4% Net profit margin 1,4% 0,0% 0,7% 1,4% Minority interest 7,581 3,132 8,310 9,576 BALANCE SHEET (LTL '000) 31 DEC 2010 31 DEC 2011 31 DEC 2012 31 DEC 2012 31 DEC 2013 11,671 12,718< | | | | | |
| Operating expenses 292,023 293,162 308,923 333,635 Protif (loss) from other activities 26,173 29,423 24,121 20,674 Operating profit (loss) 54,869 25,026 48,482 51,227 Operating profit margin 2,3% 1,0% 1,9% 1,9% Financial and investment activities -12,300 -22,622 -22,193 -4,694 Extraordinary gain 206 106 144 18 Extraordinary expenses 338 -14 93 30 Profit (loss) before taxes 42,437 2,524 26,340 46,521 Profit tax 8,844 2,145 7,527 10,740 Net profit margin 1,4% 0,0% 0,7% 1,4% Net profit margin 1,4% 0,0% 0,7% 1,4% Minority interest 7,581 3,132 8,310 9,576 BALANCE SHEET (LTL '000) 31 DEC 2010 31 DEC 2011 31 DEC 2012 31 DEC 2012 31 DEC 2013 11,671 12,718< | Gross profit (loss) | 320,719 | 288,765 | 333,285 | 364.188 |
| Operating profit (loss) 54,869 25,026 48,482 51,227 Operating profit margin 2,3% 1,0% 1,9% 1,9% Financial and investment activities -12,300 -22,622 -22,193 4,694 Extraordinary gain 206 106 114 18 Extraordinary expenses 338 -14 93 30 Profit (loss) before taxes 42,437 2,524 26,340 46,521 Profit tax 8,844 2,145 7,527 10,740 Net profit margin 1,4% 0,0% 0,7% 1,4% Met profit margin 1,4% 0,0% 0,7% 1,4% Minority interest 7,581 3,132 8,310 9,576 BALANCE SHEET (LTL '000) 31 DEC 2010 31 DEC 2011 31 DEC 2012 31 DEC 2013 31 DEC 2012 31 DEC 2013 31 DEC 2014 31 DEC 2014 31 DEC 2013 31 DEC 2013 31 DEC | • • • | , | , | , | , |
| Operating profit margin 2,3% 1,0% 1,9% 1,9% Financial and investment activities -12,300 -22,622 -22,193 -4,694 Extraordinary gain 206 106 144 18 Extraordinary expenses 338 -14 93 30 Profit (loss) before taxes 42,437 2,524 26,340 46,521 Profit tax 8,844 2,145 7,527 10,740 Net profit margin 1,4% 0,0% 0,0% 0,7% 1,4% Met profit margin 1,4% 0,0% 0,7% 1,24% Minority interest 7,581 3,132 8,310 9,576 BALANCE SHEET (LTL '000) 31 DEC 2013 31 DEC 2013 11,871 | Protif (loss) from other activities | 26,173 | 29,423 | 24,121 | 20,674 |
| Financial and investment activities 1-12,300 -22,622 -22,193 -4,694 Extraordinary gain 206 106 144 18 Extraordinary expenses 338 -14 93 30 Profit (loss) before taxes 42,437 2,524 26,340 46,521 Profit (bas) before taxes 42,437 2,524 26,340 46,521 Profit (margin 1,4% 0,0% 0,7% 1,4% Met profit margin 1,4% 0,0% 0,7% 1,4% Minority interest 7,581 3,132 8,310 9,576 BALANCE SHEET (LTL '000) 31 DEC 2010 31 DEC 2011 31 DEC 2012 31 DEC 2013 Intangible assets 17,437 16,219 11,871 12,718 Tangible assets 6,638,981 7,234,678 7,780,498 8,058,388 Financial assets 110,197 131,060 121,150 119,647 Other non-current assets 6,788,790 7,410,803 7,991,499 8,263,009 Non-current assets <td>Operating profit (loss)</td> <td>54,869</td> <td>25,026</td> <td>48,482</td> <td>51,227</td> | Operating profit (loss) | 54,869 | 25,026 | 48,482 | 51,227 |
| Extraordinary gain 206 106 144 18 Extraordinary expenses 338 -14 93 30 Profit (loss) before taxes 42,437 2,524 26,340 46,521 Profit tax 8,844 2,145 7,527 10,740 Net profit margin 1,4% 0,0% 0,7% 1,4% Minority interest 7,581 3,132 8,310 9,576 BALANCE SHEET (LTL '000) 31 DEC 2010 31 DEC 2011 31 DEC 2012 31 DEC 2013 Intangible assets 17,437 16,219 11,871 12,718 Tangible assets 6,638,981 7,234,678 7,780,498 8,058,388 Financial assets 110,197 131,060 121,150 119,647 Other non-current assets 22,176 28,845 77,981 72,255 Non-current assets 6,788,790 7,410,803 7,991,499 8,263,009 Inventories, prepayments and contracts in progress 150,221 187,871 157,087 140,539 Amounts rec | Operating profit margin | 2,3% | 1,0% | 1,9% | 1,9% |
| Extraordinary expenses 338 -14 93 30 Profit (loss) before taxes 42,437 2,524 26,340 46,521 Profit tax 8,844 2,145 7,527 10,740 Net profit 33,593 380 18,813 35,782 Net profit margin 1,4% 0,0% 0,7% 1,4% Minority interest 7,581 3,132 8,310 9,576 BALANCE SHEET (LTL '000) 31 DEC 2010 31 DEC 2011 31 DEC 2012 31 DEC 2013 Intangible assets 17,437 16,219 11,871 12,718 Tangible assets 16,638,981 7,234,678 7,780,498 8,058,388 Financial assets 110,197 131,060 121,150 119,647 Other non-current assets 6,788,790 7,410,803 7,991,499 8,263,009 Inventories, prepayments and contracts in progress 150,221 187,871 157,087 140,539 Amounts receivable within one year 698,054 735,176 803,103 816,271 | Financial and investment activities | -12,300 | -22,622 | -22,193 | -4,694 |
| Profit (loss) before taxes 42,437 2,524 26,340 46,521 Profit tax 8,844 2,145 7,527 10,740 Net profit 33,593 380 18,813 35,782 Net profit margin 1,4% 0,0% 0,7% 1,4% Minority interest 7,581 3,132 8,310 9,576 BALANCE SHEET (LTL '000) 31 DEC 2010 31 DEC 2011 31 DEC 2012 31 DEC 2013 Intangible assets 17,437 16,219 11,871 12,718 Tangible assets 6,638,981 7,234,678 7,780,498 8,058,388 Financial assets 110,197 131,060 121,150 119,647 Other non-current assets 6,788,790 7,410,803 7,991,499 8,263,009 Inventories, prepayments and contracts in progress 150,221 187,871 157,087 140,539 Amounts receivable within one year 698,054 735,176 803,103 816,271 Other current assets 119,398 64,791 59,193 30,113 <td>Extraordinary gain</td> <td>206</td> <td>106</td> <td>144</td> <td>18</td> | Extraordinary gain | 206 | 106 | 144 | 18 |
| Profit tax 8,844 2,145 7,527 10,740 Net profit 33,593 380 18,813 35,782 Net profit margin 1,4% 0,0% 0,7% 1,4% Minority interest 7,581 3,132 8,310 9,576 BALANCE SHEET (LTL '000) 31 DEC 2010 31 DEC 2011 31 DEC 2012 31 DEC 2013 Intangible assets 17,437 16,219 11,871 12,718 Tangible assets 6,638,981 7,234,678 7,780,498 8,058,388 Financial assets 110,197 131,060 121,150 119,647 Other non-current assets 6,788,790 7,410,803 7,991,499 8,263,009 Inventories, prepayments and contracts in progress 150,221 187,871 157,087 140,539 Amounts receivable within one year 698,054 735,176 803,103 816,271 Other current assets 119,398 64,791 59,193 30,113 Cash and cash equivalents 255,601 188,443 171,049 173,108 | Extraordinary expenses | 338 | -14 | 93 | 30 |
| Net profit 33,593 380 18,813 35,782 Net profit margin 1,4% 0,0% 0,7% 1,4% Minority interest 7,581 3,132 8,310 9,576 BALANCE SHEET (LTL '000) 31 DEC 2010 31 DEC 2011 31 DEC 2012 31 DEC 2013 Intangible assets 17,437 16,219 11,871 12,718 Tangible assets 6,638,981 7,234,678 7,780,498 8,058,388 Financial assets 110,197 131,060 121,150 119,647 Other non-current assets 22,176 28,845 77,981 72,255 Non-current assets 6,788,790 7,410,803 7,991,499 8,263,009 Inventories, prepayments and contracts in progress 150,221 187,871 157,087 140,539 Amounts receivable within one year 698,054 735,176 803,103 816,271 Other current assets 119,398 64,791 59,193 30,113 Cash and cash equivalents 255,601 188,443 171,049 173,1 | Profit (loss) before taxes | 42,437 | 2,524 | 26,340 | 46,521 |
| Net profit margin 1,4% 0,0% 0,7% 1,4% Minority interest 7,581 3,132 8,310 9,576 BALANCE SHEET (LTL '000) 31 DEC 2010 31 DEC 2011 31 DEC 2012 31 DEC 2013 Intangible assets 17,437 16,219 11,871 12,718 Tangible assets 6,638,981 7,234,678 7,780,498 8,058,388 Financial assets 110,197 131,060 121,150 119,647 Other non-current assets 22,176 28,845 77,981 72,255 Non-current assets 6,788,790 7,410,803 7,991,499 8,263,009 Inventories, prepayments and contracts in progress 150,221 187,871 157,087 140,539 Amounts receivable within one year 698,054 735,176 803,103 816,271 Other current assets 119,398 64,791 59,193 30,113 Cash and cash equivalents 255,601 188,443 171,049 173,108 Current assets 1,223,273 1,176,281 1,190,432 | Profit tax | 8,844 | 2,145 | 7,527 | 10,740 |
| Minority interest 7,581 3,132 8,310 9,576 BALANCE SHEET (LTL '000) 31 DEC 2010 31 DEC 2011 31 DEC 2012 31 DEC 2013 Intangible assets 17,437 16,219 11,871 12,718 Tangible assets 6,638,981 7,234,678 7,780,498 8,058,388 Financial assets 110,197 131,060 121,150 119,647 Other non-current assets 22,176 28,845 77,981 72,255 Non-current assets 6,788,790 7,410,803 7,991,499 8,263,009 Inventories, prepayments and contracts in progress 150,221 187,871 157,087 140,539 Amounts receivable within one year 698,054 735,176 803,103 816,271 Other current assets 119,398 64,791 59,193 30,113 Cash and cash equivalents 255,601 188,443 171,049 173,108 Current assets 1,223,273 1,176,281 1,190,432 1,159,244 TOTAL ASSETS 8,012,063 8,587,084 | | 33,593 | 380 | 18,813 | 35,782 |
| BALANCE SHEET (LTL '000) 31 DEC 2010 31 DEC 2011 31 DEC 2012 31 DEC 2013 Intangible assets 17,437 16,219 11,871 12,718 Tangible assets 6,638,981 7,234,678 7,780,498 8,058,388 Financial assets 110,197 131,060 121,150 119,647 Other non-current assets 22,176 28,845 77,981 72,255 Non-current assets 6,788,790 7,410,803 7,991,499 8,263,009 Inventories, prepayments and contracts in progress 150,221 187,871 157,087 140,539 Amounts receivable within one year 698,054 735,176 803,103 816,271 Other current assets 119,398 64,791 59,193 30,113 Cash and cash equivalents 255,601 188,443 171,049 173,108 Current assets 1,223,273 1,176,281 1,190,432 1,159,244 TOTAL ASSETS 8,012,063 8,587,084 9,181,931 9,423,040 Total equity 3,784,929 3,807,044 | | 1,4% | 0,0% | 0,7% | 1,4% |
| Intangible assets | Minority interest | 7,581 | 3,132 | 8,310 | 9,576 |
| Intangible assets | | | | | |
| Tangible assets 6,633,981 7,234,678 7,780,498 8,058,388 Financial assets 110,197 131,060 121,150 119,647 Other non-current assets 22,176 28,845 77,981 72,255 Non-current assets 6,788,790 7,410,803 7,991,499 8,263,009 Inventories, prepayments and contracts in progress 150,221 187,871 157,087 140,539 Amounts receivable within one year 698,054 735,176 803,103 816,271 Other current assets 119,398 64,791 59,193 30,113 Cash and cash equivalents 255,601 188,443 171,049 173,108 Current assets 1,223,273 1,176,281 1,190,432 1,159,244 TOTAL ASSETS 8,012,063 8,587,084 9,181,931 9,423,040 Total equity 3,784,929 3,807,044 3,906,755 4,019,983 Minority shareholder equity 156,369 158,103 164,064 172,074 Grants and subsidies 2,706,043 3,172,824 | BALANCE SHEET (LTL '000) | 31 DEC 2010 | 31 DEC 2011 | 31 DEC 2012 | 31 DEC 2013 |
| Tangible assets 6,633,981 7,234,678 7,780,498 8,058,388 Financial assets 110,197 131,060 121,150 119,647 Other non-current assets 22,176 28,845 77,981 72,255 Non-current assets 6,788,790 7,410,803 7,991,499 8,263,009 Inventories, prepayments and contracts in progress 150,221 187,871 157,087 140,539 Amounts receivable within one year 698,054 735,176 803,103 816,271 Other current assets 119,398 64,791 59,193 30,113 Cash and cash equivalents 255,601 188,443 171,049 173,108 Current assets 1,223,273 1,176,281 1,190,432 1,159,244 TOTAL ASSETS 8,012,063 8,587,084 9,181,931 9,423,040 Total equity 3,784,929 3,807,044 3,906,755 4,019,983 Minority shareholder equity 156,369 158,103 164,064 172,074 Grants and subsidies 2,706,043 3,172,824 | Intangible assets | 17.437 | 16,219 | 11.871 | 12,718 |
| Other non-current assets 22,176 28,845 77,981 72,255 Non-current assets 6,788,790 7,410,803 7,991,499 8,263,009 Inventories, prepayments and contracts in progress 150,221 187,871 157,087 140,539 Amounts receivable within one year 698,054 735,176 803,103 816,271 Other current assets 119,398 64,791 59,193 30,113 Cash and cash equivalents 255,601 188,443 171,049 173,108 Current assets 1,223,273 1,176,281 1,190,432 1,159,244 TOTAL ASSETS 8,012,063 8,587,084 9,181,931 9,423,040 Total equity 3,784,929 3,807,044 3,906,755 4,019,983 Minority shareholder equity 156,369 158,103 164,064 172,074 Grants and subsidies 2,706,043 3,172,824 3,593,191 3,817,324 Non-current liabilities 697,768 725,143 759,694 713,489 Current liabilities 823,324 882,0 | | , | , | , | , |
| Non-current assets 6,788,790 7,410,803 7,991,499 8,263,009 Inventories, prepayments and contracts in progress 150,221 187,871 157,087 140,539 Amounts receivable within one year 698,054 735,176 803,103 816,271 Other current assets 119,398 64,791 59,193 30,113 Cash and cash equivalents 255,601 188,443 171,049 173,108 Current assets 1,223,273 1,176,281 1,190,432 1,159,244 TOTAL ASSETS 8,012,063 8,587,084 9,181,931 9,423,040 Total equity 3,784,929 3,807,044 3,906,755 4,019,983 Minority shareholder equity 156,369 158,103 164,064 172,074 Grants and subsidies 2,706,043 3,172,824 3,593,191 3,817,324 Non-current liabilities 697,768 725,143 759,694 713,489 Current liabilities 823,324 882,073 922,291 872,245 Liabilities 675,796 726,751 | Financial assets | 110,197 | 131,060 | 121,150 | 119,647 |
| Inventories, prepayments and contracts in progress 150,221 187,871 157,087 140,539 Amounts receivable within one year 698,054 735,176 803,103 816,271 Other current assets 119,398 64,791 59,193 30,113 Cash and cash equivalents 255,601 188,443 171,049 173,108 Current assets 1,223,273 1,176,281 1,190,432 1,159,244 TOTAL ASSETS 8,012,063 8,587,084 9,181,931 9,423,040 Total equity 3,784,929 3,807,044 3,906,755 4,019,983 Minority shareholder equity 156,369 158,103 164,064 172,074 Grants and subsidies 2,706,043 3,172,824 3,593,191 3,817,324 Non-current liabilities 697,768 725,143 759,694 713,489 Current liabilities 823,324 882,073 922,291 872,245 Liabilities 675,796 726,751 748,416 726,351 | Other non-current assets | 22,176 | 28,845 | 77,981 | 72,255 |
| Amounts receivable within one year 698,054 735,176 803,103 816,271 Other current assets 119,398 64,791 59,193 30,113 Cash and cash equivalents 255,601 188,443 171,049 173,108 Current assets 1,223,273 1,176,281 1,190,432 1,159,244 TOTAL ASSETS 8,012,063 8,587,084 9,181,931 9,423,040 Total equity 3,784,929 3,807,044 3,906,755 4,019,983 Minority shareholder equity 156,369 158,103 164,064 172,074 Grants and subsidies 2,706,043 3,172,824 3,593,191 3,817,324 Non-current liabilities 697,768 725,143 759,694 713,489 Current liabilities 823,324 882,073 922,291 872,245 Liabilities 1,521,092 1,607,216 1,681,985 1,585,733 Of which financial liabilities 675,796 726,751 748,416 726,351 | Non-current assets | 6,788,790 | 7,410,803 | 7,991,499 | 8,263,009 |
| Other current assets 119,398 64,791 59,193 30,113 Cash and cash equivalents 255,601 188,443 171,049 173,108 Current assets 1,223,273 1,176,281 1,190,432 1,159,244 TOTAL ASSETS 8,012,063 8,587,084 9,181,931 9,423,040 Total equity 3,784,929 3,807,044 3,906,755 4,019,983 Minority shareholder equity 156,369 158,103 164,064 172,074 Grants and subsidies 2,706,043 3,172,824 3,593,191 3,817,324 Non-current liabilities 697,768 725,143 759,694 713,489 Current liabilities 823,324 882,073 922,291 872,245 Liabilities 1,521,092 1,607,216 1,681,985 1,585,733 Of which financial liabilities 675,796 726,751 748,416 726,351 | | 150,221 | 187,871 | 157,087 | 140,539 |
| Cash and cash equivalents 255,601 188,443 171,049 173,108 Current assets 1,223,273 1,176,281 1,90,432 1,159,244 TOTAL ASSETS 8,012,063 8,587,084 9,181,931 9,423,040 Total equity 3,784,929 3,807,044 3,906,755 4,019,983 Minority shareholder equity 156,369 158,103 164,064 172,074 Grants and subsidies 2,706,043 3,172,824 3,593,191 3,817,324 Non-current liabilities 697,768 725,143 759,694 713,489 Current liabilities 823,324 882,073 922,291 872,245 Liabilities 1,521,092 1,607,216 1,681,985 1,585,733 Of which financial liabilities 675,796 726,751 748,416 726,351 | | 698,054 | 735,176 | 803,103 | 816,271 |
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| TOTAL ASSETS 8,012,063 8,587,084 9,181,931 9,423,040 Total equity 3,784,929 3,807,044 3,906,755 4,019,983 Minority shareholder equity 156,369 158,103 164,064 172,074 Grants and subsidies 2,706,043 3,172,824 3,593,191 3,817,324 Non-current liabilities 697,768 725,143 759,694 713,489 Current liabilities 823,324 882,073 922,291 872,245 Liabilities 1,521,092 1,607,216 1,681,985 1,585,733 Of which financial liabilities 675,796 726,751 748,416 726,351 | Cash and cash equivalents | 255,601 | 188,443 | 171,049 | 173,108 |
| Total equity 3,784,929 3,807,044 3,906,755 4,019,983 Minority shareholder equity 156,369 158,103 164,064 172,074 Grants and subsidies 2,706,043 3,172,824 3,593,191 3,817,324 Non-current liabilities 697,768 725,143 759,694 713,489 Current liabilities 823,324 882,073 922,291 872,245 Liabilities 1,521,092 1,607,216 1,681,985 1,585,733 Of which financial liabilities 675,796 726,751 748,416 726,351 | | | | | |
| Minority shareholder equity 156,369 158,103 164,064 172,074 Grants and subsidies 2,706,043 3,172,824 3,593,191 3,817,324 Non-current liabilities 697,768 725,143 759,694 713,489 Current liabilities 823,324 882,073 922,291 872,245 Liabilities 1,521,092 1,607,216 1,681,985 1,585,733 Of which financial liabilities 675,796 726,751 748,416 726,351 | TOTAL ASSETS | 8,012,063 | 8,587,084 | 9,181,931 | 9,423,040 |
| Grants and subsidies 2,706,043 3,172,824 3,593,191 3,817,324 Non-current liabilities 697,768 725,143 759,694 713,489 Current liabilities 823,324 882,073 922,291 872,245 Liabilities 1,521,092 1,607,216 1,681,985 1,585,733 Of which financial liabilities 675,796 726,751 748,416 726,351 | | | | | |
| Non-current liabilities 697,768 725,143 759,694 713,489 Current liabilities 823,324 882,073 922,291 872,245 Liabilities 1,521,092 1,607,216 1,681,985 1,585,733 Of which financial liabilities 675,796 726,751 748,416 726,351 | | , | , | , | |
| Current liabilities 823,324 882,073 922,291 872,245 Liabilities 1,521,092 1,607,216 1,681,985 1,585,733 Of which financial liabilities 675,796 726,751 748,416 726,351 | | | | | |
| Liabilities 1,521,092 1,607,216 1,681,985 1,585,733 Of which financial liabilities 675,796 726,751 748,416 726,351 | | • | , | | |
| Of which financial liabilities 675,796 726,751 748,416 726,351 | | <u>-</u> | | | |
| | | | | | |
| TOTAL EQUITY AND LIABILITIES 8,012,063 8,587,084 9,181,931 9,423,040 | TOTAL EQUITY AND LIABILITIES | , | , | , | , |
| 101AL EQ0111 AND EMBILITIES 5,423,040 | TOTAL EQUITY AND EIABLETTES | 8,012,003 | 0,501,004 | 9,101,931 | 3,423,040 |
| OTHER INFORMATION 2010 2011 2012 2013 | OTHER INFORMATION | 2010 | 2011 | 2012 | 2013 |
| Number of employees (at period end) 20,081 20,090 19,455 20,047 | Number of employees (at period end) | 20,081 | 20,090 | 19,455 | 20,047 |
| ROA 0,4% 0,0% 0,2% 0,4% | ROA | 0,4% | 0,0% | 0,2% | 0,4% |
| ROE 0,9% 0,0% 0,5% 0,9% | ROE | 0,9% | 0,0% | 0,5% | 0,9% |
| D/E 17,9% 19,1% 19,2% 18,1% | D/E | 17,9% | 19,1% | 19,2% | 18,1% |

Assets

Having grown by 6.9% in 2012, the book value of assets of the total MOE portfolio increased by another 2.6% in 2013 to LTL 9.4 billion. The changes in the 2013 MOE portfolio were affected mostly by an increase in assets of enterprises owned by several municipalities (by 12.3% to LTL 446.2 million) and of Šakiai district MOEs (by 31.7% to LTL 109.8 million). The Vilnius MOE portfolio enlarged by 1.1% to LTL 1.8 billion, the Kaunas MOE portfolio grew by 0.6% to LTL 1.3 billion, the Klaipėda MOE portfolio went up by 0.8% to LTL 763.2 million, the Šiauliai MOE portfolio shrank by 4% to LTL 570.1 million and the Panevėžys MOE portfolio contracted by 4.2% to 647.6 million. In 2013, MOEs together witnessed growth of the total value of assets in 43 municipalities out of 59, while in 16 remaining municipalities the total value of MOE assets declined.

In 2013, the largest changes in assets of enterprises owned by several municipalities were observed at two undertakings. Assets of the Marijampolė Regional Waste Management Centre grew by LTL 28 million to LTL 109.2 million as grants and subsidies received from the Cohesion Fund in 2013 boosted the enterprise's total amount of grants and subsidies by LTL 27.2 million to LTL 97 million. The assets of enterprises owned by several municipalities were also enlarged by the value of assets of the Panevėžys Regional Waste Management Centre, as its value rose from LTL 10.6 million to LTL 65.7 million due to a significant increase in the value of grants and subsidies.



MOE assets and ROA by sectors (LTL million)



Value changes in the Šakiai district MOE portfolio were determined mostly by growth of the value of Šakių Vandenys assets which went up by LTL 19.6 million to LTL 91.4 million due to the development of water supply and wastewater management infrastructure and due to an increase in the value of Šakių Šilumos Tinklai assets by 65.8% to LTL 16.2 million as a result of investments in construction of a biomass boiler house.

Equity

In 2013, changes in the value of equity of the total MOE portfolio were affected mostly by 4% (LTL 38.3 million) growth of equity of the Vilnius City MOE portfolio, and by the value of equity of the Klaipėda City MOE portfolio which enlarged by 6.5% to LTL 387.6 million. In the reference year, the greatest nominal decrease in equity was incurred by the Alytus City MOE portfolio as the value of its equity shrank by LTL 5.3 million to LTL 92.7 million year-on-year.

MOE equity and ROE by municipalities (LTL million)



The enlargement of equity of the Vilnius City MOE portfolio was caused mostly by 7.7% growth (to reach LTL 360.9 million) in the value of equity of Vilniaus Vandenys due the increase of authorised capital by assets worth LTL 32 million, and an almost LTL 11.7 million rise in equity of Susisiekimo Paslaugos due the increase of authorised capital by LTL 11.5 million worth of assets transferred by the Vilnius City Municipality to the management of the enterprise.

Changes in the value of equity of the total MOE portfolio were affected mostly by growth of equity of the Vilnius City and Klaipėda City MOE portfolios.

The growth of equity in the Klaipėda City MOE portfolio was determined mainly by net profit of LTL 10.8 million earned by Klaipėdos Energija in 2013, which increased equity of the company to LTL 156.3 million. Also, property contributions to the authorised capital significantly pushed up equity of Klaipėdos Vanduo – by LTL 7.1 million (to LTL 200.4 million).

Equity of the Alytus City MOE portfolio shrank by 5.4% to LTL 92.7 million. Changes in the 2012–2013 portfolio in fact depended on fluctuations in the value of equity of Alytaus Šilumos Tinklai during the said period. The enterprise's equity contracted by 3.7 million in 2013 due to net loss of the same amount incurred during the reference period.

Financial Liabilities

Following a 3% increase in 2012, in 2013 financial debt of the MOE portfolio went down by 2.9% to LTL 726.4 million. It should be noted that in the reference year 142 of 262 MOEs analysed – or 54.2% – had no financial liabilities of any kind.

In 2013, financial liabilities of the Šiauliai City and Panevėžys City MOE portfolios contracted the most – by 23% to LTL 87.2 million and by 19.8% to LTL 80.7 million, respectively, and had the greatest effect on the change in financial liabilities of the total MOE portfolio. In 2013, financial liabilities increased the most in the MOE portfolios of Plungė district (from LTL 2.5 million to LTL 8 million) and Kaišiadorys district (from LTL 1 million to LTL 6.3 million).

MOE financial liabilities and financial leverage by municipalities (LTL million)

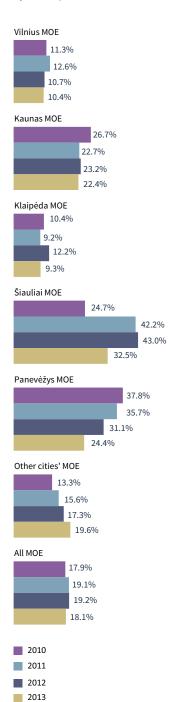


During the four reference years, the portfolio's financial leverage (debt-to-equity ratio) underwent insignificant changes, fluctuating between 17.9% and 19.2%. In 2012 this ratio had equalled 19.2%, and in 2013 it edged down to 18.1%.

Among the MOE portfolios of the biggest cities, financial leverage of the Šiauliai City MOE portfolio was the largest in 2013 and accounted for 32.5% (43% in 2012) even after a sizeable decrease. During four years in a row (2010–2013), financial leverage of the Panevėžys City MOE portfolio was contracting steadily from 37.8% to 24.4%. This was caused mostly by Panevėžio Energija's – which was operating at a profit – growth in equity and its reduction of financial liabilities.

Considering that the sectors receive different subsidies, the evaluation dealt with the ratio of financial liabilities and assets rather than with the ratio of financial liabilities to equity, with a view to producing a more accurate representation of the level of sector financial liabilities. This ratio is the highest in the transport and the district heating sectors, accounting for 18% and 15%, respectively. The lowest debt against assets was posted by the water utility sector that receives the largest subsidies (the ratio amounts to a mere 4.1%). In 2013, the debt-to-asset ratio contracted in all the five sectors. During the reference period, the debt-to-asset ratio of the total MOE portfolio was shrinking: in 2010 it had stood at 8.4%, in 2011 at 8.5%, in 2012 at 8.2% and in 2013 at 7.7%.

MOE debt-to-equity ratio by municipalities



Sales Revenue

Sales revenue of the MOE portfolio had grown for four years in succession. Having amounted to LTL 2.61 billion in 2012, it increased by another 0.9% to LTL 2.63 billion in 2013. During the reference period, all the sectors, except the district heating enterprises, posted revenue growth. In 2013, revenue of the district heating enterprises fell by 8.5% to LTL 1.1 billion due to a warm winter, lower heat sales volumes and lower constituents of the heat price set by the NCC. Revenue of the sector of other enterprises increased the most - by 11.2% to LTL 514.7 million.

In 2013, revenue of the Vilnius City MOE portfolio grew the most (by LTL 49.3 million, to reach LTL 467 million). This growth was determined by the 13.3% increase of Susisiekimo Paslaugos sales revenue to LTL 195.7 million (due to LTL 18 million higher revenue from the sale of public transport tickets). Revenue of the Vilnius City MOE portfolio also increased as a result of sales revenue of Grinda which increased by LTL 28.4 million to LTL 86.9 million. Revenue from the maintenance of city property and the transport activities enlarged the most or by LTL 27.8 million.

MOE sales revenue and net profit margin by sectors (LTL million)



Sales revenue of the Kaunas City MOE portfolio shrank by 5% to LTL 539.2 million. The decrease was caused by the 12.8% contraction of Kauno Energija sales revenue to LTL 322.3 million due to a lower heat price and quantity of heat sold.

In 2013, sales revenue of the Panevėžys City MOE portfolio went down by 5% to LTL 256.1 million. The portfolio revenue was pushed down by the 8.5% decrease in sales revenue of Panevėžio Energija – to LTL 175.9 million. Revenue changes were influenced by a warm winter, lower heat sales volumes and lower constituents of the heat price set by the NCC, resulting in 2 ct/kWh lower average heat prices, compared to 2012.

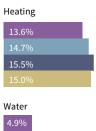
Operating Profit

In 2013, gross operating expenses of activities of all MOEs grew by 8% and amounted to LTL 333.6 million. It should be noted that, despite the increase in operating expenses, gross operating profit of the portfolio enlarged by LTL 2.7 million to LTL 51.2 million. In 2013, changes in the profitability ratios of the MOE portfolios of Panevėžys,

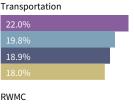
MOE sales revenue and net profit margin by municipalities (LTL million)

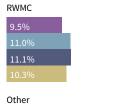


MOE debt-to-assets r atio by sectors













Šiauliai and Klaipėda Cities were positive, while those of Kaunas and Vilnius declined.

Operating profit of the Panevėžys City MOE portfolio, which in 2011 had dropped significantly and in 2012 had increased to LTL 17.5 million, in 2013 went up to LTL 18.7 million. The dynamics of the portfolio results were affected mostly by the financial results of Panevėžio Autobusų Parkas. In 2013, the enterprise earned an operating profit of LTL 1.5 million, while in 2012 its profit had stood at LTL 500 thousand.

Operating profit of the Šiauliai MOE portfolio increased from LTL 9.8 million to LTL 14.9 million. The increase was determined by better 2013 financial results of Šiaulių Energija. Meanwhile, operating profit of the Klaipėda MOE portfolio went up from LTL 11.3 million to LTL 18.8 million. Operating profit was pushed up by more favourable operating results of Klaipėdos Energija (operating profit went up by LTL 6.1 million) and Klaipėdos Autobusų Parkas (operating profit increased by LTL 1.2 million).

In 2013, the largest drop in operating profit occurred in the Vilnius City MOE portfolio. Operating profit of Vilnius City MOEs declined from LTL 431 thousand in 2012 to operating loss of LTL 5.4 million in 2013. This was caused mostly by the results of Vilniaus Vandenys: in 2013 the enterprise incurred an operating loss of LTL 6.4 million, while in 2012 it had earned an operating profit of LTL 3.6 million. The results decreased due to enlarged enterprise's assets by LTL 32 million, which raised expenses for the repair of tools and equipment by LTL 5.2 million and pushed up unreimbursed depreciation expenses by LTL 4.3 million.

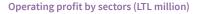
In 2010–2013, MOEs of the district heating sector earned the largest share of operating profit of the total MOE portfolio (in 2013, district heating enterprises earned 89% of the total MOE portfolio operating profit). During this period, the water utility sector was the only sector that sustained operating losses (LTL 11.3 million).

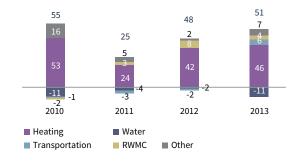
Profitability

In 2011, return on equity of the MOE portfolio had dropped to the lowest level of the 2010–2013 period and had accounted for 0.01%, while in 2013 this ratio increased to 0.9%. Among all MOEs, the largest return on equity in 2013 was achieved by MOEs of Švenčionys district (7.5%), Utena district (5.6%), and Klaipėda City (4.7%).

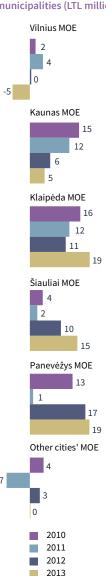
In 2010–2013, return on equity of the Vilnius MOE portfolio was negative. In 2013, the portfolio's return on equity equalled -0.72%, mostly due to the net result of Vilniaus Vandenys and Vilniaus Šilumos Tinklai (their net loss amounted to LTL 6.2 million and LTL 5.6 million, respectively).

Kauno miesto SVJ portfelio nuosavo kapitalo gražos rodiklis 2010–2013 metų laikotar-





MOE operating profit by municipalities (LTL million)



piuIn 2010–2013, the return on equity ratio of the Kaunas City MOE portfolio fluctuated in the range of 0% to 2%, and in 2013 it amounted to 1%. The fluctuations were influenced mostly by changes in the operating results of Kauno Energija, Kaunas' largest MOE in terms of revenue.

The return on equity of the Klaipėda MOE portfolio in 2013 went up from 2.6% to 4.7%. This change was determined mostly by net profit of Klaipėdos Energija and Klaipėdos Autobusy Parkas, which in 2013 had increased by LTL 6.6 million and LTL 1.2 million respectively.

In 2013, return on equity of the Šiauliai City MOE portfolio grew from 1.6% to 3.3%, which was determined mainly by growth of Šiaulių Energija's net profit from LTL 6.1 million to LTL 11.2 million.

The change in return on equity of Panevėžys MOEs was caused by net profit fluctuations of Panevėžio Energija, the largest MOE in terms of revenue (net profit earned in 2011 stood at LTL 0.7 million, in 2012 at LTL 13.9 million, and in 2013 at 12.5 million).

During the reference year, return on equity of the Klaipėda City MOE portfolio grew by 1.9 percentage points to 4.7%. This growth was mainly caused by the LTL 6.6 million increase of Klaipėdos Energija net profit in 2013.

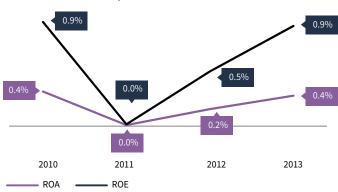
With a view to providing a proper estimate of profitability of sectors that receive different subsidies, the evaluation dealt with the dynamics of the ratio of return on assets rather than with that of return on equity. According to this ratio, in 2013 the district heating sector was the most profitable where return on assets reached 1.8%, while the water utility sector was the biggest loss maker (-0.3%). In none of the sectors return on assets exceeded a 2% limit during the reference period, and the portfolio of the water utility sector showed losses for all that period.

Return from MOEs to Municipalities

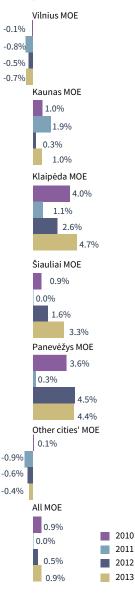
According to the Ministry of Finance, the amount of paid actual dividends and profit contributions of all MOEs to the municipalities totalled LTL 19.6 million in 2012 (out of distributable profits for 2011). Most of the dividends were paid by Kaunas City MOEs (LTL 14.2 million), of which the largest were LTL 9.9 million dividends paid by Kauno energija for 2011.

In 2013, the amount of paid dividends and profit contributions from MOEs were significantly lower and accounted for LTL 8.2 million. Half of the amount was paid by Panevėžys MOEs, of which Panevėžio energija paid the most – LTL 3.2 million.

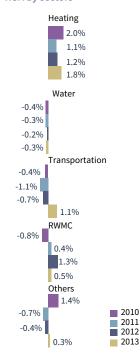
ROA and ROE of the MOE portfolio



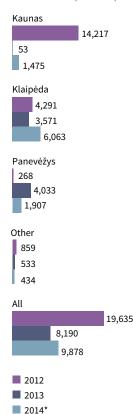
ROE by municipalities



ROA by sectors



MOE dividends and profit contributions (LTL '000)



*Dividends and profit contributions paid during January–July 2014. Source: Ministry of Finance

In the first seven months of 2014, return to municipalities reached LTL 9.9 million and has already exceeded the total return in 2013. Most of the dividends and profit contributions (LTL 6.1 million) for 2013 have been already paid by Klaipėda MOEs, almost all of which was disbursed by Klaipėdos energija. Return from other MOEs (except for MOEs from Kaunas, Klaipėda, and Panevėžys) to municipalities presented a small share of all dividends and profit contributions disbursed by all MOEs in 2012–2014. This share was the largest in 2012, when it totalled LTL 0.9 million.

Employees

During the last period, the number of employees of the total MOE portfolio went up by 3%. In 2013, MOEs included in the portfolio had 20,047 employees, i.e. 592 persons more than in 2012. The number of employees at MOEs of Vilnius and Šiauliai Cities increased, while that of Kaunas, Klaipėda, and Panevėžys declined.

| MOES BY EMPLOYEES | 2010 | 2011 | 2012 | 2013 |
|-------------------|--------|--------|--------|--------|
| Vilnius MOE | 1,567 | 1,583 | 1,176 | 1,666 |
| Kaunas MOE | 3,106 | 3,126 | 3,052 | 2,906 |
| Klaipėda MOE | 1,405 | 1,348 | 1,332 | 1,275 |
| Šiauliai MOE | 1,110 | 1,088 | 1,078 | 1,105 |
| Panevėžys MOE | 1,732 | 1,743 | 1,702 | 1,678 |
| All MOE | 20,081 | 20,090 | 19,455 | 20,047 |

Overview of Municipal-Owned Enterprise Sectors

MOEs are divided into five sectors: heat, regional waste management centres (RWMC), water, transportation, and other enterprises. The latter includes 129 enterprises not classified within any of the first four sectors. The heat sector comprises 39 district heating (DH) MOEs. The RWMC sector incorporates eight MOEs that provide waste management and disposal services. The water sector consists of 44 MOEs that provide water supply and wastewater disposal services. The transportation sector has 42 MOEs whose core business is related to the development of transport infrastructure in municipalities.

The table below shows the key financial results of the MOE sector in 2012–2013.

| | HE | AT | RW | МС | WA | TER | TRANSPO | RTATION | ОТІ | HER |
|-----------------------------|-----------|-----------|---------|---------|-----------|-----------|---------|---------|-----------|-----------|
| | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 |
| Sales revenue | 1,219,444 | 1,115,324 | 77,686 | 82,888 | 435,140 | 460,085 | 419,840 | 465,208 | 457,605 | 509,549 |
| Cost of goods sold | 1,122,925 | 1,007,767 | 57,228 | 64,693 | 356,214 | 383,898 | 363,740 | 394,778 | 376,323 | 417,729 |
| Operating expenses | 51,545 | 55,857 | 11,583 | 13,639 | 98,993 | 106,697 | 63,096 | 69,948 | 83,706 | 87,494 |
| Net profit | 27,218 | 38,981 | 5,986 | 2,266 | -7,365 | -13,290 | -2,986 | 4,884 | -4,039 | 2,941 |
| Net profit margin | 2.2% | 3.5% | 7.7% | 2.7% | -1.7% | -2.9% | -0.7% | 1.0% | -0.9% | 0.6% |
| Assets | 2,229,357 | 2,222,657 | 472,147 | 522,256 | 4,953,245 | 5,066,182 | 435,282 | 435,358 | 1,091,901 | 1,176,587 |
| Equity | 1,355,506 | 1,385,642 | 12,554 | 15,633 | 1,842,219 | 1,880,770 | 92,579 | 109,738 | 603,898 | 628,201 |
| Grants and subsidies | 236,190 | 250,562 | 328,119 | 376,671 | 2,689,654 | 2,813,744 | 59,068 | 56,300 | 280,160 | 320,047 |
| Liabilities | 637,661 | 586,453 | 131,473 | 129,953 | 421,372 | 371,668 | 283,635 | 269,320 | 207,843 | 228,339 |
| Financial liabilities | 346,579 | 333,903 | 52,435 | 54,020 | 216,300 | 207,484 | 82,146 | 78,219 | 50,956 | 52,725 |
| ROA | 1.2% | 1.8% | 1.3% | 0.5% | -0.2% | -0.3% | -0.7% | 1.1% | -0.4% | 0.3% |
| D/A | 15.5% | 15.0% | 11.1% | 10.3% | 4.4% | 4.1% | 18.9% | 18.0% | 4.7% | 4.5% |
| Number of employees | | | | | | | | | | |

Among all the sectors, in 2013 the highest revenue (LTL 1,112 million) was posted by the heat sector enterprises. However, due to the drop in heat prices (in 2013, the average heat price in Lithuania shrank by 6.9%) and a higher-than-average temperature during the heating season, revenue of the DH companies analysed was 8.5% lower than in 2012. Accordingly, this was reflected in the cost of goods sold, which in 2013 went down by 10.2% to LTL 1,005.3 million, mostly as a result of lower fuel prices. Revenue and the cost of goods sold the other sectors, as well as their operating expenses, increased in 2013. The largest revenue growth in 2013 was achieved in the sector of other enterprises (revenue increased by 11.4% to LTL 509.5 million) and the transportation sector (by 10.8% to LTL 465.2 million). In the latter sector, revenue was pushed up by higher sales of public transport tickets.

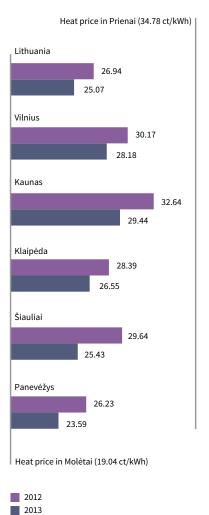
In 2013, the MOEs earned a total of LTL 35.8 million or almost twice as much as they did in 2012. This growth was affected mostly by the heat companies which posted a net profit of LTL 39 million for the reference period, i.e. up by 43.2% year-on-year. The net profit margin of the heat sector increased by 1.3 percentage points to 3.5%, mainly due to lower fuel costs and higher other revenue. Net profit of the waste management enterprises shrank to LTL 2.3 million, while in 2012 it had stood at LTL 6 million. This sector's profitability went down accordingly – from 7.7% in 2012 to 2.7% in 2013. This was influenced mostly by a significant increase in costs. Higher sales of the water sector enterprises resulting from the specific nature of financing of its activities determined larger losses. In 2013, the water utilities posted losses of LTL 13.3 million, while in 2012 their losses had amounted to LTL 7.4 million. Both the transportation sector and the sector of other enterprises, which had operated at a loss in 2012, earned net profits of LTL 4.9 million and LTL 2.9 million, respectively, during the reference period as a result of growing sales revenue.

The largest share (53.8%) of assets of the MOE portfolio is owned by the water sector. In 2013, the sector's total assets stood at LTL 5,033.1 million and were 2.3% larger than in 2012. This was influenced by the water supply and wastewater management system renovation and development projects under implementation, which received financing from the EU funds for 2007–2013, and by the transfer of LTL 32 million worth of non-current assets from the Vilnius Municipality to Vilniaus Vandenys, which increased the company's authorised capital accordingly.

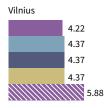
During the reference period, the biggest change in return on assets occurred in the transportation sector whose 2012 ratio of return on assets was the lowest among all the sectors (-0.7%), and in 2013 this ratio already stood at 1.1%. The significant change in the return ratio was determined by more favourable operating results and the book value of the sector's assets that changed insignificantly. In 2013, the RWMCs saw the greatest drop in return on assets: having stood at 1.3% in 2012, it barely amounted to 0.5% in the reference period. The reason for all this was the reduction in net profit of the waste management enterprises and the appreciation of assets by 10.6% to LTL 522.3 million as a result of higher receivables for the funding of investment projects. Among all MOE sectors, in 2013 the highest return on assets (1.8%) was posted by the heat sector.

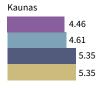
In 2013, the aggregate book value of equity of the MOEs under consideration was by 2.9% higher than in 2012 and stood at LTL 4 billion. This was caused mainly by the appreciation of equity of the heat enterprises (by 2.2% to LTL 1,358.6 million). The largest relative growth in equity in 2013 was observed in the RWMCs - by 24.5% to LTL 15.6 million, while the value of equity in the transportation sector rose by 18.5% to LTL 109.7 million. The value of equity of the MOE portfolio grew mostly as a result of the increase in retained earnings; however, the enlargement of equity in the water sector (by 2.1% to LTL 1,880.8 million) was determined by the increase of the authorised capital of the Vilnius Municipality in Vilniaus Vandenys.

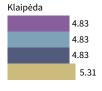
Comparison of heat prices in the largest Lithuanian cities

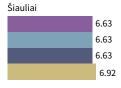


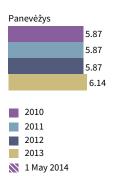
Dynamics of year-end drinking water and wastewater management prices in 2010–2013 (LTL/cubic metre)











The highest book value of grants and subsidies is in the water sector where grants and subsidies account for more than a half of total assets. In 2013, the grants and subsidies of the water sector amounted to LTL 2,787.7 million. The least subsidised sector is the transportation sector where the value of grants and subsidies during the reference period stood at LTL 56.3 million, down by 4.7% year-on-year. Grants and subsidies of the RWMCs and other enterprises went up by more than 14% mainly due to the funding of investment projects, constituting LTL 376.7 million and LTL 320 million, respectively, on the 2013 Balance Sheet.

The largest financial liabilities are in the heat sector (LTL 333.9 million) and the water sector (LTL 207.5 million). However, the highest debt-to-equity ratio (18%) in 2013 was posted by the transportation enterprises. Despite the increased financial debt of the latter sector, the D/A ratio dropped by 0.9 percentage point due to more rapid growth of the book value of assets.

The number of employees was the highest in the sector of other enterprises and the water sector, which at the end of 2013 had 5,243 and 7,462 employees respectively. The employee number at the RWMCs increased the most: by 39.2% (103 persons) to 366 persons. The workforce in the heat sector contracted by 9.6% (294 employees), to 2,909 persons. This was affected mostly by the optimisation of functions at the DH enterprises as at the beginning of 2013 the NCC set lower heat price components for these enterprises and reduced the amount of costs for remuneration.

Evaluation Methodology

The analysis of indicators of SOE and MOE portfolios was based on aggregate financial data disclosed in audited annual financial statements of enterprises due to the absence of consolidated or joint financial statements of all SOEs drawn up according to the International Financial Reporting Standards. Transactions between companies have not been eliminated because of lack of data. The value of assets within the SOE portfolio does not include the value of state-owned real estate which is not managed by SOEs and is not on their balance sheets.

The results of the SOE portfolio include the consolidated financial results of Lietuvos Energija (previously Visagino Atominė Elektrinė), EPSO-G, Lithuanian Railways, and Lithuanian Post groups as well as 42 forest enterprises controlled by the Directorate General of State Forests. The results of Lietuvos Dujos and Amber Grid, in which the state had an interest of less than 50% on 31 December 2013, were aggregated using the equity method according to the International Financial Reporting Standards. According to this method, the state-owned portion of equity of the company was included in financial assets and equity of the portfolio, while dividends received from the company were added to financial revenue of the portfolio.

The following assumptions were used to estimate the SOE market value:

- >>> the value of listed companies is based on the price of their stock quoted on the stock exchange at the end of the period (31 December 2013);
- >> the value of companies not listed on the stock exchange was estimated according to the book value of equity (on the assumption that the book value of assets specified in the balance sheets corresponds to their market value);
- >> the value of forests estimated using the discounted cash flow method was added to the book value of equity of forest enterprises. In the beginning of 2014, the value of forests was adjusted to reflect a change in market conditions. It was estimated that the value of forests increased by 3.1% from LTL 2,971 million at the end of 2012 to LTL 3,062 million at the end of 2013;
- >> the book value of roads (LTL 6.9 billion at the end of 2013) was deducted from the book values of assets, equity and liabilities of regional road maintenance enterprises. The book value of roads indicates the amount of invested budget resources but the market value of roads as the public good is equal to zero because roads do not generate cash flows for road maintenance enterprises;
- >> the market value of SOEs was calculated taking into account the state's interest in these companies only (i.e. after the deduction of the minority interest).

In this Report the total financial liabilities of the SOE portfolio and sectors as well as D/E ratio are indicated without the interest-free loan granted to Deposit and Investment Insurance by the Ministry of Finance. At the end of 2012, the outstanding amount of the loan comprised LTL 2,252 million, and at the end of 2013 it stood at LTL 2,710 million. However, this loan was used to cover the deficit of the Deposit Insurance Fund, therefore the loan amount has not been included in the total financial liabilities of the SOEs.

The aggregate earnings before interest, tax, depreciation, and amortisation (EBITDA) of the SOEs portfolio and sectors were calculated by adding depreciation and amortisation costs to the operating profit or loss (which includes the result of typical and other activities). EBITDA provided by the companies are specified in the descriptions of the enterprises.

Non-standard taxes referred to in the Report represent the tax paid by state enterprises for the use of the entrusted state property (property tax) and mandatory deductions from the revenue for sale of raw wood and uncut forest paid by forest enterprises (raw material tax). These tax liabilities ensure additional contributions to the national budget and apply to the above-mentioned companies only. Therefore, non-standard taxes should be deducted from operating costs when the profitability and financial return of these companies are calculated. For this reason, the Report additionally indicates normalised net profit (losses) of the SOE portfolio and individual state enterprises. Normalised net profit (losses) is calculated by adding the amount of non-standard taxes to the net profit (by reducing the net loss) and reducing the amount of profit tax (15%), or by the entire amount of non-standard taxes provided that the enterprises did not pay profit tax following the procedure laid down in legal acts. This adjustment is provided for information only and its effect on book values is not specified in the Report.

The return on equity (ROE) and return on assets (ROA) were calculated by dividing the net profit (losses) of the last twelve months by the average equity or asset values at the beginning and end of the reference year. In other words, the return on equity as of 31 December 2013 is calculated on the basis of profit earned by the company between 1 January 2013 and 31 December 2013. Accordingly, the equity average values are calculated on the basis of book values of equity on 1 January 2013 and 31 December 2013.

Financial results of the SOEs in 2013 were affected by the losses accounted for due to the bankrupt banks. As for the better comparability of the data, the normalised net profit after elimination of non-standard taxes and the effect of bankruptcy of the banks is indicated in the overviews of the SOE portfolio and sectors of the Report. The effect of bankrupt banks is eliminated from the net profit after elimination of non-standard taxes, by adding losses included in the financial and operating costs of the enterprises resulting from the impairment of the financial asset (write-off). As such costs are not considered allowable deductions under the Law on Corporate Income Tax (i.e. the amount of revenue taxed by profit tax is not reduced by said costs), the entire amount of costs is added when adjusting the net profit, i.e. it is not reduced by a share of profit tax.

The net profit margin, ROE and ROA indicated in the Report have been calculated by using the values of the normalised profit. Moreover, in order to unify the data, all losses related to bankruptcy of the banks referred to in the overviews of the SOE portfolio and sectors in accordance with the International Financial Reporting Standards have been included in the costs of financial and investing activities, although some SOEs, which apply the Accounting Standards for Business Enterprises, included said losses in the operating costs.

In the descriptions of the enterprises, the compositions of the boards of SOEs are indicated on the basis of the data provided by 1 June 2014, and the numbers of employees and employees holding managerial positions are presented as they were at the end of the reporting period (31 December 2013).

In the P/E Ratio subsection of the Overview of Portfolio Results,

P/E ratios of comparable foreign sectors were estimated based on the Capital IQ and Bloomberg data. Ratios of the comparable foreign sectors were calculated by taking the average P/E ratios of Western Europe, Eastern Europe, and Russian companies from the same sectors to which listed Lithuanian SOEs are assigned. P/E ratios of listed Lithuanian SOEs were estimated by dividing the company's market capitalisation by net profit of 2013.

In the Return on Equity According to DuPont Analysis subsection of the Overview of Portfolio Results, analysis of comparable foreign companies was based on the Capital IQ and Bloomberg data. Data of Western Europe, Eastern Europe, and Russian companies, which were assigned to sectors same as Lithuanian SOEs (energy, oil and gas distribution, railway, transport), was aggregated for comparability purposes. The company-level data was aggregated to calculate the average ratios of return on equity and of composite indicators (net profit margin, asset turnover, financial leverage) for each sector. The companies whose data was incomplete or incorrect were eliminated from estimation. The weighted ratios of return on equity and the composite indicators of foreign sectors used in the analysis were calculated by taking into account the sector distribution of assets in Lithuania's energy and transport and communications sectors.

This Annual Report has been prepared by the State-Owned Enterprises Governance Coordination Department of the State Enterprise State Property Fund in accordance with the requirements and provisions of Resolution No 1052 of the Government of the Republic of Lithuania of 14 July 2010 on Approving the Guidelines Aimed at Ensuring the Transparency of Operations of State-Owned Enterprises and Appointing the Coordinating Body (recast effective as of 20 December 2013); and Resolution No 665 of 6 June 2012 on Approving the Specification of the Procedure for the implementation of Property and Non-Property Rights of the State in State-Owned Enterprises.

During the preparation of this Annual Report, a number of external information sources were consulted including corporate public information, annual financial statements and annual reports of enterprises, information and data of Ministry of Transport and Communications, Ministry of Energy, Statistics Lithuania, State Forest Survey Service, Energy Exchange BALTPOOL, Lithuanian District Heating Association, Lithuanian Biomass Energy Association LITBIOMA, Forest Institute of Lithuanian Agriculture and Forestry Research Centre, National Control Commission for Prices and Energy, Communications Regulatory Authority, Lithuanian Road Administration, Directorate General of State Forests, Lithuanian Forest Cluster, Eurostat and NASDAQ OMX Vilnius Stock Exchange. Information provided in the Report has not been audited by independent auditors and the authors have not carried out any independent verification of information presented in the report including calculations or forecasts. Any person should make her or his personal judgement before taking any decision involving the information provided in this publication. The authors of this Report, the Government or any public authority or any other entity under their control is not and will not be under any circumstances liable for third-party decisions based on information, statements and opinions presented in this Report. Past results of enterprises do not guarantee and cannot be attributable to their future performance. This Annual Report is not intended as an offer or solicitation for the purchase or sale of any securities or any other assets and will not be part of any investment decision or any decision to complete any transaction.

List of SOEs

| No | Enterprise | State interest* | Accountability | Sector | Group | Category | Assets as of 31 Dec 2013 (LTL '000) | Sales revenue in 2013 (LTL '000) | EBITDA in 2013 (LTL '000) | Net profit in 2013 (LTL '000) |
|----|---|--------------------|---|---------------------------------|-------|----------|--|---|---------------------------------|-------------------------------------|
| 1 | UAB Lietuvos Energija Group ¹ | 100.0% | Ministry of Finance | Energy | 1B | I | 9,727,225 | 2,907,537 | 622,194 | 140,819 |
| 1a | AB Lietuvos Energijos Gamyba Group ² | 96.1% | UAB Lietuvos Energija Group | Energy | - | I | 3,311,605 | 1,199,396 | 214,295 | 108,608 |
| 1b | AB LESTO ³ Group | 94.4% | UAB Lietuvos Energija Group | Energy | - | I | 5,086,614 | 2,431,162 | 423,902 | 47,646 |
| 1c | AB Lietuvos Dujos ⁴ | 96.9% | UAB Lietuvos Energija Group | Energy | - | - | 1,537,267 | 1,050,511 | 109,088 | 32,267 |
| 2 | UAB EPSO-G ⁵ | 100.0% | Ministry of Energy | Energy | 1B | I | 2,555,393 | 613,902 | 157,764 | 14,434 |
| 2a | AB Litgrid Group ⁶ | 97.5% | UAB EPSO-G | Energy | - | I | 2,547,849 | 613,902 | 156,794 | 25,357 |
| 2b | AB Amber Grid ⁷ | 95.6% | UAB EPSO-G | Energy | - | - | 1,748,927 | 169,291 | n.d. | 9,996 |
| 3 | AB Klaipėdos Nafta | 72.3% | Ministry of Energy | Energy | 1B | I | 675,834 | 126,860 | 63,289 | 35,649 |
| 4 | VĮ Energetikos Agentūra | - | Ministry of Energy | Energy | 2 | V | 3,325 | 0 | -12 | -1 |
| 5 | VĮ Ignalinos Atominė Elektrinė ⁸ | - | Ministry of Energy | Energy | 2 | III | 2,116,463 | 422 | 15,137 | 7,238 |
| 6 | VĮ Radioaktyviųjų Atliekų Tvarkymo Agentūra | - | Ministry of Energy | Energy | 2 | V | 1,420 | 66 | -68 | -73 |
| 7 | VĮ Visagino Energija | - | Ministry of Economy | Energy | 1A | II | 194,287 | 73,502 | 9,877 | 4,249 |
| 8 | UAB Geoterma | 99.1% | State Property Fund | Energy | 1A | IV | 29,627 | 7,246 | -14,880 | -16,553 |
| 9 | VĮ Lietuvos Naftos Produktų Agentūra | - | Ministry of Energy | Energy | 2 | I | 329,722 | 142,896 | 2,675 | 2,266 |
| 10 | AB Lietuvos Geležinkeliai Group | 100.0% | Ministry of Transport and Communications | Transport and Communications | 1B | I | 6,258,669 | 1,637,004 | 513,134 | 104,374 |
| 11 | AB Lietuvos Jūrų Laivininkystė | 56.7% | Ministry of Transport and Communications | Transport and Communications | 1A | II | 163,096 | 92,337 | -22,553 | -41,149 |
| 12 | AB Lietuvos Paštas Group | 100.0% | Ministry of Transport and Communications | Transport and Communications | 1B | I | 235,198 | 201,713 | 11,461 | 1,586 |
| 13 | AB Smiltynės Perkėla | 99.0% | Ministry of Transport and Communications | Transport and Communications | 1B | IV | 38,204 | 15,394 | 7,308 | 2,651 |
| 14 | VĮ Oro navigacija | - | Ministry of Transport and Communications | Transport and Communications | 2 | II | 166,768 | 89,225 | 20,123 | 817 |
| 15 | VĮ Klaipėdos Valstybinio Jūrų Uosto Direkcija | - | Ministry of Transport and Communications | Transport and Communications | 1B | I | 1,745,657 | 158,553 | 119,471 | 81,460 |
| 16 | VĮ Kauno Aerouostas | - | Ministry of Transport and Communications | Transport and Communications | 1B | Ш | 162,950 | 7,387 | -412 | -2,762 |
| 17 | VĮ Tarptautinis Palangos Oro Uostas | - | Ministry of Transport and Communications | Transport and Communications | 1B | III | 147,199 | 5,488 | 1,283 | 112 |
| 18 | VĮ Tarptautinis Vilniaus Oro Uostas | - | Ministry of Transport and Communications | Transport and Communications | 1B | I | 337,603 | 58,542 | 19,119 | 4,093 |
| 19 | VĮ Vidaus Vandens Kelių Direkcija | - | Ministry of Transport and Communications | Transport and Communications | 2 | IV | 86,394 | 7,153 | -44 | -790 |
| 20 | AB Lietuvos Radijo ir Televizijos Centras | 100.0% | Ministry of Transport and Communications | Transport and Communications | 1B | II | 141,709 | 62,589 | 13,479 | -6,410 |
| 21 | VĮ Automagistralė | - | The Lithuanian Road Administration under the Ministry of Transport and Communications | Transport and Communications | 2 | II | 1,062,301 | 31,359 | 3,072 | 204 |
| 22 | VĮ Alytaus Regiono Keliai | - | The Lithuanian Road Administration under the Ministry of Transport and Communications | Transport and Communications | 2 | II | 385,947 | 15,522 | 2,753 | 106 |

| No | Enterprise | State interest* | Accountability | Sector | Group | Category | Assets as of 31 Dec 2013 (LTL '000) | Sales revenue in 2013 (LTL '000) | EBITDA in 2013 (LTL '000) | Net profit in 2013 (LTL '000) |
|----|---|-----------------|---|---------------------------------|-------|----------|--|---|---------------------------------|-------------------------------------|
| | · VĮ Kauno Regiono Keliai | - | The Lithuanian Road Administration under the Ministry of Transport and Communications | Transport and Communications | 2 | II | 864,335 | 32,120 | 4,458 | 108 |
| | VĮ Klaipėdos Regiono Keliai | - | The Lithuanian Road Administration under the Ministry of Transport and Communications | Transport and Communications | 2 | II | 626,395 | 20,922 | 2,132 | 84 |
| | VĮ Marijampolės Regiono Keliai | - | The Lithuanian Road Administration under the Ministry of Transport and Communications | Transport and Communications | 2 | II | 534,517 | 15,073 | 2,471 | 40 |
| | VĮ Panevėžio Regiono Keliai | - | The Lithuanian Road Administration under the Ministry of Transport and Communications | Transport and Communications | 2 | II | 463,844 | 29,067 | 4,155 | 236 |
| | VĮ Šiaulių Regiono Keliai | - | The Lithuanian Road Administration under the Ministry of Transport and Communications | Transport and Communications | 2 | II | 974,720 | 40,075 | 5,642 | 692 |
| | VĮ Tauragės Regiono Keliai | - | The Lithuanian Road Administration under the Ministry of Transport and Communications | Transport and Communications | 2 | II | 302,734 | 14,485 | 2,139 | 67 |
| | VĮ Telšių Regiono Keliai | - | The Lithuanian Road Administration under the Ministry of Transport and Communications | Transport and Communications | 2 | II | 361,156 | 14,314 | 1,845 | 80 |
| | VĮ Utenos Regiono Keliai | - | The Lithuanian Road Administration under the Ministry of Transport and Communications | Transport and Communications | 2 | II | 570,848 | 22,296 | 3,275 | 61 |
| | VĮ Vilniaus Regiono Keliai | - | The Lithuanian Road Administration under the Ministry of Transport and Communications | Transport and Communications | 2 | II | 1,203,729 | 29,584 | 3,113 | 52 |
| 32 | AB Autoūkis | 87.4% | State Property Fund | Transport and Communications | 1A | V | 9,763 | 3,365 | -1,713 | -2,479 |
| 33 | VĮ Valstybinis Miškotvarkos Institutas | - | Ministry of Environment | Forestry | 1A | V | 5,458 | 7,041 | 495 | 279 |
| | VĮ Alytaus Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | V | 10,987 | 8,311 | 1,268 | 495 |
| | VĮ Anykščių Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | V | 13,697 | 10,558 | 1,378 | 665 |
| 36 | VĮ Biržų Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 13,645 | 14,303 | 2,039 | 1,066 |
| | VĮ Druskininkų Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | V | 8,726 | 7,557 | 1,187 | 568 |
| 38 | VĮ Dubravos eksperimentinė- mokomoji Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | V | 19,129 | 9,243 | 1,671 | 742 |
| 30 | VĮ Ignalinos Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | V | 8,947 | 9,265 | 1,221 | 584 |
| 40 | VĮ Jonavos Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | V | 11,209 | 10,265 | 1,418 | 580 |
| 41 | VĮ Joniškio Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | V | 10,522 | 8,679 | 1,351 | 563 |
| 42 | VĮ Jurbarko Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 22,770 | 16,589 | 3,174 | 1,596 |
| 43 | VĮ Kaišiadorių Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 16,138 | 12,469 | 1,646 | 874 |
| 44 | VĮ Kauno Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | V | 14,167 | 10,653 | 1,519 | 494 |

| No | Enterprise | State interest* | Accountability | Sector | Group | Category | Assets as of 31 Dec 2013 (LTL '000) | Sales revenue in 2013 (LTL '000) | EBITDA in 2013 (LTL '000) | Net profit in 2013 (LTL '000) |
|----|---|--------------------|--------------------------------------|----------|-------|----------|--|---|---------------------------------|-------------------------------------|
| 45 | VĮ Kazlų rūdos mokomoji Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 12,115 | 14,918 | 2,146 | 970 |
| 46 | VĮ Kėdainių Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 20,708 | 14,800 | 1,960 | 326 |
| 47 | VĮ Kretingos Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 26,551 | 17,339 | 3,192 | 1,366 |
| 48 | VĮ Kupiškio Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | V | 4,697 | 6,461 | 578 | 258 |
| 49 | VĮ Kuršėnų Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 15,922 | 10,925 | 1,254 | 459 |
| 50 | VĮ Marijampolės Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | V | 7,855 | 10,511 | 981 | 340 |
| 51 | VĮ Mažeikių Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 12,048 | 15,150 | 1,977 | 1,003 |
| 52 | VĮ Nemenčinės Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 12,619 | 12,847 | 2,171 | 1,272 |
| 53 | VĮ Pakruojo Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | V | 8,297 | 10,843 | 883 | 326 |
| 54 | VĮ Panevėžio Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | III | 24,151 | 22,612 | 3,513 | 1,521 |
| 55 | VĮ Prienų Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 15,316 | 11,774 | 2,120 | 1,018 |
| 56 | VĮ Radviliškio Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 14,479 | 12,822 | 1,838 | 1,189 |
| 57 | VĮ Raseinių Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 11,509 | 10,564 | 1,698 | 683 |
| 58 | VĮ Rietavo Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 10,413 | 11,564 | 1,767 | 756 |
| 59 | VĮ Rokiškio Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | V | 7,967 | 11,888 | 1,249 | 526 |
| 60 | VĮ Šakių Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 12,167 | 13,816 | 2,165 | 922 |
| 61 | VĮ Šalčininkų Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 14,290 | 11,796 | 1,833 | 873 |
| 62 | VĮ Šiaulių Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 15,203 | 13,694 | 2,304 | 967 |
| 63 | VĮ Šilutės Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 15,625 | 14,482 | 2,164 | 1,179 |
| 64 | VĮ Švenčionėlių Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 18,718 | 16,468 | 3,274 | 1,919 |
| 65 | VĮ Tauragės Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 24,246 | 21,223 | 4,428 | 1,858 |
| 66 | VĮ Telšių Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 16,752 | 16,329 | 2,925 | 1,093 |
| 67 | VĮ Tytuvėnų Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | V | 9,317 | 8,950 | 1,908 | 1,027 |
| 68 | VĮ Trakų Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 18,990 | 19,767 | 4,151 | 2,464 |
| 69 | VĮ Ukmergės Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 19,755 | 21,259 | 2,655 | 813 |
| 70 | VĮ Utenos Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | V | 5,324 | 6,524 | 380 | 59 |
| 71 | VĮ Valkininkų Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 16,973 | 11,571 | 2,297 | 1,476 |
| 72 | VĮ Varėnos Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | V | 13,403 | 10,874 | 2,083 | 933 |
| 73 | VĮ Veisiejų Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | V | 9,874 | 9,828 | 1,335 | 855 |
| 74 | VĮ Vilniaus Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | IV | 19,037 | 15,180 | 2,350 | 1,075 |
| 75 | VĮ Zarasų Miškų Urėdija | - | Directorate General of State Forests | Forestry | 1B | V | 7,302 | 7,212 | 1,095 | 660 |
| 76 | UAB Projektų Ekspertizė | 100.0% | Ministry of Environment | Other | 1A | V | 3,121 | 1,727 | 327 | 261 |

| No | Enterprise | State interest* | Accountability | Sector | Group | Category | Assets as of 31 Dec 2013 (LTL '000) | Sales revenue in 2013 (LTL '000) | EBITDA in 2013 (LTL '000) | Net profit in 2013 (LTL '000) |
|-----|--|--------------------|---|--------|-------|----------|--|---|---------------------------------|-------------------------------------|
| 77 | VĮ Statybos Produkcijos Sertifikavimo Centras | - | Ministry of Environment | Other | 1B | V | 4,266 | 4,259 | 1,209 | 866 |
| 78 | UAB Būsto Paskolų Draudimas | 100.0% | Ministry of Finance | Other | 1B | Ш | 103,157 | 5,328 | -19,844 | -18,856 |
| 79 | VĮ Indėlių ir Investicijų Draudimas | - | Ministry of Finance | Other | 2 | Ш | 126,428 | 2,467 | 19 | 1,249 |
| 80 | VĮ Lietuvos Prabavimo Rūmai | - | Ministry of Finance | Other | 2 | V | 12,175 | 1,931 | 60 | 68 |
| 81 | VĮ Turto Bankas | - | Ministry of Finance | Other | 2 | III | 358,902 | 5,605 | 1,298 | 960 |
| 82 | Uab Viešųjų Investicijų Plėtros Agentūra ⁹ | 100.0% | Ministry of Finance | Other | - | IV | 69,286 | 158 | -143 | -147 |
| 83 | VĮ Prie Alytaus Pataisos Namų | - | Prison Department | Other | 1B | V | 4,260 | 5,335 | -87 | -268 |
| 84 | VĮ Prie Marijampolės Pataisos Namų | - | Prison Department | Other | 1B | V | 11,923 | 5,323 | -77 | -387 |
| 85 | VĮ Prie Pravieniškių 1-Ųjų Pataisos Namų | - | Prison Department | Other | 1B | IV | 11,196 | 14,612 | -70 | -460 |
| 86 | UAB Lietuvos Kinas | 100.0% | Ministry of Culture | Other | 2 | V | 4,703 | 651 | -103 | -135 |
| 87 | VĮ Vilniaus Pilių Direkcija | - | Ministry of Culture | Other | 2 | III | 104,439 | 619 | -92 | -109 |
| 88 | VĮ Lietuvos Paminklai | - | Department of Cultural Heritage | Other | 2 | IV | 2,705 | 28,590 | 150 | 44 |
| 89 | UAB Respublikinė Mokomoji Sportinė Bazė | 100.0% | Department of Physical Education and Sports | Other | 1A | V | 389 | 295 | -67 | -69 |
| 90 | UAB Sportininkų Testavimo ir Reabilitacijos Centras | 100.0% | Department of Physical Education and Sports | Other | 2 | V | 1,570 | 267 | -86 | -131 |
| 91 | UAB Lietuvos Monetų Kalykla | 100.0% | Bank of Lithuania | Other | 1B | IV | 22,003 | 17,843 | 1,067 | 190 |
| 92 | VĮ Valstybės turto fondas | - | Government of the Republic of Lithuania | Other | 2 | V | 10,292 | 5,068 | -1,402 | -1,063 |
| 93 | AB Informacinio Verslo Paslaugų Įmonė | 51.7% | Statistics Lithuania | Other | 1A | V | 3,912 | 2,397 | 446 | 347 |
| 94 | VĮ Distancinių Tyrimų ir Geoinformatikos Centras Gis-Centras | - | National Land Service | Other | 2 | V | 6,599 | 934 | 219 | 63 |
| 95 | UAB Baldžio Šilas | 70.6% | Department for the Affairs of the Disabled | Other | 1A | V | 7,309 | 2,084 | -225 | -497 |
| 96 | VĮ Seimo Leidykla Valstybės Žinios | - | Office of the Parliament | Other | 2 | V | 6,508 | 3,985 | 565 | 317 |
| 97 | AB Detonas | 100.0% | Ministry of Transport and Communications | Other | 1B | V | 14,311 | 6,976 | 1,518 | 699 |
| 98 | AB Problematika | 100.0% | Ministry of Transport and Communications | Other | 1A | IV | 27,034 | 14,748 | 3,531 | 2,656 |
| 99 | UAB Universiteto Vaistinė | 100.0% | Ministry of Health | Other | 1A | V | 4,751 | 9,654 | 259 | 215 |
| 100 | AB Mintis | 80.7% | Ministry of Education and Science | Other | 1A | V | 1,685 | 438 | -63 | -230 |
| 101 | UAB Kauno Petrašiūnų Darbo Rinkos Mokymo Centras | 54.2% | Ministry of Education and Science | Other | 2 | V | 3,392 | 2,451 | 539 | 548 |
| 102 | VĮ Registrų Centras | - | Ministry of Justice | Other | 2 | II | 72,965 | 99,186 | 3,401 | 628 |
| 103 | AB Giraitės Ginkluotės Gamykla | 100.0% | Ministry of Economy | Other | 1A | III | 68,868 | 20,955 | 3,683 | 2,612 |
| 104 | UAB Investicijų ir Verslo Garantijos | 100.0% | Ministry of Economy | Other | 2 | IV | 53,922 | 5,339 | 5,134 | 5,272 |
| 105 | UAB Toksika | 92.5% | Ministry of Economy | Other | 1A | IV | 96,559 | 3,714 | -1,653 | -2,484 |
| 106 | UAB Lietuvos Parodų ir Kongresų Centras LITEXPO | 98.8% | Ministry of Economy | Other | 1A | IV | 47,364 | 20,060 | 5,832 | 3,304 |
| 107 | VĮ Visagino Statybininkai ¹⁰ | - | Ministry of Economy | Other | 1A | V | 7,947 | 833 | 635 | -842 |
| | | | | | | | | | | |

| No | Enterprise | State interest* | Accountability | Sector | Group | Category | Assets as of 31 Dec 2013 (LTL '000) | Sales revenue in 2013 (LTL '000) | EBITDA in 2013 (LTL '000) | Net profit in 2013 (LTL '000) |
|-----|---|--------------------|--------------------------------------|--------|-------|----------|--|---|---------------------------------|-------------------------------------|
| 108 | VĮ Poilsio Namai Baltija | - | Ministry of Economy | Other | 1A | V | 6,350 | 4,137 | -1,298 | -1,581 |
| 109 | AB Klaipėdos Metrologijos Centras | 100.0% | State Metrology Service | Other | 1B | V | 2,808 | 1,549 | 194 | 62 |
| 110 | AB Šiaulių Metrologijos Centras | 100.0% | State Metrology Service | Other | 1B | V | 1,466 | 1,037 | 62 | -43 |
| 111 | AB Vilniaus Metrologijos Centras | 100.0% | State Metrology Service | Other | 1B | V | 9,671 | 4,965 | 674 | 428 |
| 112 | AB Kauno Metrologijos Centras | 100.0% | State Metrology Service | Other | 1B | V | 4,314 | 2,267 | 364 | 192 |
| 113 | AB Panevėžio Metrologijos Centras | 100.0% | State Metrology Service | Other | 1B | V | 1,390 | 1,308 | 165 | 65 |
| 114 | UAB Senevita | 100.0% | State Social Insurance Fund Board | Other | 1A | V | 3,804 | 6,043 | 112 | 11 |
| 115 | UAB Sanatorija Pušyno Kelias | 100.0% | State Social Insurance Fund Board | Other | 1A | V | 7,307 | 4,958 | 142 | -60 |
| 116 | Vį Infostruktūra | - | Ministry of the Interior | Other | 1B | III | 27,266 | 30,034 | 2,513 | 322 |
| 117 | Vį Regitra | - | Ministry of the Interior | Other | 2 | II | 60,967 | 78,784 | 13,859 | 7,768 |
| 118 | AB Jonavos Grūdai | 70.1% | Ministry of Agriculture | Other | 1B | IV | 21,205 | 11,008 | 3,187 | 1,094 |
| 119 | AB Lietuvos Veislininkystė | 98.8% | Ministry of Agriculture | Other | 2 | V | 10,861 | 7,104 | 246 | 3 |
| 120 | AB Kiaulių Veislininkystė11 | 98.8% | Ministry of Agriculture | Other | 2 | - | 0 | 0 | 0 | 0 |
| 121 | UAB Gyvulių Produktyvumo Kontrolė | 100.0% | Ministry of Agriculture | Other | 2 | V | 3,830 | 3,613 | 390 | 186 |
| 122 | UAB Lietuvos Žirgynas | 88.6% | Ministry of Agriculture | Other | 2 | V | 7,496 | 1,204 | 446 | 78 |
| 123 | UAB Panevėžio Veislininkystė | 97.0% | Ministry of Agriculture | Other | 1A | V | 775 | 270 | -91 | -139 |
| 124 | UAB Šeduvos Avininkystė | 100.0% | Ministry of Agriculture | Other | 2 | V | 1,804 | 374 | 157 | 12 |
| 125 | UAB Šilutės Polderiai | 81.0% | Ministry of Agriculture | Other | 1A | V | 5,332 | 12,311 | 522 | 203 |
| 126 | UAB Šilutės Veislininkystė | 96.5% | Ministry of Agriculture | Other | 2 | V | 2,604 | 732 | 271 | 1 |
| 127 | UAB Valstybinė Projektų ir Sąmatų Ekspertizė | 100.0% | Ministry of Agriculture | Other | 1A | V | 387 | 360 | -71 | -74 |
| 128 | UAB Aerogeodezijos Institutas | 99.8% | Ministry of Agriculture | Other | 1A | V | 8,166 | 4,177 | 325 | 44 |
| 129 | UAB Dotnuvos Eksperimentinis Ūkis | 100.0% | Ministry of Agriculture | Other | 1A | V | 7,137 | 6,345 | 915 | 119 |
| 130 | UAB Klaipėdos Žuvininkystės Produktų Aukcionas | 100.0% | Ministry of Agriculture | Other | 2 | V | 3,268 | 676 | -156 | -171 |
| 131 | UAB Upytės Eksperimentinis Ūkis | 100.0% | Ministry of Agriculture | Other | 1A | V | 9,474 | 5,150 | 1,100 | 762 |
| 132 | UAB Žemės Ūkio Paskolų Garantijų Fondas | 100.0% | Ministry of Agriculture | Other | 2 | III | 106,218 | 2,213 | -1,268 | 476 |
| 133 | VĮ Pieno Tyrimai | - | Ministry of Agriculture | Other | 2 | IV | 19,330 | 13,946 | 2,673 | 629 |
| 134 | VĮ Lietuvos Žemės Ūkio ir Maisto Produktų Rinkos Reguliavimo Agentūra | - | Ministry of Agriculture | Other | 2 | V | 9,194 | 608 | 0 | -125 |
| 135 | VĮ Valstybės Žemės Fondas | - | Ministry of Agriculture | Other | 2 | IV | 43,592 | 17,923 | 1,481 | 441 |
| 136 | VĮ Žemės Ūkio Informacijos ir Kaimo Verslo Centras | - | Ministry of Agriculture | Other | 2 | V | 16,459 | 1,862 | 1,047 | 587 |
| 137 | UAB Mokslas ir Technika | 100.0% | Lithuanian Academy of Sciences | Other | 1A | V | 65 | 244 | -11 | -11 |

| Ente | erprises undergoing liquidation | on or bankruptcy | <i>y</i> : | | | | | | | |
|------|---|------------------|--|-------|---|---|------|------|------|------|
| 1 | VĮ Transporto ir Kelių Tyrimo Institutas ¹² | - | Ministry of Transport and Communications | Other | 2 | - | n.d. | n.d. | n.d. | n.d. |
| 2 | UAB Lietuvos Tyrimų Centras ¹³ | 100.0% | Ministry of Education and Science, Ministry of Economy | Other | - | - | n.d. | n.d. | n.d. | n.d. |

- * Directly and indirectly. State enterprises (VJ) are 100% owned by the state.
- ¹ Implementing the Third Energy Package Directive of the European Parliament, on 27 September 2012 the shares in UAB Visagino Atominė Elektrinė were transferred from the Ministry of Energy, which had held them in trust until that date, to the Ministry of Economy. In order to avoid any possible conflict of interest, on 13 February 2013 the shares in UAB Visagino Atominė Elektrinė were transferred from the Ministry of Economy to the ministry of Finance. On 30 August 2013, the group of energy enterprises and the holding company UAB Visagino Atominė Elektrinė were renamed to Lietuvos Energija, UAB. The name of the company was changed as a result of the Group undergoing reorganisation of its corporate governance.
- ² As a result of the Group undergoing transformation of its corporate governance, AB Lietuvos Energija was renamed to Lietuvos Energijos Gamyba, AB on 5 August 2013.
- ³ On 21 May 2014, Lietuvos Energija, UAB Group bought 11.76% of shares in AB LESTO from E.ON Ruhrgas International GmbH and currently owns 94.4% of AB LESTO shares. As of 31 December 2013, Lietuvos Energija, UAB Group owned 82.6% of AB LESTO shares.
- ⁴ Revenue and assets of AB Lietuvos Dujos have been disclosed for information purposes only. The SOE portfolio includes only the state's interest and dividends received from this enterprise as Ministry of Finance owned only 17.7% of shares in AB Lietuvos Dujos by 31 December 2013. During the report preparation (30 June 2014), 96.9% of shares in AB Lietuvos Dujos were owned by Lietuvos Energija, UAB Group.
- ⁵ UAB EPSO-G was established on 25 July 2012.
- 6 Shares of AB Litgrid, which had been owned by UAB Visagino Atominė Elektrinė until 27 September 2012, were transferred to UAB EPSO-G.
- ⁷ AB Amber Grid was established on 11 June 2013 by a decision of AB Lietuvos Dujos General Shareholders' Meeting, which was made in accordance to the law that requires that natural gas transmission activities be separated. Thus, AB Lietuvos Dujos' separation conditions were approved and the decision to separate the natural gas transmission business with its operating assets, rights and obligations from AB Lietuvos Dujos was made. Revenue and assets of AB Amber Grid have been disclosed for information purposes only. The SOE portfolio includes only the state's interest and dividends received from this enterprise as UAB EPSO-G owned only 17.7% of shares in AB Lietuvos Dujos by 31 December 2013. At the time of report (30 June 2014) UAB EPSO-G owned 95.6% of shares in AB Amber Grid.
- 8 VĮ Ignalina Nuclear Power Plant is in the decommissioning stage (production was carried out until 31 December 2009).
- ⁹ UAB Viešųjų Investicijų Plėtros Agentūra registered on 11 April, 2013.
- 10 VJ Visagino Statybininkai is an enterprise undergoing restructuring.
- 11 AB Kiaulių veislininkystė was registered on 31 December 2013, after being separated from the AB Lietuvos Veislininkystė.
- ¹² VĮ Transporto ir Kelių Tyrimo Institutas was reorganised to public entity on 20 July 2012.
- ¹³ On 26 August 2013, bankruptcy proceedings were started against UAB Lietuvos Tyrimų Centras.

Financial Results of SOEs Not Included Into the SOE Portfolio

| UAB "MOKSLAS IR TECHNIKA" | | | UAB VIEŠŲJŲ INVESTICIJŲ PLĖTROS AGEI | | |
|--|----------------|----------------|--|----------------|----------------|
| State-owned share | | 100.0% | State-owned share | | 100.0% |
| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 | PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
| Sales revenue | 225 | 244 | Sales revenue | 0 | 158 |
| Costs of good sold | 244 | 255 | Costs of good sold | 0 | C |
| Gross profit (loss) | -19 | -11 | Gross profit (loss) | 0 | 158 |
| Operating expenses | 0 | 0 | Operating expenses | 0 | 305 |
| Profit (loss) from other activities | 0 | 0 | Profit (loss) from other activities | 0 | (|
| Operating profit (loss) | -19 | -11 | Operating profit (loss) | 0 | -147 |
| EBITDA | -19 | -11 | EBITDA | 0 | -143 |
| Financial and investment activities | 0 | 0 | Financial and investment activities | 0 | C |
| Profit (loss) before taxes | -19 | -11 | Profit (loss) before taxes | 0 | -147 |
| Profit tax | 0 | 0 | Profit tax | 0 | C |
| Net profit (loss) | -19 | -11 | Net profit (loss) | 0 | -147 |
| Net profit margin | -8.5% | -4.6% | Net profit margin | 0 | -93.0% |
| BALANCE SHEET (LTL '000) | 31 Dec 2012 | 31 Dec 2013 | BALANCE SHEET (LTL '000) | 31 Dec 2012 | 31 Dec 2013 |
| Non-current assets | | 7 | Non-current assets | 0 | 138 |
| Current assets | 64 | 58 | Current assets | 0 | 69,148 |
| Cash and cash equivalents | 30 | 8 | Cash and cash equivalents | 0 | 69,104 |
| Total assets | 72 | 65 | Total assets | 0 | 69,286 |
| Equity | 48 | 37 | Equity | 0 | 203 |
| Grants and subsidies | 0 | 0 | Grants and subsidies | 0 | 0 |
| Liabilities | 24 | 29 | Liabilities | 0 | 69,083 |
| Of which financial liabilities | 0 | 0 | Of which financial liabilities | 0 | 69,083 |
| Total equity and liabilities | 72 | 65 | Total equity and liabilities | 0 | 69,286 |
| RATIOS | 31 Dec 2012 | 31 Dec 2013 | RATIOS | 31 Dec 2012 | 31 Dec 2013 |
| ROA | -53.5% | -16.4% | ROA | 0.0% | -0.4% |
| ROE | -80.2% | -26.6% | ROE | 0.0% | -144.8% |
| D/E | 0.0% | 0.0% | D/E | 0.0% | 34,030.9% |
| RETURN TO THE STATE (LTL '000) | 2012 | 2013 | RETURN TO THE STATE (LTL '000) | 2012 | 2013 |
| Allocated dividends (in total) | 0 | 0 | Allocated dividends (in total) | 0 | (|
| EMPLOYEE INFORMATION | 2012 | 2013 | EMPLOYEE INFORMATION | 2012 | 2013 |
| Number of employees | 6 | 6 | Number of employees | 0 | 8 |
| Number of employees holding managerial positions | 3 | 3 | Number of employees holding managerial positions | 0 | 2 |

| AB "LIETUVOS VEISLININKYSTĖ" | | | UAB "LIETUVOS ŽIRGYNAS" | | |
|--|----------------|----------------|--|----------------|----------------|
| State-owned share | | 98.8% | State-owned share | | 88.6% |
| PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 | PROFIT AND LOSS STATEMENT (LTL '000) | 2012 | 2013 |
| Sales revenue | 4,531 | 7,287 | Sales revenue | 0 | 4,688 |
| Costs of good sold | 2,510 | 4,851 | Costs of good sold | 0 | 0 |
| Gross profit (loss) | 2,021 | 2,436 | Gross profit (loss) | 0 | 4,688 |
| Operating expenses | 1,997 | 2,440 | Operating expenses | 0 | 4,577 |
| Profit (loss) from other activities | 35 | 31 | Profit (loss) from other activities | 0 | 1 |
| Operating profit (loss) | 59 | 27 | Operating profit (loss) | 0 | 112 |
| EBITDA | 180 | 246 | EBITDA | 0 | 446 |
| Financial and investment activities | -8 | 4 | Financial and investment activities | 0 | -29 |
| Profit (loss) before taxes | 51 | 31 | Profit (loss) before taxes | 0 | 83 |
| Profit tax | 19 | 28 | Profit tax | 0 | 5 |
| Net profit (loss) | 32 | 3 | Net profit (loss) | 0 | 78 |
| Net profit margin | 0.7% | 0.0% | Net profit margin | 0 | 1.7% |
| BALANCE SHEET (LTL '000) | 31 Dec 2012 | 31 Dec 2013 | BALANCE SHEET (LTL '000) | 31 Dec 2012 | 31 Dec 2013 |
| Non-current assets | 5,629 | 6,529 | Non-current assets | 0 | 6,072 |
| Current assets | 4,058 | 4,332 | Current assets | 0 | 1,424 |
| Cash and cash equivalents | 1,355 | 1,384 | Cash and cash equivalents | 0 | 80 |
| Total assets | 9,687 | 10,861 | Total assets | 0 | 7,496 |
| Equity | 9,229 | 10,206 | Equity | 0 | 4,928 |
| Grants and subsidies | 56 | 11 | Grants and subsidies | 0 | 787 |
| Liabilities | 402 | 644 | Liabilities | 0 | 1,781 |
| Of which financial liabilities | 0 | 0 | Of which financial liabilities | 0 | 220 |
| Total equity and liabilities | 9,687 | 10,861 | Total equity and liabilities | 0 | 7,496 |
| RATIOS | 31 Dec 2012 | 31 Dec 2013 | RATIOS | 31 Dec 2012 | 31 Dec 2013 |
| ROA | 0.7% | 0.0% | ROA | 0.0% | 2.1% |
| ROE | 0.7% | 0.0% | ROE | 0.0% | 3.2% |
| D/E | 0.0% | 0.0% | D/E | 0.0% | 4.5% |
| RETURN TO THE STATE (LTL '000) | 2012 | 2013 | RETURN TO THE STATE (LTL '000) | 2012 | 2013 |
| Allocated dividends (in total) | 29 | 6 | Allocated dividends (in total) | 0 | 56 |
| EMPLOYEE INFORMATION | 2012 | 2013 | EMPLOYEE INFORMATION | 2012 | 2013 |
| Number of employees | 66 | 71 | Number of employees | 0 | 82 |
| Number of employees holding managerial positions | 2 | 2 | Number of employees holding managerial positions | 0 | 3 |

2013 Financial Results of **Lietuvos Dujos and Amber Grid**

In mid-2014, Lithuania bought shares of AB Lietuvos Dujos and AB Amber Grid from E.ON Ruhrgas International GmbH and Gazprom, becoming the largest shareholder of the companies. Purchase of shares from E.ON Ruhrgas was held on 24 May 2014. Lietuvos Energija, UAB acquired 38.9% of Lietuvos Dujos shares and EPSO-G purchased 38.9% of Amber Grid shares. In June 2014, the official mandatory purchases of Amber Grid and Lietuvos Dujos shares was held, during which Gazprom sold 37.1% of shares in Lietuvos Dujos and Amber Grid each. Minority shareholders of the companies sold part of their shares too. After these purchases, Lietuvos energija owns 96.6% of shares in Lietuvos Dujos and 94.4% of shares in LESTO, whereas EPSO-G owns 96.5% of shares in Amber Grid. As of 31 December 2013, the Lithuanian State indirectly owned only 17.7% of shares in these companies.

The 2013 financial results of AB Lietuvos Dujos and AB Amber Grid are shown below.

| AB "LIETUVOS DUJOS" | | AB "AMBER GRID" | |
|--|-------------|--|------------|
| State-owned share | 96.6% | State-owned share | 96.5% |
| PROFIT AND LOSS STATEMENT (LTL '000) | 2013 | PROFIT AND LOSS STATEMENT (LTL '000) | 2013 |
| Sales revenue | 1,537,267 | Sales revenue | 74,10 |
| Costs of good sold | 0 | Costs of good sold | (|
| Gross profit (loss) | 1,537,267 | Gross profit (loss) | 74,10 |
| Operating expenses | 1,480,998 | Operating expenses | 70,57 |
| Profit (loss) from other activities | 0 | Profit (loss) from other activities | (|
| Operating profit (loss) | 56,269 | Operating profit (loss) | 3,52 |
| EBITDA | 97,200 | EBITDA | 35,74 |
| Financial and investment activities | 863 | Financial and investment activities | -1,102 |
| Profit (loss) before taxes | 57,132 | Profit (loss) before taxes | 2,42 |
| Profit tax | 3,852 | Profit tax | -2,646 |
| Net profit (loss) | 53,280 | Net profit (loss) | 5,07 |
| Net profit margin | 3.5% | Net profit margin | 6.89 |
| BALANCE SHEET (LTL '000) | 31 Dec 2013 | BALANCE SHEET (LTL '000) | 31 Dec 201 |
| Non-current assets | 796,256 | Non-current assets | 1,583,74 |
| Current assets | 254,255 | Current assets | 165,18 |
| Cash and cash equivalents | 67,040 | Cash and cash equivalents | 19,718 |
| Total assets | 1,050,511 | Total assets | 1,748,92 |
| Equity | 701,048 | Equity | 1,208,56 |
| Grants and subsidies | 135,872 | Grants and subsidies | 131,07 |
| Liabilities | 213,591 | Liabilities | 409,29 |
| Of which financial liabilities | 0 | Of which financial liabilities | (|
| Total equity and liabilities | 1,050,511 | Total equity and liabilities | 1,748,92 |
| RATIOS | 31 Dec 2013 | RATIOS | 31 Dec 201 |
| ROA | 2.7% | ROA | 0.0% |
| ROE | 3.9% | ROE | 0.0% |
| D/E | 0.0% | D/E | 0.0% |
| RETURN TO THE STATE (LTL '000) | 2013 | RETURN TO THE STATE (LTL '000) | 201 |
| Allocated dividends (in total) | 53,280 | Allocated dividends (in total) | |
| EMPLOYEE INFORMATION | 2013 | EMPLOYEE INFORMATION | 201 |
| Number of employees | 1,364 | Number of employees | 350 |
| Number of employees holding managerial positions | 122 | Number of employees holding managerial positions | 32 |
| | | *Five-month period until 31 December 2013. | |

^{*}Five-month period until 31 December 2013.

Abbreviations and Definitions

| Nase turnover Financial indicator, which shows the amount of sales generated per Lithuanian litas of assets CRR Corporate social responsibility - business principles, pursuant to which companies voluntarily seek to achieve social and environmental objectives, thus having regard to the interests of all the parties concerned Dieses Diectorates General of Sales ferences under the Ministry of Financian liderategy Dieses Diectorates General of Sales ferences under the Ministry of Financian liderates and analysis, which breaks down the ratio of return on equity into the product of net profit margin, asset turnover, and financial lederage. Die Debt to equity ratio Dieses Debt to equity ratio Lithuanian in Indicator derived by dividing the FBITDA (operating profit before depreciation and amortisation costs to the operating profit or fores (including the result of operating and other activities) EBITDA margin Indicator derived by dividing the FBITDA (operating profit before depreciation and amortisation) by set turnover of the enterprise indicators derived by dividing the results of operating profit before depreciation and amortisation) by set turnover of the enterprise indicators and control control operating profit before depreciation and amortisation) by set turnover of the enterprise indicators activities and product of the society of product of the enterprise indicators and product of the enterprise indicators activities and product of the society of the enterprise indicators and analyses the implementation of state policy in SOLEs. Under Recolution in the Government of the Republic of Lithuania, the comproduce governance functions were assigned to the state enterprise Sole Property fund Covernment Coordinators (Covernment of the Republic of Lithuania) functions performed by an SOLEs that a company would not assume on a commercial basis (or would carry) tout for a price higher configuration and productions and the effect of the bankruptices of the bank Snoras and Ukin and Court of the public by color and pr | 45 | |
|--|-------------------------|--|
| CRR Corporate social responsibility - business principles, pursuant to which companies voluntarily seek to achieve social and environemental objectives, this having regard to the interests of all the parties concerned DDSS Directorace General of State Forests under the Ministry of Environement DPC All you of analysis, which breaks down the ratio of return on equity into the product of net profit margin, asset turnover, and financial eleverage DPE Debt to equity ratio EBITDA Operating profits before depreciation and anontisation. The indicator is derived by adding depreciation and amortisation costs to the operating profit or loss including the estalt of operating and other activities) EBITDA margin Indicator derived by dividing the EBITDA (operating profit before depreciation and amortisation) by net turnover of the enterprises EU European Union Financial Indicator showing the proportion of equity and asset within a company GOP Gross domestic product GOP Financial Indicator showing the proportion of equity and asset within a company Government Convenience Coordinated Centre (SCC) Algel entity or institution appointed by the resolution to 8.55 of Sun 2012 of the Government of the Republic of Lithuania to 1. Centre (SCC) National Administration under the Ministry of Transport and Communications in the Republic of Lithuania to 1. Ce | AB | Public limited liability company |
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| A type of analysis, which breaks down the ratio of return on equity into the product of net profit margin, asset turnover, and financial leverage D/E | CSR | |
| DIE Debt to equity ratio Die Debt to equity ratio Debt of equity ratio equity ratio Debt of equity ratio D | DGSF | Directorate General of State Forests under the Ministry of Environment |
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| State-owned enterprise – a state enterprise or a public or private limited liability company in which the state holds shares which | ROE | |
| | SO | Special Obligations (see Non-commercial functions/Special obligations) |
| | SOE | |

| Transparency Guidelines | Procedures for ensuring transparent operations of state-owned enterprises approved by Resolution No 1052 of the Government of the Lithuania 14 July 2010 | | |
|-------------------------|--|--|--|
| UAB | Private limited liability company | | |
| UPS | Universal postal services | | |
| VAE | UAB Visagino Atominė Elektrinė (Visaginas Nuclear Power Plant) | | |
| VAS | Value added statement – a report which shows how much value or assets are created through joint efforts of the enterprise's equity owners, the management and employees and how it is distributed between different interested parties (employees, creditors, shareholders, the state, etc.) during the reference period | | |
| VAT | Value added tax | | |
| VIPA (PIDA) | UAB Viešųjų Investicijų Plėtros Agentūra (Public Investment Development Agency) | | |
| VĮ (SE) | State enterprise | | |
| Wh | Energy measurement unit used for measuring electricity used or generated by electrical devices (kilowatt-hour = 10^3 Wh, terawatt = 10^{12} Wh) | | |
| | | | |



STATE-OWNED ENTERPRISES IN LITHUANIA. ANNUAL REPORT 2013

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